Strategies and Impact of Malaysia's Political-Economic Policy Management During the Asian Financial Crisis 1997/1998: A Case Study of the National Economic Action Council (NEAC)

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ABSTRACT:
The Asian Financial Crisis of 1997/1998 inflicted severe and far-reaching damage on Malaysia's political-economic landscape, contracting GDP by 7.4 percent in 1998 — the country's worst recession since independence — while the ringgit depreciated by nearly 50 percent and the Kuala Lumpur Stock Exchange composite index collapsed by approximately 76 percent. Unlike Thailand, Indonesia, and South Korea, which collectively accepted International Monetary Fund emergency assistance totalling approximately USD 118.6 billion under stringent austerity conditionalities, Malaysia under Prime Minister Tun Dr. Mahathir Mohamad established the National Economic Action Council (NEAC) on 7 January 1998 as its primary institutional mechanism for crisis management. This study examines the strategies and evaluates the impact of Malaysia's political-economic policy management during the Asian Financial Crisis 1997/1998, with NEAC as the primary unit of analysis. Grounded in state-centric institutionalism and guided by three research questions addressing crisis context, NEAC's strategies, and their multidimensional impact, the study employs a qualitative case study design that combines systematic document analysis of official government publications, international organisation reports, archival policy records, and peer-reviewed academic literature, supplemented by thematic analysis following Braun and Clarke (2006). NEAC's strategy framework encompassed the National Economic Recovery Plan (NERP), selective capital controls, the ringgit peg at RM3.80 per USD, and three financial sector restructuring vehicles — Danaharta, Danamodal, and the Corporate Debt Restructuring Committee (CDRC). Findings indicate that these integrated strategies contributed to a V-shaped economic recovery: GDP rebounded to 6.1 percent in 1999 and 8.3 percent in 2000, unemployment declined to 3.1 percent by 2000, and the banking sector's non-performing loan ratio fell from approximately 30 percent at peak to around 10 percent by 2000. The study argues that NEAC

constitutes a viable model of domestically-driven, state-centric crisis management as a credible alternative to Washington Consensus prescriptions, with transferable lessons for developing nations confronting comparable external economic shocks.

Keywords: National Economic Action Council (NEAC); Asian Financial Crisis 1997/1998; political-economic policy management; crisis management strategies; capital controls; Malaysia; state-centric institutionalism; NERP; economic recovery

Introduction

The Asian Financial Crisis of 1997/1998 is widely regarded as one of the most severe and consequential economic disruptions in modern Asian history. Triggered by the floating of the Thai baht on 2 July 1997, the crisis spread rapidly across East and Southeast Asia, inflicting profound damage on Malaysia's political-economic landscape. Prior to the crisis, Malaysia had achieved exceptional economic performance: between the late 1980s and mid-1990s, GDP grew at an average annual rate of nearly 9 percent, unemployment stood at 2.5 percent in 1996, inflation was a modest 3.5 percent per annum, and the savings rate was 38.5 percent of gross national product (GNP) — leading the International Monetary Fund (IMF) and World Bank to celebrate Malaysia as part of the 'Asian economic miracle' (Nambiar, 2003). These strong fundamentals made the scale of the subsequent crisis all the more striking.

Within months of the baht's floating, the ringgit depreciated from RM2.50 per USD in April 1997 to approximately RM4.88 by January 1998 — a near-50 percent depreciation in nine months. The Kuala Lumpur Stock Exchange (KLSE) composite index fell from approximately 1,300 points to a historic low of 262.70 on 1 September 1998, eroding approximately 76 percent of market capitalisation from RM826 billion to RM181.5 billion (Ariff & Abu Bakar, 1999). Real GDP contracted by 7.4 to 7.5 percent in 1998 — the worst recession since independence in 1957 — while approximately 83,865 workers were retrenched, an increase of some 345 percent over the previous year (Nambiar, 2003; Ministry of Human Resources Malaysia, 1999). Malaysia's nominal GDP shrank from USD 100.8 billion in 1996 to USD 72.2 billion in 1998 and did not recover to pre-crisis levels until 2003 (World Bank, 2004).

Malaysia's response to the crisis was institutionally distinctive and internationally contentious. Unlike Thailand, Indonesia, and South Korea — which accepted IMF emergency assistance under conditions of austerity and structural reform — Malaysia under Prime Minister Tun Dr. Mahathir Mohamad rejected IMF intervention and instead established the National Economic Action Council (NEAC), known in Malay as Majlis Tindakan Ekonomi Negara (MTEN), on 7 January 1998. NEAC served as a consultative body to the Cabinet and the primary institutional mechanism for crisis management, chaired by the Prime Minister and headed in executive capacity by Tun Daim Zainuddin (Ministry of Economy Malaysia, 2023). Through NEAC, the government launched the National Economic Recovery Plan (NERP) in July 1998, implemented selective capital controls on 1 September 1998, pegged the ringgit at RM3.80 per USD, and established three special institutional vehicles — Danaharta, Danamodal, and the Corporate Debt Restructuring Committee (CDRC) — to restructure Malaysia's financial sector (WTO, 2001).

Despite the extensive scholarly attention Malaysia's crisis response has attracted, two significant and related gaps persist in the existing literature. First, while scholars including Mahani Zainal Abidin (2002), Jomo (2001), Athukorala

(2001), and Haggard (2000) have examined various aspects of Malaysia's crisis response, most focus on specific policy instruments — particularly capital controls and the ringgit peg — in isolation, without systematically analysing the full spectrum of NEAC's strategies as a coherent political-economic policy management framework. Second, the relationship between NEAC's strategies and their multidimensional impact across financial, social, and political dimensions has not been examined in an integrated manner within a single study. Most scholarship addresses either the strategy or the impact dimension, while tending to privilege economic outcomes at the expense of social welfare and political consequences. This article addresses these gaps directly. Its purpose is to examine the strategies and evaluate the impact of Malaysia's political-economic policy management through NEAC during the Asian Financial Crisis 1997/1998. Three research questions guide the analysis: How did the Asian Financial Crisis 1997/1998 affect Malaysia's political-economic landscape? What strategies were adopted by NEAC in managing Malaysia's political-economic policy during the crisis? And what was the impact of NEAC's strategies on Malaysia's political-economic recovery? Together, these questions form an integrated analytical sequence — from crisis context, through strategy, to impact — that directly reflects the title and conceptual framework of this study. The article proceeds as follows: Section 2 reviews the theoretical framework and relevant literature; Section 3 presents the conceptual framework and research methodology; Section 4 presents the study's findings; Section 5 provides the discussion; and Section 6 presents the conclusion and implications.

2. Literature Review

The primary theoretical lens of this study is state-centric institutionalism, which posits that the state — through its institutions — plays a dominant and decisive role in shaping economic outcomes, particularly during periods of crisis. North (1990, p. 3) defines institutions as 'the rules of the game in a society,' arguing that institutional design fundamentally shapes economic performance by structuring incentives, reducing uncertainty, and coordinating collective action. Applied to the context of the Asian Financial Crisis, NEAC exemplifies deliberate state-centric institutional innovation: the creation of a new coordinating body specifically designed to centralise crisis management authority and insulate economic policy from external prescription. This approach is consistent with what Haggard (2000, p. 91) describes as the capacity of strong state institutions to coordinate responses to economic shocks more effectively than market mechanisms alone, particularly when those shocks are systemic and demand rapid, coherent policy responses across multiple domains simultaneously.

State-centric institutionalism has its intellectual roots in the developmental state literature pioneered by Johnson (1982) in his analysis of the Japanese Ministry of International Trade and Industry (MITI), and later extended to the East Asian context by Amsden (1989) and Wade (1990), who documented how South Korean and Taiwanese industrial policy demonstrated that proactive state intervention — rather than market liberalisation — drove economic transformation in late industrialising economies. Evans (1995) further refined this tradition through his concept of 'embedded autonomy,' arguing that effective developmental states combine bureaucratic insulation from particularistic pressures with dense, cooperative ties to the private sector. In the Malaysian context, scholars including Jomo (1994) and Gomez and Jomo (1999) have examined how the Malaysian state under the New Economic Policy (NEP) framework adopted a developmentalist orientation that blended ethnic redistributive objectives with capitalist growth strategies — a hybrid model that shaped the institutional terrain within which NEAC later operated. State-centric institutionalism stands in direct contrast to the market fundamentalism embedded in the Washington Consensus

framework, which, as Williamson (2000, p. 251) describes, emphasises capital account liberalisation, privatisation, and a reduced state role in the economy. Malaysia's rejection of this framework through NEAC represents what Felker (2003, p. 94) characterises as an attempt to build 'national policy space that is more sovereign' — a form of what Rodrik (1998, p. 60) terms the 'space for heterodox policies' that developing nations require to manage external economic shocks without sacrificing domestic developmental objectives. The Washington Consensus framework underpinned the IMF's prescriptions to Thailand, Indonesia, and South Korea during the crisis and has attracted extensive academic critique in the post-crisis literature. Stiglitz (2002, p. 99), former Chief Economist of the World Bank, argues that tightening fiscal and monetary policy at the moment of a financial crisis exacerbated economic recessions in the affected countries — a critique directly relevant to the IMF's conditionality-based interventions in the region. Radelet and Sachs (1998, pp. 7–9) advance a 'sudden stop' model, arguing that the crisis was fundamentally driven by panic-driven capital flight rather than domestic policy failures, a diagnosis that challenges the IMF's austerity-based response framework and supports the legitimacy of Malaysia's alternative domestically-driven approach. Corsetti, Pesenti, and Roubini (1999) offer a complementary analysis, identifying structural weaknesses in financial sector regulation and corporate governance as the primary vulnerabilities that exposed the crisis-affected economies to contagion — vulnerabilities that NEAC's restructuring vehicles were specifically designed to address in the Malaysian case. Jomo (2001, p. 61) extends this critique explicitly to the Malaysian context, characterising NEAC's combined approach — capital controls, fiscal stimulus, and financial sector restructuring — as a 'successful challenge to IMF orthodoxy.' Athukorala (2001, p. 56) describes Malaysia's selective capital controls as 'bold but necessary,' arguing that they broke the momentum of speculative attacks on the ringgit while enabling the government to pursue expansionary monetary policy without the constraint of defending the exchange rate through high interest rates. Kaplan and Rodrik (2001, p. 22) conclude that Malaysia's selective capital controls and fixed exchange rate produced macroeconomic stabilisation and employment recovery more rapidly than IMF programmes in comparable countries.

A third theoretical strand relevant to this study is Keynesian crisis management, which advocates for active state intervention — particularly counter-cyclical fiscal stimulus and financial sector support — to counteract economic downturns. The approximately RM7 billion fiscal stimulus package launched by NEAC in July 1998, targeting education, healthcare, housing, and infrastructure, is consistent with this theoretical logic. Stiglitz (2002, p. 87) notes that Malaysia's fiscal deficit of approximately 6 percent of GNP in 1998 — combined with the expansionary monetary policy made possible by the capital controls — directly contradicted the IMF's austerity prescriptions applied elsewhere in the region and was ultimately vindicated by the speed of the recovery. Mahani Zainal Abidin (2002) documents that Malaysia's adoption of expansionary fiscal and monetary policy through NEAC enabled a more rapid economic recovery than its neighbours, all of whom experienced deeper and more prolonged recessions under IMF-guided austerity. This interpretation is further reinforced by Nazariah et al. (2020), whose analysis of 'Mahathiriskonomism' — understood as a form of economic diplomacy that prioritised national sovereignty and state-directed recovery over externally imposed adjustment frameworks — demonstrates how the Mahathir administration's heterodox approach produced superior recovery outcomes. The relevance of Keynesian crisis management has also been powerfully reaffirmed in more recent crisis episodes: Weiss (2012) documents how the 2008 Global Financial Crisis prompted even Washington Consensus-aligned governments to adopt substantial fiscal stimulus packages, effectively vindicating the counter-cyclical logic that NEAC had employed a decade

earlier. Similarly, Grabel (2017) argues that the proliferation of capital flow management measures adopted by developing nations after 2008 represents a structural shift in the international financial architecture that legitimises the kind of selective capital controls Malaysia implemented through NEAC — a retrospective validation of NEAC's strategy from an unlikely direction. The Keynesian strand thus complements the state-centric institutionalist framework by grounding the analysis of specific policy instruments in a recognised macroeconomic theoretical tradition while simultaneously connecting the 1997/1998 experience to a broader trajectory of post-Washington Consensus rethinking.

The existing literature on NEAC and Malaysia's crisis management response is substantial but incomplete in ways that the present study seeks to address. Scholars including Mahani Zainal Abidin (2002), Jomo (2001), Athukorala (2001), Nambiar (2003), Haggard (2000), and Nazariah et al. (2020) have examined various dimensions of the crisis and its management with considerable rigour, while more recent scholarship including Grabel (2017) and Weiss (2012) has provided a broader theoretical context within which NEAC's strategies can be retrospectively assessed. However, as noted, most studies focus on specific instruments without analysing NEAC's full strategic framework as a coherent whole. Moreover, critics including Jomo (2001, p. 98), Khoo (2003, p. 173), and Gomez (2002, p. 134) have raised concerns about the opacity of NEAC's decision-making and its disproportionate benefits to politically connected elites, while Case (1999, p. 52) highlights the dominance of executive power and the marginalisation of parliamentary deliberation. Rasiah (2002, p. 215) argues that NEAC's short-term focus on financial stabilisation came at the cost of longer-term structural reforms — a critique that retains its analytical force given that many of the governance and corporate sector weaknesses exposed by the 1997/1998 crisis resurfaced in a different form during the 1Malaysia Development Berhad (1MDB) scandal two decades later (Gomez, 2020). These critical perspectives are incorporated in this study's evaluation of NEAC's political impact, enriching the analytical framework beyond purely economic assessment and establishing the scholarly foundation upon which the present study builds.

3. Methodology

Drawing on the theoretical and empirical literature reviewed above, this study adopts a conceptual framework built on three sequential and interconnected analytical dimensions: Context, Strategy, and Impact. Each dimension corresponds to one of the study's three research questions and is grounded in state-centric institutionalism, which treats NEAC as the central institutional actor whose strategies mediated the relationship between the crisis context and the recovery outcomes. The sequential analytical logic — from crisis context through strategy to impact — ensures that the three research questions are examined not in isolation but as parts of a connected, integrated whole

Table 1. Conceptual Framework of the Study

Dimension	Research Question	Analytical Focus	Key Theoretical Basis
Context (RQ1)	How did the AFC 1997/1998 affect Malaysia's political-economic landscape?	Causes, severity, and multidimensional effects on Malaysia's economy, society, and polity	Haggard (2000); Radelet & Sachs (1998); Jomo (2001)
Strategy (RQ2)	What strategies did NEAC adopt?	Institutional design of NEAC; NERP; capital controls; ringgit peg; Danaharta; Danamodal; CDRC	North (1990); Mahani (2002); Athukorala (2001); Stiglitz (2002)

Impact (RQ3)	What was the impact of NEAC's strategies on Malaysia's political-economic recovery?	Financial, social, and political outcomes; short- and long-term recovery dimensions	Stiglitz (2002); WTO (2001); Kaplan & Rodrik (2001); Shuib (2004)

Source: Developed by the author based on reviewed literature.

This study is grounded in the interpretive philosophical paradigm, which holds that social and political phenomena — including policy management, institutional decision-making, and the impact of governance strategies — are socially constructed and can only be fully understood through the meanings, interpretations, and experiences of the actors involved (Creswell & Poth, 2018, p. 8). NEAC's strategies were not merely technical economic decisions; they were deeply embedded in the political, historical, and institutional contexts of Malaysia in 1997 and 1998. Understanding why NEAC made the specific decisions it did, how those decisions were implemented, and what actors perceived as their consequences therefore requires interpretive inquiry grounded in the perspectives of those directly involved.

Accordingly, this study adopts a qualitative single case study research design, with NEAC as the bounded case. Yin (2014, p. 4) defines a case study as 'an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident.' The case study design is particularly appropriate when research questions ask 'how' and 'what' about a specific phenomenon within a bounded context — precisely the orientation of this study's three research questions. NEAC is selected as the critical case on three grounds: it represents the only crisis management institution established by a developing nation that explicitly rejected IMF assistance during the Asian Financial Crisis 1997/1998; it is an information-rich case with extensive documentary evidence; and, following Flyvbjerg (2006, p. 229), it constitutes a critical case capable of generating insights applicable beyond the Malaysian context.

Data were collected through systematic analysis of primary policy documents, official government reports, international organisation publications, peer-reviewed academic literature, and archival media sources. Key documentary sources include the National Economic Recovery Plan (NERP, 1998); the Economic Planning Unit (EPU) White Paper on the Status of the Malaysian Economy (1999); Bank Negara Malaysia Annual Reports from 1997 to 2000; the IMF Occasional Paper No. 207 — Malaysia: From Crisis to Recovery (IMF, 2001); the WTO Trade Policy Review — Malaysia 2001 (WTO, 2001); peer-reviewed academic works by Mahani Zainal Abidin (2002), Jomo (2001), Athukorala (2001), Haggard (2000), Ariff and Abu Bakar (1999), Nambiar (2003), and Stiglitz (2002); Malaysian parliamentary Hansard records from 1997 to 2000; the Department of Statistics Malaysia (DOSM) Labour Force Survey Reports (1997–2000); and archival coverage from the New Straits Times and Berita Harian. The use of multiple documentary sources enables data triangulation, enhancing the credibility and comprehensiveness of the analysis (Yin, 2014). This documentary approach is appropriate for historical-institutional analysis where the phenomena under investigation are well-documented in official and scholarly sources (Bowen, 2009).

Data from all documentary sources were analysed using the six-phase thematic analysis model of Braun and Clarke (2006): familiarisation with data, initial coding, searching for themes, reviewing themes, defining and naming themes, and writing up. Themes were organised across the three analytical dimensions of the conceptual framework — Context, Strategy, and Impact — ensuring that data analysis is systematically aligned with the study's research questions and objectives. Trustworthiness is ensured through four strategies: credibility via data source triangulation

across independent documentary sources; transferability via thick, contextualised description; dependability via a detailed methodological audit trail; and confirmability via explicit researcher reflexivity (Lincoln & Guba, 1985).

4. Findings

The Asian Financial Crisis inflicted unprecedented damage on Malaysia's post-independence economy across economic, social, and political dimensions simultaneously. On the economic front, virtually every key indicator deteriorated sharply between 1997 and 1998, as illustrated in Table 2 below, before recovering through 1999 and 2000 under the influence of NEAC's strategies

Table 2. Selected Economic Indicators — Malaysia, 1996–2000

Indicator	1996	1997	1998	1999	2000
GDP Growth Rate (%)	10.0	7.7	−7.4	6.1	8.3
Ringgit/USD Exchange Rate	2.50	2.50–4.57	4.88 (Jan)	3.80 (pegged)	3.80 (pegged)
Unemployment Rate (%)	2.5	2.6	3.9	3.4	3.1
Inflation Rate (% CPI)	3.5	2.7	5.3	2.8	1.6
KLSE Composite Index (pts)	~1,300	594.4	262.7 (Sep)	812.3	~800
FDI Inflows (USD billion)	3.5	3.9	1.9	1.9	1.5
GDP Nominal (USD billion)	100.8	~98	72.2	~79	~92

Sources: Ariff & Abu Bakar (1999); Nambiar (2003); WTO (2001); Bank Negara Malaysia (1999); World Bank (2004).

The construction sector contracted by 23.5 percent in 1998, manufacturing shrank by 9 percent, and agriculture declined by 5.9 percent, reflecting the breadth of the crisis across the productive economy (Bank Negara Malaysia, 1999). Net portfolio investments swung dramatically from a surplus of RM10.3 billion in 1996 to a deficit of RM12.9 billion in 1997, reflecting the scale and speed of capital flight (Nambiar, 2003). FDI inflows halved from USD 3.9 billion in 1997 to USD 1.9 billion in 1998, as international investor confidence collapsed. Malaysia's nominal GDP did not recover to its 1996 level of USD 100.8 billion until 2003 — a five-year recovery lag that underscores the structural depth of the crisis (World Bank, 2004). The crisis also exposed structural vulnerabilities concealed by the preceding decade of rapid growth: foreign debt-to-GDP ratios across the major ASEAN economies had risen sharply as capital account liberalisation without commensurate institutional strengthening created systematic exposure to speculative attack (Haggard, 2000). The simultaneous overexposure of the banking sector to non-performing property loans and the collapse of equity market values produced a severe credit crunch that threatened systemic financial sector failure. Chang and Velasco (2000) characterise this dynamic as a 'financial fragility' condition — wherein short-term liabilities exceed the capacity of domestic financial institutions to liquidate assets in a crisis — a condition that was present in all major crisis-affected ASEAN economies by mid-1997.

Malaysia's experience must be contextualised within the broader regional crisis. As illustrated in Table 3 below, the economic trajectories of Malaysia, Thailand, Indonesia, South Korea, and

the Philippines diverged significantly in the 1998–2000 period, shaped in large part by the different crisis management approaches each country adopted

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Table 3. Comparative Economic Recovery Indicators — Selected Asian Economies, 1997–2000

Indicator	Malaysia	Thailand	Indonesia	South Korea	Philippines
GDP Contraction 1998 (%)	−7.4	−10.5	−13.1	−5.5	−0.6
GDP Recovery 1999 (%)	+6.1	+4.4	+0.8	+10.9	+3.4
IMF Assistance (USD billion)	None	17.2	43.0	58.4	~1.0 (precautionary)
Peak Unemployment (%)	3.9 (1998)	4.4 (1998)	~6.4 (1998–99)	~7.0 (1999)	~10.1 (1998)
Exchange Rate Approach	Fixed peg (RM3.80)	Managed float	Free float	Managed float	Managed float
Capital Controls	Yes (selective)	No	No	No	No
Years to Pre-Crisis GDP	~5 years (2003)	~4 years (2002)	~5 years (2003)	~3 years (2001)	~2 years (2000)

Sources: IMF (2001); WTO (2001); World Bank (2004); Haggard (2000); Hill (1999); Pasuk & Baker (2000).

Thailand's GDP contracted by 10.5 percent in 1998 — the most severe among the ASEAN crisis economies — following the IMF-mandated closure of 56 financial institutions and the imposition of tight fiscal consolidation, conditions that deepened the economic contraction in the short term (Pasuk & Baker, 2000). Indonesia suffered the most catastrophic outcome: the rupiah depreciated by more than 80 percent between August 1997 and January 1998, the economy contracted by 13.1 percent in 1998, the banking sector experienced systemic collapse following the IMF-advised closure of 16 banks in November 1997 — which triggered a bank run of historic proportions — and the political crisis precipitated by the combination of economic collapse and IMF conditionalities contributed directly to the fall of President Suharto's 32-year regime in May 1998 (Hill, 1999). South Korea accepted a USD 58.4 billion IMF bailout — the largest in IMF history at the time — and undertook a fundamental restructuring of its chaebol-centred corporate model; while its recovery in GDP terms was relatively rapid at 10.9 percent growth in 1999, the social costs were severe, with unemployment rising to approximately 7 percent in 1999 before recovering (Haggard & Mo, 2000). The Philippines, having undertaken earlier financial reforms following its 1980s debt crisis and having a comparatively smaller external debt exposure, was least severely affected, contracting by only 0.6 percent in 1998 (Bello, 1998). Against this regional backdrop, Malaysia's GDP contraction of 7.4 percent — severe by any historical standard — was nonetheless less catastrophic than Indonesia's and Thailand's, and its recovery trajectory of 6.1 percent in 1999

and 8.3 percent in 2000 compared favourably with those of the IMF programme countries, providing the foundation for the comparative assessment of NEAC's effectiveness presented in the Discussion section.

The social dimensions of the crisis were equally acute, though Malaysia's experience was less extreme than that of Indonesia and Thailand. Unemployment rose from 2.6 percent in 1997 to 3.9 percent in 1998, with approximately 83,865 workers retrenched — an increase of approximately 345 percent compared to 18,863 retrenched workers in the previous year (Ministry of Human Resources Malaysia, 1999). The crisis created acute tensions in Malaysia's labour market management, particularly regarding the role of foreign workers; as Ajis et al. (2014) document, the structural reliance on foreign labour presents persistent governance dilemmas that became especially pronounced during the economic shock of 1997/1998, when the retrenchment of both local and foreign workers tested existing regulatory frameworks. The poverty rate, which had fallen from 16.5 percent in 1990 to approximately 6.7 percent by 1997, rose to approximately 8 percent in 1998 under the combined pressures of unemployment, wage depression, and inflation (Cheng, 2001). Inflation rose to 5.3 percent in 1998, eroding real household incomes particularly among lower-income groups. These social dislocations, while serious, were notably less severe than those experienced in Indonesia — where the rupiah's collapse triggered widespread food insecurity, civil unrest, and ultimately regime change — underscoring the relative effectiveness of Malaysia's domestically-driven crisis management approach.

The political consequences of the crisis were far-reaching and structurally significant. The crisis both reflected and deepened a fundamental disagreement between Prime Minister Dr. Mahathir Mohamad and Deputy Prime Minister Dato' Seri Anwar Ibrahim over the appropriate policy response. Anwar, broadly aligned with IMF prescriptions, initially implemented tight fiscal and monetary policy in late 1997 in an attempt to defend the ringgit and reassure international markets. Mahathir, by contrast, attributed the crisis to international currency speculation and rejected IMF conditionalities as an unacceptable abrogation of national economic sovereignty. This policy disagreement became a proximate cause of the most consequential political rupture in Malaysian political history: Anwar's dismissal as Deputy Prime Minister and Finance Minister in September 1998, his subsequent arrest and imprisonment on charges of corruption and sodomy, and the emergence of the Reformasi movement that would reshape Malaysian opposition politics for two subsequent decades, ultimately contributing to the historic Barisan Nasional electoral defeat in May 2018. The timing of Anwar's dismissal — occurring on the very day that the capital controls were implemented — was politically significant: it served simultaneously to remove the primary internal critic of the NEAC strategy and to signal the government's unequivocal commitment to a domestically-driven recovery framework, insulating NEAC's policy implementation from further intra-elite contestation.

Turning to NEAC's strategies, the National Economic Action Council was formally established on 7 January 1998 as a consultative body to the Malaysian Cabinet, chaired by Prime Minister Dr. Mahathir Mohamad and headed in executive capacity by Tun Daim Zainuddin. NEAC's primary mandate encompassed five functions: identifying issues affecting the economy; identifying challenges affecting the economy; introducing strategies to address economic challenges; preparing action plans; and conveying information and decisions to the Cabinet (Ministry of Economy Malaysia, 2023). Critically, NEAC's institutional design was deliberately streamlined to enable rapid, coordinated decision-making — bypassing the slower processes of conventional Cabinet deliberation — a critical advantage in a rapidly deteriorating crisis environment. The composition of NEAC was itself institutionally

significant: by including Cabinet ministers with economic portfolios, senior Economic Planning Unit (EPU) officials, Bank Negara Malaysia representatives, and private sector figures, NEAC embodied what Evans (1995) terms 'embedded autonomy' — technocratic insulation combined with structured linkages to the productive economy — enabling it to formulate policies that were simultaneously technically rigorous and practically implementable. As Athukorala (2001, p. 59) notes, this design reflects what North (1990) identifies as a key characteristic of effective crisis institutions: the capacity to reduce transaction costs and accelerate coordinated action under conditions of deep uncertainty.

NEAC's most significant institutional output was the National Economic Recovery Plan (NERP), launched in July 1998. The NERP established six strategic objectives: stabilisation of the ringgit; restoration of market confidence; maintenance of financial market stability; strengthening of economic fundamentals; continuation of the equity and socioeconomic agenda; and revitalisation of affected sectors (Ariff & Abu Bakar, 1999, p. 421). The NERP represented a fundamental reversal of the initial tight fiscal and monetary policy response adopted under Finance Minister Anwar Ibrahim in late 1997. In practical terms, the NERP authorised a fiscal stimulus package of approximately RM7 billion — equivalent to approximately 6 percent of GNP — targeting social expenditure in education, healthcare, and housing alongside physical infrastructure investment. This counter-cyclical fiscal expansion, unprecedented in scale in Malaysia's post-independence history, drew directly on Keynesian macroeconomic logic and was explicitly justified by NEAC as a necessary counterweight to the collapse of private domestic demand and FDI inflows. Jomo and Wong (2005, p. 311) describe the NERP as 'the foundational document of Malaysia's alternative crisis management model,' noting that its domestically-authored character distinguished it fundamentally from the externally-imposed structural adjustment programmes implemented in Thailand, Indonesia, and South Korea.

On 1 September 1998, acting on NEAC's recommendations, the Malaysian government implemented selective capital controls and pegged the ringgit at RM3.80 per USD. The capital controls were designed to restrict offshore ringgit trading, impose a minimum one-year stay period on foreign portfolio investments — later converted to a graduated exit levy system in February 1999 — and ban overseas trading of ringgit-denominated assets. The ringgit peg at RM3.80 per USD — a rate that slightly undervalued the ringgit relative to its estimated equilibrium level — was calibrated to provide a competitive buffer for Malaysia's export-oriented manufacturing sector while simultaneously eliminating the exchange rate volatility that had undermined business planning and consumer confidence. Together, the capital controls and ringgit peg enabled Bank Negara Malaysia to reduce interest rates sharply — from approximately 11 percent in July 1998 to approximately 3 percent by mid-1999 — without triggering further capital outflows (Nambiar, 2009). This reduction in borrowing costs was critical to the recovery of domestic investment and consumption: by relieving the debt servicing burden on corporate and household borrowers, lower interest rates re-activated the credit transmission mechanism that the banking sector's NPL crisis had paralysed. Although the capital controls attracted immediate international criticism and credit rating downgrades from Standard and Poor's and Moody's, subsequent scholarly assessment has been considerably more favourable. Kaplan and Rodrik (2001, p. 22) conclude that the selective capital controls and fixed exchange rate produced macroeconomic stabilisation and employment recovery more rapidly than IMF programmes in comparable countries, while the IMF itself eventually acknowledged Malaysia's recovery success (Md. Shukri Shuib, 2007).

Three institutional vehicles were established under the NERP to address the structural impediments to financial sector recovery, each

targeting a distinct dimension of the banking sector's crisis. Danaharta — the National Asset Management Company — was established in June 1998 to acquire and manage non-performing loans (NPLs) from the banking sector at discounted prices, thereby cleaning bank balance sheets that had been severely impaired by the collapse of property and equity market values. By removing NPLs from banks' balance sheets at transparent market-based prices, Danaharta avoided the moral hazard concerns associated with outright government bail-outs while simultaneously enabling banks to resume normal lending operations. Danaharta's intervention helped reduce the NPL ratio in the banking system from a peak of approximately 30 percent in 1998 to approximately 10 percent by 2000 (Nambiar, 2009). Danamodal, established in August 1998 as a government-backed bank recapitalisation vehicle, injected capital into financial institutions whose capital adequacy ratios had fallen below the regulatory minimum of 9 percent. By restoring the capital base of systemically important financial institutions, Danamodal prevented the banking system collapse that occurred in Indonesia — where the combination of IMF-mandated bank closures and regulatory failures triggered a catastrophic loss of depositor confidence (Hill, 1999). Nambiar (2009) notably observes that Danamodal's recapitalisation approach anticipated by a decade the Troubled Asset Relief Program (TARP) and similar bank bailout mechanisms implemented by Western governments during the 2008 Global Financial Crisis, retrospectively validating the institutional logic embedded in NEAC's financial sector strategy. The Corporate Debt Restructuring Committee (CDRC), finally, provided an informal, voluntary platform for debt restructuring negotiations between creditors and corporate debtors, facilitating the resolution of corporate debts estimated at over RM50 billion without formal legal proceedings and thereby preserving viable businesses that might otherwise have been liquidated under market conditions (WTO, 2001). Taken together, these five strategic components — NERP, capital controls, ringgit peg, Danaharta, Danamodal, and CDRC — constitute a coherent and integrated political-economic policy management framework rooted in state-centric institutionalism, with each component designed to address a specific structural weakness while simultaneously reinforcing the effectiveness of the others within a single overarching institutional architecture chaired by NEAC.

5. Discussion

The findings across the three analytical dimensions — Context, Strategy, and Impact — yield several significant theoretical and empirical conclusions that contribute to the existing literature on crisis management, political economy, and developmental governance in developing nations. This discussion examines those conclusions in turn, before drawing out their broader theoretical and policy implications.

The financial and economic outcomes of NEAC's strategies were broadly positive, though scholarly debate persists regarding the precise attribution of Malaysia's recovery to specific policy instruments versus broader global economic recovery trends. Malaysia's GDP, which had contracted by 7.4 to 7.5 percent in 1998, rebounded to 6.1 percent in 1999 and 8.3 percent in 2000 — a V-shaped recovery pattern that contrasted favourably with the more prolonged recessions experienced by IMF programme countries in the region (WTO, 2001). The NPL ratio fell from approximately 30 percent at peak to approximately 10 percent by 2000, restoring the banking sector's capacity to extend credit to the productive economy and catalysing the private investment rebound that drove GDP growth in 1999 and 2000. The KLSE equity market substantially outperformed regional bourses from September 1998, benefiting from the capital controls that directed domestic ringgit funds into the equity market while restricting capital outflows (Nambiar, 2003). FDI inflows, however, remained subdued at USD 1.5 billion in 2000 — well below the USD 3.9 billion of 1997 — suggesting that while domestic economic fundamentals recovered

strongly, international investor confidence was slow to return following the capital controls controversy. This FDI lag represents one of the enduring structural costs of NEAC's heterodox strategy that Rasiah (2002) and Athukorala (2010) have emphasised, and it raises a legitimate analytical question: to what extent was Malaysia's recovery driven by the restoration of domestic demand rather than the resumed integration with global capital flows that characterised South Korea's more rapid FDI recovery? The evidence suggests that NEAC's strategy was effective precisely in decoupling Malaysia's recovery from the volatility of international capital markets — a decoupling that produced short-term recovery benefits but also prolonged the period required to restore full international investor engagement.

The social outcomes of NEAC's crisis management are analytically significant and deserve greater attention than they have received in the existing literature, which has tended to privilege macroeconomic growth indicators as the primary measure of recovery success. Unemployment declined from 3.9 percent in 1998 to 3.1 percent by 2000, while the poverty rate resumed its downward trajectory as NEAC's recovery measures took effect (Cheng, 2001). The approximately RM7 billion fiscal stimulus package, specifically targeting social expenditure in education, healthcare, and housing, was a critical factor in cushioning lower-income groups from the worst consequences of the recession — a distributionally significant dimension of NEAC's strategy that distinguishes it from the IMF's pro-cyclical fiscal adjustment prescriptions, which in Thailand and Indonesia involved significant cuts to social spending precisely when demand for social services was at its highest. Inflation, having risen to 5.3 percent in 1998, declined sharply to 1.6 percent in 2000 following the ringgit peg's restoration of exchange rate stability, materially reducing the erosion of real household incomes. Malaysia's social outcomes notably avoided the extreme dislocations that characterised the Indonesian crisis experience — mass poverty, widespread food insecurity, civil unrest, and the collapse of public services. The labour market recovery, combined with the sustained provision of public social services, also moderated the intensification of ethnic economic grievances that might otherwise have destabilised Malaysia's inter-communal political compact, a dimension of social impact that has received virtually no attention in the existing literature. While it would be analytically overreaching to attribute Malaysia's social stabilisation outcome entirely to NEAC's strategies, the combination of faster economic recovery, preserved social expenditure, avoided systemic banking failure, and exchange rate-stabilised import prices collectively produced a social protection outcome superior to that achieved by any of Malaysia's neighbours under IMF-guided adjustment.

The political dimension of NEAC's impact is the most analytically complex and remains the least adequately theorised in the existing literature. At the macro-political level, NEAC's economic success reinforced Prime Minister Dr. Mahathir's domestic political legitimacy and enabled the Barisan Nasional government to maintain political stability throughout the crisis and its aftermath. As Shuib (2004, p. 148) argues, NEAC functioned not only as an economic institution but also as an instrument of political legitimacy, with the success of the economic recovery directly reinforcing the incumbent government's claim to continued political authority and enabling Barisan Nasional to secure a comfortable general election victory in 1999 despite the political turbulence of the Reformasi movement. At the meso-political level, however, NEAC's operations attracted substantively grounded criticism that qualifies the macro-political legitimacy narrative. Jomo (2001, p. 98) argues that corporate and banking restructuring under NEAC disproportionately benefited certain politically connected elites who were able to leverage their access to the crisis management process to secure advantageous terms in the restructuring of their financial and corporate interests. Khoo (2003, p. 173) contends that NEAC perpetuated the structure

of crony capitalism that had characterised the Malaysian political economy since the NEP era, using the crisis as an opportunity to consolidate rather than reform entrenched patronage networks. Gomez (2002, p. 134) criticises the opacity of NEAC's decision-making process, noting that critical economic decisions were made through elite negotiations rather than through parliamentary debate or transparent legislative processes, raising fundamental concerns about democratic accountability in a period of national emergency that Case (1999, p. 52) characterises as a dramatic expansion of executive dominance over the legislative and judicial branches.

These governance criticisms carry particular long-term significance when viewed through the lens of Malaysia's subsequent political trajectory. The governance deficits embedded in NEAC's crisis management model — opacity, elite capture, executive dominance, and the subordination of institutional accountability to crisis effectiveness — arguably contributed to the structural conditions that enabled the 1Malaysia Development Berhad (1MDB) scandal to emerge and persist over a decade later (Gomez, 2020). In this sense, NEAC's success in stabilising the economy coexisted with, and may have institutionally reinforced, a longer-term governance deficit that the 2018 electoral transition attempted to address. This paradox — effective crisis management at the cost of institutional accountability — is not unique to Malaysia. Comparative literature on crisis management in developing nations consistently reveals that the centralisation of authority required for rapid crisis response tends to generate institutional path dependencies that outlast the crisis itself (Weiss, 2012). The design challenge for future crisis management institutions is therefore not simply to maximise economic effectiveness but to embed accountability mechanisms — sunset clauses, parliamentary review requirements, independent audit functions — that preserve crisis management speed without entrenching executive dominance beyond the crisis period.

The study's findings provide strong empirical support for the state-centric institutionalist argument that effective institutional design can substitute for — and, in this case, outperform — external crisis management frameworks when the latter impose conditions poorly adapted to the specific political-economic context of the affected country. This finding aligns with the theoretical propositions of North (1990), Haggard (2000), Evans (1995), and Rodrik (1998), and empirically extends their insights to a developing-country crisis management context. It is further supported by Nazariah et al. (2020), whose analysis of Mahathiriskonomism demonstrates how domestically-grounded economic statecraft can defy Washington Consensus prescriptions while producing superior recovery outcomes. The findings are also consistent with Grabel's (2017) broader argument that the post-2008 global financial landscape has witnessed a fundamental shift toward 'productive incoherence' in international financial governance — a condition in which the absence of a single prescriptive orthodoxy creates policy space for developing nations to experiment with heterodox approaches, much as NEAC did in 1997/1998. The NEAC case thus resonates beyond its historical moment, offering a model of institutional crisis response that is particularly relevant to developing nations facing the increasing frequency and intensity of external economic shocks in an era of heightened global financial integration and geopolitical uncertainty.

Finally, it is important to acknowledge the limitations of this study. As a qualitative single case study based primarily on documentary analysis, the study is subject to the inherent limitations of interpretive historical-institutional research: the reliance on existing documentary records means that the perspectives of lower-level actors and marginalised communities affected by NEAC's strategies are underrepresented in the analysis. The causal attribution of Malaysia's recovery to NEAC's specific strategies — rather than to favourable external conditions, including the global

economic recovery that gathered pace from 1999 — cannot be established with the same rigour that a quantitative counterfactual analysis would permit. Future research employing mixed methods — combining the institutional depth of case study analysis with quantitative modelling of counterfactual recovery scenarios — would substantially strengthen the causal claims advanced here.

6. Conclusion

This study has examined the strategies and evaluated the impact of Malaysia's political-economic policy management during the Asian Financial Crisis 1997/1998, using NEAC as the primary unit of analysis. Guided by three research questions addressing crisis context, NEAC's strategies, and their multidimensional impact, and grounded in a conceptual framework rooted in state-centric institutionalism, the study has produced integrated findings across all three analytical dimensions that collectively establish NEAC as a significant and instructive case in the comparative political economy of crisis management.

In addressing RQ1, the study documents the unprecedented severity of the crisis across economic, social, and political dimensions: a GDP contraction of 7.4 percent, a near-50 percent currency depreciation, a 76 percent equity market collapse, sharp increases in unemployment and poverty, and a political rupture of historic consequence in the dismissal of Deputy Prime Minister Anwar Ibrahim and the emergence of the Reformasi movement. The regional comparative data presented in Table 3 contextualises Malaysia's experience within the broader ASEAN crisis, establishing the analytical baseline against which NEAC's performance is assessed. In addressing RQ2, the study provides the first comprehensive analysis of NEAC's full strategic framework as an integrated whole — the NERP's six recovery objectives, the capital controls and ringgit peg of 1 September 1998, and the three institutional vehicles of Danaharta, Danamodal, and the CDRC — each analysed in terms of their specific institutional logic, design rationale, and relationship to the broader framework. In addressing RQ3, the study evaluates outcomes across financial, social, and political dimensions, finding a broadly positive economic and financial recovery that outperformed IMF programme comparators, a moderated social impact that preserved social expenditure and avoided the extreme dislocations of the Indonesian experience, and a complex political legacy encompassing both governmental legitimacy reinforcement and substantive governance accountability concerns with long-term institutional consequences.

The study contributes to the existing literature in four principal ways. First, it provides an integrated analytical framework connecting NEAC's strategies with their multidimensional impact within a single study — filling a gap identified in the existing literature, which has predominantly addressed either strategy or impact in isolation. Second, it offers empirical support for the state-centric institutionalist argument that domestically-driven crisis management frameworks grounded in accurate contextual diagnosis can constitute viable alternatives to Washington Consensus prescriptions. Third, through the inclusion of a regional comparative analysis, it situates Malaysia's NEAC-centred recovery within the broader spectrum of crisis management responses to the 1997/1998 crisis, providing a quasi-experimental comparative baseline for assessing NEAC's effectiveness. Fourth, it documents the governance trade-offs inherent in centralised, executive-led crisis management — specifically the tension between effectiveness and democratic accountability — and traces the long-term institutional legacy of those trade-offs, contributing to a more complete and theoretically grounded assessment of NEAC's impact than has previously been offered in the literature. The NEAC model demonstrates that institutional innovation, policy heterodoxy, and the assertion of national economic sovereignty can produce recovery outcomes that meet or exceed those generated by standard international

prescriptions. However, the model's success was contingent on a specific constellation of institutional, political, and economic conditions — a relatively coherent state bureaucracy, a dominant ruling coalition with sufficient political authority to implement controversial policies, a comparatively lower short-term external debt exposure than Indonesia or Thailand, and an export-oriented manufacturing base that could rapidly resume operations once exchange rate stability was restored. These contextual conditions limit the direct transferability of the NEAC model to other developing nation contexts without careful adaptation. Future research should extend the analytical framework developed here to comparative analyses of crisis management institutions across other developing nation contexts — including institutional responses to the 2008 Global Financial Crisis and the COVID-19 economic shock — to systematically map the conditions under which state-centric, domestically-driven crisis management succeeds or fails, and to develop a more generalisable institutional design framework for crisis response in the developing world.

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