CHAPTER I

INTRODUCTION

A. Background of the Problem

Few decades ago, international world was shocked by the financial crisis which faced by Asian countries in 1997-1998. At that time, the financial crisis surged the countries which has the fast of economic growth (Radelet & Sachs, 2000). At that time those countries had the economic growth of 5%-7% per year for the past decades (Nanto, 1998). The condition like that had force the largest international financial bailouts in history. The financial condition which happened makes the economic condition of world changed. Several people predicted which Asian countries would be collapsed (Radelet & Sachs, 2000).

Asian financial crisis is the crisis which has to be faced by Asian countries at that time. Almost all Asian countries got the impact of this crisis; there are no countries which could avoid this condition. The Asian financial crisis happened because several reasons. The dependency on international market to U.S. Dollars is the one of the cause of the crisis at that time. The countries had international trading and did several economic activities by using the U.S. Dollar. The domination of U.S. Dollar in all sectors really influence the exchange rate of currency (Radelet & Sachs, 2000).

The Asian financial crisis was a trigger of financial crisis which occur in several Asian countries. This crisis began from Thailand on July 1997. Thailand is the first country which got the crisis at that time. This crisis started with the collapse of Thailand Baht to U.S. Dollar. Then this crisis also caused by Thailand government was forced to float Baht. Whereas, Thailand since 1990 very interested, it makes being the centre of attraction for massive volumes capital inflow from other countries, it happened due to Thailand government accommodated some economic policies that could be accepted by market (Elangkovan & Said, 2013). The crisis spread to other countries quickly. Basically Asian financial crisis was initiated by two rounds of currency depreciation. The first round was depreciation in the value of Thai Baht, Indonesian Rupiah, Malaysian Ringgit, and the Philippine Peso. The second round was started with the downward pressure against South Korean Won, Hong Kong Dollar, Brazilian Real, and Taiwan Dollar (Nanto, 1998).

Economic instability happened in all countries which is affected by this Asian financial crisis. The crisis condition, influence the political situation. Indonesia is one of the countries which get the effect in political aspect from this crisis. President Soeharto fell from his position as President who already governs for more than 32 years. Demonstration wave happened in all places in Indonesia. Demonstration wave had aims to strike down the power of Soeharto. The demonstration was done by several elements including the student movement, people movement and so on.

Since the beginning of its independence, Malaysian economic had been in good condition. Malaysia had the economic average rate until 8.7% during the period of 1990-1997, Malaysia enjoyed the full employment, stability in price level, and high growth of economic level. Beside that at that time 1997, Malaysia was ranked as 35th top country in the world, with reference to the size of the aggregate and per capita income (GNP) (Zaherawati, Noordin, Zoolhilmie, & Sawal, 2010). Although Malaysia had good economic development at that time, Malaysia was not guaranteed free from the Asian economic crisis. Mahathir Mohammad had prediction after the Thai Baht had been attacked, Malaysia would soon become one of targets the currency sell offs. Mahathir had prediction according to "the theology of currency trading", if one countries damaged by economic crisis, it will naturally spread over the damage to the surrounding countries (Mohammad, 1999). At that time when the crisis come to Malaysia, the Ringgit (RM) fell down, on 1997, the Ringgit free-felt from RM 2.4 per U.S. Dollar to RM 4.9 per U.S. Dollar (Lim & Goh, 2012). It was the impact of depreciation of Thailand Bath in world market. We have seen how big power of the financial crisis in Asia at that time, all countries affected by this crisis. Malaysia did not get exception from this crisis, Malaysia being one of countries affected by this crisis directly. At that time the situation of economic was not stable. Some policies was carried out by countries as the victim of Asian financial crisis 1997-1998. Even some countries issued the instant policies to against Asian financial crisis.

Although Malaysia was also affected by the Asian Financial Crisis 1997-1998 Malaysia had successful to come out from the problem. When the crisis era, in October 1997, the government had predicted a growth rate of seven per cent for 1998, but subsequently adjusted it downward to four until five per cent in December 1997, and again two until three per cent in March

1998 (Ariff & Abubakar, 1999). One decade after the crisis economic Malaysia had changed. Economic and finance of Malaysia is in greater position. Economic stability was achieved, by the Malaysia. Low unemployment and strong of external balances also were achieved by the Malaysia. Economic condition of Malaysia being a centre of attraction by the market, Malaysia continued to attract both domestic and international investment. Those are effect from the effort by the government of Malaysia.

B. Research Question

Based on understanding of background of the problem above then the interesting question is: Why Malaysia successful to overcome Asian financial crisis 1997-1998?

C. Theoretical Framework

To analyse the problem why Malaysia was successful in overcoming Asian financial crisis 1997-1997, the researcher uses several theories and concept related with the problems. Researcher uses the theories and concepts to identify the problem comprehensively.

1. Theory of Crisis

Financial Crisis is the term that used when the financial condition of a states were in a worse condition. Actually the financial crisis is not only attack the states, but also the term of financial crisis could attack to institution, even personal. There are two indications of a country that experiences a financial crisis which are a large drop of its currency and large drop of its traded equity prices (Chowdhry & Goyal, 2000). When people discuss about the financial crisis, people relate that crisis with currency crisis.

Currency crisis is a speculative attack toward foreign exchange value of currency, that it is resulted by sharp of depreciation or even forces the researcher ties to defend the currency by selling foreign exchange reserves or raising domestic interest rate (Glick & Hutchison, 2011). Speculative attack toward Thai Bath at that time was also the main reason or the beginning of Asian financial crisis to happen, because when the Thailand got the problem it spread to other countries rapidly.

The theory used by researcher to analyse this topic is theory of crisis or known as generation model of currency that is proposed by Paul Krugman, a professor of economics at Princeton University, United States of America. Krugman develops the theory of crisis based on the experience of several countries (Imansyah, 2009). In this theory Krugman develops three generation models of currency. Those are First Generation Model of Currency (FGM), Second Generation Model of Currency (SGM) and Third Generation Model of Currency (TGM). Different types of model that proposed by Paul Krugman adopted from the time of crisis occurred.

- **First Generation Model of Currency**

  First Generation Model of Currency is firstly introduced by Salant and Henderson, and then is developed by Krugman. This theory currency crisis that is experienced by a country which implemented open economic as small and implementing fixed exchange rate (Kusuma, 2009). This model focuses on inconsistencies between macroeconomic policies, for instance the exchange rate commitment and government budget deficit must be monetized. By several analysts the main cause of crisis happen to this model is that there is speculative attack to exchange rate of the country that makes that country to change the exchange rate of their currency.

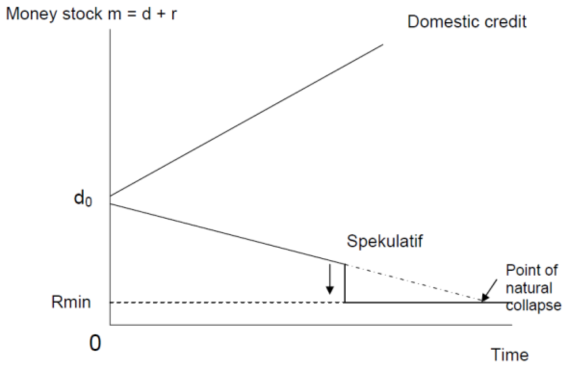

Figure 1.1

First Generation Model (FGM) of crisis

There are several things which being become the analysis in this model. Those are: single tradable goods, full employment, small open economy, and exogenous output. The process of crisis in the First Generation Model (FGM) explained in picture above. Investor and speculator will not wait until the value of r=0. T=if the amount of R already decrease near of R min so then they will change domestic currency to foreign currency. This is the condition that will accelerate the collapse of exchange rates, which uses fixed exchange rate (Haryanto, 2009).

There are two assumptions in this model. First, governments will print money in big scale to fund deficit in their budget. Second, central bank has foreign reserve that can be used to do market intervention in order to make exchange rate stable in accordance with target which has been set before (Kusuma, 2009). The government policy who print money continuously in order to fund deficit of their budget will make exchange rate of domestic currency to foreign will experience increasing trend, so that central bank will do intervention toward market by releasing foreign reserve to currency market. In certain time when central bank started to experienced shortages on reserves, so that speculator will buy foreign currency with the hope that the value will be increased in the future (Kusuma, 2009).

- **Second Generation Model of Currency**

The Second Generation Model (SGM) is the theory which explains that a country which has good condition in fundamental system, does not guarantee it could be free from crisis. The country which has condition like that is also potentially attacked by the crisis. The condition of the country like this which has good economic system could get the crisis caused by speculative attack although fact shows that strong system of fundamental exchange rate. This model appears as the answer of the crisis in Europe. This model has first assumption to give up exchange rate target if the costs of doing exceed the benefit (Glick & Hutchison, 2011).

In this second generation model, analyse herd effect is the main cause of the crisis which could be observed by banker and manager of finance portfolio. Several disturbances will make the market panic and investor will save their money by exchanging the money to foreign currency (Imansyah, 2009).

- **Third Generation Model of Currency**

Third Generation Models (TGM) or several analysts called this model as Asian Crisis Model. This model appears because of the Asian Crisis happened on 1997. Characteristic of the generation model is always development based on the condition of crisis. If there is crisis occur in one country and could not answer by previous model, it will be made new development of theory.

Third Generation Models argue that the crisis happens because of several reasons. First reason is emphasize to the banking system. The high syndrome of foreign debt, moral hazard, there is no supervision from government and finance institution and weakness of banking supervision. Second, the crisis happened caused by herd effect which could be observed by Bankers. Third, the crisis caused by contagion effect. The crisis happens though trade relation. When depreciation happens in a country, it will make a decline in competitiveness for other countries (Imansyah, 2009).

This model also emphasizes to the role of moral hazard and balance sheet effects. Moral hazard itself is causes of the implicit government guarantee which ready to bail out the private company and bank which is in a problem and guarantee investor future revenue (Haryanto, 2009).

In a simple way, to understand that crisis will be happen according to this model if:

1) Propensity to import is low
2) Propensity to consume is low
3) World interest rate is low
4) Borrowing constraint private sector is low
5) Price elasticity is of export is low
6) Wage elasticity of labour supply is low (Ishihara, 2007).

The condition of Malaysia's economic before the Asian Financial Crisis happen was in good condition. They are categorized into emerging countries, known as new an industrial country which is one step closer to be advanced industrialized countries. Even in 1997 Malaysia was ranked as the 35th top country in this world, based on GNP (Zaherawati, Noordin, Zoolhilmie, & Sawal, 2010).

The Asian financial crisis comes to Malaysia caused by the speculative attack toward foreign exchange value of currency. That condition resulted in the depreciation toward currency. We know that Asian Financial crisis 1997 is caused by the collapse of Thai Bath. Thai Baht was being under the extreme pressure from the speculative attack. The condition that faced by Malaysia at that time is appropriate with the statement of Krugman that ”the cause of crisis happen of this model is there is speculative attack” (Kusuma, 2009).

Then the other ways to analyse this crisis is through the generation models of crisis that is already explained above. There are three generation models to analyse the financial crisis. However in order to analyse this crisis, the researcher prefers to use the Third Generation Model (TGM). Although Malaysia when the crisis happen did not implemented the fixed exchange rate, but for the first generation models also could be used as a tool to analyse the problem. For the addition Malaysia when the crisis happen implemented the managed floating exchange rate regimes (December 1992 – September 1998), but they also implemented fixed exchange rate regime (March 1990 - November 1992) (Hernandez & Monitel, 2001).

The implementation of this theory toward the problem is to know certain condition that could be makes of crisis itself happen in Malaysia. We could see that the component which put in the figure above, all of those component is formula to determine a condition of a state could be called as crisis condition or not. The role of speculator also could be seen from from this model, investor and speculator will withdraw their money when the condition nearing to Rmin, such as pictured in figure above.

The crisis happened because the speculator withdraw their money when the condition nearing to Rmin. The depreciation of exchange currency would be happened caused by that condition. Speculators understand how long the foreign reserve will be exhausted. The impact of declining Ringgit the investors tried to reduce their investment in order to avoid lost their money during time of crisis (Zaherawati, Noordin, Zoolhilmie, & Sawal, 2010).

This study uses the Third Generation Model (TGM) as the theory to understand the crisis in Malaysia. Third Generation Model (TGM) was developed after the Asian financial crisis 1997-1998 happened. Basically this model emphasize toward the role of moral hazard and balance sheet effect.

Moral hazard here explained as the carelessness from several sides in term to release the policy toward the financial condition in East Asia at that time. The moral hazard done by several sides gave the negative impact toward the economic of several Asian countries including Malaysia. Kind of moral hazard that explains in this case is when government could not guarantee, in order to bail out the private company and bank which got the problem.

The crisis coming to this model when the demand of foreign currency is higher, which means the number of import is higher than the number of the export. It is happens because several companies prefer to import their goods. Hidehiko Ishihara explains in her paper which examine the third models analyse by Krugman “Entrepreneurs consume only import goods, but they use domestic goods to produce the capital” (Ishihara, 2007).

The response from the Malaysian government when the crisis of Asian Financial coming to Malaysia, they were directly did several actions. One of the cause of crisis happen in this models is government could not guarantee in order to bail out the company even private company. However at that time, Malaysia government issued the policy to bail out several big companies such as sea transport consortium company owned by Mirzan Mahathir, which have 450 billion USD debt (Haryono, 2010). Also the government of Malaysia bails out another big company such as Renong Bhd. The policy to bail out big companies is best response from the Malaysia at that time to solve the condition of Malaysia, such as what in the third model discussed.

2. The Concept of Financial Crisis

Economic crisis is the situation of the country when it is attacked by the crisis which makes the country turned down and brought into financial crisis. Carmen Reinhart and Kenneth Rogoff in their book explain that “financial crisis is an equal and opportunity menace” (Reinhart & Rogoff, 2009a). Barry Eichengreen and Richard Portes define International financial crisis as:

> “A disturbance to financial markets, associated typically with falling asset prices and insolvency among debtors and intermediaries, which ramifies through the financial system, disrupting the market's capacity to allocate capital within the economy. In an international financial crisis, disturbances spill over national borders, disrupting the market's capacity to allocate capital internationally.” (Eichengreen & Portes, 1987)

Financial crisis that we know in this world also distinguished into two types. The first type is currency and sudden stop crisis. The second type is debt and banking crisis. (Reinhart & Rogoff, 2009a). In this case the researcher puts the currency crisis as the concept to analyse the problem in this paper. Currency crisis involves the speculative attack on currency which resulting devaluation or even sharp depreciation currency crisis force the authorities to defend the currency by expending large amount of international reserve (Claessens & Kose, 2013).

This crisis coming to Malaysia was caused by several reasons. The main reason of this crisis was the devaluation of Thailand bath to market. In the middle of May, Thai Bath came under the extreme pressure from the speculative attack. Malaysia got the impact of devaluation of Thai Bath to U.S. Dollar until 18 per cent few days after prime Minister of Thailand Chavalit announce.

Bank Negara Malaysia immediately responded to that condition, to intervene in foreign exchange market to uphold the value of Ringgit. However the effort carried out by Bank Negara Malaysia was not successful, although it tried to increase the interest rate of Ringgit deposit, Ringgit was powerless facing the U.S. Dollar. Then Bank Negara Malaysia stopped the intervention and gave the Ringgit 100 per cent to market (Haryono, 2010).

That condition makes the infrastructure projects in Malaysia stopped for a while, because the high credit interest rate and all business related with banking. Beside that this condition made the price of commodity in national market unstable. The price of commodity increased extremely. Although year before crisis, Malaysia was known as new industrial country, on step closer to be advanced industrialized country, Malaysia could not free from the crisis. Immediately the name loses from Malaysia. Malaysia was on the threat of bankruptcy. The foreign debt of Malaysia increased because the impact of differentiation in exchange rate (Haryono, 2010).

Therefore this condition made Malaysia in crisis condition. It started with the currency crisis until being the national crisis and made the economic and political situation unstable. The crisis successfully made Malaysia be in the verge of bankrupt country at that time.

3. Currency Board System (CBS)

Currency Board System (CBS) originated comes from Great Britain. Emerge in early 1800s. The proponent of this system is David Ricardo and Sir John Hick. Basically in this world known two kind of institutional which run the exchange regime. Those are Central Bank (CB) and Currency Board System (CBS).

Only few countries in Europe had central bank before the twentieth century. This system expands to United States during First World War and Second World War. And directly spread over the world after the Second World War (Chen, 2010).

Currency Board System is the specific long term of monetary regime based on full convertibility of local currency to reserve one fixed exchange regime. Almost countries in the world implemented the Currency Board System (CBS) until the end of 1940s, after that almost countries move to Central Bank (CB) to manage their monetary regime (Haryono, 2010).

According to Yavor Atasarov and Dimitar Valchanov currency board system is:

> “by definition an institution which issues banknotes (or in some cases deposits) that are fully covered by foreign reserve currency. These banknotes are freely convertible in the reserve currency at a fixed exchange rate” (Atansarov & Valchanov, 2011).

Prof. Nan-Kuang Chen from National Taiwan University, explain the main characteristics of Currency Board System are:

> a. Anchor Currency : The domestic currency maintains a fixed exchange rate to an anchor currency (British pound sterling, U.S. dollar, Euro etc.), and the note-issuing is 100% backed by a foreign assets. A currency board is a variant of fixed exchange rate targeting in which the commitment to the fixed exchange rate is by design permanent and is particularly strong. A currency board maintains full, unlimited convertibility between its notes and coins and the anchor currency at a fixed rate of exchange.
>
> b. Reserves: A currency boards reserves are equal to 100 percent or slightly more of its notes and coins in circulation, as set by law. As reserves, a currency board holds low-risk, interest-bearing bonds and other assets denominated in the anchor currency.
>
> c. Monetary Policy: By design, a currency board has no discretionary power in monetary policy; market forces alone determine the money supply. Its operations are completely passive. The sole function of a currency board is to exchange its notes and coins for the anchor currency (Chen, 2010).

There are several requirement, when the country will implement the Currency Board System (CBS), those are:

1) Small foreign debt
2) There is no foreign intervention
3) The amount of money in circulation must be controlled
4) Foreign exchange reserves should be sufficient and can be upgraded to be able to maintain the value pegged (Siwi, 2013).

Saw the condition of economic Malaysia, Mahathir Mohamad as the Prime Minister of Malaysia, tried to find several measures to overcome the speculative attacked by the speculator.

Malaysia was implemented the selective capital control in order to overcome Asian financial crisis. Selective capital control itself is the variant of Currency Board System (CBS) which proposed by David Ricardo. Currency Board System (CBS) become the attention when Hongkong was implemented this system in 1993 to control exchange rate that decreased in international market. Subsequently several currency crisis appears made several countries back implemented Currency Board System (CBS) such as Argentina, Estonia, Lithuania, Bulgaria, and Bosnia (Haryono, 2010).

The condition that made Malaysia implemented selective capital control because the currency crisis happen caused by the currency trading between affected countries. Trade currency made the decrease of the value of the currency (Mohamad, 2015). Although this currency is very high risk could make the country collapsed if fail implementing this policy, but Mahathir saw from the previous experience of the country which implemented selective capital control before Central Bank (CB) regime used in several countries.

Selective capital control was used by Malaysia to limit the movement of speculator which attacked local currency. Two main purposes of selective capital control are to stabilization of Ringgit and restriction on the outflow of short term capital.

4. Mahathiriskonomism

Mahathiriskonomism is a thought concept in an effort to save the economy from the crisis. Mahathiriskonomism is derived from the combination of the name of ‘Mahathir’ from the name of former Prime Minister of Malaysia, Dr. Mahathir Mohammad, with the word risk and economy, and in last adding the prefix ‘ism’ in order to suggest a thought or ideology (Md. Shukri Shuib, 2009). Basically, Mahathiriskonomism is the idea and action plan used by Malaysia to overcome the crisis which proposed as initiative from Dr. Mahathir Mohammad as Prime Minister of Malaysia at that time.

According to Prof. Alias Adnan (Shuib, Keling, & Ajis, 2009) , the basis of Mahathir’s thoughts covers element as follows:

> First: The first is back to basic. It is a question the fundamentals and finds the simplest explanation to solve a problem.
> Second: conflict of flow, Dr. Mahathir dares to propose an idea that is obviously different from the trend or conventional.
> Third: Make right decision, this is usually a characteristic of a successful entrepreneur. Every decision is not only based on the right or best way but the decision that resulted is need to realized so that produce the result.

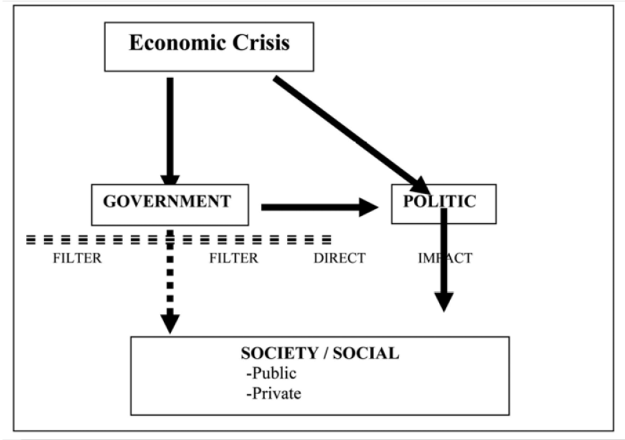

Figure 1.2

The level impact of the Economy Crisis 1997 on Mahathir's Politic and Economy (Shuib, Keling, & Ajis, 2009)

The figure above shows the policy that taken by Mahathir Mohamad to overcome the Asian Financial Crisis, through careful process. When the crisis comes to Malaysia, he fined the best solution to distribute to the people. All the potential policy considered by him with carefully and fully attention. People or society got the best policy which produced with careful of calculation, so that the risk of the policy could minimize for the future.

When Malaysia under the crisis at that time, they implemented the nationalist policy rather than implement the other policy such as other countries which similarity affected by the Asian Financial Crisis at that time. Actually, when the crisis comes to Malaysia, there are two different arguments between Mahathir and his deputy, Anwar Ibrahim.

In this case it can been seen, Malaysia successful to overcome the Asian Financial crisis rapidly because it is supported with their decision to refuse the assistance from International Monetary Fund (IMF), which is at that time some affected countries prefer to more get assistance from IMF in order to overcome the crisis.

Such as what in this idea of Mahathiriskonomism, back to basic which is question the fundamentals and find the simplest explanation to solving a problem (Shuib, Keling, & Ajis, 2009). Mahathir tried to implement the policies that give more benefits for Malaysia. Mahathir prefers to more implement the nationalist policy, because Mahathir itself believe that the cause of crisis is not from Malaysia even in Asia (Haryono, 2010). Mahathir refuses the recommendation from the IMF to solve the crisis in domestic level.

On July 1998, after seeing the result from the previous economic package initiated by Anwar Ibrahim, Mahathir issued the new policy which called as National Economic Recovery Plan (NERP). This new policy is recommended by National Economic Action Council, a council who formed by Mahathir Mohammad since January 1998, and has special duty to solve the crisis (Haryono, 2010).

The strength of domestic politic also influences the succession of Malaysia. Mahathir is a great leader who has big influence in Malaysia. As domestic politics, the policy that Mahathir made as executive would not facing rejection in parliament, because in parliament itself, *Barisan Nasional* (BN) coalition parties of government supporter has 84.4% 162 seats in parliament. (Moten & Mokhtar, 1995).

5. The Concept of Economic Sovereignty

The word economy originally comes from the Greek word which means one who manages the household. In a simple, economy is the science which learns about the household. Nicholas George Mankiw an American Economist from the Harvard University, defines of the term of economic as the study how society manages its scarce resources (Mankiw, 2004).

Sovereignty is a concept which could be used as the object in philosophy of politic and state law. Thomas Hobbes a political theorist has an analogy “a commonwealth without sovereignty power is but a word without substance and cannot stand” (Zagorin, 2009). The term of sovereignty is a supreme power somewhere in the political community, as well as implying the idea that this final authority is somehow limited (Hall, 2002). Hobbes is the theoretician who emphasizes the importance of the sovereignty. However the French lawyer, political theorist also Jean Boddin defines sovereignty as “the most high, absolute, and perpetual power over the citizen and the subject in a commonweal unrestrained by laws and as the greatest power to command” (Zagorin, 2009). Therefore the nature of sovereignty is absolute and eternal.

The concept of economic sovereignty here is the autonomy of a state in term to manage their house hold business so that it would decrease the dependency toward the other states. The economic sovereignty analogized as how the economic power of a state able to solve their own problem without dependence to the other state.

The Asian financial crisis which strike to Malaysia at that time has made the condition of Malaysia's economic be in bad condition. A quick action is needed which held by the government of Malaysia at that time. There are several options to save the Malaysia economic at that time. The nearest option is through the International Monetary Fund (IMF). Such as the other affected countries, they were going to IMF in order to go out from the crisis.

Malaysia under Mahathir Mohammad implemented the unpopular policy at that time. He refused the IMF offer to give the IMF assistance in order to solve the Malaysia's economic. Mahathir implemented the selective capital control, the high risk policy which threat Malaysia went to the worse condition if they not successful implement that policy. It is shown although there are international power which ready to intervene the Malaysia economic, Malaysia with their position reject that offer. However with the power of Malaysia's economic sovereignty Malaysia was successful in implementing that policy and got the positive responses from the market coming to Malaysia.

D. Hypothesis

Based on background, of the problem research question and the theoretical framework, the researcher will try to give hypothesis from the question on why Malaysia successful to overcome Asian Financial Crisis in 1997-1998:

1. Malaysia implements the strategy in order to solve the crisis which called as Mahatiriskonomism.

2. Malaysia has economic sovereignty, which could not be interference by outside.

E. Range of Research

In order to focus to this research, the researcher tries to limit this research when the era of Mahathir, started from the beginning of this problem until the end of Mahathir administration of Malaysia 1997-2003.

F. Purposes of Research

This research has aims to reach some purposes as followed:

1. To fulfil the requirement of undergraduate degree in International relations major of Faculty of Social Science of Universitas Muhammadiyah Yogyakarta.
2. To identify policy implemented by Malaysian government when Asian Financial Crisis 1997-1998
3. To apply the theory and concept of International Relations directly to explain the case study that happens in the world

G. Data Collecting Method

The main method to collect the sources of this research is using library research. Library research will be applied to collect the data, and to explain the problem as well as to analyse the hypothesis. The sources could be in the form of the books, magazines, journals, and encyclopaedias.

Besides, internet is also one of the sources that used to collect data, since the updated information spread rapidly on the internet.

H. System of Writing

The outline of this paper would be as followed:

CHAPTER I: tells the background of the problem, research question, theoretical framework, hypothesis, purpose of research, range of research, method of research and system of writing.

CHAPTER II: it discussed economic and political condition of Malaysia pre-Asian financial crisis happen, which is supported by figures and data.

CHAPTER III: it talks about the origin of the crisis happen in Asia. In this chapter, it will be discussed about the process of crisis happen until arrived to Malaysia.

CHAPTER IV: it talks about the economic policy and the economic strategy implemented by Malaysia government in order to overcome the Asian Financial Crisis. This chapter will discuss about Malaysia's economic fundamental. This chapter will be discuss the strong of Malaysia's economic fundamental, how the strong of Economic Fundamental of Malaysia support the success of Malaysia in order to overcome the crisis.

CHAPTER V: it discusses about economic sovereignty of Malaysia as the key success of Malaysia to overcome the Asian financial crisis 1997-1998. Malaysia's Economic sovereignty had important role in order to overcome the Asian Financial Crisis 1997-1998.

CHAPTER VI: This chapter is the end of this paper that contains conclusion and suggestion.