

(R) (B)

Business-Government Relations:  
A Comparative Study of  
Malaysian and South Korean Experience  
After the Asian Financial Crisis

Cheong Yee Sum

Bachelor of Public Management (Hons)  
Universiti Utara Malaysia  
Kedah, Malaysia  
2001

Submitted to the Faculty of Business and Accountancy,  
University of Malaya, in partial fulfillment  
of the requirements for the Degree of  
Master of Business Administration

May 2003

Perpustakaan Universiti Malaya



A511760222

## **ACKNOWLEDGEMENTS**

I would like to express my deepest gratitude to the supervisor of this research project, Associate Professor Dr. Mohd. Nazari Ismail, for being such a wonderful individual in providing his guidance and thoughts towards this study. Without him, this research project would be much more difficult to be embarked and completed. His patience and time are very much appreciated.

Secondly, I would also like to thank my parents and family members for giving me the support throughout the period of this study. Their unconditional support serves as encouragement and motivation in helping me getting the study done within the given time frame.

I am also grateful to my course mates who have also been doing their research study during the same time for their encouragements and thoughts towards the study. They have been great in supporting and providing me with the necessary motivation towards the subject of study. Their effort is appreciated.

**TABLE OF CONTENTS**

	Page
Executive Summary	
1.0 Introduction	1
2.0 Business-Government Relations: Brief Survey of the Literature	4
2.1 The Government Institution	
2.2 The Business Institution	
2.3 Business-Government Relations	
2.4 The Nature of Business-Government Relations in East Asian Countries	
2.5 Impact of Business-Government Ties	
3.0 The Business-Government Nexus in Malaysia	14
3.1 Post-Colonialism and New Economy Policy (NEP)	
3.2 The Emergence of the "New Rich" <i>Bumiputeras</i>	
3.3 Involvement of Political Parties in Business	
3.4 Corruption, Cronyism and Money Politics	
3.5 Confronting the 1997 Asian Financial Crisis	
3.6 The Present	
4.0 The Business-Government Nexus in South Korea	32
4.1 Post-War and Industrial Revolution	
4.2 The Rise of <i>Chaebols</i>	
4.3 Corruption and Cronyism	
4.4 Korea's Plunge in the 1997 Asian Financial Crisis	
5.0 Reform and Recovery: A Comparative Study of Malaysia and South Korea	41
5.1 Reform and Recovery in Malaysia	
5.2 Reform and Recovery in South Korea	
5.3 Real Gross Domestic Product (GDP)	
5.4 Inflation	
5.5 Employment	
5.6 Gross External Debt	
5.7 Exchange Rate	
5.8 Malaysia vs. South Korea	
6.0 Lessons Learnt	52
6.1 The Importance of Corporate Governance	
6.2 Structural Weaknesses in the Financial System	
6.3 The Nature of Business-Government Relations	
6.4 The Importance of Competition	

7.0	Conclusion	58
7.1	Concluding Thoughts	
7.2	Implications of the Study	
7.3	Limitations of the Study	
7.4	Suggestions for Further Research	

Bibliography

## EXECUTIVE SUMMARY

The 1997 Asian Economic Crisis had hit many countries hard. However, many had reacted by taking recovery measures deemed to be the most suitable in their local environments. In the effort of climbing up from the plunge, many reforms and restructuring of various sectors in the economy at large have been carried out.

The impact of the crisis has drawn attention the need for an inquiry into a number of important issues in the areas of business and politics. Business-government relations are one of the key strengths in determining the recovery strength of a country after the financial crises. The nature and goals of the relationships have influenced the pace of recovery of the East Asian countries. This will very much be reflected in the policies undertaken by the governments to prevent the economy from collapsing.

In view of the long existence of business-government relations in countries of the East Asian region, there is a need to study the nature and importance of the interaction between the government and the business sector. The role and goals of government policies in economies will influence the way the economy functions. To illustrate how does business-government relations influence the pace of recovery after the financial crises and examine if the relationship is positive to the countries, a comparative study on Malaysia and South Korea was done.

Of both the countries, South Korea, which practices authoritarian political system and made government assistance conditional on good export performance, particularly in the Park Chung Hee era, has created many world-class manufacturers that are competitive and more resilient to crises. However, the financial crisis hit Korea hard. By accepting the economy package of the IMF after the crisis, trade liberalization is implemented in the country, and as an outcome, some firms were allowed to fail instead of being bailed out by the government. Despite this, many survived and are doing well in the international market, such as Kia.

Malaysia, which practices democracy system but takes a different approach in terms of business-government relations, has companies nurtured by the government but lacked the competitiveness in the international market. In battling the financial crisis, the country has resorted to its own capital control measures. Fiscal and monetary policies had to be loosened but politically well-connected companies were still protected by the government, far from reaching the level of world-class companies. However, this is not a long-term measure, as these companies would soon be played out once they venture into the international market.

To a very large extent, the pace of recovery after the crisis in both the mentioned countries has close connection with the circumstances in the countries resulting from the nature of business-government relations thus far. Looking from the perspective of business-government relations, the findings of this study suggest that the relationship need to be revised to ensure long-term profitability to the financial system, corporate sector and the political structure. A healthy and beneficial relationship should be forged and maintained to create a win-win situation where both parties will benefit from the network.