

7.0 CONCLUSION

7.1 Concluding Thoughts

The 1997 Asian financial crisis had close connections with the nature of business-government relations in the region. It is believed that the nature of the relationship has had a huge bearing on the impact of the crisis and recovery process. As illustrated in the examples of Malaysia and South Korea, where both countries practiced close business-government relations, the relationship demonstrated more negative impacts than positive ones.

In general, there are strengths as well as weaknesses to a system of close networks between business and government. At early stages of growth, where there is great potential for productivity gains, investment returns are high and market failures may be substantial, forging close relationships between companies, banks and governments may serve as an assurance mechanism. The relationship may encourage investment by promoting long-term relationships and lowering the cost of credit.

However, as development progresses, the risks appear to rise. As marginal returns fall and the scope for easy productivity gains is exhausted, the costs of maintaining institutions and relationships developed earlier have risen. As a result, the weaknesses of the political and economical structure are visible as they reflect the relationship between the government and business sectors.

In South Korea, companies have grown to be huge in size, only to be financed using the wrong channel. Most of them were financed with short-term debts, especially from foreign banks and company-controlled financial institutions. Indirectly, the government that approved and granted most of the projects to these companies had placed them in a difficult position. In order to maintain good relationship with the government, many of the firms could not reject the offer, as that would probably jeopardize the network formed.

As a result, they became highly leveraged firms and vulnerable to any uncertainties. Therefore, when foreign banks refused to roll over their loans, many of them were highly indebted. The dreams of these "too big to fail" companies were also shattered.

In Malaysia, the situation is more complex as the government has long maintained ethnic preferences (Haggard, 1999). Companies mushroomed under the implementation of the New Economic Policy (NEP). Under such protected environment, companies that mostly belong to the new rich Bumiputeras have been nurtured with the mindset of "subsidization". They were not exposed to the risk and uncertainties of business, thus making them lack the competitiveness especially in the international market.

When the crisis struck, it was revealed that many of them were trapped with the problem of excessive risk taking and over-investment. Because of their incompetence, Malaysia could not implement tight monetary and fiscal policy, as what Korea has done. The close relationship between government and business did not bring up these companies to be tough but pushed them into a comfortable zone that resulted in incompatibility and incompetence.

The commitment and willingness to accept changes demonstrated by the South Korean firms proved that they were tougher compared to Malaysian firms. There has been no doubt that both countries were recovering after the crisis, as discussed earlier. However, the ability of South Korea to repay all debts to the IMF on August 23, 2001, which was three (3) years ahead of schedule, proved that they operate much better than Malaysian companies do. The latter, still operating under a much-protected environment, have not been demonstrating such remarkable results since the implementation of capital control measures after the crisis.

Therefore, actions should be taken to revise and reform the nature of business-government relations in Malaysia and South Korea, for this instance, to ensure a "healthier" relationship and increase the effectiveness and efficiency of both sectors.

7.2 Implications of the Study

This study was set out to examine the past and existing business-government relations in Malaysia and South Korea, on how the relationship affects the pace of reform and recovery of the countries, and the extent to which the relationship is beneficial to the countries.

At the beginning of the development stages of both the countries, the network was vital to ensure rapid growth. However, the relationship was then manipulated by certain individuals for personal interests. This resulted in various cases of frauds and damaged the political and economy structure as a whole.

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.

7.3 Limitations of the Study

The study was only examining two countries in the Asian region where the Asian "miracle" to have occurred. There were other countries where the practice of close business-government relations has long been existed as well as affected by the Asian financial crisis. More examples could have been used to compare and contrast with Malaysia to examine the nature of the relationship in these countries.

Furthermore, not many write-ups were found on Malaysia due to the nature of the issue, which was supposed to be sensitive in the context of the country. Sources of information were limited in examining the nature of the business-government relations in Malaysia.

7.4 Suggestions for Further Research

For further research purposes, studies could be done on other countries in the East and Southeast Asian region, where a close business-government relation has been practiced.

From the social aspect, study could also be concentrated on the area of industrial relations in countries affected by the crisis. With the restructuring effort going on, workers are very much affected and it is important to maintain a positive relationship with them because labour is the pillar of the economy engine. Business activities depend on the utilization of labour to be successful.

Another area that could be studied is the extent to which the recovery process is completed. It is difficult to determine when the process is considered complete. It would be interesting to examine the future possible policies that are going to be implemented to prevent the country from plunging into another financial crisis in time to come.