

2.0 BUSINESS-GOVERNMENT RELATIONS: BRIEF SURVEY OF THE LITERATURE

2.1 The Government Institution

There are various definitions available for the term 'government', with each of them trying to provide the best possible explanation to the readers.

According to Cockfield (1997), 'the government' can be seen as something large and remote that does things to the citizen. The government makes and enforces rules, punishes people and takes money from citizens as taxes. Government is the organization of people for the resolution of dispute and conflict (Jackson & Jackson, 1997).

Grigsby (1999) also had similar explanation on the terminology of 'state' or basically, the ruling government. A state is an organization that has a number of political functions and tasks, including the provision of security, the extraction of revenues, and the formation of rules for resolving disputes and allocating resources within the boundaries of territory in which it exercises jurisdiction. The backbone that performs all the above activities is the institution of government.

A government may comprise of many agencies, acting and performing different tasks, at the service of the public at large. The public sector is the formal and permanent departments or bureaus, which oversee certain functions, such as transport, education, health services, and macroeconomic management (Davis et al, 1993).

The executive, however, is the body that applies the rules developed in the legislature to particular situations, (Laski, 1963, as cited in Cockfield, 1997) and then supervises the implementation of those applications by the public sector. There are various forms of executive in different countries. The executive is powerful and has the most control over government resources and information.

A government also has constitutions and conventions, which are the political 'rules' that spell out the rights and obligations of the various formal political institutions. The judiciary, however, arbitrates on the relationships between citizens, between citizens and the political institutions and on the relationships between institutions (Laski, 1963). This system usually has several

levels dealing with issues that arise at different levels and those in the system are usually appointed by someone within the other political institutions.

The legislature is a body of elected or appointed representatives of citizens, which gives assent to laws. The political parties are organizations that carry out political functions and contest elections in order to capture and retain legal power over the policies of government.

There are several levels of government. Most countries have a central government and local governments, with each performing its own administration in its respective area and boundary. Various arguments arise on the concentration of power and the efficiency of these bodies. However, this does stop the development of a government in a country.

2.2 The Business Institution

The existence of business enterprise is central to the modern state and operates through a variety of organizational forms. Business is the pursuit of profit. According to Veblen (1958), the motive of business is pecuniary gain and the method is essentially purchase and sale.

Businesses may appear in different forms depending on its ownership patterns. A business could be owned by an individual entrepreneur and operates in the economic environment to obtain profit. Other forms of ownership include family-owned, partnership, private limited companies, and public listed companies. The ultimate objective behind a business organization is to profit from its core activities to ensure its sustainability and survival in a competitive environment.

2.3 Business-Government Relations

A government body exists in every independent country to maintain its sovereignty. With the existence of a nation or government, economic and social factors follow suit. In an economy, there are individuals involved in business to generate wealth. Politics in a government revolves with the distribution of power whereas the existence of business in an economy concerns with the distribution of wealth.

Therefore, business-government relations study the interaction between the two parties in allocating wealth to the public at large. According to Gale (1984), there is hardly any country in the world where the government is not actively engaged in some form of economic activity through public enterprise. The close-knitted relationship between government and business has been long existed, especially in Third World countries. This includes Southeast Asian countries and even Japan and Korea, where free market has not been widely practiced.

In order to boost the economy and accelerate the development process, governments, especially in the East Asian region, often involve themselves or appoint some particular business groups to venture into major industries to ensure higher return to the economy. This is particularly important in areas like heavy industries, such as manufacturing of automobiles, ship, petrochemical plants, etc, in which large amount of capital is needed. These types of industries are certainly far beyond the affordability and capability of ordinary business organizations, if not with the aid from the government.

However, with the involvement of government into the business sector, naturally most of the major decisions would be influenced by the government, in order to achieve the personal interests of some politicians or to carry out government policies. Despite the supposed independence of government-owned corporations, it is well established that political factors have had a major bearing on the way such organizations behave (Gale, 1984).

Needless to say, the government and business institutions are intertwined. This is because business wants particular things from government and government needs business to be profitable and growing. Therefore, the government actively seeks the cooperation from business.

The form of cooperation between the government and business exists formally and informally. Formally, the government may seek business views from organizations that are representative of business sectors. This is to assist the government in making important policy decisions especially those that are related

to the economy sector. Informally, the government may need funding from the wealthy business sector especially during political campaigns.

There are various forms of relations between government and business. The concept of "political business" has also been developed, which will be applied to analyze the various forms of links between politics and business that can have positive or negative impact on local economies and political systems (Gomez, 2002). Therefore, the two key issues that need to be addressed are the politics of the state and the development of corporate sector to determine the nature of the relationship between capital and the state.

In understanding business-government relations, many scholars have taken different grounds of understanding. Business-government relations could be addressed using either a macro, policy-making model of elite accommodation (Gillies, 1986), or a micro, firm level model is issues management (Bartha, 1985). On one hand, the macro approach assumed that one political model would be able to satisfy and fulfil the needs of all organizations experiencing difficulty with "the other side", the government. On the other hand, the micro approach assumed that the management of business-government relations was simply a task for a skilled, competent public affairs department.

In addition to the arguments presented, Taylor (1990), however, has taken a middle ground, or meso-level, to understand business-government relations. It is argued that business-government relations can be studied best at the level of public policy-type. The public policy types, as developed by Lowi (1985, cited in Taylor, 1990), could be categorized into distributive, regulatory, redistributive and constituent policies. The types of policies adopted will influence the business satisfaction with business-government relations. The characteristics and dynamics of each set of business-government relations in relation with the policies were different. Taylor (1990), also acknowledged that some business-government relations are healthy while others are not. This will then very much influence the competitiveness of businesses, especially in the international arena, following the liberalization of economy.

2.4 The Nature of Business-Government Relations in East Asian Countries

It is challenging to manage the political relationships between the government and business. In most of the East Asian countries, close business-government relations have been identified as an integral feature of the 'Asian model' that contributed to the region's growth (Evans, 1995, 1999; Campos and Root, 1996).

However, it is also believed that close political relationships between politicians and business constituencies and particular firms have contributed to the onset of the 1997 Financial Crisis. The crisis was due to misguided industry policies that favoured well-connected firms and government intervention that created moral hazard, such as excessive risk taking, inefficient allocation of capital and the weakening of domestic financial institutions (Haggard, 1999).

From the aspect of business-government relations' contribution towards the growth of many Asian countries, the argument is often related to Korea. The industry policy in Korea peaked during the Heavy and Chemical Industry Plan (HCI) in late 1970s. The government also intervened in the activities of the newly privatised commercial banks. Its efforts include the appointment of their directors, the financing of a number of large private projects through the state-owned Korean Development Bank.

However, the cases of corruption and cronyism also appeared to have surfaced. The Hanbo failure in January 1997 centred on both political interference and outright bribery aimed at influencing lending decisions. Much to the public and corporate sector's surprise, the firm was allowed to fail, probably because of the political embarrassment that would have ensued. This situation was far different than those happened in the 1980s when government would go all out to bail out firms that were facing severe financial problems.

Indonesia also undertook a number of high-profile industry policy projects, including a state-owned company, a national car project and a highly visible effort to develop a light aircraft industry. However, cronyism is also not uncommon among the Indonesians. Personal contacts between the president and a small

group of Chinese businessmen helped expand their business groups into huge conglomerates, aided by price controls, exclusive licensing, etc. In the late 1980s and early 1990s, immediate family of the president became those who were much favoured.

Corruption also happened in Thailand. Its political structure of parliamentary created the opportunities for the cases of corruption. Large electoral districts encouraged candidate-based election rather than party-based election. This situation particularly requires politicians to deliver selective benefits to voters during the political campaigns, often in the form of cash payments. This will then require the politicians to court support from businesses in their districts and spawns favouritism.

The existing system then allowed multiple opportunities not only for business to influence politicians but also for businessmen to enter politics and politicians to enter business. There were even political manipulation of the budget and budget-related scandals, which has been a recurrent feature of Thai politics in the 1990s (Phongpaichit and Piriyaarangsarn, 1994, as cited in Haggard, 1999).

In the case of Malaysia, after the recession experienced in the mid 1980s, the government began to pay more attention to the development of the private sector through privatisation and generic supports, such as tax credits. The government's policy of maintaining ethnic preferences by its nature is discriminatory (Haggard, 1999). Procedures of letting government contracts and privatisation have not always been transparent, and the lines between the government, party and private roles are severely blurred.

Several prominent government officials have had a major hand in economic decision-making in the government while at the same time running party businesses and their own private enterprises. Other forms of favouritism include granting loans at favourable terms, letting close relatives or associates running the businesses, etc. Therefore, the conflict of interests might happen and raise the issue of corruption.

There is certainly a pattern of business-government relations in which specific firms were able, or believed that they were able, to secure special treatment. High level of discretion, coupled with relatively weak regulatory agencies permitted corruption to happen in an outrageous manner.

There are many reasons that determine the nature of business-government relations in East Asian countries. Many scholars have presented debates on this subject from various perspectives and the debate is still on. However, the link should be dependable on the political and economy factors in a particular country.

2.5 Impact of Business-Government Ties

The rise of many major business groups in East Asian countries was due to political considerations and aided through state support. Most of them had been "picked" by either the government or some influential politicians to venture into a particular field of economy. The change in the political arena following the democratisation process has increased the influence of capital over politics. Political funding by business has contributed to the rise of "money politics" where money is used in the political arena to secure control over the state that will eventually lead to the influence in the distribution of state rents.

Many of the funds to acquire the state rents were granted by banks or financial institutions owned by state and well-connected businessmen at favourable terms. The distribution of these rents will in return secure the politicians positions in the ruling party and the government. Political patronage contributes to the rise of some politically well-connected new rich that subsequently lead to concentration of wealth.

However, there are also positive outcomes behind the political business ties. According to Gomez (2002), state patronage, if handled positively, could be used to create wealth and income parity between ethnic communities. Political business relationship could also be used to promote domestic entrepreneurship and create indigenous businessmen. Furthermore, selective rent distribution may also help to promote industrialization and diversification of the economy. State-

owned financial institutions serve as an avenue for some companies to secure funds on favourable terms for expansion and acquisition.

Nevertheless, business-government relations are common and exist in almost every country in various forms and patterns. These bonds bring both positive and negative impact to the public at large. From the positive aspect, the form of relationship that exists could be beneficial and create a more productive environment for economic growth.

However, there is also the 'wrong' type of relations that are formed in the process of pursuing and fulfilling personal stakes of some individuals. The outcome of this kind of relations could be disastrous, which results in wasteful spending, corrupt practices, unproductive use of resources etc. This phenomenon is particularly vulnerable during the outbreak of the financial crisis.

Regardless of the nature of business-government relations in different countries across the region, the existence of the relationship actually contributed to the growth of the countries thus making them being able to compete internationally. Firms flourished when the economy was booming and the countries' growth, too, was moving in line with the development of the world economy.

To illustrate, Malaysia and South Korea are used as examples. In South Korea, the economic boom had created many huge business groups that were believed to be strong and resilient. With the government's assistance and policy, they were expanding their market share in the international arena. For example, the automobile industry, manufacturing goods, petro-chemical products, etc were exported to various countries, including developed nations and developing countries in the region.

At the outbreak of the financial crisis, these huge *chaebols*, although engaged in huge debts, were able to withstand the uncertainty and overcome their financial problems. The competitiveness established helped them to be able to overcome the crisis and remained strong in the international market. Nevertheless, some firms were also left to fail by the government. However, this

is a matter of policies being undertaken in the particular country and not to be questioned here.

However, in the case of Malaysia, similar to South Korea, the government had also nurtured many *Bumiputera* companies and created a group of new rich Malay capitalists, under the New Economic Policy (NEP). Despite having special treatment from the government and being protected in the domestic market, most of the firms lacked the competitiveness that Korean companies possessed. In terms of world economy, Malaysia's products were not competitive enough to secure a large portion of the world market share, if compared to South Korea.

The crisis accelerated the process of revealing economic problems in the country. Most of the politically well-connected companies in Malaysia, which have already been having difficulties managing themselves, appeared to be facing severe financial problems. They were at the edge of bankruptcy and could not depend on the international market to survive. They would not have weathered the storm if not for the aid from the government to bail out these companies. Much effort was done to help these companies and measures such as cross shareholding, injection of capital from the government, acquisition by government-owned companies were taken. However, the most important issue that needs to be addressed is that the firms were not able to compete in the international market during good and bad times of the world economy.

The political structure of Malaysia and South Korea, too, plays a role in determining the nature of business-government relations in these East Asian countries. Whereas Malaysia implements the democracy system with parliamentary structure, South Korea practices a more authoritarian system where the President is elected upon the completion of his or her tenure.

In South Korea, particularly after the military regime that took office in 1961 and the authoritarian rule under Park Chung Hee after 1964, many policies were launched to develop the country (Haggard, 1999). Being the dictator holding the helm, he did not need support from lower level leaders. Therefore, he did not have to engage himself in money politics. Instead, he managed to make government assistance conditional on good export performance. *Chaebols* that

desired to expand had to comply with the performance measures pre-determined by the government in order to secure future inflow of funds into the company. This had indirectly brought to the rise of many world-class manufacturers in South Korea such as Hyundai, LG, Kia and Daewoo.

Malaysia demonstrated a different scenario. Leaders in Malaysia, particularly those governing the country, needed the support from lower level party leaders and party's businesses especially in terms of funding the political party and running election campaigns. More often than not, they have to engage in money politics or patronage politics to secure votes during elections. Good export performance does not necessarily means getting the government's support in the companies' business ventures. Probably having a strong linkage to the governing party would secure them more benefits. These companies are then not exposed to business risks and become very vulnerable to uncertainties.

It is evident that different political structures have different outcomes vis-à-vis on business-government relations. However, it is not the purpose of this research to compare the effectiveness of democracies or authoritarian government in dealing with the crisis. The issue that needs to be addressed here is the nature of business-government relations that influenced the pace of recovery in Malaysia and South Korea.

Therefore, the following chapters will discuss on the form of business-government relations that had long existed in Malaysia and South Korea, the structural problems prior to the crisis and the measures undertaken to confront the crisis. Backed with the comparative study of the economy progress of the two countries after the crisis, we could then justify if the nature of business-government relations in both countries had actually brought them improvements or more acute problems, especially in terms of competitiveness in the international market.