1.0 INTRODUCTION

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.

When the financial and economic crisis hit, many commentators forecast that recovery would be slow and weak. This view was grounded in an understanding of the origins of the crisis in problems associated with ineffective governance, weak regulatory systems, and the nature of relations between government, business and the financial sector (Drysdale, 2000).

However, the pace of recovery has been remarkably rapid and strong. Since late 1998, the East Asian region appears to have turned the corner in terms of macroeconomic performance, with the speed of recovery surprising most forecasters. The Korean economy recovered very strongly and significant positive growth has been recorded in Malaysia and Thailand. Recovery in Hong Kong and Singapore lagged behind but a strong pick up followed. Growth in the Chinese economy remains above 7 percent. Only in Indonesia are the prospects of a decisive recovery less clear, though there too the economy has stabilized (Garnaut, 2000).

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 (Gomez, 2002). 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 most East Asian countries, the state or the government had played a significant role in promoting the development of public and private enterprises. For example, in South Korea, Taiwan, Malaysia, Indonesia, Singapore, Thailand and the Philippines, politicians in government have heavily influenced rent

creation and distribution in the corporate sector through various policy mechanisms (Gomez, 2002).

According to Wilson and Drysdale (2000), the role of the state in East Asian development has always been a controversial issue. Neoclassical economists argued that three decades of extraordinary East Asian growth were largely the consequence of policies that let the market function and kept distortions to a minimum (Krueger, 1995). This argument simply means that market functions by itself to achieve equilibrium and market failure is therefore a seldom occurrence.

However, on the other hand, critics of the neoclassical approach denote that the close ties between industry and government and selective government interventions were critical to the extraordinary growth performance of many East Asian economies (Amsden, 1989; Wade, 1990). They have a different point of view and basically explain that government has a vital role in shaping the development and growth of these countries. The direction and path of national development are decisions of government but not the market.

The debate over the appropriate role of governments has surfaced both as part of the diagnosis of the East Asian financial crises and as part of the suggested cure (Drysdale, 2000). There was no single story of East Asian growth; there is also no single set of problems that contributed to the crises. It has been analyzed that the outbreak of the crises was due to inadequate regulation, problems associated with close relationships between government, business and the financial sector.

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 will be done.

Both the countries were chosen based on the differences in terms of political structure, economic performance and social background. This study is divided into three parts. Firstly, the study aims to examine the past and existing business-government relations in Malaysia and South Korea. Next, to study on how the business-government nexus affect the pace of reform and recovery of the mentioned countries after the financial crises and lastly, to study the extent to which the business-government relation is beneficial to the countries. As such, conclusion can be drawn and hopefully some recommendations could be suggested on the most positive and constructive business-government relations that a country welcomes and desires.