

3

The Impact of State Capacity and Leadership Changes on National Development: Drawing Comparisons Between Malaysia and South Korea

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Since the early 1960s, Malaysia and South Korea have achieved impressive national developments. When Malaysia gained independence in 1957, the country was primarily an agrarian economy. After 30 years, in the early 1990s, Malaysia became a middle-income country. The South Korean development was also remarkable. In the early 1960s. After the end of the Korean Wars, the country was one of the poorest economies in the world. Despite such adversity, South Korea soon grew to be among the 10th largest trading nations, and the 15th largest economy in the world. For these remarkable achievements, the state capacity and its leadership have been singled out by many scholars as key factors that contributed to their success, especially in relation to public administration and the role of the state. The government's role and priorities in the respective countries have transformed over time in line with the ever-changing political and economic landscapes.

When Malaysia and South Korea became independent nations, the two countries had significantly different backgrounds in terms of their colonial heritages, socio-cultural characteristics as well as religion. Consequently, there were also substantial differences in state capacity and its leadership in the two countries. The success of developmental policies of the Northeast Asian countries in the 1960s and 70s motivated Southeast Asian countries to replicate similar development policies. In particular, Malaysia adopted the 'Look East Policy' in the early 1980s to transfer the Northeast Asian development model and benchmark the successful experiences in Japan, South Korea and Taiwan. Since then, some similarities emerged in the goals and policy priorities of the governments in

Malaysia and Northeast Asian countries including South Korea. In addition, the state capacity and the leadership style in managing the developmental goals and policies in Malaysia showed characteristics more common with South Korea, compared with any other Southeast Asian neighbour. Despite these similarities, distinct differences remain between the two countries, partly due to their different responses to changes in the domestic and international fronts.

Currently, Malaysia is the second most developed country in Southeast Asia after Singapore. In view of the leadership of Malaysia within ASEAN, the Malaysia-South Korea relationship is considered an important determinant of the South Korea-ASEAN relationship. As middle power countries, there also exists an important scope for further partnership and cooperation between the two countries. Malaysia has enjoyed cordial and cooperative relations with South Korea since the 1960s. For future cooperation between the two countries, an understanding of state capacity and its leadership style to govern its policies for national development would create valuable synergies in bilateral cooperation.

The present chapter provides in-depth analysis of the political, social, cultural and economic environments that have influenced the structure of the state capacity and public administration in Malaysia and South Korea. It describes major reforms and innovations introduced under different leaderships, identifies the forces that have underpinned these programmes, and comments on their promises and actual performance. As the public management system is the major vehicle in executing government policy to achieve its desired outcome, its structure, efficiency and performance will have a direct impact on the country's development. Hence, this chapter also describes the impact of changes in public administration due to both nations' economic development.

Western administration started in Malaysia in the 18th century when the British took control of some states in the Peninsula from the Dutch, eventually culminating in the colonisation of the entire Malay Peninsula and Northern Kalimantan. The colonial period lasted two centuries before Malaysia gained its independence in 1957. A centre of trade and commerce since the 10th century due to its strategic geographical location at the crossroads of the East-West trade routes and rich with natural resources, the Malay Peninsula has attracted merchants from as far as Middle East and Europe.

The coming of the British altered the history of Malaysia. Under British colonialism, the Malay Peninsula underwent dramatic transformation not only to its socio-cultural composition, but also its economic and political structure. The twin advantages of the Peninsula comprising the strategic location and being endowed with vast natural resources tempted the British to establish colonial rule and control the vital Malay states. To fulfil the demand for raw materials from Europe and the US as well as to exploit the riches of the Peninsula in minerals and agricultural commodities, the British introduced new industries and foreign labourers into Malaysia. Due to lower wages, immigrant labours were recruited from India and China to work in the mines and estates (Hirschman 1986). This

was later proved to be the watershed movement in the history of Malaysia, as some of the Chinese and Indian immigrants found themselves settling into the country and made it their permanent residence, which eventually resulted in Malaysia becoming a multi-cultural and multi-religious society.

Correspondingly, South Korea was subjected to enormous political turmoil and turbulence when reaching the threshold of the modern era. Efforts to build an independent nation state after the Joseon dynasty were foiled by the imperialist expansion of Meiji Japan, which imposed a harsh 35-year colonial rule on South Korea from 1910 to 1945. Japan's ultimate intention to occupy South Korea was for the access of human and natural resources as a basis for resisting the superpower of the West in the wake of the Second World War. The Japanese occupation over South Korea was brutal and severe, where South Koreans were deprived of many basic civil rights. They were forced to abandon their own cultural identity including their names, language and religious beliefs and to adopt the Japanese way of life.

After a long struggle for independence, South Korea was liberated on August 1945 - only to be the centre of power play by foreign superpowers which resulted in national division and a tragic civil war with North Korea. After the war ended, South Korea was one of the poorest countries in the world. The national income was small and earned mainly from agriculture. Despite these adverse circumstances, the South Korean society overcame this ordeal and arose from the ruins of war. They effectively built a modern, industrialised state with full-fledged democratic institutions.

The colonial legacy has undoubtedly altered the history of Malaysia and South Korea. While the period was marred by authoritarian rule and political instability, it was decisive in shaping the government and administrative structure of both countries.

DEFINITION

Capacity is defined as the ability of people, institutions and societies to set and achieve objectives, perform functions and solve problems. It involves skills, incentives, organisational structures, resources and an enabling environment. The ultimate goal of capacity development is to support the development of better skilled individuals, who are more responsive while maintaining effective institutions and a better policy environment for pursuing development objectives (Lauder and Mansor 2005)

State capacity and political leadership in this context refers to the influence of political leaders in shaping public institutions (North 1984; 1992) to serve the developmental goals espoused by the government of the day. In this regard, the majority of the Asian countries such as South Korea and Malaysia demonstrate the influence of political leadership on state institutions. Hence, this chapter seeks to illustrate how leaders have shaped the kinds of reforms undertaken by state institutions.

THE HISTORY OF POLITICAL ECONOMY IN MALAYSIA AND SOUTH KOREA

The Beginnings

In the early days of Malaysia's history, the society grew together with the development of agricultural activities. The cultivation of wet paddy, for example, required the farmer to look for a suitable area to settle permanently to be successful in his undertakings. There were also those who grew other crops and fruit trees on a small scale for domestic consumption. These smallholders made up the peasantry who sometimes paid the authorities or the ruling class in kind by letting the latter pick whatever they wished for from the harvest.

Each individual state in Malaya had its own political hierarchy. The state was headed by a ruler by either *Yang di-Pertuan* (He who is Lord) or *Raja* (Hindu Ruler) or *Sultan* (Arabic Ruler) depending on an inherited title. Whatever the title he may have assumed, the ruler during the 19th century, and even earlier, was the symbol of unity. There were essentially two classes in the system of government (*Kerajaan*): the ruling class (*Raja and Pembesar*) and the subjects (*rakyat*).

The Sultan had a hierarchy of greater and lesser officials to assist him in the state's administration. Among the officers of great importance were the *Bendahara* (Chief Minister), *Penghulu Bendahari* (Treasurer), *Temenggong* (Commander of Troops and Police), *Menteri* (Secretary of State), and *Shahbandar* (Harbour Master and Collector of Customs). With regards to daily government affairs, the Sultan consulted with his advisers who were either aristocrats or pseudo-aristocrats. From these consultations, the Sultan made his decision. His decisions were written by the assistants who were of the lower status known as secretaries for eventual implementation.

While the Sultan confined himself to the palace, reigning over but not ruling the state. The real power of administration lay in the hands of district chiefs who were from the ruling class. These chiefs exercised authority over outlying villages through the Headman (*Penghulu*) of each village. He governed the district as well as collected revenues and taxes. A chief had the support of an entourage comprising family members and other aristocratic supports that acted as deputies and lieutenants in the name of the government and performed many duties when required.

The British entered the scene as early as the 18th century in search of trade and especially in sourcing a settlement to enhance trade with China. Starting with three states, the British later signed an Anglo-Siamese treaty in 1826. The treaty essentially transferred the right to govern the northern boundaries of Kedah, Perlis, Kelantan and Terengganu from the Siamese to the British. As such, the British viewed the rest of Malaya as part of their sphere of influence.

The British representatives known as Resident was expected to rule through the Malay sultans. The rulers were required to, "receive and provide a suitable residence for a British Officer to be called Resident who shall be accredited to his court and whose advice must be asked and acted upon on all questions other than those touching Malay Religion and Custom" (Parkinson 1960). For minor

administrative work and police work, the British kept the traditional system of government with its *Penghulu* and parish (*mukim*) for their own convenience in the administration of the state.

A special school was established in 1905 in Kuala Kangsar known as the Malay College for the Malays to be trained and absorbed into the government service. Upon graduation, the Malays joined the civil service but at a lower level, as entry into the Malayan Civil Service still remained in the hands of British officers. The Malay language was made the official language of administration, and as such, there were no hindrances in recruiting Malay officers as they were literate in the language used by the state government of the northern states.

As for South Korea, the Joseon society maintained a three-part division which it inherited from the Goryeo dynasty and lasted until the end of the 19th century. The Joseon dynasty was a highly centralised monarchy and neo-Confucian orthodox bureaucracy and ruled by a king. The king had absolute authority but was bound by tradition and precedents set by earlier kings and Confucian teachings. As the ruler of the kingdom, the king commanded absolute loyalty from his officials and subjects. At the same time, the officials were expected to persuade the king to take the right path if he was thought to be in the wrong. The occurrence of natural disasters were assumed to be brought upon the king's failure to rule the kingdom, and therefore the Joseon kings were sensitive to their occurrence.

At the top of the pyramid was the hereditary aristocracy also known as the *yangban*, which means "two sides", referring to the two divisions of officials: military officials (*muban*) and the civil officials (*munban*). The lineage of these aristocrats in most cases was closely linked to the royal family. The officials were ranked in 18 levels based on seniority and promotion. The officials of 1st senior rank, 1st junior rank, and 2nd senior rank were addressed with honourific '*dae-gam*', while those of 2nd junior rank and 3rd senior rank were addressed with honourific '*yeong-gam*'. These officials, collectively coined as '*dangsangwan*' took part in deciding government policies by attending cabinet meetings. The remaining ranked officials were called '*danghagwan*'.

The highest deliberative body is called the State Council (*Uiijeongbu*). The highest-ranking officials in the government are the Chief State Councillor (*Yeonguijeong*), Left State Councillor (*Jwuijeong*) and Right State Councillor (*Uiijeong*). They were assisted by the Left Minister (*Jwachanseong*,) and Right Minister (*Uichangseong*), both of 1st junior rank, and seven lower ranking officials. The power of the State Council was inversely proportional to the king's power. There were periods when it directly controlled Six Ministries (*Yukjo*), the chief executive body of Joseon government, but it primarily served in an advisory role under stronger kings. The Six Ministries make up the chief executive body comprising the Ministry of Personnel (*Ijo*), the Ministry of Taxation (*Hojo*), Ministry of Rites (*Yejo*), Ministry of Defence (*Byeongjo*), Ministry of Justice (*Hyeongjo*), and Ministry of Works (*Gongjo*).

There were also the Three Offices (*Samsa*), which is the collective name for three offices: Office of Inspector General (*Saheonbu*), Office of Censors (*Saganwon*)

and Office of Special Advisors (*Hongmungwan*) that functioned as the organ of press and provided checks and balances on the king and the officials. They had no real authority or power to implement policies, but did have an influential voice in the ensuing debate. They were tasked to monitor the king's government officials from misconduct, corruption or improper policy. The office also oversaw the royal library and served as a research institute to study Confucian philosophy and answer the questions by the king.

Next were the commoners (*yangin* or *sangmin*), of whom most were small farmers and tenants working on the fields belonging to the aristocrats. A much smaller number of commoners served as merchants and skilled craftsmen. At the bottom of the society pyramid were the lowborn (*chonmiri*), consisting mostly of slaves, whether owned by government agencies or privately owned by the aristocrats.

The Joseon dynasty employed an elaborate civil service examination system to recruit central government officials. For decades, an aspiring official had to study the Confucian classics and statecraft in order to pass the examination. It also provided the protection appointment system that allowed the close kin of an official to receive appointment to an office. The vast majority of those who occupied the highest offices in the central government were graduates of the civil service examination. The system provided an institutional framework that contributed to the remarkable political stability and continuity of the Korean state and ruling elite after the 10th century (Kye n.d). While it remained confined to members of the elite and reinforced their hereditary status, there was a possibility of social mobility for talented commoners inspiring to be bureaucrats.

In 1910, the Japan-Korea Annexation Treaty was signed between the Empire of Japan and the Korean Empire, in which Korea became the protectorate of Japan and was deprived of its administration of internal affairs. One of the articles in the treaty stated the Emperor of Korea will make a complete and permanent cession to the Japanese Emperor of all sovereign right to rule the whole of Korea. During the Japan annexation of Korea, the Office of the Governor-General of Joseon was formed to rule the country. Led by a Governor-General, who usually was a military man from the Japanese army or navy, the Office was invested with supreme power to oversee legislative matters and to command the army and navy. The Joseon traditional bureaucratic system was replaced by a cabinet-style government run by Japanese bureaucrats. Nearing the end of Japanese rule, there were a sizable number of Japanese-trained Korean bureaucrats that occupied middle-level positions in the colonial government.

Independence Period

The Federation of Malaya Agreement that came into force in 1948 led to Malaya's independence in 1957 from the British. Under the agreement, the states agreed to have a federation with a central government and the rights of each state as well as the sovereignty of the sultan enshrined. The role of the sultan is akin to the

constitutional monarchy, the British Westminster model but styled with its own characteristics and cultures. It consists of the *Yang di-Pertuan Agong* as the head of state, the Senate (*Dewan Negara*), and the House of Representatives (*Dewan Rakyat*). The *Yang di-Pertuan Agong* is elected every five years among the nine Malay Rulers and has nominal power. In those states in which there is no hereditary ruler, a Governor, appointed by *Yang di-Pertuan Agong*, heads the state.

The prime minister commands the confidence of the parliament and he and his cabinet must request the *Yang di-Pertuan Agong* to dissolve parliament. All government policies are formulated by the cabinet and the implementation of policies is the individual responsibility of each minister, who is then assisted by the civil service. The members of the cabinet form the executive branch of the government and share collective responsibility to parliament for all decisions. The public administration's primary function is to execute government policies at different levels (federal, state and local). The Public Service as defined in Article 132 of the Federal Constitution includes the entire government administration and they are essentially the Federal and State General Public Service, the Joint Public Services, the Education Service, the Health, the Police Force, the Judiciary and the Legal Service and Armed Forces.

Comparatively, South Korea gained independence from Japan in 1945 after the end of the Second World War. However, the new government of the Republic of Korea was only formed on 15th August 1948 after the end of the Korean War and US military occupation. The early state of South Korea's political system at the time can be described as a mixture of an American-type presidential system, based on the division of power and a unicameral legislature, with parliamentary features such as prime minister, cabinet council, executive legislature and a ministerial report to the National Assembly. The government's structure is determined by the Constitution of the Republic of Korea. This document has been revised several times since its first promulgation in the 1948 after the foundation of the country and the last amendment was made on October 1987. The subject matter of the amendments has generally been on the president's powers, method of election and structure of legislature.

Under the latest constitution, it provides for a three-branch governing system where law-making functions are in the preserve of the national assembly, administrative functions fall under the executive branch, headed by the president and judicial functions belong to the courts. These three branches are highly independent of each other. The members of the national assembly are elected by the people, and the national assembly's leaders and officers are chosen by the members themselves. As for the president, he is not required to obtain the approval of the national assembly in appointing top executive officials, except in the case of the prime minister and the director of the Board of Inspection and Audit. The head of the Supreme Court, the Chief Justice, although appointed by the president with the consent of the national assembly, possesses the power to recommend to the president the appointment of supreme court justices and has the power to appoint all other judges.

Under South Korea's presidential system, the president performs executive functions through the state council made up of 15 to 30 members and presided over by the president, who is solely responsible for deciding all important government policies. The prime minister is appointed by the president and approved by the national assembly. As the principal executive assistant to the president, the prime minister supervises the administrative ministries and manages the Office for Government Policy Coordination under the direction of the president. The prime minister also has the power to deliberate major national policies and to attend the meetings of the national assembly. To oversee the national administrative affairs of the government, the Ministry of Public Administration and Security was formed through the merging of four government agencies namely the Ministry of Government Administration and Home Affairs, the Civil Service Commission, the National Emergency Planning Commission, and part of the Ministry of Information and Communication. It is often regarded as the 'ministry of ministries' of South Korea.

Political System

The main thrust of the Malaysian political system has been to achieve consensus between the different ethnic groups in the country, although it is frequently argued that certain political parties represent and promote the interests of the elite of a community. Historically, the consensus mode of politics started when the different ethnic groups bargained for positions in independent Malaysia (then Malaya). The ethnic groups were economically and socially segregated. The Malays inhabited the rural areas and worked as farmers and fishermen. The Chinese and to a certain extent, the Indian migrants, brought in large numbers during the colonial period, dominated the more lucrative economic sectors. The Chinese came in as traders, occupied the ports and trading centres and capitalised on the tin fields and are described to be among the richest in the world. The majority of the Indians worked in the rubber plantations but some were also traders and white-collar workers. By the early 1920s, the Malays became a minority in the urban centres. Several years before independence, the Malays were apprehensive about losing their dominance, given their economic plight and having to decide over limited affairs in the government such as religious and cultural matters. Meanwhile the immigrants were already demanding citizenship.

The need to resolve concerns and fears led to bargain and compromise among the main ethnic groups prior to independence. The founding fathers agreed to citizenship for the immigrants while preserving the special position of the Malays as an indigenous group. This was later incorporated in the *Merdeka* (Independence) Federal Constitution. The arrangement was well suited for that particular period. However, after 10 years of independence the bargain was perceived as unsuitable. The Malays started to realise that political power did not guarantee economic improvement. The Chinese, on the other hand, started to

feel that good trading and economic opportunities alone were not enough and wanted some political power. The racial riots that broke out in 1969 led to another bargaining process which resulted in the formulation of the New Economic Policy (NEP) to cover a 20-year period from 1970 to 1990. Henceforth, it has been argued that the 'second' bargain gave the country some balance and stability.

The government has a federal framework but a closer study of the constitutional provisions shows that federalism is very formal in nature, with the balance of effective power hinging on the central government. This remained so in 1963 when several safeguards were given to Sabah and Sarawak when they entered the federation.

The focus of the political systems in Malaysia is on national unity. Any tension in the country could disrupt racial harmony. The government argues that it is necessary to foster a peaceful environment to attract foreign investment. Economic growth is central to the Malaysian government and expressed in all national developmental plans. The aim has been to enlarge the economic pie so that Malaysian of every ethnic origin can have an equitable piece of it.

Meanwhile, South Korea has experienced dramatic transitions in its political system after its liberation from Japanese rule. South Korea remained a poor country after independence and was heavily dependent on foreign aid from the US. The aftermath of the Korean War and the power play between the US and the former Soviet Union has led to deepening polarisations of its political, economic, social, cultural and military development paths. Thus, the evolution of South Korea's political system has been highly influenced by its international and domestic forces.

The political system in post-independent South Korea can be described as a semblance of the Western democratic system that practiced free elections and civil freedom (Kwon 2010). However, the state deployed coercive institutions to suppress civil rights and political oppositions under the pretext of constant war threats from the North Korea. While the underlying reasons were valid, the South Korean society at the time was subjugated under an autocratic, military-style administration and no particular social groups or forces would dare to challenge the state rule. The main political ideology which has united political parties were to promote anti-communism and capitalism, but they were divided in their democratic outlook.

While the formal structure of the government and political institutions closely follows the norms of Western models, the salient characteristics of South Korean culture and beliefs are inherently embedded in the political system in South Korea. In particular, Confucian values have remained influential in shaping the political development in South Korea and maintaining various elements such as paternalistic political leadership, power concentration, regionalism and prevalence of large-scale social movements (Kwon 2010). As such, South Korean political parties have largely been organised and centred on a particular leader instead of a party platform or policies. Since each party revolves around a political leader, in many cases political parties were not able to represent all sectors of the society.

NATIONAL PRIORITIES OF GOVERNMENT POLICIES

Nation Building in Malaysia (Before 1971)

The racial riots on 13th May 1969 was the single most serious case of inter-racial violence that Malaysia had undergone since independence. Even after achieving independence for more than 10 years, the development plan was uneven and the rural-urban disparities were staggering. The general well-being and economic condition of the Malays hardly improved. The immigrant ethnic groups, once temporary residents were now permanent citizens of the country. They were well off economically and socially and therefore had become a source of resentment and jealousy to the indigenous Malays. At the same time, the Malays were increasingly fearful of the rapid growth of the immigrant population. By contrast, the Chinese were concerned about their disadvantaged position and felt politically undermined and underrepresented (Milne 1976).

The feeling of jealousy and discontent among the society eventually exacerbated into a sense of resentment and injustice and later turned into a full-blown clash between ethnicities after the 1969 general election. An official report entitled *Towards National Harmony* cited the economic factor as the root cause that brought about the rioting. A total of 196 fatalities and 439 injuries were reported due to the clash, and the country's image suffered badly in international eyes. The message however, was loud and clear, namely the inevitable and imperative need for affirmative action to create a more equitable society that would not hinder the country's development.

To instil a sense of unity and nationhood among the multi-ethnic society, a national philosophy called *Rukun Negara* (previously spelt *Rukunegara*) was introduced as a form of proclamation by the Yang di-Pertuan Agong on the occasion of Independence Day celebrations on 31st August 1970. It represented five principles by which Malaysians are to be guided namely belief in God, loyalty to king and country, upholding the constitution, rule of law and good behaviour and morality.

The *Rukun Negara* can be perceived as an effort to formulate a national ideology in a larger framework of nation building. It evolved from close consultation and deliberation in the National Consultative Council and represented a national consensus and commitment to the task of creating a united, socially just, economically equitable and progressive Malaysian nation.

New Economic Policy (1971-1990)

At the helm was Abdul Razak Hussein, the second prime minister succeeded Tunku Abdul Rahman Putra. The New Economic Policy (NEP) was then launched with the ultimate objective of enforcing national unity among the people. During the presentation of the Second Malaysia Plan (1971-1975) in Parliament in July 1971, the prime minister asserted that, "it was the last chance for the survival of the people and the country". It encompassed a two-pronged development

programme. The first was to reduce and eradicate poverty by increasing income levels and employment opportunities for all Malaysians, irrespective of race. The second was aimed at accelerating the process of restructuring the Malaysian society to correct economic discrepancies to reduce and eventually eliminate the identification of race with economic activity.

The Second Malaysia Plan categorically stated that, "The NEP is based on a rapidly expanding economy which offers increasing opportunities for all Malaysians and the government will ensure that no particular group will experience any loss or feel any sense of deprivation". However, the NEP's second objective to "correct the imbalance" and "eliminate the identification of race with economic functions" is clearly in favour of the Malays. This effectively was the essence of the affirmative action in place under the NEP.

With the implementation of NEP, the income disparity between races, particularly between the Malay and the Chinese communities was effectively bridged to a certain degree. The household income disparity ratio between the Malay and Chinese narrowed from 2.29 percent in 1970 to 1.74 percent in 1999. Participation of the Malays in the manufacturing and service sectors also increased, instead of a concentration in one particular sector, namely the agriculture sector. The initial target of wealth distribution under the programme was to increase the ratio of economic ownership to a 30:40:30 ratios of Malays, the non-Malays and foreign ownership.

The imbalance in educational attainment was addressed especially at tertiary level when in 1970 the university enrolment of Malays was 54.1 percent of the total enrolment. Of the total number of graduates from the period of 1959-1970, 26 percent were Malays and 60 percent were Chinese. To address the imbalance in tertiary enrolment, an ethnic based admission policy made it compulsory for all local public universities to reserve 55 percent of their places for Malay students. Other forms of affirmative action taken under the programmes included the participation of the Malays in the civil service, land settlement, the armed forces, nurses training, police, license permits for taxis and lorries as well as the composition of the National Youth Council.

The outcome of such policies in education and employment has led to the growth of a Malay middle-class and corporate business community. It has greatly enhanced the Malay participation in the economy and higher education. The economic gap between the Malay and non-Malay communities has narrowed significantly. The policy has reasonably achieved what it was designated to do, which was to narrow the disparities between the ethnics. Most importantly, the NEP has significantly reduced poverty, particularly amongst the Malays and ultimately achieved its intended target. The policies were set to run over 20 years until its expiration.

Other government policies were also introduced in an effort to create a positive attitude towards cultural assimilation and the creation of a national culture. Among them was the National Culture Policy (NCP) which was introduced in August 1971 to develop a national culture from three elements: the indigenous

culture, suitable elements from the non-Malay cultures and Islam as an important component.

The NEP proved to be another watershed moment in Malaysian history, with it being a major departure from past policies where the government played a more active role in the economy especially in the distributive function. The strategy of development through industrialisation, urbanisation and agricultural development together with the spread of education and the general political reformation of the population have all led to the expansion of government functions. The new objectives of the government have thus expanded and are more diverse and complex in nature. In the words of Gayle Ness, "The goals of the Malaysian Government changed from custody to development." (Ness 1967).

The new goal of the government has changed from a *laissez-faire* economy to a mixed one with central planning while local entrepreneurs, the financial sector and foreign firms have to play a major role in the economy. As described by Ness (1967), there was a change from an unstated emphasis on urban development or development for the modern sector to a stated and actual emphasis on rural development. The role of public administration has fundamentally changed from an administrator to a change agent.

The leadership change following the untimely demise of the second Prime Minister Abdul Razak Hussein was succeeded by Hussein Onn. Hussein's administration was short but the leadership was assumed by Dr. Mahathir Mohamad in 1981 who clearly demonstrated a different personality and approach compared to his predecessors. A medical general practitioner, Mahathir took the NEP to a different level. He appreciated speed and clarity in his administration. The NEP policies were implemented with rigour together with his policies on industrialisation. New organisations or public enterprises were established to plan for and stimulate development. This has resulted in the proliferation of public enterprises in the main sectors of the economy. Among the prominent bodies were the Perbadanan Nasional (PERNAS), Malaysia International Shipping Corporation (MISC), Heavy Industry Corporation (HICOM), Urban Development Authority (UDA) and the State Development Corporations (SEDC).

The National Development Policy (1991-2000)

The oil crisis of the mid 1980s hit the Malaysian economy during a time when the country was also experiencing twin fiscal and current account deficits. The government adopted an export-oriented approach in its industrial policy and turned to Japan and South Korea as strategic partners under the Look East Policy. The NEP was kept in abeyance and the National Development Policy (NDP) was launched in 1991. The formulation of the policy was a joint effort involving all representatives of Malaysian society, from the political parties to academicians and corporate figures, with EPU as the secretariat.

Though the NDP seeks to maintain a balance between growth and equity, it also includes some of the basic elements of Malaysia's development strategy to achieve a fully developed country status as envisaged in Vision 2020. The Vision 2020 introduced by Former Prime Minister Dr. Mahathir Mohamad earlier in the same year, is a 30-year strategic plan that outlines Malaysia's aspirations and policy implications to be a nation that is fully developed along all these dimensions; economically, politically, socially, spiritually and culturally. Vision 2020 focuses on industrialisation as the country's development base and relies heavily on the private sector. It also identifies strategic challenges that need to be overcome in order to achieve the developed country status.

The NDP was launched when Malaysia was enjoying prosperity. The prices of commodities during the time were also robust. Industrialisation was in high gear and aggressive policies by the Malaysian Investment Development Authority (MIDA) and other agencies saw a continued increase in foreign investment into Malaysia. Malaysia made its presence felt in many developing countries particularly in Africa, China, the former Indo-China states and the Pacific Islands through its investment and joint participation.

The favourable economic conditions went on for most of the decade until it ended abruptly in 1997 with the Asian Financial crisis. Malaysia registered a slower growth of 5.7 percent post-1997 crisis compared to 9.4 percent pre-crisis. A Slower level of private investment was the main factor. Private investment was reduced to a third of the pre-crisis level. This was due to the lack of Foreign Direct Investment (FDI) and low domestic capital participation.

The New Economic Model (2010 - 2020)

The New Economic Model (NEM) an economic plan introduced on 30th March 2010, by Malaysian Prime Minister Najib Tun Razak, was the output of the National Economic Advisory Council (NEAC), set up to form an economic transformation model for the country. It proposed an entirely new approach to revitalise, reshape and reinvent government structures and administrative procedures to achieve the aspiration of transforming Malaysia from a middle-income economy to a high income economy by 2020. The reforms require the government bureaucracy to embrace a new paradigm on the role of government. The relevance of central agencies and other government entities were recommended to be critically assessed with a focus on streamlining. The growing government institutions resulting in overlapping functions, duplication of activities and policy execution silos were deemed unproductive and hence were rationalised. The relationship between functions of federal, state and local government was recommended to be reviewed and redesigned to be more responsive and to focus on outcomes.

The three main goals of the NEM are high income, inclusiveness and sustainability. The eight areas of strategic importance recommended are re-energising the private sector, creating a competitive domestic economy, building the knowledge base infrastructure, ensuring sustainability of growth,

enhancing the sources of growth, developing quality workforce, transparent and market friendly affirmative action, strengthening of the public sector and fiscal sustainability. The NEM is the foundation for the 10th Malaysia Plan (2011-2015) and 11th Malaysia Plan (2016-2020).

NATIONAL PRIORITIES OF SOUTH KOREA'S GOVERNMENT POLICIES

South Korea's success in rapid industrialisation is, to a large extent, contributed by the strong role of the state which has the capacity to execute plans and strategies. During the post recovery period after the Korean War, state intervention was persistent and most active in resource allocation. In particular, the state played a critical and central role in industrialisation, prevailing in every sector of the economy. Market rationality was to be compromised by the principal goal of industrialisation and economic growth.

Post-Korean War Reconstruction (Before 1970)

The period after the end of Japanese occupation in Korea and the following intermediation by the US military government was characterised by extreme economic disorganisation and stagnation (Frank, Kim and Westphal 1975). This worsened with the separation of the Korean economy from the Japanese economic bloc, and by the division of the country along the 38th parallel. At the time of liberation, all metals, electrical power, and chemical plants were located in the North Korea, while the more light industries and machinery production were located in the South. After 1945, the number of industrial establishments and employment in South Korea declined sharply and many firms halted their production due to lack of electricity. With limited natural resources, insufficient domestic market and no tradition of economic development, the recovery process during the years following the end of the Korean War were full of challenges and obstacles.

Syngman Rhee was elected as the first president of the Republic of Korea in 1948. At the beginning of his regime, Rhee installed a presidential system similar to the US since it was occupied by the US after the war. The top priority at the time was to restore order and to rebuild the country in the aftermath of the Korean War. Specifically, reform efforts were taken to transform the administrative system. Rhee intent to purge the leftover of Japanese imperial rule that has influenced the Korean administrative structure and replaced them with an America-style system. However, no significant changes have been made to the administrative structure due to the instabilities following the Korean War and the huge gap between the formal US style democratic system and the persistent Japanese style authoritarian practices (Kim 1991).

Economic policy under Rhee's regime was described as "urban bias", in fear that urban discontent would result in national instability, as well as to maximise the value of American aid (Cho 1994). Under Rhee, private capital was created and supported to serve as the instrument of the state. This resulted in greater

affiliation of the elite society with the state in sharing the profit from rent-seeking activities involved in commercial deal (Kalinowski and Cho 2009). Thus, most of the government measures for industrial development at the time were largely concentrated on the emerging *chaebol*. Rhee was eventually driven from power by urban discontent with poor economic performance, repression and corruption. This was followed by a brief period by a government led by Chang-myon.

Yushin Constitution (1972-1979)

Park Chung-hee then took power by military coup from Chang-myon in 1961 after one-year under a parliamentary system. Park was the driving force of modern South Korea's economic revolution. Park's regime, often described as following the same approach as Stalin, set itself to the task of planning and implementing strategies for accumulating industrial capital and underwent a rapid industrialisation process (Kim 1992). A system of meritocratic bureaucracy backed by military forces was used to implement the policies to develop a modern manufacturing industry. His autocratic approach toward government-led development plans paved the way to facilitate the modernisation of South Korea.

One of the most important policies introduced by Park was the *Yushin* (Revitalisation) constitution in October 1972, which effectively concentrated all governing's power into his hands. He stressed the need for efficiency in pursuit for growth, while mobilising the citizens into a type of military state. In order to achieve his political and economic goals, Park relied on 'militaristic' administrative methods and practices. The US-trained military administration was regarded as superior to civilian administration at the time (Kim 1999). The Supreme Council for National Reconstruction was formed in order to construct national development plans and coordinate the revolutionary works. Scholarly experts and professors were widely utilised by the Council as advisors. The Administrative Reform Committee (ARC) was established in 1964 as a vehicle to design the policies to create an effective administrative structure and their practices. The ARC was set up as a temporary organisation and supervised directly under the President's Office. The advisory committee consisted of professors from Seoul National University and other major universities in Seoul. However, no civilian representatives were involved in the reform process, which may have resulted in no significant reform activities during Park's regime.

In 1972, the National Conference for Unification (NCU) was established with the main goal of electing the president of South Korea through non-popular vote. It also functioned as the supreme deliberative organ of the nation, acting on important issues such as unification between North and South Korea. Due to the bureaucratic authoritarian nature of his regime, it necessitated the power of various coercive state organisations like the National Security Agency, Public Prosecutors Office and police. Park also set up three powerful agencies to oversee his economic development programme, which were the Economic Planning Board (EPB), the Ministry of Trade and Industry (MTI), and the Ministry of Finance (MOF). He also made moves to nationalise the banks to gain control of the flow of capital

in the country so that it could be directed into the sectors that the government wanted to develop.

Saemul Undong

In 1970, the state under Park's regime introduced the *Saemul Undong* or the New Village movement, where the government distributed each of the nation's villages with 335 bags of cement for small developmental projects. The villagers used the cement as well as their own cash and labour to build roads, drains, and houses. Under the programme, a massive rice procurement at prices several times the world market price was initiated to support farm incomes. This programme was aimed at improving the life of villagers by reducing the gap between rural and urban life, improving the living standards in rural areas and increasing the opportunities for the villagers to earn more (Arroyo 2008). Real incomes in the countryside rose significantly after the programme implementation, which made the improvement health standards, high levels of educational attainment and access to basic services possible.

Park Chung-hee expanded this programme in 1972 with another village infrastructure movement in the hopes of reviving the agricultural sector. The government gave 500 bags of cement and a ton of steel rods to each villages that made the best use of resources distributed in the first round. Success in the countryside expanded the *Saemul* movement into diverse government activities and went beyond the village level and transformed into other community infrastructure such as School *Saemul*, Urban *Saemul* and Factory *Saemul*. However, the policies to force growth with equity by supporting the declining agriculture in rural areas in the end proved economically costly. The government found itself committed to heavy subsidies on fertilizers and on the difference between the prices it paid to farmers for rice and barley and the lower prices at which it sold to consumers. The overall financial cost of supporting rural agriculture sector as well as protecting against competing imports soon proved to be too costly. Expenditure on *Saemul* as a fraction of total government development spending shot up from four percent in 1972 to 38 percent in 1978 (Arroyo 2008).

Towards the late 1970s, the overall income distribution deteriorated as the government drastically reduced farm subsidies and continued with anti-labour policies while protecting the interests of the privileged few. Preferential policies for the *chaebol* especially have contributed to the widening of income gaps between skilled and unskilled labour. Moreover, fiscal policies tended to concentrate on industrial infrastructure development, while overlooking social aspects. The incidence of poverty became more acute in urban areas and among those who were economically disadvantaged such as the elderly, disabled and female-headed households.

Heavy and Chemical Industrialisation Policy

In 1972, Park initiated the intensive promotion of heavy industry through what was later known as the Heavy and Chemical Industry (HCI) policy to upgrade

the composition of its exports and produce higher-value and technologically advanced goods. In place of cheap consumer products like textiles and footwear, South Korea later focused on developing steel, shipbuilding, petrochemical and automotive industries. In 1973, six industries were targeted; steel, chemical, metal, machine building, shipbuilding and electronics. Interest rates were lowered and direct government control of the banking system was increased to channel capital to preferred sectors, projects or firms. Special public financial institutions were established to generate capital for specific large-scale projects and private commercial banks were instructed to make loans or so called 'policy loans' to strategic projects on a preferential basis (Kalinowski and Cho 2009). Other incentives like subsidies, tax reductions and exemptions were also promoted.

The HCI drive produced significant results for the country. South Korea soon developed successful undertakings in electronics, shipbuilding and other fields. The expansion of these industries led to the increase in demand for skilled workers, thus pushing the domestic wages upward. The HCI also accelerated the urbanisation of South Korea, as rural workers flocked to industrial centres where many job opportunities were available.

Despite the numerous success of the HCI, the policy also resulted in a number of economic problems. Firms that were granted with the policy loans accumulated exorbitant amounts of debt. The increase in demand for low-interest loans caused the money supply to grow excessively. The real wages increased at a faster rate than productivity, thus weakening export competitiveness. It also led to the widening gap between skilled and unskilled workers. The government's low interest rate policy to support the HCI policy reduced savings and the consumer product industries lost investment funds to the new industries. By the late 1970s, the share of the policy loans had risen to 60 percent. With such a large share of national income at stake, the allocation of these highly subsidised loans became the focus of intense political lobbying. The HCI drive policy also led to significant growth of the *chaebol*, whereby the top 10 *chaebols* grew at 27 percent a year, which was significantly higher than the GDP growth rate (Harvie and Pahlavani 2005).

The government soon realised the danger posed by these issues and tried to undertake measures to reverse the worst effects of the HCI. Accordingly, a comprehensive stabilisation programme was launched to control excess liquidity, realign credit priorities, eliminate price distortions and promote competition. However, these initiatives were foiled after the assassination of Park in 1979, and succeeded by another oil price shock in the following year. The South Korean economy contracted by 5.2 percent and coupled with a current account deficit of US\$5.3 billion, it became the worst economic performance of the country in 20 years.

General Chun Doo-hwan was elected as the next president of South Korea after another military coup led by him and his associates. Chun resumed the previous efforts to stabilise the economy by forcing underperforming firms to merge, cancelling deficit-ridden construction projects, lowering tax and other financial burdens. While some of these measures were able to reverse the excess

capacity of HCI, it also led to the increasing economic power of the *chaebols*, since many of the troubled firms were taken over by the growing conglomerates. This, coupled with the restrictions on market entry and investment, further deepened the monopolistic hold of the *chaebol* on HCI markets.

Aside from the economic stabilisation programme, Chun also introduced reform measures to restructure the administration of the country. During the first phase of Chun's government, the National Council for National Stability and Security was formed to undertake major reform activities to promote a small and corruption-free government. The council was led by the elite group consisting of university professors and researchers of national institutes. A top-down approach to reform initiatives was applied to identify the issues in need of improvement, however such methods discouraged active participation from the general public and other interested groups. Even if the influence of the private sector was expanding, the bureaucratic regulation and government intervention remained the dominant forces in the South Korean economy (Kim 1991). These factors caused the administrative reform efforts during Chun's regime to fail to generate any noteworthy result.

Despite this, the South Korean economy made a rather impressive comeback in 1981 and resumed its remarkable growth rates. From 1982 to 1988, the real GNP grew at an average of 10.5 percent annually. Reforms were carried out to make the economy less centralised and more flexible. Industries that proved to be inefficient and heavily indebted such as heavy industry and shipping were forced to merge or close down (Kalinowski and Cho 2009). The country began transitioning into more high-tech industrial areas such as consumer electronics, computers and semiconductors. An increase in demand in the US economy helped exports of South Korean cars and foreign investments continued. By 1986, the growth rate reached its peak of an average 12 percent, which was the highest in the world. The inflation rates were kept low and the unemployment rate sank to the unprecedented level of 2.5 percent in 1988.

The deepening of industrialisation and market liberalisation in South Korea gradually weakened the state's power and autonomy. State intervention became more politically and economically costly. As the *chaebol* also became more powerful, they were increasingly vocal about the negative aspects of the centralised role of the state. Moreover, the real wages were kept low in order to maintain South Korea's export competitiveness. In the late 1980s, the movement toward democratisation was becoming more progressive and accompanied by the outbreak of employee strikes. The labourers and impoverished farmers became more vocal in their demands for a larger share of economic growth.

The situation worsened after Chun Doo-hwan stepped down from the presidency in 1987. He was replaced by former military general Roh Tae-woo, but the opposition parties gained larger support during the previous election that weakened the power of the state authority. With the National Assembly dominated by the opposition, agreement on policy issues became more difficult. This was followed by a period of economic instability; labour disputes became more frequent and violent, wages rose far in excess of productivity, rampant

speculation on real estate and prevalent economic injustice (Kwon 2010). Throughout the transition process, the South Korean economy lost part of its growth momentum and international competitiveness.

Globalisation in the 1990s

Roh Tae-woo was replaced by Kim Young-sam in 1993, the first civilian president in three decades, which marked a significant transition in the South Korean political terrain. The administration shifted the focus from the development strategy that protected the domestic economy to the *seggyewha* (globalisation) strategy that reflected paralleled to the interests of the *chaebol's* own international expansion. Kim championed the idea to have a “clean, small and strong government”, underlining transparency, democracy, efficiency and legitimacy in spearheading the new age of globalisation. Measures were taken to increase the autonomy and productivity of public service as well as improving transparency of the policymaking process.

The South Korean government later applied to join the OECD in order to institutionalise the globalisation strategy of the South Korean economy and bring it to the level of developed countries. The government felt the need to shift its economic strategy, as the previous strategy that promoted exports using cheap labour as a comparative advantage while keeping domestic markets protected, was no longer viable. To integrate globalisation into the South Korean economy, the country had to agree to financial market liberalisation and open the domestic market to foreign investors. As a result, the South Korean government began to relax control over capital flows while maintaining regulations on long-term credit inflow and equity participation. Old regulations and reform procedures were abandoned. The country was later granted OECD member status in December 1996.

The liberalisation policy is in line with the objectives of the *chaebols'* strategy to become global players in the international market. They would have easier access to the financial markets and foreign credits needed to finance the endeavour. However, the policy also signalled trouble for the *chaebol* over the increasing participation and influence of foreign investors in both domestic and global markets (Kalinowski and Cho 2009). The first round of financial liberalisation was implemented but preference for credit-financed development and the bias against foreign direct investment was still in place. The government also restrained from proactive intervention, investment regulation and supervision. This further led the *chaebols* to aggressively expand and diversify their operations in an already oversaturated sector such as steel and car manufacturing. At the same time, the *chaebol* began to expand their presence abroad where they concentrated on risky investments that were already dominated by established multinationals.

The ambitious expansion plans by the *chaebols* as well as the seemingly unlimited supply of loans caused the South Korean nationals and foreign investors to join the bandwagon and start investing as well. From 1993 to 1997, South Korea's foreign debt rose from \$44 billion to \$120 billion. The short-term debt rose

to 340 percent of its disposable international reserves at the end of 1996. The level of debt accounted for 22 percent of GDP in the previous year, where the majority of the debt was short-term maturity, which made the country extremely vulnerable to sudden capital flight and speculative attack. South Korea also experience export demand slowdown during the period due to the rapid increase in China's export and the slowdown in the Japanese economic growth. Subsequently, corporations increased their debt and non-performing loans, making the financial institutions more instable. While the South Korean government's initiatives to liberalise the economy were successful, it failed to modernise its laws and regulations to monitor the financial institutions (Kwack 1998). No efforts were made to develop institutions to monitor external borrowing made by the residents, nor took or take the necessary actions to rectify the financial weaknesses of banks and corporations before the financial liberalisation were was actively implemented. In the wake of a full-fledged crisis, these precarious economic situations should have served as a clear warning to the country.

Asian Financial Crisis 1997

The Asian Financial Crisis (AFC) took place in July 1997 with the collapse of some smaller and medium-sized *chaebols*. It had prompted foreign investors to alter their assessment of South Korea's financial credibility, which resulted in further capital outflows. The massive withdrawals of capital rapidly depleted the foreign reserves, as the government had to pledge the reserves to maintain a fixed exchange rate to the US dollar. By the end of November, the Bank of Korea had exhausted all its reserves to defend the fixed exchange rate, albeit unsuccessfully. In December, the Korean Won lost nearly 50 percent of its value against the US dollar. The economy shrank by 6.9 percent and unemployment rate rose to almost seven percent in the following year. The government had no choice but to float the Korean won and turn to the International Monetary Fund (IMF) for credit aid to service its foreign liabilities. It received a bailout package of up to US\$57 billion – the biggest ever granted until then.

At the time of the crisis, Kim Young-sam was nearing the end of his term in office. His administration was criticised by the public due to the lack of leadership in handling the matter and failure to undertake necessary reform measures in the economic crisis. Kim Dae-jung was later elected as the president in 1998 in place of Kim Young-sam. Under Kim Dae-jung's administration, they embraced the IMF prescriptions and reform measures to implement investor-friendly policies, by removing foreign-entry barriers to the domestic market, applying high interest rates and, reducing state intervention in the economy (Kalinowski and Cho 2009). The government's post crisis-transformations were designed to penalise and discipline reckless *chaebol* business practices from their monopoly of economic power in South Korea. A number of actions were recommended by both South Korean and foreign experts to have a smaller number of *chaebols* focused on core businesses with less diversification, more transparency in banking practices and

more flexible labour rights. Previous attempts at reform had proved challenging since the big *chaebols* regarded themselves as too big to fail and were politically well-connected.

In compliance with the agreement reached between the government and the IMF, Kim Dae-jung's administration swiftly embarked on a nationwide and comprehensive structural reform on the financial, corporate, labour and public sectors. The government also actively adopted neoliberalist economic policies, which emphasised privatisation, trade-investment-finance liberalisation, labour flexibility, conservative budget spending, anti-inflation policy and deregulation. As far as financial reform was concerned, the Kim government initially focused on business capital shortages and bank insolvency. The government allocated public funds amounting to 64 trillion won to lessen the burden on bank and non-bank financial institutions that carried defaulted bonds. They also established the Financial Supervisory (FSS) in January 1999 in order to consolidate the fragmented and inefficient supervision of the financial sector by bringing together four supervisory bodies – the Office of Bank Supervision, the Securities Supervisory Board, the Insurance Supervisory Board and the Non-bank Supervisory Authority – into single supervisory organisations to examine and supervise financial institutions.

For the public sector reform, the Kim government emphasised incorporating business sense into government budgeting and accounting systems and processes. It envisioned that the public sector would become a corporation financed by taxpayers. The Open Position System was established to increase competitiveness and expertise among public officials (Ahn and Han 2006). To reform the budgeting system in the public sector, the Government Reform Office was established in the Planning and Budget Commission, which has now become a ministry. The budget structure was changed and many portions of nondiscretionary expenditure were cut. Another significant change made during his administration was the reduction in the size of the bureaucracy. As many as 20.2 percent or 4,800 public officials were retrenched during the last four years of Kim's government. Five ministries were eliminated out of the original 22. State-owned enterprises and other government funded institutes were thoroughly examined and were streamlined to minimise government subsidies and increase efficiency.

To improve accountability, sustainability and transparency in the corporate and public sectors, the Korea Fair Trade Commission (KFTC) was utilised as the regulatory authority for economic competition. It prevented the *chaebol* from diversifying their businesses and advised them to concentrate on their own specialisation. The KFTC abetted the further demise of failing companies by implementing the so-called 'Big Deal' policy that drew on measures on the second set of financial reforms. It strictly tightened credit loans to the *chaebol*, and rigorously sanctioned illegal transactions and inter-subsidiary debt guarantees. This resulted in a prominently less *chaebol*-dominated market, which helped foreign companies gain easier access to the domestic market. In an effort to deter the abuse of non-bank financial institutions owned by the *chaebol*, the

Kim government required the *chaebol* to appoint more outside directors to their corporate board and retain external auditing committees (Park 2001). In addition, the government made continuous efforts to reduce *chaebol* debt. These endeavours successfully cut down the debt-equity ratio of 30 *chaebol* from nearly 400 percent prior to the 1997 financial crisis to around 100 percent in 2004.

Economic recovery began in 1999, with growth recorded at 10.2 percent. The *chaebol*, in particular, emerged from their previous defensive position and led the way to drive the economy. The *chaebol* recorded strong export performance that improved the foreign currency reserves and significantly contributed to the rapid economic recovery. It was made clear that the government needed competitive *chaebol* to boost the economy. The status, previously marred with allegations of corruption and cronyism, was elevated to the saviour of the economy (Kalinowski and Cho 2009). By 2006, South Korea achieved a benchmark of what they called the *imanbul sidae* (\$20,000 per capita income), where they had a level of economic development close to the OECD average. The government began a campaign to become the ninth member of the group of eight major world economies (G8) and succeeded in becoming part of G-20 of the major world economies during the economic summit in late 2008.

Kim Dae-jung's swift response to the economic crisis earned him respect among domestic and foreign observers. Economic reform under his administration that promoted greater accountability and transparency among the corporations and financial institutions alike has transformed the landscape of the South Korean economy. He was awarded Nobel Peace Prize for his contribution and implementation of the Sunshine Policy, which resulted in greater political contact between South and North Korea. His support however began to crumble in the 2000s, tarnished by various scandals and allegations of corruption, including insider trading, embezzlement and stock manipulation scandals. Kim Dae-jung completed his five-year presidential term in 2003 and was succeeded by Roh Moo-hyun after he won an American-style presidential election.

Roh Moo-hyun introduced numerous comprehensive and far-reaching reform initiatives, and his Government Innovation Programme was often considered the most well-designed government transformation. The Government Innovation was carried out by the Presidential Committee on Government Innovation and Decentralisation (PCGID) under the president. The overall system of the Government Innovation consisted of four layers: PCGID, the Ministry of Government Administration and Home Affairs (MOGAHA), central ministries and local governments and the Presidential Secretariat. PCGID served as the think-tank function for designing the reform roadmap and setting the innovation, goals and strategies. The MOGAHA managed joint innovation projects, set goals and guidelines for each innovation project and reviewed and monitored each ministry's implementation of innovation. Central ministries and local government developed their own projects and implemented specific plans. The Presidential Secretariat was responsible for managing and reviewing the innovation implementation process (PCGID 2007).

Based on the vision of Building a Leading Innovative Country, the South Korean government streamlined the concept of an efficient, transparent, decentralised and participatory government. A three-pronged strategic approach which included "innovation through people and culture", "performance-oriented changes", and "integrated innovation system" were undertaken to achieve the vision. He also postulated for a 'free and fair' market order with equitable distribution of income as the strategic economic objective. In 2005, South Korea launched the K-Pact which involved the South Korean society to work together to solve corruption voluntarily. This system encouraged anybody who sees any unethical acts committed by public servants reports to the South Korean Independent Commission Against Corruption. As a result, the integrity level of public servants increased and corruption is declining steadily. South Korean parliamentary and local elections have become more transparent. Moreover, investigations into political corruption were conducted on a larger scale and many powerful politicians were found guilty of corruption.

The Roh government also followed up the financial reform under the previous administration. Initiatives were made to restructure balance sheets of the banks through recapitalisation improve corporate governance and management and encourage diversification of bank assets. These reforms were completed in 2006 (OECD 2007). This consequently allowed the banks to focus more on profitable lending opportunities and less on industrial conglomerates (Park 2011). This forced the *chaebol* to comply and improve their balance sheets by further reducing their debt. More *chaebol* are beginning to pursue ethical management and to engage in more transparent management, as they believe it is the key to competitiveness in the global environment. Many foreign observers praised the Roh administration for having some success breaking the deep-rooted power of politicians and business leaders.

The South Korean economy experienced a slump in the beginning of Roh's regime due the stimulation package implemented during Kim Dae-jung's administration. One of the policies that has been problematic was credit card usage, which had helped the economy to grow in the short term, but the consequences came later as much of the growth was largely based on debt (Harvie and Pahlavani 2005). The credit card bubble later burst, which in turn led to a decrease in private consumption in 2003 and 2004. In 2005, private consumption started to pick up its pace albeit at a slower rate as the economy improved. Nevertheless, any progress that was made to stabilise the economy was hampered due to high oil prices and rapid strengthening of the won. These two exogenous factors have made it more costly for businesses and reduces their competitiveness and consumer confidence in the economy had remained sluggish.

Roh's administration also focused on resolving economic polarisation to create job opportunities and income. The government announced a programme which includes easing limits on the construction of factories in Seoul and its metropolitan areas, variety of tax breaks and incentives for small and medium

enterprises (SME) and start-ups. Loans to SME have also been expanded during his administration. The formation of SME-*chaebol* partnership is a positive feature of his economic policies where the *chaebol* provides the financial, technological and management know-how to SMEs. In return, this know-how gained by SMEs will be used to create innovative parts and material inputs for conglomerates. It is a win-win partnership wherein SMEs are expected to play a more important role in the South Korean economy. The government has carried out further large-scale deregulation programs to ensure a favourable business environment. Apart from these economic policies, the government has nurtured 10 new technologies growth engine by ensuring increased R & D investment starting in 2003 until 2013 to ensure South Korea has a new competitive edge technologically over its neighbours and ensure a potentially large export market for these new technology industries. This will assure large job creation and sustainable growth in income in the future.

Lee Myung-bak from the conservative Grand National Party (GNP) was elected as the 17th South Korean president in 2008. His presidential campaign was founded on revitalising the economy through business-friendly policies, job creation and tax reductions. He called for streamlining the bureaucracies, selling off state enterprises and pushed for a number of major infrastructure projects, including an inland canal system (Kwon 2010). He launched the Four Major Rivers Restoration Project to improve steady water flows and flood control and to restore the ecosystem. He also introduced the '747 Plan', which denotes seven percent annual GDP growth, \$40,000 per capita GDP and the world's seventh largest economy.

The world's economy was struck with another crisis in 2008. South Korea saw the increase in fuel, food and commodities prices which meant the resource-poor nation was looking to face another period of slower growth. The actual performance of the economy under Lee's administration has been disappointing and far less than the campaign vision of seven percent of real GDP growth. It recorded an average growth of real GDP of 3.1 percent and 0.45 percent average growth of real investment. One upside of the economic performance that year was a strong export performance, which was largely caused by the depreciation of won after the global financial crisis. According to the OECD Economic Survey (2010), the weakening of the won has helped to jumpstart South Korea's recovery by significantly improving its international competitiveness, and thus raising the nation as the ninth largest exporter in 2009 from the 12th largest. However, the increase in export earnings was not fully channelled to other sectors of the economy and coupled with the increased oil prices, the South Korean economy remained stagnant.

On 25th February 2013, Park Geun-hye was inaugurated as president of the South Korea. She is the first female president and current president of South Korea. She is also the daughter of the assassinated President Park Chung-hee. After she was elected, Park avowed that South Korea will break away from its long-pursued development model that centres on the nation and shift the focus of government

administration from the state to individual citizens. Park's administrative vision and basic principles for governing the nation are concretely outlined in her policy plans for the economy, society, welfare, diplomacy and unification.

Directly after taking office, Park restructured the Blue House and government organisation to carry out her administrative vision. The Office of National Security at the Blue House, Ministry of Science, ICT and Future Planning and Ministry of Oceans and Fisheries were newly launched and the seat of Deputy Prime Minister for Economic Affairs was revived. The Chief of the National Security Office would act as a 'control tower' for diplomatic, security and national defence issues and the Deputy Prime Minister for Economic Affairs for economic, social and welfare issues.

BUILDING A FORMIDABLE STATE WITH THE RIGHT LEADERSHIP

The state capacity and its leadership is an important theme in explaining the fast growth in both Malaysia and South Korea. It would be infeasible to comprehend the remarkable development progress for both countries without a prior understanding on the state capacity and its leadership within the framework of developmental state. The state capacity and leadership have also received focal attention in understanding the process of democratisation and globalisation of East Asia in order to explain the relationship between the political stability and economic growth in Southeast Asia.

Capacity building in Malaysia and South Korea dates back to the colonial rule period but received a new vigour under the national leaders. The goal of achieving economic development and nation building by the political leadership has led to efforts to develop the capacity of state institutions. The reforms however, had several trajectories and were a practical response to the political and socio-economic challenges. The actions taken by the state institutions in Malaysia and South Korea in deploying its resources and skills to overcome challenges were dynamic and responsive in the changing environment. Despite continuous reforms, the capacity of the state remains intact and stable. Over the years, the role of the state as the central decision-making institution is diminishing for both countries.

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