

19 Nov 1987

## REVIEW &amp; OUTLOOK

## Message in Malaysia

Malaysian Prime Minister Mahathir Mohamad has survived, just barely, the most divisive ruling-party election since the country gained independence 30 years ago. The 1,479 delegates who voted in the United Malays National Organization election last month chose him over a rival candidate for party leadership by a vote of only 51% to 49%. That constitutes a victory, of course, but it suggests a substantial amount of dissatisfaction within his own party over his recent record in managing Malaysia's government.

A large minority in his party apparently wants a change of course, but Dr. Mahathir's initial response has simply been a change of cabinet. A week after the vote, he fired three cabinet ministers and four deputy ministers who had backed the opposition. His challenger, the trade and industry minister, Tunku Razaleigh, had already resigned, along with the foreign minister, Rais Yatim. New cabinet appointments are expected shortly. But no significant policy changes have shown up yet on the agenda.

Now, it's not uncommon for heads of government to banish ministers who disagree with their policies. But Dr. Mahathir might himself benefit from reexamination of those policies in light of the party's discontents.

A number of things seem worthy of attention. There's been the sad result of the longstanding New Economic Policy, instituted in 1970, by which the government seeks to subsidize the business ventures of indigenous Malays, or Bumiputras. The idea is that NEP will help these indigenous Malays compete against ethnic late-comers, chiefly the Chinese. But putting people on the dole has never been a formula for economic success, not in America, not in Europe, and clearly not in Malaysia. The Bumiputras still lag behind in business, and Malaysia right now lags in growth, thanks in good part to the mismanagement and bureaucratic meddling that NEP fosters in the marketplace. Nonetheless, Dr. Mahathir remains committed to NEP, and speaks of extending it beyond its original 1990 cutoff and well into the next decade.

That's too bad, because apart from its discrimination on the basis

of ancestry, NEP is the kind of interventionist policy that won't let Malaysia climb far out of its economic slump. While some Asian nations have been growing at a fast clip, Malaysia has spent the past few years puttering around with disastrous projects such as state development of a national car. Meanwhile, bad domestic loans have piled up, along with a \$22 billion foreign debt. Earlier this year, the Central Bank had to intervene in the country's sixth and seventh largest banks to prevent them from collapsing. The Malaysian economy grew only 1% in 1986, and is expected to grow only 1.5% to 2% this year.

What Dr. Mahathir needs now are a few advisers who will help him find a way to restore growth. That means ministers who are willing to remind him that smaller government usually means faster economic growth—and satisfied voters. Somehow we don't expect him to get that kind of help from people like the finance minister, Daim Zainuddin, who has so far retained his cabinet post. Mr. Daim is the man who last fall sold his controlling interest in a bank to the same government for which he works. It was not a deal calculated to reassure the foreign investors whom Dr. Mahathir keeps saying Malaysia wants. Nor was it the kind of example that a country plagued by bank problems needs.

It's true that government by Dr. Mahathir's opponent in the April election, Mr. Razaleigh, might not have produced much in the way of better policies or examples. Mr. Razaleigh was finance minister when Malaysia's Bank Bumiputra lent nearly \$1 billion to the now-defunct Carrian group in Hong Kong. That is not an encouraging political track record.

But what Mr. Razaleigh said during his campaign against Dr. Mahathir—that the Malaysian economy is in a "bad state" due to "chaotic" leadership—seems to have struck a sympathetic cord among the UMNO delegates. It is dangerous for any politician to regard votes for the opposition as nothing more than votes thrown away. It seems fairly clear that Dr. Mahathir's party would welcome some changes.