

17/06/1998

Profits in high places

iewed by Chong Seck Chim

PUBLISHED last year, Malaysia's Political Economy just missed the current economic crisis which has swept through the region. A pity, as some of the discussion would be relevant to an understanding of the present turmoil as well.

The book is very well researched, as the extensive bibliography bears witness, and both authors (from the Faculty of Economics and Administration, Universiti Malaya) have written much on different aspects of the topic before. Gomez also benefited earlier from a Visiting Fellowship at Murdoch University, Western Australia, to write "a reader on the Malaysian economy".

We are dealing, then, with an academic study, which would not be of much interest to the lay reader were it not for the fact that the events and personages described have all made headlines. Even so, the book is not for the faint-hearted, despite the claim that "the sometimes esoteric jargon of the new political economy is kept to a minimum".

There is still much condensed thinking left, reminding me of a few textbooks in my time as a student, of which it was said that almost any sentence (or two) picked at random might serve as an examination question, along the lines of: While rent-seeking activities may be 'directly unproductive', they may well constitute transaction costs which indirectly facilitate productivity gains. (Chang 1994) Discuss.

An economic rent, by the way, is explained as "a return to a resource owner in excess of the owner's opportunity cost" (Tollison 1987: 144). Short of reading the source-book, though, one is not really much more carried forward. Especially as, to all intents and purposes, the word "rent" in nearly every instance might be replaced by "profit" without undue violence to reason. And it will be noted that the sub-title of the book itself, partly for euphony, refers to "politics, patronage and profits" as its main concerns. An example of the close relationship of all three is given here:

More careful analysis of rents in Malaysia can go a long way to reconciling the apparent paradoxes (to neo-liberals) of state intervention and rapid economic growth on the one hand as well as authoritarianism and political competition (wrongly identified with democracy) on the other.

Paraphrased, this seems to mean that looking more carefully into how corporate profits are made in Malaysia can help one (or the born-again progressive) to understand why, despite Government involvement in business and industry, there has been impressive growth; also why, though authoritarian, democracy subsists - sort of - through "political competition".

After 'Defining the Parameters', the book proceeds with an obligatory look back at 'The Colonial Legacy'; then in three tightly-packed chapters deals with 'The New Economic Policy', 'Privatising State Assets', and 'The New Rich'. There is now less rhetoric but the reading is still concentrated, which is why the book will be invaluable as a "tool-kit" for politicians and commentators vitally interested in its comprehensive detail.

The bits and pieces from diverse journals and the daily press are all assembled here, complete with charts and statistics, in connected account and all attributed, to be quoted and sourced further as needed. Perhaps it is also necessary to add that in his 'Acknowledgements', Gomez says he is

"grateful to our lawyers for their advice on the manuscript".

It is not easy to give even a gist of the many issues and arguments advanced in this scholarly work. I will therefore merely touch on the main points, starting with the New Economic Policy which followed in the wake of the traumatic events of May 1969, which saw the "partial abandonment of the previous laissez faire style of economic management in favour of greater state intervention".

Follow-up affirmative action was, however, sometimes aborted by premature sell-outs and "Ali-Baba" combines, so Dr Mahathir later decided that "The best way to keep the shares between the Bumiputera hands is to hand them over to the Bumiputera most capable of retaining them, which means the well-to-do" (Far Eastern Economic Review, April 13, 1997, quoting the Prime Minister).

Capable and well-qualified Bumiputeras were thereafter chosen to spearhead the new initiative. Not only they, but a few other well-connected Chinese and Indians as well joined the ranks of the nouveaux riches under the new dispensation. So as in China and elsewhere, guanxi was crucial in the procurement of lucrative contracts (or, if you like, rents), giving a new meaning to 'Imperfect Competition' in economics.

For this reason, say the authors, there is inherent wastage and underproductivity privatising the previously public-owned assets, not to mention the social costs involved. But they also concede that there have been encouraging exceptions to the rule.

New strains, though, have surfaced, even within Bumiputera ranks, for it is claimed that the privileged few were driving the others to the wall. Although the NEP has dramatically reduced poverty overall, and also "enabled the Bumiputera share of corporate wealth to rise significantly from 2.4 per cent in 1970 to 20.6 per cent in 1995", nearly all of the latter were accounted for by Bumiputera individuals and institutions (who "held 18.6 per cent, and trust agencies the balance").

Supporting the general theses in the foregoing are 11 Case Studies, less doctrinaire but still crammed with facts, "moving from the general to the particular" to illustrate the symbiosis between patronage and profits. Quite impossible, though, to attempt any summary, so I will merely list their titles under the respective heads - 'NEP' (Daim Zainuddin, the UMBC Saga, Capturing the Banking Sector, Hong Leong Group, Shamsuddin Abdul Kadir and the Sapura Group); 'Privatisation' (MBO of Kumpulan Fima and Peremba, the Bakun Dam BOO); 'The New Rich' (Wan Azmi Wan Hamzah, Tajudin Ramli, Vincent Tan Chee Yioun, T. Ananda Krishnan).

BOO (build-operate-own) may be self-explanatory, but MBO (management buy-out) is not. An appendix of such terms would be helpful, explaining other items as well, such as share swap, reverse takeover, hostile takeover, and so on. The special concept of "rents" might also be further elaborated.

Incidentally, economists are not the only ones attracted to the exotic potential of the word for latent, new meaning. The British Inland Revenue had, for one, previously classified rents, together with royalties and dividends, as "unearned income" (for a higher tax rate).

Perhaps there is an echo of this in the perception that "most politically connected businessmen have tended to concentrate their rent-appropriating activities in the relatively protected import-substituting manufacturing services, and other non-tradables such as real property, construction and infrastructure, while others have gained mostly from often complex paper-shuffling, asset-stripping and other similar corporate manoeuvres, rather than from significant gains in productivity or international competitiveness".

In a penultimate chapter ('Liberalisation after 1990?') the authors

weigh the options in the context of post-1991 policies initiated by the Vision 2020 master plan, which aims "for Malaysia to achieve 'fully developed country' status by the year 2020, mainly by accelerating industrialisation, growth and modernisation".

For the authors, this presents "a partial return of the pendulum to the relatively laissez faire policies of the first dozen years after Independence in 1957 from the government intervention and expanded public sector of the next decade and a half under the NEP". The going will be tough, with diminishing "non-renewable natural resources" and structural constraints on moving industrialisation towards high-tech, greater value-added manufacturing activities.

The convulsions which have overtaken the Southeast Asian economies will make the future even more uncertain. The last chapter, 'Politics, Patronage and Profits', is largely reiterative of previous views expressed in the book.

A new edition might usefully replace this by an updated prognosis, in view of the amended growth targets and other changes which will now have to be made, at least for the short term.

(END)