

# Mahathir's Troubleshooter

*Nor Mohamad Yakcop has had an illustrious public career, having introduced Islamic banking to Malaysia and advised the government on the currency peg. Now entrusted with resolving the country's corporate-debt crisis, he faces his biggest challenge yet*

FEER 19.3.2002

By S. Jayasankaran/KUALA LUMPUR

**WHEN PRIME MINISTER** Mahathir Mohamad met international fund managers in New York in February, he was asked how he coped with being finance minister as well. According to a transcript of the meeting, the Malaysian leader replied, "I need some help," adding, "I may consider appointing a second finance minister."

Whoever Mahathir appoints will depend on Nor Mohamad Yakcop, 54, a quiet former bureaucrat who's calling the shots in the remaking of Malaysia Inc. Already one of Kuala Lumpur's most influential figures, Nor has become point man in Mahathir's clean-up of Malaysia's indebted corporate sector.

The drive is a tacit admission by the proud premier of previous policy mistakes, and the freedom given Nor—whose post carries no executive powers—indicates that Mahathir is serious about corporate reform to attract foreign capital. Others think so too: On March 4, international rating agency Standard & Poor's upgraded Malaysia's sovereign rating to positive from stable, reflecting, among others, "the progress made in restructuring the corporate sector."

As Nor told corporate managers in late February, "We recognize that the old model, based on privatization and owner-entrepreneurs had its excesses especially toward the later stages." Now,

"the most important part of your worth is your ethical core."

Since July, Mahathir has re-nationalized several strategically vital, but hugely indebted, companies, booted out its politically connected owner-managers and replaced them with professionals. The companies were among Malaysia's biggest—the Renong group, Malaysia Airlines, Malaysian Resources Corp., the Permas conglomerate—and ethnic Malays had run them.

That's radical. Mahathir has always cherished the notion of creating Malay tycoons—through patronage and easy credit—to compete with their richer Chinese counterparts. That's been implicit in his 20-year old privatization policy and a hallmark of a larger affirmative-action policy favouring Malays that began in 1971.

## NEW GROUND RULES

Mahathir's reversal began with the June resignation of Finance Minister Daim Zainuddin, the man who with Mahathir's blessings created a coterie of Malay tycoons through state help. The fallout between the two men paved the way for Nor to change Malaysia Inc.'s ground rules. Politically connected owner-entrepreneurs of failed companies could be removed, even prosecuted if they committed wrongdoing. Tajudin Ramli, formerly the controlling shareholder of Malaysia

Airlines is, in fact, currently the subject of a police investigation.

Meanwhile, shareholdings in strategic companies had to be institutionalized and professional management brought in. And everyone—including Malaysian banks—had to take haircuts if corporate debt was ever going to be resolved. Foreign portfolio investors applauded and it sparked an 18% rally on the stock exchange since July.

Little is known about Nor apart from his sweet tooth—he is partial to sweet Malay cakes—and a reclusive personality; he declined to be interviewed for this article. According to associates, he shuns socializing and prefers to conduct business entirely out of his office in the Prime Minister's Department in Putrajaya, 21 kilometres south of Kuala Lumpur.

A prominent Chinese businessman sums up Nor's present position as "a miracle." It's no exaggeration: Nor rose through the ranks to the heights of central banking only to resign in ignominy in 1994 over massive losses in currency trading. The Asian financial crisis bought him to Mahathir's attention; rehabilitation followed and, in many ways, atonement. "To my mind, he's doing time," says a corporate figure who's known Nor for years, "He's doing all the right things to exorcize what happened eight years ago."

The man had humble beginnings—

**NOR: Building an ethical core for Malaysian big business**

his family ran a restaurant on Langkawi, a then-undeveloped island off the coast of northern Kedah state. His father's untimely death, however, cut short his education and he joined Bank Negara Malaysia, the country's central bank, as a clerk in 1968. Luckily for him, his bosses spotted his ability and he was sent to read economics on a central-bank scholarship a year later at the University of Malaya.

From then on, his rise was steady and meritorious. Nor introduced two schemes that have now not only taken root but are widely emulated elsewhere: Islamic banking and a method of trading with countries strapped for foreign exchange through bilateral-payments agreements. The World Bank now recommends the latter. Nor was also the first in Malaysia to securitize assets through Cagamas, a successful state-owned company that bundles home loans into tradable paper.

But he is best known for foreign-exchange trading. In the late 1980s, other central banks warned that Bank Negara was taking positions in forex markets—it's unconventional for a central bank to make money on forex trades. Mahathir defended it then as "actively managing our reserves," but clearly Nor, then in charge of the bank's foreign-exchange department, was doing something right. Dealers estimate that between 1988 and 1991, Bank Negara made 3 billion-4 billion ringgit (\$1.2 billion-1.6 billion then) in profits from forex trading.

But things went horribly wrong. Nor's biggest mistake came in 1993 when Bank Negara bet that the pound sterling would hold against attacks from international currency trader George Soros. It didn't, and analysts say this was one reason why Soros earned Mahathir's undying dislike. During the 1997 Asian Crisis, Mahathir called Soros the "moron" behind speculative attacks on regional currencies.

It has never been clear who was responsible for the losses: Nor couldn't have acted alone. It's also unclear how much the bank lost in 1993-94, but most analysts put it above 13 billion ringgit. Neither has there been any suggestion of impropriety on Nor's, or anyone else's, part. In the event, Nor and then Gov- ▶▶

▼  
▼  
ernor Jaafar Hussein took “full responsibility” and resigned in March 1994.

Fast forward to 1998 when the Asian Crisis saw the ringgit plunging to 3.5 ringgit to \$1 from 2.5 ringgit previously. Given his knowledge of forex markets, Nor became Mahathir’s adviser. If capital controls were Mahathir’s idea, it was Nor who made it possible by spotting, and plugging, loopholes in Malaysia’s porous economy.

Bankers also say that when Mahathir decided on a peg, there was pressure from government officials to set it at 2.80 ringgit to \$1. Nor argued that it was unsustainable—the ringgit was trading at below 4 ringgit then—and pushed for 3.80 ringgit. Mahathir agreed, and the decision turned out to be inspired. In the first week of September 1998, amid uncertainty, dealers were charging 4.4.20 ringgit to \$1. Nor, then special Bank Negara adviser, simply directed two banks to flood the market with U.S. dollars, say bankers. Some \$50 million later, the ringgit moved back to 3.80 and stayed there.

In early 2000, the contract of Bank Negara Governor Ali Abul Hassan Sulaiman wasn’t renewed and replacing him was a choice between Zeti Akhtar Aziz, then the bank’s deputy governor,

and Nor. Central bank officials say that relations between the two were chilly. In May, however, Zeti won. This convinced Nor, then on leave following his mother’s death, not to return to Bank Negara.

Government insiders say that it took businessman Rin Khie Mei, a Mahathir confidant for over 35 years, to explain Nor’s predicament. On May 15, Nor was made Mahathir’s finance adviser. But he

restructuring’s undisputed architect.

The deals, all state-driven, have come thick and fast since. It began with the 3-billion-ringgit August takeover of United Engineers, an affiliate of the Renong group. Renong is Malaysia’s biggest corporate debtor with over 20 billion ringgit in loans and is seen as a market bell-wether. But what gave the deal credibility was the ouster of powerful Renong

## “I NEED SOME HELP. I MAY CONSIDER APPOINTING a second finance minister”

MAHATHIR MOHAMAD, PRIME MINISTER, MALAYSIA

only came into his own in early 2001. The government had nationalized Malaysia Airlines by paying Tajudin Ramli 1.79 billion ringgit for his shares when the market price was almost three times lower. Against Nor’s advice, the deal went through anyway.

The public outrage over the blatant rescue strained ties between Mahathir and Daim, then finance minister and Tajudin’s mentor, and culminated in Daim’s resignation. Mahathir took over the finance portfolio and a resurgent Nor became

chieftain and Daim protégé Halim Saad from the company.

Subsequent transactions have involved the removal of shareholders from Malaysian Resources Corp. and state-owned conglomerate Pernas. But that’s the easy part. “Show me the money,” grumbles a senior Chinese businessman. “Using taxpayer money is easy, but getting money back is not. I haven’t seen anything yet.” The government says a programme of divestment is on the cards.

Nor’s responsibilities have been getting bigger of late, from restructuring the Pilgrims’ Fund Management Board, a beleaguered but politically sensitive Islamic foundation, to resolving Malaysia’s water deals with Singapore.

His increasingly bigger role and the widespread perception that he has no personal or political agenda have helped enormously among foreign analysts. “He’s helped to reprofessionalize corporate Malaysia,” says P. K. Basu, chief economist for Credit Suisse First Boston in Singapore. “That’s a sea change for the country.”

All this makes people wonder if Nor, who joined Mahathir’s dominant United Malays National Organization several years ago, could himself become second finance minister. Cabinet members are generally elected MPs but there are those—the education minister, for instance—who leapfrogged the process by way of Senate appointments. Those appointments are entirely the premier’s prerogative, and Mahathir’s current near-total dominance of Umno suggests that he could push anything, or anyone, through. ≡