

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*

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- ▶▶**

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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
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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 protege 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. ■

TELECOMS

Survival Tactic

A tie-up of Malaysian phone companies has more to do with 3G licences than long-term strategy

By S. Jayasankaran/KUALA LUMPUR

ON MARCH 13, Technology Resources Industries (TRI) and DiGiCom announced that they would integrate their networks and infrastructure. TRI is the second-largest cellular-phone company in Malaysia while DiGi is the third. Both are listed on the Kuala Lumpur Stock Exchange. The move is the first step in the long-awaited consolidation of Malaysia's telecommunications industry. But it may have more to do with jostling for third-generation, or 3G, telephony licences than with corporate synergy.

Malaysia has five telecoms companies. The government sees this as too many, and it wants consolidation. But don't expect that from the TRI-DiGi alliance. The companies' heavily qualified announcement hints as much, urging investors to exercise caution, as there was "no assurance" that the tie-up would achieve this government objective.

In another part of the announcement, however, both companies said that they would set up a joint-venture company to bid for a 3G licence for cellular telephony. The government has already announced that only three 3G licences will be awarded. TRI and DiGi are betting that an alliance will give them a strong chance at one of them. "It looks like positioning to me," agrees Michael Greenall, the chief representative at BNP Paribas Peregrine in Kuala Lumpur.

Two telecoms companies-national utility Telekom Malaysia and Maxis Communications, the country's biggest cellular phone operator-are sure-fire bets for 3G licences, because of their size. The TRI-DiGi tie-up, say analysts, would settle the third slot, effectively leaving Time DotCom, another

telecoms concern now under state supervision, out in the cold and ripe for takeover. Most analysts expect Maxis, which will list in June, to absorb Time eventually.

But the new alliance could also be a defensive measure for TRI, which is itself being stalked by Telekom Malaysia in a move that's been endorsed by Prime Minister Mahathir Mohamad. With almost 2 billion ringgit (\$526 million) in cash, Telekom Malaysia can not only afford TRI but needs it: The company has no cellphone business to speak of.

Any attempt on TRI by Telekom Malaysia, however, will have to get round Tajudin Ramli, the controlling shareholder of TRI. Tajudin is under increasing pressure from the Malaysian government and is currently under police investigation for alleged management irregularities in national carrier Malaysia Airlines, where he was controlling shareholder and executive chairman until early last year.

The businessman left the airline after the government paid a Tajudin-controlled company 1.79 billion ringgit for its 29% stake, almost 250% of the market price at the time. The resulting public outrage over what was seen as a blatant rescue attempt strained relations between Mahathir and Daim Zainuddin, then finance minister and Tajudin's patron. Daim resigned in June and Malaysia Airlines' new management immediately ordered an audit of the previous management's performance. The continuing police investigation is a direct result of the management audit.

Since then, government regulators have blocked two attempts by Tajudin to invest the net proceeds from the sale of his stake in the airline-around 850 million ringgit-in TRI. Indeed, a corporate figure close to government says that Kuala Lumpur wants Tajudin out of TRI, and Telekom Malaysia in. The businessman holds a 22% interest in TRI.

"IT LOOKS LIKE POSITIONING TO ME"

MICHAEL GREENALL, BNP PARIBAS PEREGRINE

But Tajudin has resisted all efforts by continuing to show that he intends to maintain his control over TRI. Last month, the company carried out a successful recapitalization exercise to prune almost 4 billion ringgit of debt and Tajudin took up his share of a massive rights issue. "It's not the action of a man ready to leave," says a Tajudin associate. "I think he will go eventually but he wants a good price."

Thus from TRI's perspective, the alliance with DiGi makes sense: getting a 3G licence would give TRI added sparkle when it comes to bargaining over price. But financial executives close to Telekom Malaysia say that the utility will not pay a premium for Tajudin's exit and will pay no more than 2.80 ringgit for a TRI share: they closed at 2.20 ringgit on March 12. Whether Tajudin will agree is another matter-so look out for more evidence of government arm-twisting. ■



blood-test results could take hours—we'd have to give the blood to a porter who would bring it to the lab, where a technician would analyze it and then stamp the results, then the porter would have to bring it back," says Dr. Siti Suhaila, who works in Selayang's emergency room.

Time isn't the only thing technology has bought Selayang; it's provided savings as well. The hospital saves around \$2 million on the cost of X-ray film each year. Savings have also come from having fewer auxiliary staff, secretaries and technicians.

The hospital is one piece of a bigger e-health-care plan. Inspired by Prime Minister Mahathir Mohamad's vision for a Multimedia Super Corridor, a \$3.7 billion hi-tech zone in and around Kuala Lumpur, the Ministry of Health is now looking at the potential role of technology in public health. Pilot projects include a telmedicine scheme, which would allow city-based doctors to offer care to the millions of Malaysians living in remote rural areas. Another is electronic, lifetime documentation of each citizen's health, accessible from any hospital in the country. Selayang's computerized patient records are the first step towards that goal.

In fact, the hospital is a prototype for the future. Thirteen more like it will be built throughout the country in the next 10 years. When complete, the national medical system will be one of the most advanced and networked in the world. "Selayang couldn't have been built anywhere but in a country like Malaysia, where the health-care system is very centralized," Allen says. "When the Ministry of Health comes up with a plan, all the hospitals fall into line. In the U.S. and Europe, that would never happen."

STARTING FROM SCRATCH

Still, it wasn't easy. In 1995, a delegation of Malaysian doctors and IT professionals travelled throughout Asia, Europe and the U.S. looking for tips on how to build a wired hospital. But they drew a blank. No hospital had a complete institution-wide IT system in place. They had to create an integrated information system for a hospital from scratch.

The nerve centre that allows Selayang to function is called THIS, or Total Hospital Information System. THIS links laboratory, medical and administrative

databases. It runs continuously and must never fail. "Any kind of system failure or glitch is always serious," says pang Yee Beng, channels director at U.S. networking giant 3Com, who was involved with the project from the beginning. "But at Selayang, that could mean someone dying. The ministry's brief was to create a system that was 99.99% reliable."

It took three years and 15 different products from some of the biggest names in IT. Oracle's financial software was hooked into PeopleSoft's human-resources platform, which ran on Compaq computers and Sun Microsystems servers. Everything was then connected by 3Com ethernet switches. Double and triple power and server back-ups guard against total failure, while powerful security software ensures patient files stay confidential.

As with any costly and novel investment, the hospital has its share of sceptics. Politicians have voiced concerns that government money is being wasted on a technological white elephant, that patient

care hasn't improved and that most of Selayang's doctors and nurses don't even know how to use PCs.

No doubt, the hospital has important issues to iron out. Azrin acknowledges it has gone through some growing pains and still has a lot to learn. In the first months of operation, computer systems failed frequently and the hospital staff jammed help-desk phones with questions about how to use the applications. But now, he says most aspects of the IT platform are running smoothly.

The biggest challenge at Selayang is changing the way doctors and nurses work. "Our profession is not very technology-aware," says the Cyber Medical College's Robertson. "We have traditions that stretch back literally a thousand years, so there is great resistance to change—especially if it involves computers and technology."

That's certainly true at Selayang. Some doctors are reluctant to let go of their old ways, writing out diagnoses, prescriptions and lab orders, and then asking nurses to type them into the system. They are simply not comfortable with the new system. "We'd all been thinking about full integration in terms of applications and technologies," Azrin says. "But the most important kind of integration is that between people and technology. We're getting there—slowly." ■