

# Passing the baton

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**COMMENT BY P GUNASEGARAM**

**F**rom my days working in Malaysian equity research, one conclusion from institutional share salesmen and their clients, fund managers (mostly foreign), never failed to irritate me although I made great efforts to hide my displeasure.

That was the statement that there would be considerable economic uncertainty if the prime minister were to step down. The reasons given were that there was no clear line of succession and one could not be sure if current economic policies would be adhered to.

My near-standard reply was that economic policy would not change much no matter the successor. It is not a change of government; it is a change of prime ministers that would take place. The same party will still be in power and pretty much the same policies will continue to be in place. Foreign investors, even the short-term variety, don't have much to worry about.

In fact, I used to point out, a switch in presidents in the US has brought about much more change in economic policy — especially, as often happens, if the new president is from a different party. Sometimes the argument sank in; most times it did not — you quickly realise that there are different standards of assessment for developed and developing countries.

Over the years it has become fashionable to repeat this myth over and over, and just because perceptions cause markets to go a few blips down, the commentators take heart that their analysis is correct. Disappointingly, Malaysian commentators, who really should know better, pander to these foreign expectations and feed this fire of anticipated uncertainty with more fuel.

But perception is just that. It will cause the market to flutter for a while and provide some opportunities for a few trades. This seems to be the aim for fanning the flames of uncertainty in the first place. But not long after, perceived uncertainties go away and life returns to normal. No country depends on one man for stability.

If you are going to expect economic policies to make a right-about turn as Prime Minister Datuk Seri Dr Mahathir Mohamad prepares to step down over the next 18 months, you are going to be disappointed.

Major policies will continue unchanged and it will be a while before Mahathir's chosen successor, Datuk Seri Abdullah Ahmad Badawi will stamp his own style on the management of the economy. Yes, it would be more a matter of style than an upheaval of economic policy.

You can definitely expect foreign direct investors to continue to be welcomed with open arms. Portfolio investors can move their money in and out without hindrance; no nationalisation of anybody's assets will take

place; the ringgit peg will not be revised in a hurry; the government will continue to spend to take up the slack in private-sector spending (although some cutback can be expected going forward as the economy recovers); and interest rates and liquidity will continue to be easy to support recovery.

This is not to say that Mahathir has not put his stamp on economic policy-making and implementation over the past 21 years. Indeed he has, sometimes in controversial ways and not always achieving unequivocal success.

In a pluralistic country like Malaysia, with demands from different sectors and races, the success of economic policy is likely to be mixed. There have been successes and failures but on balance the positives outweigh the negatives.

Mahathir's crowning glory, perhaps, was the unconventional path he embarked on to resuscitate the Malaysian economy in the aftermath of the Asian financial crisis — through capital controls and stimulating the economy via increased government spending, lower interest rates and greater liquidity, in direct contrast with the International Monetary Fund (IMF) prescription then.

Two things characterised economic policies under Mahathir after he took over as prime minister in 1981. (Indeed, the same two things characterised economic policies right from independence in 1957.) The first was the push for continued development of the country; the second was the need to narrow the economic gap between bumiputeras and non-bumiputeras to ensure political stability.

The second complicated the first, and every leader had to grapple to find some kind of balance between the two. Malaysian economic policy is complex because it has to simultaneously satisfy two aims and sometimes the first is compromised.

Mahathir, if anything, was more impatient than his predecessors. There was no time to be lost; things had to start moving at once. He did not want to wait; he was decisive. This differentiated him from the previous leaders. And in his haste there was waste but there was progress too.

Before he took over as prime minister, Mahathir served as trade and industry minister, heading many delegations overseas to attract foreign direct investment (FDI). This was something he continued with during his tenure as prime minister, often assuming the role of the country's chief salesman.

Malaysia was already a major electronics manufacturing centre by then, with large US and Japanese corporations represented here. But Mahathir was interested in pushing the frontiers of industrialisation.

In controversial moves, early on during his prime ministership, he implemented a "Buy British Last" policy in response to friction with

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the UK industry and government and a "Look East" policy to look for technology transfer towards Japan.

He looked to Japan as well for examples on how the government and the private sector could cooperate to hasten economic growth, importing concepts such as Malaysia Inc and *sogoshoshas*, the giant Japanese trading corporations which were thought to play a key role in developing the economy because of their strong buying and selling power.

Malaysia Inc survives to this day. It refers to a loose alliance between government and the private sector, where both consider themselves partners in development to replace the previous, somewhat adversarial roles — where the government was a check on the private sector. The various attempts to set up Malaysian *sogoshoshas*, however, failed with the head of a well-known one being jailed on criminal charges.

And it was Mahathir, too, who pushed through the Malaysian car project and heavy industrial projects involving steel and cement, most of them in partnership with Japanese corporations. The car project, Proton, was a joint venture with Mitsubishi and made money almost from the start, although it thrived behind high tariff walls. One of the steel projects, Perwaja, was a well-publicised failure as were a number of other large industrial projects.

The success of high-profile industrial projects was largely mixed and their viability was hit by a recession in 1985, the first in Malaysia in more than a quarter of a century. Mahathir brought in Tun Daim Zainuddin as finance minister and together the two set about turning the economy around.

Conditions were further liberalised for FDIs and the government made a major push for the private sector to take over as the engine of growth for the economy. Greater impetus was given to privatisation policies with the

North-South Expressway heading the list of major government assets being privatised.

Privatisation not only helped economic development but was also a means of rapidly increasing bumiputera participation in business. A new coterie of young, successful bumiputera multi-millionaires, many with links to Daim, emerged, some of them to become tycoons with multi-faceted businesses under their wings.

Government department Talikom and statutory body Lembaga Letrik Negara were transformed into companies and prepared for a listing on the Kuala Lumpur Stock Exchange. By the late 1980s, things were looking up again and the market began its climb, accelerating in the early 1990s and hitting a peak in 1993.

In the meantime the New Economic Policy, the cornerstone of economic policy for 20 years, expired in 1990 and was replaced with the National Development Policy. Around the same time, Mahathir enunciated his plan to put Malaysia on the path to developed-country status by the year 2020, later dubbed Vision 2020.

It seemed that everything was on track for Malaysia, as foreign investments flooded in and the market boomed. Even a RM15 billion to RM20 billion foreign exchange trading loss at Bank Negara in the early 1990s failed to dampen enthusiasm and optimism.

The country embarked on a number of ambitious programmes including the Bakun hydroelectric project, the Petronas Twin Towers project, the construction of a new airport, a government administrative centre called Putrajaya and a high-tech residential/technological area called Cyberjaya. Mahathir swung into action with plans for the Multimedia Super Corridor to leapfrog Malaysia into the information, communications and technology era and confidence reigned supreme.

And then the Asian financial crisis arrived. Currencies and stock markets were battered across the region as investors lost confidence, leading to an economic slump and countries like Thailand, Indonesia and South Korea seeking help from the IMF.

At a World Bank conference in September 1997, barely two months after the onset of the crisis, Mahathir said: "We have always welcomed foreign investments, including speculation. They can come in to buy shares and get out if they wish to for whatever reason. But when the big funds use their massive weight in order to move the shares up and down at will and make huge profits by their manipulations then it is too much to expect us to welcome them, especially when their profits result in massive losses for ourselves in the classic zero-sum game theory."

By then, the finance minister was Datuk Seri Anwar Ibrahim. Anwar listened to his advisers and favoured IMF-like measures al-

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though Malaysia's financial condition was nowhere near as dire as Thailand's, Indonesia's or South Korea's. He increased interest rates, tightened credit and drastically cut government expenditures.

But that only made matters worse. The market fell further, taking the measures to be an indication that things were indeed bad. Confidence collapsed along with the currency, helped along by a worsening feud between Mahathir and Anwar.

Mahathir seemed discomfited by the IMF-like policies but did not do anything until he sacked Anwar in September 1998, imposed capital controls and fixed the exchange rate at RM3.80 to US\$1. Daim moved in as finance minister and the earlier tight policies were rolled back, making Malaysia the first country in the region to implement non-IMF recommended policies during the Asian crisis.

Prominent economist Paul Krugman had this to say: "Malaysia has proved a point — namely, that controlling capital in a crisis is at least feasible. Until the Malaysian experiment, the prevailing view among pundits was that even if financial crises were driven by self-justifying panic, there was nothing gov-

ernments could do to curb that panic except to reschedule bank debts — part, but only part, of the pool of potential flight capital — and otherwise try to restore confidence by making a conspicuous display of virtue.

"Austerity and reform were the watchwords. The alternative — preventing capital flight directly, and thereby gaining a breathing space — was supposed to be completely impossible, with any attempt a sure recipe for disaster. Now we know better."

As the economy recovered, Malaysia's policy was to save as many troubled companies as possible. Daim oversaw implementation in these areas but there was substantial criticism over his handling of some of the restructuring, especially with respect to companies involving two of his protégés — Tan Sri Halim Saad and Tan Sri Tajudin Ramli.

Such differences apparently led to a break in the long-standing reliance of Mahathir on Daim, leading to Daim's departure from the finance ministry. Mahathir took over the ministry and brought in two advisers — Tan Sri Ali Abdul Hassan and Tan Sri Nor Mohamed Yakcop — to assist him.

Then came the stress on corporate governance. The government took over United Engineers Malaysia, booting Halim out. A

series of reforms was promised and timetables were set for restructuring. While Halim, Tajudin and others fell out of favour, there was a new rising star: Tan Sri Syed Mokhtar Al-Bukhary. Mahathir apparently needed others who could deliver.

A number of Malay businessmen fell by the wayside following the Asian financial crisis while some of the progress made by the Malay community was pushed back as well. This probably prompted Mahathir to talk about some failures that he had experienced in bringing changes to the community and opining that special privileges might have to be rolled back eventually to get Malays to be competitive.

Together with an earlier decision to revert to English for the teaching of science and mathematics subjects, this was seen as the next move by Mahathir to make the country more competitive while ensuring that attitudes are changed so that the Malays do not get left behind.

Mahathir will not stay to see that stage through. The baton will be passed to Abdullah and the burden will indeed be heavy. How will he do it? In his own way and in his own style, of course. There is after all only one Mahathir — and only one Abdullah. **E**

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