

MALAYSIA

The New Way: Think Small

Mahathir Mohamad ruled Malaysia with a 'think big' credo. Prime Minister Abdullah Badawi will distinguish himself by getting back to basics. Here's what to expect from Abdullah as he works to earn his credentials as a national leader

By S. Jayankaran/KUALA LUMPUR

AT A MEETING WITH senior government officials early this year, Malaysia's incoming Prime Minister Abdullah Ahmad Badawi made his feelings clear: "I'm not into big projects," he said.

And so Abdullah began to separate himself from the policies of retiring Prime Minister Mahathir Mohamad and his "think big" economic credo for Malaysia. "To be noticed when you are small, sometimes you have to stand on a box," Mahathir once said. Malaysia got noticed during Mahathir's 22-year tenure, building, among other things, what were the tallest towers in the world, one of Asia's showiest airports and a grandiose new federal capital at Putrajaya.

Abdullah, taking over from Mahathir on October 31, wants to get back to the basics. Officials close to Abdullah say he intends to de-emphasize the costly, high-profile infrastructure projects and stress improved grass-roots economics and human-resource development.

"I'd like to go back to the grass roots, look at agriculture and agriculture-based industries for a start," Abdullah said at the meeting with officials, according to several aides who were present. And when asked recently which government ministry he considered the most important, Abdullah replied without hesitation: "Education."

Abdullah's policy shifts aren't likely to be abrupt or drastic. He's likely to continue to nurture Malaysia's domestic manufacturing sector and woo foreign direct investment, which have helped power growth since the late 1980s. But even Mahathir knew FDI has been slipping in the last five years, and had begun giving incentives to small and medium-sized enterprises. Abdullah, say government officials, is likely to build on that thrust.

Abdullah's pursuit of smaller-scale development comes not merely because the new leader thinks that Malaysia's infrastructure is already adequate. His reasoning may also be influenced by a political imperative to distance himself from his predecessor.

The Asian financial crisis, which tripped up many of Malaysia's politically favoured tycoons, pointed up the weaknesses of Mahathir's strategies: Flawed privatization and heavy-industry projects, lax banking supervision and corporate

governance, and poorly planned attempts to promote entrepreneurship.

To his critics, Mahathir became a leader who favoured an elite group of Malaysians over the mass of poorer rural Malays. Malaysia's conservative Islamic Party, or Pas, has used the issue to make impressive electoral gains in the country's Muslim heartland, where it runs the state governments in Terengganu and Kelantan.

Distancing his new government from Mahathir's could help Abdullah, who faces a general election in 2004 but lacks the raw political clout Mahathir exercised while in power. (See article on page 18.)

Expect Abdullah to focus on rural development by reasserting the importance of a sector Mahathir generally disdained: agriculture, which currently

GETTING BACK TO BASICS

- Expect Abdullah to distance himself from his predecessor's big vision
- He'll support rural development—good for growth, good for Abdullah
- He'll nurture manufacturing and woo investment
- He'll play politics: There's an election in 2004

accounts for 9% of GDP. The motivations are not just economic: the majority of rice farmers and small rubber and oil-palm cultivators are ethnic Malays, who form the core constituency of the United Malays National Organization, Malaysia's dominant political party, which Abdullah will lead.

Malay support for Umno faltered in the late 1990s following the widely denounced sacking and subsequent jailing for sodomy and abuse of power of former Deputy Premier Anwar Ibrahim. In the 1999 general elections, for example, Umno lost 20 parliamentary seats to the opposition and only managed to

retain its two-thirds parliamentary majority because of non-Malay support for the National Front. (The ruling National Front is a coalition of 14 parties led by Umno).

Favourable recent trends have given Abdullah some breathing space. Malaysia is expected to surpass its projected 4.5% growth in inflation-adjusted GDP this year because of a global recovery and increased government spending. The stockmarket is enjoying a bull run (up 24% since January) and Malaysia's financial system has been returned to health, having shed most of the bad loans racked up after the Asian financial crisis.

There is a future bonus as well: U.S. independent contractor Murphy Oil recently discovered the equivalent of 22% of the country's current oil reserves (about 4.5 billion barrels) in deep water off eastern Sabah state. However, it will take at least three to four years before revenues from this find begin contributing to national income.

While Abdullah faces no immediate economic crisis, the future is less certain. The incoming premier has repeatedly said that his blueprint for Malaysia will continue to be Mahathir's "Vision 2020"—a plan that calls for 7% real GDP growth a year for the next 17 years with the goal of making Malaysia a fully developed economy by 2020.

But economists like Rajeev Malik of JPMorgan Chase in Singapore say that Malaysia's "years of blazing growth" are over. In the 1990s, Malaysia averaged 9% in annual growth rates, largely due to an export-oriented economy driven by global multinationals.

That approach no longer works, with China, and perhaps India, looming as ferocious competitors for foreign investment. The test for Abdullah is to identify and develop Malaysia's next growth engine. "We definitely have to look at creating new sources of growth," says one of Abdullah's economic advisers.

One route might be to build on Mahathir's strategy of promoting information technology, epitomized by his Multimedia Super Corridor, a wired hi-tech zone south of Kuala Lumpur that he envisaged would evolve into Malaysia's version of Silicon Valley.

But industrial growth in the cor- ►►

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ridor has been unspectacular and, unlike Mahathir, Abdullah isn't particularly knowledgeable about information technology. On the other hand, his advisers say that he is interested in biotechnology—especially where it can be applied to agriculture.

"Agriculture will be very important because it's all about putting money in the small man's pocket," says the economic adviser. "People in the lower income levels have a propensity to spend and that will help consumption."

That's easier said than done. Manu Bhaskaran, a Singapore-based economist with the U.S.-based Centennial consulting group, cautions that biotechnology is a long-term investment that will not put any money in anyone's pocket soon. "Malaysia has got agriculture right, anyway," argues Bhaskaran. "It has to concentrate on the stuff it does best like contract manufacturing and pitch for stuff others outsource."

Abdullah could also change another hallmark of the Mahathir era: the emergence of a coterie of politically influential tycoons who dominated Malaysia's corporate scene on the strength of big government contracts and privatization deals. Some of Abdullah's advisers have claimed, for example, that cronyism will be a thing of the past.

Indeed, no big businessman in Malaysia can be said to be an Abdullah protégé except, perhaps, for his only son, Kamaluddin, who is a passive investor in a successful listed oil-and-gas company called Scomi Group.

Even so, few analysts think that the patronage that characterizes Malaysian politics and business will completely disappear. But they concede that its degree could diminish.

Abdullah is also unlikely to water down Malaysia's long-standing affirmative-action policies that give business and other privileges to ethnic Malays.

ABDULLAH'S PATH AHEAD MAY BE INFLUENCED BY A POLITICAL IMPERATIVE TO DISTANCE HIMSELF FROM MAHATHIR

Signs of Abdullah's political sensitivity to agriculture policies are already surfacing. The deputy premier has, for example, opposed the listing of state-owned Felda Holdings, first proposed by Mahathir in September. Felda was a 1960s creation that transferred state-owned land to landless farmers to grow oil palm and rubber.

The listing of Felda, which also subsidizes land schemes it runs for settler-farmers, was aimed at raising 1.5 billion ringgit (\$395 million) for the government and would give farmers—who own 51% of Felda through a cooperative—a direct stake in a profitable listed company.

Felda nurtures over 100,000 settler families, most of them Malay. An Umno official says Abdullah was not convinced that these families could accept the market risks that would come with a listing. "The plan has been shelved," says the official. "Abdullah thinks that its political impact on Umno should be carefully considered."

The 32-year-old policy is aimed at improving the economic lot of Malaysia's majority race and has been criticized for distorting economic growth. "No Umno leader would dare to repeal the policy," says a former Umno minister. "And Abdullah wouldn't even try."

The new premier is also likely to be more orthodox than Mahathir in his views of financial markets. Faced with the Asian financial crisis, Mahathir banned offshore ringgit trading, imposed capital controls to limit currency movements and pegged the ringgit to the U.S. dollar.

Abdullah may not be so confident. "I don't think he is especially bold on economic matters," says economist Jomo Sundaram. "He will play to the market so he wouldn't try things like capital controls, for example."

But then again, Mahathir thrived on crisis management. Abdullah Badawi must be hoping that all he'll have to manage is success. ■