# Tycoons in Trouble

Malaysia's new prime minister *has introduced a* markedly different *style of* governance from that of *his predecessor-and has big* business *worried*

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By S. Jayasankaran/KUALA LUMPUR

THERE IS A NEW DICTUM in the Malaysian Prime Minister's Department these days: No longer can a businessman with a proposal and access to the premier drop in unannounced to snag a deal. It's nothing personal, however. "It applies to everyone," says a senior government official. "Businessmen, politicians, civil servants, everyone. The message is . . . get an appointment first."

It's caused consternation in some business circles and tongues have begun wagging over who might be affected. Businessman Syed Mokhtar Albukhary has already felt the winds of change emanating from the new administration of Abdullah Ahmad Badawi. Over two years, Syed Mokhtar emerged as Malaysia's most influential businessman, stitching together a string of business deals under the approving eye of his mentor, Mahathir Mohamad. But the former premier stepped down on October 31, and the transition hasn't been kind to the hard-charging businessman.

Indeed, the early-December shelving of a 14.5 billion ringgit ($3.82 billion) railway deal, secured by the businessman with Mahathir's approval in the waning days of his administration, has raised questions about Syed Mokhtar's ability to wring more deals from the government.

But Syed Mokhtar isn't the only one hit. On December g, listed plantation company Kumpulan Guthrie fired its long-standing chiefexecutive, Abdul Khalid Ibrahim. National Equity Corp., Guthrie's major shareholder and a trust corporation that reports directly to the prime minister, axed Khalid.

Indeed, accordingto corporate officials familiar with the events, National Equity Corp., better known by its Malay acronym, PNB, even wanted to remove Khalid, who has 5% in Guthrie, from the board but was dissuaded from doing so by Guthrie chairman and former Deputy Premier Musa Hitam. "PNB has long wanted to remove Khalid because Guthrie hasn't performed, but Dr. Mahathir always protected him," says a corporate executive who declined to be identified. "Clearly Abdullah gave PNB permission." PNB holds over 70% of Guthrie.

Even more surprising has been the even-handed treatment of the car industry relative to national car-maker Proton, a favoured Mahathir brainchild. Proton Chief Executive Tengku Mahaleel Ariff had asked Abdullah, via a November 9 letter, for another 20 years of protection ahead of a regional free-trade-area pact that would cut import duties on cars and car parts to 5% by 2005. For its part, Malaysia pledged to cut duties to 20% beginning this year.

On December 31, Abdullah cut import duties to as low as 40%—from up to 300% previously-but imposed new excise duties of between 30% and 100% on parts and imported cars. The latter was to prevent a loss of government revenues, but what surprised analysts was that Proton received no special favours. Indeed, according to Edward Ong, a motor analyst with ING Financial Markets in Kuala Lumpur, "Proton is the main loser, not so much because it has to absorb a 2% duty hike but because its pricing advantage is eroded."

The removal of protection for favoured businessmen and companies and the axing of projects deemed to be sacred cows could presage a new way of doing business in Malaysia. In the heyday of Malaysia Inc., influential businessmen routinely bypassed bureaucratic procedures and competitive-bidding protocols by convincing one man-Mahathir-that their projects were good for Malaysia.

"People underestimated him," says Manu Bhaskaran, the Singapore-based partner of American consulting firm Centennial, referring to Abdullah. "There is *a* feeling now that there will be no more free rides. Things might be slower, but they will be a lot more transparent."

The new decisiveness is also rooted in sound economics. For six years, Malaysia recorded consecutive budget deficits that, at their height, exceeded 5% of GDP. This was the main reason international rating agencies refused to upgrade Malaysia's credit rating, a move that would have made borrowing from international creditors cheaper. Cutting unnecessary projects that required state funding was seen as key to balancing the books.

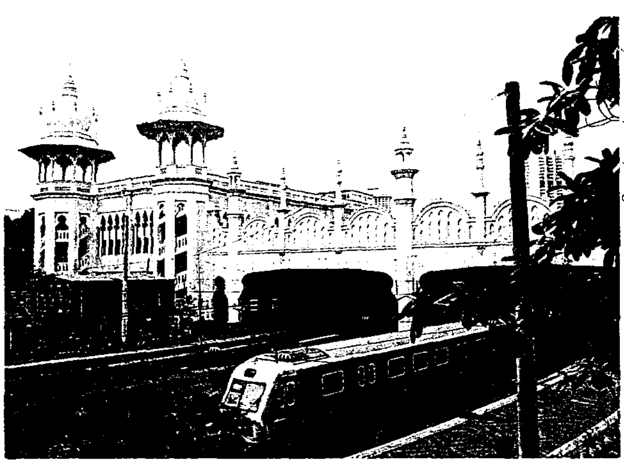
Still, Abdullah's moves haven't drawn universal praise. While analysts concede that the decisions hold long-term positives for foreign fund managers, they also decry his "bruising" methods. "His decision on the rail project was unexpected and it took at least a billion ringgit off the share prices of Gamuda and [Malaysian Mining Corp.]," says a Kuala Lumpur-based businessman, referring to the two listed companies that were supposed to build the railway. "There must be a better way to announce a policy flip-flop." (Mahathir's administration, in which Abdullah was deputy premier, had actually awarded the contract to a consortium led by Gamuda and MMC.)

But the prime minister has shown some sensitivity to his former boss. On December 16, for instance, Khazanah Nasional, the federal government's investment arm, agreed to purchase 125 million ringgit worth of loan stocks in an indebted property development south of Kuala Lumpur.

The deal was widely perceived to be a bid to help the owner of the development, listed property company Country Heights Holdings and its controlling shareholder, Lee Kim Yew, a long-time confidant of Mahathir. The acquisition-which comprises a shopping complex, a golf course, a convention centre and related facilities-does not fit into the stated corporate objectives of Khazanah, analysts say.

**THE WRITING IS ON THE WALL**

But the writing may be on the wall. The silence that usually greeted Mahathir's more ambitious projects is cracking amid open criticism of such schemes from members of his own party, the dominant United Malays National Organization. Shahrir Samad, a member of Umno's Supreme Council, recently called for the scrapping of plans for a 1 billion ringgit bridge to replace Malaysia's side of the causeway to Singapore after the latter declined to participate in *a* joint venture to replace the link with a new high bridge. Piqued by Singapore's refusal, Mahathir ordered Malaysian contractors to go it alone.


Henry Westheim/Alamy Images

**SHOCKER: Syed Mokhtar's costly rail project was shelved**

Shahrir think: the idea ridiculous. "If it goes ahead, it will stand as a permanent symbol of a time when relations were bad between the two countries," says the feisty politician. Indeed, a Southeast Asian diplomat says that Singapore could warm to the idea, implying a joint venture is still possible. And, according to other government officials, Abdullah has told the promoter of the bridge project to "go slow."

Meanwhile, industry analysts wonder what other projects will be shelved or axed altogether. Among the potential contenders, according to securities analysts, are controversial projects like a multibillion ringgit incinerator in the state of Selangor and the 6.4 billion ringgit Bakun hydroelectric dam project in Malaysia's eastern Sarawak state.

People like Shahrir, however, want the entire bidding process changed. He points to a project in his Johor state that he claims subsidizes its promoter. The project is the development of a regional hub for air cargo to be located in Senai airport, just north of Singapore. Its promoter, Syed Mokhtar, had won the right to purchase 4,000 acres of land for the hub when the original plans only set aside 900 acres for the project. "He bought it cheaply as well," says Shahrir. "Why should the state government subsidize big business at the expense of other private-sector parties. All this has got to stop." An associate of Syed Mokhtar declined to comment on Shahrir's allegation. ≡