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The past year has seen the government and the opposition unveil their respective economic reform policies. Even if these reform policies and their attendant programmes are implemented they will not be able to resolve the country's economic problems.

This is because the policies advocated by both sides of the political divide are merely palliative. They do not address the root or fundamental cause of the problem of structural deformation of the country's economy.

How has this deformation come about? What are its characteristics? And what can be done to bring about a reversal or correction of the deformation so that we have a really transformed economic system that can live up to its full potential?

First we need to recognise that wealth in any country - and Malaysia is no exception - is created by economic activity engaged in by individuals or enterprises that bring profits or gains to the entrepreneur.

Much of this wealth creation and subsequent accumulation is legitimate. It is based on material reward arising from work (or gift) and is socially and ethically acceptable. It comes from risk-taking and from the social utility and superiority of the products and services generated by the individual or enterprise.

Wealth generated and accumulated by individuals through legitimate means and conforming to the norms of justice and fairness is not only desirable but beneficial to society and the economy.

But what about wealth that is created or amassed by less than legitimate or illegitimate or illegal means? Is it a minor or non-issue and do we just ignore it as is the case with the Barisan Nasional government?

Outflow of massive illegal wealth accumulation

One important clue to the massive wealth capture by illicit means in Malaysia was exposed recently by the Global Financial Integrity, a US-based watchdog.

In its study on 'Illicit Financial Flows from Developing Countries' it estimated that Malaysia was fifth in the world on cumulative total illicit financial flows (IFF) since 2000.

For 2009 alone, IFF (non-normalised) amounted to approximately US\$47 billion (approximately RM145 billion at the exchange rate of RM3.1 = US\$1) and over the cumulative nine years, total IFF amounted to US\$350 (approximately RM1,086 billion).

Two methods of estimation were used in the study, one being the World Bank residual model (using the change in external debt or CED), and secondly, trade mispricing (using the Gross Excluding Reversals method or GER).

Through the balance of payments (a component of CED), it captures unrecorded capital leakages i.e. illicit transfers of the proceeds of bribery, theft, kickbacks, and tax evasion. Outflow of unrecorded transfers due to trade mispricing was captured under the GER method.

Based on the study, Malaysia's nine-year average normalised i.e. conservative IFF, amounted to US\$14.2 billion (42 percent; RM43.9 billion) due to CED while GER accounted for \$19.6 billion (58 percent; RM60.8 billion). Meanwhile, average non-normalised IFF was US\$15.4 billion (44 percent; RM47.5 billion) due to CED and US\$19.6 billion (56 percent; RM60.8 billion) due to GER.

MNCs and illicit financial flows

According to the study, “illicit flows involve capital that is illegally earned, transferred, or utilised and covers all unrecorded private financial outflows that drive the accumulation of foreign assets by residents in contravention of applicable capital controls and regulatory frameworks. Hence, illicit flows may involve capital earned through legitimate means such as the profits of a legitimate business”.

If taxes were levied on the illegal outflows, the country’s finances would have benefitted to the tune of close to US\$100 billion.

When the GFI’s findings were made public recently, the finger of blame for the massive outflows was placed by the MP for Kota Belud, Abdul Rahman Dahlan, on multinational corporations (MNCs). Indeed, MNCs have been a convenient scapegoat for transfer pricing woes in developing countries where they have major operations.

One local observer - a specialist in transfer pricing - has demolished this accusation for Malaysia. According to his letter of Dec 27, 2011 to Free Malaysia Today, “transfer pricing has been the one of the most scrutinised subjects by the Malaysian Inland Revenue Board since the Transfer Pricing Guidelines was introduced [in 2003].”

He has argued that “more likely than not, where there are cases of transfer mispricing, MNCs would always step forward and rectify the situation. This is so because “getting caught by authorities in doing illegal activities will most likely cause serious damage to business integrity and reputation.”

He concluded that “compliance by MNCs is one of the most stringent as far as I understand from a corporate culture perspective, or at least for cases I have seen.”

So if MNCs are not the culprit for the illicit financial outflows, who are the real culprits?

The Global Financial Integrity study has noted that besides transfer pricing outflows - MNCs alone are not to blame for this; local conglomerates and GLCs also play the same game with greater insider knowledge - IFF was caused by illicit transfers arising from the proceeds of bribery, theft, kickbacks, and tax evasion.

Malaysia is in fact the only country where IFF is caused by a comparable proportion of transfer and non-transfer pricing transgressions.

Real culprits in illegal wealth accumulation and concentration

While the study has been helpful in providing some hard data on the quantum of the illicit financial outflows, it does not provide much assistance on other key details such as who are responsible for the outflow; the countries of fund relocation; etc.

At this stage, we can only hazard a guess as to the likely individuals or parties involved in the non-transfer pricing illicit outflow. The most likely culprits are those who have been able to accumulate enormous wealth and who for various reasons find it expedient or necessary to conceal their wealth accumulation as well as to diversity their wealth havens and assets away from Malaysia.

The GFI study does not cover the illicit wealth accumulated locally and not yet remitted to foreign shores. The size of this locally retained illicit wealth is likely to be several if not many times more than that sent abroad.

A crude estimate of the extent of legal wealth concentration in the country can be obtained from the 40 individuals identified by Forbes as the richest billionaires for Malaysia. Collectively this group was worth US\$62.5 billion in 2011.

In addition there must be many other extremely wealthy individuals who have avoided making the list through their ability to conceal their wealth and others who though not making the top 40 list still possess enormous wealth.

azlanThe most widely rumoured name not making the Forbes list has to be Taib Mahmud, the chief minister of Sarawak, who together with his family is reputed to have shares in more than 330 companies in Malaysia alone and more than 400 companies around the globe worth several billion US dollars.

Various quarters have questioned the legitimacy of the wealth accumulation engaged in by the chief minister. A recent article in the blogsite Sarawak Headhunter provides in-depth details into what is alleged to be the income stream of the chief minister's financial vacuum machine.

These include:

- * Income from timber licences,
- * Surcharge on timber exports,
- * Kickbacks from timber shipping companies,
- * Agency and other fees levied on shipping companies,
- * Privatisation of government companies,
- * Illegal logging receipts,
- * Federal government contracts,
- * Alienation of state land to plantations, and
- * State contracts.

The chief minister has refuted these claims and has argued that that his daughter's considerable property empire was amassed through the daughter and son-in-law's business acumen in investing wisely the gratuity which Taib earned from his earlier service in the federal government.

This may well be true but if so, it needs to be substantiated by an opening of the financial records and bank accounts of the family and the companies owned or controlled by the family in Malaysia and abroad. Only then can the authorities and public determine the truth of the allegations of financial and political impropriety.

azlanThat the chief minister and his family own an extraordinary amount of wealth - held locally and abroad - at least is not denied. Some idea of the enormous size of the Taib family wealth emerged when Taib's daughter-in-law filed a RM400 million claim on her estranged husband, Mahmud Abu Bekir Taib, in court recently, including what she claims is her share of property worth RM300 million.

These tantalising details of the extraordinary wealth accumulation by Taib and a small group of Malaysians show a common pattern. Firstly, they have all been beneficiaries of the Barisan Nasional government and its policy aimed at working with an elite few individuals in driving the economy forward.

Many if not all of the names that appear on the Forbes list are regarded as cronies of past prime ministers Dr Mahathir Mohamad, Abdullah Ahmad Badawi and the present Prime Minister Najib Abdul Razak, and are widely perceived as owing their considerable wealth to their political loyalty to the Barisan Nasional.

All the business empires of the former 'Sugar King' Robert Kuok, Genting Highlands' late Lim Goh Tong, Public Bank's Teh Hong Piau, YTL's Yeoh Tiong Lay, Astro's Ananda Krisnan, AirAsia's Tony Fernandez and the rising Syed Mokhtar Al-Bukhary - deservedly or undeservedly - are seen as built on government

preference and patronage.

This connection is what has provided them with head starts and privileged monopolies without which their enterprises could never have come about, let alone flourish.

Getting to the bottom of how the business empires of our richest Malaysians have taken shape may be a useful way of dealing with the thorny question of how wealth concentration - whether legitimately derived or under a cloud of illegitimacy - has occurred.

We should have no illusions about the obstacles that lie ahead of such investigative efforts. We should also be mindful that in countries where illegal wealth accumulation by the leaders of impoverished countries has drawn national and international ire, attempts at recovery of the wealth, much of which has been spirited abroad and stashed in overseas banks and assets, has been a long-drawn and difficult process.

Admittedly the hope for any confiscation of illicit or illegitimate wealth is distant and dim. The time may not even be ripe to insist on a full-blown opening up of the records and having the truth come out on how the crème de la crème of our business and political leaders have accumulated their fortunes.

But there may be need for public scrutiny in a few special cases in Malaysia despite the concern that such efforts may be construed as an anti-capitalist or anti-Barisan witch hunt.

National discussion on wealth accumulation and concentration

The time is right at the least though for a national discussion on what are the pros and cons of the current economic system which encourages the concentration of wealth and its illegal outflows on such a systemic basis, and whether this is the right economic model for the country.

The time is also right to focus on sectors and processes which have been the main playgrounds of unfair or illicit wealth accumulation; and to implement actions aimed at decisively containing or neutralising them.

Best practice examples are readily available for example, in the natural resource sector of countries with the same natural wealth as us. These countries such as Norway have been able to avoid the mistakes that we have made in exploitation of our mineral and forest resources which have permitted opaque policies and procedures, and condoned corrupt or shady businesses that have reaped windfall illicit gains.

For the national discussion on wealth concentration and outflows to take place, we need to break the conspiracy of silence by our political elites that have benefitted from the system and that have collaborated in the accumulation of illicit wealth and wealth generated from dubious means.

We need the professionals to play their role. We need more studies by academics and civil society to uncover where illicit and less than legitimate accumulations are taking place and what can be done to plug up leakages and bring to justice the offenders and culprits. We need more whistleblowers to step forward.

Discussion needs to be followed by action, whether by the Barisan or Pakatan government.

This action needs to be more than just the tweaking of economic policy as envisaged by the Pakatan parties. It needs to be a fundamentally new paradigm of development based on the de-concentration of wealth and its more equitable distribution.

New paradigm of development

The radically new paradigm of development that puts the spotlight on the wealth of the country (within and outside) as well as on the wealthy, and with a major focus on the eventual breaking down of wealth

concentration - beginning with illicit wealth - is needed for three reasons.

Firstly, it is a superior approach to the narrowly race-based New Economic Policy model that has dominated the country's economic life and which is based on a simplistic caricature of affirmative action policy.

Secondly, our oil wealth is rapidly depleting and our treasury is depleted. Going after wealth that has been illegally accumulated or rightfully belongs to the state will provide the country some breathing space until we get our act together on the other pieces of the bigger economic transformation jigsaw.

The final reason is that the primary cause of poverty and stunted development in Malaysia is an economic system that promotes excessive concentration of wealth. So long as the excessive concentration of wealth exists, our poverty and deformed development problem will remain unresolved.

It has been said that economics is not only about production and wealth creation. It is also about morality, and the first moral principle is that the strong owe a duty towards the weak. It is the role of government to ensure that the strong and wealthy fulfil their duty and not to encourage them in wrongdoing in their obsessive wealth accumulation.

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