

Malaysia on the world stage

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FIFTY years ago, as our fledgling country stepped tentatively into the world, it was thought that all it was interested in was security – and that everything it did in terms of foreign relations was nothing more than the search for security and independence.

That independent Malaya was still dependent on Britain and its allies for defence was understandable considering that the Cold War was raging in all its fury and the young nation's own army and police, bolstered by Commonwealth forces, were preoccupied with trying to end the Emergency.

But this did not prevent our country from playing some kind of international role whenever opportunities permitted. But these actions, including its public statements, quickly identified it as pro-West and anti-Communist, perhaps reflecting the preference of its Western-educated leaders, especially that of prime minister Tunku Abdul Rahman.

For instance, shortly after Merdeka in 1960, Malaya responded to international appeals by despatching troops to participate in the UN peacekeeping force in the Congo. It served with distinction.

Very early in its nationhood, it also publicly denounced apartheid in South Africa. And when a border war broke out between India and communist China, it had little problem in deciding which country to give its very vocal support.

But these early tentative sallies into the world of international politics, especially during the challenging times of *Konfrontasi*, quickly instilled the young country with confidence and boldness to chart its own independent direction.

Changing foreign policies

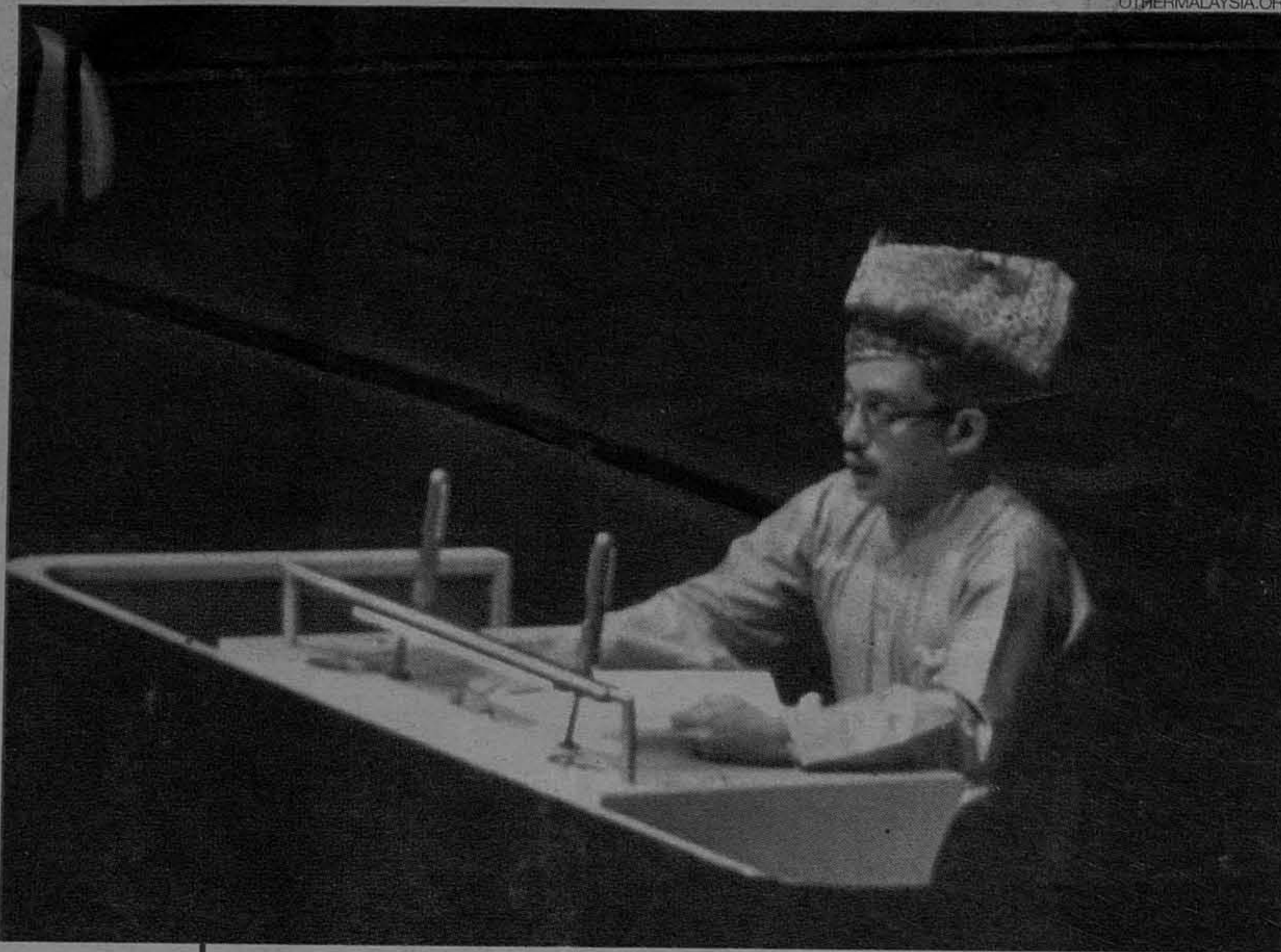
Also, and mostly as a result of the influence of the changing international environment, Malaysia was quick to adapt its foreign policy to the needs of the hour. It adopted a policy of equidistance. It began to balance its pro-West ties with ties to the communist giants of the Soviet Union and China.

Tun Abdul Razak Hussein, who succeeded the Tunku in 1970, became the first Malaysian prime minister to visit China. And Tun Hussein Onn became the prime minister who received a reciprocal visit by a Chinese leader to Kuala Lumpur in 1978. Hussein also became the first Malaysian prime minister to visit the Soviet Union.

Today, Malaysia's foreign policy is much more motivated by its own independent needs as a trading and manufacturing nation – the search for markets – instead of just the search for security and independence of the early days. In this it has, indeed, come a long way and in the process, gained much respect from the international community.

It was under the 22-year helmship of the country's fourth prime minister, Tun Dr Mahathir Mohamad – for the first time a locally-educated leader – that saw a marked change in and intense development of our foreign policy.

Under his leadership, Malaysia experimented with many foreign policy approaches and spoke out against the many international practices which it saw as the inequities and sacred cows of the West. While this earned Malaysia the West's



The new Malayan representative (later Tun) Dr Ismail Abdul Rahman makes his speech at the opening of the new United Nations General Assembly in New York on Sept 19, 1957.



High office ... Tan Sri Razali Ismail was elected president of the UN's 51st General Assembly, and later was the UN Special Envoy to Myanmar.

ire and annoyance, the country also gained the respect and leadership of the developing world.

Never one to subscribe to Thucydides' dictum that "the strong do what they have the power to do and the weak accept what they have to accept", Mahathir criticised and openly rebuked many countries of the North for what he termed their neo-colonial treatment of the countries of the South.

While many disapproved of his abrasive, and sometimes, confrontational approach, others cheered him on, saying there was a "method in his madness", and that he was articulating for them what they themselves could not say for many reasons.

Mahathir himself, as if in response, intoned lines from his favourite song – Frank Sinatra's *My Way* – saying that he was aware that sometimes he "bit off more than I can chew" but above all "I did it my way" – Malaysia's way.

On taking over as premier, he overhauled much of Malaysia's foreign policy while also instituting many domestic changes. There was much initial resistance as many in the civil service had grown accustomed to the status quo or to gradual approaches to change.

One of Mahathir's initiatives was his call to review the country's participation in the Commonwealth which had been taken for granted since Merdeka. The actual study itself was unimportant but it was the call for the review that created an impact.

This call was made in 1981 shortly after Mahathir became prime minister, and on the eve of the Commonwealth Heads of Government Meeting (CHOGM) in Brisbane, Australia, which he did not attend. Australia was, of course, slighted and this laid the basis for relations with Australia throughout Mahathir's administration.

Another new initiative was the Look East Policy which supporters of the prime minister said, among other things, called for other approaches or models of doing things instead of just relying solely on the Western approaches the country had employed since independence. No doubt the Japanese and the South Koreans benefited from this policy.

While this experiment hurt the country's partners from the West, especially Britain, this policy was soon followed by another more hurtful one – the "Buy British Last" policy.

Clearly, Mahathir was not pleased with British reactions and shortly after, asked the British government to relocate its High Commission from where it had always been since the colonial days.

Thus, in 1989 the former Carcosa and its adjacent King's House formed what is now known as Carcosa Seri Negara, an exclusive hotel instead of remaining "a permanent gift from a grateful nation". One man who spoke out against the move was Tunku who made "the gift" when he was prime minister.

Much later, when relations

between Malaysia and Britain returned to normal – in the normal sense of the word – Mahathir explained that the moves were meant to end the patron/client ties that had characterised relations between the two countries since Merdeka.

Even as Mahathir went about seemingly experimenting and changing everything, generally the foundations of the country's foreign policy remained much the same foundations or pillars as developed during the administrations of the Tunku, Razak and Hussein namely, multilateralism, regionalism, Islamic solidarity and non-alignment.

It was the emphasis that was different and each pillar was

reinterpreted, widened and given new meaning to suit the new initiatives that Malaysia, under Mahathir's leadership, undertook or experimented with.

Malaysia's commitment to the multilateralism of the UN and its other agencies was high profiled when flamboyant Tan Sri Razali Ismail was its permanent representative to the world body. The country also played a prominent role in a number of international fora and assemblies organised by the UN, including the Earth Summit in Brazil.

This was acknowledged when Razali was elected president of the UN's 51st General Assembly.

Among other Malaysians who had high profile roles in the UN were Universiti Malaya vice-chancellor Datuk Rafiah Salim. She was an assistant secretary-general. Academician Dr Jomo Sundaram is still serving as assistant secretary-general at the world body.

Regional leadership

But it is to the region to which it belongs that seemed to be Malaysia's focus under Mahathir. Asean (the Association of Southeast Asian Nations, formed in 1967) has become the cornerstone of Malaysia's foreign policy. To the original Asean 5 of Indonesia, Malaysia, the Philippines, Singapore and Thailand was added Brunei after it ended its status as a British protectorate in 1984. Malaysia actively campaigned for the inclusion of Cambodia, Laos, Myanmar and Vietnam to complete an earlier objective of an Asean 10. This process was completed by the time of the Kuala Lumpur Summit of the Asia Pacific Economic Cooperation (Apec) forum in 1998.

Because progress in Asean is infinitesimally slow, critics see it as nothing more than a regional club for civil servants. Others, however, argue that it is because of this very gradual progress that Asean has had time to grow strong while performing its function of fostering closer political and economic cooperation.

There is now an Asean Free Trade Area (Afta) which serves as a vehicle to promote and enhance intra-

regional trade. It is becoming more cohesive as members began to see themselves as a part of it.

And there is the sense of security in numbers, and security is very much guaranteed by the Asian Regional Forum which meets after the annual Asean foreign ministers meeting where the major powers in as well as outside Asia are members.

Malaysia under Mahathir was very much for Asean exclusivity and unity.

Thus, it was wary of the formation of Apec in 1989 which its promoters claimed would make Asean the heart of the forum.

But shortly after, it was "hijacked" by the US. Mahathir, who was in favour of Apec as a loose association rather than a structured organisation where Asean would be subsumed, refused to attend a meeting of Apec leaders in Seattle in 1995.

His refusal, despite various efforts to get him to attend, gave an opportunity for Australian Prime Minister Paul Keating to call him a "recalcitrant". It further strained Australia-Malaysia relations.

One of the reasons for Malaysia's proposal for the formation of an East Asia Economic Grouping (EAEG) was as a response to a structured Apec dominated by the US. The US opposed the formation of the grouping and this put paid to countries like Japan and South Korea joining it.

Malaysia did not give up, saying "sooner or later and probably by another name" the grouping would be formed. Its diplomats continued to campaign for it until Asean adopted a watered down proposal of it which was renamed East Asia Economic Caucus.

And the caucus actually came into being at the 5th Asean Summit in Bangkok in 1995 – although it was not called the EAEC – with Asean, China, Japan and South Korea as members.

But the fact that a formal grouping called Asean+5 was formed was reason enough for Malaysia to be jubilant because the +5 referred to China, Japan and South Korea. And



Saudi Crown Prince Abdullah bin Abdel Aziz receives Prime Minister Datuk Seri Abdullah Ahmad Badawi on June 29, 2004 in Jeddah. Abdullah was in Saudi Arabia to discuss the bilateral relations between the two countries and the situation in the Islamic world. Malaysia is the chairman of the Organisation of the Islamic Conference and of the Non-Aligned Movement.

driven by its own dynamics, the grouping is evolving into an East Asian Community.

Islamic solidarity

International Islamic solidarity is another important pillar of Malaysia's foreign policy and it has contributed much to the formation and success of the 57-nation Organisation of Islamic Conference (OIC).

The late Tunku was its first secretary-general. With a little extra effort, a second Malaysian could have won the post again in 2004. But it took for granted that because it was chairperson, its candidate would be hailed.

An example of the Mahathir administration's commitment and concern for the Muslim *ummah* (faithful) was its relentless efforts in high-

lighting the plight of Muslims in Bosnia and its political and financial support for them.

While the purpose for which the Non-Aligned Movement (NAM) is long gone, the Mahathir administration tried to revitalise and breathe new life into it and make it relevant in terms of the economic development of its members – mostly developing and underdeveloped countries. The Langkawi International Dialogue is another of Malaysia's contributions towards this objective.

NAM or the Non-Aligned Movement was founded in the 1950s and has a total of 118 members – a formidable force if economically independent and united. Malaysia initiated the formation of a small group, referred to as the Group of 15,

to act as a catalyst and resource centre, to drive NAM forward. It remains a formidable task.

Malaysia is still high profile under Datuk Seri Abdullah Ahmad Badawi who took over as prime minister on Oct 31, 2005. While he continues with much that was established by the Mahathir administration he has taken a softer and less abrasive approach.

"The new prime minister's style may be low-key but he really means business. He may not sound as forceful as Dr Mahathir, but he can make tough decisions," said Foreign Minister Datuk Seri Syed Hamid Albar.

Economic nationalism in the 21st Century

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PROponents of free market forces have long derided Malaysia's economic nationalism as a recipe for stagnation, if not disaster. Contrary to expectations, economic nationalism has served Malaysia well.

Economic nationalism encompasses initiatives like the New Economic Policy (NEP) and the creation of state-owned corporations like Petronas. Admittedly, the cost was high – at times, government spending ballooned beyond prudent limits while the increasing proliferation of red tape eroded Malaysia's efficiency and cost competitiveness.

However, the costs were outweighed by the positives. Not only did the NEP provide political stability even during the Asian Financial Crisis in 1997 – the worst recession since independence – it also reduced poverty significantly and facilitated the creation of a bumiputera middle class.

Direct beneficiaries of the NEP

include the 7.7 million bumiputras who have invested in unit trusts established by Permodalan Nasional Berhad, and who have savoured the fruits of this country's development.

Meanwhile, Petronas is one of Malaysia's success stories. A Fortune 500 company – one of the few Malaysian companies with this status – Petronas has business interests in 31 countries. Globally, it is one of the more profitable oil companies.

However, in a globalised and Internet-linked world, does economic nationalism belong to the Jurassic age? To be sure, some economic nationalist policies are still relevant. Eradicating poverty – one of the major limbs of the NEP – must continue.

But is there a need to finetune other policies to further enhance its benefits? One policy that should be reviewed is the limit on foreign ownership of Malaysian assets. Several factors need to be considered.

First, in an increasingly internationalised global economy, what constitutes a Malaysian company? If a com-

pany's labour force is overwhelmingly foreign or if it derives more than half its revenues from overseas, can it still claim to be a Malaysian entity?

To date, an increasing number of Malaysian-listed companies like Telekom Malaysia, Gamuda and MMC are securing contracts overseas and buying foreign companies. Meanwhile, plantation companies like Kumpulan Guthrie own more hectares in Indonesia than within this country. At the same time, their labour force in this country is overwhelmingly foreign.

All these developments suggest that further down the road, assets, employees and earnings from foreign countries may well exceed that from homegrown sources. Are foreign equity limits appropriate for such corporate entities?

Such a scenario is already happening in the US. Companies in the Standard & Poor's 500 index now derive 48.6% of their sales outside the US, the highest proportion since

comparable figures became available in 1999.

Second, in previous decades, a policy stance limiting foreign ownership in Malaysian companies had little costs since few Malaysian companies bothered to go offshore.

But as an increasing number of Malaysian companies seek business opportunities overseas, the need to open the door wider for foreign investors may be greater.

Third, capping foreign share ownership to just 30% could inhibit the growth of Malaysian companies. If this country hopes to nurture entities that can become Fortune 500 companies, it will require massive amounts of capital as well as a playing field much larger than this country can provide.

Moreover, limitations on equity ownership may be likened to extending half a welcome mat to foreign investors. Malaysia should either welcome foreign investors wholeheartedly or ask them to stay away. Putting out half a welcome

mat for foreign investors suggests a half-hearted welcome.

Fourth, controlling a company doesn't always require a 51% equity holding. Technical know-how or proprietary knowledge can be instruments of control. Take for example, Coca-Cola. Only a handful of individuals are privy to the formula for the beverage. This has helped Coca-Cola maintain its profits for decades.

Fifth, Malaysia now competes with countries like Vietnam that were previously off investors' radar screen. A case in point – earlier this year, Intel chose Vietnam over Malaysia and India as the site for its US\$1 billion chip-testing and assembly plant.

To be sure, policymakers are aware of the drawbacks of limiting foreign equity investment.

Recently, it was announced the 25% limit on foreign shareholding for Tenaga Nasional Bhd would be removed. Expectations are high that other government-linked compa-

nies will follow suit.

Indeed, the proposed Iskandar Development Region (IDR) is an implicit affirmation that limitations on foreign ownership can blunt Malaysia's attractiveness as an investment destination. IDR's development will require US\$105 billion in investment, from both locals and foreigners.

Fifty years after Merdeka, Malaysia is one of the few countries that can claim to be beholden to no country or foreign institution. Even during the Asian Financial Crisis in 1997, for example, this country did not have to ask the International Monetary Fund for funding.

In short, only continuing prosperity can ensure Malaysia's continuing independence, politically and economically.

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