

HIS ECONOMIC LEGACY

Lasting Achievements

In his own words, Mahathir diagnosed Malaysia's problems and treated them. But he also created problems that will be hard for his successors to solve

By S. Jayasankaran/KUALA LUMPUR

MAHATHIR MOHAMAD'S economic legacy is a chequered one. But its hallmark has been his pragmatic response to crises, even if it meant sharp shifts in strategy or gambling on unpopular policies. Maybe he was simply thinking like a doctor. "I think my medical training has helped me," he once declared. "You diagnose the problem and you treat its symptoms."

In 1985, for example, Malaysia fell into recession amid low global commodity prices, high unemployment and a record budget deficit. Mahathir responded by relaxing a 15-year-old affirmative-action policy that aided ethnic Malays—once a cornerstone of his own Malay nationalist ideology—in favour of opening up the economy to foreign investors. It worked: From 1988-97, more than \$52 billion in foreign direct investment—more than 10 times the amount in the previous decade—flowed into Malaysia, helping to underpin a decade of unprecedented prosperity.

Then in 1998, faced with a tumbling ringgit in the wake of the Asian financial crisis, Mahathir—who had embraced the global capitalist system in the 1990s—unplugged Malaysia from world financial markets. Against the advice of his central bankers, he banned offshore ringgit trading, imposed capital controls to limit currency movements and pegged the ringgit to the U.S. dollar. The radical moves sparked criticism, but eventually helped to stabilize the economy.

Such bold steps won Mahathir, now 78, admirers. To them, he was the decisive, blunt-spoken problem-solver, and the great modernizer.

Over his 22 years in power, Malaysia evolved a huge, multiethnic middle class—more than 60% of households now have cars, TVs and basic amenities—which has helped to consolidate economic and political stability. "It may be Dr. Mahathir's lasting achievement," says Musa Hitam, a former deputy premier. "For these people, the differences aren't ethnic but class ones: the second car, the mortgage. They have a stake in the economy and no one wants to rock the boat."

Indeed, by many economic measures, the national well-being has improved. Per-capita incomes have tripled since Mahathir came to power—to 14,877 ringgit (\$3,915) in 2002 from 4,630 ringgit in 1982. And the poverty rate has dropped to 5% of all households from more than 35% in 1982.

Mahathir also spotted trends faster than most. In 1984, for example, he saw that tourism was a potential money-spinner and backed projects to attract visitors. Tourism has now topped oil and gas receipts in terms of annual foreign-

exchange earnings and visitors have jumped seven-fold to 14 million in 2002 from 2 million in 1985.

Mahathir's most astute trend-spotting may be manifested in the Multimedia Super Corridor, a hard-wired hi-tech zone south of Kuala Lumpur that he wants developed into Malaysia's version of Silicon Valley. Still in its early stages, the MSC has attracted a steady influx of local start-ups and foreign multinationals.


But Malaysia's progress isn't all Mahathir's doing. In 1981, he inherited control of a reasonably vibrant economy with well-established government institutions. His predecessors had actually done better in some respects. "Between 1961 and 1981, Malaysia's real GDP grew 7% annually," says Tan Teng Boo, the chief executive of icapital.biz, an investment advisory firm. "Over the next 20 years, the figure dropped to 6.2%."

MAHATHIR'S HALLMARK HAS BEEN HIS PRAGMATIC RESPONSE TO CRISES, EVEN IF IT MEANT SHARP SHIFTS IN STRATEGY OR UNPOPULAR POLICIES

Even the popular notion that Mahathir transformed Malaysia from a sleepy rubber- and tin-producer into an industrial hub is misleading: In 1981, the country already possessed a significant industrial base, with manufacturing accounting for 19% of GDP. The figure today is close to 33%, primarily due to the deluge of foreign direct investment after Mahathir opened up the economy.

But global events also pushed the change: Japanese, Korean and Taiwanese manufacturers relocated their factories to Southeast Asia after the Plaza Accord in 1985 boosted the yen's value against the dollar. That helped make Malaysia the 17th largest trading nation by 1995 and explains why Mahathir is so closely associated with its industrialization.

In fact, much of Mahathir's own industrialization strategy failed. Early on, the premier promoted the creation of state-backed, capital-intensive heavy industries, including steel, cement and car making, funded largely by low-interest yen borrowings from Japanese aid agencies. Today, state-owned Perwaja Steel is insolvent and burdened with more than 10 billion ringgit in government-guaranteed debt,



while two thirds of Malaysia's cement plants were bought by foreign companies after the Asian Crisis rendered them unprofitable.

Now, only car making survives. And the profitability of national car-maker Proton depends on steep tariffs that make foreign cars much more costly. But Malaysia's home-made cars will face tough competition after 2005, when most tariffs on regional goods are to be lifted under a pact to create a Southeast Asian free-trade area.

The amount of money lost in Malaysia through waste, corruption and mismanagement over the last 20 years would have severely stretched less resource-endowed countries. Based on published data, the REVIEW estimates that between 1980 and 1997, at least 25 billion ringgit was squandered through financial misadventures. These include the central bank's disastrous foray into currency speculation in the mid-1990s, a failed attempt to corner the world tin market, the Perwaja fiasco and bailouts of state-owned banks. Moreover, the government's own estimates indicate that it will have to spend an additional 20 billion ringgit renationalizing services—such as urban light-rail transit systems and the national airline—that were privatized but went bust after the 1997 financial crisis.

"A balance sheet for the Mahathir era suggests that he has much to answer for," says University Malaya economist K. S. Jomo, referring to those financial excesses. (See also K.S. Jomo's commentary on page 25.)

LONELY ROAD:

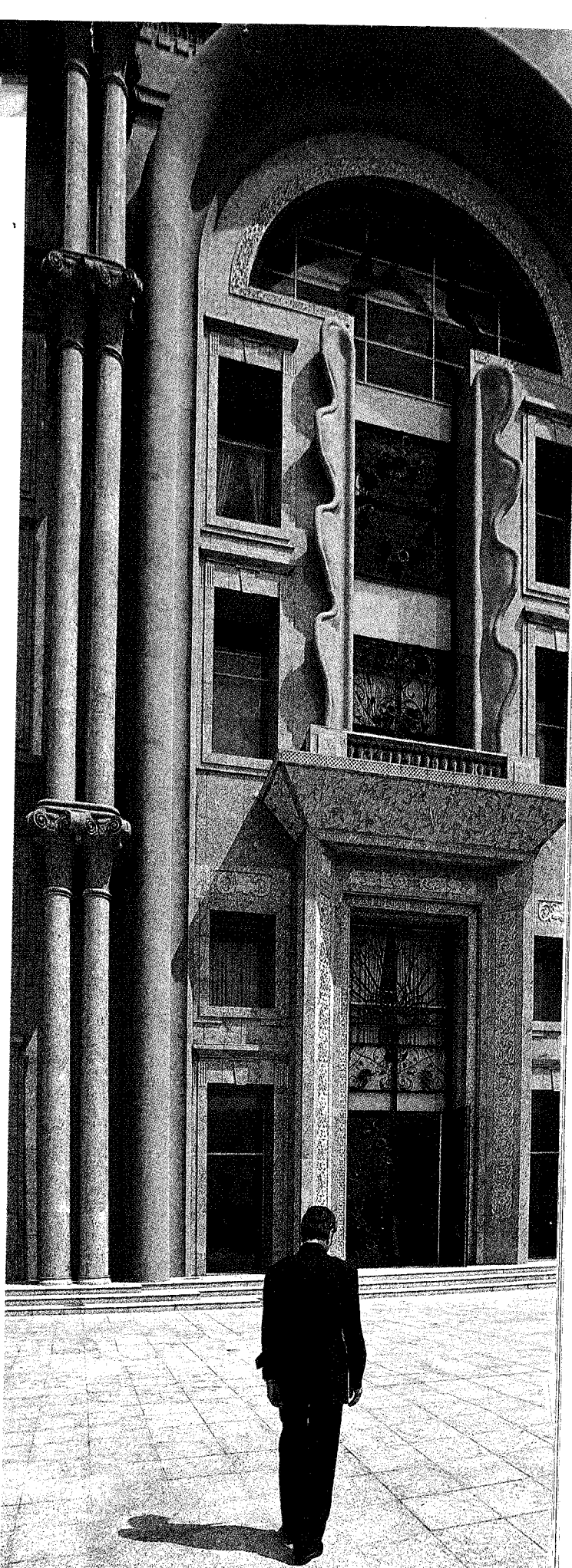
With the economy, as with much else, Mahathir did it his way

Even Malaysia's 1985-86 recession was partly self-induced. During the 1980s, the government overspent with an expansionary fiscal policy, which was then exacerbated by its commitment to heavy industry and the yen's 70% appreciation against the dollar following the Plaza Accord. The soaring yen hugely increased, in ringgit terms, Kuala Lumpur's debt to Japanese aid agencies.

Another hallmark of the Mahathir era was an extensive privatization programme, which featured billions of dollars in sales of state assets and the awarding of huge infrastructure projects to the private sector. Begun in 1984, privatization unlocked new wealth for private investors and businesses, created many jobs, deepened the stockmarket through new listings and spawned a new class of entrepreneurs.

But it came at a great cost. To create a class of Malay entrepreneurs, the government routinely dished out awards to politically favoured individuals and companies without competitive bidding. The Renong group, once the investment arm of Mahathir's political party, for example, received 15 privatization awards in the late 1980s and early 1990s, including the 6.4 billion ringgit North-South Highway.

Instead of fostering transparency and good corporate governance, privatization came to be identified with cronyism. "No competition meant there was no benchmark to see how fat the actual award was," acknowledges a Malay businessman. And, he says, it has created a problem for the future: "People who lived off this easy money can never compete and may have to resort to shady deals. It's one legacy that will take time to remove because many people are used to it." ■



Returning to Islam's Roots

By Mahathir Mohamad

The following is an edited excerpt from a speech by the prime minister of Malaysia, delivered at the School of Oriental and African Studies in London on September 22



Can we honestly say that the situation of the Muslim today is good? It certainly is not. And if it is not, is it because of Islam, because of its teachings? Or is it because changes have been made to Islam so that it is no longer in accordance with the original teachings of Islam?

After the collapse of the Turkish Ottomans, Muslims everywhere became divided and much weaker. In fact, for a time there was hardly a Muslim country which was not colonized or dominated by Europeans. Some Muslim reformers then began to question the orthodox views of Muslim scholars. They wanted to "modernize," to emulate the Europeans. Some went so far as to believe that only by discarding Islam and becoming secular could Muslims regain their pre-eminence. They achieved very little success in the face of strong opposition by the influential orthodox scholars. The problem was that some of the reformers were too influenced by the European concept of the separation of state and church. This may be possible in the Christian context. It is not in the Muslim world.

Islam is a way of life, and a way of life cannot be compartmentalized into spiritual and material areas. The system of government of a country and its development is a part of the way of life. It is entirely possible to be Islamic even if a modern administration or system, including democracy, is adopted. It is possible if we go back to the fundamentals of Islam. The problem is that Muslims tend to emphasize and venerate the form rather than the substance in the practice of everything.

"We have to go back to the one Islam brought by the Prophet,"

Thus, clothing to cover the body is translated as the wearing of the Arab dress. That other forms of dress can also cover the body is regarded as being of no merit, un-Islamic. Reading to acquire knowledge is interpreted as reading to acquire Islamic religious knowledge only. Defence of the *ummah* [or Muslim community] is interpreted as veneration of the ancient weapons of war. But what is one to make of the neglect of learning and defence in the Muslim world? Must Muslims forever buy their weapons from others? Surely they must have indigenous capacities to invent and produce for their defence needs. To do this, they must learn science, mathematics, technology and the rest. Far from regarding the pursuit of these subjects to be not

as good as the study of Islamic theology, it should be regarded as an *ibadah*, which should gain merit for the individual and the community.

But to focus on the defence of the *ummah* will need political stability and economic wealth. And so Muslims must learn to restrain themselves and to make whatever system of government they adopt, work. Democracy is compatible with Islam. The Prophet left it to his followers to choose a leader from among themselves. One can say that a system where the leader is chosen by an electorate is much more Islamic than otherwise. And having been elected, a leader must care for his people. This means ensuring they have food, clothing, shelter and security.

Islam means peace. We wish peace upon each other. This is also fundamental to Islam. We only fight against those who attack us. When the enemy sues for peace, Muslims must respond positively. But we are doing none of these fundamental things. Today, Muslims are labelled terrorists. We don't think it is justified. But the fact is that we are killing people because of our anger, regardless of who we kill or the consequences. Admittedly, we are desperate and outgunned and there is very little else we can do to defend ourselves against injustice. But should we just lash out indiscriminately, killing innocent people, including those who sympathize with us? Shouldn't we stop to think, plan and strategize with ultimate victory as our goal? What have we got after almost 100 years of fighting? Nothing. Even our anger is not assuaged. We are, in fact, getting more angry.

Our present predicament is not pre-ordained by Allah. It is entirely due to our own doing. We have neglected and misinterpreted the teachings of Islam. We rely merely on praying to Allah for help when Allah has said in the Koran that we have to help ourselves first before He will help us.

We do not have a need to reinvent Islam. Islam is perfect and is for all times. Islam is relevant if we stick to the fundamentals, if we interpret them correctly. The problem is with the interpretation. It has not only divided the *ummah* but has made the *ummah* practically illiterate, incapable of dealing with even the simple problems of governing.

Islam is still the perfect religion. It is Muslims who are not perfect, who have allowed themselves to misinterpret Islam. Muslims must correct themselves. It is they who must change. The Prophet brought to us only one religion of Islam. Today, there are hundreds of Islams. We have to go back to the one Islam brought by the Prophet. ■