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Has Mahathir missed the mark?

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POLICY MATTERS

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TUN Dr Mahathir Mohamad, Malaysia's former prime minister, seems to have missed the mark with the Citizen's Declaration that he has so vigorously supported.

The bulk of the declaration is directed at Prime Minister Datuk Seri Najib Razak and his alleged wrongdoings in connection with iMDB. Therein lies a fatal flaw.

The specific government sovereign wealth fund that the declaration assiduously attacks misses the larger issues of institutional reform, delivery of public services, accountability and good governance in the public sector and in government-linked organisations.

It even questions the limits of government participation in business.

There are two ways of looking at this issue.

One could identify it as a problem where domestic institutions are weak and the local institutional framework is crumbling.

For instance, there is a gaping disconnect in the system if a civil servant in the Ministry of Youth and Sports can wrongfully misappropriate RM100 million. Interestingly, the financial procedures did not send out warning alarms to the secretary-general and the minister concerned before the matter came to public knowledge.

Again, the 2015 Global Financial Flows Report ranks Malaysia as the country with the fifth largest illicit financial outflows in the world.

This is hardly a praiseworthy tribute to the country's institutional performance and it suggests that the central bank has a weighty task at hand.

These are signs of institutional failure and poor governance, which if left unabated have the potential to bite into the country's growth and developmental outcomes.

Another way of looking into the problem is to see it as one that is characteristic of capitalism at its worst.

One where greed, avarice, poor institutional measures, loopholes and lobbyists derail capitalism, which otherwise is meant to be a system that supports the efficient functioning of markets.

As evidence of the worst that capitalism can slip to, the West has its Raj Rajaratnam, the Sri Lankan-American hedge fund manager, who once was among the 400 richest Americans and now languishes in jail, and Nick Leeson, who brought down Barings.

The Enron case and the fall of Lehman Brothers are other signs of disruptions in the system. If this line of thinking is adopted, we can claim to have imported a model that has deep fault lines.

We have consulted with individuals like Tim Leissner (who was head of Goldman Sach's operations in



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Southeast Asia and is now being investigated by the FBI, and the ubiquitous Jho Low, a high-flying financier and dealmaker.

In doing so, one may want to argue that we have imported a model of capitalism that may prioritise margins, commissions and profits over ethical business practices and prudence.

Mahathir, in sharpening his sword solely for Najib, disregards a more systemic assessment of the problems that confront the economy.

He also brushes aside the need for institutional reform and a more holistic transformation of the economy.

If, as the PAC report claims, iMDB has been fraught with the mismanagement of funds and unwise investment decisions, then it brings into question the integrity and wisdom with which government-linked companies are managed. This is a serious question in an age of trade and investment openness, for two reasons.

First, the global trade and investment system hardly favours government participation in business.

Second, transparency and sound institutional practices are the bases for investment attractiveness.

The iMDB saga raises questions along these lines, something that would not do Malaysia good in the long-run.

The international exposure on iMDB has not been complimentary, what with the space that news agencies like Bloomberg have devoted to the debacle.

The more suspicious could claim that there is a conspiracy behind the motives of the international media industry. Nevertheless, nine countries and their agencies are reported to be investigating whether laws in these countries were broken in the course of iMDB's transactions.

The iMDB question will not threaten Malaysia's immediate economic performance.

In fact, the value of the ringgit has been going up in recent weeks; it has responded more to the rise in the price of oil and the improving US economy than to aspersions of impropriety in iMDB's dealings.

But, the long-term attractiveness of the country as a hub for investment could take a rubbing.

This is also because other institutions have been dragged into the picture.

The central bank has had to defend itself in an effort to maintain its credibility and the image of freedom from political pressure, and this at a time when it has to fight what may be the larger problem of illicit financial flows.

Mahathir does have the right to express his opinions on the current state of affairs. One wishes he had taken a different perspective, one which might constructively impel institutional restructuring.

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