Malaysia's chosen one
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Building Kuala Lumpur's Islamic Arts Center, an Arabian gem replete with white marble, rippling fountains and sky blue onion-shaped domes in the middle of Malaysia's tropical capital, was a labor of love for two men. One of them is Malaysia's Prime Minister, Mahathir Mohamad. Prior to the four-story museum's completion in 1998, Mahathir would regularly show up at the construction site, often after his weekly equestrian sessions. At his side was a skinny, balding businessman named Syed Mokhtar al-Bukhary. The two men would pore over blueprints, tour the site to monitor progress and, according to one witness, decide together on changes, usually at the suggestion of the Prime Minister.

Shared passion for that $27 million treasure, largely paid for by Mokhtar's Islamic charity, the Al-Bukhary Foundation, has evolved into something much bigger in recent years. The bond now constitutes what is Malaysia's most important economic partnership. Mokhtar, a reclusive, 51-year-old multimillionaire, has in recent years gained the trust of the Prime Minister and been awarded a deluge of government contracts. Mokhtar now holds the reins of several key publicly listed companies previously controlled by the government, swelling his empire to include container ports, mines, hotels and oil palm plantations. The publicly traded companies he controls have a combined market value of $1.3 billion; an informed Mokhtar associate estimates his total holdings at more than $1.5 billion.

Mokhtar now administers his far-flung holdings entirely through nominees: associates say his name hasn't appeared in Kuala Lumpur's Registry of Companies since he progressed beyond his first cattle and rice trading ventures in the 1980s. Still, there is no mistaking that he is the 76-year-old Prime Minister's new favorite son, and to many of those following his sudden rise, the story sounds all too familiar. (Mahathir did not respond to TIME's interview requests; Mokhtar declined to be interviewed.) Since the 1997 financial crisis, Malaysia has been treated by the international financial community as a pariah, perceived by critics as a country where outsiders can't win because the game of commerce is rigged by the government to favor a few powerful men. But in the past 18 months or so, Malaysia's image has been rejuvenated by its efforts to restructure the corporate sector, impose discipline on the stock market and weed out questionable characters. Malaysia has suddenly become the darling of financial analysts. "Laws and regulations are being applied impartially," enthuses P.K. Basu, who is chief Southeast Asian economist for the merchant bank Credit Suisse First Boston in Singapore. "Some previous transgressions are even being punished."

But to many observers that argument is harder to believe because of the Mahathir-Mokhtar connection, which looks very much like the so-called "crony capitalism" that stained Malaysia's economic credentials in the first place. In the 1990s, Mahathir's administration showered huge government contracts and favorable loans on a select few businessmen. The policy, which was designed to create a group of model entrepreneurs among the country's majority ethnic Malays, was criticized at home and abroad as opaque, unfair, hugely wasteful and largely ineffective. The 1997 crisis hit Mahathir's handpicked favorites particularly hard; their inefficiently run and deeply indebted companies such as Halim Saad's Renong, a government-controlled conglomerate, and Yahaya Ahmad's DRB-Hicom needed huge government bailouts just to stay afloat.

But after the departure a year ago of Finance Minister Daim Zainuddin, Mahathir put the country on a different track. "There was clearly a divergence of views on how to deal with the corporate sector," says Basu. "Dr. Mahathir decided Tun Daim's views were deeply flawed and has moved to a much more professional and open approach." Respected figures have been given critical regulatory posts in the central bank, at the debt recovery agency set up after the Asian crisis to dispose of repossessed corporate assets, at the securities commission and elsewhere. Stock market regulations were also changed requiring earnings reports to be filed every three months instead of twice a year, a major step forward in transparency. Directors of publicly traded companies are even being compelled to attend annual two-day courses at the stock exchange on their obligations under corporate governance regulations.

Meanwhile, former highflyers have been falling from grace, signaling to some that Malaysia's crony system was on the way out. Halim Saad of Renong and Tajudin Ramli, who piloted the national carrier Malaysia Airlines to record losses during his eight-year tenancy as CEO, have been replaced by professional managers. In January, the new management of Malaysia Airlines filed a police report alleging irregularities in the management of the airline's cargo division during Tajudin's tenure. Police are remaining tight-lipped about the continuing investigation, but according to local press reports they have to date interviewed a dozen senior airline executives. Mahathir's reform drive has coincided with economic revival. After several years of stagnation, Malaysia's GDP will grow at a healthy 6% in 2002, economists project. The country's trade surplus is swelling and international bond rating agencies have been bumping up Malaysia's grades. More important, foreign investors are actually putting their money so long withheld back into the country. A recent bond issue by Malaysia's national oil giant Petronas was heavily subscribed. The Kuala Lumpur stock market shunned by international investors after Mahathir temporarily imposed strict controls on the movement of money out of Malaysia in September 1998 has soared, rising about a third over the last year, a period during which Basu estimates that as much as a billion dollars has poured in from overseas. "When Malaysia is working well and hitting all the sweet spots together, it really roars," says Dominic Armstrong, regional research chief for Dutch bankers ABN AMRO in Singapore.

But bullish as some observers are about the country's new direction, plenty of reservations remain. Mokhtar's detractors say he appears to be just the latest rider on Malaysia's crony-go-round. "Mokhtar is enjoying a rapid rise like Halim Saad and Tajudin Ramli and is closely aligned with Mahathir," says Terence Gomez, who teaches economics at Kuala Lumpur's University of Malaya. The issue has roiled the usually placid waters of Malaysia's press. Writing in the business weekly The Edge, journalist P. Gunasegeram penned a column about Mokhtar titled, "When One Man Gets Too Much." Gunasegeram chronicles past disasters that he blames on cronyism, charges that they have cost the government billions to clean up, then concludes by wondering, "Whatever happened to open tenders? And to the effort to promote professional managers and institutionalize shareholdings?" Says a respected economist who asked for anonymity: "Same play, different actors."

In fact, it can be hard to find anyone in Kuala Lumpur who seriously thinks that the headstrong Mahathir who thumbed his nose at the world during the Asian crisis by imposing currency controls, a move even his critics now grudgingly concede probably shielded the country from the social dislocation seen in some Asian neighbors has abandoned his cherished head start program for Malays. "He definitely wants the emergence of the Malay capitalist," says Megat Najmuddin Khas, who heads the Malaysian Institute of Corporate Governance. "There is nothing wrong with the policy," Megat argues as long as the right people are chosen. And Mokhtar has "better credentials" than most, says Megat.

To supporters and associates, that is the critical issue. Mokhtar is a shrewd, self-made entrepreneur. "The man comes from the school of hard knocks. He wasn't an accountant who had everything handed to him on a silver platter like the others," says one close adviser. "His father was a cattle farmer. He took a loan from the government in the '70s to buy his own trucks to carry cattle from one state to the next to get a higher price. Then he started transporting rice in the same trucks and bought his own paddy fields to cut out the middleman. That's how it all began." Mokhtar has learned his lessons well from 32 years in business and strictly applies them. He surrounds himself with professionals and leaves them to manage. "If the contract is over $100 million, I will show it to him, just to make sure he knows," avers Mohamad Sidek Shaik Osman, CEO of the flagship of Mokhtar's empire, the container port at Tanjung Pelepas (PTP). "Anything less than that he trusts me to take care of it on my own."

Indeed, the port is evidence Mokhtar can compete with the world's best and win. In 2001, PTP lured Maersk the world's largest shipping line away from the super-efficient Port Authority of Singapore. And to show it wasn't a one-hit wonder, PTP took away another big prize, the Taiwan carrier Evergreen, earlier this year. "It isn't just about low cost," Sidek says. "You have to be up to global standards and have low cost as well. If a ship comes in and there's no pilot or the cranes break down, I'm finished. There are no excuses at this level."

Critics wonder, then, why such a formidable businessman needs to be awarded advantages such as sole-source government contracts. Of course, cultivating political connections for business purposes is standard procedure in many countries. But in Malaysia, the stakes are especially high: you can be catapulted from the ranks of the merely wealthy into the rarefied status of billionairedom in part by earning the confidence of the right people. The companies Mokhtar controls have a stake in almost every sector of the economy: from the publicly listed Malakoff, now Malaysia's biggest private sector producer of electrical power, to Pernas, which owns businesses ranging from Malaysia's largest security company to the Pan Pacific chain of hotels. Analysts say Mokhtar is consolidating his publicly listed holdings under the wing of diversified investment holding vehicle Malaysia Mining Corporation (MMC), which is also taking control of the privately held container port company PTP. Controlling stakes in all three public companies were either bought from the government or with its backing in the past few years, albeit well above the market rates and sometimes against other bidders.

Five years ago, Mokhtar wasn't a familiar face in Kuala Lumpur's corridors of power. According to his associates, that was largely due to his strained ties with then Finance Minister and longtime Mahathir confidant Daim. Whatever the reason, Mokhtar found several key ventures at the state level mysteriously blocked. Reports began to filter back that his name was being blackened at the highest levels of government. Finally, Mokhtar asked for an audience with the Prime Minister. For the first 20 minutes, Mahathir sat stony-faced, his arms crossed. But, Mokhtar associates say, the PM began to thaw as Mokhtar explained himself. The meeting ended cordially after two hours. "That interview was a turning point in his life," says a friend.

In the five years that have since passed, Mokhtar's star has soared, his rise accelerating noticeably since the departure of Daim last June after a falling out with the Prime Minister. Associates say Mokhtar's ambitions extend to nothing less than turning his adopted hometown of Johor Bahru into a second Singapore by spending millions of dollars upgrading the roads and water supply, developing every inch of the 2,000 acres on which the port sits the goal is to double or treble current capacity and transforming the town's airport into a major air-cargo hub. Mahathir and one of Mokhtar's lieutenants made a conspicuous detour to visit the Federal Express headquarters in Memphis during the Prime Minister's triumphant visit to the U.S. in May.

With the backing of the government, big dreams are possible. But what one former Cabinet minister calls the "fatal embrace of Mahathir Mohamad" also carries burdens. "What they don't realize," says another longtime Mahathir watcher, speaking of men like Mokhtar, Halim and Tajudin, "is that the PM doesn't care about them individually. He only cares about results, and if he thinks they can get things done, he'll keep loading them down with projects until they sink."

The warning signs are already there. One of Mokhtar's companies is now completing the takeover of Malaysia Electric Corp., a Mahathir-initiated venture that aims to manufacture electrical goods such as air conditioners and stereos in Malaysia for sale domestically and overseas. It has struggled since its inception four years ago. Mokhtar may also be taking over another pair of gasping Mahathir favorites: the Entertainment-Village, through which local multimedia and film industries would "leapfrog into the digital age"; and Bio-valley, a still vague attempt to spark off a Malaysian biotechnology industry. Both E-village and Bio-valley are part of the Prime Minister's Multimedia Super Corridor, a hugely ambitious and expensive attempt to create an Asian Silicon Valley that is floundering in the wake of the dotcom crash and the U.S. recession.

Mokhtar associates acknowledge that he has been given some "sick babies," as one puts it. "But when you are a businessman you have to grab all the opportunities that come your way," explains another. Mokhtar has certainly done that. But will he be able to prevent the less desirable opportunities from turning into a new generation of debt-ridden corporations that may someday require costly bailouts? "All the talk of transparency and governance has raised expectations very high," says the CEO of a listed corporation. If the specter of cronyism appears to be returning, he warns,"it would have a disastrous impact overseas and at home as well."

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