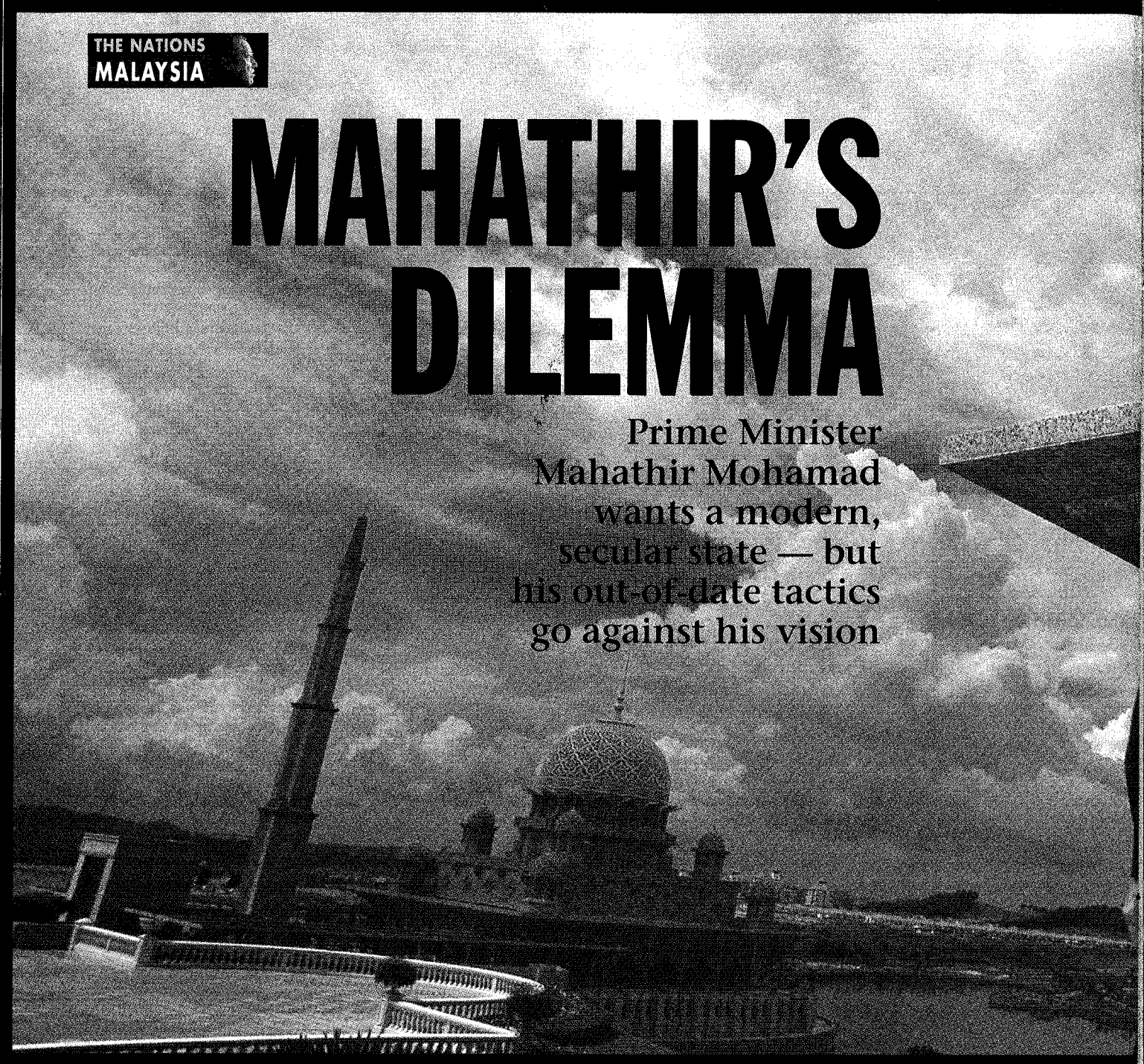


MAHATHIR'S DILEMMA

Prime Minister Mahathir Mohamad wants a modern, secular state — but his out-of-date tactics go against his vision



ARCHITECT Is the prime minister being left behind by a new Malaysia that he helped build?

prints the English- and Malay-language editions of the DAP's *Rocket* newspaper. That publication and Pas's *Harakah* appear on alternate weeks, ensuring there is always an opposition voice on the streets. "Politics used to be defined along racial lines, but now the issues are justice, denial of rights and demanding those rights," says Pas secretary-general Nasharudin Mat Isa. "Therefore our supporters are reading each other's newspapers." Privately younger Pas and DAP members of Parliament say they find each other "easier to work with." One young Pas MP remarks: "We are young and we realize we are in the same trench fighting the same war."

Meanwhile, a growing number of community leaders and politicians, including some in the government, are voicing out loud the previously unthinkable: that it is time to overhaul the NEP. This affirmative-action program was introduced in 1971 to eradicate poverty and increase the stake of *bumiputras* (Malays and other indigenous groups). Among the benefits, it provides them with a guaranteed number of places at university, preferential treatment for government contracts, cheaper loans and discounted blocks of stocks. While accepting that the measures were necessary at the time, pro-reformers argue that the NEP is now holding Malays — and Malaysia — back by creating what author Bakri Musa calls a "subsidy mentality." The sooner the country has a more competitive society, the better, declares lawyer T. Kuhanandan. "Eventually, Malaysia will be forced to become a meritocracy by the WTO [World Trade Organization], the cyber era and open globalization," he says. "We will have to compete and stand on our own two feet."

The debate over the future of the NEP dates back to 1999, when a Chinese community group, Suqiu (meaning "Appeal"), released an 83-point proposal for the eradication of the racial divide between *bumiputras* and non-*bumiputras*. "Affirmative action should be based on the protection and enhancement of the status of the weaker sectors and not on race, social background and religious belief," it says. Many agree. Says a Chinese head of research at a stockbroking firm, who asked not to be named: "We are living under [pro-bumi] quotas in almost every aspect of our lives — in school, university and business. There is some merit to affirmative action, but should it be maintained eternally?"

Suqiu's suggested elimination of *bumi* rights did not sit well with some Malay groups, but most of the broader proposals received general support in the run-up to the 1999 general elections, including from three predominantly Chinese parties in the ruling Barisan Nasional coalition. But when Suqiu published its proposals on its new

By PETER CORDINGLEY

It was the kind of scolding that Mahathir Mohamad routinely hands out to ministers and party officials he thinks are not performing up to par. But this time the Malaysian prime minister was on the receiving end. The scene was a meeting in early December of the supreme council of his ruling party. As senior officials looked on in astonishment, longtime member Shahrir Abdul Samad told the premier he was the reason the government had suffered a humiliating by-election defeat just days before. According to a party member present at the meeting, a stunned Mahathir had little to say in his own defense.

Asia's longest-serving elected leader humiliated in front of his lieutenants? And his tormentor walks away with his head still attached to his shoulders? Things have clearly changed in Malaysia. The problem for 75-year-old Mahathir, say his critics, is that he has failed to keep pace. There was a time when he could capitalize on the traditional mistrust that divided the opposition into Islamic and Chinese camps. Those days are gone. Nor can he automatically rely on the support of the Malay majority. Many have turned against him, bitter that the New Economic Policy (NEP), devised to give them a fairer share of the national wealth, now seems to be a tool for rewarding crony businessmen. International in-

vestors are walking away, complaining that vital reforms have been abandoned in favor of buddy-based economics.

Many Malaysians wonder what happened to their dream of a modern, just and multicultural society. After 20 years of Mahathir's rule, the country seems as deeply divided as ever along racial lines and by social class. A study late last year at the University of Malaya shocked the nation when it revealed that only 10% of students see themselves as Malaysians first. The rest identify themselves as Malays, Chinese or Indians. But in the world of politics, a new Malaysia is emerging. *Reformasi*, the battle cry of supporters of imprisoned former deputy premier Anwar Ibrahim, is taking hold

— and the race barriers are coming down. Says Tian Chua, vice president of Keadilan, a mainly Malay opposition grouping formed by Anwar's wife, Wan Azizah Wan Ismail: "Corruption and cronyism are more the issues than racial identity."

Race — a four-letter word that can normally get you in serious trouble in Malaysia — is all over the front page of the newspapers these days. A Chinese pressure group is clamoring for a system in which it plays less of a role. And Mahathir is using it to pander to his fellow Malays by labeling the group and its followers as extremists. Unfortunately for the premier, political rivals in the opposition have found a common enemy: him.

Perhaps the biggest sign of changing times is the way Parti Islam SeMalaysia (Pas), which espouses an Islamic state, is reaching out to the Chinese community. In Trengganu, where Pas runs the state government, it has offered more than \$260,000 to 10 Chinese schools to use as they see fit. In Kelantan, the other state it controls, the Islamist grouping has approved the use of Malay reserve land for the expansion of Chinese temples and schools and is talking about building a multicultural mosque that would incorporate Chinese, Indian and other influences.

At the same time, Pas and the predominantly Chinese Democratic Action Party (DAP) are increasing cooperation. Pas now



John Ishii - AP

FLAG CARRIER Malaysian Airlines is one company that has benefited from Mahathir's rule

website last August, the political heat rose swiftly. Mahathir seized on the suggestions in what his opponents say was a shameless attempt to demonize the lobby group and generate support for his United Malays National Organization (UMNO). With the ever-faithful press howling in support, the premier called the group's members "extremists" and compared them to the communist insurgents of the 1960s, who were mostly Chinese. It was a classic Mahathir move — but it was also a tactical mistake that critics say displayed just how out of touch he is with the new Malaysia.

In a parliamentary by-election a few weeks later in Kedah, Chinese electors struck back at the premier and helped vote in a Keadilan candidate. A once-safe seat — in the prime minister's home state — had fallen to the opposition after 42 years in government hands. The embarrassment was immense. Lim Guan Eng, national vice chairman of the DAP, says the Chinese showed they expect to be treated with respect. "They are very angry that after giving the [government] their full support in the [1999] general elections, they have been compared to communists and extremists

and called ingrates," he says. Lim, who spent a year in jail on charges of sedition and publishing false news, believes Mahathir has decided that the only way to recover Malay support is to whip up sentiment against the Chinese. Not a good policy. "Anyone playing the race card will have a rude awakening," says Abdul Razak Baginda, executive director of the Malaysian Strategic Research Center.

These days, instead of supporting Mahathir in the face of Chinese economic domination, many Malays see the prime minister himself as the problem. For some, only his departure can save the day for UMNO. "He must be the only party leader I know who is a liability to his party," says supreme-council critic Shahrir. The problem springs partly from distaste at the fate of Anwar, once Mahathir's chosen successor, who was sacked, beaten up in prison and jailed for 15 years on charges of abuse of power and sodomy. "A lot of people put their hopes in a newer generation of UMNO that might be more conciliatory, more liberal," says Keadilan vice president Chua. "They thought Anwar could bring that. They saw the best formula as a future represented by Anwar and a present represented by Mahathir. When Anwar was sacked, that dream was shattered."

It wasn't the only one. Some Malays say the premier has perverted the vision behind the NEP, turning it into a welfare fund for a few politically well-connected — and largely unsuccessful — businessmen. Among them is tycoon Tajudin Ramli, who bought the government's controlling stake in Malaysian Airlines in 1994. A farmer's son, Tajudin was praised in official circles as precisely the kind of person who could create Malay wealth. But after three years of losses, the debt-laden airline was bought back last month on extraordinarily generous terms for Tajudin. The government purchased his 29% stake for over \$470 million — more than twice its market value. Says P. Ramasamy, a political scientist at the National University of Malaysia: "It took the financial crisis of 1997 to lay bare the true nature of how [the government] has sought to assist individuals and groups with connections to the top leadership."

Backroom deals such as the Malaysian Airlines buy-back are scaring off investors. Nearly \$2.6 billion has been pulled out of the Malaysian stock market in the past six months. Direct foreign investment is down to a trickle. The wide-ranging privatization program of the 1980s, when ports, airlines, roads, sewerage and water distribution were denationalized, appears to be unraveling. "Privatization has lost its direction," says Chong Sui San, chief investment officer at Malaysia British Assurance in Kuala Lumpur. "The government has to put on its

THE COST OF DOING BUSINESS, K.L.-STYLE

PRIME MINISTER MAHATHIR MOHAMAD is rightly credited with leading Malaysia along the road to economic prosperity. But his tenure is also littered with costly bailouts and questionable business decisions that Malaysian taxpayers have had to underwrite. Some examples:

1981 The Malaysian government forms Maminco to corner the London tin market. But tin prices plummet in 1982, and Maminco loses an estimated \$150 million.

1984 Kuala Lumpur channels 2.26 billion ringgit (\$964 million) into Bank Bumiputra to cover the latter's losses. The government bails out the bank again in 1989 and in 1998.

1992 Bank Negara, the central bank, reportedly suffers massive losses speculating in the forward foreign-exchange market. The government does not admit to any forex losses that year but reports "paper losses" of 9.3 billion ringgit (\$3.7 billion).

1997 The government takes over the controversial Bakun dam project, "reimbursing" tycoon Ting Pek Khiing's company Ekran for work already completed. The main dam structure will now cost an estimated 7.2 billion ringgit (\$1.9 billion).

2000 The Treasury's investment fund buys a 30% stake in a troubled unit of Renong Group. Malaysian Airlines executive chairman Tajudin Ramli sells his 29% stake in his indebted carrier to the government. State-owned oil conglomerate Petronas purchases DRB-Hicom's 25.8% stake in the national car project Proton.

thinking cap and come up with new business models." Even the new chief justice frets about investor confidence. After his first official meeting with the country's judges Jan. 13, Mohamed Dzaiddin Abdullah told reporters: "I told [the judges that], in reality, this negative perception has held back the country's development as multinational corporations and foreign investors are reluctant to invest because they perceive there is no level playing field."

Mahathir insists that he knows best how to choose who deserves the government's help. "I help people who have ability," he says. "If you have ability and you can do things, I will help. I don't care what the world says, but it is my duty to help. So there is no cronyism here." The premier took the same message — and a warning — to a gathering of senior civil servants on Jan. 13. "There are those who feel this government is not Islamic and reeks of corruption and cronyism," he said. "Such perceptions have yet to hinder our development efforts, but it is not a good sign. If it is allowed to fester, the first evidence of our country cracking will show rapidly. We can fall in two to three years."

There is much to lose. Under Mahathir's leadership, Malaysia has progressed from an almost exclusively agricultural economy to one largely based on technology and knowledge. He has given his nation a respected voice on the international stage and has instilled in the Malaysian people a pride in themselves and their country and its achievements. Says Azim Mohamed Zabidi, an UMNO supreme-council member and chairman of Bank Simpanan Nasional: "History will judge the prime minister well."

Thirty years after authoring *The Malay Dilemma*, a controversial work that asked blunt questions about the Malays' role in society, Mahathir now faces a dilemma of his own. He genuinely wants a modern, secular and multicultural Malaysia. But his out-of-date tactics are working against his vision. He broadens ethnic divides by raising the bogey of ambitious Chinese seeking to challenge the Malay birthright. And he alienates the Malay masses by dividing up the nation's wealth among his businessmen friends. *The Malay Dilemma* was penned during Mahathir's years in the political wilderness. Will this new dilemma finally close the book on his career? ■

— *With reporting by Santha Oorjitham and Arjuna Ranawana/Kuala Lumpur and Choong Tet Sieu/Hong Kong*