

RAMON V. NAVARATNAM

# **Malaysia's Socioeconomic Challenges**

**Books by Ramon V. Navaratnam**

**Managing the Malaysian Economy:  
Challenges and Prospects (1997)**

**Strengthening the Malaysian Economy:  
Policy Changes and Reforms (1998)**

**Healing the Wounded Tiger:  
How the Turmoil is Reshaping Malaysia (1999)**

**Malaysia's Economic Recovery:  
Policy Reforms for Economic Sustainability (2000)**

**Malaysia's Economic Sustainability:  
Confronting New Challenges  
Amidst Global Realities (2002)**

**Malaysia's Socioeconomic Challenges:  
Debating Public Policy Issues (2003)**

RAMON V. NAVARATNAM

# Malaysia's Socioeconomic Challenges

## Debating Public Policy Issues



**Pelanduk  
Publications**

[www.pelanduk.com](http://www.pelanduk.com)

Published by  
**Pelanduk Publications (M) Sdn Bhd**  
(Co. No. 113307-W)  
12 Jalan SS13/3E  
Subang Jaya Industrial Estate  
47500 Subang Jaya  
Selangor Darul Ehsan, Malaysia

Address all correspondence to  
**Pelanduk Publications (M) Sdn Bhd**  
P.O. Box 8265, 46785 Kelana Jaya  
Selangor Darul Ehsan, Malaysia

Check out our website at [www.pelanduk.com](http://www.pelanduk.com)  
e-mail: [mypp@tm.net.my](mailto:mypp@tm.net.my)

Copyright © 2003 Ramon V. Navaratnam  
Design © 2003 Pelanduk Publications (M) Sdn Bhd.  
All rights reserved. No part of this book may be reproduced in any form  
or by any means without prior permission from the copyright holder.

Perpustakaan Negara Malaysia Cataloguing-in-Publication Data

Navaratnam, Ramon V., Tan Sri Dato'  
Malaysia's socioeconomic challenges: debating public policy issues /  
Ramon V. Navaratnam  
Includes index  
Bibliography: p. 207-212  
ISBN 967-978-848-2  
1. Malaysia—Economic policy. 2. Malaysia—Economic conditions.  
3. Economics—Malaysia—Sociological aspects. I. Title.  
338 9595

Printed and bound in Malaysia

M

1194883

M  
338 9595  
NAV

18 JUL 2005  
Perpustakaan Negara  
Malaysia



"Globalisation, well and equitably managed, can benefit all countries. But under globalisation, as currently managed, many have not gained, and some of the poorest have lost out. Instead, globalisation is an unfair game, with the rules written by rich industrial countries for rich industrial countries."

JOSEPH STIGLITZ

*former World Bank  
Senior Vice-President  
and Chief Economist*

THE  
JOURNAL OF THE  
ROYAL ANTHROPOLOGICAL INSTITUTE  
OF GREAT BRITAIN AND IRELAND  
VOLUME 34  
PART 1  
1904  
LONDON  
PUBLISHED BY THE  
Royal Society of Great Britain  
21, BEDFORD SQUARE, W.C.1

# Acknowledgements

ONCE again, this book is for my loving family, for their inspiration, and for all Malaysians and others who care to read and understand the exciting developments taking place in the Malaysian economy amidst rapid global changes and uncertainties.

When I published my first book, *Managing the Malaysian Economy: Challenges and Prospects*, in January 1997, I had no idea that I would get to this, my sixth book. My first book was completed in about two years. Since then I have increased my pace and now I have published my sixth book in about seven years! I must admit that I enjoy writing just

for an hour almost every other day when I am not out for some function or otherwise engaged.

I am especially grateful to my dearest wife Samala and my eldest son Ravi for their support and for understanding why I kept disappearing from from our family room to my study, while I typed away intently on my PC.

Seriously, without the PC, I would have been badly handicapped. Also, I would like to urge all my kindred spirits to write about their life experiences, their work and their views, so that those who come after us will hopefully get a glimpse of how we see the historical developments unfolding in our beloved country—Malaysia.

Let me now thank Dato' Ng Tieh Chuan, my persuasive and somewhat patient publisher, and his affable aide Eric C. Forbes for their fraternal relationship, and for encouraging me to take on the task of compiling and rewriting my essays on contemporary economic issues and developments in Malaysia.

Finally, I thank you, my reader, for buying my books and thus enabling me to donate all my royalties to charity.

## Preface

MY aim in this book, as in all my previous books, is to comment critically but constructively on Malaysia's public policy issues as they unfold, as well as on the nation's ability to respond to globalisation and all that it entails.

This is my sixth book on the Malaysian economy. When my first book was published in January 1997, I did not think that I would get to this one. But I must confess that I have been caught up with a strong urge to express my views on the changing socioeconomic scene. Thus I have constantly commented on public policy issues and their impact on our economy and society.

Many of my views may be critical, but I believe they are fair. However, I have tried to be responsible and balanced in my assessment of government policies and have sought to provide some kind of feedback as to what the man in the street thinks of new public policies. My aim is to stimulate more public debate on crucial socioeconomic policies that need to be challenged and not accepted with complacency. Lack of public awareness can lead to indifference, even disdain, if the public's understanding of economic issues that affect their daily lives are left unexplained. Contrarian views are also useful in promoting more questioning on the prospects of further refinement and improvement of government policies and business directions.

This book looks at Malaysia's ability to respond to the socioeconomic challenges of international competition, a subject that should be our main preoccupation for many years to come. What with the commencement of the Asean Free-Trade Area (AFTA) in January 2003, the movement towards the formation of Asean+3 (China, Japan and South Korea), and the prospects and implications of some Asean countries establishing free-trade agreements with Australia, New Zealand and the U.S., the challenges for greater competition will increase substantially. And not forgetting the rising influence of the Chinese economy and its consequent short- and long-term effects on the economies of the region.

So, the question is, Are we ready? Are we competitive enough to face the challenges of globalisation—and win? Or do we accept the notion that we lack the will to become more competitive and lose out?

The underlying theme of this book is that these questions do not have clear answers as yet. However, I believe that if we continue to be realistic and pragmatic as our economic history has shown, then we will have the ability to respond effectively to globalisation. We will be able to overcome the challenges of growing regional and international competition and progress on a faster, more stable and sustainable path. *If we do not raise our competitiveness at all levels, we will not succeed in attaining the goals of Vision 2020 on target!*

Dr. Mahathir Mohamad, who has managed the Malaysian economy successfully for about 21 years, will be retiring in October 2003. It is important that his Vision 2020 and his imagination, determination, innovation and daring to defy the economic orthodoxy, continue to prevail. *His successor Dato' Seri Abdullah Ahmad Badawi will no doubt reinforce the strong economic foundations that have been built by Dr. Mahathir.* But he will have to exert the same firm leadership to steer the economy on an even keel, against the many domestic and external challenges that the economy will confront. Abdullah will have to confront some outstanding economic problems.

The primary issue will be, how do we reconcile Malaysia's affirmative action with the greater challenges and threats of globalisation?

Dr. Mahathir has boldly spoken against the "crutches" that some *Bumiputeras* still want to use! *Will the new leadership be able to hasten the pace of reducing these "crutches" or doing away with them altogether, especially for those who can afford to stand on their own two feet?* How we manage this quandary will determine how successful we will be in combating the challenges of globalisation and moving forward. It is not only a question

for the *Bumiputeras* to answer. We might just as well ask how competitive our Malaysian Chinese, Indian and other races are in competing with our counterparts in the Association of Southeast Asian Nations (Asean) and Asia, and more so with the rest of the world?

The year 2002 has been one of steady consolidation of the economy. We have recovered well and the economic growth for 2003 is expected by the government to be around 6%-6.5%, although this may be difficult to achieve. The economic fundamentals are strong on almost all the basic economic and financial indicators. But the question remains as to how we can sustain the strong economy in the face of growing global competition.

We are changing some of our economic policies and encouraging the private sector to resume its role as the engine of growth of the economy. But does the private sector feel that our economic policies have become more business-friendly to enable them to forge ahead?

*There are some reservations which need to be removed by more major policy changes, which I have reviewed in this book.* Interestingly, the aim to become more competitive is not difficult to achieve if we have the political will to overcome the "subsidy mentality"!

Overall, however, I am confident that the genius of the Malaysian leaders and people to rise to the occasion will prevail and that Malaysia will overcome the challenges of globalisation.

Finally, on a personal note, all royalties from the sale of this book (as in the case of my previous books) are given to charity. I have hitherto donated and committed about RM25,000 to charity. This includes a hole-in-the-heart



operation for a very poor boy, donations to the National Arthritic Foundation (NAF), the Education Welfare Research Foundation (EWRF), and to several other scholarships and needy causes. Hopefully, such a gesture will encourage other authors to also donate their royalties to charity. If every Malaysian gives just a few ringgit each year to charity, we could build a national fund with millions of ringgit. This would supplement the government's efforts (limited as they are) at helping the poor and the unfortunate in Malaysia.

I would like to thank those who buy my books so as to enable me to do my bit in helping the unfortunate and to expand the scope of public debate on national socioeconomic policies and their implementation, so as to build a better Malaysia.

Ramon V. Navaratnam  
May 2003



# Contents

Acknowledgements vii

Preface ix

- 1 Malaysia's Economic Outlook in 2002 1
  - U.S. policies responsible for terrorist attacks / 4
  - The Malaysian economy in January 2002 / 6
  - Dr. Mahathir Mohamad's Hari Raya Message / 7
  - The WTO meeting in Doha, Qatar, and its implications on Malaysia / 10
  - What then did the Third World gain from the WTO meeting in Doha? / 11
  - Link trade negotiations to terrorism / 13
  - WTO timetable / 14
  - Striving for Vision 2020 / 16
  - Economic outlook for 2002 / 17

- 2 Measures Essential for Economic Recovery 21
- 3 Enron's Enigma and Corporate Governance in Malaysia 27
  - Poor enforcement of laws may result in "Enronitis" / 31
  - Malaysia's corporate governance / 32 • What then is good corporate governance? / 33 • Social responsibility / 35 • Why should we observe good governance? / 36 • Good governance for NGOs / 37
  - NGO test for good governance / 38
  - Responsibilities of the director, adviser and shareholder in a disclosure-based regulation environment / 39 • The director / 40 • The adviser / 41 • The shareholders / 41 • How can shareholders play their role? / 42
- 4 Economy Needs Further Restructuring 45
  - Proposals for restructuring / 46 • Combating graft more effectively / 52 • U.S.-Asean FTA proposal premature? / 54 • Working harder at wooing more U.S. investors / 57
- 5 Do Not Neglect Economic Fundamentals 63
  - China, the sleeping dragon, awakens / 66 • CalPERS's response to criticism / 70 • Trade union leader Zainal Rampak / 71 • Japan's troubled economy / 72
  - Science and technology / 73 • U.S. trade wars / 75
- 6 Strengthen Economic Human Rights 77
  - Drinking water / 78 • Education segregation / 81
  - Affordable housing / 83 • Construction Industry Development Board of Malaysia (CIDB) / 85 • Police discipline / 86 • Fighting and defining terrorists / 89
  - The U.N. should lead the world—not the U.S. / 91
  - MIER's optimistic outlook / 92 • Singapore needs to inculcate a genuine Asean family spirit / 94 • New water agreement with Singapore? / 97 • WTO causes poverty? / 99

- 7 **Be Aware of Foreign Economic Surveillance** 103  
Morgan Stanley / 104 • Fitch Ratings's concern over Dr. Mahathir's successor / 105 • MICCI's favourable business survey / 106 • Asean Surveillance Peer Review Group / 108 • Defensive issues raised by Malaysia / 109
- 8 **Economic Concerns and the Future of the New Economic Policy (NEP)** 115  
What does all this mean for Malaysia? / 117 • What are the worries in mid-2002? / 117 • What is the state of the Malaysian economy? / 119 • Future challenges / 120 • World Competitiveness Yearbook / 122 • The future of the NEP? / 124 • Will the oil weapon be used? / 127 • Globalisation and terrorism by big British business / 129 • Singapore budget benefits big business and penalises consumers / 133 • Will the English language return as the medium of instruction? / 135 • The "new meritocracy" for university entry / 137 • Credibility of "new meritocracy" questioned! / 139 • Solutions for "meritocracy" / 144 • The National Education Brains Trust / 142 • Greater use of the English language / 146 • A new chapter in Malaysia-U.S. ties / 147 • Definition of terrorists / 151 • Bank Negara Malaysia's Report for the First Quarter of 2002 / 152
- 9 **Can the Private Sector, Especially the Service Sector, Deliver?** 157  
The service sector / 161 • The King's call for greater competition / 162 • National healthcare / 163 • Financing health / 164 • Characteristics of the new NHIS / 167 • Malaysia's economic challenges / 169 • Budget 2003 / 170 • Challenges of globalisation / 171 • Opportunities under globalisation / 172

- 10 **Revise Our Economic Priorities—and Do Not Neglect the Urban Poor** 175  
Singapore's Trojan Horse / 176 • Changing priorities at home / 178 • Urban poverty / 178 • Professionals — slow progress? / 180 • Tourism can do better / 181 • Hassles in land offices / 181 • Helping the urban poor / 183
  - 11 **Budget 2003: Were Public Expectations Realised?** 187  
Budget scorecard / 188 • Budget theme—flawed? / 189 • First Budget Strategy / 191 • Second Budget Strategy / 194 • Third Budget Strategy / 194 • Fourth Budget Strategy / 195 • Budget expenditures / 197 • Economic outlook—doubtful? / 198
  - 12 **The Post-Mahathir Era** 199  
Policy changes during transition / 201 • Conclusion: For posterity / 205
- Suggested Reading 207  
Index 213

# 1

## Malaysia's Economic Outlook in 2002

THERE is much concern about the future prospects of the Malaysian economy as we move towards 2002. We all want to know what's in store for the Malays' economy and all of us—even as a new year dawns! It is, of course, difficult to be certain, but most analysts think that the world economy will turn around from the current recessions in the U.S. and Japan as well as the global slowdown, sometime in the middle of 2002.

But is this expectation realistic? We cannot take this expectation for granted. We must work towards a recovery and not become complacent.

Kim Hak-Su, executive secretary of the Bangkok-based U.N. Economic and Social Commission for Asia and the Pacific (ESCAP), which promotes development through regional cooperation, stated in December 2001 that the U.S. economy is expected to grow by less than 1.0% in 2002 and the Japanese economy would shrink by another 0.5%-1.0%! He also reported that "countries in Asia and the Pacific need to expand trade links with each other if they are to weather the most widespread economic slowdown in five decades."

With 40% of Asia-Pacific's exports going to the U.S. and Japan, it is not difficult to understand the huge recessionary impact of the world's two largest economies on the whole region. It is thus essential that the Asian region diversify away from the U.S. and trade more within Asia, especially with the giant economy of industrialised Japan and the vast potential of the rapidly developing economies of China and India.

At this stage of Asia's development there is not much that Japan as a leading industrial economy cannot provide the rest of Asia, in sophisticated technology. Russia and South Korea can also fit the bill. India and China are still developing countries on the basis of per-capita income. But they have impressive technological capacities, especially in armaments, space and even nuclear energy and capability, and excel in other sciences. The developing countries in Asia and the Pacific can draw upon them for high technology.

*There is thus greater scope today than ever before to trade and invest even more within Asia and to rely less on the U.S. and even Europe.*

Infrastructure development could therefore be expanded at a faster pace within Asia to enhance the great



opportunities for economic and business cooperation. This could be attained in a more empathetic and fraternal environment, where the tendency to exploit each others' weaknesses will be far less.

*One vital area to pursue for vast economic development is to open up the Asian-European continent by taking on the challenge of building the Asian Land Bridge, that will open up a vast cornucopia of opportunities. This has long been proposed by Dr. Lyndon La Rouche, the renowned American political economist. However, this vast project has not taken off because of the opposition of the West as a result of their own narrow strategic reasons.*

Opening up the vast Asian continent will make Asia richer and more powerful. However, this is not acceptable to most Western leaders because they want to continue to lead and dominate the rest of the world, especially the potentially powerful China and East Asia! Hence the American preoccupation with wanting to divide and dominate the Asian countries.

This is why the agreement at the 7th Asean Leaders Summit in Brunei in November 2001 to form the East Asian Economic Grouping (EAEG) was not only historical but ominous!

Malaysia had originally proposed the regional grouping in December 1990 to the Chinese Premier Li Peng when he visited Malaysia, but there was little initial enthusiasm. The then-U.S. Secretary of State James Baker, in particular, opposed the EAEG idea as "divisive between Asia and the U.S." Because of the extraordinary influence and even domination of the U.S. over many countries in the region, several Asian countries dared not differ from the U.S. stand.

*But the September 11 terrorist attacks on the U.S. in 2001 have changed the international strategic calculations. We now know that the U.S. is vulnerable in its own homeland, and not as invincible as was generally thought. It is like how the former colonies felt when the Japanese overran the British in Southeast Asia in 1941. No country needs to be militarily superior to deal tough and even deadly blows against the mighty U.S. economy and the unequivocal international economic systems. The U.S. can no longer afford to dictate terms at international fora like the WTO and the IMF and so easily abuse its veto at the U.N. It cannot be allowed to dominate the world economy so recklessly, without expecting to be suddenly confronted with devastating retaliation (like the September 11 attacks, "the worst terrorist attacks ever perpetrated on American soil"). We can only hope that the U.S. learns something from this unnecessary tragedy, and does more to rectify its self-centred policies.*

U.S. foreign policies in economics, finance, trade and their interdependency with the world's political realities must be restructured and made more universally democratic and humanistic. Then there would be greater chances for world prosperity and peace. This would propel continuing economic growth and well-being for all peoples on earth, and not just the rich and powerful minority.

### **U.S. policies responsible for terrorist attacks**

The world economy is still reeling under the cloud of the September 11 attacks on the U.S. Sadly, the fact of the matter is that the global economic outlook will continue to be fraught with uncertainty as long as international terrorism undermines business confidence.

The recent findings, therefore, of the *International Herald Tribune* in Paris are very significant. The *IHT* ran a poll in late December 2001 of 275 opinion leaders in 24 countries on the U.S.-led war against terrorism in Afghanistan.

*The poll showed that, firstly, U.S. foreign policies had contributed to the attacks, and secondly, that the majority oppose the spread of the war beyond Afghanistan to, for example, Iraq and Somalia.*

What was also interesting but certainly not surprising to most non-Americans is that a small majority of Americans polled (58%) felt that U.S. policies were a major cause of the attacks on the U.S. but as much as 18% of the Americans polled had disagreed! These findings indicate how intellectually insular Americans have become.

However, the poll does not reveal the ethnic profile of those polled. But if they were mainly Westerners, then the poll could be skewed as I believe the 58% would have been much higher if there was a proper balance between poll participants from those outside the U.S. and Europe and those from developing countries.

Indeed, if the poll was confined to Third World countries, there would probably have been an overwhelming majority that would have blamed U.S. policies for not only the September 11 attacks, but also for international terrorism, not only against the U.S. and Israel, but all over the world.

Hence the U.S. must listen and take heed of world opinion and change its ruinous international policies accordingly. But will superpowers have the courage or the wisdom to do so in the near future?

*I seriously doubt it even for the longer term, unless there is a greater realisation that the U.S. carries on causing international resentment at its*

*own peril*. It will be a real pity if we must see a repetition of September 11 in order to change the policies of the U.S. and its allies.

### **The Malaysian economy in January 2002**

But that is for the U.S. to realise. However, in the meantime, we have to carry on with putting our own house in order to face the challenges posed by the September 11 terrorist attacks and the onslaught of globalisation.

Prime Minister Dr. Mahathir Mohamad stated in the Malaysian Senate on December 6, 2001 that there are strong indicators that will contribute to positive growth in the economy for 2001. He made a similar statement on Hari Raya after his traditional Open House that the economy will register 0.5%-1.0% growth for 2001.

Actually the Malaysian economy has for the first three-quarters of 2001 taken together, recorded a positive growth of 2.3%. However, for the third quarter alone the growth declined by 0.5%.

Hence if the fourth quarter also registers a negative growth, then technically Malaysia could get into recession. However, unless the economy declines by more than 2.3% in the fourth quarter (which is highly unlikely), the economic growth for the whole of 2001 will be positive.

Thus Dr. Mahathir's assertion that "we need to grow just a little bit and we will achieve positive growth", is correct. In fact if we grow by just 0.01% in the fourth quarter, which is easy to attain, Malaysia will escape technical recession and move towards economic growth and recovery!

What then will happen in 2002?

The estimated growth of 4% for 2002 is possible only if the U.S. and Japanese economies turn around soon. The recession in the U.S. and Japan can still adversely affect our exports, because of the time lag effects.

The current estimates of Malaysia's economic performance can only be confirmed when all the data are available. This is done by the Department of Statistics independently and in accordance with the stipulated statistical procedures adopted by the international financial community and especially the IMF and the World Bank.

Therefore, any claim by some quarters that the GDP growth figures are misleading is not only highly irresponsible but also casts aspersions on the Statistics Department which is professional and independent. Projections and estimates may turn out to be wrong, but facts are facts and have to be right.

### **Dr. Mahathir Mohamad's Hari Raya Message**

Meaningful socioeconomic development in Malaysia is paramount. Thus Prime Minister Dr. Mahathir Mohamad's Hari Raya Message on December 16, 2001 was necessarily one of his most forthright, especially to Muslims in Malaysia.

He made several pointed remarks that have important implications on economic policy. He said, "Muslims in Malaysia, in other Islamic countries and also in non-Islamic countries, must acquire knowledge and skills in order to compete successfully with non-Muslims."

*"Muslims must become more determined even more than non-Muslims, who are developed, to move at the same pace as them."*

From a socioeconomic point of view, these statements indicate the high priority that Dr. Mahathir attaches to a more competitive spirit among Malaysian Muslims. It underscores the importance of reducing the 'subsidy syndrome', especially of those who have benefited from good education at the secondary and particularly the tertiary and university levels.

It is still pertinent that all poor and underprivileged Malaysians (regardless of race), must be given privileges and better opportunities to escape the clutches of poverty and to move up the social ladder. However, those who have already been given wide-ranging privileges and opportunities, should increasingly strive on their own, to compete with others to further improve themselves.

If they do not improve their knowledge and compete with others, they will develop a "dependency syndrome", which will weaken their will to compete and progress, at their own peril and that of their society and our country.

*However, Dr. Mahathir's courageous message will soon be forgotten unless there is definite follow-up action by the whole administration. Political leaders will have to change their mindsets and enlighten their followers and constituencies that the prime minister's message has to be taken very seriously and actually followed by real action and not words alone.*

The government could set a good example by ensuring that all levels of the civil service should upgrade their knowledge and skills to be professionally prepared to face up, to the growing forces of international competition with the rise of globalisation.

*The private sector, especially the small and medium industries, must recognise with a greater sense of urgency that unless we are ready to*

*compete more acutely with foreign traders, manufacturers and investors, we have had it!*

The accelerating momentum towards the full operation and implementation of the Asean Free-Trade Area (AFTA) from now on, will test our real capacity to compete with our Asean neighbours.

Indeed our competitors will rush in with greater competitive force with the admission of China into the Geneva-based World Trade Organisation (WTO) on November 10, 2001 WTO Ministerial Conference in Doha, the capital of the tiny Gulf emirate of Qatar.

As part of gaining acceptance into the WTO, China agreed to open up many traditionally closed sectors of its economy to foreign competition by phasing out quotas and reducing tariffs, from finance and telecommunications to agriculture. And in so doing, China challenges us (and other Asian countries) to liberalise by reducing our own protective barriers, should we intend to stay competitive. If we fail to do so, we risk losing potential investment dollars and will experience a greater decline in productivity relative to China.

With our regional competitors' lower labour costs, their use of higher skills and knowledge and even technology, together with their more open internal competitiveness than in our country, we will face more severe international competition.

All this could further undermine our position as the world's 18th largest trading nation. Unless we all recognise our internal and external economic challenges to change faster to become much more competitive, Malaysia will fall behind in our race to become a developed country by 2020!

*We should also learn to avoid the blunders made by the more sophisticated conglomerates in the industrial countries to stay on track. Let us steer away from the path of giant U.S. companies like Enron Corp. and WorldCom Inc. where revelations of corporate malpractices and accounting fiddles and other shenanigans do not exactly inspire confidence in the U.S. economy and its governance!*

### **The WTO Meeting in Doha, Qatar, and Its Implications on Malaysia**

As we move into 2002, the biggest external economic challenge for Malaysia will be how we handle the WTO Negotiations.

Our economic problems could be exacerbated by the dubious success of the recent WTO Conference in Doha, Qatar, in November 2001, and how we will deal with the international trade negotiations and developments after Doha. Once again, the powerful industrial countries pushed the weaker developing countries to the corner and gave them a beating. They will continue to do so, unless we fight back more effectively.

The developing countries had generally taken the stand not to agree to the next round of negotiations, until the unfinished business agenda of the previous Uruguay Round was completed. But our resistance collapsed!

In the implementation of the Uruguay Round, only 40 outstanding problems have been resolved while the majority of 50 items remain unsettled and were neglected. So much for the industrial countries' concern for the welfare of the Third World!

A new agenda was to be agreed before moving on to accept the New Round of Negotiations. However, the industrial countries gave a few concessions and manipulated



the developing countries through the old game of divide and rule and bulldozed their way through at the 5th Ministerial Meeting, to get the WTO to start negotiations, in just two years' time in 2003!

*Furthermore, the West and Japan colluded to include the four contentious "Singapore Issues": Investment, Competition, Trade Facilitation and Government Procurement, for possible negotiation at the next WTO Ministers' Meeting.*

### **What then did the Third World gain from the WTO meeting in Doha?**

The Third World did not gain much from the WTO meeting in Doha. However, some of the gains were:

First, the admission of China and Taiwan into the WTO after a 15-year struggle.

Second, the acceptance of flexible implementation of the Trade-Related Intellectual Property Agreement (TRIPs), to enable poor countries to respond to 'health emergencies' like HIV/AIDS and malaria. Previously the developing countries were not allowed to manufacture their own drugs at much cheaper prices, to even save their own people from the scourges of these diseases!

Third, the agreement for the rich countries, to phase out of agricultural subsidies, but without however stating any deadlines.

Rich countries such as the U.S., the European Union (E.U.) and Japan subsidise their farmers enormously at about US\$1.0 billion a day or US\$365 billion annually! This vast amount is three times the Official Development Assistance (ODA) and eight times all the debt relief

extended to poor countries so far! *So where is the equity? No wonder there is terrorism!*

Fourth, the agreement to negotiate on access to markets and further cuts in industrial tariffs. Poor countries will benefit most from more tariff cuts which have been unfairly imposed on them for so long. But hopefully the 'qualitative restrictions' will also be reduced!

Fifth, the decision to negotiate anti-dumping disciplines is another case of imperatives that should have been so obviously settled much earlier. How could the dumping of goods and services, have been tolerated before? Is it because some major industrial countries had been indulging in these abusive practices?

Overall, therefore, the developing countries actually gained very little from the WTO meeting in Doha!

It is like asking the old question, Have you stopped beating your spouse? If the answer is Yes, then it means that the spouse was beaten before. This then begs another question, Why did you beat your spouse in the first place?

It is therefore not giving a real concession to stop beating your spouse. It's actually stopping terrible abuse which should not have started in the first instance. And so it is the case with the powerful and rich industrial countries that have been beating the poor developing countries for decades with their discriminatory and unfair trade barriers during colonial times and even later on, via subtle economic imperialism!

Instead of settling these abuses and outstanding Uruguay trade issues long ago, the industrial countries stealthily raised several new contentious issues as red herrings. These issues were admitted for consideration at

the previous WTO Ministerial Meeting in Singapore, which for all intents and purposes is an industrial country, which has unfortunately served the West and Japan, to push their interests against those of the Third World!

However, one consolation is that the developing countries are much more united now. With China finally a full member of the 143-member WTO, the negotiating power of the Third World is much stronger, even if the rich countries try to corrupt poorer countries or military dependent small industrial countries, to fight the developing countries.

The strategy of the Third World for future WTO meetings, especially the forthcoming ministerial meeting in 2003, should be to place their own issues on the new agenda.

Why should the Third World merely respond and react to the initiatives of the rich and powerful industrial countries to fix the agenda? Do we not have our own priorities and capabilities to take initiatives in the WTO?

### **Link trade negotiations to terrorism**

One vital new issue that Third World countries could take is to link trade issues with the global threat of terrorism. *The next WTO agenda could have an item called Trade-Related Issues on Terrorism (TRITs)*!

*After all, a major cause of terrorism is poverty that is related to unfair and unbalanced trade practices, such as the demand by the rich countries for reciprocity in trade and investment from the poor developing countries!* Therefore, if powerful countries give trade access to the poor countries, they want to insist on reciprocal rights of similar access.

*But the poor and especially developing countries should be treated differently and given additional concessions, without having to give reciprocal treatment to the powerful industrial countries, that already enjoy high and wasteful standards of living!*

In this way the WTO will be recognising the weaknesses of developing countries and will be able to give them a fighting chance to prepare for future competition with the rest of the developed world, after they have reached a certain specified stage of development.

Otherwise, most of the developing and particularly the poorest countries will never be able to lower their poverty levels significantly enough to fight terrorism. Then the WTO would be perpetuating poverty in the poorest Third world countries and even inadvertently promoting the "globalisation of terrorism".

Thus the WTO will also be indirectly promoting international terrorism! The WTO could therefore be used as a powerful forum to fight international terrorism if it pursued fair and reasonable policies that would benefit the developing countries in the South, more than the already rich and powerful economies of the North.

### **WTO timetable**

*The timetable for preparation for negotiations for the next WTO Meeting in 2003 is very short and unrealistic and unfair to the Third World. How can developing countries get their negotiating positions ready, with their lack of adequate human and financial resources.*

How would the developing countries be able to consult and coordinate their positions, as compared to the U.S., Europe and Japan. The powerful and well-paid

think-tanks in the North can overwhelm the research capacity of the South and work at all kinds of strategies to outwit and out manoeuvre most developing countries.

Even the stronger developing countries are often pressurised into submission with threats of aid cuts, denial of vital defence equipment and political manipulation. Thus, the poorer developing countries are often bought over even with the use of veiled threats and sometimes corruption as well.

How do we beat the Northern hold on the WTO and their domination in world trade negotiations and world trade itself?

*With China now a member of the WTO since December 12, 2001, and with Russia likely to be admitted by 2003-4, the Third World's negotiating power will increase tremendously at the next WTO Meeting in 2003.*

According to Russia's Chief Negotiator Maxim Medvedkov at the WTO, there appears to be "more understanding of Russia's problems, more support from members and more realistic and pragmatic approaches". He said this in Geneva on December 12 just three months after the September 11, 2001 terrorist attacks on the U.S.!

*Have the September 11 attacks already driven more reality into the U.S. leadership's self-centred mindset?*

The Russians have been painfully negotiating with the West for the last seven years but suddenly some non-trade-related obstacles have now been dropped. Is this also because the Russians are now allies of the U.S. and Europe, in the fight against international terrorism?

It is clear that the major Western powers will gang up again to achieve their plans to continue their dominance in international trade and investment.

Third World countries therefore need to start soon to work more closely with like-minded countries in the South as well as the North, to develop strategies that would strengthen our bargaining power to get a better deal for the developing countries—and especially the poorest and least developed.

This is vital to counter international terrorism and to ensure world peace and prosperity for all. But let us now examine how we can improve our own economic welfare at home.

### **Striving for Vision 2020**

While Malaysia strives to ensure a better deal for ourselves and the Third World in the WTO negotiations, I sometimes wonder how we can achieve industrial-nation status by 2020, if some basic internal issues are not settled soon?

*Even if we just take Kuala Lumpur as an example, we ask ourselves: why are so many basic public policy issues unresolved for so long?*

The public transport system, for instance, is still inadequate and also dangerous? Why is piped water so discoloured? Is piped water safe to drink now?

Why should there be so much flooding, loss of property and hardship caused to the poor, even after a short downpour?

How come affordable housing is still a dream to so many squatters and why should the question of ethnic segregation in government schools arise at all?

What has happened to our security and safety when so many robberies, murders and rapes take place today?

These sad stories could be far worse in the rest of the country where the need to provide better facilities come under less pressure and scrutiny.

*It is not comforting to be repeatedly told that our standards are far higher than most of the Third World.* But we want to be a First World country by 2020. So we have to compare ourselves with the best although of course industrial countries took centuries to reach their present standards (often at the expense of colonialism), while we have been independent for only 44 years! However, we have to strive for higher standards, because time is not on our side.

### **Economic outlook for 2002**

It is still pertinent that our affirmative action should ensure that all the poor and underprivileged Malaysians, regardless of race, must be given privileges and better opportunities to escape the tentacles of poverty and to move up the socioeconomic ladder.

However, all those who have already been given these wide ranging privileges and opportunities, should be made to compete with others, to encourage them to further improve themselves and the Malaysian economy

If they do not improve their knowledge and competitiveness, they will develop a "dependency syndrome", which will weaken their will to progress at their own peril, as well as that of their society and country. They should not be allowed to hinder but instead should help Malaysia achieve Vision 2020 to attain industrial-nation status.

*There should be a parallel system whereby those who are weak should be helped, but those who are already educated and equipped, should be urged to strive on their own. Too much protection will lead to weakness and the inability to compete in the era of globalisation!*

However, Dr. Mahathir's bold message to discard "crutches" and become more efficient will soon be forgotten unless there is definite follow-up action by the government at all levels. Many political leaders will have to change their mindsets and enlighten their constituents that the prime minister's message has to be taken very seriously and followed up with real action and not mere words alone.

*All who distort the government's socioeconomic policies through ethnic and religious deviation in policy implementation should be regarded as anti-government, and should be punished severely. Those civil servants who claim to have "unintentionally" distorted and deviated the implementation of government policies should not be allowed to get away with that kind of weak excuse. Believe me, policy distortion would not have been tolerated in my time as a civil servant!*

*The alleged racial segregation in government schools should be thoroughly investigated. Those found guilty should be severely punished. Otherwise, this deviationist implementation of national policies can set a dangerous precedent and government will not be able to deliver to the people effectively. Corrective action must be taken speedily so as to enhance faith and confidence in the economy. Otherwise, national unity will erode and Vision 2020 will be badly undermined. Public confidence in good governance is a key factor for economic recovery and future sustainability.*

Overall, I believe that 2002 will be much better than the previous year if the government and people adopt the national resolution to become more self-reliant,



competitive and particularly more Malaysian in our basic outlook and in the implementation of national policies.

Thus we must become more competitive and not complacent. We have to continuously strive for greater competency. Dr. Mahathir Mohamad's advice for us to be more determined to acquire knowledge and skills to progress at a much faster pace must be followed through at all levels of Malaysian society. However, the movement for greater efficiency must be led more strongly by the government itself.

There must also be much greater determination and a sustained will on the part of government to strengthen the Malaysian economy. *We cannot afford to take a racial outlook in our policy formulations and especially in the implementation of these vital policies, to build more sustainable national unity.*

*We must now all resolve to work harder and give greater priority to meritocracy and quality, so as to be able to compete more effectively in the new era of greater globalisation.*

Only then can we confidently work towards steadily building the Malaysian economy on a sustainable basis to achieve industrial-nation status and the other noble goals of Vision 2020.



## 2

# Measures Essential for Economic Recovery

THE Malaysian economy has successfully fought off recessionary pressures and the present economic outlook as at January 2002 is encouraging.

*However, we must proceed with caution and exercise continuing vigilance to sustain our economic recovery as the world economy is still fraught with much uncertainty.*

Even the U.N's *World Economic Situation and Prospects* Report of January 2002 indicated no rise in per-capita world output for two consecutive years. Rapid expansion without adequate regard for prudence can get the economy into trouble again, even if the international economic environment improves.

Argentina ignored basic economic fundamentals for a long time. It relied on the IMF's skewed policies and is now mired in deep economic crisis. Malaysia's fundamentals, are far superior to Argentina's. Nevertheless, the lesson to be learnt from Argentina is to increase our economic resilience at all times.

Economic growth, political stability and national unity are closely interlinked. One weak link is enough to undermine the whole economy rapidly, as Malaysia's experience in 1997 has shown. *We must further strengthen our economic fundamentals by adopting the following measures:*

*First, budget deficits should not be allowed to grow too big. They should not rise above 5% of the GNP. Prudent budgetary management is of paramount importance in the allocation of public funds to serve the greater good for the greatest number.*

*Priority should be given to basic needs, like replacing old asbestos water pipes to save an estimated 40% wasted water supplies, and to provide Malaysians with cleaner, safer drinking water. We could then readily provide more fresh water to Singapore at reasonable rates. The price of drinking water, like other goods and services, depends on market forces or the cost of substitutes like desalinated or even bottled water—and Singapore's "Newater" that is recycled from sewerage!*

*Hence the price Malaysia decides on to sell our precious water to Singapore will determine how smart we are in negotiating a fair deal with our neighbour. We should be very careful not to sacrifice our national self-respect, and Singapore should not think that they can buy vital drinking water from us for a song. After all, Malaysia needs to conserve water and revenue, too!*

*Second, our balance-of-payment surpluses should be sustained at healthy levels, to maintain business confidence and to defend the fixed currency peg of RM3.80 to the U.S. dollar. The balance of trade in November 2001 declined to RM3.9 billion. Hopefully this will not signify a declining trend.*

*Third, the currency peg is expected to be our financial anchor.* With the leading industrial economies preoccupied with combating international terrorism and stoutly resisting reform to the weak international financial architecture, the currency peg provides the stability that is much needed. But if the ringgit becomes uncompetitive compared to the Japanese, Chinese and other relevant currencies, we must be pragmatic and let the ringgit reflect its real exchange rate to maintain economic competitiveness.

*Fourth, as our gracious King rightly pointed out in his New Year message for 2002, Malaysians must strive to be more productive, so that national prosperity can be increased.* Malaysia is already losing its world competitive position. This decline must be arrested soon. For example, the economy cannot afford to give public funds to incapable Bumiputera contractors and others who have little experience in doing business. Surely there must be many capable Bumiputera contractors, after so many billions have been expended on training and educating Bumiputera businessmen.

Boosting expenditure on government projects to achieve higher economic growth can help in the short run. But if the funds are not efficiently spent, the economy will suffer from declining productivity and structural weaknesses in the longer term.

*Fifth, political stability and national unity are vital in sustaining business confidence and economic expansion.* Barisan Nasional (B.N.)'s success at the state by-election at Indera Kayangan in Perlis will

*strengthen political stability and boost business confidence. Thus nothing that erodes this growing public and business confidence should be tolerated.*

Hence, the Ministry of Education's investigative committee to report on alleged racial segregation in schools should come out not only with credible findings but should also provide substantive recommendations on how to safeguard the education system against possible abuses in the future.

*We should also grant more scholarships to our brightest students (regardless of race) to enhance international competitiveness and national unity. We cannot have some of our own best students competing against us as permanent residents of Singapore, Australia and other countries. Many of our brightest students, especially the nonBumiputeras, are responding to push and pull factors. They have to be encouraged to stay and serve at home!*

One solution is to make the teaching profession and the government services, as a whole, much more multiracial to ensure more efficiency and better checks and balances in the government's implementation capacity at all levels.

*Sixth, the productivity of the public service must be improved, if the government's sound policies are to be effectively and expeditiously implemented. All the hard work involved in formulating sound government policies will come to nought, if they are distorted, delayed or deliberately dismissed, by some disloyal civil servants.*

The government's decision to require the 950,000 civil servants to sign the letter of undertaking on good conduct by March 2002 will contribute to increasing effectiveness in the public sector—if it is properly and fully enforced.

The public, especially the think-tanks and the NGOs, should be encouraged by the government to actively participate in exposing abuses so as to enhance efficiency in the government.

Blatant cases of bad policies, corruption, conflicts of interest, deliberate delays in issuing licences, and abusing the public at government service counters, should be taken up to the government for strict disciplinary action.

Indeed, it would be salutary if government companies and especially the larger private companies and trade unions could adopt the same policy of getting their employees to sign similar letters of undertaking. The proposal for government ministers to sign these letters of undertaking is also most welcome. It should be supported and strongly enforced to set examples and benchmarks for good governance.

*Seventh, the private sector must be monitored closely to ensure it does not overborrow, especially in short-term foreign exchange financing.* This was a major problem before the 1997 Asian economic and financial crisis.

Helping the Renong Group with its RM30 billion borrowing and Malaysia Airlines (MAS) with its RM10 billion debt problems may be necessary. But it is a major drain on our national resources. The money could have been better spent on poverty-alleviation programmes, if these companies were better managed earlier.

We should not let these kinds of defaults happen again. Taxpayers naturally get very upset when financial resources are not properly expended. Public-listed companies should be made more accountable in their dealings.

*Eighth, security is a fundamental prerequisite for boosting business confidence.* Hence the decisive action taken by the government to fight terrorism and to deport and charge riotous Indonesian workers is laudable. But we need to develop a sound long-term policy on foreign labour which will benefit our economy and security as well. Surely we can do a better job in screening foreign workers, to prevent future riots caused by immigrant workers!

Our greatest need is to keep our goals clear, and to ensure that every one of us must pull together, and not in different directions. Otherwise, we will end losing our national focus. The Malaysian economy will become more progressive and resilient only if the government continues to take tough measures (as indicated earlier) on a timely basis to overcome the weaknesses inherent in the Malaysian economy. Then our success will be sustained on a firmer footing.



### 3

## Enron's Enigma and Corporate Governance in Malaysia

IT is alarming that the Houston-based giant energy trading American company Enron Corp. has now become the biggest corporate failure in U.S. history when it filed for bankruptcy on December 2, 2001.

What we have here is a perfect illustration of a company's demise brought about by sheer greed and duplicity. By using questionable accounting practices to hide liabilities from its balance sheet and inflate its profitability, Enron (and its auditor, Arthur Andersen) took "creative accounting" to the limit and beyond. The fallout could have wide-ranging repercussions not only in the U.S. but all over the world for a long time to come.

In July 1985, Enron, an interstate natural gas pipeline company, was formed from a merger between Houston Natural Gas and InterNorth. From then on, Enron was constantly hailed as one of the U.S.'s most admired companies. Billed as the world's leading company in February 2001, and ranked seventh in the *Fortune* 500 list of the world's largest companies, Enron has now sought legal protection against bankruptcy!

Enron's failure is even more severe than the collapse of the Long-Term Capital Management (LTCM) Fund. The U.S. authorities bailed out this hedge fund at the height of the collapse of several highly leveraged funds in the U.S., ironically after the 1997 Asian economic and financial crisis, which was largely caused by the highly speculative hedge funds themselves!

How did this Wall Street favourite face this cash crisis so suddenly? How is that the shareholders were caught with their pants down? Even Wall Street was shocked! Has there been a breakdown in accountability in the U.S.? What has happened to corporate transparency? And has there been chronic cronyism and even corruption of corporate governance in the U.S. itself?

*What were the powerful U.S. regulatory authorities doing? Were they "looking the other way"?* There appears to be a rising fraudulent trend in the U.S. in business as well as in other areas of governance? Enron has become a real U.S. enigma and a serious embarrassment to the U.S. as the so-called "champion" of good governance!

It seems that the wheel has turned full circle to reveal the real truth about American business. After all, it was not so long ago that Asian companies were accused of

corruption, cronyism, nepotism, poor accountability and transparency!

*But then the Western Press went to town to run down the World Bank's definition of the "Asian miracle". Asian enterprise was then described as artificial and superficial.*

However, today, the same Western Press is relatively passive, uncritical and silent. Is this what is called double standards of professionalism in the U.S. and some other Western mass media?

The fact of the matter is that, bad corporate governance is not the sole monopoly of the East or the West and neither the developed nor the developing world. It is a universal phenomenon that perhaps could be more persistent in the Third World. This would be due to their more recent and inadequate experience in sound corporate management and regulation.

But the longstanding and powerful multinationals in the First World are expected to perform more responsibly and to set the examples for the smaller and less sophisticated Third World companies and countries?

But alas, we have all been badly let down by those rich and powerful governments and corporates that should know better.

Nevertheless, the lesson to be learnt here is that good governance, including integrity and transparency, covers the three pillars, i.e., business, civil society and government. They should be better scrutinised and certainly further strengthened all over the world.

Both regulators and corporates must take pains to stress the importance of corporate governance and transparency, and must be keen to raise standards of corporate

governance. Good corporate governance not only reflects the quality of management, but acts as a vital check and balance against abuses in corporate management for which the minority investors have to pay dearly.

It is thus encouraging that both the Republican Congressman Billy Tauzin of Louisiana, who chairs the House Energy and Commerce Committee, as well as the Democrat Chairman Jeff Bingaman of the Senate Energy Committee, are planning hearings to probe into this serious crisis and to find out the causes and the culprits behind this commercial failure.

*This commercial collapse coming so soon after the September 11 attacks on the U.S., unfortunately further erodes consumer and investor confidence not only in the U.S. but internationally too.*

Enron's share price has dropped from the dizzy height of US\$90.56 in August 2000 to a mere US\$0.36 on the New York Stock Exchange (NYSE), on November 30, 2000. Its capitalisation has similarly slumped from its peak at US\$80 billion to just US\$268 million over about the same period!

Since Enron was a vast international company, other foreign businesses and bourses have also been adversely affected by its collapse.

Hence it is hoped that the U.S. authorities and their Press will be diligent and transparent enough to unravel the mysteries that have been hidden from the world, so that business and consumer confidence will soon return.

Hopefully, we will all learn not to throw stones at glass houses and will also learn to really practice what we so readily want to preach!

There should be more international discipline on the rich and powerful countries that tend to abuse their power only because they have got away with it for so long—from the days of slavery to colonialism and now with globalisation! That is why the WTO can be useful in bringing about a new equitable trading and investment system. However, this can only happen if the powerful industrial countries do not abuse the WTO itself! But internally too, we must be vigilant against Enron-type abuses or "Enronitis"! We must learn from Enron's bitter lessons in order to avoid them!

**Poor enforcement of laws may  
result in "Enronitis"**

We now know that Enron used hundreds of off-balance-sheet partnerships to hide billions in debt and also sold dubious assets to these partnerships at jacked-up prices to create bogus incomes.

Enron's failure in the U.S. illustrates how the best laws can fall to pieces when enforcement is poor. We must therefore be careful about the proposed new Malaysian Fair Trade Act and must ensure that it is properly implemented.

The Western Press is now sheepishly quiet about the incidents of "cronyism, corruption, non-transparency and nepotism in Asia" because these are now happening on a gigantic scale in their own backyards.

The powerful and prestigious U.S. Business Roundtable (BRT) issued a statement in Washington, D.C. on February 12 that "the collapse of the Enron Corp. is a profound exception to the overall record of success." In the same statement, the BRT proudly claims: "The U.S. has the

best corporate governance, financial reporting and securities market systems in the world."

Yet the leading international auditor Arthur Andersen allowed "off-balance-sheet transactions" to go unchecked in the most non-transparent manner that could well be described in the words of the BRT as a "massive breach of trust".

Chicago-based Arthur Andersen was once the world's largest consulting and accounting firm but may be bound for extinction now. Once considered the most upstanding member of the accounting profession, many wonder how Arthur Andersen could have got itself into such a serious mess.

*So it seems U.S. big business is finding it hard to swallow its pride and admit the failure of its accounting systems that have betrayed the unsuspecting U.S. public for so long.*

Hence major reforms are necessary in the U.S. corporate rules on accountability and transparency before they can claim to be the best in the world on corporate governance.

They should also admit with humility to themselves, if to nobody else, that they should put their own corporate house in order before condemning others.

This is not to say that we should be smug and complacent. We must avoid the corporate disease of "Enronitis" in Malaysia and fight it if it is already here.

### **Malaysia's corporate governance**

Good corporate governance is the new order of the day. The private sector must pursue good corporate governance or perish. There should be no barriers of race,

religion, politics, social status, income groups or residence in urban or rural areas in regard to the practice of good corporate governance.

Good governance is vital to all of us regardless of who we are, what we stand for and where we come from.

Corporate governance should be regarded as part of good governance which applies to three major sectors of our society: the government; the corporate sector; and civil society, i.e., the NGOs.

Good governance covers all these sectors of society and includes ethical management and sound values that are based on our rich cultural and universal values of sincerity, honesty, transparency, accountability and basic decency to our fellow beings.

### **What then is good corporate governance?**

It is the way we run our corporates, SMLs and all businesses, to follow good business practices based on morality and ethics.

*Good corporate governance means responsible management, where the interests of all stakeholders—the owners, the shareholders (especially the minority shareholders), and the large body of consumers, will be protected and rewarded in a just and proper manner.*

Good corporate governance cannot be taken for granted. Unfortunately, many people have grown up to believe that smart businessmen are those who avoid good corporate governance.

The culture in most companies is such that if you can break the rules and not get caught, then you feel that you are a clever businessman! If you can hoodwink your minority shareholder by giving him the least information,

and if you can keep "off-budget accounts" like Enron in the U.S. (and some of our own companies) and get away with it, then you are regarded by many as a "successful businessman".

But the world has changed drastically. It is very different from the time when one could get away with business murder!

Government policies to protect the business environment, the minority shareholders, the consumers, and the environment, have changed all this. *Businessmen now feel they are being monitored and watched more carefully in order to protect the interests of the public.*

More open domestic competition has put pressure on corporates to become more transparent and accountable and to pay more attention to the quality of their goods and services.

The Press too has become more sophisticated. It increasingly highlights business irregularities and poor quality. Consumer activists and movements have sharpened their vigilance against the "rape of the environment", so to speak!

*Irresponsible businessmen and professionals do not care for the welfare of the community, the country nor posterity. They just want to make profits, as long as it is not at the cost of their short-term gains. They believe in Gordon Gekko's maxim that "Greed is good, greed is right and greed works"!*

But can corporates and businesses continue to play down good corporate governance?

I do not believe so, particularly now with the gathering force of globalisation.



All countries need foreign investment, foreign markets and foreign technology. We have all become more interdependent—even the rich and powerful industrial countries!

Since the Asian financial crisis tore its way through Asia in mid-1997, foreign investors are more cautious. They believe and to some extent they are right—that we went down because of poor corporate governance due to corruption, non-transparency and weak accountability; in short, bad corporate governance!

Now they realise—after the Long-Term Capital Management (LTCM) Fund debacle and the disgraceful Enron and Arthur Anderson scandals—that the pot should not call the kettle black and that those living in glass houses should also not throw stones! When pointing out one finger, there are four pointing towards us!

But what this means is that the whole world has to give greater priority to good corporate governance—mainly because it is right and proper and also because modern Information Technology can see through much faster, even if corporates are “opaque”!

Malaysia, for its own progress, prosperity and equity, should pursue good corporate governance, as a matter of priority.

But there is another imperative. Foreign Investment increasingly will go to where good corporate governance is actually practised.

### **Social responsibility**

*In Malaysia, in particular, good corporate governance envisages greater social responsibility. That is spelt out in the New Economic*

*Policy (NEP) and now the Vision 2020 Policy.* Corporates must do more to include all races in the ownership pattern and employ an "ethnically balanced labour force" as much as possible. Of course, this should be applied to both the government and the corporates. In fact, the government should set the lead and then the corporates will find it easier to justify this policy of "ethnic balance in employment" to their shareholders—and follow suit!

### **Why should we observe good governance?**

Most corporates ask this question in their day to day business operations. However I must say that corporates have no alternative. Why? It is because:

- (1) *The authorities will be after you!* The new laws and regulations of the Securities Commission (S.C.), KLSE, etc. will be better enforced!
- (2) Consumers and consumer associations will be getting more sophisticated and will demand better goods and services.
- (3) *Foreign investors will ignore corporates with poor records in good corporate governance.*
- (4) It is only right, moral and proper to follow best corporate practices, to differentiate yourself from the "bad corporates".
- (5) Good corporate governance will give corporates greater potential to perform better and prosper, on a more sustained basis!

How can we improve corporate governance?

- (1) By promoting awareness and education in good corporate governance. In this regard the government must be commended for being the only country in the world to get corporate leaders back to class to learn about good corporate governance. However, the government itself has to step up its programme to improve good governance in its administration, to make it more efficient and responsive and caring, to meet the growing expectations of the Malaysian public.
- (2) By encouraging the mass media to undertake more investigative reporting to flush out bad corporate practices and inept companies.
- (3) By urging shareholders to ask more searching, probing questions at AGMs to make major shareholders, CEOs and management more accountable!

Malaysians from all walks of life should give their experience and insights and come up with recommendations as to how we can improve corporate governance in our country so as to increase our national attractiveness and competitiveness in the world of rapid globalisation!

### **Good governance for NGOs**

Good governance is good management of all our organisations, using the best practices available! *It is about responsibility, transparency, accountability, integrity and good conscience and commitment to these ideals.*

At the level of NGOs, it is not only about corporate governance but good governance, since NGOs are not preoccupied with making profits and making money, but are committed to serving society on a voluntary non-profit basis.

So, what's new?

Not much in substance but a great deal in priority!

Growing greed via globalisation and the declining trends in corporate governance and improvements in the process of communication and democratisation, have highlighted the need for better quality of management.

Let us examine why, for example, NGOs are interested in corporate governance today more than ever before? Is it because it is a fad, self-examination, or soul searching? Is it a question of conscience?

### **NGO test for good governance**

What must we do to enhance good governance in NGOs?

*I have ten questions that could determine good governance in NGOs:*

- (1) Are we true to our ideals of voluntarism?
- (2) Are we honest, transparent, accountable?
- (3) Do we use our position for self-interest and personal profit or to serve society?
- (4) Are the funds utilised for the best cost-effective purposes or are contracts given to friends?
- (5) Are the financial statements accurate or are they padded, doctored and made "creative". In short, are we telling the whole truth or are we abusing

- the trust of our members and society in our stewardship?
- (6) Are the elections for official posts properly conducted without undue influence and coercion?
  - (7) Do we operate as cliques and indulge in backbiting?
  - (8) Do we ask our underprivileged beneficiaries whether and how much they have gained from our sowing the seeds of love?
  - (9) Are we 'courageous' enough to expose the misdeeds and misdemeanours among our leaders and members?
  - (10) Are we true to our principles of service to our underprivileged fellow beings?

If we can answer most of these questions positively—we have passed the test of good governance. But if Not, then we have to ask ourselves these questions everyday and especially at our meetings and strive to improve all the time. We all have to strive for excellence!

### **Responsibilities of the director, adviser and shareholder in a disclosure-based regulation environment**

Rules, regulations and guidelines of the SC or the KLSE, the Companies Act 1965 or even the instructions from the Registrar of Companies (ROC) are important. But what is more important is to discuss issues based on our experiences and observations, as directors, advisers and as small shareholders!

In understanding and improving our roles as directors, advisers and shareholders, it does not matter so much as to

whether the environment is disclosure-based or not. I believe we have all to exercise our corporate responsibilities, under any circumstances.

Under a Disclosure-based Regulatory System (DBRS), the responsibilities of management and shareholders are greater, because the authorities will leave the regulation more to the market forces rather than be paternalistic.

The basic prerequisite under the DBRS is to have access to accurate and timely information. There must be transparency and accountability.

All information must be publicly disclosed by role players as follows:

### **The director**

*According to the law, the director has to be of sound mind, and not a former criminal or a bankrupt.* These are necessary, but not sufficiently strong grounds to ensure that we have a good director, under good corporate governance. We can have a financially strong individual, who can be dishonest, devious and dangerous to the well-being of minority shareholders and the company he works for!

Directors should therefore be carefully chosen. They should be educated and not just literate. There are some directors who are even illiterate. He should understand some basic concepts of management. Some appreciation of accounts, personnel, administration, the market, the product or the service is important. *He should not be appointed as director, just because he is some relative, or someone who can be manipulated, or some dumb blonde or bum!*

Worse still, we have some directors who serve on too many companies and their only qualification is to nod their

heads at the right time! Sometimes they nod their heads for the wrong reason at the wrong time—and get themselves into trouble!

### **The adviser**

*The adviser has to give professional advice without fear or favour.* He should be someone with wide experience, deep insights and a broad perspective and appreciation of the government and corporate environment. He must exercise due diligence.

Advisers must never anticipate the companies owners, directors or shareholders. All too often this happens, both in government and the private sector. It is best to have advisers who are experienced in public and business affairs and who are independent enough to resign any time from their advisory positions!

### **The shareholders**

*Shareholders have to fulfill their responsibilities to themselves, to their fellow shareholders and to their company.* If they are tardy or indifferent, then the Chairman, CEO and management will also become cavalier and casual in their dealings with company affairs and the shareholders. This is when weaknesses creep in and when standards of management and due diligence decline!

Worse still, the opportunities for corruption and wastage and overindulgence via unduly high rewards, bonuses, insider trading, and even embezzlement become rampant. Soon a culture of "self-help" sets in and the company and shareholders' interests are almost forgotten.

### **How can shareholders play their role?**

First, they must take an interest in reading company reports, attending AGMs and asking questions to keep management on their toes!

Second, shareholders must understand basic accounts and company policy and their products. If they are not on the ball, then they should ask their fellow shareholders who are in the know to lead and then they can follow up with the tough questions, to find out the "real situation" in the company.

Third, when a company is making profits, shareholders generally take things for granted and let things go! But this can be risky as that may be the time when management will be tempted to cream off the top and leave little for the next AGM!

Fourth, some companies give good giveaways and big lunches so that shareholders are more interested in the gifts rather than the AGM which can be over in five minutes! What kind of management supervision is that and how much accountability can be exercised in five minutes?

Fifth, the minority shareholders watchdog committee is therefore most important. It can help pull up tricky companies and managements. The BPPSM (Minority Watchdog Committee) can play a vital role in ensuring that majority shareholders give due and proper respect to the vast majority of small shareholders who have little knowledge, weak 'voting power' and even less time or interest to keep the majority shareholders and management accountable, transparent and profit-oriented!

The director, the adviser and the shareholder have their own responsibilities but they all should be governed



by the same principles of good corporate governance. They should learn and understand their separate roles, and exercise them with dedication and sincerity of purpose. They should, in short, be good corporate citizens. Only then will our corporate sector be healthy!

*But good corporate governance can only flourish in an environment of overall good governance.* This is why national economies have to be constantly monitored and priorities reviewed and revised to meet new global and internal challenges.

We need to restructure the Malaysian economy to meet these challenges.

ROYAL ANTHROPOLOGICAL INSTITUTE OF GREAT BRITAIN AND IRELAND

VOL. LXXV. PART I. 1905.

LONDON: PUBLISHED BY THE INSTITUTE, 21, BEDFORD SQUARE, W.C.

PRINTED BY THE UNIVERSITY PRESS, CAMBRIDGE.

1905.

THE JOURNAL OF THE

ROYAL ANTHROPOLOGICAL INSTITUTE OF GREAT BRITAIN AND IRELAND

VOL. LXXV. PART I. 1905.

LONDON: PUBLISHED BY THE INSTITUTE, 21, BEDFORD SQUARE, W.C.

PRINTED BY THE UNIVERSITY PRESS, CAMBRIDGE.

1905.

THE JOURNAL OF THE  
ROYAL ANTHROPOLOGICAL INSTITUTE OF GREAT BRITAIN AND IRELAND  
VOL. LXXV. PART I. 1905.  
LONDON: PUBLISHED BY THE INSTITUTE, 21, BEDFORD SQUARE, W.C.  
PRINTED BY THE UNIVERSITY PRESS, CAMBRIDGE.  
1905.

## 4

# Economy Needs Further Restructuring

BANK Negara Malaysia's *Fourth Quarterly Report* for 2001 has confirmed that unlike our recession-hit neighbours, Malaysia survived with a growth rate of 0.4% in 2001.

*However, to sustain this recovery at a higher level, the Malaysian economy must be restructured further to meet new global challenges. This is imperative if Malaysia is to achieve its Vision 2020 goal of becoming an industrial nation in 18 years!*

Now that, for all practical purposes, we are already in the Asean Free-Trade Area (AFTA) and with the accession of China into the World Trade Organisation (WTO), our international competitiveness will be put under greater

pressure. These pressures have been aggravated by the terrorist attacks on the U.S. on September 11, 2002 which changed the world and the relations between religious faiths that we are experiencing today.

What we are seeing today is also an increasingly globalised world, an era of greater "American unilateralism" in international politics, economics and trade, one that is backed by military might to expand its dominant position as the world's sole superpower. *It is almost "gunboat diplomacy" of the colonial period all over again!*

The world scenario has changed dramatically, but our socioeconomic response so far has not been strong enough! We cannot afford to carry on with our old mode of doing "business as usual"—with only slow and incremental changes.

What we need is a shift in paradigm so as to establish a new mindset. We must change gear and move at a faster pace if we are not to drop out of the globalisation race. Although we have been changing, we have to step up the pace of change to sustain our progress.

*Therefore, Malaysia must review and revise all its policies and improve on its implementation capacity to sustain its success as a modern, moderate and prosperous Islamic state.*

The following proposals could be studied to prepare for real change:

### **Proposals for restructuring**

First, although the National Development Policy (NDP), an offshoot of the New Economic Policy (NEP), has to be retained, the policy should be reviewed and modified to make it more relevant to the new era of rapid

globalisation. After all, this affirmative-action policy is over 30 years old, and could be outdated.

*The basic concerns with poverty alleviation and eradication regardless of race must remain in the interest of national unity and stability. In fact, much more must be done to eradicate poverty. But it should apply equally for the Malays and other Bumiputeras in the kampungs, the Chinese in the former new villages and Indians in the rubber and oil palm estates and all the other races in the depressed rural and urban areas of the country.*

The second goal of removing the identification of occupation with race should also be pursued further. However, corporate restructuring must be seriously revised. *The policy requirement of 30% Bumiputera ownership has to be made more liberal and flexible, particularly at the micro level of small and medium industries.*

Where it is not practical or counterproductive, exceptions should be made on a selective basis.

Since foreign investors in manufacturing are easily spared this requirement, our own investors should also be treated at least as favourably or even more favourably. This will encourage more domestic investment instead of it flowing out to our Asean neighbours under the new AFTA regime.

Second, the implementation of government policies has to be more discretionary, flexible and efficient, to take into account the shortage of suitable Bumiputera businessmen and genuine Bumiputera capital, until more Bumiputera resources are available. The implementation of the 30% ownership requirement must be implemented with broader and more transparent guidelines. As it is, the often

rigid policy requirement of the 30% *Bumiputera* ownership makes it very difficult for civil servants to administer the rules and regulations with wider discretion, as discretion can only be exercised at the ministerial and highest levels of the administration.

*Licences from the local authorities, the long-drawn lists of residential housing reservations for Bumiputeras who do not take up their quotas, grudging approvals for foreign work permits for even skilled personnel and the slow approvals for education courses at private colleges are some of the serious constraints to more rapid business expansion. This is due to the constant conflict between the needs for economic growth and the policies governing ethnic balance.*

There is no doubt that the government has the right to impose rules. But overregulation stifles business and inhibits internal and external competitiveness and economic expansion.

But the civil servants are unfortunately often blamed for poor implementation of policies when they faithfully follow the rules and regulations set by their political masters. Consequently, they frequently feel that they are the scapegoats. What is often necessary is the change in policies and not necessarily only the improvement in implementation.

Recently, the Minister in the Prime Minister's Department, Dato' Seri Dr. Rais Yatim, was emboldened to state that the law is not to be blamed, but that the enforcers are, in relation to the sad story of the large influx of illegal immigrants into Malaysia.

But the question arises as to how the enforcers themselves were able to get away without properly implementing the laws and for so long. Is it because those in

political authority closed an eye? Or is it because there has been large-scale "syndicated corruption" whereby whole enforcement units are involved in corruption, so that no one wants to pull up lackadaisical enforcement officials?

*Whatever the reasons, the rot of poor enforcement has sadly set in and must be rooted out before it becomes entrenched as part of our national psyche. Otherwise, it will subvert all our national socioeconomic policies!*

If indeed civil servants are deviating from policy directives, why are they not being pulled up and disciplined by the powers that be? This inconsistency between policy and implementation leaves domestic and foreign investors uncertain and exposed to opportunities for corruption when dealing with a wide range of government agencies and their many lackadaisical staff.

Third, a culture of mediocrity is slowly but surely emerging. Examples are manifold *inter alia*, the slow implementation of projects, over-expenditure due to wasteful subcontracting, poor maintenance of government buildings and facilities and the many inefficient privatised services, like the quality of drinking water and garbage collection!

Then there has been the belated action to arrest the long deteriorating foreign labour problems and the continuing environmental degradation, including fatal landslides!

Nevertheless, Malaysia has done well as we are blessed with strong leadership and with relatively rich resources. But how long will these resources last? We do not want to suffer from the "Dutch disease" where they took their oil reserves and wealth for granted and became complacent and thus declined.

4. The government's role in the development of the country  
 4.1. The government's role in the development of the country  
 4.2. The government's role in the development of the country

Fourth, new laws, rules and regulations are of limited value unless they are effectively enforced. Thus the proposed Fair Trade Act has high ideals of promoting fair and competitive trade practices. But already there is the credibility question as to whether the Act will be properly enforced.

However, the intention of the Fair Trade Act to expand the service industries is welcome. There is great potential in expanding revenue and foreign exchange from education, health, financial, tourism and the entertainment service industries, if we are more competitive. Thus the new law must be effectively implemented to be productive.

Unless there is effective enforcement, a plethora of new laws and regulations can actually be counterproductive. More new laws can, in fact, inhibit fair trade and competitive policies and practices rather than promote them—if not properly enforced.

Fifth, high-quality human resources are increasingly required to enhance our competitiveness. But can we take pride in the generally mediocre graduates we produce from the many local universities?

Did Tan Sri Musa Hitam hit the nail on its head when he said that our universities have *kampung*-type quality? We need to thoroughly examine his assertion because if he is right, the country's aspirations to achieve industrial-nation status by 2020, will be drastically undermined.

We must raise academic standards in the whole Malaysian education system to sustain the country's competitiveness and to effectively meet the challenges of greater globalisation. After all, production is a function of



capital and labour. Even with a stable political structure and transparent institutional base, the only way Malaysia can compete with China is through education and training. Increasing the marginal productivity of a worker will raise production to a higher level, and hence make investment more attractive to those seeking the highest return on investment.

Perhaps we should also seriously look at the possibility of constructing a new educational system. As we move into a globalised world, we must not be hampered by an educational system that encourages conformity and stifles individualism, originality or creativity. As Malaysia shifts from a manufacturing to a knowledge-based economy, the Malaysian government must consider constructing an educational system that will produce individuals who are creative and not afraid of breaking the rules and thinking outside the box.

*In the private sector, if we exclude the foreign multinationals, there is not much that is left in the economy to meet the challenges of real international competition.*

Many of our biggest local companies have collapsed after the 1997 Asian economic and financial crisis and have yet to make a full recovery. Not many local companies are global or even internationally competitive. How long can our small and medium industries last, if they do not restructure and modernise fast enough, as under AFTA, much of the previous protective tariffs have or are now being reduced drastically to 0%-5%?

Finally, we need to instil a new culture of excellence and commitment in the civil service. Deputy Prime Minister Dato' Seri Abdullah Ahmad Badawi's warning that

if there are officers who are negligent, action must be taken against them, is therefore, very timely.

The growing "*tidak-apa*" culture or the indifferent and lackadaisical attitude and the weak value system, especially at the lower levels of the civil service, must be reversed soon.

Tough measures must be taken to focus more on quality rather than on merely increasing quantity.

Greater priority must also be given to combat the deadly scourge of corruption which has become more widespread as the economy has prospered.

If we do not address these weaknesses with greater priority, the Malaysian economy will not be able to sustain high growth rates. *Then, unfortunately, the poorest in our society, the majority of whom are Malays, will suffer the most and pose problems of social instability.*

We must therefore be more self-critical and adopt the political will to restructure our economy and push for more competition, efficiency and transparency at a faster pace to continue with our progress and prosperity.

But even our present success can be seriously undermined by rising corruption.

### **Combating graft more effectively**

The Political and Economic Risk Consultancy (PERC) has declared Malaysia the fourth least corrupt among 11 Asian countries based on a survey of a thousand expatriate businessmen working in Asia.

Malaysia's standing has improved from a score of 6 in 2001 to a rating of 5.71 in 2002. The lower the figure the least corrupt the country. However, this score still

compares unfavourably with the least corrupt country, Singapore, with a score of 0.90, Japan (3.25) and Hong Kong (3.33).

Thus although the state of corruption in Malaysia has improved somewhat, it is still discouraging to note that the improvement is minimal and that the gap between the third least corrupt country, Hong Kong, and Malaysia is quite significant.

Similarly, it is disconcerting to note that we are only 4.22 points better than Indonesia which emerged as the most corrupt country in Asia in the survey.

Singapore and Hong Kong are small island states where it must be much easier to manage and control corruption. Both were also colonised by the British and have similar administrative systems and multiracial societies. Nevertheless, they have done very well in combating corruption. Japan, which is large and has a homogeneous society, has also scored well in having low corruption. These diverse societies can beat corruption, so why can't we?

The survey, therefore, begs the question as to how these countries manage to do it.

According to the survey, the low Malaysian competence in fighting corruption has been largely attributed more to "poor corporate governance than outright corruption". (Never mind the shameful standards of the Enron Corp. in the U.S.!)

But this assessment makes it easier to attack the cancer of corruption as it is mainly businesses and big corporations that appear to be guilty of bad corporate governance.

Surely these corporates could be targeted for special monitoring, surveillance and investigation. Nevertheless, it will be necessary to find out more about how Singapore, Hong Kong and Japan have managed to achieve much better results at combating the scourge of corruption than we have. Then we will be able to take more effective action to fight corruption more successfully in the future.

*Our international competitiveness and indeed our social stability can be seriously eroded unless we do much more and at a faster pace, to reduce, if not eradicate, the corrosive effects of corruption in Malaysia.*

The public will, therefore, appreciate more frequent reports on our success in the critical war against corruption.

Less corruption attracts more foreign trade and investment. Thus we will have to review all forms of trade arrangements like the proposed Fair Trade Act, in order to draw more competition that will help to reduce corruption.

However, we cannot run headlong into any and every new trade arrangement. We have to weigh the pros and cons carefully. Such a new arrangement is the "free-trade area" mechanism being pushed by Singapore and the U.S.

### **U.S.-Asean FTA proposal premature?**

U.S.-Asean Business Council president Ernest Z. Bower's proposal for a free-trade agreement (FTA) between the U.S. and Asean is quite premature because the region has much more in common with China as well as with South Korea and Japan than with the U.S.

(The U.S.-Asean Business Council has been actively promoting U.S.-Malaysia ties for the last 20 years and has been the channel of communication for U.S. business not only into Malaysia but for the whole of Southeast Asia. The

U.S. is Malaysia's largest trading partner, accounting for something like a fifth of Malaysia's exports.)

*It is better for Asean to get its own Asean Free-Trade Area (AFTA) in good order first before bringing the overpowering U.S. into our midst. The time for an Asean-U.S. free-trade area will come in its own time, but not in the near future as it could be counterproductive to free and fair trade and investment in Asean as well as Asia.*

This is because the powerful U.S. will take advantage of the weaker Asean countries in the negotiations and implementation of the FTA at this stage!

The Business Council has submitted the Asean-U.S. proposal to the U.S. government and expects its trade representative Robert Zoellick to raise the matter at the Asean-U.S. meeting to be held in conjunction with the two-day Asean Economic Ministers meeting in Bangkok from April 4, 2002.

U.S. businessmen apparently have been pushing the U.S. government to go for the U.S.-Asean FTA in order to further protect and promote American trade and investment interests in Asia.

The U.S. had also been worried about the impending formation of the China-Asean FTA (the world's largest FTA), which was energetically endorsed by the Asean Summit in Brunei in November 2001. The U.S. could be seriously concerned that they might be left out of the China-Asean market of 1.7 billion consumers with a combined GDP of between US\$1.5 trillion and US\$2 trillion and an annual two-way trade of US\$1.2 trillion. (Asean itself has half a billion people and a GDP

approaching something like US\$1 trillion, representing a huge and viable marketplace for U.S. companies.)

Furthermore, the U.S. is getting anxious over another dramatic economic development in Asia, which is the likely formation of the Asean+3 (Japan, China and South Korea) grouping.

As we all know, the U.S. had vehemently opposed Malaysia's earlier proposal to form an East Asian Economic Grouping (EAEG). But now it wants very much to be a part of it, since the U.S. has not been successful in suppressing it. It is the classic case of "if you can't beat them, join them"!

The U.S. would be regarded as an overpowering trading partner if it was admitted at this early stage in the socioeconomic development of Asean countries. In contrast, Japan and South Korea are not regarded as superpowers that seek to dominate Asia. They are more culturally acceptable and Asian countries would find them more comfortable partners.

Thai Prime Minister Thaksin Shinawatra, addressing a conference in Kuala Lumpur on March 8, 2002, enthused: "Beyond economic benefits alone, this cooperation will provide the foundation for strengthened economic stability in East Asia, allowing both China and Asean to have a larger voice in international trade affairs."

Besides, given the enormous task of coping with the formation of AFTA and its extension to all Asean countries, the Asean-China FTA and the Asean+3 proposal, it would be extremely difficult to simultaneously and successfully take on another gigantic task like negotiating the proposed U.S.-Asean FTA.

Priorities have to be right and the U.S.-Asean FTA can wait. In the meantime, however, we can still pursue the current policies of stepping up foreign direct investment in Malaysia. Thus continuing U.S. investment will be most useful, instead of getting involved in new trade negotiations.

### **Working harder at wooing more U.S. investors**

The U.S. Ambassador Marie T. Huhtala reported very favourably to the U.S.-Malaysia Friendship Council and the Press on her tour of Malaysian states on March 14, 2002.

She was accompanied by U.S.-Asean Business Council president Ernest Z. Bower and several leading American businessmen, who agreed that Malaysia has good foreign investment prospects (despite the attractiveness of China), because of our relatively high standards of corporate governance and transparency in Asia.

In fact, Bower reiterated that "where Malaysia has a comparative advantage, we will stay here in Malaysia and take advantage of what will be a huge market in China." He was referring to Malaysia's comparative advantages in being "safe and stable and having a business-friendly government at the national and state levels".

Obviously, China does not have these comparative advantages as adequately as Malaysia as yet. Hence, we must optimise and reinvent ourself before China catches up with us.

According to Richard Hornik in his *Fortune* cover story, "Who needs Hong Kong?", dated May 13, 2002, "... China is rising so fast. China's financial and legal systems remain, opaque, backward, and occasionally frightening. But the

country has made huge strides toward opening itself to the global economy."

*We must remind ourselves that China has the following advantages: a huge domestic market and an abundant, cheap supply of labour. We must thus find new ways to compete. Otherwise, we will lose out. It is therefore time we take a serious look at shifting our paradigm.*

Furthermore, low labour cost is just one of the many criteria that U.S. companies consider when making overseas trade and investment decisions. Bower reiterated that "Malaysia continues to enjoy a number of competitive advantages attractive to U.S. business, including a stable legal system, wealth of natural resources, a well-educated workforce that is largely English speaking, world-class transportation and technological infrastructure, and a developed supply network for many industries."

"Malaysia also has the advantage of a broad range of connections to other overseas markets, including China, South Asia and the Middle East.

"By taking advantage of these strengths and further integrating with its fellow member countries in AFTA, Malaysia will have the ability to be competitive in the type of high valued-added sectors that the country is focusing on its developmental plans."

Tan Sri Francis Yeoh, president of the U.S.-Malaysia Friendship Council, pointed out that the Western Press, especially the American Press, should show more understanding and balance, in their reporting on Malaysia and other developing countries in Asia.

Ambassador Huhtala emphasised that she was highly impressed with the vision and depth of the Malaysian government and business leaders and stressed that



prospects for U.S.-Malaysia trade and investment are very good. She, however, acknowledged that there were some American misconceptions of Malaysia, which both sides had to work hard to remove.

For this reason she had persuaded the Director of the U.S. Federal Bureau of Investigation (FBI) Robert Mueller to visit Malaysia and see the security situation for himself.

The FBI chief has now categorically stated that *Time* magazine's edition of February 11, which carried the title "Inside Malaysia's terror network", was misplaced and inaccurate. *Time*, of course, has since apologised, but one wonders, however, why such a reputable international newsmagazine would resort to deliberately distorting the facts and how low its professional journalistic standards have sunk! Is it because *Time* is being manipulated by some powerful sinister groups in the U.S.?

Hopefully, *Time* will not resort to such crass tabloid journalism in the future as such baseless, unfounded and superficial reports not only undermine the credibility of the newsmagazine but the relations between two friendly democratic countries.

(Before *Time*'s brouhaha, *Newsweek* had also written an unflattering and negative portrayal of Malaysia as a haven for terrorists and a launch pad for their attacks. And like *Time*, it also apologised.)

"Perhaps, Malaysians should not expect too much from the American media," Hardev Kaur wrote in her article, "Individual views colour U.S. media reports", (My Notebook, *New Straits Times*, May 24, 2002). 'Some Americans, too, have 'lost faith' in their own media as it is 'increasingly devoid of legitimate journalism'. Ideologues,

commentators and politicians dominate it—and they are not 'actual journalists'."

In a brief tour of Asia in early April 2002, U.S. Assistant Secretary of State for East Asian and Pacific Affairs James Kelly said that Malaysia, as a beacon of peace and stability in the region, played an important role in efforts to combat terrorism.

Thus, however much Ambassador Huhtala, our American friends and we ourselves may do or want to do, to promote U.S.-Malaysia friendship, all our good efforts will be negated by the powerful elements of the American mass media. *The U.S. media is often irresponsible as they have their own agenda, which are dictated by big business and political lobbyists seeking their own ends.*

*What is important, however, is for the U.S. authorities to quickly dissociate themselves from disinformation and even condemn the attempts of some quarters in the U.S. to discredit developing and Islamic countries like Malaysia.*

Since the September 11 terrorist attacks on the U.S., the Malaysian government has reiterated and made it clear that it will not tolerate terrorism and will do everything within its power to combat it.

However, the reality is that the situation has worsened since September 11. The feelings of fear and hatred in the U.S. against Muslims all over the world have intensified rather than decreased. And this is a dangerous trend.

Ambassador Huhtala and her colleagues are doing well in promoting U.S. business interests in Malaysia. But she may be speaking to the converted, as most of the American businessmen who accompanied her are already doing business in Malaysia. However, she plans to take American

businessmen from Malaysia and other Americans who were working here before, on the forthcoming American-Asean Ambassadors tour of the U.S. They plan to spread the word that Malaysia is free from the tentacles of Osama bin Laden's terrorist network and is a rewarding regional investment and trade centre.

We can only hope she will succeed in her mission which is possible only if Washington listens to her advice. In the meantime, both U.S. and Malaysian officials and businessmen have to work harder at improving U.S.-Malaysia relations. If we do not succeed, then Ambassador Huhtala and all our good efforts, could well turn out to be a lot of hoopla instead!

But more importantly, we will have to work harder at strengthening the Malaysian economy and to make Malaysia even more attractive for local as well as foreign investors. We must thus carefully monitor our economic developments as revealed by the government, investment analysts and Bank Negara Malaysia, and particularly the views of foreign investors, and act on them.



## 5

# Do Not Neglect Economic Fundamentals

THE analytical annual *Bank Negara Malaysia Annual Report* for 2001, released on March 20, 2002, indicates quite clearly that the Malaysian economy has recovered and that its economic fundamentals are strong at the present time. However, we cannot take strong and fast economic recovery for granted.

Bank Negara is therefore making the right move by conservatively estimating the economy to grow by 3.5% in 2002 as the economy will have to confront and overcome many strains and stresses.

Just like any healthy person can fall ill and become weak, so can an economy, unless we are always vigilant and quick to take pre-emptive action in time.

There are, *inter alia*, twin economic troubles that are emerging again.

Firstly, the Federal Budget has been running an overall deficit for the past five years, from -1.8% of the GDP in 1998 and deteriorating to a Budget estimated deficit of -5.0% in 2002. This cannot be sustained for too long. The government should not continue to boost economic growth by spending too much too soon.

Secondly, the balance-of-payments surpluses on the Current Account have been declining, and could narrow further. The latest figures indicate that Malaysia's trade surplus in January 2002 fell by a significant 9% to RM4.4 billion, compared to RM4.8 billion in December 2001.

The faster growth in imports in January (7.0%) and lower expansion of exports (4.4%) should not carry on and develop as a trend!

The manoeuvrability in economic management could thus become more difficult and less comfortable, if these twin economic concerns deteriorate.

The Japanese Chamber of Trade and Industry Malaysia (JACTIM) Report in its Trade and Investment Committee on March 4, 2002 in Cyberjaya, claimed that Malaysia is no longer enjoying many comparative advantages in competing for foreign investment. Whether we agree with it or not, we must consider this assessment seriously. That is the view of the Japanese which we cannot ignore, as the Japanese are important investors in Malaysia!

The report, which was presented at the 23rd Malaysia-Japan Economic Association (MAJECA) and the Japan-Malaysia Economic Association (JAMECA) joint meeting in Cyberjaya on March 4, 2002, referred to most of the labour-intensive industries in Malaysia. The report noted that in its recent survey, 22% of the 172 respondents from Japanese companies operating in Malaysia intend to move their operations out of Malaysia to countries such as China! Rising production costs in Malaysia is the biggest problem among foreign investors, especially those in the electronics industry, which is highly cost sensitive. Most of these Japanese firms cited China's huge market potential and relatively low wages as reasons for moving out of Malaysia.

What are the implications of such a move on the growing unemployment, especially that of graduates?

There is no doubt that the impact of declining investment will be unfavourable on Malaysia. Hence we have to develop specific training programmes (even at the tertiary level) to prepare our graduates to face these challenges of greater competition under globalisation. It is now well upon us and not some threat that we can expect in the future!

Furthermore, Moody's Investors Service (Moody's) *Annual Report* in March 2002 stated that its "Baa2" foreign currency ceiling rating and its "Baa3" rating for bank deposits, are not likely to return to the higher pre-1997 Asian economic crisis ratings for the next 12 to 18 months!

Moody's explains that the present rating is due to higher public debt, some increase in political uncertainty and questions about the strength of foreign direct investment. The doubts over the Malaysian ringgit's fixed

exchange rate regime and continuing Budget deficits for five years, including 2002, are Moody's concerns too.

Hence we have to take note of what foreign analysts think of our performance and act accordingly, if we are to stay in business with them!

At the same time, we have to carefully watch our competitors and the threats they pose under globalisation.

### **China, the sleeping dragon, awakens**

We must therefore seriously examine the growing attractiveness of China in drawing foreign direct investment (FDI) away from Malaysia, Asean and the rest of Asia.

In fact, it is wrong to assume that China is now sucking up all the investments from all over the world. According to a January 2002 United Nations Conference on Trade and Development (UNCTAD) report on FDI, in 2001, about 37% (US\$47 billion) of the US\$125 billion of FDI inflows to Asia went to China (a 15% increase over 2000), making it the largest recipient of FDI in the Asian region.

Hence 63% of all FDI flowed to countries outside China. Thus there is still much scope for Malaysia and Asean countries to tap the large FDI resources that are still available to come into Malaysia. We need not despair, but we should be even more determined to make our business environment more attractive to foreign investments.

China formally joined the WTO as its 143rd member on December 11, 2001, ending a 15-year quest and finally bringing the world's largest country into the global marketplace. This has made East Asia a significantly more important place to do business. WTO chief Mike Moore



hailed China's entry to the global trade body as "one of the most significant events of the 21st century for China, the WTO, and the world."

China has in recent years emerged as the most vibrant large economy. There are a couple of questions we must consider here. Should we welcome China's economic ascendancy or be afraid of it? Will China's accession to the WTO make it more competitive at the expense of the rest of Asia? Will China emerge as an engine of economic growth in the region?

According to Supachai Panitchpakdi (a former banker and deputy prime minister of Thailand and now the new WTO chief) and Mark L. Clifford (former *Far Eastern Economic Review* correspondent) in their book entitled, *China and the WTO: Changing China, Changing World Trade*, "The WTO accession is the latest and loudest warning bell signalling China's arrival."

"How China's neighbours respond to this warning will determine whether or not they prosper in a new world order, one in which Asia will increasingly revolve around China." It has been said that the next decade or more will belong to China.

And with China's WTO membership formalised in December 2001, its transition to a market economy and its integration with world markets, there is no denying that Chinese goods will have access to more markets than ever before. They could swamp our own market to benefit consumers but displace some of our producers!

We must not underestimate China's economic potential. China is a huge potential market in one the world's fastest-growing economies, a market that will grow

exponentially with the gradual improvement in living standards. Since the end of the Cultural Revolution in 1976, Deng Xiaoping, Mao Zedong's successor, began opening China's doors to the world in late 1978. Since then, Western businesses have made a beeline for the world's most populous nation, pouring investments into the country at the rate of something like US\$300 billion in the 1990s alone, in the expectation of reaching the country's 1.3 billion potential consumers. (With a population that now stands at some 1.3 billion people, China has an almost infinite supply of labour and is the world's largest untapped source of demand for consumer goods.) Though China today stands far behind in overall international competitiveness and is hampered by financial and legal systems that remain murky and has inadequate protection of intellectual property, it has made huge strides towards opening itself to the global economy. China is indeed now considered the most promising investment destination for foreign entrepreneurs, and will become more and more competitive.

Though a resurgent China is casting a shadow over the wounded economies of Southeast Asia, we must step out of the gloom and confront this challenge. Globalisation implies confronting and responding to challenges. *Whether we like it or not, the sleeping dragon has awakened and is intensely focused on becoming the world's next economic powerhouse.* We must accept China's emergence as an undeniable matter of fact. Since we cannot reject it, for us in Southeast Asia, there is only one thing left to do: we must figure out how to use this opportunity to the best of our advantage. In the meantime, we must come up with strategies to offset the

drain in FDI to China, which is fast taking over Southeast Asia's old role as a cheap manufacturing hub.

After all, globalisation will be forcing us all to broaden our horizons and the way we think in order to survive in an increasingly competitive and globalised world.

If our exports of higher value-added electronics could increase, then our balance-of-payment surpluses could be sustained, if not increased. However, U.S. demand for our exports may not pick up fast enough if the U.S. economy does not recover more strongly and soon enough.

Already the chief economic adviser of the White House, Lawrence Lindsey, told the Press on March 4 that the U.S. economy remains "fragile" at best and that "it is too soon to say when it will be strong and sustained"!

However, top White House economist Glenn Hubbard stated on March 27 that he sees the first quarter and following quarters as very robust. But this talk has been heard before and little happened!

Powerful U.S. Federal Reserve Board chairman Alan Greenspan, has also become more confident since the time of his more cautious semi-annual testimony to a House of Representatives Panel on February 27. He then told the Senate Banking Committee that "U.S. economic expansion is well underway".

It is obvious that there are too many diverse views and imponderables over the prospects of the U.S. and the international economic recovery. Thus we cannot afford to be too confident in Malaysia's own capacity to recover strongly and speedily.

Furthermore, foreign investment funds like the California Public-Employees' Retirement System (or better

known as CalPERS)—the world's second largest and the U.S.'s biggest state pension fund with assets totalling some US\$132.6 billion—and financial analysts with skewed ideas and their own questionable agenda, can cause greater uncertainty and discourage foreign investment in the Third World, including Malaysia.

### **CalPERS's response to criticism**

CalPERS, the huge U.S. pension fund, has now responded to widespread and longstanding criticism against its decision to pull out of Malaysia and some other Southeast Asian countries. It stated that it took into account a broad range of criteria and not mainly the region's records on human rights!

But even CalPERS's concerns over political stability, transparency, labour practices and capital market openness, do not warrant such harsh investment conduct, such as pulling out from several countries in this region—unless they have a political agenda of their own.

However, CalPERS defends its decision to keep investing in Singapore, on the grounds that it defines Singapore as a developed country. But Singapore itself maintains that it is a developing city-state. Even if Singapore is a developed state, then all the more the reason why the criteria of poor political stability and weak labour standards should apply to it as an economically developed state!

After all, we know that Singapore is quite an authoritarian society with a minuscule opposition, with a questionable human-rights record, and government-influenced trade unions. *But CalPERS could have*

*considered the fact that the U.S. Navy has significant facilities in Singapore as that would give them a stronger sense of security when the U.S. Seventh Fleet calls, from time to time, and ignored other criteria!*

Interestingly, however, CalPERS's adverse decision to withdraw investments is contradicted by Standard & Poor's (S&P's) revised assessment of Malaysia's economic outlook from "stable to positive" at almost the same time on March 5, 2002!

S&P's gave the higher rating to Malaysia on the grounds that significant progress that has been made in corporate restructuring, recapitalisation of the banking system, strong national reserves, no inflationary pressure and absence of the expected recession, but instead a positive growth of 0.4% for the whole of 2001.

At least we know that there are some Western fund managers who are prepared to be objective and to be fair to their investors.

*To be consistent in its conduct, CalPERS should also withdraw investing in the U.S. itself, since the U.S. has been rated poorly for its human-rights record in regard to for instance the treatment of African Americans as well as the al-Qae'da captives held in Camp Delta at Guantanamo Bay, Cuba!*

But we have to learn to recognise (if not accept) the double standards and the hypocrisy that exists, especially in the U.S. and some other western countries!

### **Trade union leader Zainal Rampak**

However, it must be acknowledged that our case for refuting the arguments of the likes of CalPERS's is weakened by statements from the president of the Malaysian Trades Union Congress (MTUC), Senator

Zainal Rampak, at its 35th MTUC special triennial delegates conference on March 5, 2002.

Zainal stated that Malaysian employers are disloyal to the country and that they are not transparent and accountable to their workers.

Trade union leaders need to appreciate that their statements which may be made even for short-term internal political reasons, can be used against the country and the longer-term welfare of our workers. For instance, if foreign investors take Zainal Rampak's allegations seriously, they may want to pull out and reduce their investments in Malaysia. Consequently, this could cause more unemployment in the country and the workers would suffer the most!

*Nevertheless, Zainal is right in criticising Malaysian employers for refusing to pay just RM1 per month for each worker to the National Retrenchment Scheme (NRS), especially since employees are prepared to match this contribution. This reflects the shortsightedness and selfishness of many Malaysian employers. This is most unfortunate as it does not contribute to building a "smart partnership" between employers and employees!*

### **Japan's troubled economy**

There is also more bad news from the Japanese economy, the second largest in the world after the U.S. The country has already suffered three recessions since 1990. We have seen its leading stock index lose three-quarters of its value in the past 12 years.

The last quarter of 2001 saw the Japanese economy plunge another -1.2%, making it the third decline in a row since 2000 and the steepest period of decline on record.

There seems to be no end to the travails Japan is experiencing at the moment: Japanese banks are still mired in bad debts and the economy is still not open to greater competition. And as long as radical reforms are not implemented to clean up the Liberal Democratic Party (LDP) and the bad debts clogging the financial system are not cleared, the Japanese economy will continue to remain in a deep rut.

The Japanese government's indecisive, piecemeal efforts at cleaning up the increasingly murky financial system have not helped much. Burdened by increasing losses in bank portfolios of loans and stocks, the troubled banking system is undeniably a threat to the country's fragile economic recovery. Also, increased oil prices from a U.S.-led war with Iraq could further dash Japan's hopes for an economic recovery.

For all these reasons, higher productivity should be our battle-cry in facing the challenges of greater international competition from globalisation as well as the world's sluggish economic expansion.

But Malaysia's Industrial Production Index (IPI) for January 2002, declined by 6.7% on a year-to-year basis, due to the contraction in manufacturing and mining. Although the declining trend in the last couple of months has been slowing down, there is still concern that it will take some more time to turn positive, given the uncertainty in the speed of recovery of the U.S. and Japanese economies.

### **Science and technology**

Thus the key to increasing our competitiveness is again to improve our productivity. But this prospect could be

undermined by the way we restructure particularly our major government-sponsored companies.

Large conglomerates like Renong are rightly being reorganised. However, two basic ingredients are missing. They are experience and technology. Bright young graduates with relatively little business experience are being appointed to run huge companies. They could well be out of their depth despite their high academic qualifications. After all, genuine failures and good business experience, do develop maturity and wisdom and strengthen prospects for success.

Indeed, there must be a good balance between experience and competency, which should be raised by the adoption of more science and technology in management.

But there is also inadequate balance in Malaysia between science and technology on the one hand and financial management, on the other.

Too many managers are being pushed up the corporate ladder without having much technological knowledge even in large technological companies. Therein lies the weakness which inhibits effective entrepreneurship and international competition.

*It is thus vital for the government to strive to reach better balance between youth and experience and financial knowledge, and science and technology, in the appointment and promotion of good managers in especially government companies, particularly those that are being currently restructured.*

The same problem of wrong restructuring is happening on the international front.



## **U.S. trade wars**

Now the E.U. has protested to the World Trade Organisation against the U.S. government for imposing a 30% duty on steel imports on March 5, 2002. The U.S.'s imposition of tariffs on imported steel was greeted with howls of protest around the world: a stunning example of protectionism and hypocrisy, undermining the much vaunted free-trade policies espoused by the U.S.

The U.S. also slapped a 29% import duty on Canadian softwoods, accusing the Canadian provinces of subsidising timber sawmills! And now the Canadians have retaliated by imposing duties on imported tomatoes from the U.S.

How far and how long will this 'tit for tat' go on? So much for the U.S.'s claims that it is fully committed to free trade.

This is another reason why the world economy could suffer from further uncertainty and lack of confidence in the American claims of integrity on free and fair trade!

These serious developments have already dashed expectations for faster U.S., Japanese and even European economic recovery by the middle of 2002!

All these adverse developments could thus undermine our own prospects for faster economic growth.

The monitoring and management of our economic policies and that of the corporate sector must be more closely linked to the principles of good governance to provide a better business enabling environment. Only then will our current sound economic fundamentals be further firmed up and our economic growth and stability strongly sustained, especially in the longer term.

Furthermore, we must be more competitive. The lead should be set by the more competent amongst us. Thus it is the more highly qualified professionals who must take on the leadership to be more internationally competitive! At the same time, we have to be conscious of providing the basic economic rights to all Malaysians!

## 6 Strengthen Economic Human Rights

GREATER priority for basic economic human rights will strengthen our economic recovery, sustain economic growth and improve national unity.

However, this can only be achieved by greater public participation in socioeconomic policy formulation and implementation, that would reflect genuine concern for overall public welfare.

*It is therefore unfortunate that human-rights issues in Malaysia have not sufficiently focused on socioeconomic and basic economic issues, but more on civil and political rights.*

The Malaysian public also does not take an active part in shaping economic policies to ensure that our public policies adequately concentrate on basic economic needs.

There is thus a greater need for wider public participation to ensure that we go back to basics in our national socioeconomic management.

Perhaps our elected representatives in Parliament and the state assemblies could do much more to raise the problems of the people and to prescribe better policies to enhance efficiency in implementation, to further raise our quality of life.

### **Drinking water**

Drinking water is a good case in point. It is one basic need that has been neglected. *We have had unsafe and dirty tap water for a long time, especially in the Klang Valley.*

However, it was only recently that it has been highlighted by the mass media. And only now is there some government assurance that the public can hope for safer and cleaner water supplies in the near future!

*What were the NGOs and especially the consumer associations doing all this while? Even if they had been actively pushing for better drinking water, how come they were hardly heard by the public or in the mass media? If the NGOs, together with the mass media, had pressed harder for better drinking water, perhaps the government would have been persuaded to move faster to meet this basic human need.*

Nevertheless, it is gratifying that the government is finally giving more priority to what the people really need and want. But it is surprising that these basic prerequisites

have not been provided earlier and that the public has been so accommodating and patient.

The Deputy Works Minister Mohamed Khaled Nordin announced at the recent Water and Wastewater Technology Cooperation meeting that the government has approved 62 major water projects, including 47 dams costing about RM52 billion nationwide under a master plan to cater for our water needs up to 2050.

But under the 8th Malaysia Plan (8MP) about RM5.6 billion has been provided for water-related infrastructure projects. Of this large allocation, RM4.0 billion is for water projects and RM1.6 billion has been put aside for sewerage. This would include the Kuala Lumpur Flood Mitigation project, the National Sewerage project and the Bakun Dam.

However, most of these massive water and sewerage projects would be privatised. Now the Consumer Association of Penang (CAP) and Sahabat Alam Malaysia (SAM) and FOMCA's Selangor Water Watch are protesting vehemently against proceeding with the proposed privatisation of water management, until a study on the feasibility of privatisation is ready.

Dato' Seri S. Samy Vellu, the Minister of Works, and the Menteri Besar of Selangor, Dato' Seri Dr. Mohd. Khir Toyo, also claimed that the Japan Bank of International Cooperation had delayed approval of funding of RM3.8 billion because five NGOs had opposed the proposed Pahang-Selangor Water Transfer project due to environmental objections.

However, the World Wide Fund for Nature Malaysia (WWF) has replied on behalf of the five NGOs to say that NGOs cannot be blamed. The Programme Director for

WWF's Forests for Water, Water for Life, Dr. Krishnan Ramadasan, pointed out that they had participated in the Environmental Impact Assessment (EIA) of the Department of Environment in 2001 and had found "inadequacies in the Report on the impact on flora and fauna".

I wonder how the government can move purposefully and speedily under these circumstances? There must be better cooperation and understanding on both sides—the government and the NGOs.

*How long more must millions of consumers continue to drink dirty water? And how long more must they wait for their basic human right to have safe, clean drinking water? Granted that privatisation has failed badly in some instances, it is not wise to throw the baby out with the bath water—however dirty the water may be!*

Privatisation failed in some instances because, *inter alia*, the deals were not viable, the wrong concessionaires were appointed or because of inept management. But these are issues that can be overcome.

The Perak and Penang models could be usefully adopted nationally. Both their water authorities have been profitable while presumably providing tap water that is fit for human consumption. So it is not privatisation *per se* that is dubious but bad management and poor government supervision.

If it is felt that businessmen are so preoccupied with profits that they cannot work for the public good, then the privatised water authorities could have a "golden government vote" which could protect the public interest. But there can be many formulae that could be used to strike the right balance between promoting private profits and

the public interest (or consumers' rights) in the management of our water resources.

### **Education segregation**

Education and training are vital basic human needs. They strengthen our ability to be resilient and yet we have allegations of segregation in our schools.

The Chairman of the Independent Committee on Segregation in Schools, Professor K.J. Ratnam, clearly stated that there is no "deliberate segregation". However the *Ratnam Report's* sound recommendations suggest that the necessary measures need to be taken to overcome shortcomings on the government's policy to strengthen integration in schools and to enhance national unity.

*Thus the underlying implications are that there could well be unintended segregation in some schools due to physical constraints and some inability to work out practical solutions on timetables and the like.*

The net result is that the quality of our education and training and the capacity of the education system to produce competitive graduates who can work closely together to build on each others' strengths is seriously constrained. This obstacle could pose the greatest threat to our national unity and international economic and business competitiveness!

In retrospect therefore the segregation issues originally raised by teaching union leaders, Dato' Siva Subramaniam and Tengku Habsah, if addressed professionally, could turn out to be a blessing in disguise, that will strengthen national unity and benefit the whole country!

What is essential now is to identify all those reasons that cause the serious and wide spread public perception

that there is segregation in our schools, although this is not deliberate and certainly Not condoned by the government.

*We have all to accept the challenge to enhance integration in our schools and society and to seize the opportunity to strive harder to remove the elements of perceived segregation and impediments to integration and national unity.*

It would be useful therefore for all parties to recognise the merits of establishing more Vision Schools whereby all the three educational streams will be in the same large school compound to share common facilities and common values.

However, more strenuous efforts will have to be taken to promote this concept of the Vision Schools and to remove the reservations that are genuinely felt by some quarters, that Vision Schools suppress the vernacular languages and other ethnic values.

But in the meantime, the current change in education policy that requires Malay, Chinese and Indian students to learn an additional language like Arabic, Tamil or Chinese for those whose mother tongue is not any of these languages, is progressive.

*However, this new policy could be made much more realistic and welcome if there is provision for primary school children to also learn their mother tongue in the national schools. Thus a Tamil or a Chinese child could learn Tamil or Chinese as compulsory subjects in the national schools, in addition to learning Malay as well as English.*

Then parents would be more encouraged to send their children to the new national schools, instead of sending them to the national-type vernacular schools!

This would be an attractive and positive policy that would strengthen the national school system and would



build greater national unity. The national schools would then become much more multiracial and certainly better reflect the ethnic composition of our multiracial Malaysian society.

### **Affordable housing**

Another basic need that has not been given higher priority is affordable housing!

After all these years, the federal government has now realised that the state governments just cannot afford to provide adequate affordable housing. In our highly centralised federal government financial system, the state governments do not have the financial resources to meet the rising demand for affordable housing.

Now the federal government has generously decided to provide 100% loans to implement the slow ongoing 57 low cost public housing projects in the country. It will also help finance the land costs in high demand areas as well as 50% of the infrastructure costs.

This is a commendable policy and a major breakthrough! Much of our housing woes especially for the low income groups will thus be resolved if this programme is pursued aggressively.

The government will also be giving higher priority in the implementation of the old RM70 million Revolving Special Low-Cost Housing Loan Fund which was established in 1976, under the National Housing Department!

It is meant for low income Malaysians in rural areas who earn less than RM1,200 per month and who want to

build houses on their own land. But the scheme does not seem to have adequately covered the poor rural dwellers.

So the scheme had to be "relaunched"! The Yayasan Strategik Sosial (YSS), the social research arm of the Malaysian Indian Congress (MIC) has started a campaign to register potential borrowers of the RM20,000 loans. These loans will be interest free for the first RM10,000 and have a subsidised low interest of only 4% per annum for the balance. This scheme can be very helpful for the poor.

*But why had this scheme have to be "relaunched"? What was the National Housing Department doing earlier to promote this attractive scheme? How come the political parties did not do much more earlier to get the populace to utilise the scheme more fruitfully?*

This is another example of how policies can be laudable but nevertheless the implementation can get awry! In the end the populace will suffer. Hence we need more voluntary research organisations like the YSS to help compensate for the declining research and implementation capacity of the government.

The other lesson to be learnt from this experience is that the NGOs will need to spend more time and energy in identifying the sources of government financial and other assistance. As I have always said, we must all "plug into the system", to harness all the available resources that are provided by the government to the people.

This way, even if the public services are slow or indifferent to the plight of the poor and the unfortunate, the government's policies could be better implemented more equitably, by the vigilant and active participation of the NGOs and the public, through good civil society governance.

### **Construction Industry Development Board of Malaysia (CIDB)**

On the construction side the pace of implementation could be speeded up if more high technology industrial prefabricated building is employed, instead of depending on archaic and slow labour-intensive building techniques! Thus modern Industrial Building Systems (IBSs) should be introduced soon.

*The government will have to force the uncompetitive housing contractors to go high-tech or lose their capacity to win attractive government contracts. There is no point protecting inefficient contractors at the expense of the millions of low-income house seekers who have been waiting so long for the promised affordable housing!*

The Deputy Chief Executive of the Construction Industry Development Board of Malaysia (CIDB) Amir Abdullah said on March 24, 2002 at the award of ISO Certificates to contractors, that Malaysian contractors will not be able to compete with foreign contractors under the rising international trend of liberalisation and globalisation.

*Only 120 registered construction companies from a total of 37,000, have obtained ISO 9000 so far! About 60% of all registered contractors are small contractors. Most of these contractors are also inefficient general purpose contractors who have very little specialisation to compete effectively. That is why we import so much foreign labour—because our workers are not sufficiently skilled or hard working or are deficient on both counts!*

This is a dismal record. No wonder Amir Abdullah thinks that our construction industry cannot compete with

their counterparts, for example, in our neighbouring small city-state of Singapore!

But all this begs the question as to what we are doing about this sad state of affairs in the construction industry, particularly since it constitutes about 3.5% of our economy.

The CIDB has accumulated about RM600 million through the cess that it imposes on the industry, but has it done enough to train small contractors, many of whom are *Bumiputeras*, to achieve the ISO 9000 certificates?

The CIDB could be made more accountable for the very weak competitiveness of our contractors, instead of merely criticising their weak competitiveness!

### **Police discipline**

Another major basic human need is, security and law and order. It is most gratifying that the Inspector General of Police is reported on April 1, 2002 to have said, "we will not protect any officer or rank and file and will take action to rid the force of negative elements and irresponsible personnel"!

*Indeed the public image of the once prestigious police force has suffered considerably after several embarrassing incidents of indiscipline and ineptitude. A lance corporal in the Petaling Jaya police headquarters was allegedly involved in smuggling deregistered cars from Singapore on March 7. Then there was the case in February of the dereliction of duty of four policemen implicated in the escape of a Mamak Gang leader.*

The IGP also reported that 82 police personnel had been arrested by the Anti-Corruption Agency (ACA) in connection with 56 corruption cases! There have also been

cases of policemen being involved in robbery, theft and assault in 2001!

Then there was the ludicrous case of a police inspector attached to the Anti-Narcotics Department, who "unzipped his pants and pointed to his private parts when his senior officer asked him where his service revolver was"! Worst of all, a police constable in Ampang was charged for raping two foreign female detainees in the district police lock-up on February 24!

The question that comes to mind is, How come there have been so many cases of police indiscipline that have come up in 2002? Is it the tip of the iceberg? Are there many more bad policemen now?

But of greatest public concern is, how did the government and the police leadership allow this serious deterioration in the once proud Malaysian police force to happen, without checking the decline in discipline much earlier?

I hope the Malaysian government will provide some explanation to the public as we need more knowledge of what has happened and why and what will be done to improve this bad situation. Otherwise, public confidence in the police and indeed in public safety and security will continue to deteriorate and suffer!

Hence the IGP's tough stance is very reassuring. Now the top brass of the police force will have to ensure that the IGP's orders to stiffen discipline in the police force is properly implemented. Sometimes it is difficult to fault the low ranking policeman or any low level staff when the 'bad hats' are not disciplined by their senior officers or managers.

If there is favouritism and "bad hats and black sheep" are allowed to go scot-free, then the majority of the staff who are disciplined and diligent, will get demoralised and will slowly but surely begin to default in their duties. This is a universal phenomenon in management anywhere.

One of the major prerequisites for economic growth and progress is to have a high level of law and order. Hopefully, security and safety standards will steadily rise with the new no-nonsense stance of the IGP.

The public will no doubt give him all the cooperation and support he needs, in his quest to improve the efficiency and image of the Malaysian police force.

The government should provide more funds, better training and select better quality recruits into the police force. Most importantly, however, as the IGP has correctly pointed out, "the supervision and monitoring of personnel has to be strengthened. Emphasis has to be placed on the responsibility and accountability of officers, for the conduct of their subordinates".

Indeed this is the crux of the matter. The quality of any organisation or uniformed service depends on the calibre and the will of the leadership. We hope that Malaysian leaders at all levels will fulfill the public trust in them and lead effectively, so that their subordinates will be inspired and coerced to follow good example.

The public confidence in the strength and professionalism of the police force is paramount at this time of heightened international terrorism which can pose major problems of insecurity in Malaysia too. Hence the initiative taken by Dr. Mahathir Mohamad to review and propose solutions on how to combat international terrorism in Malaysia is a great step forward.

## **Fighting and defining terrorists**

The Special Session of the Islamic Conference on Terrorism in Kuala Lumpur on April 1, 2002 made a breakthrough in developing strategies to define and fight international terrorists.

The Conference was the first for world Muslim government leaders after the September 11 terrorist attacks on the U.S. It was attended by 52 of the 57 members of the Organisation of Islamic Conference (OIC) and was attended by foreign ministers or their senior representatives.

Dr. Mahathir Mohamad, in his opening keynote address, pointed out that the Israeli aggression and occupation of Palestine was like a "second holocaust", with Arabs being the victims. He boldly stated that "worldwide, there is a great deal of bitterness and anger among the deprived because of the resulting disparities between the rich and the poor, the strong and the weak. These factors can lead to acts of terrorism."

Dr. Mahathir also attempted to define terrorism as "armed attacks or other forms of attack against civilians and the perpetrators, as terrorists".

*Thus the terrorist attacks on the U.S. on September 11, 2001 and the Israeli attacks in Palestine can be regarded as terrorism while the Palestinian suicide bombers in Israel can also be regarded as terrorists.*

While this broad definition of terrorism and terrorists is appropriate, there would be many who would add a rider to this broad definition of terrorists. *Modification to the suggested definition would be that those suicide bombers and others, from countries under foreign military occupation, who kill their oppressors including civilians, could be regarded more accurately as martyrs rather than terrorists.* Thus the Palestinian suicide bombers would be

regarded as martyrs, since their territories have been attacked and illegally occupied by the Israelis.

Then the Israelis would be regarded as state terrorists and the U.S. government that supports the Israelis would also be considered as terrorist sympathisers and supporters? But this would be very difficult for the Israelis or the U.S. government to accept.

Hence the definition of terrorism and terrorists remains unresolved. What some would consider as terrorists, others would label martyrs.

However, the Conference was successful in that it unanimously agreed to:

- (1) Combat terrorism;
- (2) Reject any attempt to link terrorism to Islam and Muslims to the scourge of terrorism; and
- (3) Identify the root causes of terrorism in order to fight it effectively and not just militarily, but to win the hearts and minds of all those oppressed who turn to terrorism.

Hence the special Session of the Islamic Conference of Foreign Ministers on Terrorism in Kuala Lumpur left the complicated task to define terrorists to the proposed U.N. Conference on terrorism that could be held later?

In the meantime, while the U.S. has now backed the U.N. resolution in April 2002 for Israel to pull out of Palestinian territory and urging the adherence and enforcement of all U.N. resolutions pertaining to the Israeli-Palestinian crisis, the U.S. itself has been consistently flouting the international rules of law!



### **The U.N. should lead the world—not the U.S.**

Two important non-profit research organisations in the U.S. have in April 2002 reported that "the U.S. is undermining major international security treaties in a slide from the rule of law, towards the rule of power".

The studies were prepared by the Institute for Energy and Environmental Research and the Lawyers Committee on Nuclear Policy. The 188-page report, "Rule of Power or Rule of Law", analysed the U.S. response to eight major international agreements such as the Nuclear Non-Proliferation Treaty, the Comprehensive Test Ban Treaty and the Anti-Ballistic Missile Treaty.

The co-author of the report, Nicole Deller, stated that "The U.S. has violated, compromised or acted to undermine in some crucial way every treaty that we have studied in detail."

*If this authoritative report does not reveal "double standards" and U.S. government duplicity, then nothing else will.*

Despite all the denials of the U.S. in the past, it cannot now dismiss criticism of U.S. policies as "mere rhetoric".

The findings of this independent and professional report have serious implications for the moral authority of the U.S. in international law, politics and economics.

How could the U.S. enjoy any credibility when its record of the observance of the rule of law has been so tarnished? Indeed, how can the U.S. stand on any moral ground and claim the leadership of the world as its only superpower?

This is why it can be dangerous for world security if the U.S. continues with its "rule of power" in a unilateral way that they can now use with impunity. This is happening

with Israel that has ignored all the United Nations resolutions to cease its vicious attacks on the helpless people of Palestine.

The Israel line would be: if the U.S. can do it, why can't we? It is, therefore, paramount that all nations, especially the Arab states, unite to insist that the U.N. take over the leadership of the world and reject the misguided and unilateral leadership of the U.S.

Prime Minister Dato' Seri Dr. Mahathir Mohamad will hopefully get this message across to U.S. President George W. Bush at their forthcoming meeting in Washington, D.C. on May 14, 2002, a meeting seen by many in the business community as the opening of a new chapter in U.S.-Malaysia relations.

The U.S. and other powerful industrial nations must realise that a more equitable and just world order would reduce international terrorism and enhance human welfare and world peace.

At the same time, we have to concentrate on building our own economic resilience.

### **MIER's optimistic outlook**

The Malaysian Institute of Economic Research (MIER) announced on April 18, 2002, that it has revised upwards its earlier estimates of Malaysia's economic growth from 3.2% to 4.5% for 2002.

MIER's Executive Director Dr. Mohamed Ariff stated that MIER was not optimistic but realistic!

MIER's revised growth rate compares with the last October Government Budget estimates of 3.5% and the

Asian Development Bank (ADB)'s estimates of 4.8% for 2002.

The basis for the higher estimates are that, the U.S. economy has rebounded faster than expected, the stronger recovery in East Asia, the better performance of the stock markets and the revival of business and consumer sentiments in Malaysia. MIER expects the Malaysian economy to move even faster in the second half of 2002!

But the international economic situation is still so uncertain that I would be more cautious about being too upbeat about the economic outlook for 2002.

It is too early to revise Malaysia's economic performance unless of course there are many more positive international and domestic signs.

Even Alan Greenspan, the U.S. central banker, is cautious about the "quality of the U.S. recovery" as he pointed out in his remarks to the U.S. Congressional Joint Economic Committee in April 2002. The September 11 attacks on the U.S. still cast serious doubts as to the speed of the U.S. economic recovery.

Thus Malaysia's anticipated rapid export expansion, particularly to the U.S., cannot be assured. The currency peg need not make Malaysian exporters more competitive, although it provides stability and some certainty in international trading and business planning.

Malaysia was saved from recession in 2001, largely because of the government's enterprising pump-priming policies. But the Budget cannot carry on with much more countercyclical measures, without experiencing its own serious strains.

*Uncertain petroleum prices, the Israeli defiance of U.N. Resolutions and even the Israeli rejection of the U.S. insistence for Israel to withdraw from occupied Palestinian lands, can continue to cause grave instability and even war in the Middle East!*

Under these dire circumstances I find it difficult to be too optimistic about the world's rapid recovery and therefore Malaysia's own prospects to develop at faster than 3.5% this year, on the basis of present trends.

It is better to be more pragmatic and put our shoulders to the wheel to ensure that we are able to face the uncertainty and the rising competition and challenges of the growing forces of globalisation, rather than feel comfortable that we will be out of the woods quite easily!

Thus we need to cooperate closely with our Asean members to increase trade and investment. But can we work closely with some of these Asean neighbours, like Singapore?

**Singapore needs to inculcate  
a genuine Asean family spirit**

Singapore's Trade and Industry Minister Brigadier-General George Yeo made a welcome five-day official visit to Malaysia from April 16 to Kuala Lumpur, Perak, Kedah and Penang.

His messages were that Malaysia and Singapore "share a common bond like Siamese twins" and that the "two countries will emphasise the importance of a relationship and jointly face common challenges ahead of us."

*I heard him speak with gusto on this subject. But I somehow felt that his words would have been more convincing if they had been better backed*

*by real action that promoted good neighbourliness and Malaysia's confidence in Singapore's sincerity and goodwill towards its neighbours.*

But how could more trade and investment between our two countries be expanded at a faster pace when there are so many obstacles that Singapore has put in the way of closer cooperation?

There have been the perpetual problems regarding the unfinished package of proposals, including the now-stale water issue. The latest in a long list of controversies is the Singaporean land-reclamation projects in the Johor Strait.

So, the question is, how serious is George Yeo about his "reaffirmation to bolster bilateral ties, especially in exploring new opportunities in trade and investment"?

Yeo is, however, right in pointing out the vital statistics that underlie the close integration of both our economies. He highlighted the fact that 50% of intra-Asean trade is between Malaysia and Singapore, and that Malaysia has overtaken the U.S. as Singapore's major trading partner.

International Trade and Industry Minister Dato' Seri Rafidah Aziz also stated that total trade between Singapore and Malaysia was RM113 billion or about 16% of Malaysia's global trade in 2000.

More interestingly, Malaysia invested more in Singapore at RM2.86 billion in 2000, compared with Singapore's lower investment of RM2.18 billion in Malaysia! This lower Singapore investment is surprising if we compare the far larger size of Malaysia with Singapore.

Why some Malaysians find it more attractive to invest in Singapore and less so in Malaysia is worth studying by the Malaysian Investment Development Authority (MIDA)

and the Ministry of International Trade and Industry (MITI).

Nevertheless, it is clear from all these statistics that both economies cannot do without each other if we are both to develop at a faster pace in the face of rising competition from China and greater globalisation.

But somehow the political environment has not been conducive and enabling enough to sustain the essential need for greater economic and business cooperation between the two countries.

The Asean Free-Trade Area (AFTA) should be the framework to intensify trade, investment and tourism in Asean. However, Asean cooperation is being detracted and diluted by Singapore's persistent pursuit of free-trade areas (FTAs) with the U.S. and several other developed countries outside Asia, including Australia.

Yeo asserts that "Singapore's FTAs will not hurt its Asean neighbours but instead help them." But this is exactly where Singapore is wrong.

*What may be good for a small developed island city-state, with no natural resources and no rural economy or agricultural population, is not necessarily good for a much larger developing country like Malaysia and almost all other Asean countries, at this time.*

What we all need is to strengthen Asean and build up AFTA as a matter of higher priority and then to later establish FTAs with the highly developed countries.

In any case, it is indeed up to the individual Asean countries to decide what is in their best national interests, and not for Singapore to tell others what is good for them. This is the kind of condescending and know-all attitude that often gets Singapore into trouble with its neighbours

and seriously undermines Asean cooperation. *Kiasuism* (or oneupmanship) may be good for inside Singapore, but should not be used against the Asean family of nations!

Actually, Singapore risks Asean suspicion of its motives when it readily provides opportunities for powerful developed countries outside Asia, to come by the "back door" like a Trojan Horse into AFTA!

What we need is a genuine Asean family spirit to constantly consult and develop consensus before individual Asean countries embark on adventurous policies and projects that could cause misunderstanding and even miscalculations in our fraternal relations.

Asean countries would therefore do well to develop new mechanisms for closer consultation, cooperation and consolidation within the newly established AFTA. Then Asean could progress faster towards greater collaboration within the context of sharper international competition.

Otherwise, Asean will weaken and could run the risk of being "gobble-ised" with the onslaught of globalisation! For these reasons, I hope Malaysia and Singapore, and other Asean members, could build stronger regional family ties for the mutual benefit of all Asean brothers and sisters.

### **New water agreement with Singapore?**

*With all the controversy and confusion as to how and when we can meet our own drinking water requirements, I do not understand why we should give priority to settling a new water agreement with Singapore.*

Our enthusiasm to help Singapore should definitely be dampened by the poor neighbourliness they show to us. After all, shouldn't charity begin at home?

I was indeed saddened by a statement made by Singapore's National Development Minister Mah Bow Tan that Singapore will continue to carry out its land reclamation project in the Johor Strait.

Such an unneighbourly and stubborn stand will surely upset the equilibrium in the negotiations for the long outstanding issues between both countries, particularly that relating to the vital water problem! Perhaps it is a blessing in disguise that Singapore started this unfriendly reclamation project in the Johor Strait.

At least now we know how considerate they are of Malaysia's interests. They have underlined the need for us to look seriously at our own interests first, even at the expense of other countries! Our strength in being soft and gentle is becoming our weakness in negotiating against our hard and selfish neighbour! We must change our strategies and style.

Brigadier-General George Yeo in his official visit to Malaysia in April 2002 rightly pointed out that Malaysia and Singapore should closely cooperate and should settle their differences quietly. He added that we should "hang together or we will hang separately" if we do not cooperate in dealing with the economic threat of China. But that is a lot of exaggeration. In any case, Singapore cannot say one thing and contradict its thesis by undermining Malaysia's interests by not consulting its friendly neighbour, before reclaiming land so near the shores of Johor!

*We must change our strategy in dealing with selfish Singapore. Otherwise, we will lose out. I do not think Malaysians are prepared to be taken for another ride!*



To fight external threats, we must strengthen our internal resilience.

### **WTO causes poverty?**

The well-known international aid group Oxford International stated on April 11, 2002, that global trade rules are "making rich nations richer and keeping millions of people locked in poverty"!

Development-agency Oxfam has now launched a three-year campaign to change world trade rules to ensure that globalisation and international trade works for the people in poor countries and not against them.

Oxfam hopes to get "full trade access" for poor countries into the markets of the rich countries. In other words, it is the old cry of the Third World which has asked for more trade, rather than aid, for a long time!

Unfortunately, the rich countries prefer to give aid (when they have it) rather than provide fair trade. This is because they want to create a "dependency syndrome" among the developing countries. They also hope to sell their goods and services to the poor countries which are often required to import goods and services from donor countries as the aid is mostly "tied to imports" from the donor countries.

Oxfam's campaign requires the rich countries to adopt the following policy measures:

- (1) **Ban subsidies of agricultural exports from industrial countries and thus reduce overproduction.** About US\$360 billion is given out as subsidies for agriculture in the rich

countries every year, while only US\$36 billion is provided in annual aid to the Third World!

- (2) **Stabilise prices for primary commodities at higher levels and pay more to small farmers.** Malaysia was fully involved in the past in negotiating commodity price stabilisation schemes, together with other producers of tin and rubber, like Bolivia, Indonesia and Thailand. However, these commodity agreements were undermined by the U.S. stockpile schemes and by other rich countries in the international negotiations. Hence Malaysia and other countries just gave up on these commodity price stabilisation schemes as they moved into more manufacturing industries.
- (3) **Introduce fairer patent rules that ensure poor countries can afford new technologies and basic medicines and needs.** The classic abuse of these patents has been evidenced in food grains like the Indian Basmathi rice and the traditional medicines derived from saffron. Worse still is the case where the rich countries have denied South Africa and other poor countries the right to manufacture generic drugs to fight the scourge of HIV/AIDS.
- (4) **Provide more financing for better employment, health and education standards, especially for women.** This is more a matter for the poor countries to plan and implement. But the rich countries could also help. However, the World Bank is under pressure from the rich countries to lend more for infrastructure projects where their

loans and aid can be tied to their exports of machinery and equipment.

Many poor countries have pitiable policies of discriminating against women in the development process. This has tragic and far-reaching implication which are impediments to overall socioeconomic development, as women form about 50% of the world's population.

Many Third World countries give higher priority to "prestige projects" rather than to the more mundane but essential "basic needs" projects and programmes in the fields of education, housing and health. This practice is unacceptable because it is debilitating and destroys the very development process.

- (5) **Help poor people in developing countries to gain access to markets and benefit from trade, through more rational national and regional policies.** It is only fair that poor farmers and fishermen in poor countries are enabled to sell their food and fish products to the markets in the towns where the richer people can afford to buy their produce. But unless there are firm policies to build roads and bridges to make this access to markets possible, the produce of the poor will fetch bad prices and even be wasted.

The 271-page *Oxfam Report* came out with a startling finding that "if Africa, East Asia, South Asia and Latin America were to increase their share of world exports by 1.0%, the resulting gains in income would lift 128 million people out of poverty".

According to the *Oxfam Report*, a 1.0% rise in exports to the rich countries would generate US\$70 billion a year, which is five times more than the total aid received by the whole African continent! This fact alone indicates how much more superior the impact of access to the markets in the rich countries, as compared to the mere giving of aid!

Indeed, there is now growing global sentiment that the unfair trade practices of the rich countries are causing poverty to worsen in the poor countries and that poverty is creating the "breeding ground" for international terrorism.

I would appeal to all the rich and powerful countries to review all their trade policies with the Third World and to revise them through the World Trade Organisation (WTO) in order to ensure that they give Third World countries a better deal through "fair trade policies". This will enable them to overcome abject poverty and at the same time fight international terrorism!

*If the rich countries do not learn the lessons from the tragic attacks of September 11 on the World Trade Center in New York and the Pentagon in Washington, D.C., then it is likely that these attacks will recur and international terrorism will continue to thrive and even expand all over the world.*

These international developments have a strong impact on the evolution of the Malaysian economy, which we must monitor constantly.

## 7

# Be Aware of Foreign Economic Surveillance

THE World Bank's regional chief Homi Kharas stated on April 9, 2002 that East Asia, with the notable exception of Japan, is leading the world economy and will accelerate growth in the next two years.

The World Bank estimates that East Asia (excluding Japan) will expand by 4.5% in 2002 as compared to 3.5% in 2001 and could grow to as much as 6% in 2003! The Bank, however, qualified its assessment and stated that it was "tentative" as it was contingent upon continuing "reforms" that need to be taken to "accelerate restructuring"! The future prospects of higher oil prices under the circumstances of the Middle East crisis, as well as the

possible lack of U.S. economic recovery, are factors that could overshadow the brighter economic prospects for East Asia and its capacity to lead the global recovery.

At the same time, the Malaysian economy is perceived by the ADB on April 9, 2002 to be recovering satisfactorily and with good promise of sustainable economic growth. The ADB has projected Malaysia's economic growth at 4.2% for 2002 and 5.8% for 2003, with inflation rising to 2.3% in 2002 (1.4% in 2001) to 2.8% in 2003. But I believe that these projections are subject to the serious developments now taking place in the Middle East!

### **Morgan Stanley**

At about the same time, Morgan Stanley Asia has commended Malaysia on its "major restructuring achievements". Morgan Stanley is happy with the progress made by the success of Danaharta (the asset management company set up in 1998 to take over, manage and eventually sell a slew of bad loans then clogging the system) in removing the bulk of non-performing loans (NPLs), the recapitalisation and consolidation of the banking system, and the restructuring of corporate debt to the tune of US\$8.7 billion by the Corporate Debt Restructuring Committee (CDRC).

*However, Morgan Stanley appears concerned with Malaysia's ability to overcome the one other "structural impediment" to the continuation of Malaysia's economic progress: the sensitive issue of the Malaysian ringgit currency peg which is fixed at US\$1.00 to RM3.80 in September 1998 at the time of the Asian financial crisis!*

The currency peg did save the Malaysian economy from deteriorating further at the time of the financial crisis.

It also helped to provide stability during those terrible times of great business uncertainty with the highly volatile fluctuations in currency and interest rates.

This currency peg issue should be carefully monitored. While it has helped us in the past, it could turn against the Malaysian economy if we are not open enough to managing change in a very dynamic environment!

### **Fitch Ratings's concern over Dr. Mahathir's successor**

Another positive international assessment has come from Fitch Ratings, following in the footsteps of Moody's and S&P's, for upgrading our long-term foreign and local currency debt to "BBB" and "A" respectively! However, Fitch is also concerned about the durability of the fixed exchange rate or the currency peg.

*Furthermore, Fitch is also concerned about the succession after Dr. Mahathir Mohamad's retirement in October 2003. This is unfounded.*

However, I believe that the foreign financial analysts are not wrong in being concerned about the continuation of the Malaysian currency peg and the continuing competitiveness of the Malaysian economy, particularly with China and AFTA emerging as stronger competitors.

The economic history and record of Malaysia is one of economic pragmatism. There is no ideological or doctrinaire approach to economic management. What is essential and relevant at one time is often abandoned for something more relevant and useful at another time, depending on the exigencies of that particular time and the circumstances.

Hence, I would be concerned but not worry unduly about the currency peg. When it is seen to be unnecessary and irrelevant it will be dumped. However, as long as it is useful, it will be kept.

But the problem will still remain on the actual timing for the disposal of the currency peg!

As regards to Dr. Mahathir's successor, there is less basis for concern. Unlike many developing countries, Malaysia has a mature and active democracy. Its political parties are, similarly, relatively well developed and able to cope with change and succession.

In fact, in Malaysia's case, Dr. Mahathir has constantly said publicly that his deputy, Dato' Seri Abdullah Ahmad Badawi will succeed him as prime minister.

The Malaysian General Elections are defined by the Federal Constitution to be held by November 2004. Given Dr. Mahathir's enviable health and energy, there is every confidence that he will win another landslide victory for the ruling Barisan Nasional (B.N.) and enable Dato' Seri Abdullah Ahmad Badawi to lead Malaysia effectively.

So there is no cause for concern among our foreign analysts who ask far more questions of us than they would in their own countries, even when they experience more political uncertainty!

But there is some uncertainty in the economy mainly because of the weak international economic outlook.

### **MICCI's favourable business survey**

Although there is still considerable uncertainty on the business outlook for the world economy, it is encouraging that the Malaysian International Chamber of Commerce



and Industry (MICCI) is much more confident of Malaysia than it was just six months ago.

Its half-yearly *Business Outlook Survey* of 1,000 foreign companies released in April 2002 has indicated that of those respondents to the survey:

- (1) 50% predict that the business prospects of their companies will be better and only 5% felt their companies would decline;
- (2) 28% expected that expansion is likely to take place in the next six months;
- (3) 46% of the manufacturers thought that their production would increase, while only 15% felt that their production would fall;
- (4) 40% anticipated an increase in local sales and 29% were confident about export sales; and
- (5) 66% indicated that costs of doing business had remained unchanged, while only 30% reported a rise in costs.

All these encouraging signs underline the expectations that the economic prospects for stronger recovery are credible. Thus the economic growth rate of 3.5% for 2002 forecast by the central bank has now been apparently reinforced.

Independent international surveys such as MICCI's do add confidence to the business perception of improving business prospects in Malaysia. Foreign investors are much more likely to take the findings of their own international chamber's assessment of the Malaysian business outlook

than any Malaysian government or even local private judgement on business prospects.

The *MICCI Report on the Survey* should be carried by our many government trade missions abroad and waved high in the air to attract the attention of foreign investors and to nail some of the vicious propaganda against investing in Malaysia, like that of CalPERS, the California-state pension fund.

This growing confidence in the stronger recovery of the Malaysian economy is also shared by Moody's Investors Service. It raised its outlook for Malaysia's sovereign credit ratings from "stable to positive" on April 3, 2002.

Moody's even indicated that it could have "an upgrade" in the second half of the year! Thus Moody's could upgrade the present ratings of Baa2 and Baa3 for foreign currency ceiling and for bonds and bank deposits. This would provide a real stimulus to the stock market and the investment climate. The higher ratings would place Malaysia in the same category as South Korea, which is regarded as a developed country.

But we cannot take our economic development for granted. We must have real surveillance of Asean economies and our own economy, as they are interdependent.

### **Asean Surveillance Peer Review Group**

The 6th Asean Finance Ministers' Meeting was held in Yangon, Myanmar (Burma), on April 5, 2002.

At this meeting the Asean Surveillance Peer Review Group discussed the Asean countries' individual current economic and financial policies, and their economic

performance and future plans, to sustain the encouraging regional economic recovery.

This peer review group is a fine concept as it enables Asean finance ministers to compare notes and to share economic and financial intelligence that will help them improve the economic management of their own countries, as well as Asean's interrelated economies.

The adverse "contagion effect" of the financial crisis of 1997 that started in Thailand could have been minimised if there had been more regional monitoring, consultations and cooperation to contain the early signs that led to the financial collapse in Southeast Asia.

### **Defensive issues raised by Malaysia**

The Deputy Finance Minister Dato' Dr. Shafie Mohd. Salleh, who led the Malaysian delegation to the Asean Finance Ministers Meeting, made the following pertinent points to the peer review group at the 6th Asean Conference in April 2002:

- (1) The federal government's deficit will dwindle in achieving a balanced Malaysian Budget by the end of the 8MP in 2005. This is of course a worthy goal as there has been some concern that the Budget had already been in deficit for the last 5 years. But to aim for a balanced Budget in the next three years is quite a long time. That means that the Budget would have been in deficit for 8 years if the aim to balance the budget is achieved in 2005!

It is hoped that a balanced Budget could be reached sooner as there can be economic threats from other sources in the next three years. For instance, the balance of payments can deteriorate further, imported inflation could rise, and the international economy could still be relatively weak.

- (2) Dr. Shafie also said that "policy issues in 2002 would focus on ensuring that Malaysia's economic recovery gathers momentum while minimising the downside risks." Does this mean that new policies will be introduced in addition to the Budget 2002 policies that were presented in October 2001?

*Indeed new policies would be necessary, particularly if the international economy does not pick up as strongly as has been expected. But the new policies cannot be in the form of fiscal measures because of the Budget strains.*

There are also some limitations for manouvre on the monetary side as interest rates are already quite low.

So in what areas are the policy initiatives to be taken? The answer is to relax some of the rules and regulations that are less attractive than those in the countries that compete with us.

We have to examine where we are lagging behind in our basic incentives or disincentives as compared to our other AFTA members and ask ourselves whether we can afford to become more attractive for more investment, both local and foreign.

It has to be realised that under AFTA our own investors have a much wider choice. They can undertake future expansion in Thailand or Indonesia or any of the other seven AFTA countries where some comparative advantages like cheaper labour and the proximity to bigger markets, are readily available.

For instance, in the field of education there are already many Malaysian entrepreneurs who are investing abroad although the demand for and the need to expand private tertiary education in Malaysia is still largely unfulfilled.

- (3) Dr. Shafie's third important point was that "with increasing globalisation and competition, focus should also be on addressing concerns in the local economy."

*The local concerns are the many unfulfilled basic needs for housing, better health and transport facilities, quality education, cleaner water and other amenities, which all add up to the eradication of poverty and the improvement in the quality of life.*

But the Budget cannot be stretched much further to accommodate all these important needs. The answer must lie in the provision of some of these basic needs through privatisation!

However, can privatisation meet the basic needs of the poor and the lower-income groups without penalising and even impoverishing them?

I do not think so. Unless, of course, there is considerable cross-subsidisation. Thus the policy of "differential pricing and rates" will have to be

introduced where higher-income consumers will have to pay higher prices for the same public goods and services while the poor and lower-income groups could be charged much less for basic utilities like water and electricity! Will this be acceptable?

This will be the case for those who can afford should pay more to help the poorer members of our society. The obvious problem that could arise is that because the poor will pay less, they might be tempted to take things for granted and waste or abuse these privileges or facilities.

*The solution then would be not to deny the poor cheaper access to basic facilities, but to ensure through proper enforcement that the poor do not abuse the benefits they enjoy as a result of the sacrifice of those who are better off. The better off in our society must not be forced to pay higher prices to subsidise wastage and any abuse of the privileges given to the poor.*

(4) The other measures indicated by the deputy minister to address the concerns in the Malaysian economy are:

- (a) extension of corporate restructuring;
- (b) deeper private-sector involvement (in economic development);
- (c) broaden the economic base to reduce dependence on any one industry; and
- (d) enhancing human resources, efficiency and productivity.

These are important aims, but they beg the questions as to how these goals are to be achieved and what specific plans are there to realise these legitimate aspirations.

On corporate governance, there are many good new rules and regulations introduced by the Securities Commission (S.C.) and the Kuala Lumpur Stock Exchange (KLSE), but much more has to be done to strengthen enforcement. Minority interests have to be more clearly and better protected.

*Deeper privatisation could be helpful but the policies have to be more transparent and be seen to be more in the public rather than in the private interest. Privatised entities should not be allowed to get away with weak management, high pricing and unreasonable profits but low-quality services.*

Broadening the economic base cannot be done speedily unless the government "adopts within five years a truly liberalised position to foreign equity and ownership, in both the manufacturing and service sectors". This major concession was raised by the Malaysian International Chamber of Commerce and Industry at the MITI Annual Dialogue 2002.

But can the government accept this challenge? Is it worthwhile to open up so drastically just to expand economic growth, without giving due consideration to ethnic balance and equity and even national unity?

This is a tough choice in the light of the rising tide of international competition under globalisation and the challenges from the low-wage economy of China.

*The great international uncertainty in security and the economic outlook at this time makes it incumbent and imperative for Malaysia to review and revise our longer-term economic policies. This is essential*

for Malaysia to meet the new international challenges soon or to slide fast from the current creditable position as one of the world's most successful developing countries—and the most successful Muslim democracy!

Thus, although the Malaysian economy is recovering and foreign economic analysts are commenting favourably on Malaysia, the perceptions among many Malaysians somehow do not appear to be as positive.

It could be because Malaysians do not see the real benefits in their own welfare and well-being. They therefore need to be consulted more and brought into the mainstream of economic management at all levels, so that they will better understand and appreciate Malaysia's socioeconomic progress.

Hence Malaysians must take the trouble to understand Malaysian economic developments and prospects as they will be directly affected by these economic issues. This is why much more public debate on economic policies is essential. We need to widely discuss our socioeconomic prospects and policies necessary to meet our changing challenges!



## 8

# Economic Concerns and the Future of the New Economic Policy (NEP)

**WHAT are Malaysia's economic prospects after June 2002?**

The middle of 2002 has now come and we are waiting for the "turnaround" in the U.S. and the world economy that was projected by the majority of international economists.

But the Organisation for Economic Cooperation and Development (OECD) claims that the slow recovery in the U.S. "has taken root"! Its growth is estimated at 2.5% this year, according to the Paris-based club of the richest nations, while its growth for 2003 has been revised downward to 3.5% from the earlier forecast of 3.8%.

Although the U.S.'s economic growth expanded by 5.8% in the first quarter of 2002 on an annual basis (the fastest in two years), half of the expansion was due to the replenishment of inventories. This is why this growth spurt is called an "inventory bounce". It may turn out to be just that and not a major economic recovery in the U.S.!

In fact, the consensus forecast of the 51 prominent U.S. economists in the latest Blue Chip Economic Indicators in May shows that the U.S. economy will grow at a slower pace than expected earlier. Nevertheless it is estimated to expand by 2.8% for the whole of 2002 as compared to only 1.2% in 2001!

However, for 2003, the survey is more optimistic in that the estimate rises to 3.5%. Is this realistic? It is not clear at this time!

The Federal Reserve Board policy on low interest rates appear to remain slow to change. With the current overnight bank lending rate still stuck at a low of 1.75%, it is unlikely to be raised by the Fed in the near future. Low inflation rates have encouraged the Fed to keep to its consumer boosting policy. But inflation could start to rise and then the Fed would wish to contain it.

The E.U. is expected to expand by only 1.3% this year (lower than the 1.4% estimated in November 2001) and to rise to 2.9% next year.

Japan is the worst of the three major economies. It is expected to contract by 1.7% in 2002 and to grow by a mere 0.3% in 2003!

### **What does all this mean for Malaysia?**

There is no doubt that the Malaysian economy has recovered from a "technical recession" in 2001. Confidence in the economic recovery and growth has slowly grown.

Dr. Mahathir Mohamad's successful meeting with President Bush and his major Cabinet members and leading businessmen in Washington, D.C. in May 2002 has boosted U.S.-Malaysia relations. The immediate economic outlook is therefore encouraging. However, confidence in the extent of its sustainability is still in some doubt! Our relations with the U.S. tend to blow warm and cool!

At present our economic fundamentals are strong, although the budget deficits, the declining FDI, and the narrowing balance of payments surpluses are beginning to raise concerns for the medium outlook.

*It is this lack of confidence in the short term but concern for the medium term that is also dampening the enthusiasm despite good current economic fundamentals.*

### **What are the worries in mid-2002?**

*First, anyone can see from the constant revision of global growth estimates that the forecasts of even the experts can go awry.*

Furthermore, there are so many imponderables or variables that make even the latest economic projections soon become dubious. For instance, the projections are dependent, *inter alia*, on petroleum prices. This, in turn, is influenced by the prospects for peace in the Middle East. The longer the U.S. takes to be tough with Israel for illegally occupying Palestinian territory, the more terrorism is likely to occur in the U.S., and the greater the Arab pressure to keep oil prices up.

*Second, the U.S. unilaterally raised its tariffs on steel imports and farm subsidies. This can cause retaliatory trade wars with other powerful industrial countries in Europe, Japan, China and elsewhere.*

*Third, the economic mismanagement in the U.S. is causing its Budget and balance of payments to further deteriorate, and this can adversely affect the sustainability of the weak economic recovery that is only now slowly "taking root" in the U.S.*

*Fourth, the low interest rates in the U.S. and Euroland should not be raised too soon and too fast as higher interest rates could suppress consumer spending and frustrate faster economic recovery. But with growing U.S. deficits, overnight interest rate may have to rise from the present 1.75%, which is the lowest in 40 years, to increase savings and investment in the longer term.*

*Fifth, if the U.S. administration goes crazy, runs roughshod over international opposition and attacks Iraq, the U.S. budget deficit will deepen and interest rates will have to be raised to counter inflationary pressures. Thus, the Israeli-Palestinian crisis should be resolved first. There is significant concern that this conflict could escalate beyond control.*

Dr. Mahathir has always been firm in his condemnation of the World Trade Center attacks as well as the spate of suicide bombings in the Middle East. His recent trips to Washington, D.C. and the Vatican have further underlined his commitment to religious moderation and good interfaith relations.

Hopefully, the historic meeting between Dr. Mahathir Mohamad and Pope John Paul II will hasten the solution to this tinderbox of a conflict in the Middle East. Perhaps Malaysia could also persuade the Pope to use his great influence on the rich and powerful Western Christian

nations to be fairer and equitable to the poor and weak nations, especially in international trade and aid.

That alone could reduce the root causes of international terrorism and enhance world peace and socioeconomic well-being.

All these possibilities can seriously undermine the sustainability of the world's economic recovery!

The Hawks in Washington are reported to be waiting to launch the attack on Iraq after the Israeli-Palestinian conflict cools down. This attack could take place at the end of 2002 or early 2003. According to the *New York Times* of April 28, 2002, there are definite contingency plans to send 70,000 to 250,000 troops to the war zone in Iraq.

What is uncertain though is the exact timing of an attack on Iraq. There should hopefully not be any threat of an oil crisis or any likelihood of the use of the Arab "oil weapon". *Without U.S. intervention, the Israeli-Palestinian conflict can never be resolved.* The terror that this conflict engenders will not die down, and there will be no end to the oppression of the Palestinians, unless the U.S. withdraws wholesale support for Israel and leave it to the U.N. to manage the conflict.

### **What is the state of the Malaysian economy?**

For now (in mid-June 2002), the Malaysian economy is recovering well. Its fundamentals are sound: growth is hovering at around 3%, inflation is around 2%, the balance of payments are in surplus, foreign reserves are about five months' worth of imports, unemployment is low at about 3% (we still have about 1.5 million foreign workers). But what are the future prospects?

### **Future challenges**

*For the future, the challenges are mounting and are as follows:*

On the domestic scene, there are several concerns:

- (1) The balance-of-payments surpluses are narrowing and could get into deficits if the world demand for our electronic exports do not pick up fast enough.

Imports are rising as the economy grows out of the slowdown. That is why the Treasury has instructed government agencies to "use local materials, goods and services". Those agencies and officials that do not do so are likely to face the penalties of surcharge and the contractors would be "blacklisted" and denied future contracts.

No doubt these are drastic measures and should only be imposed during critical times. Some argue that the Malaysian economy is recovering, so why impose these radical measures at this time. Will they not stifle the recovery process through these constraints? But obviously there is rising government concern!

But if Malaysian goods and services are competitively priced and are of good quality, why should the government agencies and contractors want to import foreign goods and services, unless, of course, they are superior in quality and price? Does this policy suggest that our goods and services are of poorer quality and more expensive?

- (2) The Budget deficits have been with us for about five years. Can they be controlled and when?

Deficits cannot be sustained for too long, especially if there is too much wastage and leakages!

- (3) The ringgit peg is tied to the U.S. dollar at RM3.80 to US\$1. Now that the U.S. dollar has been weakening, after about 5 years of strengthening, the Malaysian ringgit is also losing ground. It has lost about 10% from April to June 2002! It can weaken further, but what do we do about it?

Malaysia's exports will benefit while our imports will cost more if the ringgit weakens. This could increase the low inflation that we now enjoy. Our debt in terms of other currencies like the Japanese yen, would also rise in terms of Malaysian ringgit, because of a weaker ringgit.

One way out, as suggested by Chief Economist William Dudley of Goldman Sachs is to "sever the (ringgit) peg" to the U.S. dollar!

In the longer term this would be the solution because Malaysia has to have a more independent foreign-exchange policy, instead of being tied to the U.S. dollar. This is necessary as the strength of the U.S. dollar is naturally determined by the U.S. Federal Reserve Bank's policies, based on its own narrow national interests!

The *external scenario* indicates that:

- (1) **The world economy is not recovering fast enough.** It is still fraught with uncertainties!
- (2) **AFTA is upon us.** Can we compete effectively? Although most of our import duties for AFTA

- goods are between 0 and 5% already, we still may not have seen the full impact of the competition and the gradual substitution of our goods as yet!
- (3) **China's challenge to our exports of goods and services will be strong, especially in our labour-intensive industries.** Their wages and productivity can pose serious threats! Let us not fool ourselves and think that it will be "business as usual".
  - (4) **Globalisation will compel us to be much more competitive.** But can we face the challenges of globalisation and greater international competition through WTO pressures to open up even faster than we want to?

*Dr. Mahathir has repeatedly called for more competitiveness—but are we ready?*

### **World Competitiveness Yearbook**

*Sixth, competitiveness is becoming more crucial to Malaysia's export potential and sustained economic growth and its capacity to pursue greater social equity.* But Malaysia's ranking in the *World Competitiveness Yearbook* compiled by the Institute of Management Development (IMD) in Switzerland came out 29 out of the 49 countries surveyed in 2001.

For 2002, the ranking has improved considerably to number 26. However, this ranking is still just above the mid-point of 24.5.

Singapore and Hong Kong, the highest scorers in the IMD World Competitiveness Index, fell by three points each to register rankings of 5th and 9th respectively. The



other Asian high-flyer Taiwan dropped in its ranking from 18th last year to 24th this year. These declines were largely attributed to their poor economic performance after the recent Asian financial crisis and the adverse impact of the September 11 attacks on the U.S.

One-third of the data was provided by corporate executives and the rest came from economic and other statistics. These included the usual indicators like economic growth, inflation, fiscal policy, management practices, and among others, the impact of globalisation.

Jose Lopez, President of the Malaysian International Chamber of Commerce and Industry (MICCI), which represents about a thousand companies resident in Malaysia (mainly foreign) was quick to welcome our improvement in this Competitive Index. *Lopez said that what is important now is to continue with liberal and pro-business policies while emphasising the continued need to improve productivity and quality.*

Indeed, it is time we reviewed all economic (and especially business) policies and practices to ensure that we have as friendly a business environment as possible. I say as friendly as possible only because we have to ensure that the balance between economic growth and equity is maintained in the context of Vision 2020 and national unity.

If these affirmative-action policies are implemented fairly and effectively, I have no doubt that Malaysia will climb up the World Competitive Index, despite the underlying principles of the New Economic Policy (NEP).

But if the NEP principles are not properly administered, then they can be a major drag on Malaysia's competitive capacity, especially with the growing impact of AFTA, China and globalisation.

## The future of the NEP?

*The recent controversy over the admission of students to public universities based on meritocracy has been widely challenged for its validity and its impact on the government's credibility.*

We must never have a policy of "managed meritocracy". Public and foreign confidence is vital for a conducive business and economic environment. But there are contradictions.

Deputy Prime Minister Dato' Seri Abdullah Ahmad Badawi said on May 24, 2002 that *Bumiputera* students are capable of excelling academically and competing on the basis of meritocracy!

This is wonderful news when the true standards of meritocracy are applied on an even playing field of open competition, without any push from behind and no side entrances to public universities. But the public is not sure if real meritocracy is actually practised!

Then it will be possible to seriously consider the withdrawal of all the protection that *Bumiputera* students have enjoyed through the quota system for entry to universities, for government jobs and for all kinds of licences and contracts and the wide range of preferences and privileges that *Bumiputeras* have enjoyed for so long after Independence!

*But is the government ready and confident enough to come out openly to follow through with the major modification of the basic tenets of the NEP. Is the government ready to review and revise this sensitive policy that has been taken for granted by the Bumiputeras for so many years?*

A thorough review of the NEP should be carefully undertaken. It will be quite difficult to justify the continuation of the NEP and National Vision Policies if the *Bumiputeras* are able to

compete on "real merit" with the other Malaysian races, particularly with the Malaysian Chinese who are regarded as diligent and enterprising!

The other contradiction is the considerable opposition to the greater use of English in our schools and universities. This is unproductive, if not counterproductive!

The allegations of slow justice against corruption and criminal breach of trust for some big names, also undermines confidence.

The confusion over the traffic summons and the public inconvenience caused by *Ops Warta II* has not helped either!

These kinds of public questions cast doubts and uncertainty and do not promote public confidence.

These issues should be settled soon to encourage longer-term faith in our management capacity to sustain good governance.

Dr. Mahathir rightly remarked at the opening of the Budget 2003 Dialogue on May 30 that the private sector must be "more competitive, creative and productive". But the private sector often asks whether the Malaysian business environment is sufficiently conducive and attractive? We need to strike a better balance between efficiency in the public and private sectors.

However, the present business climate has been improving. This is evidenced by the Petronas bond sale on May 15, 2002, when the initial bid for US\$1.5 billion was raised to US\$2.7 billion after offers came pouring in for about US\$7.0 billion. This is surely a strong expression of confidence not only on Petronas, but for Malaysia itself.

This surprising turn of events made Dr. Mahathir (on his visit to Washington, D.C. in May) say, "If previously

Malaysia was regarded as insignificant, now it looks like we are being given greater attention and at the same time they are placing high hopes on Malaysia".

But we have to continuously strive to sharpen our competitiveness and build up public confidence, through the development of more sound policies and best practices, based on "*genuine meritocracy*", if our economic recovery and prospects are to be strong, steady and sustained!

These are some of Malaysia's internal problems and contradictions.

However, at the same time, the Malaysian economy is threatened with external factors that are beyond its control. For instance, there is now great uncertainty resulting from the Israeli military attacks on Palestinian territories. The Israeli attack on the Palestinian refugee camp of Jenin has shocked the Arab world and indeed all fair-minded nations and peoples.

Since the U.S. is generally regarded as a strong ally of Israel, even the U.N. Fact-Finding Mission that was appointed by the U.N. to examine the charges of Israeli massacres in Jenin, has had to be withdrawn by U.N. Secretary-General Kofi Annan, because of Israel's refusal to cooperate.

Tensions in the Middle East have therefore been running very high. There is a growing threat that the Arab oil producers may out of sheer frustration retaliate by using the "oil weapon" to hit back at Israel and its backer—the U.S.!

### **Will the oil weapon be used?**

The results of the crucial meeting on April 23 in Washington, D.C. between the Saudi Crown Prince Abdullah and U.S. President George W. Bush will largely determine the pace of recovery of the world economy and its longer-term outlook!

The detailed decisions concluded at this meeting have not been made public. But we have to watch the oil production levels from Saudi and other Arab wells to see if the famous "oil weapon" is finally being used as the Arab trump card against the U.S. and its allies. *The U.K. is a staunch ally of the U.S. and is being called the "poodle of the U.S.", while the U.S. is being called the Great Satan!*

The international benchmark Brent Crude Oil price has gone up to around US\$26 per barrel or about 25% since March this year. This is because the Organisation of Petroleum Exporting Countries (OPEC) which controls 66% of world exports, had cut output by 20% from the beginning of 2001.

The critical question is whether OPEC will make further cuts in output and raise oil prices?

Iraq has already suspended exports on April 8, 2002, in protest at the U.S.'s "blatant bias" against Palestine. Iran and Libya could follow Iraq, if the U.S. allows the Israeli government to drag its feet in pulling out of occupied Palestinian lands and if the U.S. fails to accept the Arab-backed Saudi formula for peace in the Middle East.

The executive director of the Western-led International Energy Agency (IEA) Robert Priddle has already appealed to OPEC to increase oil supplies, because

there could be faster economic recovery but lower supplies to meet the rising demand for oil, in the latter part of 2002.

But why would the OPEC or particularly the Arab countries oblige the West when the U.S., the U.K. and other European allies, have not been tough enough on the Israelis, to desist from their illegal occupation and wanton destruction of Palestine?

*Although it will be unfortunate for world economic recovery, the use of the oil weapon may be the only way of forcing the U.S. to act expeditiously with an even hand, in dealing with this inflammable and dangerous conflict between Israel and Palestine.*

What other alternatives do the oil-producing Arab states have but to use the oil weapon to end the horrible suffering and brutal death of their brothers and sisters in Palestine. They do not have a Big Brother like the Israelis have in the U.S.!

Indeed, the oil weapon could be far more powerful than the massive U.S. aid and U.S.-supplied Israeli armaments. Yet the use of the oil weapon will not cost any loss of life and limb!

Furthermore, the successful use of the oil weapon will not only force the Western world to reach a final solution to the Israeli threat to Palestine, but would bring about a greatly improved environment for sustained world peace, prosperity and progress in the future.

*So I believe the oil weapon should be used discreetly against the "state terrorism" of Israel. Then there would be peace and the world economy will strengthen and stabilise in the longer term.*

But many of the rich and powerful Western countries have a different view of international terrorism and its links, not with the al-Qae'da—but with globalisation!

The thinking expressed by the director-general of the British Institute of Directors (BID) in London in April 2002 is therefore worth analysing.

### **Globalisation and terrorism by big British business**

The director-general of the British Institute of Directors, George Cox argued in an article in Malaysia's *New Straits Times* on April 28, 2002, that: "Globalisation is not the best hope for the world's poor; it is the *only* hope!" and that, "To call for the end of globalisation is to call the end to the weather. It is unstoppable!"

His message sends dangerous signals to the vast majority of the world's billions of the poor. All they ask is for a human face of equity and justice for a new humane globalisation, rather than the present brand of globalisation that smacks of economic imperialism, that will destroy rather than benefit the world's poor.

*George Cox is wrong on two counts.*

First, globalisation in its present form, as pushed by the U.S. and some of its blind ideological followers, is not the best hope but could become the "worst hope" for two-thirds of the world's population who are the poor and almost entirely in the Third World.

Second, nobody has called for the "end of globalisation", but billions of the world's poor have been demanding and demonstrating all over the world for a gradual and compassionate approach to globalisation, one

that could genuinely benefit the poor much more or as much as the rich and powerful.

*Indeed there is worldwide suspicion that George Cox and his kind would use all the arguments to ascertain that they know better as to what is good for the poor developing countries.*

They take this "all-knowing" line in order to accelerate the pace of globalisation, to maintain their economic and political hegemony over the poor. This will enable them to sustain the disproportionate dominance of the world by the rich and powerful North, over the poor and weak South, that was mainly under exploitative colonial rule for hundreds of years.

Cox believes that "the violent protests may gain limited sympathy". On the contrary, the protests at Seattle, Washington, and Davos, etc., have enjoyed large scale admiration and support from Third World countries and have had the salutary effect of actually slowing down the rush to globalise in order to hastily pry open the markets of the developing world for the massive multinational companies of the North!

*However, I agree with Cox that the "challenge is to make capitalism open, fair, efficient, widely accepted, trusted and responsive to wider obligations to society". But unfortunately, the rich North has failed to do so thus far! Is the North likely to change? I doubt it—unless the rich countries are forced by circumstances!*

But the rich countries continue to impose severe tariffs and quotas against the agricultural exports of the poor countries.

It is worth emphasising that the rich countries spend US\$350 billion each year on agricultural subsidies, which is seven times their total annual development aid of US\$50 billion to all poor countries!



The rich countries are thus protecting their inefficient farmers and are often dumping their excess agricultural produce which depresses the world market prices of farm products in poor developing countries. This cruel protection kills the agricultural exports of the poor countries and deprives poor farmers of their legitimate incomes!

As Oxfam rightly points out, if Africa is allowed to increase its share of world trade by just 1.0%, it would earn another US\$49 billion per annum, which is five times the paltry aid that it receives annually!

The rich countries therefore do not give the poor countries a real chance to develop their economies, but instead are avariciously attacking the poor countries to enlarge their already huge share of world trade! No wonder there is growing resentment against the West! It is therefore not surprising that there is growing international terrorism!

The poorest countries that make up 40% of the world's population have only 3% of the world trade.

IMF Chief Horst Koehler said recently that *"eliminating subsidies on products like cotton, sugar, will create a better world"*. One could add to the list several other products of the Third World like primary commodities, leather goods and textiles and a whole range of very labour-intensive manufactures that the industrial countries need not produce! Industrial countries should instead concentrate on higher value products.

Hence the E.U.'s proposal to eventually remove all tariffs and quotas on the non military products of the poor countries under the maxim *"Everything but Arms"*, is a remarkable philosophy that hopefully will be adopted.

*But when will this happen? Is it just simple rhetoric that could encourage more terrorism?*

*As World Bank President James D. Wolfensohn pointed out at the April World Bank-IMF meetings, "there are very strong political lobbies that will make it very hard for domestic politicians to sell the issue of global responsibility".*

That is the real challenge for the rich and powerful countries and that is what the Director-General of the British Institute of Directors and his counterparts should strenuously address, instead of merely exhorting developing countries to open up their markets to domineering multinationals.

Unless there is a radical change in the thinking of leading businessmen like George Cox, there will continue to be deep distrust for rapid globalisation.

If globalisation further deepens poverty and spreads economic and political injustice globally, I have no doubt that international terrorism will find fertile ground to thrive and expand.

I would therefore appeal to George Cox and his illustrious international colleagues to rise to the vital challenge to make globalisation much more just and equitable for the poor countries and peoples of the Third World, with greater sincerity and priority—before it is too late for the progress of the global economy.

Closer home, the Singapore Budget was announced and has to be analysed to assess its impact on the Malaysian economy.

### **Singapore Budget benefits big business and penalises consumers**

Singapore's Deputy Prime Minister and Finance Minister Brigadier-General Lee Hsien Loong presented his Budget to Parliament on May 3, 2002 with some firm fiscal measures that will benefit the city-state's better-off big businessmen but penalise poor consumers.

Income and corporate taxes have been reduced immediately to a standard 22% from 24.5% and 26% respectively. However, the goods and services tax (GST) is to be raised dramatically from 3% to 5% from January 2003.

Although there will be a "relief package" costing a few billion Singapore dollars to help the lower-income groups to "cope with the rise in GST", the relief will presumably last for only five years at most, after which the poorer consumers will have to bear the brunt of the tax burden, just like the richer citizens and the wealthy expatriates in the globalised city-state. Where is social justice?

The higher GST will be able to compensate for only half of the income and corporate taxes lost due to the tax rate cuts. Thus, the Singapore Budget will continue to be in deficit of about S\$190 million for the second year since its earlier deficit in 1986. But this is understandable since this is Singapore's worst recession after it was forced to separate from Malaysia in 1965.

If these budget deficits are not to be covered by drawing down on Singapore's high reserves, then the Republic will have to borrow much more to finance its rising deficits. This is already being done through its S\$3.6 billion economic restructuring shares that will be issued to all its citizens, like bonds.

Singapore is apparently copying the Hong Kong economic model where income tax is only 15% and corporate tax is just 16%. Even if Singapore cuts its corporate and income taxes further to 20% next year, it will still be uncompetitive with Hong Kong, not only in taxes but in many other aspects, given that Hong Kong now has a vast hinterland with China.

Hong Kong, as part of China now, has a vast domestic market for its own products and can better attract foreign investors. Singapore has the attractive Asean market, too. But it is getting impatient and alienating itself from the relatively rich Asean market by its unilateral and headlong pursuit of free-trade arrangements with many industrial countries that are far away from the Asean Free-Trade Area (AFTA).

In the final analysis, it is not low taxes that attract and retain foreign or even domestic investors, but the prospects for expansion of business opportunities within a country and its regional market like AFTA.

Nevertheless, Malaysia, even with its superior resources and more comfortable business and living environment, has to be wary of the tax undercutting taking place in Singapore and elsewhere.

Consequently, Malaysia has also to make more structural economic adjustments to raise its international competitiveness.

*The long-term solution to Singapore's little domestic market and its overdependence on the volatile electronics export industry is to establish stronger economic ties with Malaysia, to enable both countries to more purposefully pursue "prosper thy neighbour" policies for sustained mutual benefit.*

*However, Singapore must be more realistic of and accommodative to its regional realities. Then we can develop a truly "smart partnership" that can benefit our two closely-knit economies and our Asean partners in the pursuit of steady and sustainable socioeconomic development which will benefit the whole region.*

Malaysia has to face competition increasingly from Singapore as well as other Asean countries with the adjustments that will be necessary under AFTA.

One of the major adjustments that has to be made to meet the challenge of greater competition will be the in the area of regional and global communication.

Invariably this will mean that we will have to improve our standards of English which has become the foremost language of international trade and investment. What is going to be our stand on introducing more English in our communications with the world?

### **Will the English language return as the medium of instruction?**

The Kubang Pasu UMNO Division of which Prime Minister Dato' Seri Dr. Mahathir Mohamad is the chief, must be commended for passing a resolution calling for several subjects in schools to be taught in the English language on May 3, 2002.

*It is highly probable that Dr. Mahathir himself had considerable influence in getting this landmark resolution to be adopted at the UMNO Division.*

Malay was made the medium of instruction in for Form One in 1976 and by 1980 it became the medium of instruction for first year of university studies.

The adoption of Malay as the medium of instruction was praiseworthy and necessary for national unity, but unfortunately the English language was badly neglected!

Hence the standard of English has deteriorated steadily through the years so that we have a situation today where our university graduates find difficulty communicating in the English language.

With the onslaught of globalisation and severe international competition, there is no doubt that Malaysia will lose out in international trade and investment, unless greater priority is given to the teaching of English in our schools and universities.

The initiative taken by the UMNO Kubang Pasu Division has therefore been enthusiastically and quickly taken up by the UMNO Supreme Council meeting in Kuala Lumpur on May 10, just one week after the watershed Kubang Pasu resolution! Was it planned this way or did it simply happen?

The UMNO Supreme Council however decided on May 10 that it is "unnecessary to introduce the English medium school system but instead proposed that Science, and Mathematics be taught in English".

Dr. Mahathir pointed out that the focus should be on assisting students master English and build a strong foundation in the language.

It was thus proposed that studying contemporary English literature would help strengthen students' foundation in English.

But I wish to ask the experts to tell us, what is professionally required to build a strong foundation in

English? This has to be studied carefully by experts and not left only to the politicians to decide.

We may, for instance, need to have more class time devoted to the teaching of English or more subjects taught in English. If we do not manage this pedagogical issue professionally, we may do more harm than good to the education system in the long term!

Besides English, we must develop a new competitive education system that is based on genuine merit.

### **The "new meritocracy" for university entry**

A new "educational enigma" has suddenly risen in Malaysia! This is the kind of surprise that typically suddenly pops up and poses a major problem, that creates conflict and causes confusion and public cries for a solution.

The UMNO Supreme Council meeting of May 10, discussed the leap in *Bumiputera* admissions to government universities as a result of introducing the "merit system"!

Dr. Mahathir Mohamad himself was surprised! He said after the Supreme Council meeting: "We thought that when merit is used, there would be a drop in the number of *Bumiputeras*, but the opposite happened. The figure reached 68.9% compared to only 55% under the (ethnic) quota system."

Similarly, the Chinese entry on the same "merit system", declined to 26.4% (8,665 students) and the Indian entry registered 4.7% (1,530 students), while the *Bumiputera* students entry rose dramatically to 68.9% or to 22,557!

*It would appear that these ratios are quite coincidentally closely related to the latest ethnic composition of the Malaysian population! Already there are questions being asked whether the "merit*

criteria" took into account variables that were not entirely based on "academic merit alone"?

But Dr. Mahathir Mohamad has stated that "There has been no manipulation. The reason behind the increase is that non-Bumiputeras are not that interested to take the STPM (Sijil Tinggi Persekolahan Malaysia) or Higher School Certificate (HSC). But there could not have been such a radical change in the non-Bumiputera rejection of STPM/HSC in just one year!

The answer could be due to the huge expansion in the number of matriculation graduates who are almost entirely Malays, since the matriculation programme caters for Malays!

The Ministry of Education further explained that a "special formula" was used to match the STPM and matriculation grades for university entry.

According to Professor Hassan Said, the Director of the Higher Education Department of the Ministry of Education, "the formula and calculations are very technical and highly academic and if I were to explain it now, the laymen will not understand"!

*This is a very poor explanation for any civil servant to give to the Press and the voting public. It is disrespectful and condescending and also somewhat of an insult to the intelligence of the people, of whom many are as much or more qualified than the learned professor. They should be able to understand formulae, however complicated they may be!*

The public has been upset by these "merit-based" results and the weak defense for their credibility. I believe that this sensitive episode will not end so easily and so soon.



Already Dato' Seri S. Samy Vellu has expressed opposition to the use of meritocracy for university entry. He pointed out at the MIC Annual General Meeting at Shah Alam on May 19, that the Malaysian Indians are dismayed at the application of the kind of "meritocracy" that has resulted in a "drastic drop" in the number of Indians admitted into universities. It has declined from the previous quota-based criteria to only 4.7% from about 8.0%, a substantial decline of about 3 percentage points!

Interestingly, 50% of the *Bumiputera* candidates who were offered places at public universities this year comprised matriculation students, that is about 11,000!

Hence it was apparently not competition on an even playing field! We accuse the West for wanting to compete with developing countries under globalisation, on an "uneven playing field", but we seem to be guilty of the same problem in our university intake!

There is therefore a sense of frustration and alienation by all those students who qualified but have been denied places in universities.

### **Credibility of "new meritocracy" questioned!**

The main causes of resentment is that the criteria for this "new meritocracy" were not explained to the students before they chose their courses or before they sat for their qualifying examinations. Those who chose to do their Diploma studies feel very grieved and alienated as they were not even considered for selection to public universities as they had been in the past!

The "new formula" was sprung up against them! Most importantly, the new Cumulative Grade Point Average

(CGPA) and the Special Formula which matches Matriculation and STPM grades, have enabled many more Malays to gain university entrance, while non-Bumiputera students do not have the same opportunities to be admitted to these matriculation classes run by the government for the Bumiputeras.

This is the main reason for the large drop-out rate among non-Bumiputera students wanting to gain entrance into the public universities, because of what is regarded as "unfair competition".

For instance, the matriculation programme is only for one year as compared to the two-year STPM Programme. It is also well known that generally, better-qualified students are selected for the STPM classes and that they are mostly non-Bumiputeras or Malaysian Chinese students!

Furthermore, the matriculation students need only to do two of three Science subjects, as compared to having to take up three science subjects in the past!

*How can matriculation graduates then be "matched" with the STPM graduates grade for grade?*

The whole idea seems to be to increase the numbers of Malay-Bumiputera students into our public universities.

There has been growing concern among some circles that the private colleges have far more Malaysian Chinese and Indian students than Malay students. This could have been the main reason to bring about a better balance between Malay and non-Malay students in tertiary educational institutions!

But this so-called "new meritocracy" is not going to solve the problem of ethnic student imbalance. The best way is to genuinely increase the standards of academic

performance among all students and particularly those from poor and depressed backgrounds. This way is better than just "pushing them up the academic ladder", as they will fall later on in life from the high perch which they cannot keep!

*This critical educational issue has to be managed well and with openness and transparency and professionalism. Otherwise, there will be a serious erosion of credibility in the Ministry of Education and in its policies and practices. We can only hope for the sake of posterity that wise counsel will prevail!*

The way this important matter is settled will determine the confidence that young parents will develop in our education system. In many cases it will also influence their decision to send their children abroad or even migrate to other countries!

### **Solutions for "meritocracy"**

One way would be to combine the former quota system with the "new meritocracy" system.

*A better way would be to just have the STPM examination as the sole criterion for entry to the government universities, and at the same time to reserve a proportion of the places for the "underprivileged and bright of all races". In the end, it will be made up mainly of Malays, as they have the highest absolute numbers of the genuinely poor citizens.*

However, whatever system is used, it must be honest and fair, transparent and accountable. There has to be good governance. Otherwise, the whole credibility of the education system will be called to question.

Then Malaysia's aspirations to become a centre of educational excellence will be undermined! There will be

little public confidence and even less recognition abroad—and the faith in the system will gradually decline.

Prime Minister Dr. Mahathir stated at the MIC Annual General Meeting on May 29, 2002, that the government will carry out a study on the meritocracy system and would consider combining it with a quota system. I hope Dr. Mahathir will be able to persuade the government to achieve that noble goal!

It is hoped that the government will resolve this matter to the satisfaction of all Malaysian citizens. Any denial of the legitimate rights especially of the bright and the poor of all races will cause growing disenchantment which will erode public confidence and support for the government. This critical issue must be settled before the next general elections which are only about a year ahead—by November 2004!

For a more competitive education system that is based more on merit rather than anything else, there must be a review of the whole education system. Thus the NEAC was asked to prepare a complete review of the Malaysian education system.

### **The National Education Brains Trust**

Hence the National Economic Action Council formed a National Education Brains Trust in May 2002 to advise the government on how to reform the Malaysian education system, to make it more relevant so as to meet the challenges of globalisation.

About 50 prominent persons were chosen to form the Brains Trust from a cross section of the economy, to meet

even on Saturdays and Sundays, to provide a report to the government in just two months.

I was one of three Malaysian Indians appointed, the others being Professor K.J. Ratnam and the former Malaysian Teachers' Trade Union leader Ramanathan. One of the major issues discussed was the question of increasing the teaching and use of English in schools and institutions of higher learning.

*From my point of view, the basic issues in any review and reform of the education system, that is necessary to face up to globalisation, would be:*

- (1) To strengthen national unity and national integration. The national schools should teach the mother tongues to students as a *compulsory* subject to Chinese and Tamil students. This will then attract Chinese and Tamil students away from the vernacular schools and thus build a strong national mainstream for education.

In the interim, the Chinese and Tamil schools should be assisted more meaningfully. Partial aid should be increased to the aided vernacular schools. The teaching of the Malay language should be given higher priority with the posting of better-trained government Malay-language teachers (who should also be given more incentives) to serve in these vernacular schools.

- (2) To improve the ethnic imbalance in tertiary institutions by providing more loans and scholarships to bright and poor *Bumiputera* students (as well as others) who cannot afford to

pay the higher fees charged by private colleges and universities.

- (3) To meet the challenges of globalisation and international competition, primary schools should concentrate on the 3Rs, to stress literacy and the capacity to learn on their own. Pupils should not be burdened with excessive homework and be required to carry heavy bags of books to school. Pupils should be enjoying school, instead of dreading it—like we did during our schooldays—yet we made it, too!

At secondary level there should be better streaming where the brighter and more hardworking students will be better prepared for tertiary education while the majority of the others will not be unduly burdened unnecessarily with undue academic subjects like additional mathematics and biology, physics and chemistry, as general science will do?

More technical education could be provided to those who are not academically inclined—and they would then be more marketable on graduation.

- (4) University education should be competitive and quality oriented. Universities should not be academic factories for low-quality graduates who cannot find suitable employment!

Already graduate unemployment is high, mainly from the government universities!

- (5) Financing education. The limited budget allocations of the government should also cater for those students who cannot afford or prefer to

attend the more expensive private schools and colleges.

*This does not mean that government education institutions will be neglected but they should be equally good or better, but with less costly frills. The government should concentrate on quality teaching rather than putting up big buildings.*

There is also much scope to ensure that there is more cost effectiveness in government expenditures on education!

- (6) **Private universities and colleges should be given a bigger role in providing quality education.** At present private colleges feel that they are not fully encouraged but are somewhat constrained! Private colleges feel they are treated like "stepchildren"!

*How then can we become a centre of educational excellence?*

The Memoranda that the Malaysian Association of Private Colleges and Universities (MAPCU) submitted to the government through the NEAC spells out the fiscal incentives that government can provide to encourage private education to expand!

- (7) **Research and Development (R&D).** Institutions of higher learning must undertake more research with the cooperation and support of the business and industrial sector. They should have greater access to the large research funds that are available!

There has to be more collaboration between local universities and colleges with foreign

academic institutions to raise standards and benchmark quality. The present quality of local universities has suffered from government pressure to churn out more graduates and insufficient attention to meritocracy!

- (8) **Adoption schemes.** Business corporations and colleges and universities could adopt neighbourhood schools (like what the Sunway Group has done at Bandar Sunway) to make them more self-reliant and identified with the community and business, so that they are more relevant to society.

*In conclusion, unless the Brains Trust's strong recommendations for change and improvements in our education system is taken seriously, and unless the government changes our content and direction in education, we will be heading for more polarisation and less national competitiveness.*

National unity will then suffer badly! I hope therefore that the diligent and sincere recommendations of the Brains Trust to help Malaysia progress and prosper in peace as a united nation will be mostly adopted and implemented earnestly!

### **Greater use of the English language**

The greater use of the English language in the Malaysian education system has now been agreed by the UMNO Supreme Council in May 2002.

But I understand that many at Malay intellectuals do not support the idea wholeheartedly. So I would suggest the following to strengthen hopefully the government's stand on this vital issue.



I believe that it would be a retrogressive step to convert our national schools to English-medium schools as we knew them during my (and even the more recent) times. We have a sharper sense of a Malaysian identity as a result of having Malay as our medium of instruction. But unfortunately, we neglected English to the detriment of our education system and to especially the lower-income groups.

*I think the poor and rural pupils have suffered most from the decline in English. They have been mainly Bumiputeras and lower-income Malaysian Indians and to a lesser extent the Malaysian Chinese—at least from the standpoint of employment opportunities. They have lost out badly!*

With globalisation and greater international competition, students from urban poor and rural homes (who do not speak or have the chance to take tuition in English) will be marginalised. The greater the extent of this marginalisation due to the lack of proficiency in English, the greater the erosion of our international competition and progress. Our Vision 2020 could also be made more difficult to achieve.

And while Malaysia is undertaking internal reforms in education and other policies to face greater global competition, the government is also aware of the need to reform and improve our international relations, particularly with our major trading partner—the U.S.

### **A new chapter in Malaysia-U.S. ties?**

The historic meeting between Prime Minister Dato' Seri Dr. Mahathir Mohamad and U.S. President George W. Bush at the White House in Washington, D.C. on May 14, 2002 is significant because it established a new chapter in

relations between Malaysia and the U.S. It has to be admitted that these relations have not been cordial for the past few years!

Throughout former U.S. president Bill Clinton's administration, Malaysia's relations with the U.S. had been cool. This worsened with the visit of vice-president Al Gore to Malaysia when he almost tried to stir an uprising against the Malaysian government in a speech at the last APEC dinner in Kuala Lumpur. Gore had referred to the quality of human rights in Malaysia, particularly to the detention of former Deputy Prime Minister Dato' Seri Anwar Ibrahim. (Malaysia's relations with the U.S. had soured after the imprisonment of former Deputy Prime Minister Anwar Ibrahim on conviction for moral misconduct in 1998.)

And as we all know, Dr. Mahathir has a well-known reputation for speaking his mind, a quality that has brought him into frequent disagreements with the U.S. establishment's thinking.

However, the Washington meeting has improved the relations. As Munir A. Majid argued in his article, "Common ground in Malaysia-U.S. relations" (*The Big Picture*, *New Straits Times*, May 19, 2002): "Whether or not all this will herald a new era in relations between the two countries will, of course, depend on how they evolve from now on. *What is clear, however, is that the two leaders have indicated their commitment to improving and developing relations.* This is the most important outcome of Dr. Mahathir's U.S. visit, the desire to have a close political relationship."

Bush was warm in his praise of Malaysia and its leadership. He said that he was "looking forward to this visit to publicly thank Dr. Mahathir Mohamad for his strong support in the war against terror." He stressed: "As a

modern, moderate and prosperous Muslim state, Malaysia is an important example to the [Southeast Asian] region and the rest of the world."

Who would have expected such a generous description from the U.S. administration even a few weeks before!

Dr. Mahathir himself expressed satisfaction at the meeting with Bush and said both Malaysia and the U.S. shared the view that "military action and the finding of the root causes of terrorism must go hand in hand" in effectively fighting global terrorism.

This must be a major breakthrough in the understanding and relations between the two countries. The U.S. has been seen by many to be unnecessarily preoccupied with the military fight against terrorism and ignoring the dire need to address the root causes of terrorism, like the oppression of the Palestinians and worldwide poverty.

Another success scored at the meeting was the signing of the Declaration on Cooperation to Combat International Terrorism by Foreign Minister Dato' Seri Syed Hamid Albar and Acting U.S. Secretary of State Richard Armitage (U.S. Secretary of State Colin Powell's deputy) that provides a framework for cooperation in the prevention, disruption and combating of international terrorism, through the exchange and flow of information and intelligence, and the overall strengthening of bilateral ties between Malaysia and the U.S.

*The scope of Malaysia-U.S. cooperation include the following areas:*

- (1) Continued and improved intelligence and terrorist financing information sharing on counterterrorism measures, including the development of more effective counterterrorism policies and legal, regulatory and administrative counterterrorism regimes;
- (2) Enhancement of existing liaison between the two countries' law enforcement agencies to engender practical counterterrorism cooperation;
- (3) Strengthened capacity-building efforts through training and education, consultations between officials, analysts and field operators, seminars, conferences and joint operations, as appropriate;
- (4) Assistance on transportation, border and immigration control challenges, including documenting and identifying fraud to stem effectively the flow of terrorist-related material, money and people;
- (5) Compliance with U.N. Security Council lists and circulars ordering the freeze of terrorist assets; and
- (6) Participants may at any time mutually determine additional areas of cooperation.

But I believe it is a serious omission that no mention was made in the Declaration of the need to attack the root causes of terrorism. Hence I believe the Declaration will not achieve much, as we must have used the U.S. draft and were not able to get our ideas across to the Americans—as usual!

### Definition of terrorists

However, Dr. Mahathir's controversial definition of terrorists as "anyone who kills innocent civilians regardless of the cause" was welcomed by the U.S. At the Organisation of Islamic Conference (OIC) Foreign Ministers Conference on Terrorism in April 2002, Dr. Mahathir had defined terrorism as "all acts of violence against civilians arising from any quarter and in any form, including suicide bombings, for there is no justification for acts of terror". It is imperative that all perpetrators of terrorism be brought to justice.

Dr. Mahathir also disclosed the uncovering of alleged militant Muslim groups in Malaysia with possible links to terrorist mastermind Osama bin Laden's al-Qae'da network in Afghanistan.

"Let me be perfectly clear about one thing," Dr. Mahathir said at a dinner organised by the U.S.-Asean Business Council in Washington, D.C. *"Malaysia has no tolerance for terrorists, whether people are fighting for what they consider a noble cause or not, there are certain acts which they may not perpetrate. Exploding bombs in public places and killing innocent civilians cannot be accepted. Holding people to ransom or as shields cannot be accepted. Poisoning food, medicine or water supply cannot be accepted. The deliberate killing of civilians, even when sanctioned by legitimate governments, is equally unacceptable."* He was perhaps referring to the state terrorism undertaken by Israel and even the U.S. from time to time!

There is no doubt that the meeting was a success. In fact, I do not think that the meeting between Dr. Mahathir and President Bush could have been better. At least they made their views clear to each other and hopefully raised mutual understanding.

Although the primary focus of the state visit to the U.S. was to improve bilateral relations, this relationship, in turn, will further boost the already extensive business, trade, investment, and educational and cultural links between both countries.

The challenge for the future then would be to nurture and strengthen the new era of stronger cooperation that has been established by these two world leaders, and to carefully build greater goodwill, to have more mutual benefits for both Malaysia and the U.S. in the years ahead.

However, our priority should be on building our national unity and economy at home. So how is our economy doing in early 2002?

### **Bank Negara Malaysia's Report for the First Quarter of 2002**

Bank Negara's first quarterly report for 2002 was not as optimistic as was expected.

The economy improved by 1.4% as compared to 3.0% in the first quarter of 2001 and only 0.4% for the whole of 2001.

Although this small growth still helps to strengthen the economic recovery, it was marginal and just kept the economy above water!

Perhaps the public's expectations were high. But Malaysia performed less impressively than China (7.6%), South Korea (5.7%), Indonesia (2.5%), Thailand (3.0%). Only Singapore (-1.7%) and Taiwan (0.9%) performed less favourably than Malaysia, for the first quarter of 2002!

*Why did the Malaysian economy come out less favourably than so many other Asian countries?*

This is because it is only Malaysia's Consumption Expenditure (which constituted about half the GDP) that registered positive growth rates. Private Consumption rose by 2.5% while Government Consumption increased significantly by 13.4%. But how long can the Budget sustain these high government spending?

What is more worrying is that Gross Fixed Capital Formation or Investment declined in the third quarter of 2001 by -10.2%, -8.1% in the fourth quarter of 2001 and with another decline of -8.5% in the first quarter of 2002!

While the applications for approvals for Investment Projects may be satisfactory, the Actual Investment on the ground is obviously not taking place, as might be hoped.

Foreign direct investment (FDI) registered a gross of RM2.5 billion. However, FDI recorded a net outflow of RM0.3 billion, largely because of the reduction of the share capital of a foreign bank due to its merger exercise in its home country. To this must be added the greater pull for foreign investment to China and other countries where the ownership rules are more liberal.

Another concern is the continuing negative growth rates in the exports of goods and services. However, the declines are diminishing, from -16.3% in the third quarter of 2001 to -12.0% in the fourth quarter and to -6.5% for the first quarter of this year. But exports should perform much better!

Fortunately, the imports of goods and services have also been recording negative growth rates. Hence the trade surpluses have been sustained so far.

Imports registered a slower growth rate of -5.5% for the first quarter of this year compared to the last four

quarters. This indicates that as capacity utilisation rises with an expanding economy, imports will rise and the balance of payments surpluses will decline!

The trade balance for the first quarter of 2002 was RM13.3 billion which is about the same for the last four quarters of 2001. With the balance of trade being somewhat static, this raises the question as to whether our external trade can provide the necessary boost to our slow economic recovery?

Foreign reserves have risen to RM125 billion as of May 15, 2002 and can finance 5.5 months of retained imports. This represents about five times the short-term external debt. This development is impressive and should be sustained to protect the economy from any external threats, like that which we faced during the 1997 Asian currency crisis!

The other positive feature of the economy is that the inflation rate is still under control at only 1.4%, despite the increase in telephone service charges. These increases apparently added 0.3% to the Consumer Price Index (CPI) in March 2002.

*External debt is also relatively low at RM175 billion (US\$46 billion) or about 57% of the GNP. But because we are scrutinised so much by so many unfriendly foreign fund analysts and biased Jewish money men, we have to be even more wary and strive to keep our national debt at lower levels!*

The banking system has strengthened steadily since the 1997 financial crisis. The net non-performing loans (NPLs) ratio has stabilised at 8.2%, which is very respectable by international standards.



While Bank Negara expects the economy to depend on "continued domestic driven growth", I would prefer if we can attract much more foreign investment that could generate much more exports to increase the momentum of economic growth on a more sustainable basis. For this to happen we will need to adopt more outward looking and internationally competitive policies and employ more best practices in good governance, both in the public and private sectors of the economy.

As of the end of May 2002, the overall economy appears to be strong. However we have to watch the global economic developments that can easily turn the tide and cause us problems. The strategy therefore is not to be complacent, but to continuously strengthen our economic and political resilience. While we focus on corporate governance, we must not forget the consumers, especially the poor and marginalised groups!



## 9

# Can the Private Sector, especially the Services Sector, Deliver?

CAN we achieve the Budget 2003 Strategy, which aims to "promote a dynamic and resilient private sector"?

The Budget Strategy indicates a definite shift in the management of the Malaysian economy. Having fought and overcome the economic slowdown (and even the technical recession) by the public sector taking the lead, the government is now turning to the private sector.

Why? Because the Budget cannot continue to bear the burden of promoting growth and stability. The private sector must do more. But can the private sector deliver as planned by the government?

*The Malaysian private sector is generally not sufficiently internationally competitive, nor large enough, to provide a strong and sustained lead in economic recovery and growth.*

*On the export of goods, most of our high value added and sophisticated products are generated by the foreign multinationals.*

More than 80% of our gross exports are in manufactures and as much as 60% was in electrical and electronic export products in 2001. These electronic exports are mainly provided by foreign multinationals.

The other manufactured goods were made up of textiles, wood, rubber, food and beverages, and petroleum and chemical products. These were mainly produced by Malaysian companies and mostly by the small and medium industries. But how much of these domestic products are internationally competitive—and even competitive in AFTA?

Will our small and medium industries (SMLs) be able to compete without protection with the many more enterprising Thai, Filipino, Singapore and Indonesian SMLs that have not enjoyed as much government protection? It is doubtful and left to be seen!

*On the export of services, our prospects are probably better. We have an even chance to compete with Indonesia, Thailand and the Philippines, but we will find it more difficult to match Singapore in the service sector.*

Nevertheless, the services account of the balance of payments has been consistently in deficit for many years, although these high deficits have been narrowing. The prospects are that there can be further improvement if some of the major services like tourism, port and air services continue to save and earn more foreign exchange. In 2001,

the deficit on the service account was RM7.7 billion as compared to negative RM10.7 billion in 1999 (using the new format—the *Balance of Payments Manual* or BPM 5).

But under the 'old format', the service account deficit was much higher, at RM32.1 billion in 1999. (It would have been preferable if the Treasury's *Economic Report* 2002 gave an explanation on the change of this format and BPM 5). When no explanations are given for changes in statistical formats, some doubts are raised as to the credibility of statistical information.

The biggest potential for income from services is in travel and tourism which brought in RM12.8 billion. (The rise in tourist earnings, the savings derived from our expanded and improved port and shipping facilities have helped and can be developed further.)

*But the largest drain on our foreign exchange is from investment income.* The deficit here was RM26.5 billion in 2001 but the prospects of improving are poor. It is even probable that the outflow of foreign exchange would rise with the shift of more labour-intensive foreign-owned manufacturing plants to China and other countries which offer cheaper (and possibly more efficient) labour.

The weakening of the ringgit that is pegged to the U.S. dollar could also make imported intermediate goods and services more costly. Competition could then become tougher.

Malaysia is limited in the management of its foreign exchange policy by the ringgit currency peg of US\$1.00 to RM3.80. The movement of the U.S. dollar will continue to determine the strength or weakness of the Malaysian ringgit, as long as we follow this rigid peg. For these

reasons, the time for a review of the peg may be coming sooner rather than later!

*From the production point of view, if manufacturing is going to be under more serious external threats, and the construction and other industries too are going to suffer from the continued use of highly labour-intensive building techniques, the prospects for these industries cannot be promising.*

*The outlook for the wholesale, retail and hotels and restaurants as well as the finance, insurance and business services are better. But how much more competitive and productive can they become especially in the short term?*

Government services constituted about RM16 billion out of the total of RM224 billion for service industries in 2001. But there are serious public perceptions about the efficiency of the public services today, particularly at the lower levels of the administration! So how can there be reasonable expectations that the government services can contribute to greater productivity.

The unfortunate truth is that the private sector cannot move forward more efficiently—if the government services lag behind. If the government services do not move forward more purposefully, it will become a drag on the private sector!

*How then can we "promote a dynamic and resilient private sector as postulated by the Budget 2003 Strategy?"*

The answer lies in further introducing more liberalisation and more competition in the whole economic and business system, as has been repeatedly urged by Dr. Mahathir for so long.

For this to occur we need to undertake a serious and sincere review of the major constraints to the promotion of dynamism and resilience in the private sector.

Unless we are prepared to undertake such a review of outdated economic policies, change our "old mindsets" and chart new economic policy directions, I am afraid that the Budget 2003 Strategy (as seen in July 2003) will not adequately achieve its laudable goals, not only in 2003 but in the longer term!

### **The service sector**

The executive director of the National Economic Action Council (NEAC) Dato' Mustapa Mohamed said at the Universiti Kebangsaan Malaysia (UKM) Alumni Conference on June 10, 2002 that the service sector is vital. It contributes about 55% of the GDP and has considerable potential for expansion.

This is true of tourism in the short term, but the other major sectors like education and health have serious constraints. There is an acute shortage of doctors in the country. Furthermore, there is no real strategic policy to make Malaysia a regional medical centre. Nor are there solid plans to make Malaysia a centre of excellence for the professions, like architects, lawyers, engineers, valuers and IT experts, and educationists.

In the case of education, the government has a policy to establish Malaysia as a regional centre of educational excellence, but the implementation of such a policy has many shortcomings.

With so much conflict between the need to excel through meritocracy and the political concern over ethnic

balance in the educational institutions, there is much uncertainty in the private education sector as to whether the government is really keen to pursue its education policies purposefully! But better education is the key to Malaysia's competitiveness with greater globalisation.

### **The King's call for greater competition**

Tuanku Syed Sirajjudin stated at the investiture ceremony on the occasion of his 59th birthday at the Istana Negara that *"Malaysians must continuously prepare and enhance their ability to face a globalised era."*

The King is right. But how much have we done to prepare ourselves and our country to face the great international competition in the era of globalisation?

Not much, really! *There is still little realisation that we have to change fast to improve our international competitiveness.* How many companies have reviewed their internal operations and how much is being discussed in the mass media about the need to change rapidly to meet the demands of greater competition under AFTA, not the mention the threats from China and globalisation?

At least if we are slow on employing radical changes to face international competition in the short term, let us ask ourselves whether we are doing enough to face more competition in the longer term through the restructuring of the Malaysian education system?

The education system has to be reformed as it is the key to change. The prerequisite is to increase the quantum and quality in the teaching of the English language, so that our graduates at all levels will be well equipped to use the Internet to access the world's wealth of knowledge,



especially in science and technology, and to communicate effectively internationally!

But there has been less than full support even from many intellectuals to the government's worthy plans to introduce more English in our education system. We can only hope that the government will have the sustained strong political will to implement its policy of using more English in education, and not slip up as in the past. We must not allow further generations of schoolchildren to lose out in the stiff race of globalisation and greater international competitiveness! We have failed our children in the last 30 years. Let us not damage future generations!

Globalisation will force us to compete even more. *We must therefore prepare for its onslaught before we get overwhelmed by it and get "gobble-ised"!* We can start to move faster in our service sectors, where we have relatively some professional resources like in the education and health sectors.

### **National healthcare**

Thus, we also need to change in our policies, structures and institutions. This is what the National Healthcare Conference that was organised by the Ministry of Health in Penang on June 21, 2002 set out to achieve.

We must ask ourselves what the state of our national health system is?

Our health programmes are surprisingly regarded as generally good. The World Health Organisation (WHO) ranked Malaysia 49 out of 191 member states. But we are now an advanced developing country and we need even higher and better standards.

But Malaysia ranked 122 out of 191 in terms of "high out-of-pocket payment"!

This is because there is no National Health Insurance Scheme (NHIS) and patients have to meet their own medical expenses when they go to private clinics and hospitals.

*Presently, there is no comprehensive coverage of health services, no wide coverage of the population, scarce emergency care and poor equity and access to treatment.*

The National Household Health Expenditure Survey (1996) showed that RM2.8 billion was spent by households on health of which 62% was spent on private medical facilities; 85% of this was spent on outpatient care and 15% for inpatient care.

Yet 80% of the population obtained almost free inpatient care from government hospitals, while only 20% obtained inpatient care from private hospitals! At the same time 45% of our doctors were serving in the public sector and the larger proportion of 55% was in the private sector!

Hospital beds amounted to 80% in the public sector and only 20% in the private sector. Hence 55% of Malaysia's doctors look after only 20% of our hospital patients in the private sector!

This state of affair is not only equitable, unhealthy and untenable, but destabilising.

### **Financing health**

The government spends 4.5% of the development budget and 4% of the national income on health services. It cannot continue to subsidise about 95% of the Ministry of Health's total expenditure in government hospitals!

Already the federal government's budget has been in deficit for several years. This strained financial situation will get worse with no prospects of getting better in the short term. You do not need to be a doctor to know that a patient in such a situation will surely die.

Government hospitals and clinics are overcrowded, understaffed and over-utilised. The staff are underpaid compared to their counterparts in the private sector where some medical specialists earn exorbitant incomes, even by international standards. Some earn even more than RM200,000 per month! *This is the result of a "closed-door policy" in the professions.* That is why we have to liberalise the professions.

The present health service financing cannot be sustained. It will breakdown unless we restructure the health financing system soon!

What then should we do to strengthen the healthcare system in Malaysia? We need to have a new health insurance system to survive!

If we go on as we have, Malaysia will have increasing social dissatisfaction. The rich can buy their medical and health services. The poor will have to depend on the government healthcare services which will slowly breakdown, unless of course, the government provides a disproportionate share of the budget to health. When that happens, the whole budget can become distorted!

Already about 35% of the total budget is "fixed costs" and is expended on salaries (18%), debt (10%), pensions (5%) and grants to states (2%). These expenditures have to be met as statutory requirements. So how much is there left? If you add defence and security, you have even less to

spare for health and education and let us not forget poverty eradication projects and programmes!

At the same time, income tax rates are coming down and the pressure is to lower them further from a rate of 28%.

The overall deficits are largely covered by borrowing, but how much can we borrow without causing financial strains through rising debt servicing?

So we have to raise new financing for healthcare, particularly to meet "basic need gaps" between the rich and the poor!

*How do we finance the new healthcare system?*

By introducing a new National Health Insurance Scheme that caters for all Malaysians—and mainly for those who can afford to pay private doctors!

There has to be a compulsory contribution or a health tax of about 1.0% of income.

The health tax will be comparable to the Employees Provident Fund (EPF) and Socso contributions. These "health taxes" could be made to the proposed new National Health Insurance Scheme that could be financed by a proposed new National Health Financing Authority (NHFA).

Alternatively the health tax could be collected directly and quite efficiently by the Inland Revenue Board (for a small fee) and transferred to the National Health Insurance Scheme (NHIS).

Thus the health tax could also be progressive, rising from 1.0% to 2% for the higher income groups. This would then provide an equitable cross-subsidy to the poor and the handicapped in our society?

It may be impractical to transfer all the so-called "sin taxes" (taxes on cigarettes, gambling and liquor) to the NHIS as this has not been consistent with tax philosophy. For instance, all road taxes are not allocated to the Road Transport Department (RTD) for road development alone!

### **Characteristics of the new NHIS**

What then should the characteristics of this new NHIS be?

- (1) As a public service, it should be non-profit. The NHIS should be a statutory body with as much flexibility as possible. It should not be managed as rigidly as a government department that is subject to too many rules and regulations.
- (2) Even the government is trying to decentralise and delegate more and more responsibilities to secretaries-general and heads of department! Too much centralisation at the Treasury and the PSD/JPA has not been very efficient nor effective and expeditious!

Undue dependence on the Treasury and the JPA will stifle managerial skills and initiative. Managers must be allowed to manage!

- (3) The NHIS has to be market-oriented and run along good business lines with the best business practices.

Good governance and good corporate governance has to be established from the very beginning as the foundation of its culture. A good example of this kind of organisation would be Bank Negara or Petronas!

The NHIS should not become like some government statutory bodies that cannot move fast and productively!

- (4) **The NHIS should not be privatised.** Privatisation could bring about its own kind of viruses that could undermine public health and healthcare!

Privatisation means profit and this will be the antithesis of good governance and the aim to make healthcare equitable and non-profit oriented!

- (5) **Finally, healthcare and the NHIS should be made professional and competitive in attracting the best in professional services, logistics and supplies.** The NHIS should not just provide "jobs for the boys", but should recruit the best professionals and staff.

The present Malaysian healthcare scheme is relatively sound. However, it is inequitable and unsustainable. It must therefore be replaced with a new NHIS based on compulsory contributions.

It must also be based on quality if it is to be of real service to the poor, the sick and the weak. This is the time to move decisively before it is too late as the present healthcare service (provided mainly by the government) could weaken, fall seriously ill and give up the ghost!

But a sound national healthcare scheme for Malaysia can only be sustained if we have a strong economy that can effectively take on the economic challenges posed by rising international competition.

*There are lessons to be learnt and there are lessons to be avoided.* Let us learn from the British National Health Scheme which started off well and is now perceived to be largely unsatisfactory. We should find out more about the U.S. health services that are also seen to be unfavourable to the poor and the weak, as opposed to the rich and powerful in our society.

We must make sure that the Malaysian NHIS is based on "genuine meritocracy". The best medical professionals and the best health managers must be recruited; otherwise, there will be criminal wastage of public funds and worse still the emergence of a culture that will protect the rich at the expense of the poor and the sick. This would be tragic. We need to avoid the possible abuse of basic needs and human rights for health!

We must be vigilant in facing Malaysia's many challenges.

### **Malaysia's economic challenges**

In dealing with Malaysia's economic challenges and opportunities, we must bear in mind the need to uphold the ideals and policies that promote a Malaysian nationality and a Malaysian outlook.

To this end, there must be more public debate and discussion on the vital issues of the day and the future of our country, at all levels of our Malaysian society.

Indeed, Malaysia's future is too precious to be left in the hands of politicians alone. As citizens we must watch our political leaders, monitor their words and actions and reward or reject them according to their performance and results! That is good corporate governance and corporate

citizenship. We must exercise our human rights as citizens of this blessed country and ensure that Malaysia continues to improve in peace, stability and national unity!

Sound economic management and performance is not about economics alone. Its about politics and society. So we have to be concerned about the sociopolitical economy. This is particularly applicable to Malaysia, given our multiracial, multicultural and multireligious mix. The NEP underlines this economic philosophy!

### **Budget 2003**

The Budget 2003 Strategy calls upon the private sector to be more dynamic and resilient. Can we do so and how long would it take the private sector to become more dynamic and resilient?

It can't happen in one Budget year and is unlikely to happen even in the short term. *Why? Because the NEP tends to constrain free enterprise and undermines competition and stifles incentives and opportunities—for both Bumiputeras and even non-Bumiputeras—in the long run!*

Inadequate internal competition makes the *Bumiputeras* and non-*Bumiputeras* also uncompetitive at home and more so abroad, where competition is more severe.

The exceptional *Bumiputeras* and even non-*Bumiputeras* who are the more enterprising (including those genuine "Ali Babas", who do not depend on subcontracting of large government contracts) are the businessmen who will survive the challenges of globalisation!

But how many exceptional businessmen do we have? Do they run into thousands or even hundreds or is there only a handful of them? For the economy to be competitive



and to progress and prosper on a sustained basis, we need thousands upon thousands of exceptional and internationally competitive businessmen and women as well!

We do not have that many despite so much that the government has done to help them develop. That is one good reason why, I suspect, Dr. Mahathir, like many other leaders, is frustrated with the poor performance and relatively low competitiveness of our businessmen.

The biggest stumbling block is our mindset. Most Malaysians do not have a sufficient sense of urgency and purpose, to be ready for greater competition and meritocracy! That is a major obstacle to greater progress!

### **Challenges of globalisation**

*What can we do to be more prepared to face the challenges of greater globalisation? We could:*

- (1) **Reduce protection at a faster pace.** Rules and regulations that inhibit more competition should be gradually phased out within a definite time-frame. This will enable our businessmen to prepare for greater competition, rather than waste time trying to stall competitive forces. For instance, the ICA and the FIC should be made more business friendly, and substantially modified to meet the new challenges.
- (2) **Education policies should be made more relevant to current needs and be made to become genuinely meritocratic.** There should be more serious emphasis given to science,

technology, research, English and analytical and vocational skills.

- (3) **Graduates should be able to compete on level playing fields and stand on their own two feet, instead of expecting more "crutches" to prop them up.** The large number of unemployed graduates (about 40,000) is an embarrassment to the government universities that have relatively low academic standards.

### **Opportunities under globalisation**

The opportunities are enormous for those who can identify and seize them. But the opportunities become threats to those who are not competent and competitive!

- (1) **AFTA, with its 500 million people in a relatively closed free-trade area with internal tariffs of 0%-5%, provides great trade and investment opportunities.** Malaysian investors who feel handicapped by internal constraints (if they are not reduced or removed in time) should seriously consider doing business away from home—just like other international businessmen!
- (2) **China affords vast opportunities with its 1.3 billion consumers, especially to Malaysian Chinese who have obvious "comparative advantages" over other Malaysians.** Similarly, Malays and Malaysian Indians should seek to do more business in Indonesia and India respectively. Our ethnic origins should be regarded as our national assets, rather than as liabilities!

Dr. Mahathir is right: all Malaysians have to change our mindsets to face the challenges and opportunities of globalisation. If we resolve to change our mindsets and strive to become more meritocratic and competitive, we will face these challenges and exploit the great global economic opportunities that lie ahead.

However, if we keep to our old *tidak-apa* (indifferent) ways of doing business, then we will be exploited by others who are more competent and competitive. Then we will have ourselves—as individuals and as a nation—to blame.

I believe that we have the capacity and the will to overcome our challenges and seize the wonderful opportunities under globalisation to succeed and make Malaysia more united, peaceful, prosperous and progressive.



# 10

## Revise Our Economic Priorities —And Do Not Neglect the Urban Poor

MALAYSIA has gained much influence far away from home in Africa. But we are losing some ground at home and in our neighbourhood in Asia.

The Langkawi International Dialogue (LID) in 2002 showed clearly that our Prime Minister Dr. Mahathir and Malaysia are highly respected by so many African leaders. They want to learn from our achievements in economic development. They are keen to follow our example of national unity, and socioeconomic progress.

At the Malaysian Industry-Government Group for High Technology (MIGHT) Conference in Myanmar (Burma) also held in 2002, I saw again how much

admiration there is for Malaysia's economic model of development.

But we should not become self satisfied by comparing our considerable success with their lower levels of socioeconomic development, since they are far less developed than we are.

Instead, we should increasingly compare our competitiveness with the industrial countries and strive to develop even faster, and strengthen our economic relations with our major trading partners.

While the 'prosper-thy-neighbour' philosophy is laudable, we should not pursue this policy to the point of prospering our neighbours at our own expense. Then it becomes a win-lose partnership instead of a sound and positive new strategic partnership that MIGHT strives to promote through its smart-partnership programmes.

However, nearer home, our failure so far to gain the Asean+3 Secretariat for Kuala Lumpur, indicates that our support from our neighbours in Asia is not so strong. After all it was Malaysia that initiated the East Asian Economic Grouping. The opposition may be only from a few jealous neighbours, but we have to ask what else has gone wrong with our relationship with some of our Asean neighbours.

### **Singapore's Trojan Horse**

For instance, the intensive drive by Singapore to set up Free-Trade Areas with major industrial economies like the U.S. and Japan, together with some smaller industrial countries such as Australia and New Zealand, will undermine our ability to consolidate Asean's unity and cohesion.

*Singapore could become a Trojan Horse and bring non-Asean countries through the backdoor into AFTA, by just providing 40% local content for its exports to AFTA. This could easily be done by packaging imported rubber tyres from the U.S. and exporting them to Malaysia. Similarly Singapore could push rice and sugar from Australia into Asean countries! So where is the logic of Singapore's claim that its FTAs will complement "Asean's integration efforts"?*

Again the nagging disagreement with Singapore on the supply of water to them is distracting us from our priority to concentrate on our own socioeconomic agenda.

So why don't we officially ask Singapore to mutually terminate the water agreements, if not immediately then much earlier than 2011 and 2061. *Since Singapore has the drinkable wonder Newater, we can easily base the price of water on the cost of their Newater, instead of the miserly 3 cents per 1,000 gallons that they now pay us.*

Terminating the water agreements or renegotiating them completely would settle the water disputes once and for all. Then we can focus more on positive economic cooperation and healthy competition between our two countries.

We should as a matter of priority, be more business like in our negotiations and not be taken for a ride. Our *maruah* is at stake!

All Malaysians will watch how well our government negotiates the price of our natural drinking water that is supplied daily to Singapore. Indeed Singapore should not be allowed to take advantage of our generosity and compassion, for their very survival.

It is a real pity that both countries cannot agree on a fair price for water, which is given almost free to Singapore!

### **Changing priorities at home**

*At home some of our economic priorities also need reexamination.*

### **Urban poverty**

*Let's take a look at the construction industry where the large number of illegal immigrant workers are causing so many social problems of crime and disease. Also, why should we severely restrict the import of foreign labour when we need them badly?*

Too many stringent controls do lead to local contractors and foreign workers finding ways and means to get around them! The trouble lies with our old-fashioned labour-intensive construction techniques, which require abundant workers for our building industry.

The solution is for the construction industry to adopt capital-intensive techniques like modular and prefabricated construction and modernise quickly. The construction industry has to reduce the dependence on foreign labour and adopt new Industrial Building Systems (IBSs).

The government also has to adopt the right priorities and insist that contractors should employ more industrial construction technology to beat the labour-shortage crisis. Training and financial incentives should be instituted to hasten the production of more local, knowledge-based construction and related workers.

*The Construction Industry Development Board (CIDB) should use about RM600 million that it has collected in compulsory cess to provide vital training and financial incentives for higher technology and productivity in the construction industry. The CIDB should not*



even contemplate building a luxurious multimillion-ringgit building for its headquarters! This would be the wrong priority, which tax payers should not tolerate!

In the meantime, it is good that the government has shown pragmatism in agreeing to continue the employment of Indonesian construction workers. But, unfortunately, these 'stop-go policies' give the impression that the earlier decisions to stop the recruitment of Indonesian workers were not well thought through. This does not inspire public confidence and does not speak well of the government's image.

*This pragmatic policy to allow more carefully selected Indonesian workers to continue to be employed should apply to the agriculture, services and even manufacturing industries—until we get our act together as a matter of priority!* Otherwise, the planning and especially the implementation of our socioeconomic infrastructure development projects will be seriously delayed, as they already have by about 3-6 months! This is an example of the unnecessary waste of time and money, due to poor planning!

We now realise that we are losing our competitive position to Indonesia and Thailand in the production of rubber, mainly due to our labour shortage and consequent rising labour costs.

The logic would be to step up our downstream activities. Malaysia is the largest supplier of medical gloves and catheters which earned about RM1.2 billion last year. Obviously as the Minister of International and Industry Dato' Seri Rafidah Aziz points out, we could increase these exports significantly if our manufacturers produce more sophisticated healthcare devices.

But where is the priority. Is it to continue to produce just more rubber or its higher value-added products? But how much resources and research efforts are being invested by the rubber industry, to take on a much greater share of the world market in the production of healthcare products? Not much!

Similarly, in the services industry, is there enough priority being given by the private sector to become more internationally competitive?

### **Professionals—slow progress?**

*Our professional organisations are still dragging their feet to open up to more international competition. We need to become even more competitive than the professionals in the industrial countries as they are generally already better equipped than our professionals.*

Therefore it is in our national interest to allow more foreign competition in Malaysia, so that we can prepare ourselves to compete with them on our own turf as well as theirs, in the near future.

The government should, therefore, as a matter of high priority push the professional organisations to liberalise at a faster pace, within a reasonable timetable. Professional bodies should not just be left to their own devices to determine their own speed of acquiring international competitiveness.

If the authorities just follow the advice of leaders of the professions, such as accountants, doctors, engineers and lawyers, who may have entrenched and narrow vested interests, the whole economy will lose out in international competition. Then the ordinary people will suffer from low

professional productivity and overall uncompetitiveness. Then our economy will decline!

### **Tourism can do better**

*Tourism has been successfully driven by the Malaysian Minister of Culture, Arts and Tourism Dato' Paduka Abdul Kadir Sheikh Fadzir to become a major foreign exchange earner. However, more priority could be given to further attract more tourists from outside Singapore as well. We should not depend too much on tourists from Singapore!*

But now there is a move to form the Culture, Arts and Tourism Industry Companies Association (Sikkep), to bring in tourists from West Asia. However, the new association will initially open membership to only *Bumiputera* companies. This is a retrogressive step. The priority to restructure the economy and to build ethnic cooperation in business will be eroded by this unhealthy move.

We should have more ethnic cooperation rather than divergence, as this would be inconsistent with national unity and the vital need to build a business culture of ethnic cooperation.

We need to promote smart ethnic partnerships in the private sector too! The authorities should discourage these unproductive and narrow tendencies that can gain ground in the business sector!

At the same time, the government has to continue to facilitate the private sector across the board.

### **Hassles in land offices**

It is thus highly commendable that the Chief Secretary to Government Tan Sri Samsuddin Osman has honestly

commented about the "hassles in dealing with the Land Offices", at the launch of the 11th Land Administrators Conference in 2002.

Too many senior officials are too defensive of the public services. It is hoped that many more will follow the chief secretary's professional example of self-criticism.

Greater priority should now be given to straightening out not only the outmoded government processes that encourage corruption, but the many indifferent public servants. Indeed some officials may be deliberately taking advantage of the weaknesses in the enforcement of the rules and regulations. This can lead to serious financial losses to the government!

*All this begs the public question as to whether the civil service, especially at the lower levels, deserve salary increases particularly at the expense of the millions of lower-income taxpayers.*

Why can't there be a smart partnership between the Chief Secretary Tan Sri Samsuddin and the Secretary-General of Cuepacs Dato' Siva Subramaniam, to work closely to promote productivity and to 'struggle' against corruption, instead of merely talking about salary increases most of the time. Then the public will respect and appreciate the civil service and the unions even more.

Unless more priority is given to relate salary increases to higher productivity, there could be a public backlash against the civil service and even the government for appearing to condone low productivity and inefficiency in the civil service!

Productivity has to be increased to accelerate economic growth.

But Bank Negara estimates economic growth at only 3.8% for the second quarter of 2002. As the economy is forced by globalisation to compete more fiercely, we have to revise our policy priorities, to sustain a faster rate of growth.

We therefore look forward with high expectations to the unveiling of Budget 2003 on September 20, 2002!

### **Helping the urban poor**

Deputy Prime Minister and chairman of the Cabinet Committee on Urban Poverty Eradication Dato' Seri Abdullah Ahmad Badawi must be warmly congratulated for adopting an "integrated approach" to improving the standards of the 60,000 urban hardcore poor by 2005. They form part of the marginalised groups of the Malaysian society.

Indeed this integrated strategy will need to be implemented more effectively to eradicate urban poverty among the 3.6% as compared to the total of 7% of Malaysian families whose incomes are below the poverty line.

The rural poor have gained considerably from the higher priority policy focus on them for a long time since Merdeka in 1957, especially through the former *Red Book* strategy introduced by former Prime Minister Tun Abdul Razak, who realistically and kindly gave top priority to fighting rural poverty.

*However, the urban poor is a growing phenomenon and they have benefited relatively less from the government's socioeconomic policies. Hence their social deprivation, their lack of basic needs and the erosion of their basic human rights and their growing sense of alienation.*

As a member of the National Unity Advisory Panel, I am aware that we have expressed the views that social stability and national unity in the depressed urban areas have suffered, largely due to their poor socioeconomic living conditions. Kampung Medan, in the Klang Valley, where riots broke out some time ago, and similar urban pockets of deprivation are the stark cases in point.

The People's Prosperity Development Scheme introduced by the Cabinet Committee is, therefore, most welcome. The scheme aims to provide more housing, healthcare, and more opportunities for small businesses and petty traders, all of which will make them more self-reliant. The scheme will thus also remove the drain on the economy as it will generate more employment and reduce the strain of subsidies on the Budget.

It is commendable that the Ministry of Rural Development states that it will extend its poverty programmes to the urban poor, regardless of race. Perhaps the agency should be renamed the "Ministry of Rural and Urban Poverty" to ensure the policies of the ministry are well balanced and that it does not carry on in the old mould of mainly concentrating on rural poverty eradication? That will be counterproductive and will undermine public confidence in the capacity of the government to adopt and implement "balanced policies" for all the poor—regardless of race!

The government's increasing recognition of the need to cooperate more closely with non-governmental organisations (NGOs) is also noteworthy. *However, the NGOs will have to be included in the higher levels of policy planning and implementation if their rich experiences in working directly with the poor and the underprivileged are to be beneficially and fully utilised.*

The Cabinet Committee on Urban Poverty Eradication could make a major contribution to socioeconomic upliftment, economic growth, stability and national unity, if its policies are properly and fairly implemented.

The government will need to carefully monitor the progress it makes and keep the public periodically informed of its achievements through something like the effective old *Red Book* and Operations Room techniques that were used to fight rural poverty so successfully. Only then will the public be able to appreciate further evidence of the dawn of a new era of greater good governance for both the rural and the urban poor as well! Our well-endowed country can provide a place in the sun for all our people, regardless of race. For the realisation of this goal, we have to have more ethnic balance in our Budget Strategies.





# 11

## Budget 2003: Were Public Expectations Realised?

NOW that Budget 2003 has been tabled by the Prime Minister, we have to ask whether public expectations of Budget 2003 that were raised before Budget Day actually realised? The Malaysian government had announced that there would be new strategies to attract foreign direct investment that would make the country more cost competitive.

Prime Minister Dato' Seri Dr. Mahathir Mohamad stated at the National Conference on Taxation organised by the Inland Revenue Board (IRB) on September 3, 2002 that the government was studying various suggestions on how to bring about some kind of paradigm shift in

economic policies, taxation and the allocation of funds to stimulate economic growth.

Hence business and public expectations were high. The public expected that exciting new policy changes would be unveiled on Budget Day, September 20, to reveal a more competitive and liberal environment.

*However, although the Budget was satisfying, it was not up to business expectations.* For instance, Dr. Mahathir and the Minister of International Trade and Industry had specifically indicated at the end of August 2002 (about three weeks before Budget Day) that "new strategies" would be introduced to:

- (1) Attract FDI to Malaysia;
- (2) Make freight rates more competitive and goods handling more efficient;
- (3) Identify new growth areas;
- (4) Consider additional incentives for domestic industries to export their goods and services, especially in food, agriculture and resource-based industries;
- (5) Encourage more investments in research and development for ceramics, integrated circuits, upgrading of engineering packaging;
- (6) Strengthen local supporting industries, like small and medium-sized industries (SMEs); and that
- (7) Bonds will not be raised to finance the Budget deficit, as there are ample domestic funds such as the EPF, which has some RM120 billion to invest.

### **Budget scorecard**

But what scorecard did Budget 2003 finally produce?

The Budget Strategy turned out to be as follows:

- (1) Increasing domestic investment in all sectors with growth potential;
- (2) Identifying and venturing into niche areas in the services, agriculture and manufacturing sectors;
- (3) Strengthening public-sector finance and enhancing efficiency of the civil service; and
- (4) Nurturing a progressive and harmonious society with high moral values, and ensuring the well-being of the populace, especially those in the rural areas.

### **Budget theme—flawed?**

The main theme of the Budget was that "our economic growth has become overly reliant on external-sector developments, foreign direct investment and international trade" and that "growth must be domestic driven".

This is, of course, a desirable goal, but can we afford this strategy?

The Malaysian economy is by no means as large and sophisticated as the U.S. or Japanese economies. Nor are we as competitive as the highly developed but small economies like Switzerland and Luxembourg!

We do not have the high technology and the entrepreneurial skills of the industrial countries. That is why we cannot rely on our own capacity to accelerate economic growth.

*The Budget 2003 urges us to learn from the examples of China and South Korea, but are we as meritocratic as they are? They do not have the need for affirmative action as we do, and so we*

cannot be as internationally competitive as they are. We must be realistic!

In fact, private investment has declined from RM90 billion to RM36 billion from 1997 to 2001! How then can we expect the private sector "to resume its role as the main driver of economic growth"?

The expectations were that Budget 2003 would introduce "paradigm shifts" like modifying and reducing the constraints of the Industrial Coordination Act 1975, the stringent requirements of the Foreign Investment Committee (FIC) and indeed the varied interpretations in the implementation of the national development policies and guidelines.

*Dr. Mahathir boldly stated in his Budget speech that some Bumiputeras are "complacent and overly dependent" and "must discard this dependency syndrome"! Unfortunately, the Budget did not provide specific measures on how to go about achieving this laudable goal.*

If these paradigm shifts were made, the prospects for the private sector to lead, in accelerating and sustaining economic growth, would then be much brighter!

However, the Budget increased the contract value of each class of contractors substantially to provide opportunities to *Bumiputera* contractors to secure larger contracts.

However, unless the contracts are carefully awarded to only the competent *Bumiputera* contractors, there will be more "Ali Baba"-type contracts. This will then lead to more wastage of public funds and discourage the emergence of efficient and competitive *Bumiputera* contractors who may be even more tempted to take the easy way out as rentiers!

We will then be building upon our inefficient "rentier class" instead!

I am, therefore, not confident that the private sector will be able to respond to the Budget's expectations—that domestic investors can now improve on its "lukewarm" response to government incentives. The private sector will not be able to assume its leadership role in economic growth, if it is not more positively encouraged and enabled to do so!

Instead, with the greater market opportunities offered by AFTA, it is more likely that Malaysian businessmen and investors will expand their activities into other Asean countries where they will enjoy less ownership constraints and where they will enjoy a more even playing field. They might even export their goods and services from other Asean countries back to Malaysia! This would be an economic irony! But let us examine the Budget Strategy:

### **First Budget Strategy**

The First Budget Strategy, i.e., to increase domestic investment, will be enhanced to some extent by reducing the corporate tax for SMLs from 28% to 20%. However, the limitation of this concession to SMLs with a paid-up capital of only RM2.5 million and below, will not cover too many progressive SMLs. The coverage could have been wider, even if the tax forgone exceeded the small amount of RM270 million. After all, the SMLs are the backbone of our manufacturing sector and have to be strengthened considerably to compete internationally.

The Budget rightly states that the SMLs "have not benefited much from existing tax incentives". *We must frankly*

*examine the reasons for this lapse and compensate the SMEs for our past failure to ensure that SMEs gain from government policies! Our outreach to the SMEs, which are mainly Chinese-speaking, must be improved if the government is to really help SMEs, regardless of racial origin.*

Reducing the cost of doing business is a worthy aspiration of the Budget. This should be a continuing exercise and not necessarily a budgetary measure. Extensive bureaucracy and corruption add heavily to the cost of doing business!

Most of these tax issues are administrative in nature and could be settled by more consultations between the Treasury, MITI and the private sector, in the spirit of Malaysia Incorporated.

*Perhaps the NEAC Secretariat or some other independent government agency should review all direct and indirect tax measures and procedures that are regarded as stifling domestic trade and investment and exports. They should be revised accordingly, to stimulate competition and growth. Some of these procedures could be archaic and irrelevant. Take, for example, the valuation method used for the sales tax on locally manufactured goods that is not similar to that used for the evaluation of imported goods, which the Budget has now rectified! But why should we wait for Budget Day to rationalise tax administration?*

Then there is the 5% service tax on courier service to destinations abroad, which had made us uncompetitive and which the Budget has now withdrawn. Here again we need not have waited for Budget Day.

Improvements in tax administration should be made continuously throughout the year!

The problem is that the mindset of tax officials is to raise revenue and not necessarily to promote economic growth. Hence there is a conflict that has to be eliminated!

The Budget has castigated the banks again for being "interested only in seeking excessive profits and opting for safe and non-risky investments".

Most borrowers will agree with this Treasury assessment of the banking community. But what has been done to improve this longstanding problem that has slowed down business and economic expansion? *The government has to be seen to mean what it says!*

The government has warned that it might raise the banks' statutory reserve ratio. Perhaps the government should act sooner rather than later and use the higher statutory reserves for public and private development purposes.

The banking system is relatively protected. Yet it is allowed to make RM4.5 billion in net profits before taxation, which is an 18% increase, for only the first half of 2002. Will the banking sector profit by about RM9 billion for the whole of 2002? This would be excessive, considering their poor service to even good borrowers!

Excessive bank profits are indecent when there are so many viable private projects crying out for adequate funding? Bank Negara could make one final push to get banks to serve the national interests better, before the government resorts to tougher measures! The government should indeed take a tougher line with banks!

The private debt security has increased to US\$37 billion in 2001. Its growth far exceeds the growth in Bank

loans of only 3.8% in the second quarter of 2002 as compared to nearly 29% before the financial crisis.

The EPF has RM190 billion in reserves, the pension funds about RM25 billion and the insurance funds have about RM63 billion. These reserves can be used as alternative financing for private-sector projects to enable the private sector to stimulate and sustain economic growth.

### **Second Budget Strategy**

The service sector has been given several incentives and rightly so.

A package of incentives was given for the establishment of an approved regional distribution centre. This would encourage Malaysia to compete more effectively with Singapore as a leading distribution centre.

A new venture capital fund of RM1.0 billion has now been established to for non-ICT companies. This could cover biotechnology and other non-ICT projects to establish new niches and markets that would further diversify our economy.

Tourism has been given another boost with a new Budget allocation of RM200 million to increase the present Special Tourism Fund to RM400 million. But is this sufficient to counter the unfair "travel advisories" issued by so many Western countries in their fear of terrorism?

### **Third Budget Strategy**

Strengthening the public-sector finance and the effectiveness of the civil service.

Thus the Budget's overall deficit will be reduced to 3.9% of the GDP from 4.7% last year.



This is creditable, particularly since the Budget's current account is still in surplus! In fact, we should not expect tax revenues to finance development expenditures in full! We can still borrow to finance capital expenditure as our debt servicing is also relatively low.

The Budget stated that "all civil servants will be reoriented and inculcated with excellent work culture". At least there is public admission that civil service standards have deteriorated. Their efficiency, discipline and pro-business attitude is to be raised by having a series of promotion and competency examinations. It is hoped that real meritocracy and competitiveness will be applied. Otherwise, the quality of the civil service will continue to deteriorate.

As a sweetener, the Budget also provided a one-month bonus and agreed to the new Sistem Saraan Malaysia (SSM), which will incur an additional cost of RM300 million. But this raises the question as to whether it will encourage the civil service to raise productivity or whether civil servants will be paid more for producing less output?

#### **Fourth Budget Strategy**

The fourth strategy is to nurture a progressive and harmonious society with high moral values and ensuring the well-being of the populace. The Budget clearly states that the primary agenda of the government is "to enhance the standard of living of the populace in the rural areas".

Thus RM2.56 billion was allocated for rural development in 2003, an increase of 36% over the allocation for 2002! This is an outstanding contribution to alleviate poverty, but still shows more preference for the

rural—and not the urban poor, in order to promote proper balance in development!

About RM270 million will go towards the building and continuation of rural roads, RM300 million for rural electricity to benefit 103,000 households, RM250 million for water supply for 84,000 households. As a result, about 90% and 80% of the rural areas would be provided with electricity and water supply respectively. This will be a major breakthrough. Very soon all rural households will enjoy electricity and water. But the emphasis will have to move to the urban poor.

Low-cost housing will receive about RM1.0 billion. It is intended to achieve "zero squatters" by 2005 through the Housing Programme for the People for which about 65,770 houses will be built.

For schoolchildren from poor families, each child will receive RM470 per annum for food supplements and schoolbooks and another RM120 for each poor student to buy school uniforms and schools supplies. The allocation for all this will amount to about RM88 million per annum, which is estimated to benefit 730,000 students.

All these measures will go a long way towards alleviating poverty which should continue to receive high priority. *There is no point in achieving high economic growth rates if the poor are marginalised and neglected.* The only problem is to ensure that these vast funds are properly channelled and utilised and that these funds actually benefit the poor, and not the undeserving, along the distribution system!

*For businessmen, the following tax concessions were some of the opportunities that were provided by Budget 2003 for business expansion, and should be taken seriously:*

- (1) SMI corporate tax reduction;
- (2) Annual allowance of 20% for 5 years for the acquisition of a foreign company for high technology;
- (3) Uncollected sales and service tax to be treated as bad debts and not liable to tax;
- (4) Courier service to outside Malaysia is exempted from service tax;
- (5) Professional services within the same group to be exempted from sales tax;
- (6) Double deduction on expenses to promote exports;
- (7) Incentives for regional distribution centres and operational headquarters;
- (8) Export incentives for such professional services as legal, accounting, engineering, medical and dental;
- (9) Incentives for food processing; and
- (10) Incentives for a knowledge-based economy.

### **Budget expenditures**

Budget 2003 expenditures totalled RM109.9 billion, an increase of 9.2% over the original Budget allocation for 2002.

About RM73 billion (or about 66%) was allocated for operating expenditure. Thus about RM37 billion (or 34%) was voted for development expenditure.

These large expenditures for so much expansion in infrastructure and supplies provide plenty of opportunities for businessmen for new contracts.

### **Economic outlook—doubtful?**

Budget 2003 estimates that the economy will achieve a growth rate of 6%-6.5% in 2003. This growth is expected to be led by the private sector, with private investment expected to increase by 16.5% and private consumption expected to rise by 10%. These are indeed high expectations! They may not be realised!

Hopefully, the world economy will improve, but this is uncertain, given the present belligerence of the U.S. and the United Kingdom. If (or rather when) Iraq is attacked, the assumptions for economic growth globally and in Malaysia will be weakened. Then our own estimates for faster economic growth would have to be scaled down quite substantially.

In the meantime, our policy planners have to recognise the great global uncertainties and build up a more open and competitive economy. This will be our challenge for 2003 and beyond!

I believe we will be able to overcome the many global and domestic challenges that come our way and achieve the goals of Vision 2020, as we have in the past! But we cannot just hope for better times—we must all work harder at giving our best, to be more productive and competitive!

We must prepare now for the Post-Mahathir era.

## 12

# The Post-Mahathir Era

THE most significant socioeconomic and political development that has occurred recently, has been Dr. Mahathir Mohamad's decision to resign from all UMNO and Barisan Nasional (B.N.) posts. Fortunately, the prime minister postponed his resignation to October 2003, after appeals from UMNO members (and most Malaysians) soon after!

The Prime Minister's message on his retirement was loud and clear. *It was like saying, "I'm sick and tired of telling you not to be too comfortable and complacent about the challenges ahead. You must be more competent, more confident and competitive*

in the future." His message has strong bearings on the future direction of the Malaysian economy.

What will Malaysia's economic policies be like in the post-Dr. Mahathir era—from October 2003? Has Dato' Seri Dr. Mahathir Mohamad been recently setting the scene for a review and revision of some basic elements of the New Economic Policy (NEP) to enhance Malaysia's capacity to better face the challenges of globalisation? I think so!

I believe that there will be more policy changes soon and that Dr. Mahathir's clear signals to enhance meritocracy and international competition will be given greater priority from now on.

This policy shift will enable Dato' Seri Abdullah Ahmad Badawi to step up the pace of policy change when he assumes the reigns of government towards the end of 2003. Then Dr. Mahathir could supervise the economic transition for many years to come—as the highly influential elder statesman within UMNO and the Barisan Nasional government to keep the economy on course, and moving at the same pace of high performance!

There will be reluctance or resistance to radical changes from many quarters, particularly from those with vested interests. However, the majority of Malaysians will support more meritocracy and less protection in the economy, simply because there is little or no other choice!

If we do not become more competitive, fast enough, Malaysia (like many countries we have seen in history, both developing and developed) will become marginalised and decline.

Malaysia could then deteriorate from being a progressive advanced developing economy with strong prospects to become a developed country by 2020, to a declining Third World nation with little prospects of moving towards industrial-nation status by 2020.

This dismal possibility could lead to greater poverty, increasing instability and a diminution of national unity.

Hence we must expend every effort to become more meritocratic and internationally competitive.

### **Policy changes during transition**

*The following policy changes are therefore envisaged during the transition period—and soon after October 2003, in order that Malaysia overcomes the following economic dilemmas:*

- (1) The NEP will increasingly emphasise human-resource development and reduce the emphasis on the 30% equity ownership. Otherwise, foreign investors will be attracted to countries with less stress on any quota limitations on foreign ownership.  
Malaysian investors could also move away to countries within the Asean and other countries that are more liberal to foreign investors. After all, what is the point of owning more than 50% of a company if we do not secure high-technology investment and if the management is in foreign hands?
- (2) The Malaysian education system which has failed to keep pace with globalisation and greater international competition, will be

reformed. English, science and mathematics are being given higher priority in our schools and universities. It is a pity we have realised this mistake of neglecting English, science and mathematics so late. There are about 40,000 graduates (mainly *Bumiputeras* from public universities) who have been ill prepared to find meaningful employment. But it's still better late than never to change for the better in our education system.

- (3) While the NEP will continue, it will hopefully be applied more carefully to benefit the genuine poor and the underprivileged.

*The humanitarian principle of assisting all underprivileged Malaysians regardless of race should be pursued more strictly as it is one of their basic human rights. This should be especially applicable in poverty eradication and the provision of equitable educational opportunities for all Malaysian children.*

Differential educational opportunities give rise to disenchantment among all low-income Malaysians and especially the non-*Bumiputeras* who feel alienated in their own country of birth.

The government will need to counter the widespread public perception that the better-off and well-connected Malays benefit much more than the majority of other *Bumiputeras* (and the non-*Bumiputeras* as well).

*National unity will suffer if these sensitive perceptions persist and get entrenched. If this adverse perception is*



- not improved, productivity will be stifled and the economy will deteriorate.
- (4) **Graduates should be expected to compete on the basis of genuine meritocracy.** This is only right and proper as too much mollycoddling has made these beneficiaries of affirmative action uncompetitive and retrogressive. Undue preferential policy does nobody nor the economy any good, particularly with the onslaught of globalisation.
  - (5) **Malaysian businessmen have to be forced to actively compete for government contracts.** Where *Bumiputera* contractors need to be developed this can be achieved by encouraging sincere smart partnerships between *Bumiputera* and non-*Bumiputera* contractors so that there is a real transfer of business acumen and technology. Otherwise, too many *Bumiputera* contractors will continue to act as "Ali Babas" and will become permanently dependent on crutches and remain handicapped forever. In the end, they will lose out and fade away.
  - (6) **The quality of government institutions like Law and Order, the Civil Service, the Judiciary and the professionalism, and the efficiency and integrity of our public servants (politicians and officials) will need to be raised substantially to enable Malaysia to achieve industrial-nation status on target.** Tea breaks should be discontinued immediately and "under-the-counter" public officials should be taken to task! More pay and promotions should be given only

- for more work done, otherwise, the tax-paying public will react!
- (7) **Corporate governance in the private sector will also have to be considerably improved.** Rules and regulations have been put in place, but enforcement must be stepped up. Criticism of corruption, cronyism and nepotism will then decline to make Malaysia more attractive as an investment centre.
  - (8) **The "split vote" for and against the Barisan Nasional government could reflect some dissatisfaction with the implementation of the government's socioeconomic policies.** The government will need to find out as early as possible how much resentment there is against the government because of perceptions of neglect and deprivation of equitable benefits of economic development for poor and underprivileged Malaysians. Opposition to the government need not be based on purely religious grounds, but could be more socioeconomic in nature.
  - (9) **The NEP will also need to be seriously modified to ensure that Malaysia fully utilises all its human talent and capital regardless of race, to enable the economy to be more internationally competitive.** This will reduce the strong feelings of alienation suffered by many Malaysians that cause insecurity and uncertainty over Malaysia's continuing fast pace of progress.
  - (10) **Dr. Mahathir talked about the New Malay Dilemma at the Harvard Club Dinner on July 29, 2002.** I raised the question of the "New

Non-Malay Dilemma" over vital prospects of the economic strength, ethnic equity and stability in Malaysia after 2003. Dr. Mahathir replied frankly that it was "his own dilemma too".

**Conclusion:  
For Posterity**

Nevertheless, I believe that all our dilemmas must be largely resolved during this transition period, so that Dato' Seri Abdullah Ahmad Badawi, as the next Malaysian premier, will be able to step up the pace of achieving the goals of Vision 2020, with greater national unity.

Most Malaysians would want this transition period and the post-Dr. Mahathir era to give Malaysia many more positive and even radical policy changes. This would further consolidate and advance the country's remarkable socioeconomic progress that has been achieved particularly in the last two decades.

As we move towards October 2003 when our outstanding Prime Minister Dr. Mahathir Mohamad retires, there is growing confidence that his worthy successor Dato Seri Abdullah Ahmad Badawi will build upon Dr. Mahathir's many achievements and lead Malaysia to greater heights.



## Suggested Reading

- Abraham, Collin E.R., *Divide and Rule: The Roots of Race Relations in Malaysia*, Petaling Jaya: INSAN, 1997
- Bell, Daniel, *The Future of Technology*, Subang Jaya: Pelanduk Publications, 2001
- Blustein, Paul, *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*, New York: Public Affairs, 2001
- Chandler, Clay, "Coping with China," *Fortune*, Vol. 147, No. 1, 2003
- Chang, Gordon G., *The Coming Collapse of China*, London: Century, 2002
- Clifford, Mark L., and Pete Engardio, *Meltdown: Boom, Bust, and Beyond*, Paramus, New Jersey: Prentice Hall Press, 2000

- Frank, Thomas, *One Market Under God: Extreme Capitalism, Market Populism, and the End of Economic Democracy*, New York: Doubleday, 2000
- Friedman, Thomas, *The Lexus and the Olive Tree*, London: HarperCollins, 2000
- Giddens, Anthony, *Runaway World: How Globalisation is Reshaping Our Lives*, London: Routledge, 2000
- Gilpin, Robert, *The Challenge of Global Capitalism: The World Economy in the 21st Century*, Princeton: Princeton University Press, 2000
- Goldstein, Morris, Graciela Kaminsky and Carmen Reinhart, *Assessing Financial Vulnerability: An Early Warning System for Emerging Markets*, Washington, D.C.: Institute for International Economics, 2000
- Gomez, Edmund Terence, *Malaysia's Political Economy: Politics, Patronage and Profits*, Cambridge: Cambridge University Press, 1999
- James, Harold, *The End of Globalisation: Lessons from the Great Depression*, Cambridge: Harvard University Press, 2001
- Jomo K.S., *Malaysian Eclipse: Economic Crisis and Recovery*, London: Zed Books, 2001
- Jomo K.S. (ed.), *Southeast Asia's Industrialization: Industrial Policy, Capabilities and Sustainability*, Basingstoke, Hampshire: Palgrave Macmillan, 2001
- Jomo K.S. and Mushtaq Khan (eds.), *Rents, Rent-Seeking and Economic Development: Theory and the Asian Evidence*, Cambridge: Cambridge University Press, 2000
- Jomo K.S. and Ng Suew Kiat, *Malaysia's Economic Development: Policy and Reform*, Subang Jaya: Pelanduk Publications, 1996
- Jomo K.S. and Shyamala Nagaraj (eds.), *Globalization Versus Development: Heterodox Perspectives*, Basingstoke, Hampshire: Palgrave Macmillan, 2001
- Kepel, Gilles, *Jihad: The Trail of Political Islam*, translated by Anthony F. Roberts, Cambridge, Mass.: The Belknap Press/Harvard University Press, 2002

- Kristof, Nicholas D., and Sheryl WuDunn, *Thunder from the East: Portrait of a Rising Asia*, New York: Alfred A. Knopf, 2001
- Lardy, Nicholas R., *Integrating China into the Global Economy*, Washington, D.C.: Brookings Institution Press, 2002
- Leadbeater, Charles, *Up the Down Escalator: Why the Global Pessimists Are Wrong*, London: Viking, 2002
- Legrain, Philippe, *Open World: The Truth About Globalisation*, London: Abacus, 2002
- Lewis, Bernard, *What Went Wong? Western Impact and Middle Eastern Response*, Oxford: Oxford University Press, 2002
- Lindsey, Brink, *Against the Dead Hand: The Uncertain Struggle for Global Capitalism*, London: John Wiley, 2002
- Lowenstein, Roger, *When Genius Failed: The Rise and Fall of Long-Term Capital Management*, New York: Random House, 2000
- Mahathir Mohamad, *Mahathir Mohamad: A Visionary and His Vision of Malaysia's K-Economy*, Subang Jaya: Pelanduk Publications, 2002
- Mahathir Mohamad, *Reflections on Asia*, Subang Jaya: Pelanduk Publications, 2002
- Mahathir Mohamad, *Globalisation and the New Realities*, Subang Jaya: Pelanduk Publications, 2002
- Mahathir Mohamad, *The Malaysian Currency Crisis: How and Why It Happened*, Subang Jaya: Pelanduk Publications, 2000
- Mahathir Mohamad, *A New Deal for Asia*, Subang Jaya: Pelanduk Publications, 1999
- Mahathir Mohamad, *The Challenges of Turmoil*, Subang Jaya: Pelanduk Publications, 1998
- Mahtaney, Piya, *The Economic Con-Game: Development: Fact or Fiction?*, Subang Jaya: Pelanduk Publications, 2002
- Mayer, Martin, *The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets*, New York: The Free Press, 2001
- McQueen, Humphrey, *The Essence of Capitalism*, London: Profile Books, 2001

- Micklethwait, John, and Adrian Wooldridge, *A Future Perfect: The Challenge and Hidden Promise of Globalization*, New York: Crown Business, 2000
- Mills, John, *Managing the World Economy*, London: Macmillan, 2000
- Muzaffar, Chandra, *Rights, Religion and Reform: Enbancing Human Dignity Through Spiritual and Moral Transformation*, London: RoutledgeCurzon, 2002
- Navaratnam, Ramon V., *Malaysia's Economic Sustainability: Confronting New Challenges Amidst Global Realities*, Subang Jaya: Pelanduk, 2002
- Navaratnam, Ramon V., *Malaysia's Economic Recovery: Policy Reforms for Economic Sustainability*, Subang Jaya: Pelanduk, 2000
- Navaratnam, Ramon V., *Healing the Wounded Tiger: How the Turmoil is Reshaping Malaysia*, Subang Jaya: Pelanduk, 1999
- Navaratnam, Ramon V., *Strengthening the Malaysian Economy: Policy Changes and Reforms*, Subang Jaya: Pelanduk, 1998
- Navaratnam, Ramon V., *Managing the Malaysian Economy: Challenges and Prospects*, Subang Jaya: Pelanduk, 1997
- Okposin, Samuel Bassey, and Cheng Ming Yu, *Economic Crises in Malaysia: Causes, Implications and Policy Prescriptions*, London: Asean Academic Press, 2000
- Panitchpakdi, Supachai, and Mark L. Clifford, *China and the WTO: Changing China, Changing World Trade*, Singapore: John Wiley & Sons (Asia), 2001
- Pempel, T.J. (ed.), *The Politics of the Asian Economic Crisis*, Ithaca, New York: Cornell University Press, 1999
- Purves, Bill, *China on the Lam*, Hong Kong: Asia 2000, 2002
- Pillar, Paul R., *Terrorism and U.S. Foreign Policy*, Washington, D.C.: Brookings Institution Press, 2001
- Rashid, Ahmed, *Jihad: The Rise of Militant Islam in Central Asia*, New Haven: Yale University Press, 2001
- Rashid, Ahmed, *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia*, New Haven: Yale University Press, 2000



- Rosenberg, Tina, "The Free-Trade Fix," *The New York Times Magazine*, August 18, 2002
- Singer, Peter, *One World: The Ethics of Globalization*, New Haven: Yale University Press, 2002
- Soros, George, *On Globalisation*, New York: Public Affairs, 2002
- Soto, Hernando de, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, New York: Basic Books, 2001
- Stiglitz, Joseph E., *Globalisation and Its Discontents*, London: Allen Lane/The Penguin Press, 2002
- Stiglitz, Joseph E., "A Fair Deal for the World," *The New York Review of Books*, May 23, 2002
- Stiglitz, Joseph E., "The Insider: What I Learned at the World Economic Crisis," *The New Republic Online*, April 17, 2000
- Studwell, Joe, *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth*, London: Profile Books, 2002
- Talbott, Strobe, and Nayan Chanda (eds.), "Empowered through Violence: The Reinvention of Islamic Extremism," in *The Age of Terror*, The Perseus Press, 2001
- Tariq Ali, *The Clash of Fundamentalisms: Crusades, Jibads and Modernity*, London: Verso, 2002
- Vines, Stephen, *The Years of Living Dangerously: Asia—From Financial Crisis to the New Millennium*, London: Orion Business Books, 2000
- Vogel, Ezra F., *Is Japan Still Number One?*, Subang Jaya: Pelanduk Publications, 2000
- Volpi, Vittorio, *Japan Must Swim or Sink*, Subang Jaya: Pelanduk Publications, 2001
- Zachary, G. Pascal, *The Global Me: New Cosmopolitans and the Competitive Edge: Picking Globalism's Winners and Losers*, New York: Public Affairs, 2000



# Index

- Abdul Razak (Tun), 183  
Abdullah Ahmad Badawi  
  (Dato' Seri), 51, 106, 124,  
  183, 200, 205  
ACA, *see* Anti-Corruption  
  Agency  
ADB, *see* Asian Development  
  Bank  
Afghanistan, 5, 151  
AFTA, *see* Asean Free-Trade  
  Area  
Al-Qae'da, 71, 129, 151  
Amir Abdullah, 85  
Annan, Kofi, 126  
Anti-Corruption Agency, 86  
Anwar Ibrahim (Dato' Seri),  
  148  
Argentina, 22  
Armitage, Richard, 149  
Arthur Andersen, 27, 32, 35  
Asean, *see* Association of  
  Southeast Asian Nations  
Asean Free-Trade Area, 9,  
  45, 47, 51, 55-56, 58,  
  96-97, 105, 110-111, 121,  
  123, 134-135, 158, 162,  
  172, 177, 191

- Asean Surveillance Peer Review Group, 108  
 Asean+3 (China, Japan and South Korea), 56  
 Asean+3 Secretariat, 176  
 Asian Development Bank, 93, 104  
 Association of Southeast Asian Nations, 3, 9, 45, 47, 54-57, 61, 66, 94-97, 108-109, 134-135, 151, 176-177, 191, 201  
 Australia, 24, 96, 176-177  
 Baker, James, 13  
 Bank Negara Malaysia (Bank Negara), 45, 61, 63, 152, 155, 167, 183, 193  
 Barisan Nasional, 23, 106, 199, 200, 204  
 BID, *see* British Institute of Directors  
 Bingaman, Jeff, 30  
 B.N., *see* Barisan Nasional  
 BNM, *see* Bank Negara Malaysia (Bank Negara)  
 Bower, Ernest Z., 54, 57-58  
 British Institute of Directors, 129, 132  
 California Public-Employees' Retirement System, 69-71, 108  
 CalPERS, *see* California Public-Employees' Retirement System  
 CAP, *see* Consumer Association of Penang  
 CDRC, *see* Corporate Debt Restructuring Committee  
 China, 2-3, 9, 11, 13, 15, 45, 51, 54-58, 65-69, 98, 105, 113, 118, 122-123, 134, 152-153, 159, 162, 172, 189  
 China-Asean FTA proposal, 55  
 CIDB, *see* Construction Industry Development Board (of Malaysia)  
 Clifford, Mark L., 67  
 Clinton, Bill, 148  
 Company's Act 1965, 39  
 Construction Industry Development Board (of Malaysia), 85-86, 178  
 Consumer Association of Penang, 79  
 Consumer Price Index, 154  
 Corporate Debt Restructuring Committee, 104  
 Corporate governance, 27-30, 32-38, 40, 43, 53, 57, 113, 155, 167, 169, 204  
 Corruption, 15, 25, 28-29, 31, 35, 41, 49, 52-54, 86, 125, 182, 192, 204  
 Cox, George, 129-130, 132  
 CPI, *see* Consumer Price Index  
 Cronyism, 28-29, 31, 204

- Cultural Revolution (1976), 68
- Currency peg, 23, 93, 104-106, 159
- Danaharta, 104
- DBRS, *see* Disclosure-Based Regulatory System
- Deller, Nicole, 91
- Deng Xiaoping, 68
- Disclosure-Based Regulatory System, 40
- Dudley, William, 121
- EAEG, *see* East Asian Economic Grouping
- East Asian Economic Grouping, 3, 56, 176
- Economic and Social Commission for Asia and the Pacific, 2
- 8th Malaysia Plan (8MP), 79
- Employees Provident Fund, 166, 188, 194
- Enron Corp., 10, 27-28, 30-32, 34-35, 53
- EPF, *see* Employees Provident Fund
- ESCAP, *see* Economic and Social Commission for Asia and the Pacific
- E.U., *see* European Union
- European Union, 11, 75, 116, 131
- Fair Trade Act, 31, 50, 54
- Federation of Malaysian Consumer Associations, 79
- Fitch Ratings, 105
- FOMCA, *see* Federation of Malaysian Consumer Associations
- Fortune* 500, 28
- Free-trade agreement, 54-57, 96, 177
- FTA, *see* Free-trade agreement
- Globalisation, 6, 8, 14, 18-19, 31, 34, 37-38, 46-47, 50, 65-66, 68-69, 73, 85, 94, 96-97, 99, 111, 113, 122-123, 129-130, 132, 136, 139, 142-144, 147, 162-163, 170-173, 183, 200-201, 203
- Goods and services tax, 133
- Gore, Al, 148
- Greenspan, Alan, 69, 93
- GST, *see* Goods and services tax
- Hassan Said (Professor), 138
- HIV/AIDS, 11, 100
- Hong Kong, 53-54, 57, 122, 134
- Hornik, Richard, 57
- Houston Natural Gas, 28
- Hubbard, Glen, 69
- Huhtala, Marie T., 57-58, 60-61

- IEA, *see* International Energy Agency
- IHT, *see* International Herald Tribune
- IMD, *see* Institute of Management Development (Switzerland)
- IMF, *see* International Monetary Fund
- India, 2, 172
- Indonesia, 53, 100-111, 152, 158, 172, 179
- Industrial Coordination Act 1975, 190
- Industrial Production Index, 73
- Inland Revenue Board, 166, 187
- Institute of Management Development (Switzerland), 122
- World Competitiveness Index, 122
- International Energy Agency, 127
- International Herald Tribune, 5
- International Monetary Fund, 4, 7, 22, 131-132
- InterNorth, 28
- IPI, *see* Industrial Production Index
- Iran, 127
- Iraq, 5, 73, 118-119, 127, 198
- IRB, *see* Inland Revenue Board
- Israel, 5, 89-90, 92, 94, 117, 119, 126, 128, 151
- Israeli-Palestinian conflict, 91, 118-119
- JACTIM, *see* Japanese Chamber of Trade and Industry Malaysia
- JAMECA, *see* Japan-Malaysia Economic Association
- Japan, 1-2, 7, 11, 13-14, 53-54, 56, 65, 72-73, 103, 116, 118, 176
- Japan-Malaysia Economic Association, 65
- Japanese Chamber of Trade and Industry Malaysia, 64
- John Paul II (Pope), 118
- Kaur, Hardev, 59
- Kelly, James, 60
- Kharas, Homi, 103
- Kim Hak-Su, 2
- KLSE, *see* Kuala Lumpur Stock Exchange
- Koehler, Horst, 131
- Kuala Lumpur Stock Exchange, 36, 39, 113
- La Rouché, Lyndon (Dr.), 3
- LDP, *see* Liberal Democratic Party
- Lee Hsien Loong (Brigadier-General), 133
- Li Peng, 3
- Liberal Democratic Party, 73

- Lindsey, Lawrence, 69  
 Long-Term Capital  
     Management Fund, 28, 35  
 Lopez, Jose, 123  
 LTCM, *see* Long-Term  
     Capital Management Fund
- Mah Bow Tan, 98  
 Mahathir Mohamad (Dr.),  
     6-8, 18-19, 88-89, 92,  
     105-106, 117-118, 122,  
     125, 135-138, 142,  
     147-149, 151, 160, 171,  
     173, 175, 187-188, 190,  
     198-200, 204-205  
 MAJECA, *see* Malaysia-Japan  
     Economic Association  
 Malaysia Airlines, 25  
 Malaysia-Japan Economic  
     Association, 65  
 Malaysian Association of  
     Private Colleges and  
     Universities, 145  
 Malaysian Indian Congress,  
     84, 139, 142  
 Malaysian Industry-  
     Government Group for  
     High Technology, 175  
 Malaysian Institute of  
     Economic Research, 92-93  
 Malaysian International  
     Chamber of Commerce  
     and Industry, 106-108, 123  
 Malaysian Investment  
     Development Authority,  
     96
- Malaysian Trades Union  
     Congress, 71  
 Mao Zedong, 68  
 MAPCU, *see* Malaysian  
     Association of Private  
     Colleges and Universities  
 MAS, *see* Malaysia Airlines  
 Medvedkov, Maxim, 15  
 MIC, *see* Malaysian Indian  
     Congress  
 MICCI, *see* Malaysian  
     International Chamber of  
     Commerce and Industry  
 MIDA, *see* Malaysian  
     Investment Development  
     Authority  
 MIER, *see* Malaysian Institute  
     of Economic Research  
 MIGHT, *see* Malaysian  
     Industry-Government  
     Group for High  
     Technology  
 Ministry of Education, 24,  
     138, 141  
 Ministry of Health, 163-164  
 Ministry of International  
     Trade and Industry, 96,  
     113, 192  
 Ministry of Rural  
     Development, 184  
 MITI, *see* Ministry of  
     International Trade and  
     Industry  
 Mohamed Ariff (Dr.), 92  
 Mohamed Khaled Nordin,  
     79

- Mohd. Khir Toyo (Dato' Seri Dr.), 79  
 Moody's Investors Service (Moody's), 65-66, 105, 108  
 Moore, Mike, 66  
 Morgan Stanley, 104  
 MTUC, *see* Malaysian Trades Union Congress  
 Mueller, Robert, 59  
 Munir A. Majid, 148  
 Musa Hitam (Tan Sri), 50  
 Mustapa Mohamed (Dato'), 161  
 Myanmar (Burma), 108, 175  
 National Development Policy, 46  
 National Economic Action Council, 142, 145, 161, 192  
 National Education Brains Trust, 142, 146  
 National Health Insurance Scheme, 164, 166-169  
 National Retrenchment Scheme, 72  
 NDP, *see* National Development Policy  
 NEAC, *see* National Economic Action Council  
 NEP, *see* New Economic Policy  
 Nepotism, 29, 31, 204  
 New Economic Policy, 35-36, 46, 115, 123-124, 170, 200-202, 204  
 New York Stock Exchange, 30  
 New Zealand, 176  
 NGOs, *see* Non-governmental organisations  
 NHIS, *see* National Health Insurance Scheme  
 Non-governmental organisations, 25, 33, 37-38, 78-80, 84, 184  
 Non-performing loans, 104, 154  
 NPLs, *see* Non-performing loans  
 NRS, *see* National Retrenchment Scheme  
 NYSE, *see* New York Stock Exchange  
 ODA, *see* Official Development Assistance  
 OECD, *see* Organisation for Economic Cooperation and Development  
 Official Development Assistance, 11  
 OIC, *see* Organisation of Islamic Conference  
 OPEC, *see* Organisation of Petroleum Exporting Countries  
 Organisation for Economic Cooperation and Development, 115



- Organisation of Islamic Conference, 89, 151
- Organisation of Petroleum Exporting Countries, 127-128
- Osama bin Laden, 61, 151
- Oxfam, 99, 131
  - Oxfam Report*, 101-102
- Palestine, 89, 92, 127-128
- Panitchpakdi, Supachai, 67
- PERC, *see* Political and Economic Risk Consultancy
- Petronas, 167
- Philippines, 158
- Political and Economic Risk Consultancy, 52
- Priddle, Robert, 127
- Rafidah Aziz (Dato' Seri), 95, 179
- Rais Yatim (Dato' Dr.), 48
- Ramadasan, Krishnan (Dr.), 80
- Ratnam, K.J. (Professor), 81, 143
  - Ratnam's Report*, 81
- Red Book*, 183, 185
- Registrar of Companies, 39
- Renong Group, 25, 74
- Road Transport Department, 167
- ROC, *see* Registrar of Companies
- RTD, *see* Road Transport Department
- Russia, 2, 15
- S&P's, *see* Standard & Poor's
- S. Samy Vellu (Dato' Seri), 79, 139
- Sahabat Alam Malaysia, 79
- SAM, *see* Sahabat Alam Malaysia
- Samsuddin Osman (Tan Sri), 181-182
- S.C., *see* Securities Commission
- Securities Commission, 36, 39, 113
- September 11, 2001, 4-6, 15, 30, 46, 60, 89, 93, 102, 123
- Shafie Mohd. Salleh (Dato' Dr.), 109-111
- Shinawatra, Thaksin, 56
- Singapore, 11, 13, 22, 24, 53-54, 70-71, 86, 94-98, 122, 132-135, 152, 158, 176-178, 181, 194
- Smart partnership, 72, 135, 182, 203
- Somalia, 5
- South Korea, 2, 54, 56, 108, 152, 189
- Standard & Poor's, 71, 105
- Subramaniam, Siva (Dato'), 81, 182
- Syed Hamid Albar (Dato' Seri), 149

- Tauzin, Billy, 30  
 Terrorism, 4-5, 12-16, 23,  
     26, 60, 88-90, 92, 102,  
     117, 119, 128-129,  
     131-132, 149-151, 194  
 Trade-Related Intellectual  
     Property Agreement, 11  
 Trade-Related Issues on  
     Terrorism, 13  
 TRIPS, *see* Trade-Related  
     Intellectual Property  
     Agreement  
 TRITs, *see* Trade-Related  
     Issues on Terrorism  
  
 U.N., *see* United Nations  
 U.S.-Asean Business  
     Council, 54, 57, 151  
 U.S.-Asean FTA proposal,  
     54-57  
 U.S.-Malaysia Friendship  
     Council, 57-58, 60  
 UMNO, *see* United Malays  
     National Organisation  
 UNCTAD, *see* United  
     Nations Conference on  
     Trade and Development  
 United Malays National  
     Organisation, 135-137,  
     146, 199-200  
 United Nations Conference  
     on Trade and  
     Development, 66  
 United Nations, 2, 4, 90-92,  
     94, 119, 126, 150  
  
 United States, 1-7, 10-11,  
     14-15, 23, 27-32, 34, 46,  
     53-61, 69-73, 75, 89-92,  
     96, 100, 104, 115-119,  
     121, 123, 126-129,  
     147-152, 159, 169,  
     176-177, 189, 198  
  
 Vision 2020, 16-19, 36, 45,  
     123, 147, 198, 205  
  
 Wall Street, 28  
 Wolfensohn, James D., 132  
 World Bank, 7, 29, 100, 103,  
     132  
 World Trade Organisation,  
     4, 9-16, 31, 45, 66-67, 99,  
     102, 122  
 World Wide Fund for Nature  
     Malaysia, 79-80  
 WorldCom, Inc., 10  
 WTO, *see* World Trade  
     Organisation  
 WWF, *see* World Wide Fund  
     for Nature Malaysia  
  
 Yeo, George (Brigadier-  
     General), 94-95, 98  
 Yeoh, Francis (Tan Sri), 58  
  
 Zainal Rampak (Senator),  
     71-72  
 Zoellick, Robert, 55

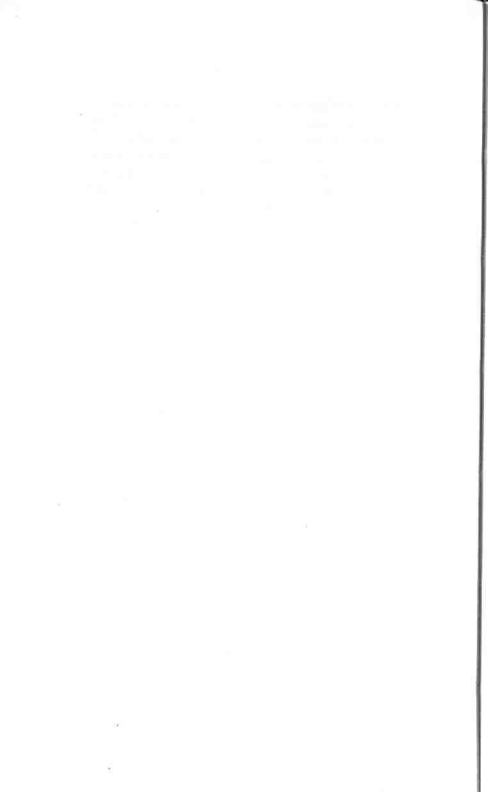
**Ramon V. Navaratnam** is a distinguished former civil servant and corporate personality. A graduate in Economics from the University of Malaya in Singapore and a postgraduate from Harvard University, he was an economist with the Malaysian Treasury for 27 years, where he rose to become the deputy secretary-general. During that time, he also served as alternate director on the Board of Directors of the World Bank in Washington, D.C. For many years, he was involved in the preparation of the Malaysian annual budgets and five-year economic development plans. He then became the secretary-general of the Ministry of Transport in 1986.

After retiring from the civil service in 1989, Tan Sri Dato' (Dr.) Navaratnam was appointed CEO of Bank Baruh for five years. He is now corporate adviser to the Sunway Group, executive director of Sunway College, a board member of the Monash University in Malaysia and the Monash International Advisory Panel, and a director of the Asian Strategy and Leadership Institute (ASLI).

He served the Malaysian government as vice-chairman of the Malaysian Business Council and as an independent member of the National Economic Consultative Council (1999). He was also on the Board of Directors of the Malaysia External Trade Development Corporation (Matrade) and is on the Board of the Malaysian Industry-Government Group for High Technology (Might), as well as a member of several National Economic Action Council (NEAC) Working Groups.

He also serves on several voluntary organisations and is deputy president of the Malaysian Association of Private Colleges and Universities (MAPCU) and board member of the Malaysia-U.S. Business Council. He has also recently been appointed to serve as a Commissioner on Suhakam, the Malaysian Human Rights Commission.

Navaratnam was recently conferred an Honorary Doctorate of Laws by Oxford Brookes University in Britain in recognition of his contribution to public service and economic development in Malaysia.



What  
**MANAGING THE MALAYSIAN ECONOMY:  
CHALLENGES & PROSPECTS (1997)**

is all about:

This book discusses the challenges and prospects that lie ahead as Malaysia marches towards the new millennium and beyond. The rapid economic growth Malaysia enjoyed since the mid-1980s is a fact that is hard to ignore. The economy had averaged 8% per annum for the last 8 years. Economists have expressed concern about inflation, but at 3%-4% per annum, it is still well under control.

This book encourages a critical and distinctively Malaysian approach to the problems the country faces as it strives towards developed-nation status by the year 2020. Malaysia's plan was to go for productivity-driven growth with sustainable external balance and price stability. Despite Malaysia's inherent problems of a labour force that is becoming increasingly scarce and costly, Malaysia will continue to be attractive to foreign investors in the years to come because of its political stability, good infrastructure and an English-speaking workforce. Malaysia's continued success will now depend on its ability to attract technologically advanced industries and continuing strong leadership.

ISBN 967-978-581-5

What the reviews say of  
**MANAGING THE MALAYSIAN ECONOMY:  
CHALLENGES & PROSPECTS (1997)**

"...a comprehensive and well-written book. The lessons of experience will be useful to us here at the World Bank as well as to policymakers in other developing countries. ... I agree with the key challenges on development that [Navaratnam has] identified ..., including the importance of sound economic management, strengthening productivity-driven growth, and addressing skill shortages, environmental decline, and corruption."

James D. Wolfensohn World Bank President

"... a thought-provoking book. ... Navaratnam looks at the challenges facing Malaysia squarely and to his credit has come forward with many practical solutions to some of the excesses and hangovers from the prolonged economic boom." **The Star**

"... a book worth reading. ... this book ... stimulates public discussion of Malaysia's major economic issues and the associated challenges and prospects. It ... offers criticisms and suggestions that reflect the concerns of a moderate, independent, pragmatic and visionary Malaysian nationalist who wishes to see the continued growth and development of the country."  
**New Straits Times**

"... a must-read for the business visitor to the country who could use a clear, insightful summation of why Malaysia is likely to be the country that will prosper longest and best amidst Southeast Asia's ascendancy. ... might be good for investors, but it is even better for Malaysians." **Malaysian Business**

"... reviews the diversity of challenges and prospects facing the Malaysian economy as it approaches the second millennium. The binding metaphor of this collection of pieces is management of the economy of Malaysia as it traverses the watershed to become an industrialised nation." **Management**

"Though not everyone may agree with Navaratnam's stance on the environment, the average businessman would probably concur with the need to advocate productivity-driven growth. ... His book is retrospective, emphasising the strengths in Malaysia's economic planning since Merdeka." **Malaysian Industry**

What  
**STRENGTHENING THE MALAYSIAN ECONOMY:  
POLICY CHANGES & REFORMS (1998)**  
is all about:

This book attempts to provide solutions to Malaysia's economic malaise as it strives to become an industrialised nation. The Malaysian economy, which had enjoyed spectacular growth for eight consecutive years, was jolted from its euphoria in July 1997, when the vicious contagion effect arising from the *de facto* devaluation of the Thai baht sent East Asian currencies and stock markets nosediving to lows the likes of which had never been seen before. Why was this breathtaking march to prosperity brought to a grinding halt by the financial crisis? What were the causes of the crisis and what lessons can be drawn from it?

Though Malaysia has turned the corner in grappling with the financial crisis, tough times still lie ahead. Reforms will take time to be implemented and results will not be forthcoming. A change in mindset is crucial: the crisis must be seen as an opportunity to work towards a more productivity-driven economy. A commitment to reforms and an understanding of how they are to be implemented are vital in expediting recovery and sustaining economic growth. Despite the uncertainty over how long the downturn will last, Malaysia's long-term prospects are still encouraging.

ISBN 967-978-642-0

What the reviews say of  
**STRENGTHENING THE MALAYSIAN ECONOMY:  
POLICY CHANGES & REFORMS (1998)**

"... essential reading for the layman, economists, researchers and policymakers interested to have a quick grasp of how and why the Malaysian economy ticks, from boom to recession. ... [Navaratnam] speaks with refreshing candour and sometimes in perplexed exasperation on the kaleidoscopic issues and challenges confronting the economy. ..." **The Star**

"... a comprehensive assessment of the problems facing the Malaysian economy, ranging from social and economic issues to unethical professional practices, money politics, corruption and nepotism. ... essential reading for the man in the street, policymakers and economists who desire a good understanding of the state of play and of the future outlook for the economy. Our current position at the recessionary phase of the business cycle makes Navaratnam's contribution both pertinent and topical. These essays are ... well pitched to stimulate public policy discussion and debate. ... [He] espouses a common-sense approach to economic policy. His approach is one of steering, gently nudging and carefully explaining. ... his arguments appear cogent and sensible." Wong Koi Nyen Lecturer in Economics and Robin Pollard Head of School of Business and Information Technology, Monash University Sunway, Malaysia

What  
**HEALING THE WOUNDED TIGER:  
HOW THE TURMOIL IS RESHAPING MALAYSIA (1999)**  
is all about:

What began in July 1997 as a Thai currency crisis saw the rapid depreciation of Asian currencies and the collapse of stock markets across the region. The Malaysian economy, which had enjoyed spectacular growth for eight consecutive years, was not spared. By introducing capital and currency controls to shield its battered economy from external volatility and currency manipulation, Malaysia took a step away from orthodoxy. However, it has not insulated itself from the mainstream of global economy and will continue to promote trade and foreign direct investment as conduits for universal prosperity. More reforms in the financial system are still needed to counter the rising tide of globalisation. There is more scope for financial sector liberalisation to allow for both the infusion of capital and expertise into the system, which will contribute to long-term stability. While absolute liberalisation in the system may not be possible in the near term, greater relaxation of rules would pave the way to recovery.



What  
**MALAYSIA'S ECONOMIC RECOVERY:  
POLICY REFORMS FOR ECONOMIC  
SUSTAINABILITY (2000)**  
is all about:

As East Asia picks up the pieces of its burst bubble, new questions emerge: What have we learnt from the crisis? How do we go about ensuring that we will be able to better face the challenges of globalisation in the future? How can companies, especially the smaller ones, prepare for changes and not suffer a repeat of the crisis? How should we regard the rich and powerful industrial countries? Have we become too complacent for comfort? Have we got the will? Are we still on track towards Vision 2020?

Once again, Ramon V. Navaratnam shows us the state of the Malaysian economy and what the government and companies need to do to build a sustainable economy and reshape Malaysia's vision in the 21st century. Navaratnam argues that we must learn from the lessons of history and change for the better. With greater determination and stronger national unity, Malaysia will be able to become more competitive and continue to manage the risks and challenges of globalisation and prosper. He offers pointers on how the Malaysian government and companies can build upon the damage brought about by the Asian financial crisis of 1997. He believes that Malaysia has to undertake more reforms at all levels of the economy to overcome the challenges from within and outside the country, especially in the new era of globalisation.

ISBN 967-978-736-2

What the reviews say of  
**MALAYSIA'S ECONOMIC RECOVERY:  
POLICY REFORMS FOR ECONOMIC  
SUSTAINABILITY (2000)**

"... makes interesting reading. ... a wealth of information.  
... [With this book, Navaratnam] has contributed to the building  
of Malaysia's institutional memory." **Dato' Seri Abdullah Ahmad  
Badawi** Deputy Prime Minister, Malaysia

"... [Navaratnam] has not only examined the state of Malaysia's  
economy, but has also constructively outlined his thoughts on  
building a sustainable economy and reshaping Malaysia's vision  
in the 21st century." **Tan Sri Jeffrey Cheah** Sunway Group

"A must-read for those interested in what Navaratnam calls  
'Malaysianomics'—Malaysia's special brand of pragmatic and  
innovative approach to economic management. This book brings  
a fresh view on the Malaysian economy after the crisis. he does  
not hesitate to defend Malaysia against unfair foreign criticisms  
but at the same time is concerned enough to suggest ways to  
improve the economy." **Prof Dr. Mahani Zainal Abidin** Head,  
Special Consultancy Team on Globalisation, National Economic  
Action Council, Economic Planning Unit

"What I like most about the book is the frankness with which the  
author refers to weaknesses in our institutions and recommends  
overdue reforms in the economic and banking sectors and in  
Malaysian public administration. ... 'Crisis concentrates the  
mind,' it has been said, and this book, by one who has certainly  
concentrated his mind, deserves to be read not only by students  
of economics and business executives but also by citizens who  
are concerned with public issues." **The Sun**

"... seeks to fathom the depths of the 1997 financial crisis.  
[Navaratnam] draws lessons from it and sees ways to reshape the  
Malaysian economy in the face of globalisation. ... also urges  
reforms and suggests how the government and private sector can  
benefit from the challenges ahead." **Going Places**

"It is a commendable and important work, one that, in plain prose, outlines basic problems and offers solutions candidly—sometimes boldly. ... The book rides the waves of popular consensus, yet also urges the debate forward on various issues. It is not the first, nor is it the last. It is written in the midst of change. Above all, its writing is compelled by a desire for reform." **The Star**

"Malaysia's economic development process and experience is unique. Sadly, though, there is scant literature on it. ... The exception, perhaps, is Navaratnam, who has not only ... tracked the country's economic policies, their implementation, impact and effectiveness but at the same time provided the badly needed economic literature on the Malaysian experience."  
**New Sunday Times**

"This book provides a highly readable account of the Malaysian economic and business situation in 2001. Navaratnam writes with clarity and does not hesitate to express forceful, sometimes controversial views on the issues which contributed to the Asian financial crisis of 1997. He discusses the socioeconomic policies and management of the Malaysian economy since that time and he then calls on the Malaysian government and on global corporations to initiate new thinking and innovative policies in order to build economic sustainability. In some areas his policy prescriptions are primarily relevant to Malaysia (for example, he has interesting things to say about the need to revisit current banking and *Bumiputera* partnership policies). However, his analysis often focuses on the impact of globalisation on developing economies, and in this respect the book is highly relevant to many topical economic and political debates. This is a book that must be read by anyone interested in the state of the Malaysian economy and associated Malaysian domestic policy. It will also interest anyone who wishes to use the Malaysian experience as a case study of the impact of globalisation on non-western economies. Written as it is by a Harvard-trained Malaysian economist ..., this book can provide a perspective from within this young economy, to counteract an overreliance on analyses from outside.

**Prof. Gill Palmer** Dean, Faculty of Business and Economics,  
Monash University, Australia

"This book presents a different but excellent perspective to managing economic developments in Malaysia, amid globalisation that is rapidly putting more pressure on countries to reform. Navaratnam presents more than a fresh point of view."  
**Business Today**

"Navaratnam's book has the merit of combining an analytical approach to research with plain, communicative language. Published when the Malaysian economy was beginning to recover from the Asian financial crisis of 1997, it offers a timely and cogent analysis of what Malaysia needs today to build a better tomorrow. And yet despite the encouraging trends, he warns that Malaysians cannot afford to be too confident. Besides describing the opportunities, he also offers insightful advice on the major difficulties Malaysia may encounter in the years ahead by highlighting the importance of policy reforms and the potential perils if these are not done. 'I believe that with the right will and strong national unity, we will win the battle, despite the savage process of globalisation. But to gain from globalisation, we must overcome our own dilemmas,' he advises.

"The subject of Navaratnam's pragmatic investigation is very much part and parcel of the problems the country has to face and solve in the next millennium in achieving the targets of Vision 2020. Malaysia's multicultural milieu, national unity in diversity, productivity, and smart partnership between the private and public sectors are all concepts far too precious to be ignored, and are among the leitmotiv of his farsighted perspective. Though you may not agree with all of his provocative, practical and far-reaching solutions, those interested will find food for healthy discussion and debate.

"... this book will bring about greater Malaysian participation in the making of a developed Malaysia in an increasingly globalised world. The concerned Malaysian reader and 'all those who believe that we can in our own small way contribute to steer the Malaysian economy steadily forward' should listen, change their attitude and thus improve their ability and willingness to contribute to the country's future." **Dr. Marie-Aimée Tourres**  
Economist, Institute of Strategic and International Studies (ISIS),  
Malaysia

"... an excellent synopsis of Malaysia's domestic policy and the nation's position in the global economic and political community. It provides a comprehensive commentary on how Malaysia sees herself and how she perceives others see her. It is essential reading for all those interested in the range of contemporary economic and political issues facing this rapidly growing and changing nation. It is a brief but valuable overview for Malaysians, but also for all those interested in understanding this dynamic nation.

"The text takes the reader brilliantly through the processes of adjustment that are ongoing in Malaysia by intertwining the economic, political and social adjustments that have occurred since the nation's independence and journey through rapid development as one of the major economies of the region.

"The text is more than a description of change but is an analysis of those changes and provides considered views on alternatives for the future.

"It is particularly valuable reading for non-Malaysians, as it is an easy-to-read treatise of a complex and rapidly changing society. The sections on Malaysia's role in the global political and economic environments is particularly valuable."

Lionel Phelps Chancellor, Southern Cross University, Lismore,  
New South Wales, Australia

What  
**MALAYSIA'S ECONOMIC SUSTAINABILITY:  
CONFRONTING NEW CHALLENGES  
AMIDST GLOBAL REALITIES (2002)**  
is all about:

The remarkable fact about the Malaysian economy is not how far it has come, but how well it has recovered from the Asian financial crisis of 1997. Tough times now beckon with a slowdown in the Western economies, where the chill winds of global downturn are beginning to nip at the ankles.

Malaysia has been acknowledged as the richest and best managed Islamic democracy in the world. The question, however, is whether Malaysia can sustain this outstanding record of socioeconomic development, with its enviable political stability and its unique brand of social engineering that has strengthened racial harmony in one of the most complex societies in the world. Will Malaysia be able to seize the opportunities that well managed globalisation can provide or will it be "gobble-ised" and dominated by the economic might of the Western industrial powers and the powerful multinationals in the painful process of economic liberalisation.

Malaysian Prime Minister Dato' Seri Dr. Mahathir Mohamad has undoubtedly led Malaysia impressively into the 21st century. With him at the helm steering the nation forward, Malaysia is today a modern nation and is moving steadily towards industrialised-nation status by the year 2020. Dr. Mahathir, with his deep convictions and political battles in his twenty remarkable years as Prime Minister of Malaysia.

Besides providing an overview of the Malaysian economy and what makes it tick, this book looks at the continuing concerns as to whether Malaysia can overcome the many new challenges that it will confront with the rising tide of globalisation.

ISBN 967-978-804-0

What the reviews say of  
**MALAYSIA'S ECONOMIC SUSTAINABILITY:  
CONFRONTING NEW CHALLENGES  
AMIDST GLOBAL REALITIES (2002)**

"Written in a down-to-earth manner, it is a useful book to have. ... essential reading for anyone keen to find out how Malaysia succeeded in uplifting its economy while so many other Third World countries are still struggling to develop, and what changes are necessary if we are to continue moving forward in the face of globalisation, internationalisation and intense competition."  
**New Straits Times**

"Navaratnam is a sharp observer of Malaysian affairs as well as a prolific writer. Combine these two qualities, and we have a trove of good practical ideas which Malaysian leaders would do well to pay heed to in the management of the country's political and economic affairs." **The Star**

"... attempts to address some of [the socioeconomic] challenges by providing thought-provoking arguments while analysing significant economic policy developments that affect the lives of Malaysians. ... Recommended for those who want to catch up on the socioeconomic scene in Malaysia." **Malaysian Business**

"... The overwhelming slant in these commentaries is very refreshing; nearly all of them address the question 'what next?' or 'how can we do better?' With this approach, Navaratnam aims to stimulate public debate on economic management and further build on the economic success already achieved in Malaysia. [He] reminds us constantly that the social and human angles are an integral part of economic management. [He] does not subscribe to the sacred cows of economic management and reminds the reader regularly to be wary of standard recipes. ... It is a must for all analysts who wish to understand Malaysia's economic success and the key debates and issues which figure in its future development." **Robert Poldermans DFC, Benelux**

"Some may find ... his opinions to be provocative, but that is exactly what he strives to achieve, i.e., to stimulate public debate and provoke discussion on national economic matters at different levels of Malaysian society." **Management**

"... takes a no-nonsense look at how Malaysia has weathered the economic shocks of the past four years. ... [Navaratnam] deals in broad journalistic strokes that make the book direct, digestible and dippable. ... [He] is a Malaysian in the truest sense of the word, and this book serves to echo the concerns (and grouses) of the typical Malaysian." **Education Quarterly**

"... 34 hard-hitting essays through the eyes of a senior civil servant. An insightful analysis of the current state of play of the Malaysian economy. Navaratnam does not sidestep or relegate to the sidelines those Malaysia-specific sensitive issues—he boldly confronts them and offers pragmatic solutions. A worthy contribution for practitioners, policymakers and academics. A must-read for anyone seeking to understand the psyche of Malaysia in a global perspective." **Professor Bala Shanmugam**  
Chair of Accounting and Finance, Monash University Malaysia

"... Navaratnam uses straightforward prose to not only address the questions he asks, but also to give a board overview of the Malaysian economy, ... ." **John Kennedy School of Government, Harvard University, Autumn 2002**