AS I SEE IT

A Malaysian Economic Agenda

> Malaysia desperately needs to remove her rose-coloured glasses, and stop buying into her own feel-good press.

DATUK SERI ANWAR IBRAHIM

WE MAY ONCE HAVE BEEN A lionised developing economy in the rah-rah days of the early nineties but those days are long gone. The halcyon days of eight percent growth casting an aura of invincibility pre-1997 have dissipated, and the Malaysia story has been displaced by the new booming economies of China and Vietnam.

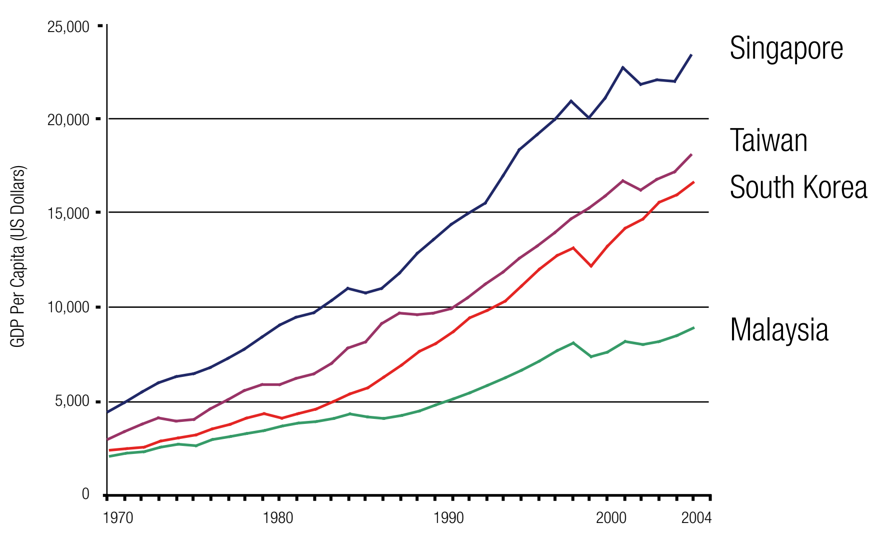
Although pointing fingers is pointless, we need to admit that the fault behind our marginalization lies at our own door, and can be traced back to the adoption of flawed policies that seemed to pay off initially, but have in hindsight, failed tangibly.

NEPotism?

Take the New Economic Policy (NEP). Once hailed as a miracle of affirmative action and a proud experiment in ethnic reengineering, 38 years down the road, the NEP has borne mixed fruit. One of the NEP's salient objectives was to produce parity of income among the races; to grow the cake and share it equally so to speak.

TABLE 1 *Source: World Bank World Development Indicators 2005*

MALAYSIA'S RISING GAP GDP PER CAPITA (1970-2004)



On the positive side, the NEP has produced upward social mobility for certain sub-sectors of the majority Bumiputeras. Thanks to the preservation of special Malay rights, such as in the exclusive granting of foreign tertiary scholarships throughout the seventies, eighties and early and mid-nineties to Bumiputeras that fulfilled minimum academic requirements, the NEP has been instrumental in creating a sub-class of Bumiputera professionals and engineering an urban Bumiputera middle-class, which was virtually non-existent before the seventies.

Unfortunately, such upward mobility has not disseminated equally throughout the rank-and-file of ordinary Bumiputeras. The economic cake may have grown, but the lion's share has been cornered by the ruling elite in the guise of special Bumiputera shares, contracts and privatization deals that are channeled to well-connected parties.

As a result, instead of parity, there is now worsening disparity and despair among the disenfranchised and underprivileged lower classes. Indeed, as of 2005, Malaysia lived down to its empty slogan of Malaysia Boleh by setting yet another record, this time for having the worst income disparity gaps in Southeast Asia, behind even Indonesia and Thailand, as measured by its GINI coefficient of 0.47. According to the World Bank, individual inequality in Malaysia as measured by the GINI coefficient is the second worst in all of the Asian countries for which data is available. Only Papua New Guinea ranks worse. In fact, out of 127 countries for which the World Bank provides data, Malaysia ranks 101st in terms of the Gini coefficient – the commonest measure of inequality. Aside from Papua New Guinea, the only countries in the world with worse individual inequality than Malaysia are in Central and South America – a region of notoriously high inequality – and some areas of sub-Saharan Africa such as South Africa and Zimbabwe (based on Debating an Equitable Malaysia: Towards an Alternative New National Agenda – G. Lim, Aliran monthly vol 25 2005, issue 8).

This is a paradox, since countries with higher levels of human development should generally enjoy reduced levels of inequality. Malaysia is no longer an emerging economy or a third world nation in terms of development: in the United Nations' Development Programme's (UNDP) 2004 Human Development Report, Malaysia ranked 59 out of 177 countries for which the UNDP was able to calculate an HDI score. Within Asia, only Japan, South Korea and Singapore ranked better. Indeed, with an HDI score of 0.793, Malaysia hovers on the threshold of the UNDP's definition of a 'Highly Developed Country', which is a score of 0.800 or above. Ironically, Malaysia is unique since it has relatively high human development but also outstanding inequality.

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The rural-urban divide is another challenge that has not been addressed by affirmative action. By 1999, rural household incomes stood at just 55 percent of the urban figures, and many of the poor rural households can be found in the states of Kelantan, Terengganu, Kedah, and Perlis, where ethnic Malays predominate.

At the same time, poverty has not been mitigated. Although the previous and current administrations have trumpeted the fall in absolute poverty levels in Malaysia from 29% in 1980 to 5-6% in 2000, At the same time, poverty has not been mitigated. Although the previous and current administrations have trumpeted the fall in absolute poverty levels in Malaysia from 29% in 1980 to 5-6% in 2000, the income threshold used to measure the poverty line is absurdly low.

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Whither Transparency?

The current administration rode to power on election promises of transparency and accountability. But actions still speak louder than words. Old brooms do not sweep clean, and the same old brooms are repeating the same protectionist, retrogressive actions to reinforce the prevailing culture of opacity and mediocrity.

The ongoing quest to protect the status quo and special Bumiputera business privileges has created an opaque environment that does not sit well with international investors demanding transparency and efficiency. Malaysia's tender system that is weighed in favour of affirmative action rather than meritocracy creates a non-competitive environment for business, and opens the door for corruption, which has become pervasive in all sectors of society.

Indeed, corruption in Malaysia has worsened rather than improved as we near the 2020 goalpost. Malaysia slipped five places to 44th place among 163 countries surveyed on Transparency International's 2006 Corruption Perceptions Index, down from 39th position last year, scoring five out of 10 points compared with 5.1 points last year. A score of 10 points denotes a "clean" economy and one point refers to a highly corrupt state. Top-ranked Finland scored 9.6 points in comparison, whereas bottom-ranked Haiti amassed just 1.8 points.

Malaysia ranked 10th out of 25 economies in the Asia Pacific region. Singapore, Hong Kong and Japan led the Asia-Pacific rankings for least-corrupt countries while Myanmar was at the bottom of the pack. However, Malaysia was still ahead of China, India, Indonesia, Thailand and Pakistan.

Although there were certain weaknesses in the study methodology, such as basing Malaysia's CPI score on a composite of corruption indicators from nine institutes while some other countries' scores were based on fewer studies, it cannot be gainsaid that the results were disappointing given the government's ballyhooed efforts to combat corruption, which include establishing the Malaysian Institute of Integrity, the Anti-Corruption Agency Academy and the National Integrity Plan. To heighten investor confidence, declining perceptions of transparency need to be arrested through measures like making the Anti-Corruption Agency more independent and giving it more bite.

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Perception is as damaging as reality, and the image of a corrupt Malaysia was reinforced in an annual survey of 1,476 expatriate businessmen in 13 countries and territories across the Asia-Pacific region by the Hong Kong-based Political and Economic Risk Consultancy (PERC).

In a grading system with zero as the best possible score and 10 as the worst, Malaysia was ranked seventh with a score of 6.25, worse than in 2006 when Malaysia scored 6.13. *(Table 2)*

Corruption carries a heavy price, since it makes processes opaque and expensive, and perceptions of corruption deter investment. A corrupt economy is a risky economy for investors seeking comfort, governance and accountability. It's not the lowest-cost and most efficient tender that wins a government or infrastructure contract as would be the case in a laissez-faire environment, but rather the best-connected party with the willingness to grease palms that seals the deal. Like it or not, foreign investors coming in would also have to contend with special Bumiputera requirements, which sours the best of intentions. Likewise, our capital markets have also lost good local listings which opt for other bourses to escape Bumiputera equity requirements and other forms of red tape. And these same Bumiputera equity requirements are a hindrance in the bid by local capital markets to attract international listings.

Self-ostracism

Neither did Malaysia do its economy any favours by reacting like a turtle pulling back into its shell following the 1997 Asian currency crisis. Globalisation might be unforgiving, but it is irreversible.

What did our protectionist tendencies cost us? In 1997, right before the crisis, the Kuala Lumpur Stock Exchange ranked as the highest in Southeast Asia and was the 15th in the world. But after the imposition of capital controls, the market was marginalized. In 2003, we ranked lower than Singapore and Thailand, according to data from the World Federation of Exchanges.

Our self-ostracism has also resulted in loss of our competitive edge, in terms of attracting foreign direct investment (FDI). FDIs in Malaysia plunged to US$3.97bil (RM14.69bil) last year from US$4.62bil (RM17.09bil) in 2004, according to figures released by the United Nations Conference on Trade and Development in its World Investment Report 2006. Malaysia ranked only sixth out of the 10 Southeast Asian countries in attracting FDIs last year, compared to a few years ago when it was the second most popular Southeast Asian destination for FDIs.

Malaysian FDIs bucked a generally rising trend. Overall, FDIs to South, East and Southeast Asia reached a new high of US$165bil (RM610.5 bil) last year, up 19% from 2004. China, Hong Kong and Singapore were the biggest recipients of FDIs in 2005. Again, we were overtaken by Indonesia in the FDI stakes for the first time since 1990. Inflows to Indonesia rose 177% to US$5.26bil (RM19.46bil) last year.

TABLE 2

MIDDLE-OF-THE-ROAD-MALAYSIA : FOLLOWING ARE RESULTS FROM PERC'S SURVEY ON CORRUPTION IN ASIA, BASED ON A 0-10 SCALE IN WHICH ZERO IS BEST AND 10 WORST:

	2007	2006
THE PHILIPPINES	9.40	7.80
THAILAND	8.03	7.64
INDONESIA	8.03	8.16
VIETNAM	7.54	7.91
INDIA	6.67	6.76
SOUTH KOREA	6.30	5.44
CHINA	6.29	7.58
MALAYSIA	**6.25**	**6.13**
TAIWAN	6.23	5.91
MACAU	5.11	4.78
JAPAN	2.10	3.01
HONG KONG	1.87	3.13
SINGAPORE	1.20	1.30

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One of the reasons for the fall in FDIs is the simple fact that other countries are much more transparent and offer greater ease in doing business. For instance, it takes 450 days and 31 procedures to enforce a contract in Malaysia, whereas it takes just 120 days and 29 procedures in Singapore *(Table 3)*. For investors, the choice is obvious.

TABLE 3 ***Source: The World Bank Group 2005***

EASE OF DOING BUSINESS

Country	**Days**	**Procedures**	**Cost**
Singapore	120	29	14.6%
United States	300	17	7.7%
MALAYSIA	**450**	**31**	**21.3%**
Bangladesh	1,442	50	45.7%

Wastage of Resources

Other failures that have either been swept under the carpet or dressed up include the Look East policy designed to boost heavy industrialization and as a short-cut to Bumiputera economic development, and the vaunted privatization policy.

In hindsight, venturing into heavy industries has brought no tangible success. PROTON is a struggling brand desperately looking for strategic alliances to survive in a cut throat global industry where even behemoths like General Motors are bleeding. PERWAJA has failed spectacularly by running up liabilities of RM13 billion in a clearcut case of corruption and political malfeasance. Worse, PETRONAS is treated like a piggy bank that can be broken into anytime to fund bailouts, such as the purchase of a stake in PROTON. There is a severe need to make PETRONAS accountable to Parliament in order to safeguard oil wealth for future generations, especially given that reserves are dwindling.

Worse, there has been poor transfer of technology, which has frequently been cited as a prime motive for looking east and for building alliances with developed countries. The Look East Policy – and later on, the drive to create a developed knowledge society by leveraging the Multimedia Super Corridor (MSC) - did not seed a vigorous movement for innovation in research and development. Till today, Malaysia remains a poor adop-

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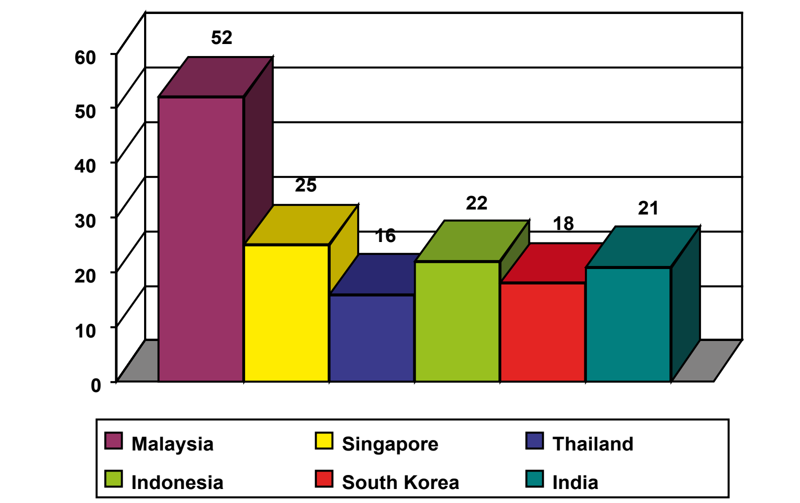
ter and adapter of other people's ideas, despite pouring billions into these heavy industries as well as into ICT. Sadly, despite the spin-doctoring devoted to the MSC, Malaysia remains one of the most lopsided countries in terms of granting people equal opportunity and access to ICT. The Economist wrote that "Malaysia displays the pattern of a least developed country" given its poor access to ICT in comparison with Singapore, Taiwan and South Korea.

Likewise, the much-touted privatization policy has failed to deliver the goods. There needs to be a reversal of policy from poorly-managed privatization to efficient and transparent public management for key sectors such as healthcare and transport. Why should Malaysians face the double whammy of high tax charges as well as privatisation penalties? The motive and end-results of privatization need

TABLE 4 ***Source: World Bank Indicators 2005***

GOVERNMENT EXPENDITURES (% OF TOTAL GDP)



Also important, if we are to move on, is to stop resting on our laurels and be brave enough to acknowledge how we lag compared to our true rivals. Malaysia's league of competitors should be Singapore, Taiwan and South Korea, which share a similar long history of development.

to be reexamined so as not to burden the end-user. All along, privatization vehicles and their stakeholders have been enriched at the expense of taxpayers and citizens. A salient case is the electricity industry, whereby the issue of independent power producers (IPPs) getting hefty capacity payments has partly raised the costs of national electricity provider Tenaga Nasional Berhad. Not surprisingly, some of these costs have been passed on to citizens in the form of tariff hikes. To add insult to injury, these IPPs receive subsidized fuel to the tune of billions from PETRONAS. These resources belonging to the national oil company and by default to Malaysians could have been invested elsewhere, such as in improving the lackluster and shamefully inept national education system.

Likewise, the creation of private toll highway operators such as PLUS benefited primarily shareholders, while making transport polluting, difficult and expensive for ordinary Malaysians and weakening government's resolve to provide excellent alternative public transport systems.

Similarly, giving the mandate for alternative healthcare to private hospitals discourages government from improving the public health delivery system, and increases both medical care and insurance charges. Did the government, whose salaries are partially funded by taxpayers, take these same taxpayers' interests into account when pursuing privatisation?

The Malaysian Economic Agenda

What can be done to reverse the damage? The answer, I believe, lies in jettisoning these previous damaging policies and adopting a new economic agenda that plugs existing weaknesses and capitalizes on globalization.

Crucially, we need to acknowledge our current strengths and weaknesses, as enumerated above, which include rewriting our affirmative action programme and the prevailing protectionist and outdated economic strategies that are no longer valid in an information age dominated by the free flow of knowledge and intellectual capital.

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Given that we are nearly "highly-developed" according to the UNDP's human development measure, we should not be persisting in the futile exercise of comparing ourselves with nascent economies like China and Vietnam or stagnant countries like the retrogressive Islamist nations comprising the majority of the OIC. There is no pride in being first among a bunch of mediocre competitors; instead, we should aim to be first among equals. Prior to the Asian crisis, we took pride in being labelled as a tiger economy, catching up with the dragons of Singapore, Taiwan and South Korea. While the dragons have graduated into mature, developed nations, losing little of their fire, Malaysia's roar has petered out and we have not advanced beyond comparisons with Thailand.

Singapore in particular, our closest rival with parallel histories of independence and development, has taken great leaps and bounds despite a dearth of resources. Remove the rose-coloured glasses to see how badly we fare just in two areas: education and per capita GDP. The National University of Singapore (NUS) ranked amongst the World's Top 20 and Asia's Top 3 universities in the QS World University Rankings 2006 conducted by the Times Higher Education Supplement (THES), along with Beijing University and the University of Tokyo. On the other hand, the University of Malaya plunged from 89th in 2004 to 169th in 2005 to 192nd in 2006's rankings while Universiti Kebangsaan Malaysia (UKM) came in at 185th position for 2006. Other local universities lack the intellectual rigour and facilities to even merit inclusion on the list.

We are also outshone in terms of per capita income, a measure of wealth and development. Singapore has grown its per capita GDP in US dollars from less than USD5000 in 1970 to more than USD20000 by 2004, outpacing even Taiwan and South Korea. Malaysia's per capita GDP, on the other hand, was less than

USD10000 as of 2004 despite its outward commitment to raising incomes equitably via instruments like the NEP *(see Table 1: Malaysia's Rising Gap)*.

Our stagnancy and backsliding make for a scary situation, but the solutions are clear, if only we could move past race-based rhetoric and the desire of the ruling clique to protect vested interests and the status quo.

We need to elect a more efficient government, whose allegiance to their party is secondary to their accountability and commitment to the citizens. There is a dire need to reallocate scarce government resources to provide value for citizens, instead of burdening them with ever-increasing charges while quality of life erodes, and to make government machinery transparent and accountable.

Importantly, we need to return to the values of our founding fathers, who battled hand-in-hand for a harmonious Malaysia whose strengths lie in diversity, tolerance and multiculturalism. To do this, we need to reexamine the NEP or its contemporary equivalent to make it relevant and equitable and to deliver what people actually desire, a better life for all Malaysians. Contrary to the perception that the Bumiputera majority would not want to review the NEP, I believe that they actually would welcome a refreshed system of affirmative action that would improve their lot in life. Aid, especially better educational aid that is intellectual, entrepreneurial and vocational, needs to be given out to the poor and underprivileged regardless of race and religion, whether to the Tamil labourer on the plantation, the small-town Chinese shopkeeper or the Malay farmer, all of whom probably desire a better, and easier life for their offspring. There needs to be a better process for allocating aid to ensure that funding goes to the have-nots rather than the affluent haves who do not require government crutches.

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Since privatisation has not led to competition, regulation and efficiency, the process needs to be revamped. There must be devolution of fiscal authority and policy with an accompanying mindset of accountability by those controlling the purse strings, financial discipline with clear KPIs (key performance indices) in order to measure the effectiveness of the resources deployed. Best of all, transparency would free up resources that could then be deployed to build up economic vibrancy by targeting human capital, notably by investing in quality education for the masses – Malay, Chinese and Indian brethren - who could then elevate their quality of life. At the same time, these resources could be channeled to improving other mission-critical sectors, such as the delivery of public healthcare, quality housing and the achievement of self-sufficiency in agriculture.

Biting the bullet is difficult, but it needs to be done if Malaysia isn't to end up as just another economic and social basket case, betraying its early promise and the ideals of liberty, equality and fraternity espoused by our founding fathers.

Protectionism also needs to go. We need to accept the realities of globalization, and play by the rules of the global game. That means abiding by WTO and AFTA rules, and being willing to give up the rent-seeking mentality and pursuing transparency and competitiveness. As one of the world's most open economies, we cannot deny that we are reliant on foreign direct investment (FDIs). We need to reclaim our competitiveness in order to bring back foreign investors, particularly in high-value added areas. There is a need to critically examine and revamp the existing policy framework, institutions, procedures and processes that deter FDIs in order to regenerate the economy.

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Anwar Ibrahim is Honorary President of the London-based non-profit organisation Accountability. Accountability advocates open, democratic government structures and processes that empower decision-making and action. Anwar is currently Advisor to Keadilan.