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MALAYSIA IN RECESSION

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MALAYSIA IN RECESSION

Since its founding, Malaysia has been one of a handful of stable third world democracies. Only Venezuela, Colombia, and Costa Rica have comparable records of democratic stability. Political stability has been supported by two decades of sustained and relatively rapid economic growth. Competent management of the economy has been facilitated by the colonial legacy of qualified personnel and relatively disciplined institutions. The burden borne by those institutions has been less severe than in many other third world countries because of the nation's relatively small size and its relatively literate population and diversified economy. The discontinuity which has typified economic policies in many other third world democracies has been limited by the fact that Malaysia has been continuously governed by a single dominant political coalition: a combination of Malay, Chinese and Indian parties under the leadership of the United Malays National Organization (UMNO). At the same time, the competition of diverse minor parties has forced the ruling party to maintain flexibility in the face of changing demands from the population. The dominant party itself has been sufficiently institutionalized to maintain relative continuity of policy and to ensure repeated smooth successions of the top leadership. The population's willingness to follow the sensible policies of the government has been enhanced by the relatively high levels of education in Malaysia and by the persistent economic success of the government's policies.

The government further facilitates its continuity in office by maintaining a state of emergency which has been in effect since 1969, by maintaining the right under Internal Security Act to detain some people without trial indefinitely, by censoring the press and books, by controlling all political and non-political social organizations through the Societies Act, and by maintaining the two principal media groups (New Straits Times and Usulutun) under UMNO control. It is now seeking to create a state agency which would have a monopoly of distribution of the materials of all foreign news services.

Since Malaysia's independence, the nation has experienced several major challenges to its continued political integrity and economic success. The Communist Party of Malaysia, based largely on the indigenous Chinese population, mounted a major early challenge to the government and was defeated only at great cost. Second, when Malaysia became independent, Indonesia aspired to hegemony over the new state and regarded the Malaysian constitution as an expression of continued British colonial power; Malaysia, with the support of Britain and the United States, only endured the resultant period of "Confrontation" with great difficulty. Third, Malaysia initially consisted of a union of Malaya and Singapore, but rising tensions between the mainly Chinese elites of Singapore and the mainly Malay political leadership of Malaya eventually left the nation with a choice between civil war and what eventually occurred: the secession of Singapore to become an independent state. Fourth, in 1969, tensions between the politically dominant Malays and the economically dominant Chinese created massive riots which seemed at the time to threaten national cohesion. But these proved to be phenomena of the 1960s. During the 1970s, the Communist Party of Malaysia was a small (perhaps

3000 guerrillas) and ineffectual force. Malaysia's relations with all of its neighbors (except Vietnam) and with the superpowers have been relatively congenial. The only threat of secession (by Sabah under Tun Mustapha) was contained without disruption. There has been no repetition of the ethnic riots of 1969. Political stability enhanced economic growth, and economic growth enhanced political stability.

Malaysian economic policy is deeply affected by strong nationalism, Third World orientations, and the political necessity of redistributing income from the Chinese to the Malay population. However, these drives are tempered by competence, pragmatism, and the virtually universal acknowledgement that the goals can only be achieved in the context of relatively rapid economic growth. In support of these goals, Malaysia has, for instance, pushed hard for a local majority membership on the boards of local subsidiaries of major foreign firms, strongly supported Third World commodity cartels, and established quotas for the employment of Malays ("bumiputras") in corporations of all kinds. It has sought to redistribute ownership of the nation's firms in accordance with a 1990 goal of 30 percent Malay ownership, 40 percent Chinese ownership, and 30 percent foreign ownership; in support of this goal, it has created major institutions (e.g., Bank Bumiputra), bought out many foreign firms, and forced the sale of equity to bumiputras. This policy has been a strong nominal success in the financial sector, where 70 percent of overt equity belongs to bumiputras against a 30 percent target, but not in the rest of the economy, where bumiputra ownership is about 15 percent against a goal of 30 percent. Moreover, much of the bumiputra ownership is believed to be of the "Ali Baba" form, whereby bumiputras front for Chinese control. Most actual redistribution has been from foreigners, who have been bought out at very reasonable prices, to bumiputras, rather than from Chinese to bumiputras. Redistributionist policies have been made palatable by the rapid growth, which has kept the absolute size of the Chinese and foreign shares of the pie growing while the bumiputra share at least nominally grew far more rapidly.

With the onset of recession, Malaysia's choices, like those of most countries, have become more difficult. The virtuous cycle whereby rapid economic growth and political stability reinforced one another has been far more strained than in the past. 1983 was an exciting year in Malaysian politics, and 1984 could prove to be at least as exciting.

Although it is exceedingly difficult to judge the state of ethnic relationships from abroad, clearly there has been some increase in Malay-Chinese tensions during recent years. From the Chinese community come increasing expressions of disgruntlement about its limited political role and about the deliberate political and social advantages accorded to bumiputras. The role of the Malayan Chinese Association, which is the Chinese component of the ruling party, has declined as the cabinet posts allocated to MCA officials have changed from some of the most powerful positions to some of the least powerful. In parallel, there has been some decline in Chinese public support of the MCA and a noteworthy increase in support for rival Chinese parties which, however, so far remain relatively local and small: the DAP and the Gerakan Rakyat Malaysia. On the Malay side, there has been increased criticism of the Ali Baba approach to economic redistribution and rising

concern at the unlikelihood that even the nominal statistical goals of the redistribution policy will be achievable by 1990.

A principal manifestation of Malay concern has been the spread of more outspoken Islamic groups, the emergence of a so-called dawah movement to promote more scrupulous practice of Islamic teachings, and the emergence of a particularly vocal Islamic fundamentalist organization, the Muslim Youth Assembly. As in Indonesia, increasing pro-Islamic sentiment equates almost precisely with increasing anti-Chinese sentiment. A noteworthy symbol of the connection was government sponsorship of an Islamic University at a time when the government was refusing permission for the creation of a Chinese University. The dawah movement has gained extensive adherence. The practice of women covering their heads with chadoors, hitherto rather rare, is now common. The Islamic University will provide an institutionalized base for the spread of Islamic teaching. An Islamic bank was legally established in December 1982 and opened in July 1983. The government sponsored a major conference on Palestine, which in the past would have been considered an interest rather remote from this corner of Southeast Asia. Deputy Prime Minister Musa Hitam has taken public notice that a radical Islamic fundamentalist, with encouragement from Iran, seeks to change Malaysia's political system: this group, the International Muslim Brotherhood Organization, attacked U.S. and U.S.S.R. government targets in late 1982 and early 1983. For the first time there has been some collaboration between Islamic fundamentalist radicals and the Communist Party guerrillas. The principal Muslim political party PAS has demanded an Islamic educational system, the institution of Arabic as the second official national language, and more Islamic influence in government policies. Harun Idris, a key national political leader, has called for a constitutional amendment to limit the prime ministership to Muslims. The government has changed laws regarding the slaughter of meat and the marriage of Muslims to non-believers so as to be congruent with Muslim teachings.

However, Malaysian Islamic fundamentalism is quite mild by comparison with any of the Middle East versions. Radical Islamic fundamentalists have undertaken few terrorist actions and have not evidenced any widespread political organization. There has been no demand for broad implementation of Shari'a law in Malaysia. The dynamic leader of the radical Muslim Youth Assembly, Anwar Ibrahim, has been coopted into a powerful position in the government (Minister of Culture, Youth and Sports). The Islamic political party PAS has split into two separate parties. Therefore, while the rising Islamic sentiment is a valid indicator of social strains, there is currently no organized Islamic fundamentalist threat to the stability of the government or to its personnel or major policies.

The politics of stringency and the associated ethnic issues have also been elements, although not dominant ones, in a major constitutional crisis which preoccupied Malaysia for much of 1983. Malaysia is a constitutional monarchy in which the sultans and a king chosen from among the sultans have veto power over legislation by the federal and state parliaments. In addition, only the king has the right to declare a state of emergency. This arrangement, a cousin of the British division between the House of Commons and the House of Lords, has created increasing friction. The sultans have frequently demanded

huge mining and timber concessions as preconditions for their assent to government legislation. They have frequently blocked important bills at the state level and have attempted to impose their own choices for ministers at the state level, blocking the ministerial choices of the elected government. Such demands are less tolerable in a period of stringency, and they are less tolerated by an activist commoner Prime Minister like Mahathir than by the country's original Prime Minister Tunku Abdul Rahman, himself a sultan, or by the less assertive predecessors of Mahathir. Moreover, Mahathir's government feared that the new king to be elected in 1984 would be personally inclined to assert himself as an absolute monarch. Hence, in 1983, Mahathir demanded a change in the constitution whereby parliamentary bills would automatically become law 15 days after passing parliament, at both the federal and state levels, without the formal assent of the king and the sultans. In addition, the power to declare a state of emergency would be vested in the Prime Minister.

The sultans refused to accept this and blocked all legislation, including the government budget, in protest. Politically, the sultans appealed to their traditional roles as the protectors of Islam and of Malay traditions against the inroads of the secular technocrats and of the Chinese community. The government mobilized mass rallies all over the country in support of the thesis that the elected representatives of the people should take precedence over the inherited prerogatives of the sultans. After an impasse of six months, the two sides appear to have reached a compromise in which Mahathir basically got his way at the federal level but the sultans retain a veto at the state level. The successful resolution in the crisis should not obscure the severity of the threat posed by the crisis to the leadership of Mahathir and to the national consensus on how the country is to be governed.

During the period when Mahathir's leadership seemed endangered by the constitutional crisis, his government was also engulfed by a series of major scandals. Bank Bumiputra, the preeminent symbol of the Malaysian government's efforts to redistribute the national income in favor of the Malays, was found to have engaged in huge speculative loans to Chinese firms in Hong Kong. The loans were allegedly associated with huge kickbacks (for instance, \$600,000 to an official who approved a loan to Eda). An auditor sent to Hong Kong to investigate the situation was murdered. Bank Bumiputra suffered losses of hundreds of millions of dollars. This scandal severely damaged one of Malaysia's principal political leaders, Finance Minister Tunku Razaleigh Hamza, who is a principal aspirant for the prime ministership. In a June cabinet reshuffle, key ministers departed as a result of scandals. The Minister of Culture, Youth, and Sports was indicted for murder. The Foreign Minister was charged with criminal negligence in a fatal air crash. In addition, the president of the Malayan Chinese Association came under criminal investigation and resigned his post.

The ability of Prime Minister Mahathir to survive the impact of economic problems, constitutional crisis, and major scandals is a major tribute to his own resilience. The persistence of the political and economic system with so little overt strain and with virtually no serious disruption are a tribute to the competence and adaptability of the Malaysian political system. Likewise the turn of the government toward austerity (see David Beers' accompanying memo), albeit belatedly, is a tribute to the leadership's realistic appraisal

of the national economic situation and its confidence that it has the political support to do what is needed; the economic and financial situation of the country would allow considerably more temporizing before a crisis like that of the Latin American countries created a problem of confidence on the part of international lenders and domestic businessmen. Having said this, it remains unclear how far the leadership can go in implementing austerity measures before encountering serious opposition, and it remains unclear how serious the ethnic stresses are. There has to be a point where a serious outbreak of ethnic tensions could occur, just as an outbreak occurred in Sri Lanka at a time when a democratic system with relatively wise economic leadership appeared to be successfully weathering difficult times. Without detailed investigation, it remains unclear whether such a point is relatively far away. (There has never been a Bankers Trust in-country political review of Malaysia.) From a distance, what is currently impressive is the resilience of the system in the face of difficulties.

Malaysia's need for austerity coincides with a major thrust in development policy promoted by Prime Minister Mahathir: Under the slogan "Look East," Mahathir has instituted an effort to emulate Japanese and South Korean development policies and to turn away from British, European, and American practices. He portrays Western practices as decadent, weak, and incompatible with Malay culture, and Japanese-Korean policies as successful and sympathetic. He has implemented a positive bias in favor of trade and investment relationships with Japan. For a while, there was a highly nationalistic, anti-British policy which partly reflected Mahathir's eastward-looking orientation and partly sought specific British policy concessions. Domestically, the "Look East" policy has focused on government encouragement of five major trading companies which are supposed to be the Malaysian equivalents of Japan's Mitsui, Mitsubishi, and Sumitomo or of South Korea's Daewoo and Hyundai, along with major efforts to develop heavy industries such as LNG, steel, urea, trucks, cement, sponge iron, pulp and paper, refining, and an indigenous Malay car to be produced in conjunction with Mitsubishi.

The Malaysian trading companies have not worked well; the most widely known of these, Matra and Multipurpose Holdings, have encountered major difficulties and achieved few successes. The Malaysian trading companies are typically very complex partnerships--with resultant internal difficulties. Unlike their Japanese and Korean counterparts, they have limited goods to trade other than primary commodities. Their emergence has been hampered by the recession and by the skepticism of potential financiers. Their managers have typically lacked the intense orientation toward satisfying foreign customers that has characterized the Japanese and Koreans. In addition, Mahathir's emphasis on heavy industrial projects, which may not be appropriate for a country of Malaysia's size and level of development, has been weakened somewhat by the requirements of the recession; in particular, his steel and refinery ambitions and desire to produce a Malay car have suffered. Finally, Mahathir's portrayal of Western Japanese institutions has evoked a mixed response: the portrayal of Western economic institutions as decadent and weak evokes considerable belief these days, but Malaysians have widespread doubts about the easy compatibility of Japanese and South Korean cultural institutions with traditional Malay values.

A third Mahathir initiative, consistent with both the Japanese/Korean models and the need for governmental austerity, is "privatization" of government-owned firms, possibly including ports, telecommunications, railways, broadcasting, power, and key aspects of medicine and communication. So far, except for one television station and one mass transit system, nothing concrete has been done. Civil service opposition is substantial. But if the program is ever implemented, it could enhance economic efficiency and offer bank business opportunities.

On balance, Malaysia's political stability, business climate, and basic economic policies appear to continue as among the best in the developing world. At the same time, there is need to monitor carefully the implementation of austerity policies, and there is more reason to watch carefully the evolution of social tensions than there has been in the recent past.