

# Political risk in malaysia



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- The fact that Prime Minister Mahathir has seen fit to take a two month vacation is the strongest evidence in a long time that his position within UMNO remains unchallenged. The political succession issue also seems clearer now that Mahathir has permitted his deputy to assume the title of Acting Prime Minister. Such a privilege was not given to trusted lieutenant Ghafar Baba in 1989, when the prime minister was recovering from a coronary bypass operation. Anwar's performance will be watched closely in the coming weeks.

Another test of the extent to which Mahathir is at ease with Anwar will be the degree to which the prime minister gives Anwar free reign to deal with any public controversies which arise while he is on leave.

- The by-election victory of the opposition Democratic Action Party in Perak in mid-May surprised many observers. However, it would be an exaggeration to suggest that the result portends a significant shift of ethnic Chinese support away from the government in the nation as a whole.

Local issues were paramount in the campaign, and voters knew that they could support the opposition without threatening the National Front's two-thirds majority in parliament.

- The differing approaches taken by Malay politicians (who have been calling for a tough stand against Singapore) and the Chinese business community (which has been urging moderation) has not yet led to any appreciable rise in ethnic tension. However, the situation could change quite significantly should Malay leaders suggest that the nation's ethnic Chinese were siding with Singapore. Tension between Singapore and Malaysia has remained remarkably persistent, over the last few weeks, egged on by the semi-official press in both countries. An informal

boycott of Malaysia by Singapore travel agencies during the school holiday season has been followed by a variety of tit for tat moves in Malaysia aimed at reducing Malaysian exports through Singapore and cracking down on Singaporean professionals working illegally on social visit passes.

While politicians on both sides of the causeway have been more careful in their public statements, it is difficult to believe that the critical tenor of the reporting by the mass media of both countries does not have at least the tacit support of the two governments. Even so, things are unlikely to be allowed to get out of hand. • Relations with the US, however, are improving.

Once a staunch opponent of an American security presence in Asia, Kuala Lumpur now appears quite willing to cooperate with the US military in the region, with a number of US warships making high-profile calls at Malaysian ports in recent months. The policy shift appears to be related to efforts by Prime Minister Mahathir to woo US companies to invest in his pet project, the Multi-Media Super-Corridor (MSC). By providing facilities to US forces, Kuala Lumpur hopes to send a reassuring signal to the American companies it hopes to attract to the MSC. pic] Near-Term Outlook Steady as she goes Given a choice, Mahathir would probably very much like to concern himself with foreign policy issues in the coming months. However, it is very likely that domestic issues will continue to push their way to the top of the political agenda, forcing the prime minister to intervene belatedly to settle various issues which emerge while he is overseas. To the extent that the prime minister will want to show any serious interest in domestic affairs, his attention will probably be focused on corruption.

Mahathir appears to have concluded that graft -- and Malaysia's growing reputation for it -- is becoming an increasingly serious obstacle to his efforts to win the country the international respect and admiration he believes it deserves as a result of its economic achievements. Meanwhile, Deputy Prime Minister Anwar Ibrahim's grip on the finance portfolio is under threat, with rumors circulating in Kuala Lumpur that the prime minister is none too pleased with the way he has handled several matters in the last few months.

A series of missteps by Anwar has certainly left many in the private sector wondering whether the deputy prime minister is really the most suitable man for the job. There is little doubt that Dr. Mahathir remains in firm control of the country. So much so that uncertainties regarding policy issues only seem to emerge when he is not around. With the UMNO party polls out of the way and national elections not due for some time, Dr. Mahathir can be expected to spend an increasing amount of his time pursuing his long-held interest in foreign affairs in locations such as Tokyo, Beijing and Seoul while putting domestic matters on hold.

This year, Kuala Lumpur plays host to two important ASEAN meetings, and the prime minister will want to make the most of them. The first (in July) is the ASEAN ministerial meeting and its accompanying ASEAN Regional Forum with the grouping's dialogue partners. The second (in December) is the ASEAN informal summit. In the run-up to both, Dr. Mahathir can be expected to make his views known on a variety of internationally controversial issues. Apart from a few more speeches about perceived Western arrogance, the prime minister will be pushing for the acceptance of Myanmar as a full member of ASEAN.

There will also be more talk about the formation of a de facto EAEC, with Kuala Lumpur inviting participation from countries such as China, Japan and South Korea. With the prime minister traveling overseas quite a lot, it is possible to argue that the prospect of short-term government policy paralysis this year is greater than is generally realized. On several occasions now, the government has revealed a lack of decisiveness when faced with a controversial issue while the prime minister was out of the country.

A case in point is Anwar's foot-dragging early last year over the implementation of the rotation system for the position of Sabah Chief minister. Yet another was the unfavorable High Court decision last June which forced a temporary halt to work on the Bakun Dam in Sarawak. In both cases, flagging political resolve only revived when Mahathir returned to take charge of events. The more recent furor over the uncomplimentary remarks of Singapore's Lee Kuan Yew regarding the crime situation in the southern Malaysian state of Johore are yet another example of the same thing.

Although the matter appeared to have been resolved before Mahathir left for Tokyo, ministers emerged from a subsequent Cabinet meeting chaired by Anwar to make off-the-record comments to the press to the effect that Malaysia had decided to "freeze" its relations with Singapore in the wake of remarks by Singaporean leaders that implied that Malaysia had overreacted. The resulting media reports shocked the business community in both countries, since such reports inevitably conjured up visions of the 1965 split and suggested that a wide range of business and political ties would be disrupted.

Yet another possible source of uncertainty in the coming months relates to the extent to which corporate rivalries will continue to reflect an ongoing political rift between Dr. Mahathir and Anwar. Reports that Renong has come up with a proposal to build a high-speed train line between Kuala Lumpur and Singapore -- an idea which clashes directly with similar plans by DRB-Hicom -- certainly suggests that they will. In the popular mind, Renong is associated with UMNO Treasurer Daim Zainuddin (a close Mahathir confidant), while DRB-Hicom is seen as being more closely linked with individuals associated with Anwar.

The reality, however, is probably a little more complicated, with the late Tan Sri Yahaya of DRB-Hicom (who died suddenly in early March) arguably at least as close to Mahathir as he was to Anwar. Either way, the two companies have such powerful connections that the battle between them will almost certainly involve political as well as purely economic criteria. Local pundits may not have got it exactly right in the case of Renong and DRB-Hicom, but there is little doubt that policy differences between the prime minister and his deputy do have some impact on the corporate scene.

A case in point is the recent refusal of the finance ministry to provide financial guarantees to Ekran, the company responsible for the construction of the massive Bakun Dam. Anwar has never really embraced the project, and it is not hard to conclude from this decision that the finance minister is determined to make things as difficult for Ekran as possible, despite the fact that the Bakun Dam is one of Mahathir's pet projects. Of more relevance to the business community in general, however, is Anwar's performance as minister of finance.

With the economy doing well, it may be argued that the fact that he lacks a solid background in economics is of little consequence. All that is really required is an intelligent personality capable of taking advice from experts in both the ministry and the central bank. At this level, Anwar seems to measure up. However, a closer look suggests that he is also capable of making errors of judgment which could create quite serious problems in the future if they are made at a time when the economy is less resilient.

Take the problem we mentioned earlier about the Cabinet decision regarding Singapore. Anwar could have ended the confusion over the freezing-of-relations reports as soon as they arose, but he chose not to do so. Instead, he issued a press statement which, while stopping short of announcing a trade and investment boycott, appeared to support widespread rumors that such a decision had actually been taken. In this way it may be argued that he allowed the alarm to spread through the business communities of both countries.

As a result, the value of both the ringgit and Singapore dollar dropped overnight. Perhaps Anwar was trying to send a political message to Singapore. If so, it is worth noting that although Mahathir has had some high-profile tiffs with Western nations in the past, even he has never before sent such a blunt message to a neighboring country. Yet another apparent lapse in judgment concerns the way the central bank (technically under the control of Anwar's finance ministry) handled an announcement at the end of March about new guidelines aimed at reducing lending to the property sector.

A vaguely worded statement to the effect that the authorities had imposed a new 20% limit on bank loans to the sector sent the stock market reeling, with property and finance stocks in particular taking a beating. The new policy also redefined lending for share purchases in order to curb what monetary authorities said was excessive share speculation. Left to draw their own interpretations, some banks stopped giving out such loans altogether while checking whether they had exceeded the new limits. Anwar did little at first to clarify the situation, merely informing the press that he was satisfied with the CB move.

It was not until several days later when the monetary authorities released details of the new guidelines (which contained exemptions that significantly watered down the effect of the new curbs) that the market stabilized. Not surprisingly, the incident has pleased nobody, with a number of economists privately accusing the authorities of backing down on an important measure designed to reduce the exposure of the banks to the property market. For Mahathir, the timing could not have been worse. The prime minister is particularly anxious to ensure that the listing of the Bakun Hydro-electric Corporation in June comes off well.

With foreign investors shying away from the project, the company is now relying on the domestic market to absorb a massive M\$3 billion in new shares. This will not be easy to do on a falling stockmarket, and Mahathir will now probably want to make sure that he is still in the country in the run-up to the IPO so that he can settle any last minute hitches. Meanwhile, with a Cabinet reshuffle on the cards in the coming months, the Deputy Prime



Minister's political opponents can be expected to once again press for Anwar's removal in favor of Trade and Industry Minister Rafidah Aziz.

Since the beginning of the year, Mahathir has lost two senior figures who played an important role in promoting projects in which he is especially interested. The uncertainties created as a result of the sudden death of businessman Tan Sri Yahaya show the sort of thing that can happen as a result of current Malaysian development strategies which place heavy reliance on individual entrepreneurs to run major companies in strategic industries. Of particular concern now is the fate of Malaysia's national car project which Tan Sri Yahaya headed.

The resignation of Selangor Chief Minister Tan Sri Tun Mustapha in mid-April as a result of corruption allegations is another case in point. The loss of Tun Muhamad was not a serious political blow to the prime minister, since the latter was not considered a key Mahathir loyalist. However, it has raised questions about the extent to which his successor will be willing to push the Multimedia Super Corridor project and support the development of Putra Jaya, the new administrative capital.

The Sultan of Selangor does not appear to be especially interested in cooperating with Mahathir in selecting a replacement, and has instead made disparaging remarks about transfers of land ownership during Tun Muhamad's tenure. The loss of key individuals in other economic sectors could also upset the apple cart. The huge M\$15-billion Bakun Dam project in Sarawak, for example, is very closely associated with Tan Sri Ting Pek Khiing. The fact that he suffered a mild stroke last year cannot be regarded as good

news for the hundreds of subcontractors -- both local and foreign -- which are expecting him to push the project through to completion.

None of these problems, either by themselves or in combination, are likely to trip up a seasoned politician such as Mahathir, but they are going to be distractions from the foreign policy agenda the prime minister would rather follow. Two other developments are worth monitoring. The first concerns the degree to which the current anti-corruption drive can really be expected to take off, while the second concerns the (not entirely unrelated) political revival of UMNO Youth.

The current anti-graft campaign really got going in the run-up to the UMNO party elections late last year when Mahathir ordered a blanket ban on campaigning in order to keep candidates from showering money and favors on delegates. Then, at the convention itself, he launched an emotional attack on graft, saying that it would destroy the party. The result has been that several corruption-tainted candidates competing in the party elections lost heavily.

Since then, proposals have been tabled in parliament designed to increase the effectiveness of the Anti-Corruption Agency (ACA), the Selangor Chief Minister has been forced to resign, and no less than eight other senior officials have been placed under investigation. On this issue, Mahathir appears to have Anwar solidly behind him, although the latter has sometimes operated as something of a loose cannon, embarking on investigations that could ultimately implicate staunch Mahathir supporters such as Works Minister Samy Vellu, for example.

The latter development also points to a serious problem facing a national leadership wishing to pursue the matter further: how to launch a determined attack on graft without undercutting one's own political support. For this reason alone, it is a fairly safe bet that the current campaign will not be a comprehensive one. More likely, a few carefully chosen cases will be vigorously pursued in the hope that this will have a demonstration effect on other greedy individuals. Ahmad Zahid Hamidi, the newly elected leader of UMNO Youth, has not been wasting much time getting the once-influential organization back into the headlines.

Although generally regarded as an Anwar man, Mr. Hamidi has an independent streak which could yet embarrass the deputy prime minister and see the youth organization setting off on a course quite different from that of the national leadership in the coming months. The violent way in which a conference on East Timor was broken up by Malay youths last year certainly put Anwar in the difficult position of having to distance the government from the actions of his political ally.

Since then, Mr. Hamidi has taken on far less politically troublesome (for Anwar! ) issues such as the Australian racism debate, Singapore-Malaysia relations and Malay social problems. However, the ability of UMNO Youth to act independently in the future should not be underestimated. It would not be surprising, for example, if the organization turns out to be the prod that keeps the current anti-corruption drive alive much longer than many local politicians would like.