



10 OCT, 2022

TOWARDS A BETTER MALAYSIAN POLITICAL ECONOMY

The Edge, Malaysia



Parliament and political parties will not bring about the comprehensive reset that the country needs, at least not in the time frame that it desperately needs

In my recent book, *What's in a Name*, I provide some historical context of how the Malaysian system — the workings of our society, politics and economics — declined over the years and as the corollary of it, the growth of a three-headed monster that seems to rule this country. The three heads of the monster are: identity politics, endemic corruption and over-centralisation of power. Most of our shortcomings and problems as a country can be traced back to one, two or all of its heads. This three-headed monster stands between us and a better future.

Before we discuss solutions, we should first agree on the problems. Malaysia is not a failed state, but we are a nation in relative decline. In other words, while since the turn of the century we have shown decent economic growth and progress, we are losing ground to peers; and the outflow of talent, decline in productivity and sub-par investments do not suggest any reversal in this trend soon. Using a longer lens, older people like me can recall the beginning of the 1980s when our gross domestic prod-

uct (GDP) per capita was on par with countries like South Korea and Taiwan.

Some would say that our problems can be solved if we have better leaders or better ruling parties. Well, we have tried lots of that since 2018 and we are still in this quandary. In fact, since the end of the Asian financial crisis, we have had many promises of change and reforms — Islam Hadhari, New Economic Model, Government Transformation Programme, shared prosperity — but none got very far. It is surely time for us to acknowledge that perhaps the problem isn't the people or the party in power, but a system that is both deeply flawed and extremely change-resistant. The three-headed monster is strong and resilient.

At some level, we are all creatures of our circumstances. I know many good people



MY Say

BY NAZIR RAZAK

who have entered politics with the best of intentions and imbued with the most compelling principles, but they soon find that to thrive or even just survive in the system they need to make compromises, they need to be a little more flexible with their value systems, with what is right and wrong. And that turns out to be a slippery slope. Soon, they too become part of the problem. They defend the system that got them power. They fear that reforms will cost them power or worse, that they be held to account for things they did but should not have done.

From my time at CIMB, I will always recall one bank branch manager in Indonesia who had an unimpeachable track record for a long time. Then, one day we discovered he was siphoning money for himself. We were shocked. Upon investigation, we found that he was stealing

because his wife was suffering from cancer and he needed money to try to save her life. He did wrong, but it was hard not to sympathise with him or wonder if you would not have done the same. The real issue was, why did our systems and processes allow him to do it? Human beings are fallible, we always need to be guided and governed by effective systems and processes.

Systems must be designed to suit the times and circumstances. Our original system, the 1957 Westminster system, was never quite right for our fledgling new multi-racial state. It broke down in 1969 and we had a reset. The New Economic Policy (NEP), Rukun Negara, new sedition laws and government by grand coalition underpinned the new system, Malaysia 2.0. The authors of the new system knew, however, that it was a system that should not last forever. They estimated that it was good for 20 years.

Yet, the system is still chugging along after 50 years. It is not surprising that it is no longer fit for purpose. In fact, it has arguably become positively dangerous, like a

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machine that is way past its recommended shelf life. We have needed a national reset, a Malaysia 3.0, for some time. Better late than never.

The reset we need now

It is with the conviction that Malaysia needs a reset that I wrote a letter to His Majesty the Yang di-Pertuan Agong on behalf of a diverse group of 55 prominent Malaysians — including the founder of UiTM Allahyarham Tun Arshad Ayub (who sadly passed away recently), former deputy PM Tun Musa Hitam and former IGP Tun Hanif Omar; social activists, business leaders, union leaders, former civil servants and young Malaysians.

We believe that a parliament of politicians and political parties is not the right setting for deliberating long-term structural changes needed for a national reset. Political partisanship, party lines and re-election priorities cannot be the basis for opining on what is best for Malaysia in the long term. We studied the recent trend of citizens' assemblies in other parts of the world where there have also been frustrations with parliaments to engender structural reforms — Ireland, Belgium and France are among 28 countries that have set up such assemblies — and we reflected that Malaysia's last reset back in 1970 was based on a similar consultation process.

We proposed the setting up of a citizens' assembly to deliberate systemic reform ideas and bring its recommendations to the government and parliament. The key issues would include, but not be limited to, institutional reforms, education, affirmative action, electoral reform and the state-federal balance. We provisionally named it the Better Malaysia Assembly (BMA) or "Sidang Rakyat Malaysia".

The composition of the BMA can take various forms. The National Consultative Council of 1970 comprised 67 persons selected by Tun Abdul Razak Hussein, then-director of operations, who had absolute power. The recent trend is for citizens' assemblies to comprise mostly randomly selected citizens who deliberate proposals presented by subject matter experts. I think an assembly of randomly selected citizens would be more in line with the maturity of our democracy today. Why not trust our ordinary citizens to deliberate and arrive at recommendations for reforms?

There are details to decide obviously. But at this stage, what is important is to obtain a national consensus that a reset is needed and that a citizens' assembly is the right platform for us to get there.

We were recently advised that the current cabinet does not agree with the setting up of BMA. So, we will have to try again with the next cabinet. Meanwhile, some of our signatories are members of the various All-Party Parliamentary Groups (APPG) focused on specific issues like corruption and political financing. I myself am a member of the APPG on Governance and Anti-Corruption.

Parliament has, of course, recently made some good progress on progressive reforms; UNDI18 and the anti-party-hopping law, for instance. Parliament and political parties will, however, simply not bring about the comprehensive reset that the country needs, at least not in the time frame that it desperately needs. We need a BMA.

Political economy reforms

What ideas could a sitting of the BMA consider for reform of our political economy? To be clear, my interest first and foremost is to advocate a process to deliberate and recommend reforms.

So, my ideas are just items that I think

are worth being tabled in our quest for a better political economy, which means better economic growth, stronger democracy and more judicious sharing of wealth and income. The key enablers are a business sector that is: (i) competitive and resilient; (ii) impervious to politics and politicians; (iii) where innovation and entrepreneurship thrive; and (iv) attractive to investors and the best talents.

Here are five suggestions that I would submit for consideration by BMA:

First, a war on corruption based on institutional reforms. Endemic corruption is without doubt Malaysia's single most important systemic problem. And we can only cure (by which I mean minimise) it by approaching the problem holistically. We have to begin by addressing the balance of power between our institutions and how they check each other.

As I have suggested in another forum recently, we should look at the successful Hong Kong model for tackling corruption in the 1970s. Hong Kong went from a system where corruption was not just endemic but almost cultural, to having an administrative system that was clean and credible and a highly competitive business environment.

There was some noise recently when I suggested this because it would include offering amnesty for past corrupt dealings except for the most egregious instances or cases already being pursued. But I believe we do need to create a dramatic break from the past. I doubt more than a handful of people can say that they have never done something that could be deemed corrupt, like *duit kopi* to move a file from one table to another or turning a blind eye to someone who did it for you, to overly generous strokes and unusually high bets at golf with a client. If we do not allow the vast majority a chance of a clean slate, I think we will find the subtle and unsubtle resistance overwhelming.

Amnesty is then paired with a zero-tolerance policy for any form of corruption or bribery moving forward, no matter the amount, or whomever is involved. Critical to the success of this idea is the existence of an independent and effective anti-corruption body that is, and which is seen to be, without fear or favour. As long as critical agencies such as the Malaysian Anti-Corruption Commission report to the prime minister and the executive, they will always be or seen to be vulnerable to political bias. Similarly, we should consider separating out the prosecutorial powers of the attorney-general and the reporting line of the election commission as the referee for political competition.

Once institutional reforms are in place, one can then look to introduce political funding reforms to curb money politics and minimise the link between politics and business. There must be enforced limits on political funding and spending, or else politicians will just dance to the tune of the bigger businesses. Money is needed for political mobilisation in a democracy, we can't run from that. To some extent, we have to accept that money will always have influence. But with regulation and enforcement, as in many other countries, you won't have money dictating outcomes as you often find in our system today.

If corruption were a disease, Malaysia would have stage four cancer. These are desperate times, we have to look beyond solutions we have tried in the past.

Secondly, I would suggest a new framework for government-linked companies (GLC) reforms, where the government would refocus or exit from businesses. This will ensure that the role of each government entity is clear and the crowding out of pri-

vate enterprise is minimised. To that end, I would group government companies into four buckets:

1. Strategic companies. These are companies that are strategic to the government and they should continue to own, like **Tenaga Nasional Bhd** and MAS. These companies must make transparent their governmental mandate and make clear their KPIs (key performance indicators) that are beyond shareholder returns.
2. Government investee companies (GICs). These are companies that the government owns through the likes of the Employees Provident Fund and Permodalan Nasional Bhd to invest public savings, and because there is insufficient private capital to invest in the likes of Maybank and CIMB. These companies would be left to operate like private enterprises and we might want to even limit situations where the government casts its votes as a majority or dominant shareholder.
3. Government agencies. These are policy instruments such as Bank Pembangunan and the Federal Land Development Authority (FELDA), which are corporate entities for accounting and governance purposes. These should be overseen as pure policy instruments. This group of government companies probably is in need of consolidation. If we take development financial institutions, for instance, most countries have two or three; we have 13, most lacking in scale, with overlapping mandates and insufficient oversight.
4. Businesses for sale. The rest of the companies should be set aside for sale through a transparent process. And such a sale process can build in bumiputera ownership preferences, but success must always be determined by competition, not politics.

Thirdly, we need to innovate with taxation. The current debates on cost of living, food prices and subsidies ultimately converge on the government's financial capacity to support the rakyat in their hour of need. We enter this environment of inflationary pressure and supply chain disruptions more or less at our recently revised debt ceiling of 65% of GDP. The recent announcement by the Ministry of Finance on the total subsidy bill of RM7.7 billion is more than twice that of its original budget. Sooner or later, we need to widen our tax base. Beyond the goods and services tax (GST) vs sales and service tax (SST) debate, we need to also consider other avenues for taxing wealth and excess profits. Taxation, such as windfall taxes, vacant land/property taxes and capital gains taxes, is being introduced to pay for the pandemic bill all over the world; we need to do the same so the government has the capacity to help the rakyat in times like these.

Raising taxes should not be done in isolation, either. We should also find ways of rebuilding trust in how the government spends our tax dollars and the perception of large leakages. One bold step to consider is fiscal spending caps as in Indonesia, where the constitutionally mandated limit is 3% annual deficit spending (except during exceptional times). Without spending caps, it is too tempting for incumbent governments to overspend for political points, the risk of which becomes greater when politics becomes more competitive as we have been witnessing.

Fourthly, we need to recalibrate affirmative action. The war on corruption should tackle the abuse of the NEP for political gain; contracts for bumiputera should always be competitively tendered, not just awarded. And we should focus more on

the development of bumiputera entrepreneurs, having already had much success in developing professionals. For me, two key ingredients in this regard are: (i) bankers and society as a whole should be less harsh on business failures so that our entrepreneurs are not too risk-averse; and (ii) shift government support from loans to equity financing, which means the government shares in the equity upside and downside and the borrower has more runway to cater for the unforeseen.

The fifth and final point I would like to put up for deliberation is how to place youth and diversity at the heart of our businesses and economy. I think some form of national leadership intervention is needed to urge companies to embrace diversity and youth. Embracing diversity requires that we all go against our very natural human tribalism. In business, diversity is power and Malaysia has it in abundance. Companies, private and public sector, must be incentivised to or penalised if they don't have sufficient genuine diversity in the senior leadership.

As for youth, I would recommend that all companies be encouraged or required to have a young board member on a rotational basis. The generational gap is wider than it has ever been. We can differentiate our companies by giving youth more experience and influence, and older board members a better appreciation of the future generation and the potential of technology that the young understand so much better than us. Of course, it goes without saying that we need younger politicians too!

These five ideas will certainly weaken the three-headed monster because they tackle major root causes of corruption, power concentration and identity politics. But reforms on the sociopolitical front will also be needed if we actually want to slay the monster, such as electoral reform (how we choose our leaders), education (how we educate our future) and national integration (how we build a new overarching identity, Bangsa Malaysia).

It is time to reset Malaysia. By "reset", I mean a holistic recalibration of how our political economy, our democracy and our society work. My 54 collaborators and I have put forward a proposal on the process for a reset; we need support and ultimately buy-in from political parties and our institutions.

The BMA is not the panacea for all our ills, but it introduces a process through which we can start to meaningfully tackle our systemic issues in an environment that invites thoughtful deliberation and consensus-building, instead of zero-sum thinking and distrust.

When I was searching for my 54 collaborators, several initially refused to be associated with the letter to His Majesty the Yang di-Pertuan Agong because of certain other personalities on the proposed list. The group from the Malay right wing, for instance, could not fathom being on the same side as a particularly well-known liberal reformer. The secretary-general of a trade union struggled because he used to burn my effigy when I was CIMB CEO. My response each time was the same: everyone should find people on the list they disagree with; and by coming together, we show that Malaysians from all sides can collaborate in the shared interest of building a better Malaysia. ■

Tan Sri Nazir Razak is chairman of Ikhlas Capital, non-executive chairman of Bank Pembangunan Malaysia and non-executive chairman of PLS Plantations. This is an excerpt from his commemorative lecture at the 64th anniversary of the Malaysian Institute of Certified Public Accountants on Oct 3.