

Headline	FORTUNE FAVOURS THE BOLD		
MediaTitle	The Edge		
Date	18 Nov 2019	Language	English
Circulation	25,910	Readership	77,730
Section	Corporate	Page No	47,52,53
ArticleSize	1934 cm ²	Journalist	MOHD ANWAR
PR Value	RM 99,897		

INVEST IN ACCESS, SKILLS AND POLICY TO UNLOCK SOUTHEAST ASIA'S DIGITAL POTENTIAL | MY SAY | 50

America's war on Chinese technology **48** | The fall of the Berlin Wall and social democracy **48** |
A new deal for sustainable development **49** | Making economics relevant **49** |
How simple acronyms help to deal with complexity **50** |
Children should not be victims of unsafe and poorly managed tahfiz schools **51** |



In the decade leading up to the 1997/98 Asian financial crisis, Malaysia was regarded as an Asian Tiger economy, achieving GDP growth rates north of 9%. However, lately, the nation's GDP growth and, more importantly, per capita income, while encouraging, have been lower than those of other leading/emerging East Asian economies and even some European countries that have broken free of the middle-income trap.

The proponents of Rethinking Economics (a network of students and academic scholars in several countries that promotes pluralism in economics) are of the view that new innovative ideas in economics can be harnessed and utilised to reshape Malaysia's economy to enable our nation to re-emerge as an Asian Tiger. Rethinking Economics advocates that governments, other than being for the public good, can be the catalyst for change and accelerating growth. Certainly, this is a breakaway from current right-wing economic thinking, which associates governments with inefficiency and wastage and the private sector with dynamism and efficiency.

High-impact projects

Debates among the media and policymakers on the role of government as the impetus for growth are usually confined to addressing affordable housing woes, education reform or digital infrastructure spending. While positive, these are insufficient to lift Malaysia to high-income nation status and escape the middle-income trap.

That being said, high-impact infrastructure projects such as urban transport (which increases the value of existing infrastructure), rural electrification and clean water must be pursued aggressively by the government for Malaysia to be positioned as a competitive nation. The recent budget could have had more initiatives for major physical infrastructure projects, for example accelerating public transport infrastructure such



MY
Say

BY
MOHD ANWAR YAHYA

as MRT3 and critical new highways.

While the push for an increase in digital infrastructure is certainly welcome, it should be balanced with physical infrastructure. Critical considerations for large investment in digital or physical infrastructure would be the level of imports required, the longevity of utilising these assets, quantifiable benefits for commerce arising from the new infrastructure and alternatives to delivering the service.

At this point, we caution that the nation needs to be vigilant and learn from the experiences gained from building infrastructure projects prior to the Asian financial crisis. An important lesson would be to not artificially transfer radical risks that should be borne by the government to the private sector, which then necessitates future bailouts.

Otherwise, disproportionate returns would be extracted by the private sector on the basis of compensation for taking on these ostensible radical risks. In reality, if projects fail, the government, not the private sector, bears the majority of the losses, aptly described as "the privatisation of profits and nationalisation of losses".

Historical misconception about the role of government

Recent paradigm shifts in macroeconomics on the concept of value creation have brought to light the serious drawbacks of gauging the economy solely using the gross domestic product (in national accounts), which fails to fully account for the enormous value that the government creates.

Contrary to popular belief that the role of government is limited to the funding of public goods (schools, roads, hospitals, research), formulating laws and regulations, wealth distribution via progressive tax system and supporting aggregate demand, governments do, in fact, create substantial value by developing or funding innovation.

For instance, the internet, Google's search algorithm, 75% of the numerous revolutionary drugs, functions of iPhones, global positioning systems, Siri and touchscreen display represent prominent examples of the key role that governments play in their development (Rana Foroohar: Why You Can Thank the Government for Your iPhone (2015), time.com/4089171/mariana-mazzucato/).

In Malaysia, for example, the rubber and oil palm industries are state initiatives that introduced these as new crops into the agricultural sector and created vast new opportunities. Additionally, state funding with focused effort in the 1990s produced much success in the technology and construction sectors.

The Multimedia Super Corridor (MSC) is a qualified success story in whose development the government was influential. While the MSC did not achieve its original lofty ambition of becoming the Silicon Valley of Asia, it did help Malaysia leap into the information, communications and technology (ICT) era and was the impetus for the growth of regional and international data and call centres.

The programme was to eventually attract high-value services. Hewlett-Packard, for example, expanded its operations in Cyberjaya. The MSC also fostered interest among Malaysians in new business models, which spawned multiple ICT-driven successes like AirAsia, JobStreet.com and Grab.

Evolving ideas arising from Rethinking Economics

The key proponent of this renewed perspective on the role of government is professor Mariana Mazzucato, who is currently chair of economics of innovation and public value at University College London (UCL) and founder and director of UCL's Institute for Innovation and Public Purpose. She

CONTINUES ON PAGE 52

Headline	FORTUNE FAVOURS THE BOLD		
MediaTitle	The Edge		
Date	18 Nov 2019	Language	English
Circulation	25,910	Readership	77,730
Section	Corporate	Page No	47,52,53
ArticleSize	1934 cm ²	Journalist	MOHD ANWAR
PR Value	RM 99,897		

Budget constraints should not deter the government if the issue is important enough

FROM PAGE 47

correctly argues that when the private sector is unable or unwilling to invest, governments have a strategic role to play in developing critical industries in which radical risks are present, for example new markets and technology (see diagram).

Today, the private sector is willing to invest in industries such as oil and gas, airline and rail but this was not the case when these were in their infant stage, particularly in the emerging economies. Investors were required to accept radical risks, so it is not surprising that governments in emerging independent nations took the lead in advancing these industries.

However, once the industries are developed and the private sector has the capacity to finance and grow them, the government should review its role as the investor. For instance, the government should review its role in respect of Malaysia Airlines, Tenaga Nasional, Petronas, Telekom and government-owned commercial banks, given that decades have passed since its original investment in some of these industries and private sector participants have emerged.

Businesses that were created by the government when the private sector was incapable of participating justify the monopolies or unfair advantage of the government in terms of lower cost of capital and perceived control of regulatory oversight. However, if government participation continues, the question that arises is, how will market discipline be imposed on these

businesses/industries? A fair and orderly market is the bedrock of innovation and competitiveness in a capitalist economy.

As we are proposing an interventionist government, its critics will be quick to point to the past substantial losses of Proton, Perwaja Steel and Eagle Aircraft or the involvement of Malaysia Mining Corp (in cornering the tin market). However, these critics often miss the point that the successive Malayan/Malaysian governments were actually the prime movers of the development of rubber, oil palm, the MSC, Industrial Master Plans and unorthodox policy responses to the Asian financial crisis. Further, there are industries in which government intervention has been successful. Thus, it is critical that policymakers understand why some initiatives have been sterling successes while others have been abject failures.

The construction industry is a notable example of the vital role the government played in its development. Past support for the industry and government initiatives for the industrialists have produced tangible successes and facilitated a cohort of bumiputera management and owners in the sector.

In our view, opportunities given by the government in the late 1980s and 1990s led to such success stories as IJM Corp and Gamuda. The same, however, cannot be said about the automotive industry to which similar opportunities were given. However, a single manufacturer was initially favoured and no market discipline

was imposed. In contrast, there is competition/market discipline in the construction sector. Therefore, following the Asian financial crisis, the weaker players in the construction industry were eliminated and the companies that survived became stronger.

Clearly, there is a need for markets with defined rules, which are seen to be fair, and certainly no one desires the law of the jungle or markets skewed in favour of vested interest. Following the 2008/09 global financial crisis, the notion that markets can govern themselves with fewer rules has been fully discredited. Government intervention is necessary, otherwise, there will be an emergence of monopolies, financialisation, unbridled capitalism and obscene profits from exploiting natural resources and the poor being denied lifesaving drugs, all of which can lead to economies in which vested interest gets the bigger share of wealth.

An abhorrent example of vested interest benefiting from skewed markets is the bailout of financial companies during the global financial crisis and reprehensible profit-sharing bonuses to the CEOs of financial institutions that incentivised risk-taking. Financial companies are mere intermediaries but in the West, their share of the economy is significant with their CEOs and senior management enjoying unreasonable remuneration.

Yet, when the crash came, they were saved with billions of taxpayer dollars on the pretext that they were "too big to fail". Therefore, governments have a role

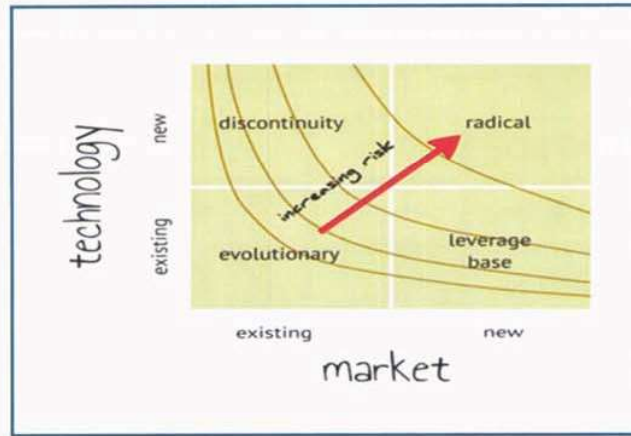
to ensure that the markets are fair and meet the expectations of a democratic society. Certainly, the notions that "the market knows best" and "the government knows best" need to be moderated with proper discourse, study and understanding of issues to shape markets to deliver desired and positive outcomes for society at large.

Driving innovation and change

The date July 20, 2019, marked the 50th anniversary of the first successful landing on the moon of NASA's Apollo 11, a remarkable feat that provided invaluable lessons. The Apollo programme, also referred to as "Moon Shot", created immense benefits for mankind, not just in terms of space flight but also vast improvements in such industries as aeronautics, clothing, nutrition and computing. The following reasons are why it succeeded:

- A clear issue to resolve — there was an ongoing space race between the US and Russia in which the latter was leading;
- To win the space race, the US had to be the first nation to achieve a landing on the moon by man. Therefore, the US government set itself this key challenge with a clear objective that was declared in the famous speech by President John F Kennedy — sending an American safely to the moon before the end of the decade;
- The challenge was broken down into several concrete missions that were measurable and time-bound;
- Public structure was organised differ-

Headline	FORTUNE FAVOURS THE BOLD		
MediaTitle	The Edge		
Date	18 Nov 2019	Language	English
Circulation	25,910	Readership	77,730
Section	Corporate	Page No	47,52,53
ArticleSize	1934 cm ²	Journalist	MOHD ANWAR
PR Value	RM 99,897		



SOURCE: GOVERNMENT - INVESTOR, RISK-TAKING AND INNOVATION, BY MARIANO M., 2013

ently where multiple sectors were involved, collaborated and innovated together;

- Bottom-up experimentation was facilitated for the innovation required;
- There was a mobilisation of resources and talents, money and labour, issuing government instruments to procure finance required to achieve the goal; and
- There was not fear of failures, risks were taken and challenges were addressed imaginatively.

Governments need to adopt a mindset that even if the mission fails, the science and technology research conducted can have positive economic benefits for other fields and sectors. This underscores the point that governments need to take the radical risks that the private sector is unable or unwilling to take.

When there are mission-critical problems to resolve, governments/policymakers cannot leave it to the private sector to fund innovation and develop new technology because most companies do not possess the necessary capital or risk appetite to fund projects that would require significant R&D investment.

Shareholders of companies may not see the benefits of massive R&D spending as that would affect the company's earnings in the short run. The long-term implications may also be overlooked or may not be of any concern to boards focused on short-term shareholder returns. These types of projects would significantly reduce free cash flow to equity — that is cash flow available to the providers of capital — in the short to medium term until a breakthrough is achieved.

The way forward

It is critical that policymakers identify areas for investment where the government is best placed to take risks. As for the government's role in risk-taking, this should be in major R&D spending initiatives to resolve specific problems. Perhaps, these could be in radical new technologies that solve labour problems in the agricultural sector, regenerate the Equatorial rainforest, mitigate flooding and harness agricultural waste.

Nevertheless, it is encouraging that some ideas in the recent budget are in line with Mazzucato's book, *The Entrepreneurial State*. An example is the idea of matching grants. However, this is not wholly in line with the need to solve major issues but merely encouraging government policies with incentives. The government could consider studying the European Horizon project to better understand how major issues could be resolved by the ideas espoused by Mazzucato.

Budget constraints should not deter the government if the issue is important enough, the

analogy being that when countries go to war, they are not constrained by budgets; they simply find the money. Certainly, the allocation of RM524 million to ministries and public agencies for R&D appears to be low if Malaysia desires to become a high value-added economy.

For the record, Budget 2020 merits our commendation from a short-term perspective as it was one of the most inclusive in recent times. It is noteworthy that the budget proposals, which include women's development, rural development and allocations to fight poverty, financial aid for the B40, are essential initiatives in promoting the Shared Prosperity Vision.

In the absence of leakages, the money could be used for consumption by the local economy, thus increasing aggregate demand, which is positive for GDP growth. However, increased prosperity, which is required to elevate the need for subsidies and aid, is dependent on higher value-added industries too. In these aspects, the government has a critical role in creating the said high-income and high-wage industries.

Conclusion

Rethinking Economics' view of governments playing a role that is wider than for the public good is certainly sound. However, it is critical to ensure government intervention produces optimum results. Transparency and good governance in the large expenditure-critical projects should not be compromised.

Finally, the government should be rewarded when it embarks on a high-risk innovation or funds and facilitates large infrastructure projects that are eventually privatised. In this respect, the merger of various development financial institutions, perhaps as the National Investment Bank, could enable the government to provide patient capital needed while sharing the returns when the projects succeed.

The bold initiatives implemented by the government to restructure the economy post the mid-1980s crisis have produced spectacular growth and facilitated wealth creation. It is this type of boldness and self-confidence that is required of Malaysians if our nation wishes to re-emerge in the premier league of fast-growing economies. The 12th Malaysia Plan, the first for Malaysia Baru, should encapsulate the Malaysian version of the Moon Shot. ■

Datuk Mohd Anwar Yahya is a partner and an executive director at Sage 3, a boutique corporate finance advisory, and currently serves on the boards of directors of several Malaysian public and private corporations. He has over 25 years of experience in public policy, corporate finance and strategy at a Big Four accounting firm.