

Thank you very much for inviting me and for giving me this opportunity to address this very important and topical subject that is likely to affect the future of all of us.

1. The relationship between Malaysia's political economy and the international economic crises is not an easy subject but a vast and complex subject which can touch on very sensitive issues. But the urgency of the subject is such that we must think and speak about it. Be that as it may, I have to state what I think is the heart of the problem of our political economy in view of the experience of the West which is unfolding at the moment. The full impact of what is happening in the West is yet to be revealed and it is possible that it will be a continuing process of revelation. It has been suggested by some political and economic observers that the crisis is likely to be the worst economic crises since the 1930s, and that it is bound to affect the entire world. But there are some who believe that the effect on Asia will not be the same as in the West. That may or may not be true, but in this age, no country is an economic island or indeed a political island. To emphasize the point, 30% of China's economy is dependent on the wellbeing of the European economy. Any shrinkage in the West is bound to affect China. This can be said of many Asian countries.

2. In trying to understand what is likely to happen to the Malaysian economy and its political consequences, it is important for us to understand the character of our own economy, and the similarities and dissimilarities with American and European capitalism. Western capitalism that is now accepted as a failure is a capitalism that has had a long history, with very strong political and cultural underpinnings, particularly in the Rule of Law. It is for this reason alone that Western capitalism, for all its faults, has lasted so long. There are many lessons we can learn from Western capitalism – successes and failures. While there are similarities, the Malaysian version of capitalism unfortunately does not have the long history of political and cultural foundation. The significance of this cannot be underestimated. Malaysia's economy was a colonial economy. Soon after independence, there was no real change of the colonial political economy. In 1970 we made the first real attempt to change the political economy to address same urgent imbalances.

3. I would like to open the discussion today by suggesting to you that the capitalism in Malaysia took a decisive change in the 1980s. It is that change that we have to understand and deal with if we are to avert the same crisis as the West is going through.

4. It is my contention that the changes that took place in the 1980s were profound, pervasive, and influenced the value systems in public life. It has also brought about structural changes in our society. These structural changes – I don't mean formal constitutional changes only – relate to the way that constitutional issues are being interpreted today. They relate to the way in which political parties have been transformed and the manner in which politics is being conducted today, both within and outside the political parties themselves. It has also brought about changes to the administration of the state apparatus – both unto itself and in its relations with the public. Equally important is what I call public values; in other words, values associated with the public responsibility that goes along with the position that one assumes. The sum total of the transformation and its influence will have serious consequence on the future of our country, as those changes are still with us in public life, particularly the politics of the day.

5. Before I explain the nature of the changes and its consequence, I would like to state briefly the political culture, understanding, and values that prevailed prior to the transformation, just in order to emphasize the contrast. At the time of Independence, the problems of the country were those that we inherited from our colonial past. The most striking aspect of it was the fragmented nature of our society in almost every aspect of public life, particularly in politics and the economy. Race dominated the general view of both politics and the economy. There was also extensive poverty, both in the rural and urban areas. But the rural and the urban distinction had another aspect to it, and the rural economy was at subsistence level unlike the urban areas. It had also a racial distinction. But the distinctions of poverty levels carried also a racial distinction. In the urban areas, the middle class also had racial characteristics. Capitalism as practiced in the colonial period was clearly unsustainable to maintain a cohesive and united community within Malaysia.

6. Many of us who decided to be involved in politics soon after Independence were inspired by the challenges that the new nation faced in solving those problems. The ideals were those that were prevalent at that time in Asia and inspired by thinkers of that time. The ideals were for change in society to a more balanced and one where racial divisions will not be identified with politics or economy, and poverty, both in the rural and urban areas, would eventually disappear without the racial divide. The objective was always the common good and to create a nation that was cohesive and modern. This was to be achieved by economic changes in their nation's economy and the lives of its people.

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7. The best way in which I can illustrate the point is by drawing your attention to the ideals as expressed in the 1971 Second Malaysia Plan. It is a quote that is worth repeating and remembering:

*“National unity is the overriding objective of the country. □ A stage has been reached in the nation's economic and social development where greater emphasis must be placed on social integration and more equitable distribution of income and opportunities for national unity.”*

It went on to state:

*“The quest for national identity and unity is common to many countries, especially new and developing countries. □ This search for national identity and unity involves the whole range of economic, social and political activities, the formation of educational policies designed to encourage common values and loyalties among all communities and regions; the cultivation of a sense of dedication to the nation through services of all kinds, the careful development of a national language and literature, of arts and music, the emergence of truly national symbols and institutions based on culture and tradition of society.”*

The basic point is emphasized in the Rukun Negara:

*“... from these diverse elements of our population, we are dedicated to the achievement of a united nation in which loyalty and dedication to the nation shall over-ride all other loyalties.”*

8. What happened in the 1980s was a deviation from these ideals. It had nothing whatsoever to do with the New Economic Policy. It was something very, very different. An economic policy of the kind that the Second Malaysia Plan envisaged would require a gestation period of more than a decade, optimistically. It was intended as a social engineering policy. It is in the nature of economic policies that results are not immediately evident and can only be achieved in the fullness of time. The New Economic Policy unfortunately did not survive the leadership prior to 1980 and faded before the full impact of that policy could be seen.

9. What happened from 1980 onwards was an intervention of a new form of capitalism that was

not obvious but reflected in the way the leadership that came after the mid-1980s conducted itself in the implementation of economic policies and the exercise of political power. The dominant economic thinking during the 80s was economic policies which came under the category of neo-liberalism. Neo-liberalism was an ideology and a political philosophy with its own values of public responsibility. It had a very precise view of what the economic system should be and what kind of supporting financial system should underpin it.

10. The distinguishing feature of this policy is privatization of public ownership of utilities essential for public good, such as water, power, public transport, health and other services irrespective of whether they were efficient and must necessarily be owned by the State. In order to assist the neo-liberal economic policy, it also encouraged low taxation, mobility of labour to keep wages low, unrestrained mobility of finance, and the rise of the stock market as a means of financialization of profit and capital to facilitate its mobility and accumulation.

11. It was within that new dominant ideology of neo-liberalism that the incumbent power realized that this new approach to economy opened up opportunities for those who had power and those whom they wanted to favour. There was an understanding that in order to benefit from that new economic system, political power needed selective businessmen who would work together for their mutual benefit. The benefit to the nation was merely incidental and necessary to continue the new status quo that they were building. Eventually, by this relationship, political power became a means to business and accumulation of wealth as a practice of those in politics and business; in other words, those in politics sought out business and businessmen sought out politicians who would work with them. This new feature came into existence gradually and had its peak in about the 90s. The character of capitalism changed and the values of some Malaysians also changed. By privatizing the public ownership of what is economically called "public good," the values that went with public good changed to private profit accumulation of wealth and greed. The nature of public responsibility also changed.

12. This new feature in Malaysian political life eventually became a powerful mode of thinking that permeated political parties and the institutions of the State. Party politics, particularly, took a change in order to consolidate the status quo of power. Changes in the constitution of political parties ensured continuation of leadership and political power. But the leadership within the party and the political system became acceptable only because the benefits of business were also shared by those who supported the leadership. A hierarchy of financial interest coinciding with the power structure was built within and outside the party.

13. These changes also created a corrupt form of public values which has very serious consequences and with which society is now burdened. The system became self-serving for

entrenched political and business interests. All those in the hierarchy of the system also benefited and, in order to maintain that system, they supported the centralization of power within the party leadership and the government.

14. With the changes in the political party system, particularly a political hierarchy supported by business, the centralized political power had to feed this combination of business and political hierarchy with business opportunities. The centralized power enabled discretionary use of political power to make decisions on public expenditure and privatization. The public expenditure that I am referring to is the public procurement contracts. The money generated by the distribution of public procurements, contracts and privatization programme became a self-serving economic system to maintain power and accumulate wealth.

15. The volume of money generated in terms of public expenditure and private gain arising from this policy has never been properly audited or revealed to the public. In order to avoid public controversy of the public procurement contracts and privatization, the Official Secrets Act was expanded to include contracts involving public procurements and privatization. As a result, business and power became more and more entrenched and powerful. The fear of losing power also equally became a matter to be avoided at all costs. In these circumstances, money became a dominant political weapon in political parties and the entire electoral process. This new culture of politics released forces within the political parties and the public arena unseen before.

16. This new focus of the political economy became less and less sensitive to the real socio-economic problems of the people and essential changes that were necessary were ignored or misconceived.

17. It is now generally accepted by those who understand economics that statistical evidence and economic reality are not the same. Nevertheless, the reliance on statistical evidence can lead us to make believe that all is well when it is not. I say this because the empirical evidence that is evident seems to suggest that over time the focus of growth was on accumulation of wealth rather than the realities of the socio-economic problems that the people face. One example of this is the changes in the character of labour in Malaysia. The demand for labour has been seen as an opportunity to create a rentier political class from those who are part of the political apparatus. It has reached such proportions that there is an alarm that the employment opportunities have all been taken up by foreign labour. The effect of the policies of making labour a commodity available to employers has many consequences, one of which is to squeeze out our citizens from gainful employment and the lower end of the economy, such as hawking, etc, as a means of living.

18. Be that as it may, this can be a turning point for our nation in a positive sense if we recognize the nature of our problems. One of the major problems that would be in the way of meeting the consequence of the crisis will be the education and standards of skill of our people. As a means of an economic recovery, we will require a fundamental change in the education system we provide for our citizens. We need an education system that produces quality and skills. I would say that under the present system, it will be difficult for us to achieve that. We need the moral courage to reform the entire education system that we have today. I would also add, we need a massive adult education programme to ensure that the present generation is not left behind. The objective of the adult education should be to provide the necessary language and technical skills and to involve as large a section of the population in non-formal educational programmes which will bring national cohesion and at the same time rejuvenate dormant areas of our economy, such as the agricultural sector. We have enough land. What we need is for those who are prepared to go into these areas of our economy to be equipped with the technical knowledge that is necessary to bring about a green revolution in our country.

19. What is illustrative of the consequence of the economic policies of the 1980s and 1990s is the household debt of average Malaysians, which is about 75% and 40% of the household debts is beyond 100% of their earnings. As a result of this, the average Malaysian generally lives under a very high social and economic tension within their families and within society struggling to make ends meet. The household problem has many ramifications. It has spawned wide-spread illegal money-lending (the true "Ah Longs"). The consequences have been devastating on families and individuals. The financial system as it is now does not seem to be geared to make the lives of ordinary people comfortable or to minimize social tension. Part of the cause of rising debts among households is because of the structure of the financial system within which the ordinary citizen has to live, such as the romping speculation in housing, inflation in the goods of daily requirements, and the mortgage system on which the people depend for ordinary comfort.

20. As a consequence of economic policies in the past, inequalities have also widened. Today, Malaysians suffer from a very wide inequality, and there is a suggestion that the inequality is higher than in Thailand and Indonesia. This inequality cuts across racial boundaries. If the economy declines in the future, the problems that I have highlighted in terms of the household debt and the widening inequality will go into a deeper crisis of confidence among the people, particularly the young who feel alienated from the economic system.

21. No democratic system, no institution as envisaged by our Constitution, can survive a political economy of this nature. There is too much money in politics and it has become inseparable from power and the electoral process. The corrupting influence of money in public

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life is obvious for any need for explanation. While the economic and social problems accumulate, a divide has been created by those who benefit from the dysfunctional system and those who suffer from it. It is no different from the experience of many countries in the Middle East. Many who had enjoyed the benefits of incumbent power sustained the system and were reluctant to give up power or change.

22. The lesson we have to learn from the Arab Spring is that a dysfunctional democracy, however well dressed by public relations exercises or subsequently by media, cannot withstand the realities that are the natural consequence of abuse of power and wanton accumulation of wealth. That is the most important message, I think, that the Arab Spring has conveyed and we must take cognizance of it.

23. The danger we face is that the conflation of business and politics has become so dominant that it has the same influence an ideology would have. If we are to restore democratic ideals in our political discussions and the electoral process, have genuine political parties which can genuinely function in what they think is the interest of the people, and participate in the economy, then there must be a separation of business from politics. Without this precondition, Malaysia's economy can avoid a crisis worse than what we see in the West.

24. For business to play a responsible and major role in creating a viable economy, it must be freed from politics. The economy of business must be returned to the people in order for them to develop. It must be given the freedom to function without having to depend on political patronage. The right to do business as part of the national economy must be a fundamental right, not subject to favours by politicians or bureaucrats.

25. But that change will not come about until the public earnestly are allowed to discuss the dangers of conflating business and politics. That includes the danger of allowing political parties that are in power to take advantage of their political power for financial benefit. Parties must be strictly confined to democratic activities and political policies which they believe in and business must function autonomously from political parties. Unfortunately for us, this has not been the debate in any of the elections in the last three decades. We need to think urgently of the dangers of this unspoken reality of our politics.

26. If I am correct in my understanding that the ideology of business and politics had become fused with the neo-liberal ideology and as part of our political economy - by that I mean the process of thinking about economics, politics, policy, and leadership - then we have a lesson

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from the crisis in the West which is happening now where neo-liberal policies have failed not only as a financial system but in all its economic and political objectives. It must send a signal for us to seriously examine whether in fact there is a fusion of money politics and neo-liberal ideology, that is the worst of both worlds. And what can happen to us, not now but in the future is an urgent issue we have to deal with now, not when it happens. The gestation period of misconceived economic policy is as long as good economic policies, but the longer we wait the worse the consequences and higher the price we pay.

27. One of the weaknesses we have as a nation is the absence of a critical mass of people who think in economic terms and can take a critical view of the realities of the economies that we face today as a matter of national interest above sectarian interest. The absence of this critical mass will make it easy for those who want to deviate from the real issues that we face.

28. My intention, in all that I have said, is for the purpose of reflection, and for us to grasp some realities that are urgent, and to think whether an economic system where money played such a dominant role in the functioning of the state and the constitutional system of democracy can survive. The task of understanding the reality and dangers of a dysfunctional system based on money in the political process is urgent. There is a role for all of us because the country belongs to us and we have a duty to save Malaysia from the trials, tribulations and agony that we see happening as a result of the failure of Western capitalism.

### **“MALAYSIA'S POLITICAL ECONOMY AND THE INTERNATIONAL ECONOMIC CRISIS”**

Speech by Y.B.M. Tengku Razaleigh Hamzah at the Royal Selangor Club Luncheon Talk on Thursday, 16.02.2012 at 12:30pm.

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