

Economic crisis fuels tensions in Malaysian government

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2 July 1998

Sharp conflicts have surfaced in the leadership of the United Malays National Organisation (UMNO), the main party in Malaysia's ruling coalition, as a result of the deteriorating economy and rising social tensions.

At the UMNO national conference on June 19-21, Prime Minister Mahathir Mohamad launched a fierce attack on international banks, the major powers and the foreign media, warning that outside interests were trying to determine who should lead the country.

'We are pushed to become a backward, weak race which is recolonised and having to serve others. They are trying to destroy all we have built,' he told the more than 1,900 delegates in his keynote opening speech.

Since the eruption of the Asian financial crisis last year, Mahathir has been an outspoken international critic of currency speculators like George Soros and the policies of the International Monetary Fund (IMF). But his latest barrage was explicitly directed at Deputy Prime Minister and Finance Minister Anwar Ibrahim and other internal opponents like UMNO Youth chief Ahmad Zahid.

In early June, Anwar said the economic crisis had 'unleashed a gale of creative destruction' that would 'cleanse society of collusion, corruption and nepotism'. During trips to the US and Singapore in April, he repeatedly promised 'greater transparency' in an effort to encourage investment in Malaysia.

In a thinly veiled threat to Mahathir, Anwar pointedly referred in a recent speech to the resignation of Indonesian president Suharto. If Malaysia did not move to counter such corruption, he said, 'we may see the Indonesian situation where the people demand changes'. The 73-year-old Mahathir has held office for 17 years.

Others have joined Anwar's attacks. At a meeting of the UMNO Youth organisation just prior to the party's

conference, Zahid told a cheering crowd: 'Nepotism will bring Malaysia to its knees.' Another delegate, Hamdan Tahar, was even more explicit. Referring to the ship's captain in the movie *Titanic* reserving lifeboats for his wealthy friends, Hamdan told the meeting: 'If the president of UMNO [Mahathir] acts like this, then UMNO will also sink, just like the *Titanic*'.

At the UMNO conference, Mahathir returned the fire. 'Crony-capitalism, corruption and non-transparency -- which are said to be found in Asian countries -- are only excuses to attack the economy and finances of these countries.'

He published for the first time a list of names of companies and individuals who have won privatisation contracts in recent years. It included Zahid, who claims he was only acting on behalf of the UMNO Youth foundation, and Anwar's father, who received 3.8 million shares in Nissan-Industrial Oxygen.

Having staved off any immediate challenge from Anwar, Mahathir last week strengthened his grip on economic policy by installing close political ally and former finance minister Daim Zainuddin to a key economic post as Minister of Special Functions. Daim was closely involved in the Fleet Group, a holding company for UMNO's business operations.

Conflicts over economic policy

Behind the conflicts between Anwar and Mahathir lie widening divisions within the ruling class. Like other 'Asian tigers,' the Malaysian economy remains highly regulated with close ties between government and big business. The coalition headed by UMNO has held an iron grip on power since Malaysia was granted formal

independence from Britain in 1957.

Following the outbreak of rioting in 1969 directed against ethnic Chinese, the government implemented the New Economic Policy (NEP), which gave preferential treatment to so-called indigenous Malays or *Bumiputeras* in business, government posts and education. Under the NEP, the links between UMNO, government and private entrepreneurs expanded.

In the late 1980s and 1990s, Malaysia flourished as an export platform for the manufacture and processing of labour intensive goods such as textiles and electronics. As labour shortages grew, an estimated two million immigrants -- both legal and 'illegal' -- formed a huge pool of cheap labour for exploitation in the worst jobs.

But the financial breakdown has shattered grandiose plans to transform Malaysia into a hi-tech industrialised economy by 2020. During the first quarter of the year, the Gross Domestic Product shrank by 1.8 percent -- the first quarterly fall since 1985 -- and many commentators predict a further decline in the next quarter.

New car sales have fallen almost 70 percent and substantial retail and office space is empty in the capital Kuala Lumpur. According to one estimate, property prices could plunge by as much as 30 percent by the end of the year.

The banking and finance system is heavily burdened with bad debts. Non-performing loans are expected to rise to 22 percent by next year. The Sime Bank has already made huge losses on loans to companies in Thailand and Indonesia made from Labuan Island, a financial zone free of central bank regulation.

Mahathir's response to the economic crisis has been to stir up nationalist sentiment, attacking not only the IMF, speculators and major powers but making scapegoats out of immigrant workers to divert attention from his government. He has blamed the high interest rates, maintained by the central bank and defended by Anwar, for sending businesses to the wall.

At the same time, state-owned enterprises have been used to engineer the bailout of UMNO's business interests and Mahathir's family members. In one notorious case, the Malaysian International Shipping Corp bought up the shipping assets of the troubled Konsortium Perkapalan Berhad group controlled by Mirzan Mahathir, the prime minister's son. MISC

financed the arrangements by issuing shares to Petronas, the national petroleum company, which is under the direct control of the Prime Minister's department.

Such deals are fueling discontent in UMNO's ranks under conditions where smaller companies, businessmen and investors are going to the wall. Unit trusts launched in the early 1990s by governments in the states of Johor, Kedah, Sabah, Sarawak, Selangor and Terengganu have suffered huge losses and plummeted in value as the Kuala Lumpur Stock Exchange index has fallen 26 percent since the end of March. The unit trusts were reserved for ethnic Malays who form the core of UMNO's social base of support.

Anwar has sought to capitalise on the disaffection while more and more openly backing the demands of the IMF for an end to the close ties between government and big business and a further opening of the Malaysian economy to international investors. He issued no open challenge at the UMNO conference but did succeed in blocking a motion by Mahathir supporters aimed at preventing any contest for the positions of prime minister and deputy prime minister in party elections due in 12 to 18 months time. Anwar has his options open.

Whatever the outcome of the rivalry among the ruling cliques represented by Anwar and Mahathir, both will attempt to impose the brunt of the economic crisis onto the backs of the working class. Earlier this year the Malaysian Trade Union Congress forecast that over half a million workers would be retrenched by the end of next year. The job losses are estimated to be 20 percent in construction and 15 percent in the wholesale and retail trade.

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[30 June 1998]



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