

Lessons for Sri Lanka from Malaysia: interview with Daim Zainuddin

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(Lanka Business Online) – Many East Asian Tiger economies like Malaysia are now famed for fiscal prudence, running surpluses on their current and overall budgets, and low inflation, but they were not always so disciplined.

Countries like Sri Lanka are still not able to balance current spending with government revenues and the public sector is a net dis-saver which undermines national savings.

Public enterprises in the island frequently run losses which are either financed by state-banks, which then run out of capital when loans are defaulted, or losses are topped with Treasury subsidies or tax rebates, which again increases public sector dis-saving.

All too often in Sri Lanka gaps in the current budget are filled with central bank credit or printed money driving up inflation to 20 percent levels, forcing the poorest citizens to shoulder the burden of a too-large government which the poor simply cannot afford.

State Saving

Malaysia also has an interventionist government that now runs surpluses on the current budget, saves and invests heavily in infrastructure and even commercial ventures, much like Singapore does.

In countries like Malaysia public sector investments in the economy, including from central and state government budgets and public sector enterprises are half or more of the 30 percent plus gross domestic product ratio of national investment.

But the roots of Malaysia's economic turnaround lay not in expenditure but tight budgets and spending cuts in 1985 engineered by Daim Zainuddin, a US educated entrepreneur who was appointed finance minister by then prime minister Mahathir Mohammed.

Like Goh Keng Swee of Singapore – Lee Kwan Yew's first finance minister – Daim played a pivotal role behind the economic revival of Malaysia.

When Daim took over, the country was reeling from a recession, revenues from tin exports were down in the wake of a burst global commodity bubble and he was faced with a public sector that was bleeding the nation dry.

Malaysia's government went to business in 1971 as part of a new economic policy that sought to improve the economic fortunes of Malaysians identified as Bhumiputras who were mostly Malays and indigenous tribal peoples.

"You know, private sector will take time to do the research. So the government had to go in to the business, put a lot of money in, to make sure that this imbalance is addressed," said Daim in an interview with LBO in Colombo.

"By the time I came in, that was 13 years later, they were making losses.

"Lots of these companies were making losses, because they were run by ex-civil servants and people with no experience.

"And there was the 1985 recession and so the government needed funds for development."

Fiscal Discipline

Daim went about slashing expenditure and getting a credible budget in place. Loss making enterprises were either closed or privatized.

"So, I say look, why don't we shut down those companies that were making losses, the good ones that sell, also privatize," recalled Daim.

"So that in the process when they do well, then the government can benefit from taxes.

"My view is, if after 15 years if we still do not do well, we must have a re-look at it, instead of wasting more money."

In Sri Lanka loss-making state ventures are holy cows, protected by powerful trade unions and a political ideology that glorifies state ownership, which persuades a complacent public to allow state firms to be run as playthings of politicians.

But critics have sometimes charged Malaysia's government of favoring Malay business interests that was close to the ruling United Malays National Organization (UMNO) that is the biggest partner in the ruling Barisan National coalition against the ethnic Chinese.

But Daim says the government had a clear policy of favoring domestic interests and that of the poor.

"We did not want everything to go to foreigners," he says. "There must be something for our own people. There must be something for the poor.

After all the poor also votes for the government," he adds, with the politician in him coming to the fore.

To give ordinary Malaysians a chance at buying state ventures, unit trusts (mutual funds) were established through Permodalan Nasional Berhad, a state-run entity.

"It issued unit trusts for Malaysian citizens specially the Bumiputras who had no means to participate in the economic activities, especially in the stock market," says Daim.

"Through this scheme they could participate."

Planning and Accountability

In subsequent years, Malaysia invested heavily in infrastructure and took the country on a planned growth path backed by foreign investment.

Its careful budgeting and subsequent economic and political stability brought in capital intensive foreign firms, which moved into increasingly higher technology goods and services.

"If there is stability, capital will follow," says Daim.

Daim also owned interests in banking which he had to sell when he took over as finance minister. He is still the treasurer of UMNO and carries the honorary title of Tun, which is an honour reserved for only a few Malaysians.

He says good governance, meticulous planning and accountability is necessary to take a country forward.

"You must have a full time planning minister," he says. "He must plan and plan. And finance minister must find the money. He must be accountable. If anything goes wrong the head of government should be able to fire the finance minister."

When Daim was recalled to be finance minister after East Asian crises he had to sell banking interest he had acquired for the second time.

Daim was in Sri Lanka looking to buy into the banking sector this month, weeks after taking over a troubled bank in Bangladesh for 50 million US dollars.

"I am primarily interested in banking," he says frankly. "But also in property development where I started."

Daim is now running his third banking business, where through Swiss-based ICB Banking he holds interests in several Eastern European, African and Asian banks.