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COVER STORY

Chronic trust deficit must be addressed

I have been asked to share my thoughts on key structural issues facing the country, and what we can do about it. I am most reluctant to put my thoughts into words or share them with the public. Since my retirement, I have stayed away from public discussions as I prefer to spend my time travelling. But times have changed and we are facing a very serious crisis.

Clearly, there are important long-standing structural issues that may affect our march towards developed country status. These are related to education, the labour market, the government's fiscal policy, inclusive growth and sustainability, among others.

However, what this country needs at this moment is much simpler but seems harder to solve. What we need to address now, which I have repeated so many times, is the chronic trust deficit. In order to overcome this deficit, we must first understand its origins. There are a few reasons why we are facing this trust deficit.

First, it is the lack of integrity, honesty and moral courage. The lack of good moral character seems pervasive among the elites in this country, especially among those in power. Corruption and bribery remain rampant, to the extent that cases of public money being siphoned off for private use or government servants stashing away obscene amounts of hard cash do not amaze us anymore. It is as though systemic corruption has taken a hold of us and our nation, and we have accepted it. The culprits must be punished. We should have no sympathy for them.

But in some instances, politically connected culprits were not brought to the courts fast enough. In the case of the Sabah Water Department, it has been nearly two months since the main officers were released on bail. This has given room for further speculation and abuse



BY DAIM ZAINUDDIN

of the system. The same goes for the Ministry of Youth and Sports' case. And, of course, who can deny the existence of the biggest elephant in the room pertaining to corruption and abuse of power?

It is worth being reminded that lack of integrity has disastrous consequences, and it extends beyond the damage to the current generation. Studies have shown how countries that are perceived to be corrupt tend to grow at a much slower rate than those that are corrupt-free and this has a negative impact on long-term growth. No one would want to invest in a country that does not respect the rule of law.

Lest we forget, the root cause of why a community or a nation succeeds or fails, why great civilisations or empires collapsed, always comes back to one reason — integrity or the lack of it.

Thus, solving all those structural issues will depend on ensuring the highest level of integrity among those in power. In fact, a nation's survival and its success depend on the integrity of everyone, most crucially, its leadership.

The leaders must always uphold the highest level of integrity and not betray the trust assigned to them or take advantage of their position. Those with positions must remember that there is no honour in abusing their power.

Second, the lack of empathy and common sense among those in power plays a role in widening the trust deficit in the country. When the people are feeling the pinch of slower wage growth, higher cost of living with the removal of subsidies and weakening of the ringgit, we

are pouring more than half a billion ringgit of the rakyat's money into a public park. This is outright insensitive and mind-boggling when allocations for essential services, such as health and education, have been reduced. Yet, if the government is sincere about its concern about parks, why hasn't it gazetted Bukit Kiara?

Third, expertise in oversight of the nation's economy is seriously lacking. We proudly proclaim that our "fundamentals are strong". But the economic growth is fuelled by debt. This is not sustainable. Government debt with its contingent liability has easily exceeded the debt limit. In fact, for next year's budget, we have to borrow about 90% to finance our development expenditure. For every RM1 we expect to collect next year, 98 sen will be spent on operational expenses, such as paying salaries, interest and subsidies, among others. This is not sustainable.

Household debt is already at an all-time high; in fact, it is one of the highest in the region. With lack of savings, our households are vulnerable to poverty. Our outstanding non-financial corporate sector debt is also high, about 105% of GDP as at end-2015, which is higher than the debt of emerging economies.

Yet, we are still proud to state that the economy is growing, and we are proud when the incoming president of US reportedly is impressed by our high economic growth. But the US is approaching full capacity as evidenced by falling unemployment and rising wages.

But growth alone is not enough. It needs

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to benefit the country and the rakyat. Despite registering positive growth, the number of unemployed in Malaysia keeps growing. Since early last year, the number of unemployed grew nearly 16%. Our graduates do not have jobs; a graduate engineer has to sell nasi lemak and the government seems proud of that!

Firms also are not hiring as before; the number of vacancies reported this year is the lowest in about a decade. In fact, the number of jobs created are mostly low to mid-skilled, and not high-skilled. Not surprisingly, the share of low-skilled workers in the labour force has increased while that of high-skilled workers has declined. This does not augur well for the country becoming a high-income nation. It is pointless for a country to achieve high income when the rakyat remains low income.

These are among the factors that lead to people losing trust in the government. What do we do then?

Two things need to be undertaken, one easier than the other. First, a new economic team must be assembled and empowered to fix the economy.

The rakyat and investors, both local and foreign, must have faith and confidence in those managing the economy. The members of this team must be professionals who are technically competent, with the highest level of integrity and dare to speak the truth. Lack of intelligence and incompetence cannot be compensated for by loyalty to the leader.

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A case for NCC2

Malaysia is facing formidable challenges. Moderation, integrity and inclusiveness are under severe strain as the nation continues to evolve socially, politically and economically while remaining rooted to a system that was designed more than four decades ago.

At the core of it, the New Economic Policy, set up by the 1971 National Consultative Council, was meant to be a 20-year programme, yet it remains largely in place while the world around us has changed beyond recognition, as have Malaysians. Exacerbating the challenges are the current weak global economy, geopolitical tensions and fall-out from the 1MDB debacle. I fear that unless we face up to these realities, actions and reactions in an increasingly toxic political arena will ruin the future of this great nation.

I have called for the establishment of a platform where "the good and the great" of Malaysia can deliberate and debate critical issues in search of a new path for Malaysia. I have called it the National Consultative Council 2 (NCC2), but the actual name is not important.

What is important is to have a platform where the many difficult issues and polarities that confront the nation today can be openly discussed and debated behind closed doors, without biases and constraints of partisan politics and where the difficult conversations about trade-offs and compromises can be had in an environment where everyone places national interest first. The platform must have

the credibility to attract the right set of people — best minds and truly representative of our diverse nation. The NCC2 has to be supported by the government and political parties as well.

In my view, the top five critical issues confronting the nation are economy, institutions, education, communal relations and religion, and they have to be addressed holistically.

I have been involved in many advisory platforms on national economic matters and have always found that our options are limited by sociopolitical considerations. Why can't we try to convince stakeholders that it is in the nation's best interests that we lift those constraints? Because we never had such a platform to have those conversations.

If we look at the critical issues from the economic perspective, we will see how they are intertwined. We can start with the 2010 New Economic Model (NEM), especially the Strategic Reform Initiatives, which was a great plan. After all, it was drawn up by some of our best economic minds. The global economic landscape has since changed, so some of the tactical strategies should be reviewed. However, there is already a solid base for an economic plan, prepared under the auspices of the present administration. Yet, the NEM remains largely on the shelf because we did not address the sociopolitical dimensions of the implementation.

The failure to genuinely liberalise state control over private enterprise, create the right competitive environment for private enterprise, combat corruption, reduce the influence of



BY NAZIR RAZAK

ethnicity in policy-making and lessen dependency on low-skilled foreign labour threatens to jeopardise our future growth.

The government's capacity to drive growth is increasingly limited by its fiscal position because it has been doing much of the heavy lifting in recent years, and those hoping that the external environment will help are going to be disappointed. Needless to say, a weak economy brings about sociopolitical pressures.

When we touch on the issue of the role of the state and competitive environment for private enterprise, we go into the sensitive areas of politics and government control over the economy. When we discuss corruption, we go into the issue of institutional integrity, and in the current scenario, the whole 1MDB episode and the long-term moral hazard of not concluding on what transpired, attributing accountability, instituting reforms to make sure it does not happen again and repairing the damage the fall-out has had on some of our key institutions.

A new consensus or sociopolitical compact is needed to provide clarity on growth and distributional objectives as well as the development of an education system that is better aligned to the requirements of the economy in the 21st century and the shift of the affirmative action from race-based to needs-based as articulated in the NEM. Yet, when we talk about education,

we go into the sensitive area of communal relations and, to some extent, religion.

Religion is the most sensitive subject. We have a secular constitution, yet we are an Islamic country. What does that mean? Yet, one of our greatest economic strengths is our multi-ethnicity, and I am convinced that there is much untapped potential if we get better collaboration among our different ethnic groups. How do we do this if rising Islamisation becomes a push factor for our best talent or accentuates divides between our people? Or are their fears unjustified and the solution merely clarifying misperceptions?

I have identified five critical issues confronting the nation, but there are many, and I am sure that some others will feel that issues such as economic inequality, state-federal government balance and political competition are equally or even more important. Nevertheless, of real importance at this stage, and the consensus that I am searching for, is the need for a platform for holistic national discourse to chart a new way forward for the nation.

Conversations on sensitive topics are, by definition, difficult, but that is not a reason to avoid them. It is a reason to have them in the right setting. If we do not discuss our most difficult problems, we will leave them to fester, grow and eventually boil over. I do not think we are there, but neither are we far from there. That is why I am pleading for the establishment of the NCC2.

Datuk Seri Nazir Razak is chairman of CIMB Group Holdings Bhd

My five takes on what needs to be resolved

Corporate uncertainty: The local corporate sector is experiencing a lingering lack of confidence about the short to mid-term prospects for the Malaysian economy, resulting in their hesitation to make sizeable capital investments. This is especially true in the development and construction sectors, despite the latent demand in some investment categories such as affordable housing and industrial estates. To reverse this, it is important for Malaysian financial regulators and public agencies to be brutally honest about the macroeconomic situation today and short to mid-term future prospects, even if this results in a temporary "panic" response by the market. It is always better in the long run to divulge the real truth of the matter than to allow growing distrust in grand official pronouncements that obviously obscure the harsh facts.

External perceptions: External investors and foreign interests have unfavourable views of the weak rule of law, lack of transparency, human rights, level of corruption, poor corporate governance and the dysfunctional system of checks and balances in Malaysia today. Our ranking in many international metrics for these apparatus of democracy has fallen in recent years. Improving our performance in these areas will require a fundamental shift in the attitude of our leaders. Rather than see these measures as impediments to control and a threat to their leadership, our corporate and political leaders should embrace them as part of the nature of a democratic, free market system. In a similar vein, the increasingly state-owned "command economy" that has been nurtured by the government must make way for one led by innovation, meritocracy, and an open market system spearheaded by entrepreneurs and SMEs.

BY
DAVID MIZAN HASHIM



Rising ethnic/religious tension: Recent political gamesmanship, fuelled by rising challenges to the political establishment, has had the unwelcome outcome of raising intolerance between ethnic and religious communities. Religious fundamentalism is starting to gain a foothold, minorities are feeling marginalised, if not threatened, and this translates into further economic uncertainty. If politicians continue to ignore the warning signs and abrogate the responsibility to heal growing ethno-religious tensions, it will be up to civil society, community representatives and enlightened religious leaders to undertake this challenge. We need to increase understanding and appreciation of the fact that what makes Malaysia so unique in the world is the rich diversity of its people held together by a secular and pluralistic culture.

Declining education standards: Probably the biggest threat to the future of our country is the quality and nature of our education system. Fixing education is so complex and monumental a challenge that we choose instead to pretend the problem does not exist because the alternative is too difficult and politically explosive to confront. Meanwhile, the system produces too many mediocre graduates with poor analytical skills, weak command of English and insufficient appreciation of the nation's ethnic and religious diversity. The solution to this problem starts with removing the current ethno-political considerations from official education poli-

cy. This won't be easy because divergent ethnic and religious authorities are so entrenched in their biases of what education should be. But the future of our nation is at stake, so these communities must make compromises to prioritise instead the creation of the next generation of confident, bilingual, knowledgeable and globally attuned graduates.

This transformation will also involve a restructuring of the entire education ecosystem to recognise and reward educators and educational institutions based on their performance. Teachers need to be better trained and remunerated to regain the exalted position in society they used to enjoy.

Immigration policy: The increasing number of immigrants in the country, both documented and undocumented, is a source of real concern to all Malaysians. Apart from the job opportunities that many Malaysians are being deprived of, there are the risks of crime, contagious disease and perhaps even terrorism. If we are not careful, the simmering tensions and latent prejudice that exist below the surface may erupt between local citizens and these migrant communities if/when the economy weakens and the economic pie shrinks. To prevent this from happening, all foreign workers (and their families) in the country should be properly documented and their status formalised. This will provide those that live here with a sense of security and dignity. In the process, the numbers will likely fall, but those that remain will need access to healthcare, education and other social services available to the rest of the rakyat.

David Mizan Hashim is president and founding director of VERITAS Design Group

Phase out race-based social economic policies

It is perplexing that after nearly 60 years of independence, we are still thinking about race economics and not genuine Malaysian economics. In fact, to survive and progress on a sustainable basis, we should phase out race-based social economic policies and move more firmly towards socioeconomic development and progress based on basic needs, regardless of race and religion.

The continuing preoccupation with race and religious advancement is perhaps the main cause of deteriorating national cohesion and unity as these policies and practices are not only divisive but destructive.

As Malaysia strives towards 2020 and beyond, the five most important socioeconomic and political issues that face Malaysia and need to be addressed are:

1. The National Philosophy should be more strongly related to the constitution, Rukun Negara and the ethos of the founding fathers, which is to build a united, progressive and prosperous nation where all Malaysians are justly treated. Thus, the prevalent concepts of ketuanan or Tanah Melayu have to be replaced with a true Malaysian identity that is multi-racial, multi-religious and uniquely Malaysian.

2. National, state and local government policies should be based on basic needs and human

BY
RAMON NAVARATNAM



rights and should not continue to be race and religious-based as is the case now. This will help to promote greater national unity, a greater national identity and a higher sense of Malaysian belonging.

3. The Malaysian constitution should be more properly and fairly interpreted to remove discriminatory treatment or affirmative action that was supposed to last for only 20 years. Malaysia should remain a secular state and civil laws should prevail.

4. The New Economic Policy is now outdated under globalisation. Its replacement by the National Development Policy and then the National Vision Policy are seen to be an extension of the NEP, which has helped, but has also stifled the advancement of bumiputeras due to a lack of competition. The widening income disparities have risen and must be arrested to prevent social unrest. The New Economic Model, which was adopted in principle earlier, has now to be adopted fully and implemented carefully if Malaysia is to succeed further amidst all the global challenges.

5. All the state institutions must be strengthened

to ensure the proper rule of law. No one should feel that there is selective or weak justice. Public expenditure wastage and inefficiency in both the public and private sectors should be drastically reduced.

The National Transformation Plan (TN50) announced by Prime Minister Datuk Seri Najib Razak is most welcome, but its content and direction should not be more of the same. It should be fresh, relevant for the future, dynamic and sustainable. The TN50 should recognise that race and religious economics should be phased out in the next, say, 10 years.

TN50 should aim to promote and perpetuate more needs-based economics, which is related to better education, more meritocracy and competition and the rejection of crony capitalism and corruption. Only then will there be full public support for the new TN50 policies. It has to be based on national consensus and not just on the so-called tyranny of majority views.

TN50 should be neither surprising nor perplexing, but nobody should be left out and it should truly reflect Malaysia's long-term sustainable interests, strong national unity, peace and progress.

Tan Sri Ramon Navaratnam is chairman of the Centre for Public Policy Studies at the Asia Strategy & Leadership Institute

In dealing with rakyat, honesty is the best policy

FROM PAGE 66

Indeed, the special economic team that was set up in August last year is a complete failure. It should be dissolved. Concurrently, the prime minister must let go of the finance minister's post; this is bad governance.

Second, which is equally important, is to get rid of the feudalism mindset, especially among those who are the trustees of this nation. If the leader is wrong or has committed a crime, it is the fiduciary duty of the subordinates, particularly the civil servants, to take corrective actions, instead of being in cahoots to cover up the wrongdoings.

Bear in mind that political leaders who are elected by the rakyat to lead the government are basically the rakyat's servants. They are merely given the mandate and power by the rakyat to lead the government and to rule on their behalf. Thus, the ability to be respectful and accountable towards the people that voted them in is paramount.

The leaders are not gods that must be obeyed. This clarion call is not new; nearly half a century ago, our great philosopher and sociologist, Syed Hussein Alatas, warned us of the danger: "...man in authority ... expects the subordinate to be loyal and faithful in a manner that sometimes comes into conflict with the norms or ethics ... he is supposed to be loyal under almost all circumstances, even if the circumstances violate the present values and philosophy of Malaysian society" (*Feudalism in Malaysian society: A study in historical continuity*. Source: *Civilisations*, Vol. 18, No. 4 [1968], pp. 579-592).

This requires, again, integrity and honesty, even if that means one is in the minority. Our first prime minister said it best: "If you think you are rich, there are many who are richer than you. If you think you are clever, there are more people cleverer than you. But if you think you are honest, then you are among the few and in this instance, it is best to be among the few."

In dealing with the rakyat, whether on economic, social or political issues, honesty is really the best policy. Lies can only lead to more lies, and once the rakyat has lost faith in you, even when you are stating the truth, they will not believe you. You cannot fix the problems of the nation when there is a trust deficit.

In my experience during the 1986 and 1998 crises, I was upfront about the problems we faced but the people had the confidence to give us time and space to solve the problems. Without the people's trust and support, it will be difficult to solve the economic problems, especially when it affects them. It is a partnership between government and the governed.

Reforms in institutions are also required. We must take all necessary actions, including amending laws, to ensure the independence of judiciary and security institutions. Tolerance for dissent and differences in opinion and ideologies must be welcomed, and not prosecuted. These are the ingredients for a truly open and functioning democracy.

Failure to undertake these paramount reforms means we are moving away from prosperity. Otherwise, we all should be seriously worried about the future that we are leaving for our children and grandchildren.

Daim Zainuddin is former finance minister of Malaysia