

Speech by the Hon. Tengku Razaleigh Hamzah

ISEAS Regional Outlook Forum 2010

Luncheon Address

Thursday 7 January, 2010 Shangri-la Hotel, Singapore

Thank you for the honour of addressing you today.

1. The centre of gravity of global economic activity has been moving eastwards towards Asia for quite some time now. The present global financial crisis has accelerated that process.
2. Asian economies, led by China, seek to spur domestic demand and increase intra-regional trade. As the global appetite for treasuries and US equities decreases, it is likely that large flows of risk capital will start moving to Emerging Markets again over the next six months. The main destinations will be India and China, but the countries of Southeast Asia are also set to benefit from these flows of global capital to the extent that they have an economic story to tell. The two top performers are going to be Indonesia and Vietnam. Indonesia, the new "i" in BRIIC, has a market-size, natural resources and liberalization story while Vietnam has a large and industrious labour force that is skilling upwards rapidly. The Philippines and Thailand, despite political worries, remain relevant for their large domestic markets while Singapore, as the financial hub of the region, benefits from any increase in regional economic activity. This year also sees the full implementation of AFTA and the signing of more regional FTA's. We can be cautiously optimistic about the basis for growth in trade and investment.
3. I mentioned the major ASEAN countries but not Malaysia in my list of investment destinations. That is because Malaysia has fallen off the map for much foreign investment. With neither the cost and scale advantages of Vietnam and Indonesia nor the advanced capabilities of Singapore, Malaysia is firmly caught in a middle-income trap and appears to have fallen off the radar screen of foreign investors. It might seem puzzling that this country, sitting at the heart of Southeast Asia, blessed with extraordinary natural, cultural and human capital, and once a beacon in the developing world, has become irrelevant.

4. I want to discuss how this happened, and reflect on what this story might teach about larger issues of common concern. Other members of ASEAN might be concerned that a country that was once at the forefront in spearheading regional initiatives is at a crossroads over its own future.
5. The General Elections of March 2008 were a watershed Malaysian politics. The ruling Barisan Nasional coalition lost its accustomed 2/3rds majority in the National Parliament, and lost five states to the Opposition, including the economic backbone states of Selangor, Perak and Penang. Compared to the ebb and flow of power in other parliamentary democracies, you might not find this a remarkable development. Against the backdrop of Malaysia's political history, however, the entire political landscape had changed overnight. Gone was the invincibility of Umno, the Malay-based party that has dominated Malaysian politics since Independence. The political credibility of Umno/BN had been more than just a set of racially-based political parties. Over its decades of ascendancy, history had been re-written, mythology created, and the party abolished and reinvented to reinforce the necessity and inevitability of a government led by Umno.
6. The formula of communal power-sharing that the Barisan Nasional and its predecessor was built on had started life as a political accommodation, a nation-building compromise, a way-station on the road to a fuller union of our citizens. Fifty years later it had ossified into the appearance of an eternal racial contract, a model replicated at every level of national life. The election results plunged this model, and the regime built upon it, into crisis.
7. The people are often ahead of their government. They are interested in more things than identity politics. Unable to respond to the reality that the BN formula is broken and the people want more than ethno-religious politics, the ruling party appears to be reacting by digging itself deeper into narrow racial causes with no future in them. This desperate response is self-defeating in a cumulative way. As Umno is rejected by the voters, party members pursue racial issues more stridently. They think this will shore up their "base". They are mistaken about the nature of that base. As they do so, they become more extreme and out of touch with ordinary voters of every

race and religion whose major concerns are not racial or religious identity but matters such as corruption, security, the economy and education.

8. Umno's position in the present controversy over the use of the term "Allah" by non-Muslims is an example. In a milestone moment, PAS, the Islamic party, is holding onto the more plural and moderate position while Umno is digging itself into an intolerant hard-line position that has no parallel that I know of in the Muslim world. Umno is fanning communal sentiment, and the government it leads is taking up policy lines based on "sensitivities" rather than principle. The issue appears to be more about racial sentiment than religious, let alone constitutional principles.
9. In a complex multiracial society a party and a government whose primary response to a public issue is sunk in the elastic goo of "sensitivities" rather than founded on principle, drawn from sentiment rather than from the Constitution, is already short of leadership and moral fibre. Public life is about behaving and choosing on principle rather than sentiment. Islam, in particular, demands that our actions be guided by an absolute commitment to justice for all rather than by looking inward at vague "sensitivities" of particular groups, however politically significant. It is about doing what is right rather than protecting arbitrary feelings. If feelings diverge from what is right and just, then it's time to show some leadership.
10. "Sensitivities" is the favoured resort of the gutter politician. With it he raises a mob, fans its resentment and helps it discover a growing list of other sensitivities. This is a road to ruin. A nation is made up of citizens bound by a shared conception of justice and not of mobs extracting satisfaction for politicized emotional states.
11. As a mark of our decline, at some point in our recent history the government itself began to speak the language of sensitivities. In the controversy over whether Christians are allowed to use the term "Allah" the government talks about managing sentiment when it should be talking about what is the right thing to do. This is what government sounds like when a political system and its leadership have come unstuck from the rule of law. It goes from issue to issue, hostage to the brinkmanship of sensitivities. Small matters threaten to erupt into racial conflict. The government of a multiracial society that cannot rise above sentiment is clearly

too weak or too self-interested to hold the country together. It has lost credibility and legitimacy. The regime is in crisis.

12. The deterioration of our political order did not happen overnight or in isolation. It is part of a more general pattern of the decline of democracy and the rule of law in many newer democracies. Many postcolonial societies that began with democratic institutions saw democracy collapse afterwards into dictatorship. I can think of Nigeria, Pakistan and Kenya, for example. What has not been said is that underneath the appearance of continuity, and over two decades, Malaysia has quietly undergone the same process. There has been, beneath the surface, a decisive rupture with the federal, constitutional and democratic system upon which we were founded, and which alone confers legitimacy. What replaced it was an authoritarianism based on personality. Policy was set according to personal whims of the leader, which is to say that in areas such as the economy and foreign affairs, the country was run according to the personal enthusiasms and pet peeves of individual leaders.
13. Power was consolidated and constitutional government turned back. The result was a recession to authoritarianism and the centralization of power, abetted by the corruption of the ruling party. The ideology of the ruling party, which had combined Malay nationalism with an overriding national concern, was vulgarized into an easily manipulated politics of group resentment.
14. Umno started in 1946 as a grassroots-based party that commanded the idealism of my generation . After 1987 it was transformed into a top-down patronage machine. Party membership became a ticket to personal gain. The party attracted opportunists and ne'er do wells while good people stayed away in droves. For any organization this is a death spiral.
15. The challenge of Umno and of Malaysia today is not simply reform but restoration, not simply democratization but re-democratization. This is because we are not building from scratch but trying to recover from the decline of once-excellent core institutions.

16. There are regional implications to Malaysia's crisis. The formation of the Federation of Malaysia in 1963 precipitated a regional conflict to which, in part, the formation of ASEAN in 1967 was meant to be a solution. Now in a clear sign of the erosion of the rule of law, agreements that structured state-federal relations over matters such as the distribution of the petroleum revenue are casually ignored. Malaysia is a Federation of sovereign entities, but one of the consequences of authoritarianism has been that it has come to be run habitually as a unitary state. We have to learn again how to be a Federation.

Let me try to draw some conclusions:

17. Shortcuts in governance may appear to work for awhile, but they wreak long term havoc on the institutional capability of a nation. Short term boosts to the economy are difficult to evaluate when 40% of the national budget come from a single source which does not report financial details either to the public or to Parliament.
18. What is clear is that there is no secure basis for long term growth without a return to strong institutions, transparency and good government. The challenges of economic development, nation-building and institutional integrity are linked, more so in a complex country like Malaysia.
19. The success of ASEAN collaborative measures depends on the core countries taking a lead, and it is in everyone's interest that these countries have strong democratic institutions and the rule of law. When countries lack good governance and transparency, domestic economies falter, domestic politics goes from crisis to crisis, and the country turns inwards and away from engaging constructively with the real world and with their neighbours.
20. The economic success of ASEAN economies up to the nineties was based in part on the superiority of their institutional frameworks to those of Eastern Europe and South America. In the early days, Malaysia and Singapore played leading roles in ASEAN. Of late, Malaysia's role has diminished, while that of Indonesia has grown. It is no accident that this is the result of successful reform and democratization in

Indonesia and the failure so far of any such process in Malaysia. Over the longer term, reform and democratization must go hand in hand for there to be sustained economic development.

21. The present Prime Minister has made some helpful gestures towards liberalizing the economy and pursuing more multiracial policies. These initiatives, however, must do more than skim the surface of what must be done. Malaysia is in need of fundamental reform. The reforms we need include, at minimum:
 - a. An overhaul of the party system which rules out racially exclusive parties from facing directly contesting elections. This will inaugurate a new era of post-racial politics.
 - b. The restoration of the independence of the judiciary and the freedom of the media.
 - c. An all out war on corruption, the root of all the evils in nation-building and economic development.
22. The greater economic collaboration we aspire to in ASEAN requires that we pay attention to the internal conditions in each country that make it possible. We need to place the promotion of governance and institutional reform on the ASEAN agenda. I hope this is a matter you see fit to take up.