

Bloomberg: World surge ahead and will not wait for Msia's NEP to dismantle

Malaysia keeps its tiger caged

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Those wondering where Malaysia is headed should keep an eye on Tony Fernandes. Perhaps no one personifies the promise of Asia's 10th-biggest economy better than the 43-year-old entrepreneur.

In 2001, he created a budget airline, beating the odds in a place dominated by government-linked companies that tend to abhor competition. AirAsia has been turning heads ever since.

It was another airline magnate, Aristotle Onassis, who said the key to succeeding in business is knowing something others don't.

Fernandes knew that not only were Asians ready for no-frills carriers, but so were investors.

Fernandes is often called Southeast Asia's answer to Richard Branson. It seems highly appropriate, then, that the two men teamed to launch AirAsia X, a long-haul budget carrier that this month made its maiden flight.

Branson's Virgin Group is among its key backers.

For all his success, Fernandes also is a microcosm of why Malaysia's economy isn't on the upward trajectory it could be. Politicians' efforts over the years to protect the turf of Malaysian Airline System backfired, leaving Kuala Lumpur

lagging behind in the race for Asia's travel hub. Malaysia has effectively tied one hand behind its back to help out national champions at the expense of the bigger picture.

"I'm asking this for national interest, not MAS's interest or anything else," says Fernandes of his battle to fly from Kuala Lumpur to Singapore. "The consumers have suffered enough."

Politicians continue to dither over another national champion: state-controlled carmaker Proton Holdings. While talks on an alliance with Volkswagen are progressing, the saga is a reminder that Malaysia's leaders are wasting time the nation doesn't have.

In Proton's case, the exercise is about finding a partner to help revive sales and return the 24-year-old company to profit. Yet this, like Fernandes's fight to expand his innovative airline, is emblematic of how politicians often don't grasp that Malaysia's place in Asia is rather tenuous.

The world has lots riding on multi-ethnic Malaysia. It's a place where micro-miniskirts comfortably exist next to women in headscarves. Yet the next 50 years will arguably be even harder than the last. It wasn't one of the original Asian tigers, yet Malaysia became one over the years. Now, amid Asia's boom, the economy has its fair share of blemishes with which to grapple.

"The world is moving ahead at a rapid pace, and it won't wait for Malaysia," says Razlan Mohamed, chief executive of Malaysian Rating Corp. The nation needs to work harder and faster, he added.

Chrisanne Chin, finance faculty head at MIMS Business School, Malaysian Institute of Management & INTI University College, puts it this way: "It's not so much what Malaysia is lacking, but that China, India, Vietnam and even Thailand

and Indonesia have improved so much that they are very capable of leapfrogging Malaysia in a short span of another five years because of specific comparative advantages, from low costs to human capital to technology."

Human capital is a particular concern. The government needs to do more to train the leaders of tomorrow and import the talent that firms require to thrive. It also has to win more of the foreign direct investment flowing elsewhere in Asia.

There's much backslapping about how the US\$147 billion (HK\$1.15 trillion) economy may expand 6 percent this year and 6.5 percent in 2008. The real picture can be found in the World Economic Forum's latest competitiveness survey, in which Malaysia slipped two spots to 21st.

A **huge obstacle** for Malaysia is something that can barely be discussed: **a 37-year-old affirmative-action program favoring the predominant Malay community**. It alienates non-Malays, limits foreign investment, stifles competition and keeps the economy from moving toward a meritocracy.

Yet it's a third-rail issue. Most Malaysians won't even discuss it without first looking around to see who is listening.

A sense of political drift doesn't help. Four years in office, Prime Minister Abdullah Ahmad Badawi has spent more time trying to solidify the influence of his party, the United Malays National Organization, than bringing the economy to the next level.

Investors and entrepreneurs complain that Abdullah, who, oddly, also serves as finance minister, hasn't attacked subsidies on products such as oil, or tackled corruption as promised.

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