

**LEVELS OF CORRUPTION IN MALAYSIA : A COMMENT  
ON THE CASE OF BUMIPUTRA MALAYSIA FINANCE**

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Prevailing stereotypes of Malaysia as the least corrupt country in non-Communist Southeast Asia, apart from Singapore,<sup>1</sup> suffered severe damage as the dimensions of the Bumiputra Malaysia Finance (BMF) scandal have been gradually, but perhaps not yet completely, revealed. BMF, a subsidiary of the prestigious Bank Bumiputra Malaysia, which operated in Hong Kong, suffered huge losses (approximately US\$1 billion) when the property market there collapsed in 1983, and it was disclosed that some of BMF's top officials had accepted corrupt payments. Not only did the bank, after having assumed some of BMF's losses, have to be bailed out with consequent damage to the Malaysian economy, there were also political repercussions because of speculation that top Malaysian politicians might be implicated, which even affected elections for the higher echelons of the dominant component, the United Malays National Organization (UMNO), of Malaysia's ruling party, the Barisan Nasional. Tantalizingly, the unfolding horror story of the losses and of the names of some of those responsible increased the negative impact, and gave rise to suspicions of a "cover-up." Above all, the scandal cast doubt on the ability of Malays (whose economic education and betterment was a major theme of the elaborate and far-reaching New Economic Policy<sup>2</sup> - NEP - dating from 1969) to manage financial enterprises with honesty, let alone with competence. It also raised the question if this was just the tip of the iceberg. Were other similar scandals about to emerge?

This is not a theoretical paper in the sense that it attempts to classify the BMF case in terms of one finely-differentiated definition of corruption rather than another: its emphasis is rather on relating the scandal to changes in the society, the economy and the polity. However, it should be remarked that the picture painted, before the scandal, of a Malaysia relatively free of corruption was hardly accurate. Corruption existed in most of the many-faceted forms found throughout the world.<sup>3</sup> Two broad classifications seem applicable. One is petty corruption, bribes to lower or medium-grade officials in order to acquire special favours or consideration. The other derives largely from Malaysia's abundant natural resources, mainly land and timber, combined with a federal system in which the states' main, and almost only, function is the administration and control of land.

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The most notorious examples of corruption concerning the improper allocation of timber land occurred in the Borneo states of Sarawak and Sabah just before and for some time after they became part of Malaysia (1963).<sup>4</sup> However, this type of corruption was also common in the mainland states, as was the improper allocation of land for housing. Quite often a principal beneficiary was the Mentri Besar (Chief Minister).<sup>5</sup> Even in the last dozen years or so, when the tendency has been for a more "technocratic" type of Mentri Besar to be appointed, those holding the job have been subjected to heavy pressures from political followers (and also from the states' rulers) for "help," even via corrupt actions, which are difficult to fend off.<sup>6</sup> Indeed, state policies on such allocations and federal development policies in the states both constitute a grey area, containing elements of corruption and of patronage, designed to strengthen the ruling party by dispensing rewards to its followers.<sup>7</sup>

In practice the government's anti-corruption measures have been directed almost exclusively to combating petty corruption. An Anti-Corruption Agency was founded in 1967, which changed its name to the "National Bureau of Investigation" in 1973, but reverted to its original name in the early 1980s. Whatever the name, it was generally believed that its operations did not touch the "big fish." A Cabinet Minister, Encik Rahman Talib, the loser in a libel case brought by an opposition politician who accused him of corruption, was allowed to resign rather than being dismissed.<sup>8</sup> It is significant that, by and large, the only "big fish" who came under serious pressure were those who had clashed with powerful political enemies who were still bigger fish, a prominent example being a Mentri Besar of Johor who had incurred the Sultan's wrath.<sup>9</sup> Another was the Mentri Besar of Selangor, Datuk Harun Idris (the chief figure in the Bank Rakyat affair discussed near the end of this paper), who incurred the enmity of the Prime Minister, Tun Razak, in the early 1970s.

Tun Razak's successor as Prime Minister, Tun Hussein Onn (1976-81), was an outspoken critic of corruption, as is Datuk Seri Dr. Mahathir bin Mohamad (Prime Minister since 1981), who, upon appointment, stressed the themes of discipline, trust-worthiness and clean government.<sup>10</sup> The Anti-Corruption Agency immediately became more active.<sup>11</sup> Nevertheless, its net did not catch any really "big fish," and ironically, in view of the Prime Minister's concern about corruption, it was not long before the BMF revelations started to disclose the story of what a newspaper called a "betrayal beyond belief," which originated before the start of his administration.

BMF's problems<sup>12</sup> (and the resultant problems of the Malaysian government and the Malaysian taxpayer) arose from its decisions to: invest heavily in the highly-speculative Hong Kong property market; concentrate investment on three firms only; invest mainly in one of the three, Carrian Holdings, managed by a person, George Tan, who had built up an

imposing financial empire which turned out to be only "a paper skyscraper." From 1979 onwards BMF played a major, even indispensable, role in promoting Carrian's growth, notably, in the early stages, by hatching a scheme to buy the Gammon House building in Hong Kong and resell it at a profit to the Malaysian government - a scheme which was not realised. Tan, an engineer by profession, had started to speculate in property in the mid-1970s, and later he and associates took over a company which they renamed Carrian Holdings. Quickly, Tan became a legend, and rumours circulated that he was backed by the Moscow Narodny Bank, by President Marcos, or by Malaysian Chinese millionaires. In fact, the operation was more of a one-man-band affair: by sheer personal appeal he convinced experienced evaluators, including the usually "hardnosed" British brokerage firm, Vickers da Costa, of the soundness and attractiveness of his operations. Some creditors were so confident of his probity and ability that they did not even insist on any security. One American banker applied a more searching test, and found Tan wanting. "The moment I walked into Tan's office - with marble statues, a fountain and Louis XIV furniture - it was too surreal to be believed. He just impressed me as a used-car salesman."<sup>13</sup> However, for a time the financial game, played frenziedly, somewhat like Monopoly, but with real money, ran in Carrian's favour. The Carrian group's net profits in 1981 were HK\$626 million (US\$110 million) on revenues of HK\$1.6 billion (US\$280 million). After this high point revenues declined somewhat in the first half of 1982, and fell sharply with the stock market plunge a few months later. By October 1982 the group admitted that it suffered from short-term liquidity problems, although there were attempts at "restructuring." But, even when banks discovered just how flimsy Carrian's financial basis really was, initially they shrank from pressing claims hard enough to push it into liquidation. However, the crisis deepened, and confidence was further shaken by the murder in Hong Kong of a visiting BMF official in 1983 under mysterious circumstances. In October 1983 Tan and a fellow-director of Carrian were arrested by the Hong Kong police for having made false and misleading statements about the firm, and later in the year a Hong Kong court ruled that the Carrian group should be wound up: upon liquidation its debts were over US\$1 billion.

Strangely, BMF's ill-fated operations in the "alien" arena of Hong Kong derived from a Malaysian policy for advancing the economic interests of the Malays and other indigenous peoples. Bank Bumiputra, as the name implies, was founded for this purpose by the government in the early 1970s under the chairmanship of the prestigious Tengku Razaleigh Hamzah, a major figure in the ruling political party. It rapidly became the biggest bank in Malaysia (and for a short time in Southeast Asia), although its profitability was low because of the social objectives it was intended to

fulfil, as a governmental institution, which limited its use of the commercial criteria applied by other banks. It established several overseas branches, including a Hong Kong subsidiary, which started to function in 1977.

There is no evidence that the Hong Kong subsidiary was intended to invest substantially in the property market, although that is what it did, and in fact it became Carrian's biggest source of loans. Along with other investors, it profited greatly from its property investments in the early 1980s, although it incurred losses in 1982 because of the drop in the market in the second half of that year. Undeterred by this, it actually *added* to its investments until well into 1983, although by then an increasing number of other investors were becoming cautious. For example, it advanced US\$7.5 million to George Tan in July 1983, which some commentators considered to be too close to the time of the murder of the BMF official visiting Hong Kong in order to investigate the soundness of criteria for loans, to be coincidental.<sup>14</sup>

When the Carrian empire crashed in late 1983 BMF had the unenviable distinction of being the group's biggest creditor, to the extent of HK\$4.6 billion (US\$600 million). Later estimates put the figure for BMF's total losses (including those attributable to its two other principal debtors) at more than US\$1 billion.<sup>15</sup>

The atmosphere of euphoria pervading the Hong Kong property market in the early 1980s could have partly accounted for the extent of BMF's losses. Some bankers believe that the Malaysians, like many others, were duped by Tan and saw him as a way of making big profits quickly. Initial deals may have gone well, they suggest, and BMF benefited accordingly. Subsequently, however, when things began to go sour, the Malaysians "got sucked in to supplying more and more funds in a desperate attempt to recover their investment."<sup>16</sup> However, the direction of investments, and therefore the extent of the losses, was also undoubtedly influenced by corrupt payments to BMF officials.

The "chain of responsibility" involved was so confused, and the various participants' perceptions of it so conflicting, that it is hard to say briefly "what went wrong." In Malaysia, as in many other countries, the public sector has become increasingly difficult to define or to chart. There are over a thousand quasi-governmental bodies in existence, most of which are engaged in economic activities. Many have subsidiaries, or even, occasionally, subsidiaries of subsidiaries of subsidiaries. In the BMF example, responsibility became hard to pin down, especially after the huge size of the losses became apparent and assumed the dimensions of a scandal. Understandably, none of the parties concerned was willing to shoulder more than minimal formal responsibility.

Apparently the chain of responsibility was from BMF to Bank Bumiputra and then to Bank Negara (the Central Bank) and eventually to the government. Yet government operations are so complex that when the

scandal broke the Prime Minister said that he had not known anything about it until he had seen it in the newspaper.<sup>17</sup> The closest link in the chain might have been expected to be that between Bank Bumiputra and BMF, its subsidiary. A main component in it should have consisted of Encik Lorrain Esme Osman (Bank Bumiputra director and BMF chairman) and Datuk Hashim Shamsuddin (executive director of Bank Bumiputra and BMF director). But these two were among the half-dozen persons named by a Commission of Inquiry as involved in corrupt practices, so the chain of responsibility had become flawed. Obviously, it was contrary to their interests to accept responsibility. Osman claimed, rather unconvincingly, that Bank Bumiputra ran BMF as one of its departments rather than as a semi-autonomous subsidiary, and that BMF sent regular reports to the Bank.<sup>18</sup> However, the chairman of Bank Bumiputra, Tan Sri Kamarul Ariffin, who resigned in March 1981, declared that he was unaware of what loans BMF was making in Hong Kong, and that the BMF directors on the Bank's board of directors had never raised the matter of these loans at board meetings.<sup>19</sup> Although these assertions strain credulity, some support for his remarks is provided by BMF's slack procedures and documentation and by a corresponding lack of dedication on the part of the Bank in auditing and inspecting BMF effectively. Also, even after Bank Bumiputra had taken steps to exercise some degree of control in November 1982 by setting up a committee to vet BMF loans, this mechanism was sometimes bypassed.<sup>20</sup> The BMF loans made at the time of the Hong Kong murder were insisted on by Osman, who pushed them through without submitting them to Bank Bumiputra.<sup>21</sup> The evidence so far points to Osman and Hashim as having had the major say on decisions concerning large loans.<sup>22</sup>

The role which Bank Negara played in BMF's operations is even harder to fathom than Bank Bumiputra's. According to some sources, Bank Negara turned down as poor risks some loan proposals from BMF, but the Bank's governor afterwards relented. On one estimate, about M\$150 million could have been saved if Bank Bumiputra had heeded Bank Negara warnings after an audit in late 1982.<sup>23</sup>

The government's investigation of BMF was restricted in scope, but was conscientiously carried out. A three-man Committee of Inquiry was appointed, consisting of the Auditor-General, Tan Sri Ahmed Noordin as chairman and two respected professional men. However, its function was limited to looking into BMF transactions, and it was barred from investigating Bank Bumiputra; indeed technically it was required to report to the latter organization. Yet, in view of the close relations between the two and the interlocking functions of some top officials who were actually found to be implicated in the scandal, Bank Bumiputra should obviously have been included in the enquiry. The Committee was appointed in January 1984, and produced four documents by the end of the year. Most

of the information was made public, although some data were presented in a consolidated form, and detailed annexes were withheld. The Committee made a further report in late 1985, but there was delay in releasing it to the public.<sup>24</sup>

When the chairman of the Committee of Inquiry, Tan Sri Ahmed Noordin, was asked why Bank Bumiputra and Bank Negara had not exercised more control, he remarked, "... here is a very difficult question .... For one thing we dare not pretend to know what they really knew of the situation."<sup>25</sup> The administrative aspects of the affair constitute a horror story in their own right. Unfortunately, for just that reason, the exact shape of the *financial* horror story is hard to penetrate.

The financial transactions unravelled by the Committee were complex, but it drew attention to two main types: unauthorized loans to Carrian and other firms; and payments of various kinds to BMF personnel and their relatives. Six persons were named as recipients of such payments: BMF chairman Lorrain Esme Osman; Datuk Hashim Ibrahim, executive director of Bank Bumiputra and a director of BMF; Dr. Rais Saniman, "alternate director" of BMF; Encik Ibrahim Jaafar, general manager of BMF; Henry Chan and Eric Chow, both BMF officers. The Committee chairman stated that the four documents revealed only the tip of the iceberg, implying that there was much more to come.

Some opposition politicians, as well as influential figures in UMNO, the dominant, Malay, component of the ruling party, and also Tan Sri Ahmed Noordin himself, were of the opinion that a more appropriate procedure would have been to appoint not a Committee but a Royal Commission. For not only was the field of enquiry of the Committee restricted, but also its methods and powers. It could not *compel* witnesses to answer questions. After questioning Encik Osman the Committee sent him a set of questions and asked for a reply preferably within two weeks. It sent four reminders, but, not unexpectedly, no reply was forthcoming.<sup>26</sup>

Ironically, the image of the Committee suffered because some members of the public thought that it was failing to exercise its full powers which in reality it did not possess. A further consequence was that, because of its restricted status, the Attorney-General declared that its reports did not constitute a sufficient basis for initiating prosecutions. Consequently, late in 1984 police investigations were begun which would inevitably again cover some of the ground already trodden by the Committee.

Should more action have been taken more quickly? The question needs to be asked about four different levels of authority: BMF; Bank Bumiputra; Bank Negara; and the government. Clearly, BMF was being run by persons so deeply implicated in the scandal that they had no incentive to police themselves. Bank Bumiputra, also, partly because of the interlocking of personnel, was too implicated to take action. Its report for 1982 gave no hint that BMF might be in trouble. By that time it was not in

a good position to do much, if only because of its *previous* failure to act. Two successive chairmen, Tan Sri Kamarul Ariffin and Encik Nawawi Mat Awin, either knew about BMF's Hong Kong operations and so were responsible for its policies, or they did not - in which case they were guilty of negligence. Nawawi was sufficiently unhappy about BMF loans during the second half of 1982 to set up a supervisory committee, but also sufficiently trusting to leave the BMF top management in place.<sup>27</sup> Bank Negara was much more concerned about what was occurring. Its governor was one of the first officials to express disquiet in admitting that the BMF's loans exceeded "the bounds of normal banking prudence." Two months previously he had asked BMF to verify reports that its general manager (Ibrahim Jaafar) had obtained a loan guaranteed by the Carrion group.<sup>28</sup> However, according to Bank Negara officials, the government, as "shareholders" of BMF, decided not to act until the Committee of Inquiry had reported on the matter.<sup>29</sup>

The government itself was slow to move. In October 1983 the Prime Minister denounced BMF officials who had in effect awarded themselves "consultancy fees," and the persons chiefly concerned resigned - Lorrain Esme Osman, Mohammed Shamsuddin and Rais Saniman (the main exception was the general manager, Encik Ibrahim Jaafar, who, somewhat ironically, was transferred to BMF's Hong Kong office). Tan Sri Kamarul Ariffin, also named, had resigned from the Bank Bumiputra chairmanship in March 1982. The first four of these names coincided with those mentioned by the Committee of Inquiry more than a year later as having received improper payments from Carrion. But on BMF operations in general the government took no public action before the Committee of Inquiry reported on the subject. The delay may have been attributable to a lack of appreciation of the dimensions that the affair was likely to assume. An important motive was the desire to preserve confidence: the government did not want Carrion to crash, because it had every reason to want to limit its losses. Nor did it wish to see Bank Bumiputra weakened because so many Malay interests and hopes depended on it. It also maintained that considerations of "confidence" ruled out a public enquiry involving the Bank. The point is conveyed in a government publication in late 1984 quoting Finance Minister, Daim Zainuddin: "The unpleasant episode of the Bumiputra Malaysia Finance scandal is now a thing of the past ..." The immediate task was to strengthen Bank Bumiputra and generate greater confidence among the public and overseas investors towards the bank.<sup>30</sup>

The government later took measures to ensure greater control over loans by placing a limit on the amount which could be lent to an individual or group, and making loans above a certain amount subject to approval by Bank Negara. It did not, however, adopt more far-reaching measures, such as requiring Bank Bumiputra or BMF accounts to be scrutinized by the Auditor-General (which would have necessitated a greatly expanded

staff) or opening up these bodies' activities to the jurisdiction of an Ombudsman.

It is impossible to say what corrupt payments each of the six persons cited in the Committee of Inquiry reports actually received. Osman, appropriately for one referred to by his initials as "LEO" in the Committee reports, obtained the lion's share, at least M\$2.5 million in 1981 and 1982 (about US\$12 million). The other five apparently received lesser amounts, hard to calculate because they were partly in the form of loans, payments to relatives, air tickets and so on.<sup>31</sup> Some payments are unlikely ever to be traced, so the corrupt benefits were probably larger.<sup>32</sup>

Subsequent events can be summarized quite shortly. Encik Nawawi Mat Awin, successor to Tan Sri Kamarul Ariffin as chairman of Bank Bumiputra, was replaced in December 1984, along with the entire board of directors, as part of an extensive reorganization of the bank. Civil actions were brought against some of the six persons named by the Committee of Inquiry, and their assets frozen by court order. Later, Bank Bumiputra filed writs against the former chairman and directors of BMF for the recovery of sums they had wrongfully taken. However, no criminal charges were laid by Malaysia, and the Attorney-General took the view (disputed by others) that the Committee's reports cannot form the basis of criminal charges inside Malaysia.<sup>33</sup>

There have been three main developments since then. The Committee of Inquiry's massive final report was published.<sup>34</sup> George Tan and some of his associates were arrested in Hong Kong in October 1983 and later put on trial on various charges of fraud and bribery. Osman and Hashim were the object of extradition proceedings in Britain, started in 1985.

The committee's report was delivered to members of Parliament only a few days before it was debated. The leader of the Democratic Action Party, a principal opposition party, confessed that: "My eyes are glazed, my head swimming just from browsing through the 6,000 pages of report and appendices."<sup>35</sup> The report did produce additional evidence of the close relations between the BMF and Carrian, of how particular executives benefited from loans, sometimes advanced without collateral, sometimes subjected to "window-dressing" to conceal their true purpose, of the unhappiness of Bank Negara, of the way in which early disquieting symptoms were ignored, and of the prevalent confusion overall. Yet even with more leisure to look at the report, the confusion is not dispelled. It is not clear what the upshot is, although the task of reading it is sometimes lightened by unconscious humour - as when Kamil Ariffin, chairman of Bank Bumiputra, said that the object of BMF's establishing overseas organizations was to "make money," and also to move into sophisticated banking "because there was money to be made in the area of foreign exchange and in money market transactions."



However, beyond providing additional evidence of the corruption of some officials and of ineffective control (sometimes probably accompanied by corruption) by others, the report did not go much farther. In spite of its length, it still left some questions unanswered, and its chairman believed that additional investigations should be carried out.<sup>36</sup> It did not conclusively demonstrate wrong-doing on the part of politicians. Instances of criminal offences with supporting evidence were sent to Bank Bumiputra, with recommendations that they should be forwarded to Hong Kong and Kuala Lumpur, to facilitate decision-making about whether or not prosecution would be justified. Specifically, the former were asked to reopen their enquiry into the murder of the BMF official on his visit to Hong Kong. For the reason stated earlier, it was unlikely that the Kuala Lumpur officials would take action.

In Hong Kong, Tan and other Carrion officials were charged on a number of counts, some concerning mainly Carrion itself and others connected with the BMF scandal. Tan and others were tried on the latter type of charge on December 7, 1985. The current trial was interrupted by a three-week break in early August 1986 after 103 days of hearings.<sup>37</sup> When the trial resumes, a senior Bank Bumiputra executive is expected to take the stand.<sup>38</sup>

In late May 1986 extradition proceedings - to face criminal charges - were begun in London by the Hong Kong government against Osman and Hashim Shamsuddin. A number of co-conspirators were named, including Rais Saniman, who at that time was in Paris. Ibrahim Jaafar, having turned crown witness, testified for the prosecution.<sup>39</sup> On January 14, 1987 Hashim Ibrahim was sentenced to four and a half years in prison for offences committed in connection with BMF loans. A "statement of facts," agreed to by the prosecutor and himself, confirmed the key role of Osman in the affair. It also made more explicit some of Osman's political links, and made mention of political pressures for donations and for supporting the price of tin.

Given the Malaysian government's feeling that enough has been said about the BMF case, any new information which emerges is most likely to come from the proceedings in Hong Kong or London rather than from Malaysia itself. "What Malaysians find unacceptable is that, although Dr. Mahathir described the BMF loans scandal as a 'heinous crime,' there appear to be no criminals."<sup>40</sup>

Delays in dealing with the affair<sup>41</sup> gave rise to the idea of a "cover-up." As with Watergate, would successive layers be peeled off to uncover yet more scandalous revelations? On the whole, Malay reactions were defensive, out of a sense of shame. Bank Bumiputra was not just any bank, it was government-owned, the largest in the country, one of the largest in Southeast Asia, and, under the New Economic Policy, a spearhead for the economic advancement of the Malays, invested with

immense symbolic value. Consequently, Malays saw domestic and foreign attacks on the BMF and Bank Bumiputra as onslaughts on Malays and their economic capabilities.<sup>42</sup> More specifically, what was at stake for many Malays were not profits or losses incurred in foreign operations but the viability of Bank Bumiputra as a prime source of help to Malays through its provision of credit for *domestic* business. The Hong Kong reports threw doubt on its ability to continue to provide such help on the same scale. Additionally, the largest shareholder in the bank is Permodalan Nasional Berhad (the National Equity Corporation), a huge conglomerate, which is the main method for channelling Malay savings so as to promote Malay ownership of assets. One Malay civil servant's reaction was to maintain that Osman was not really a Malay because he had been educated abroad and had no feeling of national (Malay) loyalty. "He is a traitor and should be sent before a firing squad without further investigation." However, a more common reaction, born of a feeling of shame, was to play down the whole issue, and discourage further investigation.<sup>43</sup> A few prominent Malays, including Tun Hussein Onn, a former Prime Minister, and Encik Anwar Ibrahim, Minister of Agriculture and head of UMNO Youth, dissented and vigorously called for further enquiry.

The most obvious suspicions of a cover-up took the form that some high-level politicians were implicated, and that this would be revealed if there were too close an investigation of Bank Bumiputra.<sup>44</sup> The name mentioned most frequently was that of Tengku Razaleigh who had become chairman of Bank Bumiputra in 1971 (and who concurrently held other important financial posts), before becoming Minister of Finance in 1976.<sup>45</sup>

Osman was known to have been close to him and to have had influence on him. Hashim had been a fellow-student of his at Belfast University and joined the Bank Bumiputra staff while he was chairman. It was also rumoured that the Bank Negara governor's desire to act more quickly on the BMF happenings had not been supported by Tengku Razaleigh, which led to conflicting claims about the degree of supervision which the Finance Minister had actually exercised over the bank. For a short time it seemed that these rumours had been greatly reinforced when Mak Foon Than, upon being arrested in Hong Kong for the murder of the Bank Bumiputra official, Jalil Ibrahim, stated that he had worked for Razaleigh for years by collecting money from businessmen on his behalf. This was only three weeks before the UMNO elections for deputy leader of the party, in which Razaleigh was challenging the incumbent Datuk Musa Hitam. A few days later, Mak withdrew the allegation.<sup>46</sup> Razaleigh lost the election, possibly having suffered damage despite the retraction. The circumstantial evidence about Razaleigh's implication is less impressive than might be thought. Until a year or two ago the number of Malays active in financial affairs at a high level was small. Tengku Razaleigh had played such an outstanding role in government financial operations that he was bound to be close to a

very high proportion of Malays in the country's top financial circles.

Government leaders, especially Dr. Mahathir, Datuk Musa and Tengku Razaleigh, were quick to deny complicity. Among other things, several maintained that there had never been any serious intention that the government would purchase Gammon House.<sup>47</sup>

Rumours have also circulated about possible UMNO links with the scandal, which suggest possible parallels with the Bank Rakyat case a decade earlier, discussed later in this paper. "Another theory is that the ruling United Malay National Organization Party, perhaps unwittingly, has become ensnared in the scandal."<sup>48</sup> Certainly Tengku Razaleigh, Kamarul and Nawawi were active in UMNO, and Lorrain was close to several top party leaders. But, here again, an increasingly large number of Malays operate in the realms of both politics and finance, so this does not constitute strong evidence. There have also been allegations that politicians and others may have benefited from Bank Bumiputra's *domestic* loans, given without adequate security up to a value of as much as M\$1 billion.<sup>49</sup>

What are the probable economic and political effects of the scandal? In material terms they are substantial; the losses of approximately M\$2.5 billion are equivalent to about 3 per cent of the country's national income. The mechanics of "absorbing" the losses, substantially through having Bank Bumiputra taken over by PETRONAS, the state oil company, are of interest in themselves.<sup>50</sup> But the details do not obscure the fact that the losses entailed the diversion of funds from objectives which, in the judgment of the Malaysian government, had higher priority than payments to Carrian, other Hong Kong property firms, speculators, and the recipients of corrupt benefits. The losses could ill be afforded by the Malaysian economy, still suffering from the recession and suffering from under-achieved investment targets, a large budget deficit, and, since 1979, several balance of payments deficits.

Less tangible, but in the long run more important, was the effect on confidence in the country's general financial soundness, and, more particularly in the banking and business capacity of Malays, which after more than a decade of the New Economic Policy was increasingly commanding respect. The Hong Kong debacle, combined with Bank Bumiputra's growing reputation for making some domestic loans without adequate security, spread alarm among Malay businessmen who feared that action by the bank to recover its loans, or to tighten its policy on granting new loans, would choke off assistance to deserving Malay entrepreneurs.<sup>51</sup>

Politically, a major threat to UMNO was that its main rival Malay party, PAS, might take up the issue, linking the BMF affair with corruption in general and the dangers of having neglected Islamic values. This fear, and the possibility of yet more unsavoury revelations to come, led to the belief that the government might call an early election, maybe towards the end of 1985. However, in a by-election at Padang Terap (Kedah) in

January 1985 the government majority over PAS was reduced only very slightly as compared with its 1982 general election margin, and there was little indication that PAS was as yet concentrating on the issue. UMNO may have been helped by the strong denunciations of the scandal and demands for further enquiry which emanated from some its own leaders, notably Tun Hussein Onn and Anwar Ibrahim, and possibly served to deflect some of the heat of opposition attacks. The BMF issue was raised during the general election of August 1986, but it seemed to have little effect on Malay electors, and there were other reasons for the appreciable drop in the government's non-Malay vote.<sup>52</sup>

Can useful comparisons be made with other similar financial scandals? A possible example might be the Indonesian state oil company, Pertamina, a vast empire with fifty thousand employees, which crashed in 1975, the "greatest peacetime loss than any country has ever incurred."<sup>53</sup> Unlike BMF which had concentrated its investments too narrowly, Pertamina had branched out from oil, not just into related activities which could be integrated with its main function such as hydrocarbon development and petro-chemical production, but in less plausible directions, including hotels, insurance, experimental farming and building mosques. The size of its operations was matched by the size of the crash. Its debts totalled over US\$10.5 billion, equivalent to 40 per cent of Indonesia's national income (a higher proportion than the BMF losses), and, to prevent total economic disaster, the debts had to be rescheduled with the help of an international consortium.

Apart from the difference in scale, there were other contrasts with the BMF case. Pertamina was run largely by the military, headed by the colourful General Ibnu Sutowo, who did not primarily seek to operate commercially, but rather to run a "corporation which responded to the needs (political and economic) of sections of the elite."<sup>54</sup> Exempt from ordinary financial controls because of the funds and patronage it provided for General Suharto and other top leaders, the Pertamina system was not indefinitely viable economically, and was damaged specifically by unsuccessful speculation in oil tankers. Nevertheless, a (somewhat crazy) kind of entrepreneurship was detectable, in which tangible goods were actually acquired, and an image was conveyed of Indonesians as successful builders and creators, elements quite absent from the BMF's operations. Finally, imperfectly-controlled economic activities carried on by the military at regional level had been quite usual and familiar in Indonesia during the confused period after independence, and corruption had never been successfully brought under control. But in Malaysia the BMF affair was only one of a very few publicized examples of large-scale corruption, and was therefore sufficiently conspicuous to invite comment and condemnation.

Another possible comparison, mentioned at the time of the BMF

disclosures, concerned the conviction of Dato Harun bin Idris, chairman of Bank Rakyat (and two other bank officials) on charges including forgery and criminal breach of trust, in 1976 and 1977. Dato Harun, a prominent UMNO leader and Menteri Besar of Selangor, ran into financial difficulties in promoting a Muhammad Ali-Joe Bugner fight in Kuala Lumpur (1975).<sup>55</sup> Optimistically, the proceeds would have provided a profit for the bank and paid for an UMNO Youth sports complex, but actually the fight made a loss, which led Harun to make use of bank funds. The prosecution acknowledged that Harun did not benefit financially from his actions, although the staging of the fight in Kuala Lumpur undoubtedly enhanced his prestige politically at a time when he was seeking higher office in the party.<sup>56</sup>

However, the comparison is not really close. The losses entailed were pitifully small by "BMF standards," about M\$7.5 million or US\$3 million (nevertheless, in contrast to the BMF case, in which no Malaysian has yet been convicted or imprisoned, Harun was jailed for three years). Also, the financial mechanisms employed were, by comparison, elementary. The Bank Rakyat sum is even more unimpressive if it is seen in the context of the endemic inefficiency and corruption with which the bank's operations were conducted.<sup>57</sup> There were more specific allegations about political links in the Bank Rakyat case. Harun claimed that his operations had been sanctioned by the late Prime Minister, Tun Razak, but was unable to prove this.<sup>58</sup> It was also said that Razak had offered Harun a United Nations appointment in order to remove him from the contests for top UMNO leadership posts, the implication being that corruption charges might then have been avoided. The political stakes were therefore high, but the Bank Rakyat affair merits no comparison with the BMF events as regards the effects on the economy or on the vital issue of providing evidence about the Malays' capacity as businessmen.

Perhaps what seemed most outrageous to critics, such as Tun Hussein Onn and Encik Anwar Ibrahim, was that although most Malays felt shame when the scandal broke, the Malays actually concerned in the scandal had not been deterred from corruption by a sense of shame or even by professional pride. Part of the explanation surely lies in the association between materialism and corruption.<sup>59</sup> The New Economic Policy goal of creating Malay businessmen had been encouraged, not just by setting targets in plans but also by attempts to change attitudes. In the early 1970s under Tun Razak there had been a call for a "mental revolution,"<sup>60</sup> and under Dr. Mahathir the slogan "look East" was meant to encourage the inculcation of attitudes believed to be responsible for the success in business of the Japanese and the South Koreans.<sup>61</sup> The Mahathir government was willing to accept a substantial degree of economic inequality if this indicated that the New Economic Policy was working and that some Malays were really making good in business.<sup>62</sup> However, apart

from inequality, there were some unanticipated consequences. There was "a growing relationship between politics and business,"<sup>63</sup> which supplied the necessary, although not sufficient, conditions for corruption. The increasingly close connection was shown in 1984, when for the first time a Malay who had already made a spectacular success in business, Encik Daim Zainuddin, was named to the Cabinet as Finance Minister (previously, for others, the sequence had been the other way round). Reportedly, also, at the UMNO elections of 1984, for the first time the amount of money spent (the highest ever) came more from Malay than from Chinese sources.

In the context of this paper perhaps the main consequence was that Malays had learned the lesson that it was a good thing to "get into business," but had not absorbed some of the ethical implications. The point can be illustrated by referring to the various rewards enjoyed by top BMF officials. In addition to generous salaries and perquisites, they had already crossed an ethical line when they awarded themselves "consultancy fees." To accept corrupt payments constituted only one further step.

Ethics aside, the BMF management, and the Bank Bumiputra management supposed to be in control of it, were economically inept. To achieve Bank Bumiputra's objective of obtaining more capital for bumiputra by means of speculation on the Hong Kong property market could be justified only by success. But in their "aggressive quest for growth and profits,"<sup>64</sup> those concerned neglected financial prudence as well as moral constraints. In commenting on banking in East Asia and other places, an observer perceived a link between over-zealous financial liberalization (including the removal of government regulations) and irresponsible financing.<sup>65</sup> This diagnosis seemed to fit Osman's style; it was said that his previous success in business depended not only on his ties to political leaders, but "also to his liberalism in business. He is said to be a strong advocate of the principle of free trade in whatever circumstances."<sup>66</sup>

The foolhardiness of the BMF (and Bank Bumiputra) management was also apparent in the venue they chose for making "easy" money. The whole idea of the New Economic Policy had been to provide ground rules to help the less economically-advanced Malays to compete successfully in business with the Chinese. But in Hong Kong BMF did not enjoy that kind of protection; they were playing "away," so to speak, subject to rules not especially designed for them. Jokingly, it has been said that the BMF scandal showed that perhaps a measure of the success of the New Economic Policy was that some bumiputra had become adept financial crooks.<sup>67</sup> But it could be argued that, if they had been *really* adept, they could have managed things so that they were bribed by firms that did not go bankrupt. It is entirely possible that, if BMF had not crashed, their corruption would have gone undetected, and that they could have had their cake and also eaten it undisturbed. As it was, they were neither honest nor adept.

As a conclusion, without attempting rigorous definitions or classification, some of the relations between the BMF case and the literature on corruption may be indicated: the disastrous results place the BMF case clearly in Scott's category of "disruptive" corruption; the government's policy - to make money rather than lose it - was indeed distorted.<sup>68</sup> In terms of the main benefits and costs, exhaustively listed by Nye,<sup>69</sup> BMF's activities resulted almost exclusively in the latter. They diminished, rather than promoted, capital formation, did not contribute to a reduction of "red tape," and, instead of encouraging Malay entrepreneurship, tended to bring it into disrepute. They did nothing to help national integration as the other parties concerned in BMF Hong Kong business were not Malaysian. Nor did they facilitate the "access" of non-elites or the under-privileged<sup>70</sup> (indeed, its privileged group of top managers had *too much* uncontrolled "access"). Instead of increasing the government's capacity, BMF's actions demonstrated its inability to manage and monitor the performance of its own organizations. On the costs side, the results were negative: corruption penalized the taxpayers, promoted capital outflow, severely distorted investment and wasted skills. To be sure, it did not result in either of Nye's two "extreme" scenarios, social revolution or a military take-over, but it did damage stability and eroded the government's legitimacy.

An obvious concept to apply is Weber's notion of patrimonialism,<sup>71</sup> which Goldstone used to explain Pertamina's operations.<sup>72</sup> Governmental authority and the corresponding economic rights were appropriated to serve the personal aims of individual officials, who made no distinction between their own interests and those of the official position they occupied. Comments on the BMF case used similar descriptions, such as "private fiefdom," "throw-back to the feudal past" and "equating public position with private possession."<sup>73</sup>

The top BMF officials seemed to be the very embodiment of modernity in their trappings and transactions, but they were devoid of the sense of obligation and responsibility implicit in that concept. They "accepted" the idea of a mental revolution and of modernity, but interpreted it selectively so as not to impede the pursuit of their own self-interest.

NOTES

1. Y. Mansoor Marican, "Combating Corruption: The Malaysian Experience," *Asian Survey* XIX (June 1979): 597-610.
2. Milne and Diane K. Mauzy, *Politics and Government in Malaysia*, 2nd edition, rev. (Singapore: Times Books International/Vancouver: University of British Columbia Press, 1980), ch.10.
3. *Aliran Speaks* (Penang: Aliran, 1981), p.87.
4. Milne and K.J. Ratnam, *Malaysia: New States in a New Nation - Political Development of Sarawak and Sabah in Malaysia* (London: Cass, 1974), pp.316-24.
5. Dorothy Guyot, "The Politics of Land: Comparative Development in Two States of Malaysia," *Pacific Affairs* 47 (Fall 1971): 368-89.
6. Mauzy and Milne, "The Mahathir Administration in Malaysia: Discipline Through Islam," *Pacific Affairs* 56 (Winter 1983-84): 621.
7. Sri Tharan, "Systems Corruption and the New Economic Policy," *Philippine Journal of Public Administration* XXIII (January 1979): 39-60; A.B. Shamsul, "The Politics of Poverty Eradication: The Implementation of Development Projects in a Malaysian District," *Pacific Affairs* 56 (Fall 1983): 455-76.
8. Karl von Vorys, *Democracy Without Consensus: Communalism and Political Stability in Malaysia* (Princeton: Princeton University Press, 1974), p.183. The minister's legal costs were reimbursed by the government.
9. *Asiaweek*, October 23, 1981.
10. Mauzy and Milne, "The Mahathir Administration," p.623.
11. *New Straits Times*, October 13, 1982.
12. The chronology is taken mainly from Philip Bowring and Robert Cottrell, *The Carrian File* (Hong Kong: Far Eastern Economic Review, Ltd., 1984).
13. Louis Kraar, "How George Tan Duped His Bankers," *Fortune*, November 14, 1983.
14. *The Carrian File*, pp. 138-40.
15. *Ibid*, p.144.
16. Kevin Rafferty, "The Incredible Carrian Mystery," *Institutional Investor*, February 1984.
17. *Ibid*.
18. *The Star*, January 4, 1985.
19. *New Straits Times*, January 15, 1984.
20. Such attempts at control were described by Tan Sri Ahmed Noordin as "a farce - an attempt to plaster over the wound and chase away the flies" (*South*, May 1986, p.26).
21. *Far Eastern Economic Review*, January 17, 1985. The Bank Bumiputra chairman at the time, Nawawi Mat Awini, stated that BMF directors were making loans without his knowledge and authority. See *Asiaweek*, January 18, 1985.
22. *Far Eastern Economic Review*, February 24, 1983. The link between BMF loans and monetary rewards to BMF officials who had the power to make these loans was clearest in this case. See *Asian Wall Street Journal*, January 9, 1985.
23. *Far Eastern Economic Review*, August 4, 1983 and December 19, 1985.



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24. *The Star*, January 18, 1985 (in an interview with Tan Sri Tan Chee Khoon).
25. For key findings see *Asiaweek*, January 18 and 25, 1985; *Far Eastern Economic Review*, December 19, 1985.
26. *Business Times*, January 4, 1985.
27. *Aliran Monthly*, October 1984, p.20. It commented that Lim Kit Siang, leader of the opposition Democratic Action Party, interpreted the Committee of Inquiry findings as putting the blame largely on Nawawi.
28. *The Carrion File*, p.116; *The Star*, January 4, 1985.
29. *The Star*, January 5, 1985.
30. *Berita Malaysia*, November 1984.
31. *New Straits Times*, January 3, 1985. The "consultancy fees" which the top personnel awarded themselves came to about M\$1 million.
32. *Far Eastern Economic Review*, January 17, 1985. For some later, higher, estimates for Osman, see *Far Eastern Economic Review*, December 19, 1985.
33. *Ibid*, January 31, 1985 and December 19, 1985.
34. Bumiputra Malaysia Finance Limited, *Final Report* (Malaysia: Bank Bumiputra Malaysia Berhad, 1986), vols. 1-13.
35. *New Straits Times*, March 9, 1986.
36. *New Straits Times*, March 21, 1986.
37. *South China Morning Post*, December 8, 1985.
38. *Straits Times*, August 8, 1986.
39. *New Straits Times*, June 5, 1986.
40. Lim Kit Siang, *Malaysia: Crisis of Identity* (Petaling Jaya: Democratic Action Party, 1986), p.270.
41. *Far Eastern Economic Review*, January 30, 1986.
42. *South China Morning Post*, January 13, 1985.
43. Which could lead to the situation hypothesized by Tan Sri Ahmed Noordin: "If a government servant in the course of his duties finds that an enterprise owned by the government has gone against the law, he may asked to preserve that institution in the interests of the country or even in the interests of the minister concerned." See *South*, May 1986, p.27.
44. *Asian Wall Street Journal*, December 14, 15 and 19, 1984; *Asiaweek*, January 11, 1985.
45. *Asian Banking*, February 1984. There was also mention of Datuk Lee San Choon, who had resigned as head of the Malaysian Chinese Association (a government party) in April 1983.
46. *The Carrion File*, p.139.
47. *Far Eastern Economic Review*, March 20, 1986. See also Lim, *Malaysia*, p.311.
48. Rafferty, "The Incredible Carrion Mystery." One allegation was that some of the money might have been used to help to pay for UMNO's expensive new building. See Lim, *Malaysia*, pp.59 and 289.
49. *South China Morning Post*, January 29, 1985; *The Star*, January 13, 1985 (Tun Hussein Onn).
50. *Far Eastern Economic Review*, September 27, 1984 and October 2, 1984; *Asiaweek*, September 28, 1984.

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51. *New Straits Times*, December 14, 1984; *The Star*, January 5, 1985; *Business Times*, January 10, 1985.
52. *New Straits Times*, August 4, 1986.
53. Seth Lipsky, "The Billion Dollar Bubble" in Lipsky, ed., *The Billion Dollar Bubble* (Hong Kong: Dow Jones, 1978), p.41.
54. Anthony Goldstone, "What Was the Pertamina Crisis?" *Southeast Asian Affairs* (Singapore: ISEAS, 1977), p.128.
55. Milne and Mauzy, *Politics and Government*, pp.205-07, 360.
56. *New Straits Times*, September 16 and October 5, 1976.
57. Bruce Gale, *Politics and Public Enterprise in Malaysia* (Singapore: Eastern Universities Press, 1981), pp.177-78.
58. *New Straits Times*, September 8 and November 10, 1976; January 25, 1977.
59. *Aliran Speaks*, p.86.
60. Milne and Mauzy, *Politics and Government*, pp.332-33.
61. Mauzy and Milne, "The Mahathir Administration," pp.627-30.
62. *Asiaweek*, March 27, 1981.
63. *Aliran Monthly*, October 1984, p.7.
64. *Far Eastern Economic Review*, October 4, 1984 (Encik Daim Zainuddin).
65. *Ibid*, March 28, 1985.
66. *New Sunday Times*, January 15, 1984.
67. *New Straits Times*, November 3, 1983.
68. James C. Scott, "An Essay on the Political Functions of Corruption," *Asian Studies* 3 (December 1967): 517.
69. J.S. Nye, "Corruption and Political Development: A Cost-Benefit Analysis," *American Political Science Review* LXI (June 1967): 419-23.
70. Scott, "An Essay on the Political Functions of Corruption," p.508.
71. H.H. Gerth and C. Wright Mills, eds., *From Max Weber: Essays in Sociology* (London: Routledge and Kegan Paul, 1948), pp.294-99.
72. Goldstone, "What Was the Pertamina Crisis," p.130.
73. *New Straits Times*, November 3, 1983; *South China Morning Post*, January 13, 1985. For an interpretation of "feudalism" in present-day Malaysian terms, see Chandra Muzaffar, *Protector ?* (Penang: Aliran, 1979). On two series of transactions which have not yet been completely satisfactorily explained, see: *Asian Wall Street Journal*, April 30, 1986 and May 15, 1986, *New Straits Times*, May 21, 1986 and June 4, 1986; *New Straits Times*, July 2, 1986; *Asian Wall Street Journal*, July 10, 1986.