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HEADLINE: Malaysia's race divide threatens economy, society - Transparency International

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KUALA LUMPUR (XFN-ASIA) - Growing racial divides are undermining Malaysia and the government must act or face severe social and financial consequences, Transparency International Malaysia said.

Its president Ramon Navaratnam said racial polarisation, coupled with weak institutions, rising **corruption** and poor governance were deterring investors and weakening competitiveness.

'We are beginning to see more and more signs of what could be indications of a failing state,' he said at a conference on the 2007 outlook for Malaysia.

'If we don't address these issues now, it's like gangrene. It gathers in strength and intensity and causes major problems.'

Navaratnam said the country is going through a 'bad patch', with deteriorating race relations between its majority ethnic Malays and minority Chinese and Indians.

'This will affect confidence, this will affect investment and affect growth and then, worse still, affect our ability to distribute (wealth),' he told reporters later.

'Migration is rising, people are leaving. I understand the young people ... are reluctant to come back.'

Navaratnam said it is critical for the government to review its economic policies, especially those which favour the Muslim Malays, who lag economically behind the Chinese.

'Private investment has been declining. If we don't recognise these issues and do something about it, we'll be like ostriches putting our head in the sand.'

While the policies are aimed at boosting the wealth of Malays, **corruption** and poor implementation have resulted in an elite getting wealthy, while marginalising poorer Malaysians, he said.

Meanwhile, poverty is on the rise, he added, warning it could contribute to economic instability.

'The income equity gap has widened in the last five years ... if the income disparity widens it can still cause a lot of dissatisfaction,' he said in his opening address to the conference.

He also criticised denials from officials and commentators of racial divides, warning that 'we might believe our own propaganda' and fail to make changes.

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AFP For more information and to contact AFX:

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