12th Malaysia Plan: 3 steps backward

THE 12th Malaysia Five Year Plan tabled in the Dewan Rakyat by the prime minister is replete with claims of its policies and programmes being “game changers”, “catalysts” and “enablers”. However, scrutiny of the document leaves us deeply disappointed as we fail to discern specific policies that qualify that description.

We call the attention of the government to three key longstanding issues that necessitate consideration and an entirely different set of policy initiatives if the plan is to meet its goals of a high-income country with inclusive and sustainable growth.

An important prelude to our analysis has been the disclosure by the Federation of Freight Forwarders of the government’s attempt to enforce a drastic restructuring of the freight forwarding industry. The proposal has been described as tantamount to a robbery and classic “Umno-ism”. Industry observers have also pointed out the negative repercussions this announcement sends to other sectors. If implemented, this will be a factor to further damage the investment climate as well as disrupt the supply chain’s efficiency and productivity.

In our judgment, the government proposal overturns the solemn undertaking given by Abdul Razak Hussein that the 30% target would not entail takeover of existing assets but would be achieved via growth when he presented the New Economy Policy (NEP) in Parliament. It must be recalled that the BN cabinet rejected the initial version of the Industrial Coordination Act which attempted to put in place a regime in which 30% of equity in each limited company was to be made available to Bumiputera investors.

We believe the MOF proposal is not only a regressive policy change. It is contrary to article 153 of the Federal Constitution and likely to be litigated.

We next take up the contentious issue of how the 30% equity ownership target is measured. We do so to highlight how deeply flawed numbers have come to determine policies. The resulting policy distortions have created negative outcomes that include rent seeking, crony capitalism, widening income disparities including in the Bumiputera community and ethnic tensions.

Corporate equity

The 12MP errs by suggesting that the 30% target has yet to be attained. No reference has been made to studies that report findings that contradict the official estimates; no credible statistics have been provided to support it.

To set the record straight and once and for all, it is important to examine the origins of this target and the manner in which the baseline estimates were calculated.

The baseline numbers of corporate equity used in the formulation of the NEP were calculated by classifying share ownership in both publicly listed and privately owned limited companies. Ethnicity was used as a determining factor; no entities were excluded.

The use of the totality of corporations was in line with the recommended approach advocated in the United Nations' System of National Accounts. The ownership structure of each corporate entity was compiled by taking into account the ethnicity of shareholders. In brief, the resulting count was that of the number of shares as no ringgit share values were determined.

One reason for this was the non-standard nature of the accounting returns filed by corporations then. This was the best that could be done given the available data and the time constraints under which the Department of Statistics was then operating.

It was further understood that the baseline numbers would be refined at a later date. Indeed, the Department of Statistics did launch the Ownership Survey of Companies with that objective in mind; the survey incorporated a section containing a standardised balance sheet.

The comprehensive data collected provided a basis for using balance sheet values to determine equity which could be subdivided by ethnicity. The tragedy was that the Economic Planning Unit stuck to the older base numbers. The data from the Ownership Survey of Companies was classified as "sensitive" and not released.

The current government methodology based on par value produces a result indicating a shortfall in what has been achieved. The absence of actions to correct the outmoded basis for calculating the value of equity holdings has undermined the credibility of the statistics released. These deeply flawed numbers should not under any circumstances underpin policy making.

A re-evaluation can be easily accomplished from the files of the Companies Commission of Malaysia. A transparent and timely availability of ownership data would remove a key contributor to policy manipulation.

Credible and verifiable data is a fundamental requirement to support evidence-based policies. Greater transparency in all statistics and indicators that provide Bumiputra and non-Bumiputra breakdowns – not just on equity – in the name of "affirmative action" is vital. It will contribute to fair, trustworthy and defensible policies. This in turn will help avoid policy distortions and have a positive impact on the nation's race relations and social cohesion, besides economic development.

Finally, there is one reality that our policy makers and legislators must not forget. The plan speaks of a decline in the equity held by Bumiputera resulting from a disposal of shares allocated to them. No account however is taken of the fact that trading of shares is a normal activity.

Proceeds from such sales are often invested in other assets, e.g. real estate, financial instruments etc. Additionally, many of the elite have transferred their new found wealth off-shore as highlighted in the latest Pandora Papers disclosures. If further affirmation is needed, one has only to look at the estimates of capital flight which places Malaysia consistently among nations with the largest source of capital flowing out of an economy.

GLCs and re-energising the private sector

The great majority of policy analysts have identified government linked companies (GLCs) as a key sector to reform. Not only is the role that GLCs play pervasive but among countries in the world, we rank with the highest in terms of SOE presence among largest firms. The negative economic impacts of such a dominating presence of GLCs are well known and need little elaboration.

It is encouraging that former PM Muhyiddin Yassin in his recent address to Parliament has called for a review of GLCs and voiced the view that they should not be competing with the private sector.

However this opinion is nothing new. In fact it is too little too late. Initially established to facilitate Bumiputera participation in the modern economy, GLCs have proliferated to control not only the commanding heights of the economy but also have encroached into the mid and lower tiers. GLCs today constitute over 40% of the share market capitalisation of all publicly listed companies.

They can be considered to be the elephant in the room that has stifled growth, crowded out private enterprise, including that of Bumiputrea, and contributed to poor governance practices.

Moreover, there is every indication that they are among the main sources, if not the main source, responsible for the widening income disparity, in particular that pertaining to the Bumiputera community.

With its influence over, and links to, the national and state bureaucracy, quite apart from its role in facilitating clientelism, collusion and nepotism, GLCs have introduced severe distortions to the market in the products and services provided and have generally raised the costs of doing business whilst not improving economic efficiency.

Earlier plans had failed to address the proliferation of GLCs. The most recent round of political appointees to GLC high positions, despite widespread condemnation of the practice, gives little confidence that any review can result in any reforms.

Hence it is crucial for Parliament to not delay any further with implementing policy reform proposals, in particular, the dismantling of rent-seeking and patronage components, that can restore GLCs to an appropriate place as commercial and competitive entities shorn of unnecessary and inflated government privilege and other functions that provide openings for wastage and misuse of public funds.

Revitalising the private sector and SMEs

In tandem with a GLC reform programme, there needs to be a revitalisation programme for the private sector, especially directed at small- and medium-sized enterprises.

It is clear that Malaysia has lost its competitive edge in attracting multinational corporations. The exodus of established corporations to other countries is indicative of this trend. New foreign direct investment (FDI) flows into the country have slowed. According to the latest data, FDI in Malaysia registered a net inflow of RM14. 6 billion in 2020 compared to RM32.4 billion in the previous year. This contraction is only partly a result of global economic uncertainties due to the pandemic situation. These corporations as well as local businesses have also found the price of doing business in Malaysia rising. The regulatory regime has grown, is stifling and is, at the same time, subject to uncertainties generated by frequent policy changes as, for example, with the MM2H programme.

Meanwhile there is likelihood that a significant proportion of the present number of 900,000 SMEs will close shop as a result of the ongoing pandemic crisis which the plan has failed to adequately address. That this prospect will considerably worsen the poverty and unemployment problems for the country is clear from the SME profile data.

SMEs

- make up one million or 98.5% of all business establishments;

- provide two-thirds of all employment;

- contribute 40% to the national GDP, and

- are located in all states and all sectors.

SMEs are not just a pillar of the economy. They also play a key role in stability and social cohesion. SMEs are the main source of multiracial partnerships and inter-ethnic linkages at many levels. Also not generally known is that 20% of SMEs are owned by women thus contributing to gender equality.

Reviving the SME segment should be among the highest policy priorities of the government in the 12MP.

The above difficulties facing the private sector, together with the monopolistic policies favouring the GLCs and the GLICs, needs to be addressed in any clear-sighted and pragmatic plan. Unfortunately the plan document is largely silent or evasive on these policy failures.

Urgent game-changer reforms

The third backward step relates to a wide range of sectors in which earlier policy reform measures agreed to by a previous government.

To recall, 30 years ago at the National Economic Consultative Council deliberations to propose the successor to the NEP, no quantitative ethnic targets were set in the final report. It was the consensus of the 150 members drawn from political, economic and social sectors that what was important was not the numerical targets but the necessary capacity building to build and sustain businesses. Later Malaysia Plans in fact did not specify such ownership targets.

Likewise the New Economic Model (NEM) drawn up for the 10th Plan by possibly the most credible and qualified economic team recruited to chart the country's socio-economic future eschewed the continuation of NEP policies.

The NEM identified the following urgent policy imperatives to ensure the nation's ability to meet the multiple challenges from internal and external factors. They included:

• Refocusing from quantity to quality-driven growth. To boost productivity, Malaysia needed to refocus on quality investment in physical and human capital;

• Relying more on private sector initiative as the primary engine of growth. This involved rolling back the government's role, promoting competition and exposing all commercial entities (including GLCs) to the same rules of the game;

• Making decisions bottom-up rather than top-down. Bottom-up approaches involving decentralised and participative processes would lead to accountable and less rent-seeking and crony-driven outcomes;

• Redressing unbalanced regional growth. Growth accelerates if economic activity is not geographically concentrated. Ripple effects would come from more effective poverty alleviation and equitable income distribution outcomes; • Welcoming foreign talent including from the Malaysian diaspora. As Malaysia improves the pool of domestic talent, foreign skilled labour would help to generate positive spillover effects;

• Targeting the education sector for reform. In particular the public higher education sector has not produced the skilled human capital needed; and

• Rightsizing the bloated public sector and rectifying its siloed and ineffective sectors that have impeded productivity.

What was unprecedented about the NEM is not only the acknowledgement that falling FDIs and competitiveness, compounded by the brain drain and decline in standards of governance, have put Malaysia behind many countries. It was also the recognition that the NEP had become a time warp and millstone holding back the nation's development. Hence the need to not simply shift to a higher skilled, more competitive and private sector driven economic ideology but also the urgency of deep structural reforms for the country to attain its true potential.

When approved by the government of Prime Minister Najib Razak, the NEM had the strong support of business and professional elites, the country's movers and shakers and legislators. However it needed to be accompanied by actionable policies and a multi-year commitment to implement them. This has not happened.

Today as Parliament deliberates on the 12MP, we urge legislators from both sides of the political divide – and this includes legislators from the period of the NEM – not to return to a NEP clone mindset but to use the NEM as a reference text to support the real game changers that the nation needs. – October 25, 2021.

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