THE EDGE MARKETS
MAKE BETTER DECISIONS

My Say: Three steps backward in 12MP?

The five-year 12th Malaysia Plan (12MP) tabled in the Dewan Rakyat by Prime Minister Datuk Seri Ismail Sabri Yaakob is replete with claims of its policies and programmes being "game changers", "catalysts", "enablers" and so on. However, scrutiny of the document leaves us deeply disappointed as we fail to discern specific policies that qualify for those descriptions.

We call the attention of the government to three key longstanding issues that necessitate consideration and an entirely different set of policy initiatives if 12MP is to meet its goals of making Malaysia 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 (FMFF) of the government's attempt to enforce a drastic restructuring of the freight forwarding industry. The proposal has been described as tantamount to robbery.

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 judgement, the government's proposal overturns the solemn undertaking given by Malaysia's second prime minister Tun Abdul Razak Hussein, when he presented the New Economic Policy (NEP) in parliament, that the 30% target would not entail the takeover of existing assets but would be achieved via growth. It must be recalled that the Barisan Nasional (BN) Cabinet rejected the initial version of the Industrial Coordination Act, which attempted to put in place a regime in which 30% equity in each limited company was to be made available to bumiputera investors.

We believe the Ministry of Finance's (MoF) proposal is not only a regressive policy change, but it is also contrary to Article 153 of the Federal Constitution and is 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 report 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 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 public-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 (SNA). 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 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 in no circumstance underpin policymaking.

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 bumiputera and non-bumiputera 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 policymakers and legislators must not forget. The 12MP report speaks of a decline in the equity held by bumiputeras, resulting from a disposal of shares allocated to them. No account is taken, however, of the fact that the trading of shares is a normal activity.

Proceeds from such sales are often invested in other assets — for example, real estate and financial instruments. In addition, many of the elite have transferred their newfound wealth offshore as highlighted by the latest Pandora Papers disclosure. If further affirmation is needed, one only has to look at the estimates of capital flight, which places Malaysia consistently among nations with the largest source of capital flowing out of the 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 worldwide, we rank with the highest in terms of state-owned enterprise (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 prime minister Tan Sri Muhyiddin Yassin in his recent address to parliament 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 public-listed companies. They can be considered the elephant in the room that has stifled growth, crowded out private enterprise, including that of bumiputeras, 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, particularly pertaining to the bumiputera community. The GLCs have also introduced severe distortions to the market in the products and services provided and have generally raised the cost of doing business while not improving economic efficiency.

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

Therefore, it is crucial for parliament to no longer delay the implementation of policy reform proposals, particularly 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 our 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 enterprises (SMEs).

It is clear that Malaysia has lost its competitive edge in attracting multinational corporations. The exit of some 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 with RM32.4 billion in the previous year. This contraction is only partly a result of the global economic uncertainties due to the pandemic.

These corporations as well as local businesses have found the cost of doing business in Malaysia rising. The regulatory regime has grown, is stifling and is subject to uncertainties generated by frequent policy changes — for example, with the Malaysia My Second Home (MM2H) programme.

Meanwhile, there is a likelihood that a significant proportion of the current 900,000 SMEs will close shop as a result of the ongoing health and economic crisis, which 12MP 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 sectors.

SMEs are not just a pillar of the economy; they 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 12MP.

The above difficulties facing the private sector, together with the monopolistic policies favouring GLCs and government-linked investment companies, need to be addressed in any clear-sighted and pragmatic plan. Unfortunately, the 12MP document is largely silent or evasive on these policy failures.

Urgent game-changing reforms

The third step backward relates to a wide range of sectors in which earlier policy reform measures were 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. Subsequent Malaysia Plans, in fact, did not specify such ownership targets.

Likewise, the New Economic Model (NEM) drawn up for the 10th Malaysia Plan by possibly the most credible and qualified economic team recruited to chart the country's socioeconomic 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 initiatives 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 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. Thus, 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 former prime minister Datuk Seri Najib Razak's administration, 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 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 an NEP clone mindset but to use the NEM as a reference text to support the real game changers that the nation needs.

Datuk Ramesh Chander is a former chief statistician of Malaysia and a senior statistical adviser at the World Bank in Washington, DC. Dr Lim Teck Ghee is a former senior official with the United Nations and World Bank.

https://www.theedgemarkets.com/article/my-say-three-steps-backward-12mp