

12th Malaysia Plan: 3 steps backwards

The 12th Malaysia Plan (12MP) tabled in the Dewan Rakyat by the prime minister is replete with claims of its policies and programmes being “game changers”, “catalysts for...”, “enablers”, etc. However, our scrutiny of the document together with the speech by Ismail Sabri Yaakob leaves us deeply disappointed as we fail to discern specific policies that qualify that description.

We call the attention of the government, policymakers and other stakeholders to the following three key longstanding stalled issues that necessitate rethinking and an entirely different set of policy initiatives if the 12MP is to meet its goal of creating a high-income country with inclusive and sustainable growth.

Our concerns are echoed in part by the opposition leader Anwar Ibrahim, and a host of other respected commentators.

To compound matters, the disclosure by the Federation of Malaysian Freight Forwarders (FMFF) of the government’s attempt to enforce a drastic restructuring of the freight forwarding industry has been a distraction that has met strong opposition.

The proposal to require existing non-Bumiputera firms in the industry to divest 51% of equity has been described as tantamount to a robbery and classic “Umno-ism”. Other observers have pointed out the negative vibes this announcement sends to firms in other sectors.

If implemented, most if not all independent and credible quarters agree that this will be a contributing factor to further damage the investment climate as well as the supply chain’s efficiency and productivity, which the economy can ill afford.

In our judgment, the government proposal overturns the solemn undertaking given by second prime minister Abdul Razak Hussein that the 30% would not entail the takeover of existing assets but would be achieved via growth when he presented the New Economic Policy (NEP) in Parliament.

It must also 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 be made available to Bumiputera investors. We believe the proposal by the finance ministry is not only a regressive policy change but also that it is 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 that are not in the best interests of the nation.

The resulting policy distortions have created several negative outcomes that include rent seeking, crony capitalism, widening income disparities in the Bumiputera community and ethnic tensions.

Calculation of corporate equity

The 12MP errs by suggesting that the 30% target has yet to be attained. This is a debatable contention as the plan fails to elaborate on how the calculations were done. No reference has been made to research studies that report findings that contradict the official estimates; no credible statistics provided.

It is appropriate to begin with a focus on the nature of this target and the way it is calculated. To set the record straight once and for all, it is important that we go back to the origins of this target and how the baseline estimates were calculated.

The baseline numbers of corporate equity used in 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 (SNA). The ownership structure of each corporate entity was compiled by taking into account the ethnicity of shareholders. This identification was determined by using the name of each shareholder to assign ethnicity. 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 that had been filed by the registered corporations. This was the best that could be done given the nature of the available data and the time constraints under which the statistics department was then operating.

It was further understood that the baseline numbers would be further refined later via a primary collection of data. Indeed, the statistics department launched the Ownership Survey of Companies with that objective in mind; the survey incorporated a section containing a standardised balance sheet.

The data provided a basis for using balance sheet values to determine equity, which in turn could be subdivided by ethnicity. The tragedy was that the Economic Planning Unit chose not to tread that path and stuck to the older base numbers. The data from the Ownership Survey of Companies was classified as "sensitive" and not released. This is an omission that can be easily rectified to provide a truer, less politically exploited, picture and understanding of company ownership in Malaysia.

The current methodology employed by the government produces a result indicating a shortfall in what has been achieved. The absence of actions to correct the basis for calculating the value of equity holdings has reduced the credibility of the statistics released. These deeply flawed numbers should not under any circumstances underpin important policymaking.

Professionally researched empirical studies yield an outcome showing that Bumiputera holdings of corporate equity, appropriately valued, exceed 30%. This, previously, was confirmed by an analysis of traded shares on Bursa Malaysia.

It is this aspect of the NEP that needs correction via an adoption of valuations based on a more defensible set of principles. Asset values need to be calculated based on commercial accounting concepts that are aligned to the SNA.

The re-evaluation can be easily accomplished at a minimum cost as the needed data exists in the files of the Companies Commission of Malaysia. Furthermore, the data is available on an annual basis and can thus be used to track progress or lack thereof at regular intervals.

A transparent and timely availability of ownership data would remove a key contributor to policy manipulation and ethnic tensions.

Credible data is a fundamental requirement to support evidence-based policies. Greater transparency in the collection and dissemination of data on equity holdings will contribute to an improved investment climate vitally needed in the aftermath of the Covid-19 pandemic.

Failure to introduce the reforms listed above will continue to impact on race relations and policy distortions. These distortions are likely to potentially lower growth and would run counter to the twin goals of achieving a restructuring of the economy and promoting sustainable growth.

Finally, and perhaps most importantly, there is one reality for any economy that our policy makers and legislators must not forget.

The 12MP speaks of a decline in the equity held by Bumiputeras 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 appear to have transferred their newfound wealth offshore. This is confirmed by the large outward flows recorded in the balance of payments together with the consistently large errors and omissions item.

If further affirmation is needed, one has only to look at the estimates of capital flight which places Malaysia as the second largest source of capital flowing out of an economy. The time has come to measure wealth in its totality rather than place a component, represented by equity capital, on a pedestal.

GLCs and re-energising the private sector

Our initial draft identified government-linked companies (GLCs) as a key sector to reform. Not only is the role that GLCs play in the Malaysian economy widespread and pervasive, but we rank in the world with the highest in terms of state-owned enterprise presence among largest firms. The negative economic impacts of such a dominant and dominating presence of GLCs in the Malaysian economy are well known and need little elaboration.

Since then, we are encouraged that former prime minister Muhyiddin Yassin has called for a review of GLCs (and GLICs) 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 over the past 30 years proliferated to take over and control not only the commanding heights of the economy but also to encroach into the mid and lower tiers.

GLCs today constitute over 40% of the share market capitalisation of all publicly listed companies and can be considered the elephant in the room that has stifled growth, crowded out private enterprise including 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 growing income disparity in the country, particularly pertaining to the Bumiputera community.

With their influence over national and state bureaucracy, apart from facilitating clientelism, collusion and nepotism of the political elite, 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 at national, state and even local levels.

Earlier Malaysia Plans had failed to address the out-of-control proliferation of GLCs as well as its other pernicious economic and governance impacts. The most recent round of political appointees to GLC high positions, despite public dismay and widespread condemnation of the practice, gives little confidence that any review will be taken seriously or will result in any reforms.

Hence it is crucial for Parliament in its deliberations on the 12MP to not delay any further implementing policy reform proposals to dismantle rent seeking and patronage components that can restore GLCs to an appropriate position as commercial entities shorn of unnecessary and inflated government privilege or other functions that provide openings for politically driven patronage and misuse of public funds.

Such a reform agenda contained in the 12MP should include an appropriate divestment programme of the numerous GLCs that have little or no justification for their existence and stand in the way of the private sector's development.

To be continued

<https://www.msn.com/en-my/news/national/12th-malaysia-plan-3-steps-backwards/ar-AAP6QDL?ocid=BingNewsSearch>