

Reviving NEP, Umno's race card, again?

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(The Straits Times Interactive)



THE POLITICS BEHIND NEP:

Why is Mr Khairy urging that the NEP be revived?

Playing the race card may cement one's rising popularity.

-- THE STAR

IN RECENT weeks, some in Malaysia's ruling party, Umno, have been urging that the New Economic Policy (NEP) be revived. This was a programme of special privileges and quantitative set-asides for Malays instituted after racial riots in 1969 sparked by Malay resentment of Chinese economic success.

Running from 1971 to 1990, the NEP was to, above all, raise the 2.4 per cent share of corporate equity that Malays held in 1971 to 30 per cent by 1990. Umno activists now want the NEP revived as they feel the 30 per cent was never achieved.

Last week, in a nationally televised debate with Mr Khairy Jamaluddin, Umno's rising star, Malaysia's previous health minister Chua Jui Meng (who is now out of office) questioned the accuracy of Umno's data. The Chinese politician - who is contesting this month for the presidency of the Malaysian Chinese Association (MCA), the country's largest Chinese party and Umno's senior partner in the Barisan Nasional coalition - called his bluff: Datuk Chua said that when he spoke in parliament in 1988, he had referred to a 1983 economic report that Malays 'owned 18.7 per cent of corporate equity'. How could it have stayed exactly unchanged at 18.7 per cent 22 years on, as Umno was claiming, he asked.

Datuk Chua, giving voice to ethnic Chinese worries, was clearly in campaign mode: Winning the MCA presidency would catapult him back into the Cabinet. However, Mr Khairy, the articulate 29-year-old son-in-law of Prime Minister Abdullah Ahmad Badawi, declined to address the 61-year-old's contention directly.

Why? Perhaps because the reality is that the 30 per cent target has long been reached.

According to Dr Paul Chan Tuck Hoong of the University of Malaya in Kuala Lumpur, and Mr Kenzo Horii of the Institute of Developing Economies (IDE) in the Japan External Trade Organisation (Jetro), Tokyo, in 1984, the Malays were already holding 31.18 per cent of the Kuala Lumpur Stock Exchange's total capitalisation. Of all 215 firms listed on the KLSE then, Malays were estimated to control 90 - or 42 per cent - of them.

In their 305-page IDE monograph published in 1986 called *Impact Of The NEP On The Malaysian Economy - With Special Reference To Ownership And Control*, the Malay presence in hotel, properties, finance, palm oil and mining was noted to be particularly pronounced. This ownership was very concentrated, with Malays owning more than 40 per cent of each sector.

In December 1988, even at par value, Malay ownership was 29.4 per cent, according to data in KLSE's 1989 Annual Handbook. Putting all this together, the claim that there remains a serious shortfall in Malay share - and, correspondingly, that (widely-dispersed) ethnic Chinese capital still holds the reins - leaves much to be desired. Yet this is mindlessly

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repeated in the media.

To be sure, the measurement of NEP achievement is no exact science, and is made more difficult by the lack of transparency on socioeconomic data deemed sensitive. Still, there are good reasons to believe that the NEP benchmark for Malays has likely been surpassed.

First, note that the figures - 31.18 per cent at market value in 1984 or 29.4 per cent at par value in 1988 - referred to only listed firms. But there are also numerous private limited companies owned by trustees for federal and state governments. Since 1969, however, official data on equity ownership excludes these firms.

Secondly, there are also nominee companies, whose true ownership is confidential but always officially attributed to 'other Malaysians' and foreigners. The masking of corporate ownership and control behind a wall of nominee companies, trustees and proxies (as well as complex share swaps, a feature of the Malaysian corporate scene) makes unravelling who owns what very tricky.

But many nominee companies are likely to be Malay: A published study of the KLSE's 15 largest listed firms in 1990

showed that, on painstakingly tracing the intricate skeins of ownership and control, their top 20 shareholders were indeed nominee companies linked to Umno. Significantly, many of these controlled more than 50 per cent of these listed firms.

By 1990, nominee companies were holding RM4 billion worth of stocks, or 2 per cent of the KLSE's capitalisation. According to Chandra Muzaffar's 1977 University of Singapore doctoral thesis on ideas about Malay rule and Malay society, this kind of trusteeship is tied up with the Malay concept of loyalty. Since the mid-'70s, there has been a strong correlation between being a Malay director in a listed company and having an Umno affiliation.

Malay individuals are appointed as trustees to reward them for their loyalty to Umno. They continue to depend on the government for access to concessions, licences, monopoly rights, subsidies, approval for corporate takeovers, waivers of statutory requirements, and so on.

Finally, as Dr Fong Chan Onn, who is now Malaysia's Human Resources Minister, noted in his 1989 book, *The Malaysian Economic Challenge In The 1990s* (which, incidentally, cites

Dr Chan and Mr Horii in detail), big blocs of equity like Petronas, the national oil company, and Hicom, the national heavy industry giant, are not included in official data on Malay equity too.

These reasons apart, since Malay ownership of wealth is concentrated in large corporations, its capacity to move markets and generate wealth far transcends that of ethnic Chinese capital. Despite its still substantial share, the latter is dispersed and has little control over sectors like finance and primary commodities.

Thus, if 52.2 per cent of banking was British-owned in 1970, when ethnic Chinese still accounted for 24.3 per cent of it, by 1986, eight of the top 10 banks had been acquired by Malay interests. This is according to Dr Heng Pek Koon's 1996 study published in *South-east Asian Studies*. In fact, because 70 per cent of banking was already Malay-owned by 1986, the regulations were changed to allow banks to acquire equity in non-bank corporations to accelerate Malay ownership of the corporate sector.

Two main strategies made it possible for Malays to control more than a third of Malaysia's corporate wealth within 20 years.

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First, in the mid-'80s, Umno folded the privatisation policy into the NEP agenda. Operating without conflict-of-interest rules, Umno's control over the regulatory agencies and the financial sector (including an extra-legal Panel on Takeovers and Mergers) enabled it to divest public assets at will. Thus the national power company, the national airline and the national telco could be divested at below-market prices to handpicked Malay businessmen without open, competitive bidding. These privatised entities would then go on to reap huge profits as monopolies.

Outside the centrally planned economies of the time, Malaysia also had the world's largest programme of state-owned enterprises. These, too, were divested to private individuals and the listed companies they headed would go on to become favoured beneficiaries of huge contracts the government doled out for its many mega development projects.

Because these high-profile corporate movers and shakers were Malays, they were held out as trustees for the Malay race. They included the likes of Tan Sri Tajudin Ramli, who virtually owned Malaysia Airlines at one point, and Tan Sri Halim Saad, who basically owned Renong

whose money spinner was the tolled North-South Highway spanning the length of Peninsular Malaysia.

However, these conglomerates were built on the back of complex corporate manoeuvres, rather than solid fundamentals and synergies, so they were very dependent on KLSE trends. Thus the Asian financial crisis of 1997 saw many of them teeter on the brink of disaster. For this reason, among others, capital controls were imposed in September 1998, which stabilised the KLSE and saved Umno's empire.

The second strategy was one which enabled some corporate wealth to trickle down to other Malays. Apart from Umno-linked public and private firms, trusteeships and nominee companies, the other bloc of Malay-held equity was firmly entrenched in PNB (Permodalan Nasional Berhad, or the National Equity Corporation).

PNB, whose board of directors reports directly to the prime minister, is technically the operating arm of Yayasan Pelaburan Bumiputera (or Malay Investment Foundation) to which parliament votes huge grants and no-interest loans. Last year, for example, PNB was given RM2 billion in this way.

With this war chest at its disposal, PNB assiduously invested in blue chips and other instruments to acquire strategic stakes in all major sectors of the economy. For example, PNB bought up huge plantation companies like Guthrie and Sime Darby - and other large interests like Dunlop - the British owned until the 1970s. By 1993, PNB alone controlled sectors like finance (26 per cent), hotels (26 per cent), manufacturing (57 per cent), plantations (50 per cent), property (6 per cent), and tin (6 per cent).

The equity was not its to keep, however. Instead, its most profitable equity was transferred to a subsidiary called ASN (Amanah Saham Negara, or National Shares Trust). This was an open-ended unit trust run with no management fees and kept no profits but, instead, paid out all profits as dividends and bonuses.

There were no restrictions on ASN's asset shuffling. Poorly performing stocks were given back to PNB. For example, in 1986, Bank Bumiputra's Hong Kong subsidiary, called BMF, that was saddled with US\$1 billion in bad loans, was handed back to PNB which later sold it off to Petronas, flush with oil dollars.

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How did ASN goodies get to the ordinary Malay? Whereas one cannot buy into well-performing unit trusts with just loose change, ASN equity was sold at RM1 per unit to adults. Buying and redeeming were done at post offices sprinkled throughout the land while a passbook system offered tangible evidence of their holdings.

Commercial banks were required to set aside nominal-interest-rate loans to help Malays buy ASN units. Of course, ASN's high dividends - guaranteed by the government to be at least 10 per cent - and generous bonus shares at year's end meant that loan repayments were assured. By 1989, some RM2.5 billion had been extended in loans to Malay individuals for such purchases.

According to ASN's annual reports, by 1990, its unit holders had invested a total of RM6.2 billion. (When the NEP ended that year, ASN was replaced by a clone, ASB, which was to last indefinitely.) By 1988, according to an Asiaweek report, 67 per cent of all Malay equity was owned by individuals, not firms.

Thus, 'although the government originally envisaged that much of the (Malay) corporate wealth would be held by trust agencies, private individual (Malay)

ownership has risen from less than a third to over 90 per cent', said former University of Malaya don Jomo Sundaram, now a United Nations assistant secretary-general on economic development, in a UN paper last year.

The bad news is that a small band of Malay individuals hold most of that equity. In 1988, just 1.3 per cent of all ASN investors were holding 75 per cent of its 6.2 billion units.

This has stayed unchanged. In Johor, last year, for example, state government figures reveal that 32 per cent of ASN and ASB investors held only 100-5,000 units each while a mere 0.3 per cent actually owned more than 100,000 units each.

So why is Mr Khairy urging that the be revived?

Last year, for rising up the ranks too fast, he was roundly booed when he spoke at Umno's annual general assembly. This year, he was received so much better he could even discuss that heckling in his speech to those assembled. Playing the race card may cement one's rising popularity.

After all, after Prime Minister Abdullah urged at Umno's 2004 assembly that Malays 'not use crutches for support all the time

lest the knees become weak and wheelchairs might become necessary', Mr Badruddin Amiruldin, who was elected Umno's deputy permanent chairman thereafter, then proceeded to wave a book about the 1969 race riots during his acceptance speech, thundering: 'No other race has the right to question our privileges, our religion and our leaders.'

Ah.

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(This section is not found in the original document.)



Keris yielding warrior at 2005 UMNO General Assembly (Youth Wing).



Standing ovation for the Warrior.