



Change is coming for the sons of the soil

CHRIS WRIGHT *unravels the social and political significance of new share ownership rules in Malaysia*

On 30 June, in a ballroom in Kuala Lumpur's Shangri-La hotel, Malaysian Prime Minister Najib Razak made a landmark announcement: the abolition of a long-standing rule that 30 per cent of equity in new share offerings must be allocated to Bumiputras, or ethnic Malays. It doesn't sound much but both practically and symbolically, it was a highly significant moment.

Around 100 days into his term of office, Najib had abolished part of the New Economic Policy (NEP), an affirmative action programme put in place by his father, Tun Abdul Razak, as Prime Minister in 1971.

Implemented at a time of increasing social tension, when the economic gap between the Malay majority and the Chinese minority (respectively about 65 and 25 per cent of the population) was becoming increasingly stark, the NEP sought to put 30 per cent of the economy in Bumiputra hands through measures ranging from government job allocation to cheap housing. In its explicit expression that the country's indigenous people needed protection and favouritism – Bumiputra means 'son of the soil' in Malay – it has become a key document in understanding Malaysia's social fabric. No step towards removing or diluting it is taken lightly.

But it has long been clear that the policy hasn't done what it was supposed to. The share allocation rule is a prime example of this failure – and a visible one internationally too, since 21 per cent of

Bursa Malaysia, the country's stock market, is in foreign ownership. The NEP might have put stock in Bumiputra hands but it didn't stay there: it was sold on. And it didn't enrich the disenfranchised anyway. 'Share allocation during the NEP was more on the basis of who you knew,' says Dato Salleh Majid, who was president of Malaysia's stock exchange for 19 years up to 2003 and is now a consultant and a senior fellow in the faculty of economics at National University Malaysia. 'During that time, those with the power to allocate would rather pass it over to their people, supporters maybe, or division heads of the ruling party. The basis of allocation was not fair: some people were making a killing just by being allocated a healthy amount, and others didn't even get a chance.'

It was bad for companies too. 'If you have a private company and are thinking about going for listing, you'd have to find a Bumi partner to buy 30 per cent of your business, and in order to sell that to him you'd probably have to give him quite a good discount,' says Stephen Hagger, head of research at Credit Suisse in Kuala Lumpur. 'In fact, you might even have to finance him to do it.'

Since companies had to set aside a further 25 per cent as a public shareholding spread, 'by listing you could end up losing half your business. That's a very unattractive proposition and one of the reasons there have been very few IPOs of late.' After Najib's recent changes, 12.5 per cent, half the public shareholding

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spread, must be offered to Bumi shareholders, but if they decline it, it goes back into the pot.

Some entrepreneurs have no doubt been put off launching businesses in the face of this bureaucratic trudge, and still fewer have listed. Majid adds: 'It's very difficult for anyone to say that being forced to bring in [a Bumi] partner has enhanced the competitiveness of the company, because the partner doesn't contribute.'

More broadly, there is a growing acceptance that the NEP and similar policies, while understandable in the context of their time, have wrecked Malaysian competitiveness on a much bigger scale. Of Malaysia's biggest state-owned companies, few could really be called national champions and some are embarrassing. It didn't go down well when Jeremy Clarkson blew up a Perodua Kelisa model on *Top Gear* after calling it the worst car in the world, but he was on to something: neither Perodua nor the other national car manufacturer, Proton, has been able to hold its own on the world stage; Proton has been on life support for years.

The obvious exception, oil and gas company Petronas, is notable because it is the one company in which the government has been firmly banned from any involvement. Many feel that the NEP created a sense of entitlement which was tolerable in a domestic economy but has created companies that cannot compete in a globalised, borderless world.

Interestingly, the one state-backed company foreign investors unequivocally do like is CIMB, built from a modest investment bank to a powerful regional universal bank by its gifted chief executive, Nazir Razak. If that name sounds familiar, it should: he's the Prime Minister's brother, though he made his name on merit. Nazir has been vocal about wanting to repeal the NEP and is considered so close to his brother that one observer calls him 'the unofficial finance minister'.

The most recent shifts may help set change in motion, but they won't alter the nature of Malaysian business, and it is useful to understand the context in which they have happened at all.

Najib came to power in a situation unique for a Malaysian leader: facing credible opposition. Malaysia has never, strictly speaking, been a dictatorship, but it has been a one-party government (the Barisan Nasional coalition led by the United Malays National Organisation, or UMNO) since Malaya's independence in 1957 and its federation as Malaysia in 1963. The man who brought the first realistic possibility of change was Anwar Ibrahim, the former deputy Prime Minister under Mahathir Mohamad. But Anwar fell out with Mahathir and spent six years in jail on sodomy and corruption charges widely questioned outside Malaysia. He was released after one of his convictions was overturned in 2004, but remained barred from public office until April 2008. Since then he has shaken up the political process. He has formed and led an opposition coalition, taking one-third of the seats in parliament and winning five out of 12 state legislatures.

Anwar has watched developments with interest, since repealing the NEP was a key part of his election platform. 'I think, generally, any measures to liberalise the economy and dismantle discriminatory policies are welcome. But the measures are piecemeal in nature. The problem is not only affirmative action,



FIGHTING IT OUT
Prime Minister Najib Razak (above); and opposition leader Anwar Ibrahim

but of good governance: government policies, tenders, the failure of the judiciary and now the commissions against corruption.'

There is little doubt that Anwar's rise has triggered the changes to date. 'Without the opposition in their current position none of this would have happened,' says Hagger. 'And despite all the political uncertainty, which is unusual, you have a perfect position for change.'

But at the same time, credible opposition, and the consequent thrusting of affirmative action policies into mainstream debate, is exposing fault lines in Malaysian society. Rising tension is palpable, coming hand-in-hand with a heightened sense of Islamic nationalism in some parts of the population. The widely-reported sentencing of a Muslim woman to caning for drinking; the ban (since reversed) on Muslim Malays attending a Black Eyed Peas gig in Kuala Lumpur; Muslim protesters trampling on the severed head of a cow, the holy animal of Hinduism, to protest the opening of a new Hindu temple.

Headlines like these temper the enthusiasm of foreign capital for this brave newly reformed Malaysia. 'So far so good: Najib's moving in the right direction, though he has to take UMNO with him,' says Hugh Young of Aberdeen Asset Management, which manages around \$55 billion in Asia, \$1.9 billion of it in Malaysia. 'It's early days. I suspect, like us, most observers will be encouraged but want to see more and give it more time. Headlines about canings don't help – or maybe they do, by forcing the pace of opening.'

Malaysia is one of the most moderate Muslim countries but Najib's measures so far have already triggered accusations of deserting the country's Malay interests, and there are real doubts about the degree to which he can effect change within the framework of an UMNO party widely considered corrupt and unwilling to change.

'This is a multiracial country and therefore there is a potential tinderbox here,' says one banker in Kuala Lumpur. 'You have a large number of people who have had their snouts in the trough for such a long while, and suddenly that money-politics business model is potentially broken. They are not going to take it lying down.'

Anwar notes that 'there is a lot of anger' but believes political change can be effected without violence. 'We have been extremely cautious and have chosen the constitutional legal process,' he says. 'Our choice is peaceful transition.' He welcomes gradual reform in the ruling party but adds: 'Look at the results. Look at all the rhetoric about "One Malaysia" [a key Najib slogan]. That's not what you see. You see a more divisive Malaysia, and the corruption has just become more endemic.'

It's hardly a surprise that Anwar lacks faith in Malaysia's judicial process: he is about to experience it again. As soon as he returned to public life, more sodomy accusations came to light and they may have reached the courts by the time you read this. The findings of this trial, and the reaction of the population to its outcome and its credibility, may have a great impact on the country's future. But Anwar believes change is coming whether or not he's free to create it – and his opponent Najib's new share ownership rules are just the beginning. ●

Malaysia's economy at a glance

GDP

\$222.2bn

Unemployment rate

3.3%

Public debt

41.2% of GDP

Inflation rate (consumer prices)

5.4%

Oil production

753,700 bbl/day

Oil reserves

3bn barrels

Current account balance

\$34.6bn

Debt (external)

\$50.4bn

Source: CIA World Factbook (2008 estimates)