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Who Really Owns Corporate Malaysia?

What's in a number?

The recent discussions spearheaded by Barisan Nasional politicians about the feasibility of another New Economic Policy (NEP)-type policy, ostensibly to correct the persistent wealth disparities among ethnic communities in Malaysia, have been fairly free with opinions but, unfortunately, selective with facts. UMNO members contend that at the end of the year 2000, corporate equity attributable to Bumiputera individuals and trust agencies had stood at a mere 19.1%, far short of the 30% goal set by the NEP, and that it had moved only insignificantly in the period between 1985 and the turn of the century. UMNO critics, on the other hand, contend that this figure of 19.1% is an inaccurate reflection of the proportion of actual Bumiputera equity ownership as it does not take into account the huge volume of shares, amounting to 7.9% in 1999, that is held by nominee companies. Indeed, studies have revealed that politicians and political parties, including UMNO, have resorted to using nominee companies to conceal their ownership of corporate equity from public scrutiny.¹

The Chinese, as the numbers indicate, had not lost out under the NEP because their equity ownership had continued to rise during the NEP decades, from 27.2% in 1970 to 45.5% in 1990. But the fact also remains that the volume of Chinese equity ownership had declined to 40.9% in 1995, and that by 1999, it had dipped by another 3 percentage points, to 37.9%.

This leads me to the question: Why the continuing fixation with numbers when many Malaysians, among them even members of BN component parties, have questioned the veracity of these government-released ownership figures? Even if Bumiputera equity ownership is increased to 30%, would this mean that wealth has been more equitably distributed among members of this community or between them and other Malaysians? And, most importantly, should we continue to perpetuate a discourse on equitable wealth distribution among Malaysians along racial lines?

Before addressing these issues, let us start with the fundamental question. How do we obtain a more informed picture of ownership patterns in Corporate Malaysia?

One simple, but effective, way to secure insight into equity ownership is to review the list of the top publicly-listed companies on the Bursa KL in 2000, in terms of market capitalization. An evaluation of the top 10 quoted firms for that year reveals a very significant point. The government had majority ownership of 6 of these top 10 firms, including utilities like TM (Telekom Malaysia) (at number 1) and power supplier Tenaga Nasional (at number 3), the country's leading bank, Malayan Banking (at number 2), the national oil corporation Petronas' gas producer, Petronas Gas (at number 4), the national shipping line Malaysian International Shipping Corporation (MISC) (at number 6), and the well-diversified Sime Darby (at number 7). The government also had a stake in Commerce Asset-Holding (at number 8), owner of Malaysia's second largest bank, Bumiputra Commerce Bank.

¹ See, for example, my book *Politics in Business: UMNO's Corporate Investments*.

The other three firms in the top ten list – Resorts World (at number 5), Genting (at number 9), and YTL Corporation (at number 10) – are Chinese-owned. Genting and Resorts World, involved in casino and leisure industries, are of the same group owned by Lim Goh Tong. Yeoh Tiong Lay and his family own the YTL group, which is involved in the construction, property development and power industries.

A noteworthy point is that no Bumiputera owned any of these top ten listed companies, in spite of the phenomenal government advocacy and promotion of Malay capital.

Of the companies ranked from 11 to 20, five were Chinese-owned: Public Bank (at number 11), owned by Teh Hong Piow; YTL Power International (at number 13), part of the YTL Group; the gaming firms, Berjaya Sports Toto (at number 17), controlled by Vincent Tan, and Magnum Corporation (at number 18) of the Multi-Purpose Holdings (MPHB) group; and the plantation enterprise, Kuala Lumpur Kepong (KLK) (at number 20), owned by the Lee family. The sole government-owned and foreign-owned companies figured in the 11-20 bracket were the motor vehicle producer, Perusahaan Otomobil Nasional (Proton, at number 19), and the cigarette producer Rothmans of Pall Mall (at number 12) respectively. Proton, part of the HICOM Holdings group that was privatized to the late Yahya Ahmad, was bought over by the government's cash-rich oil agency, Petronas.

Two Malays came up as owners of three firms listed in the 11-20 grouping – Rashid Hussain, who controlled RHB Capital (at number 14), and Halim Saad, who controlled United Engineers (Malaysia) (UEM) (at number 15) and Renong (at number 16). Renong and UEM had cross-holdings and were once directly owned by UMNO before Halim, a protégé of former Finance Minister Daim Zainuddin, secured control of the group. In July 2001, Halim relinquished control of the Renong group to the government, purportedly because of his inability to resolve the group's huge debt burden.

This meant that by mid-2001, of the top 20 quoted companies in Malaysia, only one firm, RHB Capital, was owned by a Bumiputera. In 2002, Rashid divested control of the firm to the family members of Taib Mahmud, chief minister of the state of Sarawak.

A number of important observations about the top 20 firms at the turn of the century can be made. First, is the considerable decline in foreign ownership of Corporate Malaysia between 1970 and 2000. Since only one of these firms was owned by a foreign enterprise in 2000, this was a remarkable achievement under the NEP given that foreign firms owned 63.4% of corporate equity in 1970. Second, the government still held majority ownership of half of these 20 firms, in spite of the spate of privatizations since the mid-1980s. Of these 10 companies, two were a part of the Renong group, a major recipient of privatized concessions, while Proton was re-nationalized. Third, only one firm in the top 20, RHB Capital, was owned by a Malay. Fourth, eight of the top 20 firms were Chinese-owned, indicating that members of this ethnic community had managed to maintain a strong presence in the corporate sector in spite of NEP implementation.

Politics of Selective Patronage

How do we explain these rather interesting outcomes of the NEP implementation on the form and development of Corporate Malaysia? To understand these astonishing equity ownership figures, one must first understand the orientation of Malaysian

political economy under the long premiership of Mahathir Mohamed. As prime minister, Mahathir committed himself to three primary goals: to industrialize Malaysia, to privatize government-owned firms, and to create Malay capitalists. To help him achieve his goals, Mahathir appointed his close ally, Daim, as Finance Minister in 1984. Both men were captivated with developing the stock market and using it as a key avenue to create domestic capitalists. By the early 1990s, Malaysia's stock market capitalization relative to gross domestic product was the highest in Southeast Asia.

By the mid-1990s, a number of huge publicly-listed conglomerates controlled by well-connected Malays had emerged. The high degree of autonomy that Mahathir had had as prime minister had allowed him to distribute government-created concessions and privatized projects to a select group of businessmen to help them swiftly develop their corporate interests. Mahathir justified this form of patronage on the grounds that the way to create Malay capitalists was by distributing concessions to those most capable of generating wealth.

But the leading corporations in the mid-1990s were connected to one of the then three most powerful politicians in Malaysia – Mahathir, (then Deputy Prime Minister and Finance Minister) Anwar Ibrahim, and (then Economic Advisor) Daim. Apart from Halim and Rashid, other Malays controlling major firms included Tajudin Ramli, Wan Azmi Wan Hamzah, Shamsuddin Kadir, Azman Hashim, Ahmad Sebi Abu Bakar, Ishak Ismail, Mirzan Mahathir, Mokhzani Mahathir, Amin Shah Omar Shah, and Yahya Ahmad. Some non-Malays, also well-connected, quickly developed huge enterprises with government patronage. These men included Vincent Tan, T.K. Lim, Ting Pik Khiing, Tong Kooi Ong and T. Ananda Krishnan. All of them had been privy to state patronage in some form, specifically through the award of privatized contracts.

Paradoxes of Power Concentration

The concentration of political power under Mahathir would suggest a concomitant concentration of corporate equity in the hands of an elite few. The list of the top 20 firms in 2000 indicates, however, a dispersal of ownership of corporate equity, not of wealth concentration. There is no group of companies under the control of one family or individual that dominates the top 20 listed corporations. None of the individuals who owns any of these top 20 firms appears to hold equity in trust for influential politicians.

One reason for this dispersal of equity is that some of the dominant listed groups that had emerged by the mid-1990s, such as Renong/UEM, HICOM Holdings, and TRI-MAS, had been adversely affected by the 1997 currency crisis. A number of these companies were subsequently taken over by the government, either due to the impact of the crisis or because of disputes among prominent politicians.

Between 1997 and 2001, Mahathir marginalized two influential politicians, Anwar and Daim,² who had significant indirect control over important quoted enterprises. The vast corporate assets owned by the business allies of these two politicians were re-allocated to government institutions or other private individuals. What is clear is that the nexus of politics and business based on patronage and

² While Mahathir's dispute with Anwar is well recorded, his fall-out with Daim remains an issue that has not been adequately analyzed. The reason for the feud between Mahathir and Daim is dealt with in my article, 'Why Mahathir Axed Daim', published in the *Far Eastern Economic Review* (5 July 2001).

political loyalty had only served to undermine the development of Malay entrepreneurship.

There is little evidence of wealth concentration or intra-ethnic cooperation involving Chinese firms, although it is widely believed that the Chinese work together to protect their economic interests. On the contrary, the shareholding pattern among Chinese-owned firms indicates that they function independently of one another. The owners of the largest quoted Chinese enterprises had, in fact, established inter-ethnic ties, with influential Malays, to help them protect and expand their interests.

Similarly, there is little evidence that Malay businessmen who own large quoted firms have cooperated with one another in business. Even Daim's protégés, Halim, Tajudin and Wan Azmi, have not worked together in business. Instead, there was much competition among them in key sectors. Halim's firm in the telecommunications sector, Timedotcom, was in competition with Tajudin's Celcom, then Malaysia's largest company in this sector. In spite of their need to restructure their assets after the currency crisis, Halim and Tajudin did not attempt to merge these telecommunications enterprises, even though link-ups with other firms in the industry were attempted. Other Malays, like Azman Hashim and Rashid Hussain, were in keen competition with one another in the financial sector, while Renong had a huge interest in Bumiputra-Commerce Bank. When the government called on Malaysian banks to consolidate, there were no attempts by Malays in this sector to merge their enterprises.

What Remedies Now?

The list of the top 20 publicly-listed firms in 2000 plainly reveals the dismal failure of Mahathir's goals. Of his industrialization endeavors, the cement industry is now well embedded in the hands of foreign firms, the steel industry is in the dock, while the car project is mired in controversy, loudly criticized for being privy to protection over and beyond what should be accorded even to a national project. Malay capitalists were quickly created, within a decade, only to disappear even faster because selective patronage had engendered little independence or competence to deal with competition or crises. Government ownership of half of the top 20 companies was tangible evidence that privatization had failed.

Before he retired, Mahathir provided a candid assessment of his failed policy endeavors, as well as of the lessons he had learnt. He argued that NEP patronage had contributed to a 'crutch mentality' and that the only way to promote entrepreneurship was to expose Malay businessmen to competition. The Chinese, he said, had managed to increase their ownership of corporate equity primarily because they had been forced to compete even harder under the NEP.

What Mahathir did not state was that the Chinese, for all their ostensible entrepreneurship, had not managed to develop brand names or move up the technological ladder. This was mainly because they had received inadequate support from his government, a situation that had only served to curb the rise of a domestic group of entrepreneurial business people that could have helped reduce Malaysia's dependence on foreign capital to generate growth and industrialize the economy.

In this regard, then, the policy recommendations by Prime Minister Abdullah Ahmad Badawi are, interestingly enough, correct. His call that government-linked companies (GLCs) professionalise their management and deploy their control and ownership of corporate assets more efficiently is timely. His focus on the promotion

of small and medium-sized enterprises (SMEs), not of big business, as well as his plea for the need to dispense with a patronage mentality and the need to instill a spirit of competition in business to promote entrepreneurship is appropriate. His desire to eradicate corruption and to ensure an at-arms-length, transparent relationship between government and business in the award of contracts is sensible.

The real success of the NEP has been the creation of an independent professional Malay middle class, from which a new entrepreneurial community is emerging. The rise of this new middle class was achieved through an emphasis on providing good quality education to Malaysians. Meanwhile, attempts to place wealth selectively in the hands of an elite group to promote the rise of Malay capital has led to serious intra-ethnic class divisions and to repeated intra-UMNO feuding, bringing the party into disarray and disrepute.

If it is the aspiration of UMNO members to sincerely promote inter-ethnic economic parity, their focus should be on providing decent education, especially to the poor. It is, thus, ironic that it was the Minister of Education, Hishamuddin Hussein, who raised the issue of reviving the NEP to stab home his point about the inequities in wealth distribution among Malaysians. What Hishamuddin should have raised was the need to focus attention on the ways to stem the serious decline of education standards in Malaysia, clearly something that his office has the power to address.

This debate about a new NEP appears to have been raised merely to mobilize support, more from within the party than from the larger Malay community. However, UMNO would do well to remember that the rapid decline it received in Malay support in 1999 was widely, and correctly, attributed to this community's growing disenchantment with the abuse of affirmative action by party members for vested interests. More importantly, the promotion of another NEP-like policy, conceived and executed along racial lines, would serve to undermine UMNO's credibility as a party striving to achieve the goal of national unity.

Edmund Terence Gomez is the author of *Chinese Business in Malaysia: Accumulation, Ascendancy, Accommodation* (1999), co-author of *Malaysia's Political Economy: Politics, Patronage and Profits* (1997) and editor of *The State of Malaysia: Ethnicity, Equity and Reform* (2004).