

Malaysia: 30% Equity Quota

On 30 March 2019, the Prime Minister Tun Dr. Mahathir in an interview replied that 30% Bumiputera shareholding for listed companies would be retained as there is no alternatives.

This is shocking statement as it maybe an indication that the Government would reverse the decision it made in 2009 and bring back the Foreign Investment Committee (FIC) and FIC Guidelines that regulates both international and local investment to achieve at least 30% Bumiputera participation in all industries.

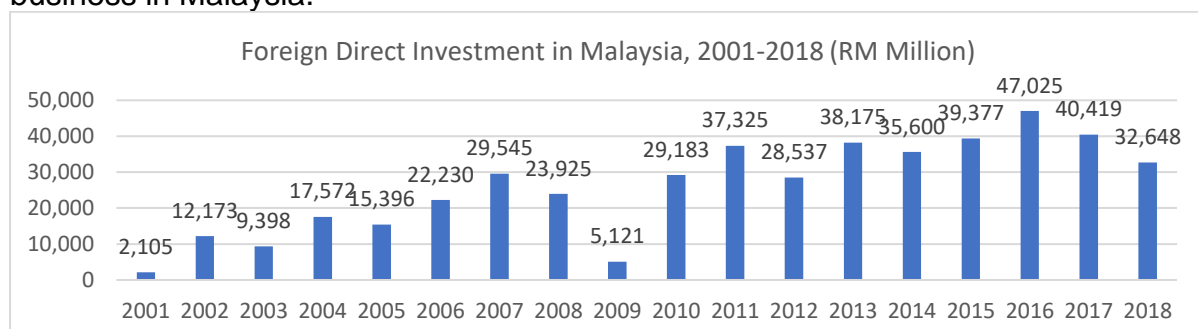
22 April 2009, the 30% Bumiputera equity requirement for 27 services sub-sectors were announced to be removed. 20 June 2009, a host of restriction on foreign investment in Malaysia were liberalize including the disbanding of FIC and the repeal of FIC guidelines of which purposes were to stimulate growth and encourage further participation of both local and foreign Malaysia.

The 27 services sub-sectors liberalized were in the areas of ICT, education and training, healthcare, welfare, logistics, tourism and business services. Further liberalization was done in 2012 of 18 services sub-sectors which includes telecommunications, departmental and specialty stores, private hospital services, medical and dental specialist services, accounting and taxation, legal services, courier services, education and training services.

Note that the disbandment of FIC and its guidelines did not mean restriction of foreign investment in Malaysia have been wholly lifted. The Government still maintained regulation in certain sectors by the relevant Government ministries and agencies and such regulations still maintained equity requirements for bumiputera which some are higher than 30%.

Sector that remain regulated with ethnic requirements are banking and finance, water, batik production, agriculture, defense, energy and telecommunications. Distributive trading which includes distribution companies, wholesale and retail stores – such as supermarkets, minimarts, convenience stores, fuel stations, wet markets and also restaurants.requires ethnic requirements. Thirty percent of the equity in these companies needs to be reserved for Bumiputera, and the directors need to be Bumiputera as well. The company's staffing policy needs to reflect the racial make-up of the country.

Repealing the FIC Guidelines does mean, however, that one layer of bureaucracy has been removed in respect of equity investments which ease decrease the costs of doing business in Malaysia.



The 30% equity quota was initiated after the events of May 13, 1969 due to the economic disparity between races as part of the initiative under New Economic Policy. However, affirmative action had helped in alleviating poverty and address inequality in the country, many begun to question the 30% equity quota which lead to the creation of elite instead of addressing income inequality in addition of cronyism. The Malay Economic Action Council (MTEM) also question the 30% equity quota specifically why is it set at 30%. However they also argued that instead of equity, the goal should have been on household income, wealth measurement, employability and the number of professionals.

Ownership of Limited Company Share Capital (At Par Value) of Limited Companies According to Groups						
	1969	1980	1990	1999	2008	2011
Overall Bumiputera	1.5	12.5	19.2	19.1	21.9	23.5
-Individuals		5.8	14.2	17.4		
- Trust Agencies		6.7	5.1	1.7		
Chinese	22.8		45.5	37.9	34.9	34.8
Indians	0.9		1	1.5	1.6	
Others	-		-	0.9	01	
Nominees Companies	2.1		8.5	7.9	3.5	
Locally Controlled Firms	10.1		0.5	-	-	
Foreigners	62.1	42.9	25.4	27.7	37.9	41.7

Source: Economic Planning Unit

The latest figure obtained were of 2011 which shows that Bumiputera ownership of share capital in 2011 was 23.5% of the total while Chinese hold 34.8% and the remaining 41.7% was hold by foreigners. This percentage holding does not reflect the market value as it is based on par value, the value when the company initiated its initial public offering.

Youth Minister Syed Saddiq said that Bumiputera ownership of in 2014 remained at 23.5%.

A “Soalan Lisan” was submitted to parliament in August 2017 requesting for the latest updated figure of capital ownership by capital of which the reply was the data for 2012, 2013 and 2014 was being updated and is expected to be tabled in the 11th Malaysia Plan Mid Term Review which was not found upon in the document when it was tabled in Parliament in 2018.

The reply also added that by 31 January 2017 out of the total 901 companies listed in Bursa Malaysia which was worth RM1.832 trillion, 114 of these companies are bumiputera and the method of equity calculation is based on market price not share price. This is also inline with the new Companies Act 2015 which had abolished the concert of par or nominal value of shares that was applied in the Companies Act 1965. This is in line with international trends and has been widely accepted in other countries such as Australia, New Zealand, Singapore and Hong Long.

Further over the years, Malaysia economy is no longer the same as before the introduction of NEP.

According to employment data by Department of Statistics the bumiputera community now forms the majority of the workforce across occupation especially public administration and defence where they form 94.6% of the workforce, electricity, gas, steam and air conditioning supply (88.5%), Mining and Quarrying (78.94%) and Agriculture, Forestry and Fishing (84.6%). Even in the fully liberalized Manufacturing sector Bumiputera made up 62.02%.

Employment by Occupation and Ethnic Group, 1970-2017

Occupation	1970			2017			1970 (,000)			2017 (,000)		
	B	C	I	B	C	I	B	C	I	B	C	I
Senior Official & Managers	24.1%	62.9%	7.8%	43.0%	48.8%	7.8%	7.4	19.3	2.4	286.3	324.8	51.7
Professionals & Technical	47.0%	39.5%	10.8%	65.2%	27.1%	7.2%	64.2	54.0	14.8	2,093.1	869.5	230
Clerical	35.4%	45.9%	17.2%	59.8%	31.7%	7.9%	50.4	65.4	24.5	725.9	385	95.9
Services & Sales	35.5%	50.7%	12.9%	67.3%	27.0%	4.8%	169.1	249.1	61.6	1,882	754.4	134.7
Agricultural	72.0%	18.3%	9.7%	87.3%	9.9%	1.7%	920.5	221.3	13.7	709	80.5	14.2
Production	34.2%	55.9%	9.6%	68.4%	20.3%	10.2%	266.0	434.5	74.4	2,405.6	714.9	359.8

Note: B = Bumiputera, C = Chinese, I = Indian

Source: Department of Statistics, 4th Malaysia Plan

Employed person by industry and ethnic group, 2017

Industry	Ethnicity					
	Bumiputera (,000)	Chinese (,000)	Indians (,000)	Bumiputera (%)	Chinese (%)	Indians (%)
Agriculture, forestry and fishing	863.4	110	34	84.6%	10.78%	3.33%
Mining and quarrying	67.1	11.6	5.8	78.9%	13.65%	6.82%
Manufacturing	1,236.9	537.4	208.1	62.0%	26.95%	10.43%
Electricity, gas, steam and air conditioning supply	53.9	3.7	2.9	88.5%	6.08%	4.76%
Water supply, sewerage, waste management and remediation activities	52.6	7.9	9.7	74.6%	11.21%	13.76%
Construction	579.5	319.7	51.2	60.4%	33.30%	5.33%
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,159.0	925.1	130	51.8%	41.33%	5.81%
Transportation and storage	411.6	110.8	102.3	65.4%	17.60%	16.25%
Accommodation and food and beverage service activities	756.8	276.5	47.2	69.4%	25.36%	4.33%
Information and communication	106.5	78.6	22.2	51.1%	37.73%	10.66%
Financial and insurance/takaful activities	195.2	133.9	30.1	54.0%	37.06%	8.33%

Real estate activities	35.7	40.6	5.5	43.3%	49.27%	6.67%
Professional, scientific and technical activities	166.9	143.6	21.7	49.9%	42.93%	6.49%
Administrative and support services activities	432.2	66.2	70.9	75.2%	11.53%	12.34%
Public administration and defence; compulsory social security	700.3	15.2	22.8	94.6%	2.05%	3.08%
Education	675	141.7	46.2	77.8%	16.33%	5.33%
Human health and social work activities	446.2	73.6	47.2	78.3%	12.92%	8.29%
Arts, entertainment and recreation	44.7	21.1	9.5	59.4%	28.02%	12.62%
Other activities	110	109	17.4	46.3%	45.91%	7.33%
Activities of households as employers	7.8	2.2	1.6	59.1%	16.67%	12.12%

Source: Department of Statistics

Talking Points:-

- The relevancy of 30% ethnic quota in the current Malaysian context. The New Economic Policy has been implemented for over 40 years and the economic and social context of Malaysian has changed thus the imposition of 30% ethnic quota is questionable in addition to the fact that no reason was given why it must be 30%. Further, the bumiputera economic standing has improved significantly including being the majority across the occupation level and across industries and if quota is to be given it would be to diversify the Government civil force (94.6% Bumiputera) to reflect Malaysian diversity.
- If affirmative action is to be initiated, it must be based on needs instead of ethnicity as data has shown. Working class Malaysian across all ethnicity are struggling to cope with rising cost of living. Among the 8.8 million Malaysian workers half of them earn less than RM2,160 per month in 2017. Among these 2.35 million Malays income is less than RM2,145 per month and 1.1 million Chinese income is less than RM2,440 per month.
- When will the need for 30% ethnic quota end. Many argue that the top 10 richest in Malaysia does not reflect Malaysian diversity with majority comprise of Malaysian Chinese. However being the richest should not be the bench mark and if anything there should be measures to rein in the wealth of the richest including taxing them to reduce wealth inequality and not creating new billionaires while ignoring the low income group. The need for this quota is the same as being addicted to being rich which will never end.
- The mentioning of such policy is a camouflage to masked the Pakatan Government incompetency in addressing issues affecting the country and the livelihood of Malaysian especially after they have slashed substantial amount from living aids.
- The Government instead of harping on ethnic quota should instead improve the economic growth and fundamentals of the country. Malaysia conducted an

investment policy review through the Organization for Economic Cooperation and Development (OECD) in 2013. Although the review underscored the generally positive direction of economic reforms and efforts at liberalization, the recommendations emphasized the need for greater service sector liberalization, stronger intellectual property protections, enhanced guidance and support from Malaysia's Investment Development Authority (MIDA), and continued corporate governance reforms.

- Malaysia also conducted a WTO Trade Policy Review in 2014, which incorporated a general overview of the country's investment policies. The WTO's review noted the Malaysian government's action to institute incentives to encourage investment as well as a number of agencies to guide prospective investors. Beyond attracting investment, Malaysia had made measurable progress on reforms to facilitate increased commercial activity. For example, the Malaysian Productivity Commission had simplified licensing requirements at the federal, state, and local levels, thus reducing business compliance costs. Construction permit procedures were also streamlined, as were processing times for construction contracts. The 2013 National Policy on the Development and Implementation of Regulations has increased the transparency of government rulemaking and made the process more inclusive of the private sector and the general public.

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By Thiam Seng