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Malaysia's New Economic Policy and the 30% Bumiputera Equity Target: Time for a Revisit and a Reset

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People walk and take pictures along the Saloma Link Bridge in Kuala Lumpur, Malaysia, on December 19, 2020. Malaysia's New Economic Policy (NEP) turns 50 this year. Photo: Mohd RASFAN / AFP

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EXECUTIVE SUMMARY

- Malaysia's New Economic Policy (NEP), which turns 50 this year, is most intimately associated with the 30% Bumiputera equity ownership target.

- Drafts of the forthcoming Shared Prosperity Vision 2030 have restated this target as the perennial under-achievement justifying continuation of pro-Bumiputera policies. However, the equity target needs to be revisited, and the Bumiputera enterprise agenda reset, on three grounds.

- First, the NEP originally articulated a broader vision of Bumiputera economic partnership but became narrowly focused on 30% equity ownership. The current Bumiputera agenda emphasises active control and entrepreneurship. The singular macro target was incongruous from the start, and outdated in light of current policy priorities.

- Second, the equity target is empirically problematic. The NEP originally set Bumiputera individual and trust agency sub-targets; the individual portion has long been surpassed. The data are also clouded by the combined effects of including foreign ownership and excluding Malaysian government ownership, which warrant a rigorous reconsideration.

- Third, continual fixation with macro equity ownership detracts from more important attention to Bumiputera enterprise development, especially SMEs. The time is ripe for Malaysia to dispense with one catch-all goal, and to reformulate a set of objectives and targets, with Bumiputera SME development at the centre.

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INTRODUCTION

The New Economic Policy (NEP) has scripted Malaysia's development for 50 years, with the 30% Bumiputera equity target as the main protagonist. The NEP's imprint remains deep; its legacy endures long beyond the initial 1971-1990 timeline. While followed by a raft of other long-term plans, the NEP reigns supreme, its successors consigned to historical footnotes. The draft of the Shared Prosperity Vision (SPV) 2030, Malaysia's next grand plan, makes the most substantive reference to the NEP, while cursorily acknowledging the National Development Plan (1991-2000) and the National Vision Policy (2001-2010). Bumiputeras have steadily progressed toward policy targets in education and employment, but the persistence of Bumiputera equity holdings below the 30% threshold, according to the official estimations, is continuously reiterated as the NEP's defining – but elusive – quest (Lee 2019).

Perpetuation of this target is problematic, from historical, empirical and strategic perspectives. In 1971, the NEP originally aspired to a complex mix(?) of Bumiputera development objectives, but 30% equity ownership was placed on a pedestal from the mid-1970s. This has allowed quick gains and political patronage to prevail over longer gestation pursuits focused on building capability and competitiveness. In recent years, policy emphasis has principally shifted toward productivity-driven, bottom-up Bumiputera enterprise development, deepening the disconnect between these broad priorities and the narrow 30% target. Empirical flaws also mar the target setting and progress monitoring processes. A sub-target within the overall 30% has been surpassed, without acknowledgement. The official accounts, which include foreign ownership and opaque nominee companies while excluding Malaysian government ownership, have continuously provided a partial picture that demands more clarity and completeness. From strategic standpoints, persisting with a single macro equity target detracts from the more crucial attention needed in dynamic and competitive Bumiputera enterprise. This calls for a thorough policy revisit of priorities and targets, and a reset that coherently and effectively aligns policy actions with those priorities and targets.

(MIS)PLACED ON A PEDESTAL

A closer look at the original policy documents reveals subtle but distinct ways that a narrow 30% Bumiputera equity ownership target got placed on a pedestal, despite its incongruence with Malaysia's broader development vision. The New Economic Policy was unveiled in two stages, as chapters within the Second Malaysia Plan of 1971 and the Third Malaysia Plan of 1976. The first chapter of the Second Malaysia Plan, entitled "The New Development Strategy" and comprising just nine pages, set out the NEP's overarching, two-pronged strategy: first, eradication of poverty regardless of race; second, acceleration of social restructuring to reduce and eventually eliminate the identification of race with economic function. The NEP's sweeping scope encompassed economic growth, job generation, industrialization and urbanization, infrastructure and rural development, and regional disparities.

The NEP was more invested in the second prong, having established that racial and ethnic inequalities needed utmost attention in the aftermath of the 13 May 1969 riots. The policy emphasised Bumiputeras' elevation to professional and managerial positions and the modern sectors of the economy to, "above all, ensure the creation of a [Bumiputera] commercial and industrial community". The economic goal on the distant horizon, articulated in the Second Malaysia Plan and reiterated in the Mid-term Review of the Second Malaysia Plan, was for the Bumiputeras,[1] "within one generation", to be "full partners in the economic life of the nation"

(Malaysia 1971: 6; Malaysia 1973: 1). However, the articulation of this long-term objective would shift in the ensuing years.

The full-fledged version of the NEP was presented in 1976, as Chapter 4 of the Third Malaysia Plan, entitled the "Outline Perspective Plan, 1971-90". This document, subsequently known as the First Outline Perspective Plan (OPP1), took 40 pages to exposit "the socio-economic framework within which the objectives of the [NEP] are being pursued" (Malaysia 1976: 51). The OPP1 laid out the empirical basis for the NEP, furnishing data that showed stark socioeconomic inequalities, specifically the myriad ways in which Bumiputeras were lagging.

Interestingly, but perhaps too subtly to be noticed, the "within one generation" objective for the Bumiputeras, hitherto expressed as full economic partnership, was reduced to 30% equity ownership. Bumiputera participation in commerce and industry undeniably entailed increasing their share of equity ownership from the abysmal 2% measured in 1970. The OPP1 thus resolved that Bumiputeras would own 30% of equity, alongside 40% in non-Bumiputera hands and 30% foreign. The OPP also set the precedent of excluding government ownership – at the time only 0.5% of total equity – from the calculations (Malaysia 1976, Malaysia 1971).

Various reasons can explain the gravitation to one macro equity target. According to Faaland, Parkinson and Saniman (1990), internal policy deliberations had produced specific targets, but these were omitted at the NEP's 1971 inception due to political resistance to a forceful redistribution agenda. On the other hand, the vested interests of Malay elites who stood to profit speedily from equity redistribution, likely exerted mounting pressure in the early 1970s. More aggressive measures to restructure ownership were reportedly parried by the personal interventions of Finance Minister Tan Siew Sin (Heng 1997). His retirement from politics in 1974, due to ill health, opened the gates for passage of the Industrial Coordination Act 1975, which mandated manufacturing firms below a certain size threshold to allocate 30% of equity to Bumiputera investors.

The government was evidently invested in the process, having expended resources to map out equity holdings by ethnicity and nationality. Adducing evidence of staggering Bumiputera exclusion would bolster the government's leverage in its engagement with the corporate sector and practically, ownership data could, with effort, be collected. In contrast, the means to measure other data pertinent to enterprise development, such as the scale and productivity of Bumiputera firms, were more limited – and perhaps Bumiputera participation was simply too miniscule for more granular data collection to be worthwhile.

Whatever the balance of causes, the outcome was momentous: The equity target became the NEP's driving force, particularly in the Bumiputera Commercial and Industrial Community agenda, instead of an integrated set of objectives. In 1989, towards the conclusion of the NEP's original 1971-1990 timeline, debates centred on whether or not to extend quotas – and whether or not to keep to 30% or to raise it to a more proportionate level (Means 1990).

One line of defence for the target was how it provided a policy anchor and focal point. From the 1970s through to the 1997-98 Asian financial crisis, various interventions were aligned in focusing on equity transfers and applying the 30% threshold. Manufacturing licenses and foreign investment imposed 30% Bumiputera equity allocations (with various exemptions), as did public listing, while privatisation of state-owned enterprises sought majority Bumiputera ownership with government control. But this defence has crumbled. Those past projects centred

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on equity transfers largely failed to cultivate Bumiputera enterprise, and in the past decade and a half, most ethnic equity requirements have been phased out, or the cut-offs are now considerably lower than 30%.[2]

NUMBERS GAME

Bumiputera equity ownership, when set on a pedestal, inevitably becomes a numbers game. Some problematic aspects warrant attention, from the perspective of policy monitoring and empirical measurement. First, the NEP's bifurcation of individual and institutional components within the 30% overall target became omitted from policy discourse, and seems to have been forgotten without any reckoning. Second, the inclusion of foreign ownership in the target-setting and progress tracking, alongside omission of Malaysian government ownership, paints a misleading picture of national ownership. Additionally, the presence of nominee companies, which mask identities, undermine transparency and veracity of the official equity ownership statistics.

The original NEP 30% consisted of sub-targets: (a) 7.4% individual ownership, including personal accounts with the pilgrim's savings fund, co-operatives and unit trust schemes; (b) 22.6% held by entities representing Bumiputera "interests", such as state economic development corporations (SEDCs) and Majlis Amanah Rakyat (MARA, Council of Trust for the People) (Malaysia 1976).[3] The latter category was renamed "trust agencies" from the early 1980s (Malaysia 1981), and with expansion of unit trust funds, the former classification was broadened to "Bumiputera individuals and institutions" from the early 1990s.[4] Malaysia's planning framework, in distinguishing Bumiputera individuals and trust agencies, envisaged institutions playing a major role as vehicles of Bumiputera ownership, and successive Malaysia Plans maintained these categories in tabulating the NEP's progress. However, over time, policy documents and popular discourses omitted the distinction, implicitly merging them into one 30% target, to the point that no acknowledgement was made when Bumiputera individual ownership touched 10.1% in 1985, thereby surpassing the targeted 7.4%. Table 1 shows a further increase to 14.2% in 1990, while trust agencies accounted for 5.1%.

Table 1: Distribution of total corporate equity (Malaysian and foreign), by ethnicity.

	NEP target	1970	1980	1990	1999	2004	2008	2011	2015
Malaysian	***70.0%***	***36.6%***	***57.0%***	***74.9%***	***67.3%***	***67.5%***	***62.1%***	***62.8%***	***54.7%***
Bumiputera total	*30.0%*	*2.4%*	*12.5%*	*19.3%*	*19.1%*	*18.9%*	*21.9%*	*23.4%*	*16.2%*
Individuals	7.4%	1.6%	5.8%	14.2%	17.4%	15.0%	18.9%	n.a.	n.a.
Trust agencies	22.6%	0.8%	6.7%	5.1%	1.7%	3.9%	3.0%	n.a.	n.a.
Nominee companies				8.5%	7.9%	8.0%	3.5%	4.5%	7.8%
non-Bumiputeras	*40.0%*	*34.3%*	*44.5%*	*46.8%*	*40.3%*	*40.6%*	*36.7%*	*34.8%*	*30.7%*
Non-Malaysian	***30.0%***	***63.4%***	***43.0%***	***25.4%***	***32.7%***	***32.5%***	***37.9%***	***37.2%***	***45.3%***

Source: Author's compilations from Malaysia (1976, 1986, 1996, 2000, 2005), Ministry of Economic Affairs (2019).

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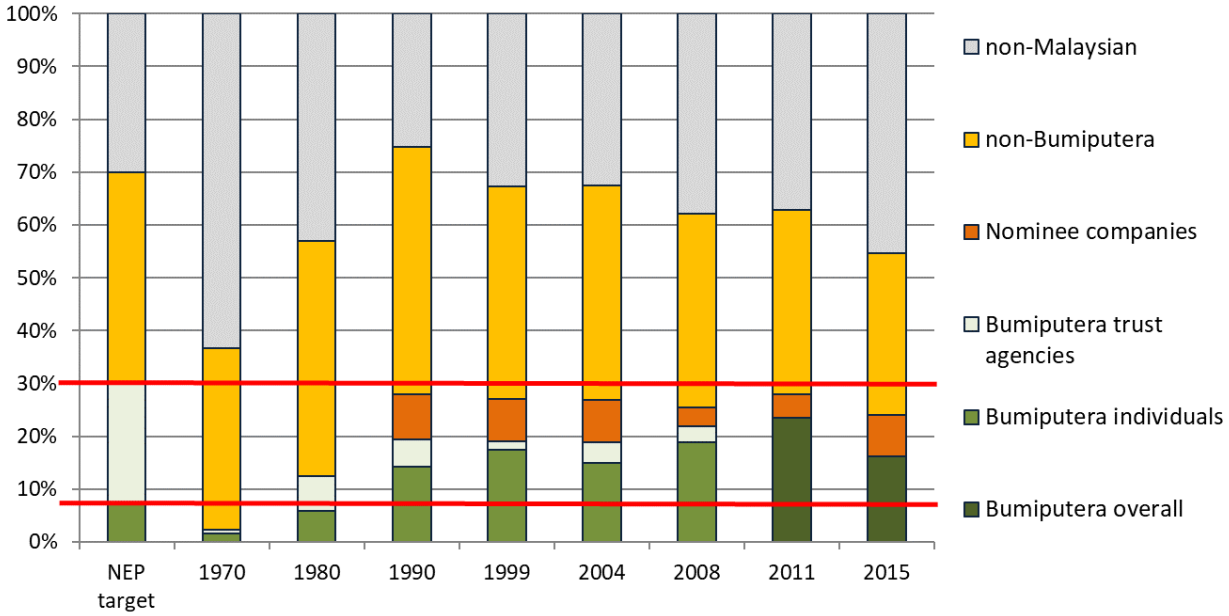
Figure 1: Distribution of total corporate equity (Malaysian and foreign), by ethnicity



Source: Author's compilations from Malaysia (1976, 1986, 1996, 2000, 2005), Ministry of Economic Affairs (2019)

Note: bold lines show Bumiputera ownership targets: 7.4% for individuals; 30% overall.

The expansion of financial institutions stewarding Bumiputera equity ownership, most saliently *Amanah Saham Bumiputera* founded in 1990, warranted a revisit of the 7.4%-22.6% split, but such considerations were never broached. Evaluations of the NEP's progress in promoting individual ownership, therefore, remain bound to the original 7.4% individual sub-target. However, the undifferentiated Bumiputera total, which hovered at 19-23% from 1990 to 2011 before dropping to 16% in 2015 – hence never coming close to the 30% threshold – has been unceasingly, and misleadingly, invoked to justify continual interventions to promote Bumiputera *individual* equity ownership, most saliently the mass privatisation of the late 1980s until the 1997 Asian Financial Crisis (Figure 1). Since 2010, the individual and trust agency distinction ceased, without explanation. In 2015, the Eleventh Malaysia Plan modified the target to a new notion of 30% Bumiputera corporate equity ownership "with effective control", also without furnishing details (Malaysia 2015).[5]

Serious empirical issues also arise from the inclusion of foreign ownership together with omission of Malaysian government ownership. The 30% threshold derived from the NEP's resolve to reduce foreign ownership from an unacceptably high 63% to 30%. The dominance of foreign capital was deemed an unjust and stifling colonial legacy, and substantial redistribution over the NEP's 20-year timeframe did transfer from foreign hands to Malaysian, especially Bumiputera, interests.

However, the continuous inclusion of foreign ownership in the statistics – alongside the omission of Malaysian government ownership – detracts from a fuller engagement with issues surrounding national interest and sovereignty which underpinned the NEP's equity redistribution agenda. Curiously, the increase in foreign ownership to 45% in 2015 barely registers as a concern in Malaysia's policy documents. This may reflect the government's commitment to the decades-long openness to foreign capital, but it is also probable that the

government can confidently report high foreign ownership because those numbers do not reflect reality, in light of the immense government ownership excluded in these computations. The practice may have been reasonable in 1971, when government held a miniscule 0.5% of corporate equity, but is untenable when government-linked companies, in which government-linked companies hold controlling stakes, reportedly accounting for 40% of publicly listed shares. The case for including government ownership gained prominence in the mid-2000s with CPPS' (2006) incorporation of government ownership to provide an alternative estimate of ethnic ownership – with 70% of government shareholding assigned as "representing" Bumiputera interest. This inquiry found that Bumiputera equity ownership has exceeded 30%. This finding, among others, fuelled debate over the continuity of preferential policies.[6]

These debates helpfully highlighted alternative modes of calculating equity ownership that yield different results but do not conclusively override the official account maintaining that Bumiputera ownership falls under 30%. In fact, these discourses, by continually revolving around the equity target and polarising opinion, perpetuate a policy impasse. Moreover, the underlying premise of the debate – that touching the 30% triggers the NEP's dissolution – pays insufficient attention to broad-based development of dynamic, Bumiputera-controlled enterprise that are key to NEP's ultimate goals.

While equity ownership should be taken off the pedestal, it remains worthwhile to conduct a more complete and credible mapping exercise. This presents an added benefit of extricating Malaysia from high-stakes and intractable debate over the numbers. Policy justification rides too much on equity ownership falling below 30%; likewise, many opponents place too much stock in proving Bumiputera ownership exceeds 30%.

More constructive approaches can be explored, incorporating government ownership primarily to provide a more credible picture of national ownership – and to correct the current portrait of ownership which assigns 45% to foreign interests. Another issue in the official figures concerns the presence of nominee companies, believed to be proxies that veil actual ownership. It will be beneficial for the ownership of these opaque holdings to be unmasked (Jomo 2004). Such efforts, however difficult, will complement initiatives to provide better information, such as estimations of Bumiputera control of publicly listed equity.

TIME FOR RESET

The empirical inquiry above opens pathways for Malaysia to move on from the narrow focus on equity. What should take its place remains to be determined, but some guidelines can be sketched out.

Emphatically, there is no longer a need for a singular target to provide sweeping policy rationales or to serve as a catch-all indicator of progress. Multiple policy priorities, each having specific contexts and constraints, will add purpose and precision, through identifying a set of objectives and targets, and aligning action plans and progress monitoring in alignment with those objectives and targets. A single Bumiputera equity number is too disconnected from preferential procurement, SME loans, and most Bumiputera enterprise development to be a relevant and effective policy target for these myriad programmes.

Shortcomings in Bumiputera enterprise ownership and participation should be identified specifically – and targets set accordingly. There is a strong case for placing utmost priority on

growth and expansion of Bumiputera-owned micro, small and medium enterprise (MSME). The shortfall of Bumiputera participation, and concentration at the micro end of the spectrum, are clear shortfalls. In 2015, Bumiputera-owned SMEs accounted for only 38% of total Malaysian-owned SMEs (Teraju 2017). The concentration of Bumiputera MSMEs is at the micro end of the spectrum. Among Bumiputera-owned MSMEs, 88% were classified as micro, 11% small, and only 1% medium, compared to non-Bumiputera MSMEs: 69% micro, 28% small, 3% medium.[7] Prioritising growth and expansion in these areas, with focus on active ownership and direct control, potentially generates and sustains productive outcomes, if infused with political will to the extent that the 30% equity has been for the past five decades.

Equity ownership can be retained on the policy script – but the estimation method and data must strive for greater completeness, rigour and transparency. The Eleventh Malaysia Plan added an emphasis to equity ownership, by specifying 30% equity ownership with effective control. What this means, though, is unclear. The strategic paper informing this portion of the Plan suggests that this 30% refers to the market value of Bumiputera-controlled companies per total capitalisation of publicly listed companies (EPU 2015). The emphasis on control and active ownership are welcome, but the ambiguity in this modified 30% target, which also does not clarify whether foreign and Malaysian government ownership are included, demands fuller explanation.

CONCLUDING THOUGHTS

The NEP's vision of Bumiputera enterprise development, and the community's full economic partnership, was never adequately encapsulated in the form of 30% equity ownership, but that target has perched on a pedestal for half a century. That driving goal, in turn, biased the system toward acquisition, profiteering, and short-term gains. The shortcomings of various programmes are too obvious to be denied. Most equity requirements formerly in place have also been terminated or reduced. However, the Shared Prosperity Vision 2030 recycles the 30% Bumiputera equity target as the main premise for continuing the NEP in the coming decades (Ministry of Economic Affairs 2019: 4-01).[8]

Moreover, Malaysia's Bumiputera policies have lately emphasised the need to cultivate independent and dynamic enterprises, especially SMEs. Indeed, the Shared Prosperity Vision 2030 also aspires for Bumiputera SMEs to raise their contribution to GDP from 9% to 20% (Ministry of Economic Affairs 2019). Some reset seems to be under way. To complete the process, the spotlight must fade out on equity ownership as the overarching policy rationale and target, while Bumiputera SME development takes centre stage.

The single macro equity target is, therefore, not only incongruous, but also outdated. Malaysia will do better to give the issue a thoughtful revisit, and a thorough reset.

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[1] The Second Malaysia Plan referred more specifically to Malays and indigenous peoples, a semantic practice that continued until the Fourth Plan. For consistency, this article applies the term Bumiputera in all references to the planning documents, although the term only became standardised from the Fifth Malaysia Plan (1986) onwards.
[2] Bumiputera equity mandates have effectively ceased since the late 1990s in manufacturing. In 2009, such rules were also phased out in most service sectors, and public listing requirements were also amended. For new listings on the Malaysian bourse's main market, 12.5% of shares need to be set aside for Bumiputera investors.
[3] Institutions channelling private Malay funds notably included *Amanah Saham MARA* and Muslim pilgrimage fund *Lembaga Urusan dan Tabung Haji*. Entities representing Bumiputera interests included MARA (excluding *Amanah Saham MARA*), PERNAS, UDA, SEDCs, *Bank Bumiputera* and *Bank Pembangunan*" (Malaysia 1976: 86).
[4] The definitions have remained fairly consistent. Tellingly, institutional ownership with personal accounts, such as Amanah Saham Bumiputera (ASB), counts toward individual equity ownership, while shareholdings that distinctly represent Bumiputera interests in a collective sense, including funds under Permodalan Nasional Berhad (which also manages ASB), fall in the trust agencies category (Malaysia 1996).
[5] The strategic paper reported that, in 2014, Bumiputera-controlled companies accounted for 17% of publicly listed companies, based on market value (EPU 2015). This method departs from the overall ethnic equity ownership statistics which reference par value. Such apparent discrepancies underscore the need for a comprehensive review.
[6] CPPS (2006), as well as M. Fazilah (2002), estimated Bumiputera equity ownership by focusing on publicly listed shares and referencing market value, as opposed to par value in the official statistics.
[7] Bumiputera SME figures are from Teraju (2017); non-Bumiputera SME figures are calculated by the author, based on Teraju (2017) and 2016 Economic Census statistics reported by SME Corp (https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-statistics).
[8] The Shared Prosperity Vision 2030 draft argues: "The NEP has restored confidence and understanding among ethnic groups and created various opportunities for economic participation. Among the successes of the NEP are reducing hardcore poverty, increasing household income, restructuring of society and reducing ethnic group identification based on economic activities and enhancing political stability. Nonetheless, the target of at least 30% Bumiputera equity ownership has not been met." (Ministry of Economic Affairs 2019: 4-01).

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