

Government relaxes pro-Malay policies for investment
Malaysiakini.com
March 27, 2007

The government today announced a further relaxation of policies favouring ethnic Malays as part of efforts to attract foreign funds into its growing Islamic banking sector.

Prime Minister Abdullah Ahmad Badawi said Malaysia would relax rules imposed by the Foreign Investment Committee (FIC) on local and foreign Islamic financial institutions applying for licenses to conduct business in foreign currencies.

FIC rules include stipulations that Malays and indigenous groups or bumiputeras must hold at least 30 percent of a company.

Malaysia will "relax Foreign Investment Committee rules to allow 100 percent foreign equity ownership in Islamic financial institutions established under this arrangement," Abdullah told bankers and government officials.

"Such institutions are also allowed to acquire properties for their own use," he added in a keynote address to an Islamic finance forum here.

The announcement follows a similar move last week to relax the politically-sensitive racial policies in a bid to draw investment to the southern state of Johor.

FIC rules include enforced bumiputera participation in Malaysia's economy so companies applying for a listing, for example, must show that 30 percent of the shares are owned or allocated for bumiputras, among other conditions.

Malaysia since the 1970s has maintained positive discrimination measures for bumiputera - literally sons of the soil - to narrow a wealth gap with the minority but economically-dominant Chinese community.

Stamp duty exemption

Other changes announced by Abdullah include a 10-year exemption on stamp duty on the institutions' foreign currency instruments, as well as instruments related to ringgit and foreign currency Islamic securities.

Foreigners who invest in non-ringgit Islamic securities, including Islamic bonds issued in Malaysia, will be exempt from withholding tax on any profits or income, Abdullah said.

He said Malaysia will also recognise approved interpretations of syariah or Islamic law in Islamic finance, in a reference to differing interpretations between Southeast Asia and the Middle East.

"In order to fulfil our objectives concerning the development of Islamic finance, it is imperative that we transcend geography, race, culture and religious edicts," said Abdullah.

Malaysian central bank governor Zeti Akhtar Aziz said the moves were aimed at attracting foreign Islamic financial institutions and staking a position in the foreign currency sector.

The institutions "don't have a presence in our system and this is a way for them to enter our system," Zeti told reporters.

"The foreign currency business is growing because our corporations are going overseas and people now have a more liberalised foreign exchange administration environment," she said.

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