

Iskandar not a sell-out to foreigners

NST- 1/4/2007

WHEN Malaysians were told that southern Johor was being positioned as a new centre for economic growth, there was tremendous excitement at the compelling logic and sheer potential of the proposition.

It made perfect sense for investors looking to arbitrage between two destinations separated by a narrow sliver of water with significantly different cost structures as far as land and labour are concerned. The size of the proposed area would also create the sort of scale that Singapore could only wish for.

For a while the excitement was based on the government's 'big think' about the area with not much flesh on the bones. But it was enough to breathe life into moribund stock prices of companies with development plans in the region and also attract strategic interest, especially from oil-rich investors looking for a good story.

The prime minister articulated the vision well, making southern Johor arguably the centrepiece of his corridor development approach which will also see special but differently themed zones in the northern states, the east coast and in East Malaysia.

But for people ready to park their investments, they wanted comfort that the incentives they would get would be as competitive as anywhere else in the region or even globally.

So when the prime minister recently announced the package of incentives for zones within the Iskandar Development Region (Iskandar), investors used it as a barometer to gauge if the government could get the pitch right in an already crowded space of economies throwing themselves open to foreign capital.

As it turns out, the government pretty much got it spot on. The foreign investment community liked the incentives and got the message that the government was dead serious about Iskandar.

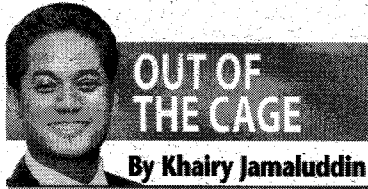
In particular, apart from the tax holidays they would get, the big-ticket item was definitely the exemptions from the "Bumiputera thing".

Specifically, this meant being unencumbered by Foreign Investment Committee (FIC) rules which require a certain percentage of Bumiputera equity participation and employment in businesses set up by foreign investors.

The Iskandar perks also allows for capital to be sourced globally and the unrestricted employment of foreigners in the approved zones.

Clearly these exemptions are designed to remove one of the principal bugbears that foreign investors have had with Malaysia. Surrendering 30 per cent of your equity even before the business is under way makes you think twice about investing, especially when the recipient of the stake often brings little or nothing to the table. Although the FIC rules were designed to help meet the Bumiputera equity target set in the New Economic Policy (NEP), it is debatable whether it has succeeded in creating productive capital or merely economic rents.

The thinking for Iskandar, pre-



Clearly these exemptions are designed to remove one of the principal bugbears that foreign investors have had with Malaysia.

sumably, was that in order for the region to be truly world class, it could not be weighed down by policies with questionable efficacy. Simply put, why risk the future of Iskandar for policies that haven't really succeeded in meeting their objectives?

Surprisingly, the incentives have not generated too much debate on the Malay ground, yet. But it will come. And before it does, it is important that Khazanah, as the custodian of Iskandar, explains what the exemptions are and what is being done to promote the "Bumiputera thing" in Iskandar in lieu of these conventional requirements.

Khazanah has been notorious for their inability to connect and communicate with the Malay ground and this issue sets up a potential minefield which needs to be cleared for fear of any political backlash that can lead to policy reversals which will guarantee the still birth of Iskandar.

Among the things that will no doubt be said (and apparently has already been said) of the incentive package is that it is a sell out to foreigners, that Johor is losing its independence and that the Malays are going to be slaves and servants once again. The argument will paint a picture of Singaporeans and other "undesirables" building skyscrapers in Johor and employing Malaysians (especially Malays) as servants. We wouldn't want that would we?

But before we become emo, lets put the incentives in its proper context and see if the above argument of Malay(sian) enslavement holds water. First of all, the prime minister's announcement was clear that the incentive package would be offered within certain 'zones' of Iskandar. This means that its not applicable for the entire Iskandar.

How big these zones are must be clarified quickly but if it is less than two per cent of the entire region as has been widely speculated, then there's surely no reason to think that southern Johor will be flogged off.

Secondly, only certain targeted



The model of the proposed Iskandar Development Region.

sectors can benefit from the incentives from within the zones namely creative industries, educational services, financial advisory and consulting, healthcare, logistics and tourism.

Third (this is the point that critics and potential critics will want to ignore), for companies to qualify for these incentives they must only conduct their business activities within the zones or outside Malaysia. What this means is that companies that set up in these zones will not compete with Malaysian companies for domestic business.

If they set up in these zones to capture the Malaysian market, they will not enjoy the incentives. This is designed to attract regional businesses which want to set up their hub in Malaysia and not to allow foreign companies a leg up into the Malaysian market.

By providing these incentives we are actually taking the fight to places like Singapore which has been a favourite pick as a base for regional operations for many multinational companies which like Malaysia's infrastructure and cost structure but were put off by things like FIC requirements.

Fourth, while companies are exempt from FIC rules, they will be asked to contribute to a fund for social development. This would be used to roll out programmes that can help low income families in Iskandar with housing and education to ensure all stakeholders of the region are given quality opportunities rather than creating widespread inequity via silos of divergent economic growth.

Fifth (this point is often forgotten because, umm, *Melayu mudah lupa*),

these incentives have actually been offered before in one form or another. The manufacturing sector has been enjoying fiscal incentives in Free Trade Zones since the 1980s similar to that offered in IDR.

Not only that, in 1986 the government went further than merely offering tax breaks by actually allowing foreigners to own 100 per cent equity in manufacturing companies with certain conditions like they have to export 50 per cent of their production (these conditions were abolished in 1998). These incentives given to the manufacturing sector were instrumental in transforming Malaysia into an export-driven economy.

It helped us post excellent GDP figures. Yet no one said we were selling out our economy or enslaving our people. But the reality is that while manufacturing did contribute significantly to economic growth, it was not all that it was cracked up to be.

A crude but not entirely inaccurate way of looking at it would be to say that we've given tax breaks and local equity exemptions to foreign manufacturers who employ foreign managers and workers, use our subsidised electricity and export their goods and profits overseas.

Sure they create jobs on the assembly line for Malaysians but very rarely are the high-tech value-added processes, which would help drive innovation and facilitate technology transfer, done in Malaysia. An example would be Intel which manufactures its wafer technology elsewhere and packages it in countries like Malaysia.

The difference in Iskandar is that the sectors targeted are value-added services which will mean that more

of the creative and lucrative parts of the supply chain are located in Malaysia unlike the lower-end positioning of much of the early investments in manufacturing.

Apart from the manufacturing sector, similar incentives were given for companies setting up in the Multimedia Super Corridor (MSC).

MSC companies enjoy pioneer status with 10 years tax exemption on income, no Bumiputera equity requirement, unrestricted employment of foreign knowledge workers and the freedom to source capital globally. These are all very similar to Iskandar benefits and are applicable in a bigger physical area (KLIA-Cyberjaya-KLCC vs less than two per cent of Iskandar). Yet, nobody has said that the MSC is a foreign intrusion into our sovereignty or that the thousands of Malaysians manning call centres for global companies in Cyberjaya are bonded serfs.

So the assertion that Iskandar is the thin end of the wedge for foreign economic neo-colonialists is intellectually unsound. This doesn't mean, of course, that the "Bumiputera thing" is completely irrelevant.

While on one hand, some have tried to twist the Iskandar incentives to say that this is a sell-out of the Bumiputera Agenda, there are others on the other end of the spectrum who are cheering this along by saying that it must be the precursor to dismantling the entire Bumiputera agenda and NEP-inspired policies.

Specifically, they extrapolate from the Iskandar package the urgent need for a nation-wide roll back of quotas that have benefited only a slice

□ TURN TO PAGE 26, COL 1

Iskandar offers Bumis an opportunity to benchmark

□ FROM PAGE 21

of the Bumiputera community at the expense of those who deserve the assistance.

There is no doubt that there have been severe weaknesses in the implementation of the NEP and NEP-inspired policies that were formulated after the actual NEP period.

This led to excesses and leakages, both acknowledged by the prime minister at no less a Malay-centric gathering than the Umno General As-

sembly.

Yet, to throw the baby out of the bathwater at this stage would be wrong.

By any measure of economic achievement (including corporate equity notwithstanding Asli's simplistic assertion), the Bumiputera community lags far behind.

While some NEP requirements may be antiquated today (like FIC approval for foreign ownership of property), the spirit and ethos of the Bumiputera agenda must contin-

ue. It is absurd to say that the NEP has only benefited the political elites.

Thousands of Bumiputera professionals and entrepreneurs with no political affiliation have been created precisely because of these policies and programmes.

The only difference now is that the execution of these policies must be better targeted and the results closely monitored to correct past deficiencies.

If you were to take a close

look at the Iskandar incentive package, it shows you that the government has carefully designed a test bed in which the Bumiputera agenda can thrive without sacrificing the concerns of foreign investors who do not want to be constrained by local affirmative action. Iskandar will be a global hub, without cannibalising the Malaysian business universe yet offer, especially the Bumiputera community, an opportunity to benchmark their talents and skills with the

best in the world.

The Entrepreneurial and Co-operative Development Minister has already said that key agencies under his ministry like Mara and UDA will be deployed to ensure meaningful Bumiputera participation in Iskandar.

By training Bumiputera workers and providing Bumiputera-owned businesses with the capital and premises to set up shop in Iskandar, the government is abandoning the rent-creating FIC approach

and empowering the Bumiputera community in ways that can create value and productive capital in zones where innovation is a key driver of growth. As long as this type of value-creating Bumiputera agenda is in place, there is nothing to fear from the Iskandar incentives.

The noise from the margins — one crying bondage, the other calling for an end to affirmative action — both miss the mark intellectually and morally, respectively.