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The costs of Malay supremacy

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KUALA LUMPUR, MALAYSIA Malaysia is in crisis. The economy is faltering and the government is floundering, struggling to explain away unprecedented financial scandals. Critics ascribe these problems to a lack of transparency and good governance, but these are merely symptoms. The root cause of Malaysia's current troubles is ketuanan Melayu: the ideology of Malay supremacy espoused by the United Malays National Organization (UMNO), the party that has dominated the country's politics for more than six decades.

Malaysia has a vast system of institutionalized preferences for Malays, the majority of the population, which grants them economic and other privileges over ethnic Chinese, Indians and other minorities. Although in place for more than four decades, these policies have failed to significantly help poor Malays. At the same time, they have

created a grand quid pro quo between other segments of the Malay population and the UMNO government: For fear of losing their advantages, beneficiaries of the preferences don't hold UMNO to account when it falls short.

Malaysia's affirmative action program was supposed to right a historical wrong. In 1969, deadly racial riots broke out between Malays and Chinese in several cities, and the country was placed under emergency rule. UMNO blamed British colonists for the unrest, claiming that until Malaya's independence in 1957 they had sidelined Malays and favored the Chinese in the economy. In 1970, the population of Malaysia was about 53 percent Malay, 36 percent Chinese and 11 percent Indian, yet Malays held only 2.4 percent of all shares in the stock market, whereas the Chinese controlled 27 percent (Indians had about 1 percent, with the bulk, more than 63 percent, in foreign hands).

When the state of emergency was lifted in 1971, the government promulgated the New Economic Policy (NEP), giving Malays (officially called bumiputera)

preferential treatment in all spheres of public life. Senior positions in the civil service were reserved for Malays. Special schools were established for them exclusively. It was decided bumiputera should control 30 percent of all corporate equity by 1990. Malay home buyers

Malaysia must abandon its pro-Malay affirmative action policies: They weaken the economy and good governance.

were entitled to a discount of 5 to 15 percent on new developments. The NEP was ostensibly designed to uplift Malays, but it soon became a means for UMNO to cement political support, creating a rentier system with dubious economic results. During the 1980s and 1990s, when Mahathir Muhammad was prime minister, major infrastructure projects — the North-South Expressway, the Petronas Towers, the planned city of Putrajaya — were awarded to Malay companies with ties to UMNO. A vast privatization program also multiplied connections be-

tween the party and Malay big business, as many public utilities became so-called government-linked companies, or G.L.C.s, tasked with representing and promoting bumiputera interests.

Today, G.L.C.s are said to control about one-third of the capitalization of the stock exchange. They vastly dominate banking and finance, transportation, utilities, the oil and gas sector and retail trade. According to a 2013 report by the Asian Development Bank, G.L.C.s were stifling competition in many areas of the economy and deterring private investment.

Yet even periods of financial turmoil have not convinced the government to rethink the NEP or dismantle the preferential economy. UMNO elites could not suffer reforms for fear of losing their own privileges or the support of other beneficiaries.

When Prime Minister Najib Razak came to power in 2009, he convened a group of economists to devise a new economic plan. The panel recommended replacing the existing racial preferences with need-based policies that would help any Malaysian, regardless of ethnicity, at the bottom 40 percent of the population in terms of household income. After encountering strong opposition from within UMNO, Mr. Najib dropped the idea and instead established yet another agency, Teraju, to encourage bumiputera participation in the economy.

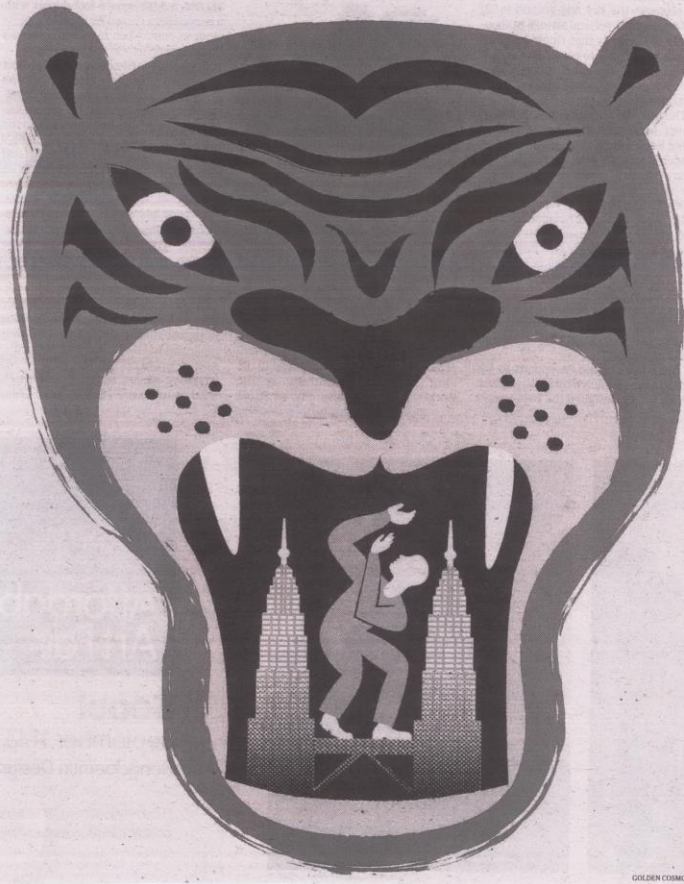
Promoting Malay supremacy not only undermines government accountability; it makes for unsound economics. Take Proton, the national car project that was started in 1983. For years, a slew of tariff and nontariff barriers have been applied to foreign cars in order to keep the made-in-Malaysia Proton comparatively cheap. But Proton, the car, is of poor quality and its production has yet to reach an economy of scale. And Proton, the company, has asked the Malaysian government for some \$700 million in subsidies. Yet Mr. Mahathir, now the chairman of Proton, argues that the state must continue to protect it because it buys parts mostly from Malay vendors and employs almost only Malays.

Or consider companies undertaking I.P.O.s, which are required to reserve a set percentage of their shares for Malay interests. (The requirement used to be 30 percent; now, it is 12.5 percent.) These "bumi" shares have sometimes been sold at below market price in order to meet the quotas. According to a list of recipients published a few years ago, the stocks have gone mostly to people connected to senior government officials and politicians from UMNO. And in 2009 Mr. Najib revealed that only 2 billion ringgit of the 54 billion ringgit (about \$12.8 billion at today's rates) in bumi shares allocated since 1971 remained in Malay hands.

Market discipline, transparency and good governance are falling by the wayside in the name of Malay supremacy. And for what? After more than four decades of preferential treatment, many bumiputera businesses remain uncompetitive and rely on the government for their survival. Non-Malays are leaving the country in droves, undermining the economy's long-term prospects. Although the educational levels of Malays have improved tremendously, their median household income still lags behind those of all other ethnic groups. The pro-Malay affirmative action policies must be abandoned. The Malay Agenda is hurting Malaysia.

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