

Economies: Malaysia takes the brakes off

Malaysia's prime minister Datuk Seri Najib Razak is using his honeymoon period to unravel some of the restrictions on company and property ownership that have provided - on the one hand - stability and - on the other - hampered growth and foreign investment.

Several decades ago, Malaysia adopted a wide-spread economic plan to help the largely rural - and generally poor - Malay population to enter commerce and industry and to acquire formal property rights.

But, as in other countries where race-based positive discrimination has been introduced - the then government either did not think or chose not to introduce a sunset provision. Even so, whilst some of the detail may have been problematic, the general principles and objectives were right. As one foreign businessman in KL is fond of saying "there have been many mistakes - but the fact is that, without Mahathir and his policies, we would all be living in a country like Laos."

In recent years, the pro-Bumiputra policies have been an increasing cause of concern and widespread grumbling.

Domestically, businesses that had been family owned by Chinese were told they must allow set percentages of Bumi-ownership. That meant, in effect, giving away a proportion of their business. Many resisted, some converted from limited companies to partnerships and some entered into deals that complied in law but not in spirit with shares held in trust by Bumiputras who took a stipend - but no part in the business.

Both sides were happy with that - but it defeated one of the primary objectives: that there should be a transfer of skills to the Bumiputra (usually shortened to Bumi) population.

Last month, the prime minister relaxed the ownership requirements in a number of sectors.

The equivalent requirement - that 30% of issued shares must be in Bumi hands - for listed companies has provided an unexpected benefit in the KLSE (known locally as Bursa Malaysia) has proved both a benefit and a problem.

Foreign businesses wishing to invest in Malaysian listed companies have had both ethical and legal issues in so doing. Many countries have laws that prevent racial discrimination - and in the term "exclusive rights" the word "exclusive" gives the game away. And the 30% ownership rule means that, for decisions requiring more than 70% majority, the power rests in the hands of a minority group which may act in concert to defeat the plans of the majority.

And so, foreign investment in Malaysian companies has been significantly lower than in many other countries nearby.

That, however, has proved a benefit in many ways. For whilst Malaysian shares are undervalued relative to regional counterparts, the relative lack of interest in the market has meant that, since the late 1990s when many people's savings were wiped out, the KLSE has been a remarkably stable market.

However, as Najib implied but did not express - access to foreign capital is needed to expand Malaysia's industrial base.

The move is designed to increase the attraction of the KLSE to foreign companies seeking a listing.

However, the 30% rule is being modified not scrapped.

Listed companies will still need to offer 50% of the public spread. That, say analysts, means that there will still be a 12.5% Bumi requirement.

These changes, then, address the commercial concerns but not the ethical ones - and leave foreign investors having to reconcile laws in their home country with those in Malaysia.

The markets Najib is aiming at are both East and West: middle eastern stock exchanges remain small and relatively rudimentary. KLSE has the ability to attract middle eastern companies - and they are certainly not going to complain at pro-Muslim policies.

And he's looking towards China where uncertainty in the local legal and regulatory regime has driven many businesses to look overseas for listing.

But that may bring its own dangers: several of the mainland Chinese companies that ran IPOs in Singapore have collapsed. Although it has not damaged the reputation of the Singapore markets, when it comes to international business, KLSE is, in effect, a fledgeling market and an inexperienced player. It is going to have to be very cautious on its listing requirements in order to protect its reputation.

Coupled with a relaxation of rules relating to the process of property ownership by foreigners also announced yesterday, there is no doubt that Najib has his eye on foreign money to bolster the income from Petronas (which is the government's cash cow) and to address some the reduction in GDP (5%) that the government predicts for this year.