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An Evaluation of the Equity Ownership Regulation in Malaysia

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Authorship declaration

I hereby declare and confirm that this thesis is entirely the result of my own work except otherwise indicated. I have acknowledged on page 3 the supervision I received from Professor Elisabeth Krecké.

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Acknowledgement and Dedication

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Chin Chin Sia
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Abstract

In 1971, Malaysia has launched the New Economic Policy to restructure the equity ownership along ethnic line through the usage of several economic and legal instruments. One of the instruments is to impose the restriction of equity ownership upon public listed companies to achieve the multifaceted goals of increase of wealth distribution, poverty reduction, promotion in entrepreneurship and national unity. This thesis evaluates the efficiency of this regulation on equity ownership restriction by utilising the contributions of public choice theory in order to demonstrate how redistributive measure through the state interference, by way of crude social restructuring, has led to unintended effects which were not foreseeable at the preliminary stage of intervention. Through the economic evaluation on a costs-benefits analysis, there is little doubt that this regulation is undesirable for the welfare of the nation as whole. However, it may not be an easy task to eliminate the inefficient regulation due to the possible impediments its removal. Given the political and economic motivations behind the introduction of this regulation on equity restriction, the use of interdisciplinary approach is essential to tackle the issue in question.

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Abbreviations

ASEAN	Association of South East Asian Nations
BM	Bursa Malaysia
CIC	Capital Issues Committee
DAP	Democratic Action Party
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
FIC	Foreign Investment Committee
IPOs	initial public offerings
KCT	Klang Container Terminal
KLSE	Kuala Lumpur Stock Exchange (also known as Bursa Malaysia)
MCA	Malaysian Chinese Association
MIC	Malaysia Indian Congress
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industry
MSC	Multimedia Super Corridor
NDP	National Development Policy
NEP	New Economic Policy
NVP	New Vision Policy
PAS	Parti Islam SeMalaysia (Pan-Malaysian Islamic Party)
PERNAS	Perbadanan Nasional Berhad (National Trading Corporation)
PNB	Permodalan Nasional Berhad (National Equity Corporation)
RM	Ringgit Malaysia (the currency of Malaysia)
SC	Securities Commission
SEDCs	State enterprise development companies
UEM	United Engineers (M) Berhad
UMNO	United Malays National Organisation
YPB	Yayasan Palaburan Bumiputera (Bumiputera Investment Foundation)

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(A) INTRODUCTION

Malaysia is a developing country in the South East Asian region. She is a multiethnic society which is made up of approximately 65% of the Malays, 25% of the Chinese, 7.5% of the Indians and 2.5% of other ethnic minorities. Prior to the gaining of her independence in 1957, she was a British colony whereby the major commercial institutions and company ownerships were held by the British and the Chinese. As for the Malays, their activities were more inclined towards small scale agricultural activities and fishing along the nearby shores. This is largely true for the period up to the 1970s. Given her multiracial composition, the 3 main multiethnic political parties, which consist of the United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysia Indian Congress (MIC), have founded the governing 'Barisan Nasional' (The National Front). This coalition has been winning the majority seats in the general elections up till today. Despite its multiethnic veil, the political coalition is in fact dominated by the UMNO.

On the 13th of May, 1969 there were racial riots in Kuala Lumpur, the capital of Malaysia, in which a number of people (mostly Chinese) were killed (mostly by Malays). The official version of the proximate cause[1] was that in elections the opposition parties that drew support primarily from the Chinese and Indian communities seemed to be threatening to take over from the multiethnic but Malay-dominated coalition 'Barisan Nasional' (The National Front) that had run the country since independence in 1957. From the viewpoint of the largely poor and rural Malay community, this was disastrous; since control of government was seen as the essential

[1] The actual cause is still in dispute until today as some literatures have also shown that the incident is not purely racial, but in fact it was orchestrated by the political leader within UMNO to overthrow the first prime minister of Malaysia, Tunku Abdul Rahman. See Kua Kia Soong, 2007 *"May 13: Declassified Documents on the Malaysian Riot of 1969"* Suharam, Kuala Lumpur.

counterbalance to economic inferiority (Malay households earned less than half as much on average as non-Malay households at the time).

Through this incident, the Malay Bumiputera dominated government (i.e. UMNO) "*seized the incident to solidify their grip on the political system and impose a reordering of development priorities.*"[2] With the establishment of the New Economic Policy (NEP) which started in 1971 and ended in 1990[3], it was officially defined in 1971 under the Second Malaysian Plan (1971-1975) that "*…the Government will assume an expanded and more positive role in the economy than in the past… the Government will participate more directly in the establishment and operation of a wide range of productive enterprises. This will be done through wholly-owned enterprises and joint-ventures with private sector….the necessity for such effort by the government arises particularly from the aim of establishing new industrial activities in selected new growth areas and creating a Malay industrial and commercial community. Explicit and deliberate efforts by the Government will be required to enable significant number of Malay and other indigenous people to gain experience and to have greater access to commercial and industrial opportunities. The role of the government will include construction of business premises, direct investment in productive and industrial enterprises to be managed and controlled by the Malays and other indigenous people …and a variety of other activities covering financial and technical assistance…*"[4].

This thesis refers to the contributions of public choice theory in order to show how such redistributive measure through the state intervention, by way of hasty social engineering, can bring about perverse effects which are unforeseeable at the early stage of intervention. Due to the unforeseeable perverse effects, the good intentions of the Malaysian equity ownership regulation are partially if not severely hampered by the direct and indirect costs involved in its implementation. As a result, the efficiency of the state intervention in these racially or ethnically based redistributive measures is questionable as the political motivation for its implementation could not be justifiable.

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[2] Roger S. Leeds, July 1989, pg. 13, "Rebalancing The Public And Private Sectors: The Case Of Malaysia", OECD Development Centre Working Paper No. 5 (Formerly Technical Paper No. 5) Research programme on: Towards a Better Balance between Public and Private Sectors in Developing Countries

[3] The central spirit of the NEP is still alive until today although relabelled under the names of New Development Policy and New Vision Policy.

[4] Malaysia, 1970, "*Second Malaysia Plan (1971-1975)*", pg. 7-8, Government Printers, Kuala Lumpur.

By taking into account of the considerations such as costs-benefits analysis, in the forms of social costs and social benefits, direct and indirect costs as well as the political, cultural and sociological perspectives, it is clear that with all the good intentions of redistributive or positive discrimination measures, such steps taken by the state regulators to 'correct' the inequality in the market could end up magnifying these inefficiencies by reinforcing the unjustifiable means of application to achieve its goals.

Besides this, after these perverse effects are discovered through the application of the equity regulations measures, there are also difficulties in imposing alternative measures which could lead to more efficiencies. I have attempted to apply evolutionary economics to illustrate the difficulties through the concepts of path-dependence and endowment effects. Bearing in mind the limitations of human rationality in the world of reality, together with the complexities of political, sociological as well as cultural contexts, it is tough yet not impossible to adopt a less interventionist approach to achieve greater efficiency with justifiable means.

This thesis is divided into five sections. The first section is on the background introductory facts about the listing requirements for public listing companies in Kuala Lumpur Stock Exchange (KLSE) (currently known as Bursa Malaysia). The second section explains the goals to be achieved through the quota on the equity ownership requirement. The third section is on an evaluation on a classic costs-benefits analysis. These costs and benefits consist of direct and indirect as well as social costs and benefits. The fourth section is focused on the issue of eliminating the requirement of the quota and the possible obstacles in removing the inefficient regulation. Lastly, I have concluded that state intervention in achieving equality through redistributive measures is only justifiable when the redistributive means bring about greater efficiency and better incentives for entrepreneurship. Besides this, the use of interdisciplinary approach is essential to tackle the issue in question.

(B) BACKGROUND FACTS

In order to equalise the ownership of company equity and narrow down the economic gap between the ethnic groups as well as the foreigners, the government of Malaysia has launched the New Economic Policy (NEP) in 1971 in order to achieve these purposes. Amongst the broad application of the policy, one of the drastic measures is to impose a quota of equity ownership for public listed companies in Kuala Lumpur Stock Exchange (KLSE) (currently known as Bursa Malaysia) whereby public listed companies are required to have at least 30% of shares owned by the Bumiputeras[5] (Bumiputera refers to Malays and other indigenous people in both Peninsular and East Malaysia), 40% to be owned by other non-Bumiputera Malaysians, and 30% at the most to be owned by foreigners.

Table 1: Equity Restrictions Imposed Upon Listed Companies on Bursa Malaysia

Listing Criteria				
	Aspect	**Main Board**	**Second Board**	**MESDAQ Market[6]**
Local Companies[7]	Equity Restrictions*	Bumiputera equity participation of at least 30%. Bumiputera equity participation can make up the 25% public spread		Bumiputera participation of at least 30% within 5 years of listing or 1 year following the company achieving the 2nd Board profit track record, whichever is earlier
Foreign Companies[8]	Equity Restrictions**	For foreign incorporated companies which have predominantly Malaysian-based operations must meet 30% Bumiputera equity participation of at least 30% at point of listing.		For foreign incorporated companies which have predominantly Malaysian-based operations must meet 30% Bumiputera equity participation of at least 30% at point of listing.

*Multimedia Super Corridor (MSC) companies are exempted from Equity Restrictions requirements.
** Exemption from Equity Restrictions is only for companies which have predominantly foreign-based operations and for Multimedia Super Corridor (MSC) companies.

[5] This is a word in Sanskrit which means “Son of soil”, and denotes the original people of the land. By this definition, the nationals of Malaysia are differentiated in two groups, the Bumiputeras and non-Bumiputeras. The non-Bumiputeras refer mainly to the Chinese and the Indians who were regarded as immigrants although in fact they have been living in Malaysia (previously known as Malaya) since the 15th century.

[6] Similar to that of NASDAQ in the U.S.

[7] Adapted from http://www.klse.com.my/website/bm/bursa_basics/listing_bm/local_quantitative.html accessed on 05/05/2008

[8] Adapted from http://www.klse.com.my/website/bm/bursa_basics/listing_bm/foreign_quantitative.html accessed on 05/05/2008

"*Seeking to raise the Malay ownership of corporate equity, the public sector used state resources to expand its ownership of assets via "restructuring" exercises that included setting up the public sector's own companies and buying into or buying up existing as well as new local and foreign businesses. These entries into the corporate sector eventually allowed the public sector to control the 'commanding heights' of the Malaysian economy—plantations, mining, banking and finance, and property and real estate*"[9]. Through this restriction, it is envisaged that the ownership of public listed companies could be well-distributed to the less endowed ethnic group and nationals, and could further reduce poverty across the races. It is also hoped that this involvement of ownership could increase the incentives of entrepreneurship among the Malay Bumiputeras. This famous 30-40-30 rule is not only applicable in the ownership of public listed companies but also in the sectors of employment, education, commercial and grant of banking loans. It is said that through the quota system, inequality which is the source of racial conflict could be eliminated to achieve national unity.

(C) GOALS TO BE ACHIEVED

The mains goals of the regulation on quota of equity ownership in public listed companies which was introduced in 1971 through the NEP are as follow:-

I. <u>To increase wealth distribution among the nationals, especially by reducing foreign ownership</u>.

Prior to the 1971's NEP policy, the overall ratio on equity ownership structure of the public listed companies was 2.4: 33: 63 (Malay Bumiputeras: Other Malaysians: Foreigners). Despite efforts put forward by the then government through establishment of various agencies to promote commercial involvement of the Bumiputeras in the rural areas, these agencies such Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA) and etc, were slow in its progress to achieve the goal of 30: 40: 30. Having consideration of a more drastic measure in 1981, compliance and regulatory bodies such as Foreign Investment Committee (FIC) and Capital Issues Committee (CIC) were set up to ensure the strict

[9] Khoo Boo Teik, 20 December 2005, pg. 16, "Ethnic Structure, Inequality and Governance in the Public Sector: Malaysian Experiences", Democracy, Governance and Human Rights Programme Paper Number 20, United Nations Research Institute for Social Development

compliance and enforcement of the 30: 40: 30 rule in the public listed companies. Ownership of the Malay Bumiputeras shares are transferred by numerous avenues, either through unit trust managed by various entities, such as Yayasan Palaburan Bumiputera (YPB, Bumiputera Investment Foundation), Perbadanan Nasional Berhad (PERNAS, National Trading Corporation), Permodalan Nasional Berhad (PNB, National Equity Corporation), and Khazanah Nasional (these bodies are essentially acing as trustees for the Malay Bumiputeras minority shareholders), or the creation of certain government linked companies, state-owned companies and also privatisation of state entities.

II. To reduce poverty across the races.

However, the emphasis to eradicate poverty is focused on the Malay Bumiputeras, as it is claimed that Malay Bumiputeras was the poorest group of all the nationals for the period up to 1970. According to the official figures, about 42 per cent out of the 58.4 per cent of all the households having a monthly income of less than RM200 per month (€40)[10] were Malay Bumiputera, based on the official statistics given as follows: -

Table 2: Proportional distribution of households by income and ethnicity, Peninsular Malaysia, 1970

	Proportion (per cent) of households in income group				
Income range (RM per month)	**Malay** (per cent)	**Chinese** (per cent)	**Indian** (per cent)	**Other** (per cent)	**Total** (per cent)
1–99	22.9	2.6	1.3	0.2	27.0
100–199	19.1	7.8	4.4	0.1	31.4
200–399	10.4	11.9	3.5	0.1	25.9
400–699	3.0	5.3	1.2	0.1	9.6
700–1,499	1.1	2.9	0.6	0.1	4.7
1,500–2,999	0.2	0.7	0.1	0.1	1.1
3,000 and above	0.0	0.1	0.1	0.1	0.3
Per cent of total population	56.7	31.3	11.2	0.8	100.0

Source: Government of Malaysia 1973:4, table 1.2.

III. Promotion of entrepreneurship among the Malay Bumiputeras.

Through the regulation on equity ownership, it is envisaged that the involvement of ownership could encourage and promote the spirit of entrepreneurship among the Malay Bumiputeras, and incentivise them to be actively learning the skills of doing business.

IV. National unity.

Lastly, by having removed the source of ethnic conflict through narrowing the gap between the rich and the poor, it is hoped that the ultimate goal of national unity could be accomplished. Through the stability of political situation, the progress of the nation could likely be further enhanced.

Despite having these ambitious goals in mind, since its implementation in 1971, it has been 37 years that the effects of the equity ownership regulation could therefore be more accurately evaluated. Given the economic as well as political motivations of the policy[11], it is therefore more appropriate to conduct a cost and benefit analysis by taking into account of its economic and political effects in this particular evaluation.

(D) AN EVALUATION

In this section, I would enumerate the various types of costs involved in achieving the quota of equity ownership, and also the benefits which were hoped to be derived from the equity regulation. Having weighed the respective costs and benefits involved, it could be shown that there is a clear indication that the benefits obtained may not be sufficiently great enough to outweigh the costs incurred. This is due to the fact that throughout its implementation, over-zealous emphasis have been placed on the strict compliance with the quota at the expense of the spontaneous setting up of the companies, especially the emergence of the new and more efficient firms. For the sake of the compliance, numerous bureaucratic and administrative steps have to be taken at least a year in advance, through at least 4 governmental agencies.

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[10] Based on the current exchange rate of €1 to approximately RM5

[11] Torii, Takashi, 1997, “The New Economic Policy And The United Malays National Organisation--With Special Reference to the Restructuring of Malaysian Society”, *The Developing Economies*, XXXV-3 (September 1997): 209–239

In the following discussion, it would be demonstrated that the costs involved is not purely administrative, but also direct costs such as its negative impact on foreign and domestic investments. Besides this, the indirect costs such as transaction costs in the forms of negotiation, searching and opportunity costs in fulfilling the quota requirement are also identified. On top of this, social costs in the form of inefficient rent seeking is inevitable due to the very nature of the quota whereby a 'middlemen' network is established to profit from the transfer of the shares.

I. Types of Costs Involved.-

1) Direct costs
2) Indirect costs

1) Direct Costs

a) <u>Administrative and bureaucratic costs</u>.

Direct costs could take the forms of administrative and bureaucratic costs in enforcing and ensuring the compliance of the quota requirement which could be enormous. Given that at least approvals from 4 major agencies Foreign Investment Committee (FIC), Ministry of International Trade and Industry (MITI), Securities Commission (SC) and Bursa Malaysia (BM) are mandatory, it is inevitable that the costs in running these agencies themselves are tremendous. Furthermore, since it is indispensable to seek professional consultations from these agencies, it is not surprising that the costs of running these agencies are hardly disclosed to the public. However, some literature[12] have estimated that:-

(i) The costs of administration expenditure in setting up of and running some of these public agencies have increased more than 10 folds in less than 2 decades from € 0.9 billion to € 9.8 billions;

(ii) The percentage of gross domestic product on development expenditure has increased by almost double from 8.5% to 14.4%;

[12] Khoo Boo Teik, 20 December 2005, "Ethnic Structure, Inequality and Governance in the Public Sector: Malaysian Experiences", Democracy, Governance and Human Rights Programme Paper Number 20, United Nations Research Institute for Social Development

(iii) The number of employment of public sector has increased almost 4 times from 139,467 to 521,818; and

(iv) The number of state owned agencies and enterprises have grown almost 10 folds from 109 to 1,014 in 15 years,

as illustrated in the table as follows: -

Table 3: Expansion of the public sector, selected indicators, 1970–1985*

Public expenditure	
First Malaysia Plan 1966–1970 (pre-NEP)	RM 4.6 billions (€ 0.9 billion)
Second Malaysia Plan 1971–1975	RM 10.3 billions (€ 2.0 billions)
Third Malaysia Plan 1976–1980	RM 31.1 billions (€ 6.2 billions)
Fourth Malaysia Plan 1981–1985	RM 48.9 billions (€ 9.8 billions)
Development expenditure as per cent (%) of gross domestic product	
1971	8.5 %
1980	14.4 %
Public sector employment (excluding military and police personnel)	
1970	139,467 employees
1983	521,818 employees
Number of state agencies and state-owned enterprises	
1960	22
1970	109
1980	656
1985	1,014

*Sources: Khoo Boo Teik, 20 December 2005, pg. 17, Table 14 "Ethnic Structure, Inequality and Governance in the Public Sector: Malaysian Experiences", Democracy, Governance and Human Rights Programme Paper Number, United Nations Research Institute for Social Development

b) <u>Negative impact on the foreign direct investment</u>

There is a general trend in the decline of public listed companies owned by the foreign owners[13]. Out of all the 100 public listed companies, only a handful are owned by foreigners today. In the year 2000, only one of the top 20 firms,

[13] Stoever, William A., 1985, "Malaysia, The Bumiputra Policy, and Foreign Investors: An Evaluation", *Studies in Comparative International Development*, Winter 1985-86, 86-107

Rothmans, a tobacco company, ranked at number 12, is owned by a foreign enterprise, as demonstrated in the list of table as follows: -

Table 4: **Top 20 listed companies in Malaysia in the year 2000**[14]

1. Telekom Malaysia – telecommunications
2. Malayan Banking – banking
3. Tenaga Nasional – power generation and distribution
4. Petronas Gas – gas processing
5. Resorts World – gaming
6. Malaysia International Shipping Corporation (MISC) – shipping services
7. Sime Darby – diversified, but primarily in plantations
8. Commerce Asset-Holding – banking
9. Genting – gaming
10. YTL Corporation – construction, power generation, property development
11. Public Bank – banking
12. Rothmans of Pall Mall (M) - manufacture, import and sale of cigarettes
13. YTL Power International - operation of power stations
14. RHB Capital – banking
15. United Engineers (M) (UEM) – construction
16. Renong – diversified
17. Berjaya Sports Toto – gaming
18. Magnum Corporation – gaming
19. Perusahaan Otomobil Nasional (Proton)- manufacturing and assembling of motor vehicles
20. Kuala Lumpur Kepong – plantations, property development

Besides this, between 1974 and 1993, the market capitalisation of top KLSE companies of the foreigners has declined quadruple from 49.11% to 10.70%, alongside with private local Chinese capital ownership which has declined double from 27.00% to 13.90%; whereas in stark contrast, the government ownership of capital has increased double from 24.00% to 40.50%, as well as private Malay Bumiputera ownership from 0% to 6.30% , as illustrated in the following table: -

[14] KLSE Annual Companies Handbook 2000 (Volume 23 Books 1-4)

Table 5: Market Capitalisation of the Top KLSE Companies by Ownership Category [15]

Nationality or Ethnicity	% Share in1974	% Share in 1993
1) Foreign controlled*	49.11	10.70
2) Malaysian Controlled		
(a) (i) Government A**	6.30	40.50
(ii) Government C	17.70	
(b) Chinese (Private Local)***	27.00	13.90
(c) Malay Bumiputera (Private Local)		6.30
(d) Indian (Private Local)		0.10
(e) Institutions (mostly state owned or controlled entities)		10.40
(f) Unit Trusts (These are primarily designed to provide bumiputras with share ownership)		17.60
(g) Nominees (Mostly owned by UMNO[16])		0.70
Total	100.00	100.00

* Foreign controlled in 1974 excludes Singapore controlled companies. If Singapore companies were included, the foreign share would be 61.1% of a larger total. Singapore companies were excludes because of complications connected with the way Singapore (and Malaysian) companies were cross-listed in the early years in both Singapore and Kuala Lumpur.
** Government A companies were those under government control in 1974. Government C companies were those under foreign control in 1974 but taken over by the government in 1977.
*** Private local ownership in 1974 was almost entirely Chinese. Sources: The 1974 data was derived from Tan Tat Wai (1982). Veena Loh, under the supervision of Tan, constructed the data for 1993.

In order to attract the return of foreign investors, in 2001, the government has no alternative but to grant exemptions to Multi-Media Super Corridor (MSC) status companies to encourage high-tech investments as well as to promote research and development in the sector of information technology in the country. Besides this, in the current years up to 2008, having been facing with the economic problem due to the Asia financial crisis in 1997 and the world wide inflation, the government has also opened up a special region in the state of Johore (which is situated next to Singapore), known as the Iskandar Economic Zone whereby

[15] Derived from:- Centre for Public Policy Studies, 2006, pg.11 Table 6, “CPPS Recommendation for Ninth Malaysia Plan, Part D. Corporate Trends and Future Policy”.
[16] Gomez, Edmund Terence and Jomo K.S., 1999, “Malaysia’s Political Economy: UMNO’s Corporate Investment”, Kuala Lumpur: Forum

foreign investors in this region are also exempted from the equity regulation in 6 key sectors in creativity, education, financial advisory and consulting, healthcare, logistics and tourism[17]. Without these exemptions, it is clear that the 30: 40: 30 quota regulation on equity ownership is unlikely to be an attractive measure to attract foreign direct investment in these capital intensive yet promising sectors which are essential for the economic growth of the nation. In 2003, as stated by Rafidah Aziz, the former international trade minister, "*In continuing efforts to further improve the investment climate, the government has decided to fully liberalise equity holdings in all manufacturing projects with immediate effect*". Foreign direct investment in Malaysia has been falling over the past few years, including a 40% drop last year to RM11.2 billions (€2.5 billions). "*The Chinese* [in China] *give 100% equity and we don't. Well,* [foreign investors] *say* [they will] *go to China. So we have to compete on even terms,*" said Rafidah Aziz[18]. These exemptions are necessary to overcome the cumbersome requirement of quota fixing which is the major obstacle to foreign direct investment.

c) Negative impact on the private local investment

Having assessed the negative impact on the foreign direct investment upon the country, it is timely to turn to the domestic arena whereby the local and private non-bumiputera companies have also responded to the regulation in a likely manner. Many local companies have chosen to list their companies on foreign sock exchange such as Hong Kong and Singapore as the listing requirements in these countries are not as stringent in the quota of local bumiputeras ownership. According to Edsel L.Beja, Jr.[19], he has "*…found statistical evidence that the New Economic Policy (NEP) induced more capital flight, … Indeed, this finding confirms the contention of some scholars that the NEP (along with its associated programmes) is an important explanation for capital flight during the 1970s and 1980s*".

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[17] The exemption is granted through *Iskandar Regional Development Act 2007* which came into force on 19/09/2007. (obtained from http://www.idr.com.my accessed on 03/06/2008)
[18] *Financial Times* Tuesday 24 Jun 2003.
[19] "Revisiting the Revolving Door: Capital Flight from Southeast Asia" DESA Working Paper No.16 ST/ESA/2006/DWP/16 August 2006

For instance, the wealthiest Malaysian businessman, Robert Kuok, whose estimated worth is RM15 billions (approximately €3 billions), has diversified into a wide range of business interests, ranging from the largest sugar plant in South East Asia to the international hotel chains such as Shangri-La and Equatorial, but the bulk of his investments are outside Malaysia, including in Hong Kong and China. The late Lim Goh Tong, the third richest Malaysians businessman, built his wealth largely from the casino business at Genting Highland and has controlling stakes in the publicly-listed Genting, Resorts World, and Asiatic Developments, has also listed Star Cruises Plc in Hong Kong, in which he holds a 20% stake [20]. Given the very coercive nature of the quota requirement, this has an impact which leads to massive capital flight by the domestic investors. As already demonstrated in Table 5 above, the market capitalisation of the Chinese entities has decreased almost double from 27.00% to 13.90% in the span of 2 decades from 1974 to 1993. Some domestic investors have also opted to invest in China and India which have lower production costs and higher flexibility in the structure ownership of the foreign companies investing in these two gigantic economic dynamos in Asia.

2) Indirect Costs

Besides the direct costs involved, the indirect costs which are inevitably incurred could prove to be more damaging than the direct costs stated above. These indirect costs take the forms of transaction costs, strategic behaviours in the transfer of shares, as well as rent-seeking activities which are inefficient and value- reducing.

a) <u>Transaction costs</u>.

Given the very nature of the quota requirement, both the foreign and the local companies are obliged to incur searching costs in order to fulfil the requirement of a minimum 30% of Bumiputeras ownership; and for foreign companies, a maximum of 40% ownership by other Malaysians. Due to the limited financial resources available on the general public, these companies have to locate the

[20] Lee Kam Hing and Lee Poh Ping, 2001 “Malaysian Chinese Business: Who Survived the Crisis?” in

‘right’ and compliant natural or legal persons to offer a large amount of shares in accordance with the regulation. By doing so, instead of offering the shares on an equal basis, certain groups are favoured as they could be used to fulfil the requirement. By having to search and locate these Bumiputeras or other Malaysians, the company does not only have to incur searching costs but also negotiation costs. In the absence of the regulation on the quota on ownership, the searching and negotiation costs cold have been saved and utilised on a more productive or value-enhancing activity.

Furthermore, if the transaction costs are so high as to such an extent that the return from company is insufficient to outweigh these costs, this again will lead to relocation of these companies to other less developed neighbouring south-east Asian countries such as Vietnam and Thailand. These neighbouring developing countries also provide tax incentives and have more liberal listing requirement.

A brief glance at the following equity policies in ASEAN (Association of South East Asian Nations) countries in Appendix I [21] shows that Malaysia has the most complicated and inconsistent foreign equity policy, with numerous uncertain exemptions and deadlines, meaning higher costs in its scrutiny and reduced competitiveness in the eyes of the foreign investors.

b) Increase of costs due to Strategic Behaviours in the Transfer of Shares.

Besides this, the problem of strategic behaviour could further lead to the increase of transaction costs in the transfer of shares. For instance, if the last Bumiputera or Malaysian is not willing to accept the same rate as offered by the previous equity holders, the company has no alternative but to adhere to the threat by the last transferee since the company has invested enormously in the previous transactions. Such a hold up will be likely to lead to inevitable escalation of costs incurred by the offeror companies (due to transfer of share at an under market price) in fulfilling the quota requirement, without additional advantage or improvement in efficiency.

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http://kyotoreview.cseas.kyoto-u.ac.jp/issue/issue3/article_280.html accessed on 03/06/08

In fact, these strategic behaviours may be a good explanation and driving force behind the phenomena of massive underpricing of Initial Public Offering (IPO) shares in Malaysia. Based on one of the studies conducted to look into this phenomena, the problem of underpricing is directly magnified by the equity restriction, as illustrated in the table below: -

Table 6: Underpricing of Malaysian New Issues in the Pre- and Post-Bumiputera Policy Implementation Periods Compared[22]

	Pre-Bumiputera Policy Period (1968–1975) Average Undepricing (%)	**Post-Bumiputera Policy Period (1976–1992) Average Undepricing (%)**	**Comparison over Two Periods of Percentage Point Difference and Results of Significance from a t-Test**
First Day	57	118	61**
First Week	59	111	52**
First Week	59	111	52**
First Month	60	109	49*
First Three Months	49	103	54**
First Six Months	42	109	67**
First Year	28	100	72**
First Two Years	25	73	48*
First Three Years	24	59	35*

*Significantly underpriced at or better than 0.05 (*) and 0.01 (**) probability levels.

c) <u>Rent-seeking Activities through the Middlemen Network which are Inefficient and Value- Reducing</u>.

Lastly, the rent-seekers who are able to profit from such an environment will be able to carry out rent-seeking activities by incurring economic wastes. If the costs

[21] http://www.aseansec.org/8825.htmaccessed on 17/07/08
[22] Adopted from Dev Prasad, George S. Vozikis, and Mohamed Ariff, 2006, Table 5 pg. 94, "Government Public Policy, Regulatory Intervention, and Their Impact on IPO Underpricing: The Case of Malaysian IPOs" *Journal of Small Business Management* 2006, 44 (1), pp. 81–98

of rent-seeking waste is higher than the benefits derived from the rent-seeking activities, such a rent-seeking behaviour is undoubtedly inefficient[23].

For instance, may be political leaders or royal families are much better informed than the average laymen on the street. As a minimum of 30% ownership must be owned by Bumiputeras, the initial public offerings (IPOs) are sold at low or lower than market price to these group of transferees. If one cannot find a partner, the Malaysian Industrial Development Authority (MIDA) or MITI will give a list of "approved Bumiputeras" to whom the company must sell, or give, a stake at a discount. However, these shares are likely to be immediately sold off to third parties at a higher market price, thereby creating a rent-seeking market in the distribution of shares within the Malay Bumiputeras' community and other Malaysians. The profits derived from these 'middlemen network' for share transfers are extremely lucrative. As a result, the political leaders tend to compete against each other for IPOs of companies with great potential in instantaneous increase in their share prices. The rise of Malay capital has also led to repeated intra-UNMO feuding, bringing the political party into disarray and disrepute[24]. As such, *"… the questioning of the current opposition to the government is seen as, to use the colourful phrase of an informant interviewed, like "dogs fighting over the same piece of bone".*[25]" Through these retransfer of shares for the pure purpose of rent seeking profit, there is no creation or redistribution of wealth to the poor, but only profits in the forms of wasteful rents enjoyed by the more informed elite groups. For example, a case study by Associate Professor Malcolm Tull and Dr. James Revely of Murdoch University in January 2001 noted the sale of shares in Klang Container Terminal (KCT) has led to a dilution of Bumiputera equity holding. Between 1983 and 1990, Bumiputera ownership of KCT equity declined from 65% to 38% of total paid-up capital[26].

[23] Mushtaq H. Khan & Jomo K.S. (Editors), 2000, "*Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*", Cambridge University Press

[24] Gomez, Edmund Terence and Jomo K.S., 1997, "*Malaysia's Political Economy: Politics, Patronage and Profits*", Cambridge University Press

[25] Yao Souohou, 2003, pg. 218 "After The Malay Dilemma: The Modern Malay Subject and Cultural Logics of 'National Cosmopolitanism' in Malaysia", *Journal of Social Issues in South East Asia,* Vol. 18, No. 2 (2003), pp. 201-229

[26] Centre for Public Policy Studies, 2006, pg.9, "CPPS Recommendation for Ninth Malaysia Plan, Part D. Corporate Trends and Future Policy".

In connection with wasteful rent-seeking activities, many Bumiputera companies were floated in the 1980s and listed on the Bursa Malaysia to take advantage of the favourable and government-subsidised loans granted to these types of companies. As a result, this had caused the problem of bubble economy, contributing to the economic crisis in 1997 in Malaysia. This is detrimental to the overall efficiency of the stock market as some of these companies did not have substantial commercial capacities in dealing with crisis and merely rely on the loans to float on the stock exchange. These companies may look gigantic when the economic situation is booming but when there is a recession, most of them just collapsed or shrunk substantially. During the economic crisis, these parasitic companies had to resort to governmental funds for their ultimate survivals, causing a substantial public expenditure on rescuing ailing and inefficient companies. Some of these Bumiputera companies owners included Tunku Abdullah, Azman Hashim, Daim Zainuddin, Halim Saad, Tajudin Ramli, Wan Azmi Wan Hamzah, Samsudin Abu Hassan, Hassan Abas, Rashid Hussain, Shamsuddin Abdul Kadir, Ahmad Sebi Abu Bakar, Ishak Ismail, Mohamad Sarit Yusoh, Kamaruddin Jaafar, Kamaruddin Mohd Nor, Mirzan Mahathir, Mokhzani Mahathir, Amin Shah Omar Shah, Syed Mokhtar Syed Nor, Mustapha Kamal and the late Yahya Ahmad. A number of these businessmen were substantially hit by the 1997 currency crisis leading to the loss of the firms under their control[27].

II. Types of Benefits (aimed to be) Derived:-

1) Increase of wealth distribution;
2) Reduction of poverty across ethnic groups;
3) Increase of entrepreneurship among the Malay Bumiputeras;
4) National unity

1) <u>Increase of wealth distribution</u>.

First of all, the increase of wealth distribution is said to have been achieved throughout the period of implementation of the regulation. Based on the official statistics released in 2004, the mean monthly gross household income has

[27] Ibid. above

increased to RM3,249 (€ 650) As for the ratio of the ethnic group, according to the statistics, the greatest improvement has been on the Malay Bumiputeras in the span of last three decades. As a result, the income disparity has reduced between the Chinese and the Malay bumiputera. On the other hand, the income disparity between the Malay and the Indian has widened in the recent years.

Given the very nature of asymmetric information between the elite group and the general public, the concentration of ownership in the hands of the elite group is not reflected on the official statistics. For instance, according to The Economists Intelligence in 2007, the ratio of income inequality has increased in the recent years, especially within Malay Bumiputera group. The Gini-coefficient (a key measure of inequality) for Malaysia as a whole rose from 0.452 from 1999 to 0.462 in 2004, but 0.433 to 0.452 for the Malay Bumiputera[28].

Besides this, the wealth ownership in the hands of these elite groups have also been concentrated and accumulated extensively through the massive wave of privatising state companies (which are mainly monopolistic in nature, such as telecommunication, transportation, electricity supply, etc) since the late 1980s. For instance, in 1987, in the privatisation of the North South Highway[29], which connects the whole of Peninsular Malaysia all the way from the north to the south, the bidding procedure was extremely opaque without public competitive tender. Instead, the contract was awarded to United Engineers (M) Berhad (UEM), who was not the lowest bidder. There is a clear conflict of interest when it was discovered that UEM is majority owned by Hatibudi, which in turn is majority owned and controlled by UMNO, the dominant Malay Bumiputera party[30].

Based on the statistics issued by the Prime Minister's Department, as at December 2005, almost all of the equity transfers of these privatised entities were made in favour of the Malay bumiputeras (the majority of which are political leaders or their close allies or family members), leading to more than 50% of the ownership held in the hands of this particular group, as demonstrated below: -

[28] The Economists Intelligence Unit Limited, 2007, Country Profile: Malaysia, pg. 15

[29] The successful bidder will also be entitled to collect toll charges, revise the rate when the need arises and extend the period of toll collection, as stipulated in the contract.

[30] Toh Kin Woon, 1989, pg. 252, "Privatisation in Malaysia: Restructuring or Efficiency?" *ASEAN Economic Bulletin*, March 1989, pg. 242-258

Table 7: Equity Ownership Of Privatised Entities[31]

Equity Ownership	Upon Privatisation Par Value		December 2005 Par Value	
	RM million	% of Total	RM million	% of Total
Government	8,584.4	50.7	9,013.8	31.2
Bumiputera	5,535.6	32.7	14,901.5	51.7
Non-Bumiputera	1,510.5	8.9	2,573.0	8.9
Foreign	1,303.4	7.7	2,368.5	8.2
Total	**16,933.9**	**100.0**	**28,856.8**	**100.0**

Source :Economic Planning Unit
Note: Privatised projects processed by the Economic Planning Unit.

Although these wealth or equity ownership are concentrated, the official statistics only take into account of the overall wealth or equity to be divided among the overall population or ethnic group, without consideration of the wealth concentration within a handful of elite groups. As such, whether or not there is a real increase in the wealth or equity distribution through the quota of equity ownership is subject to further investigation.

2) Reduction of poverty across ethnic groups.

Secondly, it is claimed that the reduction of poverty across the ethnic groups have also been achieved throughout the period of implementation of the regulation. Based on the official statistics released from the Prime Minister's Department, the mean monthly gross household income has increased to RM3,249 (€ 650) in 2004. As for the ratio of the ethnic group, according to the statistics, the greatest improvement again has been on the Malay Bumiputeras.

Nevertheless, as discussed and analysed above, the rosy picture painted by the statistics may not be entirely true after all. Given the very nature of wealth concentration, the method in deriving the statistics is indeed questionable.

[31] Prime Minister's Department, 2006 "*Ninth Malaysia Plan 2006-2010*", Economic Planning Unit.

In addition, even if there is a reduction of poverty for a particular ethnic group, there is evidence that such a reduction is at the expense of other ethnic groups. For instance, out of the overall equity shares owned by the public in general, the Indians and the aboriginal constitute less than 2% of the equity shares. Whether or not the interests of these marginalised ethnic groups are taken into account in dealing with the issue of poverty elimination is indeed dubious. The following table demonstrates the social stratification of the Malaysian society as in 2005: -

Table 8: Social Stratification of Malaysian Society in 2005

Ethnic Group	Top	Middle	Bottom	Total
Bumiputera	1,999,500 (13%)	5,986,500 (39%)	7,368,000 (48%)	15,350,000
Chinese	2,040,000 (34%)	2,700,000 (45%)	1,260,000 (21%)	6,000,000
Indian	360,000 (20%)	900,000 (50%)	540,000 (30%)	1,800,000
Total (percentage of total population)	4,399,500 (18.9%)	9,586,500 (41.4%)	9,168,000 (39.6%)	23,150,000

Source: Centre for Public Policy Studies, 2006, pg.15 Table 2, "Ensuring Effective Targeting of Ethnic Minorities: The case of Low Income Malaysian Indians".

As noted earlier, while the economic clout and numerical strength of the Chinese community has, to some extent, subjected the Malay-dominated *Barisan Nasional* (National Front) government to be relatively sensitive to their interests, the concerns of other ethnic minorities such as the Indians and non-Malay *bumiputeras* appear to carry less weight. Unlike the Chinese community, the Indians are both economically and electorally marginal, constituting only 7.5% of the total population. While there has been an appreciable increase in Malay and Chinese control of the corporate sector, the Indian share has only marginally increased from 0.9% in 1969 to 1.5% in 1999. In a relatively weaker position than other major ethnic-based parties in the Malay-dominated *Barisan Nasional* government, the Malaysian Indian Congress (MIC) has limited influence in representing the concerns of the Indian community and in shaping public policies.

With a significant proportion of Indians in the lower socio-economic strata of Malaysian society with limited prospects for social mobility, it is hardly surprising that some recent ethnic riots have occurred in neighbourhoods heavily populated by working class Indians, Malays and unskilled foreign workers. In particular, Malay-Indian clashes have erupted in the working class villages of Kampung Rawa, Penang in April 1998 and Kampung Medan, Kuala Lumpur in March 2001. Opposition politicians and civil society activists claimed that the March 2001 clash, which caused six people dead and 50 injured [32], "*was triggered off not by race but by frustration over poor living conditions and the uneven development during the 'boom years' of the 1990s*" [33]. As these 'ethnic clashes' suggest that ethnic tension is most volatile among socially disadvantaged communities, the ethnic-based redistributive measures of the state may be in need of a reconfiguration to address more effectively the concerns of the economically marginal across all ethnic communities[34].

3) Increase of entrepreneurship [35] among the Malay Bumiputeras.

Thirdly, through ownership of equity in enterprises, it is targeted to increase the spirit of entrepreneurship among the Malay Bumiputeras. To a certain extent, since the 1970s, a number of local Malay entrepreneurs have been created through strong government support, for instance Tunku Abdullah, Azman Hashim, Daim Zainuddin, Halim Saad, Tajudin Ramli, Wan Azmi Wan Hamzah, Samsudin Abu Hassan, Hassan Abas, Rashid Hussain, Shamsuddin Abdul Kadir, Ahmad Sebi Abu Bakar, Ishak Ismail, Mohamad Sarit Yusoh, Kamaruddin Jaafar, Kamaruddin Mohd Nor, Mirzan Mahathir, Mokhzani Mahathir, Amin Shah Omar Shah, Syed Mokhtar Syed Nor, Mustapha Kamal and the late Yahya Ahmad. However, a number of these businessmen were badly affected by the 1997 currency crisis leading to their

[32] A study conduced by Malaysia's National Unity Department found that 413 villages populated by lower-income communities were subject to ethnic violence. These villages are located along the peripherals of cities and densely populated. Refer to *Straits Times*, 27 March, 2002.
[33] S. Jayasankaran, 'Pressure Point', *Far Eastern Economic Review*, 22 March, 2001.
[34] Rahim, Lily Zubaidah "Minorities And The State In Malaysia And Singapore: Provisions, Predicaments and Prospects", Commission on Human Rights Sub-Commission on Promotion and Protection of Human Rights Working Group on Minorities Ninth session 12-16 May 2003

loss of the firms that had come under their control. Moreover, given the indispensable strong nexus between these Malay Bumiputera entrepreneurs with the political leader in the biggest party, UMNO, it is unclear whether or not their business success stories are due to genuine entrepreneurship. In fact certain state monopolies were granted to these group of businessmen, implying that genuine entrepreneurship may not be cultivated to overcome any realistic competition in the global market.

Besides this, in order to profit from the government's ruling to obtained certain state or federal projects specifically reserved for Malay Bumiputera companies, many non-Bumiputeras have also formed 'Ali Baba' companies by incorporating a minimum of 30% Malay Bumiputera shareholders as sleeping partners to obtain these projects. "Ali-Baba" enterprises were usually arrangements where the minority Malay shareholders, "Ali," received generous fees for securing business deals in which access to high-ranking political and bureaucratic power-holders played a crucial role, while the Chinese partners, the "Baba," retained control over the enterprise, made policy decisions, and took charge of day-to-day business operations.[36] Majority of these Malay Bumiputera sleeping shareholders or partners have no knowledge whatsoever of the actual running of the business and merely wait for the distribution of dividends at the end of the financial years. Unqualified Malay Bumiputeras also "rented" their ethnic status by having access to the benefits of other positive discrimination policies, and sold-off the entitlements to the non-Bumiputeras.

As a result, not only that the spirit of entrepreneurship is not cultivated, this quota of equity ownership has instead led to a more wide spread attitude of absolute dependence upon the genuine entrepreneurship of the non-Bumiputeras. In this situation, the quota of ownership has disincentivised the growth of true entrepreneurship among the Malay Bumiputeras and has an adverse effect on the cultivation of genuine entrepreneurship. Instead of setting up their company based on the enterprising spirit, the easier access to directorship or shareholdership

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[35] For a general discussion on entrepreneurship, see Kirzner, Israel "Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach", *Journal of Economic Literature*, Vol. 35, 60-85, 1997

[36] Heng Pek Khoon, 1997, " The New Economic Policy and The Chinese Community In Peninsular Malaysia " *The Developing Economies*, XXXV-3 (September 1997): 262–292

through the 'Ali Baba' arrangement has inhibited the entrepreneurship skills. The first Malaysian Prime Minister, Tunku Abdul Rahman, who opposed the 30% target, wrote in the 1980s that "[a]n attempt was made to fill the target without thought for the ability and the capability of attaining it. …Some became rich overnight while others became despicable Ali Babas and the country suffered economic set-backs ".

In addition, ownership of equity through effortless avenue as such could also lead to the false perception of how simple it is to run or set up a business. Many 'get rich quick' schemes are promoted and lead to blind and hasty investment by the Malay Bumiputeras shareholders who were inexperience in the business risks involved. Having lack of exposures to the knitty-gritty of the actual running of a company and acute assessment of business risks in reality, the shareholders that profit from 'easy dividends' become victims of these 'get rich quick' which could lead to further loss of wealth among these groups of shareholders.

Moreover, based on the analysis conducted recently, there is a clear indication that the creation of the Malay Bumiputera entrepreneurs through equity ownership and loans on favourable terms are not the proper instruments to inculcate entrepreneurship. Given that many equity ownership and transfers were obtained through the aids of the government or government linked companies, the crutch culture has been created among the Malay Bumiputeras entrepreneurs to rely on the government to establish new enterprises. This unsound policy has led to false sense of security and moral hazard problem as failed enterprises could still fall back to the government for its survivorship. *"Possibly, the most well known rescue attempt of a politically-connected conglomerate in 1997 was the November 17 announcement by United Engineers Berhad (UEB) that it had just used borrowed funds to acquire 32.6% of the shares of its parent company, Renong Berhad. UEB had done this without consulting its minority shareholders. Furthermore, the government had to issue a waiver to exempt UEB from having to make a general offer for Renong shares that it did not own. Because UEB's move was widely seen as bailing out the indebted majority shareholders of Renong to the detriment of* *minority shareholders in both companies, the share prices of both companies plummeted after the announcement of the acquisition*"[37]

Based on the illustration stated above, in the presence of the state aid (both financial and non-financial), the government (and ultimately the general public), instead of the so-called 'entrepreneurs', becomes the residual risk-bearer. The 'entrepreneurs' therefore have no incentive to establish a successful enterprise through optimal use of effort in entrepreneurship. As such, in order to cultivate genuine entrepreneurship, the quota on equity ownership of a company should be discontinued so as to enable the protected entrepreneurs to become the ultimate risk-bearer in case of a failed business. This would ensure that the entrepreneurs would exercise optimal level of effort to achieve a successful venture in the competitive market.

4) National unity.

The fourth objective of the policy of the equity ownership regulation under the NEP is to achieve national unity being the ultimate goal. By narrowing the gap between the ethnic groups which is claimed to be the source of racial conflict, it is predicted by the policy maker that the stability of the political situation could be maintained. However, as already discussed in the previous sections, despite the massive growth among the Malay Bumiputeras, there is also indication that the economic gap is widening within the Malay Bumiputeras (intra-ethnic gap), and across the ethnic groups (inter-ethnic gap), especially the Indian minority in the Peninsular Malaysia, as well as the non-Muslim aboriginals in the East Malaysia in Borneo.

Through the quota on equity ownership, a selected patronage of political leaders or the Malay Bumiputera elite groups, especially the sultanate royal families, have gained the lion share the wealth, without proportionate distribution to the lower-income groups. In fact Malaysia is one of the most advanced countries in the South East Asian region but also the country with the largest gap between the rich and the poor. In 2004, the United Nations Human Development Report reveals that income

[37] Dwight Heald Perkins and Wing Thye Woo, 23rd December 1998, "Malaysia in Turmoil: Growth Prospects and Future Competitiveness" Harvard University and University of California at Davis available at igcc.ucsd.edu/pdf/afc/afc-perkins.pdf accessed on 05/05/08

inequality has worsened in Malaysia, with the richest 10% controlling 38.4% of the total income while the poorest 10% possess only 1.7%.

Besides this, in the latest 12th general election in 2008, there is a massive increase in the seats won by the opposition alliance occupying more than 1/3 of seats in the Parliament, which are made up of DAP (Democratic Action Party), Parti Islam SeMalaysia i.e. the Pan-Malaysian Islamic Party (PAS) and Parti Keadilan. The opposition has gained majority control on 5 states out of the 13 federal states, namely Kelantan, Kedah, Penang which are in the northern region, as well as Perak and Selangor which are in the middle of the country. As demonstrated in the table below, it is the first time in the history of Malaysia since 1969 that the opposition parties have won more than 1/3 of the overall parliamentary seats:-

Table 9: Proportion of popular vote compared with number and share of parliamentary seats in general elections, 1959–2008

		National Front Alliance/Barisan National			All opposition parties			
No.	**Election year**	**% of popular vote**	**No. of seats**	**% of seats***	**% of popular vote**	**No. of seats**	**% of seats***	**Total no. of seats contested**
1	1959	51.7	74	71	48.3	30	29	104
2	1964	58.5	89	86	41.5	15	14	104
3	1969	49.3	92	64	50.7	51	36	143
4	1974	60.7	135	88	39.3	19	12	154
5	1978	57.2	130	84	42.8	24	16	154
6	1982	60.5	132	86	39.5	22	14	154
7	1986	55.8	148	84	41.5	29	16	177
8	1990	53.4	127	71	46.6	53	29	180
9	1995	65.2	162	84	34.8	30	16	192
10	1999	56.5	148	77	43.5	45	23	193
11	2004	63.8	198	90	36.2	21	10	219
12	2008	49.1	140	63	50.9	82	37	222

*Rounded to the nearest 1 per cent.
Sources: Adapted from:-

(1) Khoo Boo Teik, 20 December 2005, pg. 32, Table 29 "Ethnic Structure, Inequality and Governance in the Public Sector: Malaysian Experiences", Democracy, Governance and Human Rights Programme Paper Number, United Nations Research Institute for Social Development,
(2) *The Economist*, 15th March 2008, pg.15 "Malaysia's Election: The Non-Colour Evolution" and pg. 64 –66 "Malaysia's Election Upset: Anwar Overturns the Apple Chart"

The main supporters of PAS are the lower income group of the Malay Bumiputeras, whereas the supporters of DAP and Parti Keadilan are the middle income group of Malay Bumiputeras and lower income groups from the non-Bumiputeras across the ethnic groups. With the widening of gap between the high and low income groups, the opposition parties are able to gather more votes of these lower income groups and gain more support than the previous elections. In addition, as this crevasse is further deepened by the inextinguishable flame of wide-spread dissatisfaction in the decrease of real income within the lower income group (fuelled by the massive price increase in staple food commodities and petrol recently), it is clear that the target of national unity could not be achieved with the regulation on equity ownership quota.

Moreover, the stability of the society which is the key to national unity is also threatened by the constant increase of street criminal rates throughout the years. Due to massive unemployment especially in the Indian ethnic minority, the only way to earn a living is through illegal activities or criminal gangsterism. The neglect of the economic progress of Indian community at large has led to the lagging behind of this group in the mainstream economy. Due to its historical employment in tea and rubber plantations, the rapid urbanisation in the last 3 decades had led to diminishing of employment opportunities in those agricultural activities. Besides this, as the ownership structures of many large scale plantation companies have been systematically reformed in favour of the Malay Bumiputera groups, the structure of employment has also changed in parallel. The dissatisfaction by the Indian community is so deeply rooted that this year on January 23rd in 2008, many Indian Malaysians have answered to the call to a boycott[38] against the celebration of Thaipusam in Batu Caves temple in Kuala Lumpur, which is one of the biggest festivals of Hinduism[39].

[38] The call was made by Hindraf (the Hindu Rights Action Force) which is a radical Hindu protest group.

Therefore, it is clear that the regulation on equity ownership has not in anyway achieved its aim in increasing national unity. On the contrary, it has widened the intra-ethnic and inter-ethnic gaps between the different income groups. This could have an adverse effect the social and political stabilities leading to further national disunity and racial polarisation[40].

(E) POSSIBLE OBSTACLES IN REMOVING THE INEFFICIENT REGULATION

Based on the evaluation analysed above, it is clear that despite the limited success that the regulation on ownership of equity has achieved, the overall performance has been futile. The problems of concentration of wealth, increasing poverty, disincentives of entrepreneurship and national disunity are visibly aggravated by this unsound policy. Besides this, the nation at large has also borne the astronomical costs to fulfil the requirement prescribed by the regulation.

Although it is visible to the policy maker that this regulation is outdated and limited in achieving its goals, there are numerous obstacles to its abolishment, even in the long run. I have identified 4 major sources of these obstacles, namely as follow: -

I. Political agenda;
II. Rent –seekers' lobbying;
III. Path-dependence; and
IV. Endowment effect

I. Political agenda

By ensuring the status of the "Malay Bumiputeras" in equity ownership is well-protected and defended feverishly, the biggest political party, UMNO, which is also the incumbent pro-Malay political party, is able to demonstrate its political standing as the symbolic guardian of the special privilege to the existing 16 millions of Malay Bumiputeras (who are also the prospective voters). This

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[39] *The Economist*, 26/01/2008, pg. 52-53 "Indian Mutiny: A hitherto quiescent minority losses faith in the social contract"
[40] M. Bakri Musa, 2003 "Post-Mahathir Malaysia: Coasting Along" pg. 13-18 September *2003 Asia Program Special Report* No. 116 The Woodrow Wilson Center Asia Program at http://www.wilson-center.org/asia accessed on 5/5/2008

regulation could be used as an attractive and cost effective tool to gain votes from the less informed Malay Bumiputera voters. In fact, the very conception the 30: 40: 30 rule is rooted in the Malay Bumiputera privilege in Malaysia. Given the deliberate entangled nexus between the policy of equity ownership quota and the Bumiputera privileges, the political implication is therefore to utilise the regulation as an instrument to lure the unwary voters. As demonstrated in the two tables below, it is clear that to gain the majority seats in the parliament, the votes of the main ethnic group, the Malays (i.e. the Bumiputeras), of which the population is steadily on the rise and increases in percentage of the ethnic proportion throughout the years, are the most crucial ones: -

Table 10: Ethnic composition of the population, Peninsular Malaysia, 1957– 2006

Ethnic group	1957	1970	1980	1991	2000	2006
Population						
Malays	3,125,474	4, 685,838	6, 315,000	8,433,800	11,485,341	16,400,000
Chinese	2,333,756	3, 122,350	3, 865,000	4,251,000	5, 142,649	6,220,000
Indians	735,038	932, 629	1,171,000	1,380,000	1,774,002	1,860,000
Others	184,732	69, 183	75, 000	537,500	121,641	320,000
Total	6,379,000	8, 810,000	11,426,000	14,602,300	18,523,632	24,800,000
Proportion of Total Population (%)						
Malays	49.0	53. 2	55. 3	57.8	62. 0	66.1
Chinese	36.6	35. 4	33. 8	29.1	27. 8	25.1
Indians	11.5	10. 6	10. 2	9.5	9.6	7.5
Others	2.9	0.8	0.7	3.7	0.7	1.3
Total	100.0	100.0	100.0	100.1	100.1	100.00

Sources: Malaysia Census Reports 1957– 2000 & Department of Statistics, Yearbook on Economy 2006.

Table 11: Population of Malaysia by Bumiputera and non- Bumiputera divisions, 1970– 2006

Population division	1970		1980		1991		2000		2006	
	Number	**Per cent**	**Number**	**Per cent**	**Number**	**Per cent**	**Number**	**Per cent**	**Number**	**Per cent**
Bumiputera	5,738,250	55.6	8,059,537	58.6	10,656,500	60.6	14,621,468	64.1	16,400,000	66.1
Non-bumiputera	4,581,074	44.4	5,685,704	41.4	6,917,800	39.4	8,203,670	35.9	8,400,000	34.9
Total	10,319,324	100	13,745,241	100	17,574,300	100	22,825,138	100	24,800,000	100

Sources: Malaysia Census Reports 1970, 1980, 1991, 2000 & Department of Statistics Yearbook on Economy 2006.

Nevertheless, the usefulness of this political agenda is now under relentless challenges from within the Malay Bumiputera community themselves. Given that the equity regulation has been in force for more than 30 years, its adverse effects in widening the gap between the elite groups and the public in general become more and more visible. Moreover, with the emergence of new Malay Bumiputera middle-class, who are more informed and more knowledgeable than their predecessors, they no longer view the equity quota as synonymous to Malay Bumiputera privilege. As a result, there is a silver lining in the true enlightenment of the Malay Bumiputera voters in identifying the difference between political agenda and what is truly welfare enhancing for the nation as a whole irrespective of the ethnic groups.

II. Rent -seekers' lobbying

Given that the rent-seekers' revenue would be directly diminished with the abolishment of equity quota restriction, there is therefore no doubt that the lobbying for its continued existence is fervent[41]. In the economic literatures, much ink has been spilt in relation to the efforts put in by the interest groups in supporting or opposing the enactment of regulations all over the world[42]. In the case of Malaysia, Gomez and Khan[43] have shown that the interest groups within the UMNO itself are the biggest gainers under the equity regulation on the ownership. Many government linked companies or state enterprise development companies (SEDCs) whose board of directors or management teams are almost entirely made up of close allies or cronies of the UMNO political leaders. Through the creation of "middlemen network" in acquisition and disposition of Malay Bumiputera shares, as well as exclusive lucrative projects reserved for these companies, the survivorship of these corporation rests entirely upon the continued enforcement of this regulation.

[41] See appendix II, "Ode to a Rent-Seeker" (extracted from the Prologue 1988,"*The Political Economy of Rent-Seeking*" Kluwer Academic Publishers of Rowley, Charles K., Tollison Robert T., Tullock, Gordon (Editors))
[42] Rowley, Charles K., Tollison Robert T., Tullock., Gordon (Editors) 1988,"*The Political Economy of Rent-Seeking*" Kluwer Academic Publishers
[43] Gomez, Edmund Terence and Jomo K.S., 1997, "*Malaysia's Political Economy: Politics, Patronage and Profits*", Cambridge University Press

The incidents as such are recurring even throughout the whole range of top ministers. In 1994, the Malaysia's Anti-Corruption Agency looked into the case of share transfers in a public company known as Leader Universal which is the largest producer of cable in Malaysia. Six allocations were made to individuals, namely Fazrin Anwar (the son-in-law of Mrs. Rafidah Aziz, the ex Minister of International Trade and Industry), Mirzan Mahathir (the son of ex Prime Minister, Mr. Mahathir Mohamad) and Marzuki Ibrahim (the brother of ex Deputy Prime Minister, Anwar Ibrahim). Each received 1.5 million shares at a cost of RM1.00 (€ 0.20). The shares immediately rose to RM14.00 (€ 2.80) each, offering the owners a windfall profit in subsequent transfers, if they wish to do so[44]. However, the investigation ran into nowhere and subsequently diminished from the eyes of the public, as it usually occurs.

III. Path-dependence

Before the implementation of the regulation on equity ownership quota in 1971, the ratio of equity ownership is disproportionately high in favour of the foreign companies and non-Bumiputera Malaysians. This is due to the historical British colonial background in Malaysia since the 19th century and the entrepreneurship of the non-Bumiputeras. As such, in order to 'correct' the disproportion, it took more than 30 years and exorbitant costs on achieving the so-called 'equality' through the unequal means of equity ownership regulation.

Given that much costs have been wasted for the previous 3 decades or more, it is therefore arguable whether or not it is feasible or rational to make a U-turn in the policy which allows liberal equity ownership without any restriction, as the benefits derived from free ownership is not absolutely certain, alongside with the uncertainties of globalisation. The key challenge to the local enterprises, especially the Malay Bumiputera enterprises which have been suffering from the 'crutch mentality', is whether or not they are ready for the fierce competition in the global market. Due to the lack of exposure to the competitive environment for more than 30 years under the umbrella of equity ownership, it would be extremely

[44] *The Economist*, 12/10/1994, pg. 34 "The lucky winners".

disastrous at the beginning for the enterprises to withstand the strong wind of the more competitive firms from all over the world.

Many protectionist approaches are in favour of the equity quota ownership as it is claimed that the local Malay Bumiputera enterprises are vulnerable to 'predatory' behaviours in the competitive environment. 'Guaranteed' ownership through the regulation could ensure that the interests of this ethnic group is well-catered for in all circumstances. In addition, the very fact that many networks of intertwined business-political nexus are 'symbiosis' could further hinder the change of path to liberalisation of equity ownership.

Furthermore, due to the accompanying regulation that employment of these public corporation that at least 30% of the employees must be Bumiputeras, abolishment of this equity restriction could possibly lead to further unemployment of the Bumiputeras in the private sector. This could have a negative externality on the labour market, leading to more poverty within the ethnic group. On the other hand, this short, sharp pain could also act as a filter to distinguish between the genuinely competitive or more capable personnel and those with less capacities. Although the bitter pill of the abolishment of the quota on equity ownership may be hard to swallow at the initial stage, it nevertheless has a long term positive effect on the overall economic health of the nation.

In spite of this, it is essential to emphasise on the evolutionary nature of the economic development of Malaysia. In the 19th century, it was the British that dominated the economic sector with its political influence, whereas the Chinese have developed the retail and manufacturing sectors through its seamless internal middlemen networks[45]. In the period from the independence of Malaysia up to the 1970s, this pattern persisted without much alteration in its course. However, with the implementation of NEP among which the policy on equity ownership quota was introduced, the economic wealth has been systematically transferred to the Malay Bumiputeras, especially to the elite groups.

[45] Landa, Janet T., 2007, "Austrian Theory of Entrepreneurship Meets the Social Science and Bioeconomics" in E. Krecké, C. Krecké, R.G. Koppl (eds.) *The Cognitive Revolution in Economic Science Advances in Austrian Economics*, Volume 9,183 –206, Elsevier Ltd.

Nevertheless, in the recent years, with the relaxation on the rules of equity ownership, it could be observed that genuine collaboration between the ethnic groups are developing well, especially in the small and medium enterprises[46].

As such, the obstacle of path dependence does not appear to be inevitably dominant. The spontaneous and dynamic nature of the economic fluctuations through the river of history could show that economic restraints based on ethnicity or nationality is short-lived and not efficient for the wealth of nation.

IV. Endowment Effect

This concept of endowment effect is closely linked to the notion of Bumiputera privileges. Before the nation's independence in 1957, there was no official recognition of such a notion in the legislation. However, after 1957, through the enactment of *Article 153* of the *Federal Constitution of Malaysia*[47], this privilege is formalised and recognised. However, it is also formally stated in the constitution that the interests of other ethnic groups should not be affected in carrying out the measures to improve the economic status of the Bumiputeras[48].

Nevertheless, it has been and is still widely believed that *"…the economic agenda* (of the Malay nationalists) *was closely linked to the political one. The link was provided by the perceived notion of "being dispossessed at one's own home" (dirampas segalanya di rumah sendiri), with the colonialists and the immigrant population perceived as the "dispossessors." The Malay nationalist struggle was always put in terms of repossessing (merampas kembali) political and economic dominance from the British and the immigrant population*"[49]. With this false yet

[46] Centre for Public Policy Studies, 2006, pg.20, "CPPS Recommendation for Ninth Malaysia Plan, Part D. Corporate Trends and Future Policy".
[47] Article 153 (1) "*It shall be the responsibility of the Yang di-Pertuan Agong* to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities in accordance with the provisions of this Article*".
*Head of the State who is the Sultan with similar function of the Queen of U.K.
[48] Article 153 (4) "*In exercising his functions under this Constitution and federal law in accordance with Clauses (1) to (3) the Yang di-Pertuan Agong shall not deprive any person of any public office held by him or of the continuance of any scholarship, exhibition or other educational or training privileges or special facilities enjoyed by him*".
[49] Shamsul A. B., pg.245 from " The Economic Dimension Of Malay Nationalism: The Socio-Historical Roots of the New Economic Policy and Its Contemporary Implications", *The Developing Economies*, XXXV-3 (September 1997): 240–261

persuasive perception in mind, it is unfortunate that some Malays still believe that they should be the true owners of the wealth of Malaysia.

Similarly, with the implementation of equity ownership quota of at least 30% to the Bumiputeras ever since 1971, it is likened to the Malay Bumiputera privileges and the false consciousness of true ownership. Although numerous studies have shown without ambiguity that this policy has resulted in the decrease of the overall economic efficiency and wealth of the nation, including loss of wealth even within the Malay Bumiputera community itself, the endowment effect may lead to its continued implementation in the foreseeable future. For instance, although the NEP should have ended in 1990, new policies which were introduced such as National Development Policy (NDP) and New Vision Policy (NVP) are still unfortunately the reincarnations of the 37-year-old NEP, albeit under different labels. The spirit continues to live, nonetheless.

(F) CONCLUSIONS

After an elaborated discussions on the costs and benefits analysis, together with the obstacles in changing the regulation on the equity ownership regulation, it is time to conclude as follow:-

I. The costs of implementation outweigh the benefits derived from the equity ownership regulation, as it is observed that behind the veil of benefits there are insupportable real costs which could not be disguised;

II. The obstacles to the abolishment of inefficient regulation could be both economical and non-economical, such as political, sociological, cultural and psychological;

III. An interdisciplinary approach is essential for the evaluation of economic policy in a multi-religious, multiethnic and multicultural country. The contribution of law and economics, which analyses the law from an economic view point, is extremely insightful. Combined with political, sociological, cultural, anthropological and psychological approaches, the economic analysis becomes more encompassing and reflective of the reality;

IV. The perverse effect of welfare state intervention could be detrimental to the economy and may instead aggravate the very problem that it aims to overcome.

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Appendix I:

Foreign Equity Policies in ASEAN*

BRUNEI	Full foreign ownership, majority foreign ownership and minority foreign are allowed, as per the type of industry and situation. - Only activities relating to national food security and those based on local resources require some level of local participation. Industries for the local market not related to national food security and industries for total export can be totally foreign owned. Overall, in Brunei Darussalam, any industrial enterprise will be considered.
INDONESIA	For joint venture company the composition of share ownership is determined by investor. 100% foreign equity ownership is allowed in all area except those in negative list under Government Regulation No. 20/1994. 100% foreign equity is allowed under the presidential decree No. 99/1998, but foreign equity ownership shall be in the form of joint co-operation with Indonesian national small scale industry/ co-operative interim of supplier, sub-contractor, agent general trade and etc. Foreign equity ownership in infrastructure projects such as seaports generation as well as distribution of electricity for public use, telecommunications, airlines, potable water, public railways, atomic energy reactors shall establish by way of joint venture between foreign equity ownerships and Indonesian national equity is maintained at worth 5%.
LAOS	100% foreign equity ownership is allowed in all sectors open to foreign investment with the exception of the mining, plantations, and the hydroelectric power sectors in which a negotiated level of minority government ownership is required. To be classified as a foreign investment, the foreign equity ownership share must be at least 30%.
MALAYSIA	**Equity Policy Applicable to New Investments, Expansion or Diversification** * Foreign equity participation in manufacturing projects has been governed by the level of exports. Effective from 31 July 1998, the Malaysian government has liberalised the equity policy for *only* the manufacturing sector in respect of new investments, expansion or

diversification as follows:

- Foreign investors can now hold 100% equity irrespective of the level of exports.
- This relaxation is applicable for all applications received from 31 July 1998 until 31 December 2000 to set up manufacturing projects with the exception of specific activities and products where Malaysian small and medium scale companies have the capabilities and expertise. These activities and products are paper packaging, plastic packaging (bottles, films, sheets and bags), plastic injection moulding components, metal stamping, metal fabrication and electroplating, wire harness, printing and steel service centres. For these activities and products, the prevailing specific equity guidelines are applicable
- All projects approved under this policy will not be required to restructure their equity after the period.
- This policy will be reviewed after 31 December 2000.

Equity Policy Applicable to Existing Companies

* Companies which have been licensed before 31 July 1998 have to comply with the equity condition as stated in the license. However, for existing companies undertaking expansion or diversification, the equity policy as in 1.1 applies to the expansion and diversification projects.

The equity policy as in 1.1 also applies to the following companies:

- Companies previously exempted from the Manufacturing License but whose shareholders' funds have now reached RM 2.5 million or have engaged 75 or more full time employees; and
- Existing licensed companies exempted from the equity condition which are required to inform the Ministry of International Trade and Industry (MITI) when their shareholders' funds reach RM 2.5 million.

Relaxation of Export Conditions for Existing Manufacturers

* To encourage greater levels of industrial linkages and domestic sales, the government has relaxed the export conditions imposed on manufacturing companies effective from 1 January 1998 to 31 December 2000.
* With this relaxation, all existing companies with export conditions can now apply to MITI for an approval to sell up to 50% of their output in the domestic market.
* The products which are eligible to be considered for increased domestic sales are as follows:

- All products with nil duty
- All products with import duty which are not available locally or in

inadequate local supply
* The above temporary relaxation of export condition will not affect the current equity structure and incentives of existing companies
* The relaxation is also extended to new companies approved before 31 July 1998 once they commence operation.

Acquisition, Mergers, and Takeovers

* The acquisition of assets or any interests, mergers or takeovers of companies and businesses are governed by the Foreign Investment Committee (FIC) Guidelines, 1974. The guidelines are as follows:
- against the existing pattern of ownership, the proposed acquisition of assets or any interests, mergers or takeovers should result directly or indirectly in a more balanced Malaysian participants in ownership and control.
- the proposed acquisition of assets or any interests, mergers or takeovers should lead directly or indirectly to net economic benefits in relation to such matters as the extent of Malaysian participation, particularly Bumiputera participation, ownership and management, income distribution, growth, employment, exports, quality, range of products and services, economic diversification, processing and upgrading of local raw materials, training efficiency and research and development.
- The proposed acquisition of assets or any interest, mergers or takeovers of companies and businesses should not have adverse consequences in terms of international policies in such matters as defence, environmental protection or regional development.
- The onus of proving that the proposed acquisition of assets or any interest, mergers or takeovers of companies and businesses is not against the objectives of the New Economic Policy is on the acquiring parties concerned.

* The above guidelines will be applied to the following:
- Any proposed acquisition by foreign interests of any substantial fixed assets in Malaysia.
- Any proposed acquisition of assets or any interests, mergers and takeovers of companies and businesses in Malaysia by any means, which will result in owner-ship or control passing to foreign interest.
- Any proposed acquisition of 15% or more of the voting power by any one foreign interests or associated group, or by foreign interests in the aggregate of 30% or more of the voting power of a Malaysian company or business.
- Control of Malaysian companies or businesses through any form of

	joint-venture agreement, management agreement and technical assistance agreement or other arrangement. - Any merger or takeover of any company or business in Malaysia whether by Malaysian or foreign interests. - Any other proposed acquisition of assets or interest exceeding in value of RM 5 million whether by Malaysian or foreign interests.
MYANMAR	100% foreign equity ownership is allowed. Joint ventures, either as a partnership or a limited company with any individual, firm, co-operative, or State-owned enterprise of Myanmar. If it is a joint venture, foreign capital must be at least 35% of the total equity capital.
PHILIPPINES	100% foreign equity ownership is allowed in all areas except those in the negative list under the Foreign Investment Act 1991 as amended. As a general rule, there are no restrictions on the extent of foreign ownership of export enterprises with at least 60% export. The law provides for a straight registration of such enterprises without prior BOI Approval. The FIA also liberalised access to the domestic market by allowing registration of activities which are not Restricted by the Negative List. As a rule, non-Filipino companies registered with the Board of Investments are required to become Filipino companies within 30 years by reducing foreign ownership ratio to less than 40% (with 100% exporting companies as exception)
SINGAPORE	With exceptions for national security purposes and in certain industries, no restrictions are placed on foreign ownership of Singapore corporations. The following are some of the exceptions: - -A 40% limit is placed on foreign ownership of locally incorporated banks. The laws for certain companies, such as airlines and shipping companies, specifically restrict the amount of foreign ownership. The manufacturing of arms and ammunitions is subject to a government approval Public utility services-electricity, gas and water will eventually be privatised. Legislative control is exercised over the newspaper publishing industry.

	Telecommunication has been privatised.
THAILAND	The 1972 Alien Business Law grants foreigners permission to engage in certain business enterprises in Thailand only if more than 50% of the capital is owned by Thai Nationals. However, for BOI promoted companies, majority foreign owner-ship is permitted for projects that export not less than 50% of sales. Moreover, 100% foreign ownership is permitted for: * Priority projects as specified in Section of Investment Field/Sector of this Compendium. * Projects in agriculture, animal husbandry, fisheries, mining and services with investment over 1 billion Baht (only for the first 5 years of operation). * Projects which export at least 80% of sales. * Projects that are Located in the Investment Promotion Zone 3. * Under the short-term measures to encourage Investment, the Existing promoted Projects in zone 1 and 2 are allowed to hold all or majority of Foreign shareholders with the consent of Thai partners. The approval will be Granted on a case by case basis.
VIETNAM	100% foreign equity ownership is allowed. Capital contribution of a foreign party or foreign parties to the legal capital of a joint venture enterprise shall be agreed by the parties and shall not be limited provided that the contribution is not less than thirty (30) per cent of the legal capital, except in cases stipulated by the Government.

*Source: ASEAN organisation at http://www.aseansec.org/8825.htmaccessed on 17/07/08

Appendix II:

Ode to A Rent-Seeker
(by Charles K. Rowley)

Extracted from the Prologue in 1988,*"The Political Economy of Rent-Seeking"* Kluwer Academic Publishers of Rowley, Charles K., Tollison Robert T., Tullock, Gordon (Editors)

I aim to seek out every rent
be it honest or be it bent

I seek out rent on every margin
let fools engage in wealth enlarging

Some may shirk while others toil
I spend my time on fertile soil

Government transfers I endorse
as a highly fruitful income source

Receipts in excess of gains forgone
mean others lose what I have won

With outlays less than Tullock cost
no one can argue that I have lost

Stigler and Peltzman tell the truth
I make more than Babe(y) Ruth

Rectangles win, trapezoids lose
no wonder Harberger sings the blue

I spend upfront with great delight
to seize a durable monopoly right

Give me monarchs, divine right kings
for then the monopoly market sings

Congress I accept, even Tip O'Neil
though there rent margins tend to reel

Wealth is still transferred for all to see
but at a much greater cost to G.N.P.

God protect me from the final blow
when all the margins of rent are low

Let the margins be many and always high
so that I shall thrive 'til the day I die