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Agreement could up transparency of SOEs

BY KAMARUL ANWAR

KUALA LUMPUR: Although the Trans-Pacific Partnership (TPP) agreement affords select Malaysian state-owned enterprises (SOEs) some flexibilities to further the country's agenda, the cost-benefit analyses conducted by Pricewaterhouse Coopers Malaysia (PwC) and the Institute of Strategic and International Studies (Isis) said the 12-nation trade pact will make SOEs more transparent and compete on a more level playing field.

"[The] TPP requires SOEs to conform to certain disciplines covering non-discriminatory treatment (NDT) in the domestic market, and non-commercial assistance (NCA) in overseas markets. These disciplines are meant to create a fair and sustainable competitive environment for all global players," said Isis in its report "National Interest Analysis of Malaysia's Participation in TPP".

As the think tank said in the report, SOEs are not just common in developing countries but developed ones, too, such as Japan, France and Mexico, for a country's social and economic development. But by doing so, these SOEs — which tend to be large in size and hold enviable market shares — "can distort competition through either regulatory favouritism or direct and indirect financial support."

And SOEs tend to have an upper hand when expanding overseas too. "Governments may use SOEs to pursue strategic, commercial or non-commercial goals abroad and may involve anti-competitive effects, which may be detrimental to private sector firms competing in the same markets," Isis said.

SOEs are omnipresent in Malaysia. They make up over 36% of Bursa Malaysia's market value, and over half of the benchmark FBM KLCI's market capitalisation.

In the 10 years ended August 2015, Isis said Malaysia's 20 biggest government-linked companies (GLC) had employed more than 370,000 employees, and spent more than RM98 billion on businesses with over 65,000 Malaysian suppliers. They also spent RM4 billion to develop and train local human capital in the same period.

Khazanah Nasional Bhd, Malaysia's strategic investment fund, which owns a large pool of GLCs, expressed concerns that the TPP would disallow it to continue with its social and economic development, noted Isis.

However, Malaysian SOEs are given leeway in many areas: companies at least 50%-owned by the Malaysian government can reserve 40% of their procurement budget for bumiputera enterprises, small and medium enterprises, and companies from Sabah and Sarawak.

"Though this 40% carveout looks significant, it is not possible to ascertain the impact on the current practices of these SOEs, due to the lack of reliable data on their procurement," Isis said.

PwC, in its report "Study on Potential Economic Impact of TPP on the Malaysian Economy and Selected Key Economic Sectors", commented that the TPP could constrain SOEs from furthering support to local enterprises.

"Some existing developmental policies undertaken by SOEs contradict this commitment. For example, the practice of a 'Buy Malaysia First' policy by some SOEs, which may not be consistent with commercial considerations such as price, quality and availability of the goods or services to be purchased, may breach the commitments set out in the TPP," said PwC.

It noted that "national utility company" — presumably Tenaga Nasional Bhd — spent 65% of its budget in 2014 for bumiputera companies while a "national oil and gas company", 70%.

Petroliam Nasional Bhd (Petronas), the sovereign oil company, is allowed to accord preferences in their upstream activities of up to 70% in the first year, and 40% from the sixth year onwards.

PwC also pointed out that SOEs with special drawing rights (SDR) valued above SDR 500 million (SDR 200 million from the 6th year post-TPP) will be denied NCAs, while Malaysian SOEs' obligation to disclose details of their NCAs does not apply to Permodalan Nasional Bhd, Lembaga Tabung Haji, and their subsidiaries.

Khazanah and its companies have been given a two-year grace period from the date of TPP's signing, which Isis assumed will end in 2020 — to make any necessary changes to comply with TPP's requirements.