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Debate affirmative action in business

JUST before the general election in 2013, I published a book with a dozen academics about a policy we believed that political parties had to debate as it was deeply influencing the outcomes of economic development plans.

This book, *The New Economic Policy in Malaysia: Affirmative Action, Horizontal Inequalities and Social Justice*, was an in-depth assessment of the country's most significant socio-economic initiative. No politician publicly spoke about this study.

When I spoke to members of the ruling and opposition coalitions about their reluctance to discuss this book, their answer was shockingly similar. They were worried that such a debate would result in a loss of votes, particularly from rural voters who these politicians felt would decide the outcome of the general election.

The New Economic Policy (NEP), a 20-year affirmative action plan introduced in 1971, was the government's response to the tragic riots of May 1969. Its primary objectives were to reduce poverty and redistribute wealth equitably between all ethnic groups, with bumiputera agencies and individuals securing 30% of corporate equity by 1990.

Although affirmative action was meant to end that year, it has continued under different forms, such as the Bumiputera Commercial & Industrial Community (BCIC) and Bumiputera Economic Empowerment (BEE) policies.

Affirmative action has, undoubt-

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edly, produced positive outcomes. Poverty was reduced appreciably among beneficiaries of the policy and a well-educated, prosperous, independent bumiputera middle class has emerged. A core factor that helped reduce poverty was affirmative action's focus on education, targeting poor children for early entry into well-equipped residential schools.

But the NEP's paradox is that because it is ethnically-defined, it has hampered inter-ethnic social cohesion, while contributing to new intra-bumiputera inequities and inhibiting genuine entrepreneurial capacity, primarily among the Chinese.

In 2003, before relinquishing his premiership, Tun Dr Mahathir Mohamad admitted that such policies had generated a "crutch mentality" among its recipients. Dr Mahathir further stated that affirmative action had compelled the Chinese to compete even more industriously, making them a highly entrepreneurial presence in the economy.

However, such firms have not sufficiently upgraded themselves through investments in research and development (R&D). R&D investments as a percentage of GDP has long been low, hovering

around 1%, a serious shortfall for a country aspiring for highly-industrialised nation status. One reason for this inadequate channelling of funds to R&D was Chinese fear that their enterprises, as they grew, would be appropriated through affirmative action.

Debates about the viability of affirmative action in business came to the fore after the 2008 global financial crisis led to a serious recession in Malaysia. When Datuk Seri Najib Tun Razak assumed office as prime minister in 2009 and began his endeavour to create a "new economic model", he was confronted with debates about the efficacy of affirmative action. When Najib decided to end the policy, there was a serious backlash to his announcement from a number of sources, particularly those who argued that the NEP's economic restructuring objective had still not been achieved.

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Top 30 listed companies in 2017

Ranking	Company	Owner
1.	Malayan Banking	PNB
2.	Tenaga Nasional	Khazanah
3.	Public Bank	Teh Hong Piow
4.	Petronas Chemicals Group	Petronas
5.	Sime Darby	PNB
6.	IHH Healthcare	Khazanah
7.	Maxis	Ananda Krishnan
8.	Axiata Group	Khazanah
9.	Petronas Gas	Petronas
10.	CIMB Group Holdings	Khazanah
11.	Digi.Com	Foreign
12.	MISC	Petronas
13.	Genting	Lim Family
14.	Hong Leong Bank	Quek family
15.	IOI Corp	Lee family
16.	Genting Malaysia	Lim Family
17.	Kuala Lumpur Kepong	Lee Oi Hian & Lee Hau Hian
18.	Petronas Dagangan	Petronas
19.	Telekom Malaysia	Khazanah
20.	Hap Seng Consolidated	Lau Cho Kun
21.	RHB Capital	EPF
22.	PPB Group	Robert Kuok
23.	Nestle (M)	Foreign
24.	YTL Corporation	Yeoh family
25.	Hong Leong Financial Group	Quek family
26.	Westports Holdings	G. Gnanalingam & Ruben Gnanalingam
27.	Astro Malaysia Holdings	Ananda Krishnan
28.	AMMB Holdings	EPF
29.	British American Tobacco	Foreign
30.	YTL Power International	Yeoh family

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Share capital ownership (at par value) by ethnic group, 1970-2008 (%)

	1969	1970	1975	1980	1985	1990	1995	1999	2004	2006	2008
Bumiputera individuals & trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.9	19.4	21.9
Chinese	22.8	27.2	n.a	n.a	33.4	45.5	40.9	1.5	1.2	1.1	1.6
Indians	0.9	1.1	n.a	n.a	1.2	1.0	1.5	0.9	0.4	0.4	0.1
Other	-	-	-	-	-	-	-	-	-	-	-
Nominee companies	2.1	6.0	n.a	n.a	1.3	8.5	8.3	7.9	8.0	6.6	3.5
Locally-controlled firms	10.1	-	-	-	7.2	0.3	1.0	-	-	-	-
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	32.5	30.1	37.9

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