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REBALANCING THE PUBLIC AND PRIVATE SECTORS: THE CASE OF MALAYSIA

by

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Research programme on:
Towards a Better Balance between Public and Private Sectors in Developing Countries

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TABLE OF CONTENTS

SUMMARY

Although the objectives of the Privatisation Programme in Malaysia were clearly stated from the start, there was no overall implementation plan during the first few years. Thus, the early targets of privatisation as well as the specific methods applied were chosen in an ad hoc manner. A major constraint for the implementation of this programme was the political necessity to protect and promote Bumiputra interests.

Following a description and a critical analysis of the various measures and techniques used in both the liberalisation and the privatisation process, with a particular reference to the Port Kelang privatisation experience, the author underlines some major lessons such as: legal changes take time to be materalised; each transaction related to a privatisation programme is different; the private sector must be willing to expand its role; the scarcest resource is skilled technical expertise; the importance of government organisation is often underestimated; developing a consensus on implementation is more elusive than an overall policy goal; finally, government pays a high price for labour support.

RESUME

Les objectifs du programme de privatisation en Malaisie ont été clairement énoncés dès le départ mais, pendant les premières années, aucun plan d'ensemble n'a été prévu pour son exécution. Ainsi, les objectifs initiaux de la privatisation et les méthodes spécifiques appliquées ont-ils été choisis en fonction des besoins.

Après avoir décrit les diverses mesures et techniques de libéralisation et de privatisation appliquées à l'entreprise et en avoir fait l'analyse critique, s'attachant notamment à la privatisation de Port Kelang, l'auteur s'arrête sur quelques enseignements importants, par exemple : il faut du temps pour qu'un changement dans la législation prenne corps dans la réalité ; dans un programme de privatisation, il n'y a pas deux transactions semblables ; le secteur privé doit être prêt à jouer un rôle plus important ; les compétences d'experts sont la ressource la plus rare ; on sous-estime souvent l'importance de l'administration ; obtenir un consensus sur la mise en oeuvre est plus difficile à attendre que déterminer un objectif de politique générale ; enfin, le gouvernement paie d'un prix élevé le soutien qu'il accorde à la main-d'oeuvre.

PREFACE

The Development Centre is currently finalising a research programme entitled: "Towards a Better Balance Between Public and Private Sectors in Developing Countries", under the direction of Dimitri Germidis.

Following an expert meeting in June 1987, the Centre initiated a series of case studies covering Malaysia, Mexico, Jamaica, Bolivia, Argentina, Morocco, Tunisia and Ghana. A number of these have been completed and others are soon to be finalised. An overall synthesis report by the Development Centre, essentially based upon these case studies, is to be published towards the end of 1989.

The theoretical debates over the primacy which should be given to market forces as opposed to central planning -- the private versus the public sector -- date from the post-war period, during which the Welfare State was established in the mixed economies of the more advanced OECD Countries. The dimension of emerging importance, however, on which the Development Centre's programme focuses, is that a growing number of developing countries are reconsidering the issues in this debate and showing a desire to change course.

In this contribution to the programme, Roger Leeds has concentrated on techniques, describing in detail the privatisation of the Port Kelang Authority container terminal. He explains the inherent tensions which existed between the dual objectives of unleashing the energy and resources of the private sector on the one hand, and the desire to protect and promote Bumiputra community interests on the other. This constitutes a particularity of the Malaysian case.

The study is not, however, to be seen in isolation. This rebalancing process in middle-income developing countries, as Leeds points out, has more general implications for their development strategies. These implications will be studied in greater overall depth in the synthesis publication.

Louis Emmerij

President of the OECD Development Centre

July 1989

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 the private sector. Direct participation by the Government in commercial and industrial undertakings represents a significant departure from past practice.

Second Malaysia Plan (1971)

The public sector will no longer play an expansionary role in spearheading economic growth. It will, however, continue to provide leadership through its efforts in creating a more suitable environment and climate in which the private sector can play an enhanced role of generating growth through increased competition, efficiency, initiative, and innovation in the production and marketing of goods and services....

Fifth Malaysia Plan (1986)

I. INTRODUCTION

Independence from British rule came to Malaysia in August 1957. However, unlike numerous other countries that there was no abrupt shift in the country's approach to attaining economic growth and development. The state did not suddenly become the favoured vehicle for changing patterns of ownership or accelerating the pace of development. Although a few public enterprises were created for the purpose of promoting rural, educational and industrial development, no attempt was made to reverse the traditional Malaysian preference for a non-interventionist government and free enterprise. (Salleh and Hassan, p. 70.)

Instead, the early post-independence years were marked by a continuation of the policies that gave relatively free rein to foreign (mostly British) and domestic (mostly indigenous non-Bumiputra) investors. The British or their surrogates continued to control the bulk of the rich cultivatable land (rubber, palm oil and coconut estates), natural resources (tin) and services (trade, shipping, banking, insurance).

In the absence of the overt tension and acrimony that characterized the transition to self-rule in many other countries, Malaysia's economic performance was strong in those early years. Economic growth averaged about 6 per cent throughout the 1960s, and per capita income grew from M$806 in 1960 to M$1 080 by the end of the decade, a 30 per cent increase (Second Malaysia Plan, p. 16.) The public sector budget maintained a surplus on current account, the inflation rate was practically zero, and both the trade and the current account were in surplus. The country was, in the words of one observer, "one of the Switzerlands of Southeast Asia, 'a well-to-do, politically stable, neutral and rather conservative country with a laissez-faire economy.'" (Gibney, p. 72.) Although there were occasional ethnically instigated skirmishes, it was a period of relative calm.

The cornerstone of this seemingly exemplary performance was a unique arrangement between Malaysia's three principle ethnic groups -- the indigenous Malays, or Bumiputras as they are called locally, who comprised slightly more than 50 per cent of the total population, the Chinese who made up about 35 per cent, and the Indians, totaling about 12 per cent. Although relations between the Bumiputras and the two minority groups historically had been uneasy, the British served effectively as a buffer. Despite occasional outbreaks of ethnically inspired violence, the three groups had established a workable coexistence, even though the Bumiputra majority remained demonstrably at the bottom of the economic ladder and increasingly discontent with their status.

Although independence did little to alter the economic balance of power between the three groups, the Bumiputras effectively gained control of the political system. Not only did the new, post-independence constitution grant de facto dominance to the Bumiputra faction in politics, but it also ensured that they would receive preferential treatment in such areas as education (e.g. university admissions) and public sector hiring. Moreover, according to the constitution, Islam became the official religion of the new nation. On the other hand, the Chinese and Indian minorities received constitutional guarantees of economic freedom, liberal access to citizenship, and freedom of worship. (Parmer, p. 69.)

In May, 1969 the tenuous legal arrangement disintegrated. Bloody communal violence was triggered by the outcome of a national election that unexpectedly appeared to shift the political balance against the Bumiputra population. The Bumiputra-dominated government seized on the incident to solidify their grip on the political system and impose a reordering of development priorities. The constitution was suspended for 18 months, the Parliament was dismissed, and a fundamental reassessment was initiated of the policies and regulations that governed the nation's economic relationships.

II. THE 1970s: AN EXPANDING ROLE FOR THE STATE

The May 1969 uprising signaled the end of an era. Despite efforts to the contrary, a succession of post-Independence governments had failed to narrow the income inequalities that separated the Bumiputra majority from the rest of the population. Thirteen years after independence the Bumiputras asserted their determination to use the political power they had acquired to redress the economic imbalances that afflicted their community. A more interventionist state would become the vehicle for achieving this goal.

The dramatic shift was labeled the New Economic Policy (NEP), and it was officially defined and articulated in 1971 when the Second Malaysia Plan, 1971-75 was published:

> ...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 the 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 numbers of Malays and other indigenous people to gain experience and to have greater access to commercial and industrial opportunities. The role of government in these efforts will include construction of business premises, direct investment in productive commercial and industrial enterprises to be controlled and managed by Malays and other indigenous people...and a variety of other activities covering financial and technical assistance. (pp. 7-8.)

The NEP signaled an unprecedented shift from the laissez-faire approach to development that marked the initial years of independence. Officially, the goal was to "...eradicate poverty, irrespective of race, and to restructure society to eliminate the identification of race with economic function and geographic location. (Fifth Malaysia Plan, p. 3.) The explicitly stated underlying objective of the new policy, however, was to aggressively strive to improve the economic status of a specific ethnic group in the country by providing them with advantages over all other participants in the nation's commercial and financial affairs.

The motivation for the change, therefore, was markedly different from most other newly independent nations. The shift towards a more assertive state role in the development process did not occur primarily for ideological reasons, or because of deep seated anti-foreign sentiment, or to spur more rapid, capital intensive development. Rather, there was great disappointment with the government's pre-1969 record of achieving more equitable income distribution. The laissez faire approach was discredited, and the NEP was initiated as a mechanism to redistribute wealth more broadly within the domestic economy.

The NEP included a number of quantitative targets that hopefully would be achieved by the end of a 20-year period, or 1990. For example, the percentage of the population that was considered to be impoverished, primarily Bumiputras, was to be reduced from 49 per cent to 17 per cent within 20 years.[1] The percentage of corporate equity held by Bumiputras, as opposed to non-Bumiputras and foreign investors, was targeted to change from a distribution of 2.4 per cent, 34.3 per cent and 63.3 per cent respectively in 1970 to 30 per cent, 40 per cent, 30 per cent by 1990. And, in order to create a better "racial balance" in various occupational categories, a larger proportion of university admissions would be allocated to Bumiputras.

The principle manifestation of the NEP was the significant increase in the importance of the state generally in the nation's economic affairs, and public enterprises in particular. Public investment, which increased at an annual rate of only 1.9 per cent in the 1965-70 period, was slated to grow at a much faster 5.9 per cent in the next five years, and current government expenditures were projected to increase at close to 9 per cent annually. (Second Malaysia Plan, pp. 78-79.)

Table 1
SELECTED DISTRIBUTION OF FEDERAL GOVERNMENT FINANCE
(Per cent of GNP)

	1966-70	1971-75	1976-80	1981
Revenue	19.2	21.2	25.2	28.4
Expenditure	24.2	28.9	31.3	48.2
Operating	18.0	20.5	20.0	28.2
Development	6.2	8.4	11.2	20.0
Overall deficit	5.0	7.7	6.1	19.8

Source: Jaafar Ahmad, p. 5.

As a result of this shift, the overall involvement of the government in the economy rose from 24 per cent of GNP in the 1966-70 period, to 29 per cent in 1971-75, 31 per cent in the 1976-80 period, and peaked the following year at 48 per cent. (Ahmad, 1987, p. 5.) During the same period expenditures by the government for investment projects ("development expenditures") also evidenced rapid expansion, averaging a yearly increase between 1971 and 1981 of about 31.5 per cent. Correspondingly, the overall public sector deficit also moved up during the same time span, as did public debt charges. (See Annexes 4 and 5.)

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[1]Although there is no precise definition of poverty, the government has declared, "The poverty line income is defined as an income sufficient to purchase a minimum food basket to maintain a household in good nutritional health and the conventional needs in respect to clothing and footwear, rent, fuel and power, transport and communications, health, education, and recreation....It is, therefore, defined relative to the standard of living prevailing in Malaysia which is well above that prevailing in some other countries." (Fifth Malaysia Plan, p. 83.) Although the definition is imprecise, the government does calculate a poverty line, which is not officially published.

Table 2
PUBLIC DEBT CHARGES
(Per cent of GDP)

	1966-70	1971-75	1976-80	1981-83
Public debt charges	1.7	2.3	2.9	4.4

Source: Salleh and Hassan, p. 13.

The growth of public enterprises was another dimension of the widening scope of the public sector. Three types of entities in Malaysia were classified with this label at the time the NEP was initiated.[2]

i) Departmental Enterprises that were required under the law to maintain their financial accounts in accordance with commercial standards, such as electricity boards, telecommunications and water.

ii) Public Corporations and Statutory Bodies that were established by various state and federal statutes; they were 100 per cent government-owned and their capital was not divisible into shares. An example of this category is the Federal Land Development Authority (FELDA) and the Malaysian Rubber Development Corporation (MARDEC).

iii) State-Owned Companies that were established under the 1965 Companies Act. Although wholly or partly owned by the government and accountable to Parliament through a Ministerial reporting relationship, these enterprises were engaged in commercial or industrial activities and competed with domestic or foreign private enterprise. Included in this category were the Heavy Industries Corporation (HICOM), the National Oil Corporation (PETRONAS), the Malaysian International Shipping Corporation (MISC), and Malaysian Airlines (MAS).

At the time of Independence, in 1957, there were only 23 public enterprises. Most were engaged in activities that traditionally were associated with the public sector -- public utilities (three), transportation and communication (five), cultural development (two), and finance (eleven). Only two were created to address income and racial inequalities: the Rural Development Authority (RIDA)and the Federal Land Development Authority (FELDA). (Salleh and Hassan, p. 41) However, as disparities in wealth and income became more pronounced and transparent, the number of public enterprises gradually expanded to address specific development issues.

Then, after the 1969 riots, the role of public enterprise began to expand more rapidly. When the laissez faire approach to development was rejected in favour of a more mixed economy approach, public enterprise became one of the principle vehicles for assisting the Bumiputra population to participate more fully in the nation's commercial and industrial affairs. As one public official explained, "...the unique feature of public enterprise in Malaysia

[2] At the time, these entities officially were referred to as "off-budget agencies" (OBAs); in 1985 they were relabeled as "non-financial public enterprises" (NFPEs).

[became] its use as the principal instrument of government to restructure the Malaysian society as embodied in the [NEP]." (Ibrahim, p. 9.)

The overt nature of the tilt in favour of the indigenous Malaysian population is evident from the official explanation of the desired role of public enterprises in Malaysian society:

a) As 'patron' of the Bumiputras, providing necessary assistance to accelerate the latter's participation in the commercial and industrial sector.

b) As 'trustees' for the Bumiputras holding equity in various ventures until such time that these shares and equities can be transferred or sold off to the Bumiputras themselves.

c) As 'joint venture' partners with the Bumiputras themselves with the objectives of relinquishing their portion of the ventures (shares, control, management) to the Bumiputras when the latter have proven themselves capable of taking over.

d) As 'compliments' to the efforts of the Bumiputras in the commercial and industrial sectors by participating in and pioneering ventures that the Bumiputras are for the present unable to undertake due to various inadequacies.

e) As 'inducers' to set-up companies in regions or areas of the country where the private sectors are reluctant to take their enterprises. (Ibrahim, pp. 9-10.)

Thus, as occurs in virtually all countries where public enterprise play a prominent role, the government's objectives went considerably beyond the generation of revenues for the state. From the outset, there was an expectation that these enterprises would contribute to the achievement of a multiplicity of political, social and ethnic goals. If there was a unique aspect to the policy, it was the overt emphasis placed on the use of the public enterprises to redress the ethnic imbalances in the nation's commercial and industrial affairs.

As the number of public enterprises increased, so did most other indicators associated with an expansionary state sector, such as public employment, government debt, and public expenditures. Overall public investment increased at an annual rate of about 12.6 per cent in real terms throughout the 1970s. (Fourth Malaysian Plan, p. 116.) Total public sector employment also increased dramatically during the decade, both in absolute terms (from 398 000 in 1970 to 693 000 ten years later), and as a share of total employment (from 11.9 per cent to 14.4 per cent in the same period). (See Annex 7.)

In order to finance the rapid expansion of public enterprises, domestic and external borrowing also increased at a rapid rate. (See Annex 6.) The amount owed the federal government by the statutory bodies, the government-owned companies and the state governments (which primarily borrow to on-lend to state-owned bodies) stood at about M$1.2 billion in 1970[3] the equivalent of 24 per cent of the federal government's outstanding

[3]See Annex 1 for US$/M$ average annual official exchange rate, 1970-1987.

debt; by 1982 the figure was approximately M$15 billion, or 37 per cent of the government total. (Salleh and Hassan, p. 52.)

The public sector's role also increased significantly during the period relative to other developing and industrialised countries. As Table 3 indicates, public sector outlays were relatively high as a percentage of GDP throughout the 1970s and the rate of increase also was substantial. Of equal importance, expenditures specifically designated for public enterprises increased more rapidly than the other nations examined, and were the highest of any of the countries by 1982 (34 per cent of GDP). And the public sector deficit measured against the performance of other nations also became a cause for concern.

Table 3
GROWTH OF THE PUBLIC SECTOR, SELECTED COUNTRIES
(1970-1982)

	Public sector outlays as % of GDP		Of which state enterprises		Public sector deficit as % of GDP	
	1970	1982	1970	1982	1970	1982
MALAYSIA	36	53	4	34	12	19
Republic of Korea	20	28	7	4	4	3
Argentina	33	35	11	12	1	14
Brazil	28	32	6	11	2	17
Mexico	21	48	10	26	2	17
France	38	48	6	7	0.5	3
Britain	43	49	10	11	3	6
US	22	21	10	9	1	2

Source: Excerpted from Berg, p. 8.

During the first decade of the NEP Malaysia enjoyed a period of buoyant economic growth and development. GDP increased at an average annual rate of 7.13 per cent during the first half of the decade and 8.6 per cent between 1975 and 1980 (Annex 2), which compared very favourably with other rapidly growing economies in the Asian region. Unemployment remained relatively low, averaging less than 6 per cent through most of the decade; inflation hovered in the moderate range averaging less than 6 per cent for the period (Annex 3); and, per capita income increased at an average annual rate of about 5 per cent in real terms between 1971 and 1980.

One explanation for this strong performance was the favourable behavior of key international commodity prices. As one of the world's largest producers and exporters of rubber, tin, and palm oil, Malaysia benefited from rising commodity prices throughout most of the period. (See Annex 8.) Crude oil production, which expanded at an annual rate of more than 30 per cent during the decade, was the fastest growing sector of the economy. Due to the boom in international prices, crude petroleum exports advanced from 3 per cent of total exports in 1970 to 25 per cent 10 years later. (Fourth Malaysia Plan, p. 20.)

The decade also evidenced a significant infusion of direct foreign investment, as multinational corporations were attracted to a country with relative political stability, a large pool of skilled, inexpensive labour, good physical infrastructure, an attractive array of investment incentives, and few restrictions on capital flows. Direct foreign investment rose from M$306 million in 1970 to more than M$2 000 million in 1980. As a result, in addition to the strong performance in the commodity sectors, manufactured exports began to rise rapidly in the latter part of the seventies, contributing to the strong economic performance.

At the same time that the economy was performing well, there was progress towards the attainment of some of the NEP's most important goals. The overall incidence of poverty, which was gauged in Malaysia by the total number of households whose income is below the poverty line, declined from about 49 per cent in 1970 to 18 per cent by 1980. (Fifth Malaysia Plan, p. 7.)

Another NEP objective, Bumiputra ownership of corporate equity, also indicated that progress was occurring. Although not increasing as rapidly as official policy called for, the Bumiputra community raised their share of total corporate ownership from about 4.3 per cent in 1970 to 12.4 per cent ten years later. (Fourth Malaysia Plan, p. 62.) Another indicator demonstrating progress was the increase in the number of Bumiputra professionals (e.g. accountants, lawyers, doctors). In 1971 there were only 738 Bumiputras who were classified as "professionals", or 5.8 per cent of all resident Malaysians who merited this classification; by 1983 the number had increased to 9 894, or 21 per cent of the total. (Merican, p. 4.)

Thus, the first 10 years or so of the NEP was a period of economic expansion for the country as a whole, and reasonable progress towards attainment of the NEP goals. The primary explanations for the performance were a rapidly expanding public sector role in the economy, evidenced by sharp increases in public expenditures on virtually every level, and a favourable external climate, particularly in terms of the international prices for Malaysia's principle export commodities.

III. THE 1980s: ECONOMIC DECLINE

In the early eighties Malaysia reached another turning point, almost as dramatic as the one in 1969 that triggered a major policy shift. The GNP of the industrialised countries declined from an aggregate 2.3 per cent in 1981 to a minus 0.8 per cent the following year (Fifth Malaysia Plan, 36) As the recession deepened in the West, so did the adverse consequences for export-oriented economies in the Third World.

The terms of trade began to deteriorate in predictable fashion for Malaysia. After averaging a positive 5.4 per cent annually during the 1976-80 period, the downturn was **precipitous:**

Table 4
SELECTED PRICES OF MAJOR COMMODITIES, 1981-82
(Annual growth rates)

Year	Rubber	Sawn timber	Palm oil	Crude tin	Petrol	Terms of trade
1981	-17.5	-12.0	--	-9.5	6.9	-8.9
1982	-22.0	-6.1	-11.6	-7.0	-6.8	-1.9

Source: Jaafar, 1987, p. 12.

Whereas both the trade account and the current account had registered healthy surpluses in the 1976-79 period, the balance of payments picture turned negative in 1980, and deteriorated sharply in the following two years.

Table 5
BALANCE OF PAYMENTS, SELECTED DATA, 1979-1982
(M$ million)

	1979	1980	1981	1982
Merchandise account. balance	+6 908	+5 238	-243	-1 758
Balance on goods and services	+2 050	-575	-5 555	-8 334
Balance on current account	+2 033	-620	-5 633	-8 409

Source: Ministry of Finance, 1987-88.

As the deficits widened so did the country's dependence on external borrowing. (Annex 6.) The foreign debt more than doubled between 1980 and 1982, increasing from about M$11 billion to more than M$25 billion; as a percentage of GDP the external debt soared from 45 per cent in 1980 to 93 per cent in 1982.

The rapid deterioration of the external account was compounded by the disappointing performance of the private sector in the domestic economy. In the Fourth Malaysia Plan (1981-85) private investment was targeted to increase at an average annual rate of 10.7 per cent, after averaging a strong 13.6 per cent in real terms for the previous five years. The actual growth for the period averaged only a sluggish 1.8 per cent; in 1982 and again in 1985 the rate was actually negative. (See Table 6.) Reflecting on this performance, the Fifth Plan lamented that there had been "...a reduced dynamism and a decline in the achievement of the private sector in key macroeconomic targets and sectoral objectives...." (p. 205.)

The continuing recession in the industrialised countries combined with the anemic performance of the private sector, forced the government to play a countercyclical role to stimulate economic activity in the 1980-82 period. However, this policy was quickly abandoned, and by 1982 the government began to reduce the growth of public expenditures in a progressively more aggressive manner.

Table 6
ANNUAL CHANGE IN PUBLIC AND PRIVATEINVESTMENT,1981-85
(Per cent)

	1981	1982	1983	1984	1985
Private investment	4.1	-2.3	5.8	10.6	-8.0
Public investment	41.5	20.7	10.2	-4.2	0.2

Source: Fifth Malaysia Plan, p. 46.

This public sector stimulus in the early 1980s did succeed in spurring economic growth during a difficult period. GDP increased at a respectable average annual rate of 5.8 per cent for the 1981-85 period. However the fiscal cost was high. As noted earlier (see Table 1), government expenditures had increased from a moderate 24 per cent of GNP in the years immediately preceding the onset of the NEP, to 31 per cent towards the end-1970s, and peaked at 48 per cent in 1981. Although expenditures began to recede gradually after 1981 as a percentage of GDP (Annex 4), they remained extraordinarily high by developing country standards. In a comparative analysis of the public spending patterns of nine Asian countries that was conducted by an official from the International Monetary Fund, Malaysia's government spending habits are striking relative to other countries in the region.

Table 7
PUBLIC EXPENDITURE IN NINE ASIAN COUNTRIES, 1981-85
(Per cent of GDP)

Country	1981	1982	1983	1984	1985
Bangladesh	17.4	19.9	17.3	16.1	16.4
Current	--	6.7	6.6	6.6	7.4
Developmental	--	13.2	10.7	9.5	9.0
India	29.7	32.2	31.1	33.6	33.3
Current	10.1	12.1	10.9	11.4	12.0
Developmental	19.6	20.1	20.2	22.2	21.3
Indonesia	23.7	23.9	23.5	20.0	23.0
Current	12.9	11.8	11.5	11.0	11.7
Developmental	10.8	12.1	12.0	9.0	11.1
Republic of Korea	--	22.5	20.9	20.6	20.6
Current	--	16.0	15.7	15.6	16.0
Developmental	--	6.5	5.2	5.0	4.8
MALAYSIA	43.5	44.6	38.7	34.4	35.2
Current	24.4	26.5	24.5	23.4	26.0
Developmental	19.9	18.6	14.3	10.8	9.3
Pakistan	22.5	22.0	24.1	23.9	24.4
Current	14.3	14.4	16.5	17.8	17.8
Developmental	8.2	7.6	7.6	6.1	6.6
Philippines	19.6	19.7	17.8	12.9	13.2
Current	9.7	10.2	10.0	8.4	9.7
Developmental	9.9	9.5	7.8	4.5	3.5
Sri Lanka	33.0	33.8	32.5	30.8	32.9
Current	17.2	18.3	17.8	15.7	17.1
Developmental	15.9	15.4	14.8	15.1	15.8
Thailand	22.3	23.7	23.1	23.4	24.8
Current	14.6	15.5	15.8	16.3	16.9
Developmental	7.9	8.1	7.4	7.0	7.8

-- not available.
Source: Tanzi, p. 37.

Since government revenues were unable to keep pace with the expenditure increases, the overall public sector deficit also moved much higher compared to the economy's total output. (Annex 4.) As a percentage of GNP the overall deficit increased from an average 6.1 per cent in the 1977-80 period to a record shattering 19.7 per cent in 1981 and 18.7 per cent the following year. As one official explained, "By the end of 1982 it became clear that heavy participation of government in the economy [could] no longer be counted on to sustain growth...." (Ahmad, 1988, p. 2.) This prevailing view led to a sharp curtailment of public spending in the mid-1980s, particularly in the area of development expenditures (Annex 5), and the deficit began to recede accordingly. In the three-year period between 1983 and 1985 the federal deficit was cut by almost two-thirds, primarily as a result of retrenchment on the expenditures side.

In 1985, however, the international prices for Malaysia's principal export commodities again went into a tailspin, upsetting the carefully crafted stabilization programme. The terms of trade, which had recovered nicely in 1983 and 1984, declined by 4.5 per cent in 1985 and 15.6 per cent the following year. For the first time in Malaysia's history, GDP in 1985 registered negative growth in real terms, and per capita GNP also dropped sharply. (Ahmad, 1988, p. 4.) By 1986 the overall public sector deficit was on the rise again, reaching 13.4 per cent of GDP, and an unsustainable 17.7 per cent the following year.

Once again comparing the Malaysia record to other countries in the region, the fiscal performance in the 1980s consistently ranked among the worst:

Table 8
FISCAL BALANCE, 1981-86
(Per cent of GDP)

Country	1981	1982	1983	1984	1985	1986
Bangladesh	-4.7	-3.3	-4.8	-4.1	-3.3	-3.3
India	-5.9	-7.6	-7.1	-8.3	-10.5	-9.3
Indonesia	-2.3	-4.9	-2.6	0.9	-2.9	-5.6
Republic of Korea	-4.7	-4.4	-1.6	-1.4	-1.0	-1.6
MALAYSIA	-14.9	16.9	10.6	-6.6	-5.9	-10.9
Pakistan	-5.2	-5.3	-7.1	-6.0	-7.7	-7.8
Philippines	-4.0	-4.3	-2.0	-1.8	-1.9	-4.7
Sri Lanka	-12.4	-14.2	-10.8	-6.7	-9.6	-10.0
Thailand	-3.2	-5.8	-4.1	-3.7	-5.1	-4.6

-- not available.
Source: Tanzi, p. 56.

One of the most difficult components of government expenditure to control during this period was the so-called off-budget agencies category.[4] At a time when tremendous efforts were being made within the government to contain costs and reduce the overall public sector deficit, development expenditures by these entities were increasing at a rapid rate, until they were finally brought under control in 1986:

[4]In 1985, "off-budget" agencies were renamed "non-financial public enterprises."

Table 9
OFF-BUDGET AGENCY DEVELOPMENT EXPENDITURES, 1981-87
(Current M$ billion)

Year	Expenditure
1981	2.6
1982	4.0
1983	6.1
1984	7.8
1985	7.2
1986	5.9
1987	3.5

Source: Ministry of Finance Annual Economic Reports.

Finally, it is noteworthy that this period also was marked by an overall decline in public welfare, as measured by changes in real per capita GNP, even though the overall economy continued to grow at a reasonable rate.

Table 10
PER CAPITA GROSS NATIONAL PRODUCT, 1980-87
(M$)

Year	GNP per capita (current prices)	CPI (1980=100)	GNP per capita deflated by CPI
1980	3 756	100.0	3 756
1981	3 936	109.7	5 588
1982	4 115	116.1	3 687
1983	4 376	120.4	3 635
1984	4 858	125.1	3 833
1985	4 580	125.5	3 649
1986	4 131	126.4	3 268
1987	4 171	128.3	3 251

Source: Khor, p. 12.

As long as the economic climate remained favourable, as in the 1970s, the development strategy encapsulated in the New Economic Policy had been relatively easy to justify. Rapid economic growth and the expansion of the government's role in economic affairs were accompanied by only moderate increases in the level of domestic and external debt during the first few years of the NEP. However, once the indicators began to turn sharply negative and it became apparent that the debt levels were unsustainable and economic welfare was on the decline, a reassessment of development priorities became imperative. There would have to be a realignment of the respective roles of the public and private sectors. This process began in the early 1980s.

IV. POLITICAL CHANGE AND NEW PRIORITIES

At about the same time that the economy was entering a period of decline in 1981, the political leadership changed. Dr. Mahathir bin Mohamad replaced Hussein Omn, becoming Malaysia's fourth Prime Minister. His ascendancy to the top government post marked the culmination of a ten year personal struggle to overcome ostracism within his own political party, the United Malaysian National Organization (UMNO), which had been the dominant party in Malaysian since the time of Independence. In the aftermath of the 1969 riots, Dr. Mahathir had launched a scathing attack on the UMNO leadership, attributing the upheaval in large measure to their own incompetence. As a result of this outburst he was expelled from the party and appeared destined for political obscurity.

However, he devoted part of his time in political exile to writing a highly controversial book, The Malay Dilemma, which explored the effects of heredity and environment on individual and national performance. According to Dr. Mahathir's book, the "laws of genetics" provided one of the principal explanations for the relatively inferior status of the Bumiputra population within their own country (compared to the Chinese, for example). And the May, 1969 riots, he wrote, "started the moment the Union Jack was lowered and the Malaysian flag went up." (Mahathir, 1970, p. 8.) Racial harmony, he believed, had been a thinly disguised myth: "What was taken for harmony was absence of open inter-racial strife." (Mahathir, 1970, p. 5.)

Despite the inflammatory book, Dr. Mahathir was elected to the Senate in 1973 as an UMNO candidate, and only six years after his expulsion from the party he rose to become Deputy Prime Minister and Minister of Trade and Industry. Five years later, in 1981, his political resurrection was complete when he took over the UMNO party leadership and the Prime Minister's post.

Confronted with a severe and worsening fiscal crisis and protracted balance of payments deterioration (see previous section), the new government began in 1982 to focus on two sets of corrective measures. One category of reforms aimed at a number of structural problems, such as the unsatisfactory performance of public enterprises and rigidities in wage and pricing policies. The second set initiated a fundamental reassessment of the public sector's role, with the aim of reducing both the level and the direction of public spending. These initiatives signaled the beginning of the process to realign the balance between public and private sector responsibilities in the economy.

After many years of observing the proliferation of public enterprise Dr. Mahathir did not hide his skepticism of their capabilities: "...public enterprises never seem to be profitable or efficient. Even when they are monopolies they cannot seem to earn their way, much less pay tax or dividends to the owner -- the Government. More often than not, a privately owned enterprise which has been making profits and paying taxes, not only ceases to do both on nationalization, but requires subsidies and copious injections of capital every now and then by the Government." (Mahathir, 1984, p. 7.)

Although the Prime Minister was an ardent believer in the goals established by the NEP, as the above statement makes clear, he also had a clear vision of government priorities in the circumstances of the early eighties. The private sector, he believed, "...forms the commercial and economic arm of the national enterprise, while the government lays down the major policy framework, direction, and provides the necessary backup services. Thus, the government becomes the service arm of the enterprise." (Mahathir, 1984, p. 1.) This view did not explicitly contradict the underpinnings of the post-1969 socio-economic policies, but it did suggest a shift in the respective roles of the public and private sectors as vehicles for the attainment of NEP goals.

A linkage was established, then, between the disappointing performance of the public enterprises and the need for a major policy change. A consensus began to emerge among key policy makers that many public enterprises were incurably plagued by such factors as the lack of clear objectives, overlapping functions and responsibilities, poor management, insufficient financial control, and inadequate monitoring of performance. (Al-Haj and Yusof, pp. 220-21). As the Director General of the Prime Minister's Economic Planning Unit explained, "There has been widespread dissatisfaction with the efficiency of state agencies and enterprises. Protection of several public enterprises from market forces has bred complacency and resulted in inefficiency and low productivity." (Wahab, p. 4.) Thus was created one of the principle justifications for launching a campaign to realign the balance between public and private responsibilities.

The Prime Minister, not wishing to disrupt the underlying rationale for the NEP, carefully manoeuvered to shift the emphasis from the state to the private sector. He attributed the mounting crisis in both the public sector budget and the balance of payments in large measure to poor public enterprise performance. His challenge, therefore, was to alter the strategy, but not the goals associated with the NEP -- the private sector should be induced to play a larger role, but Bumiputra interests must continue to be protected and promoted.

The broad outline of the new approach began to take shape. Public spending, it was decided, would be significantly reduced, as would the levels of government borrowing at home and abroad; some of the major public enterprises would be restructured to improve financial performance; others would become candidates for sale to private investors; and, regulations, policies and incentives would be adjusted to liberalise the Malaysian environment for private investment generally, and foreign direct investment in particular. However, at the same time the government would not abandon efforts to fulfill its promise to the Bumiputra community.

In sum, then, the combination of a political regime change in 1981, a rapidly deteriorating economic and financial climate at home and abroad, and perceived shortcomings of the burgeoning public enterprise sector were the key factors that contributed to the formulation of a retooled development strategy. The approach taken in the early eighties would bear little resemblance to the government's strategy a decade earlier, when the NEP was formulated.

V. LIBERALISING THE ENVIRONMENT FOR THE PRIVATE SECTOR

One prong on the new strategy that began to unfold in the early eighties was the creation of an investment climate that would be more conducive to attracting private investment. The major responsibility for this task fell to the Malaysian Industrial Development Authority (MIDA), a separate government entity accountable to the Minister of Trade and Industry.

A subtle, but undeniable change began to occur as the effort to shift more of the responsibility for growth and development to the private sector began to gather momentum. Although the NEP goals were not abandoned, the emphasis began to shift to other important priorities. One indicator was the changing contents of an MIDA-published booklet that was the government's principal vehicle for informing investors of the policies, regulations and incentives that would apply to different types of private sector projects. In the 1982 edition, after a brief introduction about the country, the first chapter established guidelines for foreign investors. Although one of the highest priorities of the new Mahathir government was to attract more private foreign investment, this important document began with a lengthy explanation of the NEP and the importance attached by the government to increasing Bumiputra participation in the manufacturing sector (MIDA, 1982, p. 5.) This approach suggested that the Prime Minister's new priorities had not yet filtered down through the government bureaucracy.

Five years later, in 1987, although the same policy was still in existence, a revised edition of the MIDA promotional document refrained from explicit mention of the NEP (MIDA, 1987). Instead, the theme throughout the new document was the liberal regulatory framework that applied for specific types of private investment, such as export-oriented manufacturing projects, specified types of agricultural production and projects involving sought after technology transfer.

A number of other changes occurred in this five year interim period that indicated an increasingly open attitude towards private investment. For example, there was a gradual loosening of the percentage of foreign equity that could be present in a project, and by 1987 MIDA permitted up to 100 per cent in certain cases (e.g. when the firm exported at least 80 per cent of total production). A number of the investment incentives for both the manufacturing and the agricultural sectors also were liberalised (e.g. Investment Tax Allowance), particularly when there was a significant export component. As the Minister Of Industry and Trade acknowledged, the changes were made to "...spur the private sector to take advantage of the investment opportunities...and that a positive response by the private sector to the investment opportunities created by the Government [would] contribute to further the rapid growth of the Malaysian economy." (MIDA, July 1987).

In spite of these initiatives, however, the New Economic Policy remained in effect and hindered the government's efforts to liberalise the investment climate. As one leading Malaysian businessman explained, "...if you are a non-[Bumiputra] or a foreigner, and you are asked to reserve 30 per cent of the new company's equity for the Bumis (with many of them holding back payments, or expecting to be funded on easy terms), the investment proposition may not remain very attractive." (Merican, 1987, p. 8.) The government's insistence on structuring investments according to ethnic criteria offset some of the positive effects of the liberalisation measures, and some important projects were either delayed or canceled due to a lack of acceptable Bumiputra partners.

At the same time that the regulatory framework was being liberalised, work was completed on a ten year Industrial Master Plan (1986-95). The sharp economic reversals of the early eighties were attributed largely to the country's over-dependence on export markets for a few primary products such as tin, rubber, and palm oil. Although efforts had been underway since the late sixties to boost manufactured exports, they accounted for less than 20 per cent of total manufacturing output by the mid-1980s.

There also was understandable distress in government circles that the profile of Malaysia's industrial sector was of dubious merit. Most manufactured exports consisted of products that required low-skilled, labour-intensive inputs. On the other hand, many of the larger, capital-intensive, heavy industrial projects were in sectors that had international over-capacity automobiles, motorcycle engines, petrochemicals, sponge iron, steel billets. Not only was the export potential for these projects very low, but they were mainly state-owned and required large government expenditures. Disenchantment with this industrial strategy triggered a thorough reassessment that resulted in the Industrial Master Plan.

The new blueprint was designed to accelerate development of the manufacturing sector by further liberalising the policy and regulatory framework. A number of new incentive schemes were proposed to induce private investors to play a more substantial role, such as accelerated depreciation allowances, investment tax credits, lower corporate income tax rates, import duty exemptions for certain capital goods and preferential loan facilities. As the Minister of Trade and Industry explained, the ultimate objective of these incentives was "...to attract private sector investment and to put Malaysia on par with other countries in this region who are competing for foreign investment...." (Press release, 5th January 1988.)

Thus, the Plan represented a more forceful initiative to improve the competitiveness of the Malaysian investment environment and enhance the prospects for domestic and foreign private investors. However, there was no indication that the government was prepared to abandon some of the costly, heavy industrial projects that were a significant drain on the public treasury, and had little chance of ever achieving international competitiveness.

VI. LIBERALISATION AND PROTECTION OF BUMIPUTRA INTERESTS

From a political standpoint, it was imperative that these new initiatives not be undertaken at the expense of the NEP and promotion of Bumiputra interests. One of the first institutional safeguards was erected in 1981 with the creation of the National Unit Trust Scheme (Sekim Amanah Saham Nasional).[5] As originally conceived there were a number of similarities between the Malaysian scheme, which would be government-owned, and other unit trusts. The entity was to serve as a financial intermediary, creating a stock portfolio by purchasing shares in Malaysian corporations, and then allowing investors to purchase shares, or "units", of the Trust. Thus, investors in the units would be indirect owners of the corporate shares.

According to the regulation establishing the Unit Trust the units would have a price of M$1.00, which would be fixed until 1990, the year that the original NEP would expire. The financial return to the purchasers would be in the form of dividends declared by the Trust and an occasional "bonus" of additional units; the underlying value of the units themselves would not be subject to change.

There were a number of unique features of the Trust. Most important, only Bumiputras could purchase the units, since the ultimate objective was to expand Bumiputra corporate ownership. By early 1987 more than 2 million individuals were participating in the scheme, or about 44 per cent of the estimated 4.9 million eligible Bumiputras. Their investments totaled more than M$3.5 billion. (PNB, p. 41.)

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[5]In the 1970s a number of so-called trust agencies were created for the specified purpose of increasing the participation of the Bumiputra community in the national economy. These government-owned institutions were expected to purchase share capital in Malaysian companies, which would be held "in trust" for the Bumiputras until such time as they had the financial capability to purchase the shares on their own. Other examples include the National Corporation [PERNAS] and Bank Bumiputra.

The Trust also stipulated that no individual could purchase more than 50 000 units, and that all investors must be at least twenty one years of age. These rules were designed to avoid excessive concentration of ownership in the hands of a limited number of wealthy investors. And in an effort to ensure that the Trust would be exclusively for the benefit of the Bumiputras, anyone wishing to dispose of their units could resell them only to the Trust. In effect, then, there was no secondary market for the investment. However, as an incentive to prospective investors, the first M$4 000.00 of dividends each year were declared tax-exempt.

From the outset the Trust was managed by the government-owned National Equity Corporation (Pemodalan Nasional Berhad), which was charged with seeking out corporations with good growth potential, and then purchasing the equity in behalf of the Trust. Regardless of whether the shares were purchased for the Corporation's own account or for the Trust, the ultimate objective was to increase share ownership by the Bumiputra community.

In some cases, the government would arrange for the Corporation to "purchase" the shares of specified public enterprises, and then the shares would be placed in the Trust's portfolio. In the same year that the Trust was created, a specialized Investment Coordination Unit was established in the Prime Minister's Department for the purpose of overseeing the process of transferring shares of public enterprises to Bumiputra owners, using the National Equity Corporation and the Trust as intermediaries.[6]

VII. THE PUBLIC POLICY DECISION TO PRIVATISE

Privatisation was another significant departure from earlier approaches to development that signaled the government's intent to realign the balance between public and private responsibilities. Although the underlying rationale for privatisation some features that were unique to Malaysia's particular circumstances, the principle explanations were similar to the motives driving other developing nations during this period. There were a number of countries like Malaysia that depended on export-led growth. With few exceptions, they fell victim to a variety of exogenous factors, such as a deep and protracted recession in the industrialised countries, exceptionally high interest rates and an appreciating dollar.

As domestic and external deficits widened and financing became more burdensome, an obvious candidate for adjustment became public spending. This, in turn, suggested privatisation, which in one form or another emerged as an irresistible option for many governments. Malaysia was no exception.

In addition to the clear need to curtail public spending for fiscal reasons, there was increasing disenchantment in government circles with the poor performance of state owned enterprise. As noted earlier, Prime Minister Mahathir was outspoken in his criticism. And one of his principle economic advisers went a step further: "Protection of several public enterprises from market forces has bred complacency, and resulted in inefficiency and low productivity. It has been accepted the world over that the private sector is more efficient and innovative than the public sector." (Wahab, p. 4.) Regardless of the statement's validity, it represented the prevailing official sentiment in the Mahathir government.

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[6]By 1987 the Corporation had invested in about 160 Malaysian companies, and assets totaled about M$ $.5 billion.

If the underlying rationale for pursuing privatisation policy was the same as in other countries, so were the expressed goals. As one official explanation summarised:

> The aim of privatizing public sector agencies and services is to increase private sector involvement and at the same time reduce the financial and administrative burden of the Government. It is also aimed at increasing the efficiency and quality of public services within the economy. Privatisation is also consistent with the long-term aim of the Government to reduce its direct involvement in commercially related activities,and thus lessen competition with the private sector in various activities. (Ministry of Finance, p. 4.)

Thus, on the surface it appeared that the rationale for and the objectives of Malaysia's privatisation programme conformed to the orthodoxy of the times. However, there were certain dimensions of the approach that clearly were different, namely the linkage established between privatisation and the NEP targets. The challenge for Prime Minister Mahathir's government was to intertwine the traditional objectives associated with privatisation and the overriding national goal of redistributing wealth to the Bumiputra community. As the Prime Minister explained, "...the government has decided that the time has come for Privatisation to take place. In the first place, it will not negate the objectives of the NE The Bumiputras will get their share, both in terms of equity and employment." (Mahathir, 1984, p. 5.)

The design and implementation of the National Unit Trust in 1981 provided an early indication of how privatisation would proceed in Malaysia. Just as the NEP had been conceived and structured to improve the socio-economic standing of a particular ethnic group, the new privatisation policy would be implemented in the same vein. In order to avoid any contradiction between the objectives of the NEP and privatisation, an explicit linkage was established: any privatisation transaction would have to include a minimum of 30 per cent Bumiputra participation. To satisfy this stipulation, if individual Bumiputra investors were not disposed to participate in the transaction, the Unit Trust as a representative of the Bumiputra community, was prepared to invest on their behalf temporarily. Eventually it was owned that individual Bumiputra investors would have the financial capability to purchase the shares from the trust. As a government official explained, "These privatized companies could be used as appropriate vehicles to further accelerate Bumiputra corporate ownership." (Ibrahim, p. 15.)

The rationale underlying the National Unit Trust suggested that privatisation policy would be designed to achieve a multiplicity of objectives, as had been the case with the NE In addition to the expectation that privatisation would alleviate some of the fiscal pressures on the government and lead to greater corporate efficiency, it also would be used as an instrument to promote greater savings among the Bumiputra population and to redistribute the shares of corporate ownership in the country.

The disposal of state-owned assets, then, was expected to be a means of achieving various public policy goals. "A true measure of the success of privatisation," one official explained, "will not be the number of firms transferred from state ownership, but improved allocation of resources reflected in higher growth, higher returns on capital projects, and reduced public sector deficits." (Ibrahim, p. 8.)

VIII. IMPLEMENTING THE STRATEGY: DIFFICULT TASKS

Once privatisation was identified as a major national priority, policy implementation proceeded simultaneously along a number of interconnected routes, each with its own network of obstacles to be surmounted. Work began on the drafting of an explicit set of policy guidelines, and an organization structure had to be carved out from within the government bureaucracy. At the same time, the government initiated an impressive effort to improve data collection and monitoring of the approximately 900 institutions that were classified as public enterprises.

A. Privatisation Guidelines

Although there were numerous delays, largely attributed to bureaucratic conflict rather than philosophical differences, eventually the government published the official "Guidelines on Privatisation" (1985).[7] The 10-page document delineated objectives, methods, and procedures. Acknowledging that the privatisation policy represented "a new approach to the development of the Malaysian economy," five objectives were identified:

> First, [privatisation] is aimed at relieving the financial and administrative burden of the Government in undertaking and maintaining a vast and constantly expanding network of services and investments in infrastructure. Second, privatisation is expected to promote competition, improve efficiency, and increase the productivity of services. Third, privatisation, by stimulating private entrepreneurship and investment, is expected to accelerate the rate of growth of the economy. Fourth, privatisation is expected to assist in reducing the size and presence of the public sector with its monopolistic tendencies and bureaucratic support, in the economy. Fifth, privatisation is also expected to contribute towards meeting the objectives of the New Economic Policy (NEP), especially as Bumiputra entrepreneurship and presence has improved greatly since the early days of the NEP and they are therefore capable of taking up their share of the privatised services. (Economic Planning Unit, p. 1.)

Even though the set of objectives was clearly defined, there were a number of inherent contradictions that would effect implementation of the new policy. For instance, the formulators had to maintain a delicate balance between two contrasting public policy objectives. The government must not abandon the NEP commitment to expanding the share of Bumiputra corporate equity. Indeed, the Guidelines were explicit: "The target of ownership restructuring in the corporate sector is to have at least 30 percent Bumiputra ownership, other Malaysian 40 percent and foreign interests 30 percent, by 1990." (Economic Planning Unit, p. 8.) However, in order for the new policy to be successful it must promote accelerated private investment by all groups -- Bumiputra, non-Bumiputra and foreign.

There also was the tension between the government's desire to dispose of specified state-owned assets, and the equally important concern that the rights and privileges of public sector employees be fully protected. The official document did not resolve one of the fundamental dilemmas posed by the new policy. On the one hand, privatisation should

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[7] A second, unpublished version of the Guidelines was prepared for internal government use. Although basically the same as the published document, it provided more detail on such matters as the selection criteria for privatization candidates.

"...promote competition, improve efficiency, and increase productivity ...." But, on the other, " All schemes for privatisation must include provisions whereby the employees will not lose in any way the benefits that they enjoy while being in the employ of the Government.... employees must be absorbed under terms which are no less favourable than those enjoyed while working for the Government."

B. Unavoidable Problems

The Guidelines provided an important policy framework for the new privatisation programme. But, they could not help the government to surmount the countless obstacles that would impede implementation. In addition to the underlying problems of reconciling competing public policy objectives, there were other hurdles common to virtually all countries that are attempting to implement similar programmes. For instance, the Malaysian government would encounter bureaucratic intransigence by the so-called stake holders who felt threatened by the new policy; legal problems due to existing legislation that constrained the government's right to dispose of certain categories of assets; controversy about the appropriate valuation of assets that were being prepared for privatisation; and ridicule from the skeptics, who claimed that privatisation would only result in the transfer of assets from one wealthy elite (the government) to another (big business). And of greatest concern, there was the ongoing challenge of reassuring workers that privatisation was not contrary to their interests.

Even though the Guidelines tried to allay the fears of the labour movement, union representatives remained unconvinced. The most vocal opposition, as would be expected, came from the union that represented the 800 000 public employees -- the Congress of Unions of Employees In The Public and Civil Services (CUEPACS). The President of the powerful union referred to privatisation as "...a capitalist concept to boost the riches of the elite at the expense of the workers and the consumers." (Ragunathan, p. 9.) Hyperbole aside, the labour leader represented the prevailing view among public employees who felt threatened by the consequences of privatisation: "As maximization of profit is the primary commitment of the private enterprises, it is inevitable that there would be attempts to squeeze the workers and to charge higher rates for services to the consumers." (Ragunathan, p. 6.)

Despite the Guidelines' assurances that workers would be fully protected in the event that a public enterprise was privatised, the emphasis on economic efficiency was interpreted negatively. Not only was there a fear that the work force would be reduced in the name of efficiency, but also that the prospects for higher paying overtime would be reduced, benefits would be curtailed to cut costs, and worker morale would be left in a shambles. The labour movement, therefore, continued to be skeptical of the government's ability to simultaneously achieve the dual objectives of increased enterprise efficiency and the full protection of the workers' rights and privileges.

C. Organising the Government

Even before the Privatisation Guidelines were completed, an inter-ministerial committee was created under the chairmanship of the Director General of the Economic Planning Unit. The new committee was comprised of 10 senior government officials who represented ministries with a direct stake in the implementation of the privatisation strategy. According to the government procedures that developed, all significant issues pertaining to the privatisation programme would be decided by the new Committee. Later, towards the end of 1984, the government went a step further and created the Special Task Force on Privatisation. Organizationally the new operating group was located within the Economic Planning Unit of the Prime Minister's Department. For the first time, the government had an entity with a full-time staff explicitly charged with formulating a national privatisation strategy and overseeing its implementation. The head of the Task Force, it was decided, would be accountable to the inter-ministerial committee, which in turn would report directly to the Prime Minister.

The new privatisation group almost immediately began to encounter a predictable array of personnel and organizational problems. Although a good staff was recruited from the ranks of the civil service, none of them had previous substantive experience in the privatisation sphere. Moreover, the core professional staff was so small that they quickly became overwhelmed by the magnitude of their assignment. And finally, although the Prime Minister had designated this central unit to oversee the design and implementation of privatisation policy, inter-agency rivalries emerged and intensified over time, and the authority of the unit was continuously challenged from within the government. Eventually, this problem was publicly acknowledged: "Cooperation from Government agencies in identifying activities which can be privatised needs to be stepped up..." (Ministry of Finance, 1987, p. 85.)

D. Monitoring Public Enterprise Performance

At about the same time that the government's organizational issues were being addressed, steps also were taken to deal with another serious problem. The government's efforts to assess the role of the public sector in the economy and recommend changes were stymied by profound confusion about how to define public enterprises and keep records on their performance. Until the mid-1980s there was no consolidated information on the number of enterprises in which the government owned equity, the value of these holdings, or the status of their performance. Thus, it was virtually impossible to subject these public enterprises to reasonable standards of accountability.

Traditionally, the public sector consisted of the federal and state governments and fourteen "public authorities, which included electricity boards, port authorities, the national railroad, and sundry other large public agencies. (See Annex 12.) However, as the government's role expanded and the number of these enterprises multiplied, reporting methods failed to keep pace and it became more difficult for the authorities to hold these corporate-like entities financially accountable. As the public sector came under increasing scrutiny, a more precise classification system was adopted and accounting standards became more rigorous. Finally, in 1985, the Central Information Collection Unit (CICU) was created within the National Equity Corporation to systematically gather vital information on all public enterprises and monitor their performance.

According to role and function, the so-called public authorities were divided by the CICU into one of three categories; "socio-economic", "commercial and industrial," or "public utilities." The first classification comprised an array of development-oriented institutions; the second included such commercial enterprises as the national oil company (PETRONAS),the national airline (MAS), and the enormous Heavy Industries Corporation of Malaysia (HICOM); and, the last group consisted of companies traditionally labeled as public services, such as electricity, water and port management. By 1987, the CICU estimated that there were 571 of these enterprises in which the government owned more than 50 per cent of the equity.

Table 11
GOVERNMENT EQUITY IN PUBLIC ENTERPRISES

Percent of government equity	Federal	Number of companies Regional	State	Total companies
50% or more	277	41	253	571
21% - 49%	120	8	84	212
20% or less	26	2	37	65
Total	423	51	374	848

Source: Ibrahim, p. 12.

However, this effort to define more precisely the components of the public sector did not fully eliminate the confusion. For the purposes of government planning and monitoring only the largest NFPEs were included -- those in which the government owned more than 50 per cent of the equity and had annual revenues in excess of M$5 million (Fifth Malaysia Plan, p. 224.) A complete tally, on the other hand, would have included approximately 900 enterprises, although no official document contained a precise number.[8]

IX. EARLY RESULTS

A. Experimenting with Various Methods

In the initial years of the privatisation programme there was no overall plan that guided the implementation team. Although the Privatisation Guidelines was the government's major policy statement on the subject and clearly established both the rationale for the programme and the objectives, it provided minimal guidance on questions of implementation. No attempt was made, for example, to establish criteria for selection of privatisation candidates, or to determine a set of privatisation priorities. Instead, the early targets of privatisation were chosen in an ad hoc manner, and various methods were tried and tested, with varying results.

For example, the government undertook a partial divestiture of two major public enterprises, Malaysian Airlines (MAS), and the Malaysian International Shipping Corporation (MISC). In these cases, the government sold a substantial minority of its shares to the public,[9] but retained ultimate control "...to ensure that major decisions affecting the operations of the companies are consistent with the Government's policies and national needs." (Ministry of Finance, 1987, p. 85.) In a few other cases, the state undertook to sell 100 per cent of its position in some enterprises that were pure investments for the government. Sports Toto, for example, was a publicly listed company with 70 per cent of its total equity owned by the Minister of Finance, until the shares were sold in 1985.

[8]The 1986 Annual Report of Bank Negara, for example, refers to "about 900 companies with government equity..." [p.148]

[9]About 30% of the MAS shares were offered on the Kuala Lumpur Stock Exchange in 1986, and 17% of the MISC shares in early 1987.

A second method was to transform a public enterprise into a corporate body that would be run in a manner akin to a private enterprise, but wholly owned by the government. Eventually, when the commercialization process was complete, shares would be offered to the public. Heavily influenced by the example of British Telecom, the government arranged to separate the Malaysian Telecommunication (JTM) from the Ministry of Telecommunications and transferred the shares to a more independent state-owned company. Then, a major restructuring of the new corporate entity was undertaken with the expectation that over time shares would be offered to the public. Gradually, then, the company would be privatised.

A third approach did not entail the actual transfer of government-owned assets. Instead, certain sectors were opened to greater competition by liberalising the rules of entry for new companies. For example, one of the very first privatisation initiatives was the government's move to permit the licensing of an independent television channel, TV3, that would be permitted to compete with the two government-owned television channels. The results of this experiment were favourable in the government's view, and additional efforts were being considered to improve the efficiency of state-owned enterprises by subjecting them to competitive forces.

Another method, which resulted in the most widely heralded of the country's privatisation efforts was the sale and lease of government assets to a private company. The privatisation of the Port Kelang Container Terminal, which was completed in 1986, provides an excellent illustration of the complicated array of issues that must be addressed when transactions of this nature are undertaken by the government (see next section).

By the end of 1987, about five years after the Prime Minister had first announced that privatisation would become a major priority in his administration, this pot pourri of techniques had resulted in eleven transactions that the government classified as privatisation:

* The Royal Malaysian Air Force's Aircraft Overhauling Depot (AIROD): long-term lease
* North Kelang Straits Bypass: construction and operation of new toll road by private contractor
* Sports Toto: sale of shares in sports lottery company
* TV3: new commercial television station started by private group
* Kepong-Kuching Road interchange: construction and operation of road by private contractor
* Malaysian Airline System (MAS): public offering of about 30 per cent of the ordinary shares
* Port Kelang container terminal: long-term lease and proposed public offering of shares
* Malaysian International Shipping Corporation (MISC): public offering of about 17 per cent of the ordinary shares
* Labuan water supply: construction and operation of municipal water supply system by private contractor
* Recreation facilities at the National Park: lease to private contractor
* Telecommunications company: transformed into a wholly owned government corporation in preparation for privatisation (see above)

Source: Yahya Abdul Wahab, pp. 10-11.

Although one of the stated intentions of privatisation was to stimulate greater operating efficiency within the enterprises, nine of the first eleven transactions involved monopolies of one kind or another. For reasons that are unclear, most selected enterprises were natural monopolies, such as the airlines, the municipal water supply, the toll road and the telecommunications company. These types of enterprises, regardless of whether ownership was private or public, were unlikely to be challenged by new entrants, which would enhance the competitive environment. Thus, judging from the first round of transactions, there was reason to question the validity of the government's claim that privatisation would lead to improved enterprise efficiency.

Each one of this first group of transactions was executed individually and involved months of painstaking work. Moreover, each case required that a number of public policy issues be addressed -- from tax policy to permissible foreign participation, from pension reform to land rights. A closer examination of a single transaction highlights the difficulties encountered by decision makers charged with shifting the balance from the public to the private sector.

B. Port Kelang: A Privatisation Case Study

In 1983, with the government's commitment to privatisation becoming more clearly established, the first enterprise to be shifted from public to private control was selected. No overall privatisation strategy was yet in place, nor was their an established set of government procedures that defined responsibilities for implementation. Nevertheless, even at this early stage, there was a sense in the government that the privatisation programme should get underway in order to demonstrate the Prime Minister's commitment.[10]

The selected candidate was the container terminal situated within Port Kelang, located about forty kilometers south of Kuala Lumpur. The port was by far the largest in the country, handling about 80 per cent of total international trade. Capacity had gradually increased and by the early eighties the port was providing a full range of services (stevedoring, bulk and container loading/unloading, pilotage), employed more than 7 600 people, and had a cargo handling capacity of 16 million tons per year. (Abdullah, p. 12.)

The entire port facility, including the container terminal, was managed under the auspices of the Port Kelang Authority, which was a financially autonomous, but wholly owned government enterprise under the jurisdiction of the Ministry of Transport. The Authority was responsible for raising all of its own funds for development projects, and it was subject to government income taxes. Since it was first established, the Authority had always been profitable. More significantly, ever since the container terminal began operations in 1973 it had been the primary source of earnings for the Authority. In 1985, the last year that the terminal was operating as part of the Authority, it accounted for about 60 per cent of the overall net profit of the port.

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[10]Significant portions of this account of the Port Kelang privatization are based on personal interviews by the author with various participants in the transaction. All interviews were conducted on a confidential basis, with assurances by the author that sources would remain anonymous.

The selection of the container terminal as Malaysia's first privatisation candidate was based on a number of factors. First, there was a sense that the inaugural transaction should be an entity that enjoyed widespread public recognition, had a record of profitability, and was not in a politically sensitive sector. The container terminal within Port Kelang satisfied all of these criterion, which officials believed would facilitate the transaction and coalesce public support for privatisation in general.

Another set of factors centred around the port itself. Although it was considered an important national priority, Port Kelang was functioning at a low level of efficiency by international standards. The facility was suffering from excessive congestion, there were continuous complaints about low productivity, pilferage had reached disturbingly high levels and security was lax by international standards. By the early eighties, although the port was still profitable, there was mounting concern that if conditions did not improve Port Kelang might be black-listed by international shippers. The explanation for this sub-par performance was straight forward, according to the port manager. Operating as a government enterprise, he explained, the port did not have "...the freedom and flexibility to manage and operate its facilities on a commercial basis....administrative and bureaucratic procedures often [led] to delays in decision making and hence project implementation." (Hashir, p. 16.) The official's frustration sounded the same alarm that is heard throughout the world by the manager's of public enterprises who are expected to adhere to commercial standards of efficiency: "The dilemma of the Port Authority", he said, "where it is expected to operate as a commercial organization on the one hand and being a statutory body subjected to all the bureaucratic procedures of a Government agency on the other, [led] to a situation where it [did] not have the same competitive advantage of a business unit as other neighboring ports." (Ibid.) This prevailing sentiment made the port a likely target for privatisation.

Another, less compelling reason for selecting the container terminal was financial. Port Kelang Authority was not tax exempt, and the profitability of the container terminal had resulted in a substantial sum of tax revenues for the government.[11] Officials involved in the decision reasoned that if there was considerable scope to improve efficiency at the container terminal, revenues would increase, which would lead to higher tax receipts.

Of course, there were countless other public enterprises that had similar characteristics, and presumably also could have been selected as the first candidate. But, as occurs in many countries, the rhetoric by the political leadership in support of privatisation as an important new government priority was considerably more advanced than the underlying organization required to implement a new initiative of this magnitude. Under the existent circumstances, it was unlikely that the selection process would be highly systematic. Although one official complained that "very little forethought went into the selection of the container terminal", another who also was involved in the decision making process made an equally valid observation: "There was a feeling in the government that we had to begin somewhere," he explained, "and the container terminal was as good a place as any."

Thus, with the Prime Minister's direct involvement, in 1983 it was decided to privatise the container terminal, thereby separating the most profitable component from the Port Authority. The first difficulty was the dearth of expertise within the government to organize and execute an undertaking of this complexity. The initial decision, therefore, was to appoint a

[11]Between 1981 and 1985 the Authority paid more than M$ 100 million in federal taxes. Hashir, p. 12.

well established and technically competent local merchant bank to conduct a detailed feasibility study of the container terminal itself, and to recommend the options that the government would have for the privatisation. A bidding process occurred, and the mandate was given in mid-1984 to a multi-disciplinary, international team of technical experts that included a local merchant bank as the lead institution (Aseanbankers Ltd.), the local office of one of the world's largest accounting firms (Price Waterhouse), a foreign merchant bank with in-depth practical experience in the implementation of privatisation transactions in the United Kingdom and elsewhere (Kleinwort Benson), and a well known local corporate attorney. The team totaled eleven professionals who worked full-time for three months to complete the assignment. They submitted their report and recommendations to the government in December 1984.

Concluding that it was viable to privatise the container terminal, the team of consultants recommended that a new, separate corporate entity be formed that initially would be wholly owned by the Port Kelang Authority. This legal manoeuvre was a prerequisite to the issuance of shares by the new company, to be called Kelang Container Terminal, which eventually could be sold to a private sector buyer.

According to the privatisation scheme designed by the Aseambankers group, once the container terminal was a separate corporate entity, the Port Authority would invite bids from private companies to purchase 51 per cent of the newly formed company. The Authority initially would retain 49 per cent of the Kelang Container Terminal stock, but eventually there would be a public offering on the Kuala Lumpur Stock Exchange that would leave the government in control of only 20 per cent of the shares, and the majority partner with 40 per cent. The remainder of the stock would be sold to the public (35 per cent) and the company employees (5 per cent).

Due to local laws that prohibited private firms from owning the land where the container terminal was located, the winning private bidder would lease the facility for a 21-year period from the Port Authority. The newly created private firm would have full operating authority at the terminal for a specified period of time and would own all of the assets, except the land. This procedure allowed the government to retain the right to review the arrangement at the end of the 21-year period.

At about the same time that the Aseambankers report was being concluded, in late 1984, the Prime Minister established the Inter-Departmental Committee on Privatisation within the Economic Planning Unit to serve as the secretariat for all of the government's privatisation activities. With a small staff drawn from the ranks of the civil service, this committee became responsible for directing the container terminal transaction, as well as most subsequent privatisation activity. As one of the original staffers recalled, "when we came here there was nothing, and none of us had experience in the area of privatisation." Their first task, nevertheless, was to monitor the work being performed by the Aseambankers team and oversee the implementation process.

Once the Aseambankers report was submitted, the same group was retained by the government again with a mandate to systematically and objectively review the bids.[12] The invitation to bid prepared by the consultants contained an elabourate terms of reference that

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[12]Contracting out this important function provided further evidence that the government was ill-equipped to undertake some of the most important privatization tasks.

was designed to allow the decision makers to assess the qualifications of each bidder to manage the container terminal. For example, each proposal to take over the terminal was required to include:

* The identification of all major shareholders and a detailed description of their financial condition and experience (if any) in the operation of container terminals;

* A detailed operating plan that described how the bidder would run the terminal, if selected;

* The identity of all the key management personnel and their qualifications;

* A commitment to retain all employees who were currently working at the terminal that chose to remain after privatisation, and assurances that the salary and benefit package offered to employees would be at least as attractive as the Port Authority had been offering;

* Pro forma financial statements that included detailed projections on capital expenditures to improve the facility and earnings forecasts that highlighted expected financial returns to the Port Authority (dividends, lease payments);

* The price the bidder was willing to pay to the Port Authority for the shares in the Kelang Container Terminal; and

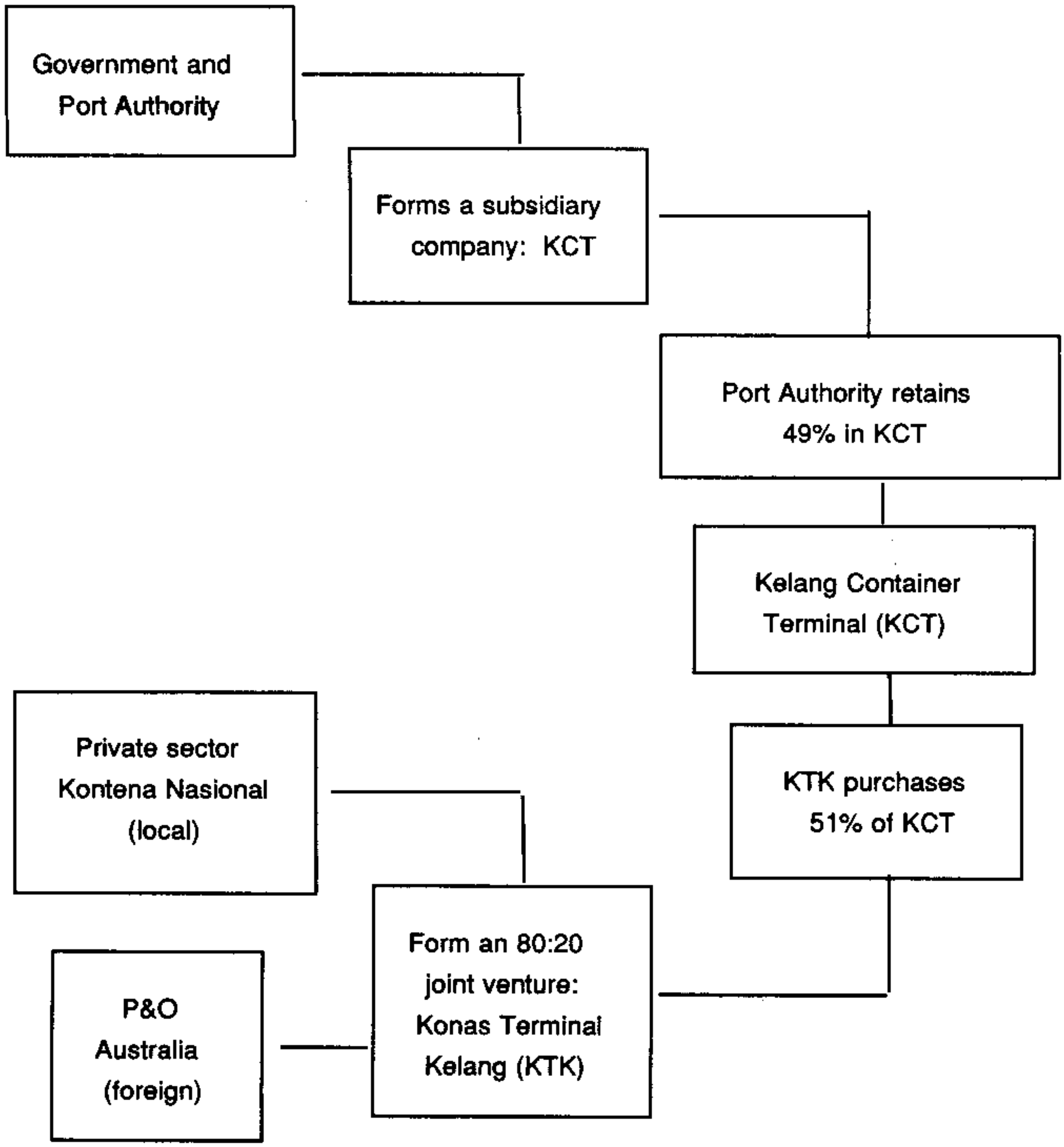
* A proposed timetable for implementation, in the event the bid was won.

Bidders were not required to include a foreign joint venture partner. There was, however, an unstated assumption that this would be a crucial consideration for the decision makers, and all four bids that eventually were submitted did include foreign participation. It was well known that the government was committed to using privatisation as a vehicle for attracting additional direct foreign investment to the country. Moreover, it was generally acknowledged that a more modern, efficient, internationally competitive container terminal would require a level of technology and management expertise that was not present in Malaysia.

In the case of each of the four bids, it was the foreign partner that had the demonstrable operating experience in the container terminal business. In view of the deteriorating operating condition of the facility, the capability of the foreign partner became a critical factor and ultimately was decisive. The decision makers also considered carefully the expressed commitment of the foreign partner to invest equity in the joint venture, thereby indicating a willingness to be financially at risk with the project.

The four bids were submitted in January 1985. Each one was voluminous, containing extensive financial and operating detail that provided an assessment of the problems with the current container terminal arrangement, as well as recommended changes and projections on how the bidder would run the facility, if given the opportunity. About six weeks after the bids were received, Aseambankers decided on a winner and submitted their recommendation to the recently formed Privatisation Task Force in the Economic Planning Unit.

DIAGRAM OF THE PRIVATISATION OF PORT KELANG CONTAINER TERMINAL



Source: Excerpted from Hashir, p. 29.

The consultants and the government decision makers agreed that the best bid had been submitted by a newly created company, Konnas Terminal Kelang Sendirian Bhd (KTK), which was a joint venture between a Malaysian trucking company (Kontena Nasional) and a major Australian conglomerate that had worldwide experience in both shipping and the management of container terminals (P&O Australia).

Schroeder Wagg, a well-known British merchant bank, served as the advisor to both Kontena Nasional and P&O in their negotiations to form a viable joint venture, then assisted the new company to prepare its privatisation bid, and finally served as an advisor to KTK in its negotiations with the government. The agreement to form the new company stipulated that KTK would be a 80:20 joint venture between the Malaysian and Australian companies respectively, which in turn would purchase 51 per cent of the stock in the new container terminal from the Port Authority. Thus, the privatisation would be structured as follows:

Once the winning bid was announced, Aseambankers were retained by the Privatisation Committee for a third assignment. Even though the KTK joint venture company had submitted the winning bid, there were a number of critically important issues that still had to be negotiated between the government-owned Port Authority and the designated private operator of the container terminal. For example, final agreement had to be negotiated on the fees and rental income that would be generated for the Authority. There also were a number of crucial details on the terms and conditions of employment for workers at the new company. Later, both sides acknowledged that the government erred by selecting the winner in the bidding contest before all of these critical issues were resolved. Once the bid was awarded, the government's leverage was significantly diminished.

Because this was the first major privatisation for the country, the government was vitally concerned about the provisions in the agreement that affected the employees. The Port Kelang transaction was expected to launch a long string of privatisations and there was understandable concern that certain aspects of the transaction would become precedent setting. This placed the government in a delicate position with the union representing the port employees, CUEPACS. If the workers did not enthusiastically endorse the transaction, it would be considerably more difficult for the government to implement future privatisation schemes, as well as the Port Kelang transaction. On the other hand, if the government's arrangement with the employees was too generous, it would prove costly in future privatisation negotiations. The issue was so sensitive and complex that the Prime Minister himself became directly involved in the negotiations. At one point he agreed to meet with the union leaders to provide reassurances that their members would be adequately protected.

In 1985, at the time the final privatisation agreements were being negotiated, the container terminal employed about 900 workers, all of whom were included officially as part of the Port Authority work force. In terms of pay, benefits and job security their status was the same as civil service employees throughout the country. After a protracted and complicated set of negotiations between the Port Authority, the civil service union and the management of the new company, it was agreed that all employees who were working at the container terminal at the time of the privatisation would be offered three options:

i) Depending on their employment status (e.g. age, length of service, occupation), workers could opt to terminate their employment with the Port Authority. They would receive a generous lump sum severance package and or early retirement that would include pension benefits.

ii) They could opt not to join the new Kelang Terminal Company, but remain as employees of the Port Authority. In this case their civil service status would not change, they would suffer no loss of pay or benefits, and the Authority was obligated to absorb them in its work force. Thus, no employee could be forced out of the Port Authority against his will.

iii) Finally, workers could chose to terminate their employment with the Port Authority and become employees of the new company. The key provision of the agreement stipulated that the new company would accept all employees who had been working at the container terminal "...on overall terms and conditions no less favourable than those currently enjoyed...." (Terms of Agreement) As a further inducement for employees, Parliament passed an amendment to the Pension Act of 1980 providing that employees of the new company would not lose any pension rights accumulated during their tenure of service with the Port Authority. When they reached retirement age, therefore, each would still be eligible for accrued pension benefits.

Thus, the union succeeded in obtaining total job security for all workers who were employed by the terminal at the time of the privatisation, and no employee would lose financially as a result of the transaction. When the time arrived to make a choice, 99 per cent of the container terminal work force opted to join the new company (option iii), thereby reducing the Port Authority's payroll by almost 900 workers. (The new KTK also hired twelve new management and technical personnel, five of whom were Australian, including the Chief Executive Officer.)

Later, long after the final agreement had been signed, it was confirmed that the precedent established with the Port Kelang workers was indeed the general policy of the government. "Where privatisation involves the absorbtion of Government personnel", a high ranking official explained, "the privatizor will have to guarantee that the terms and conditions of service of these personnel would not be worse off than those they are enjoying while serving the Government." (Wahab, p. 15.)

Another important element for the government in this show-case privatisation transaction was to ensure that the terms and conditions did not undermine the basic objectives of the New Economic Policy. Although barely publicized at the time, the major shareholder in Kontena Nasional, the local partner of the joint venture, was the National Equity Corporation, the wholly owned government company that was created to promote Bumiputra equity investment. Thus, in reality, although the container terminal was privatised, the government retained a major, albeit indirect stake in the new venture.

The government reached the preliminary decision to privatise the container terminal in mid-1983. The new company, Kelang Container Terminal, finally took control of the facility almost three years later, in March 1986. The transaction was characteristically complex and fraught with tension at every stage of the protracted negotiations. As with virtually all privatisations, there were a multiplicity of institutional interests, each with a different stake in the outcome. For example:

* The Prime Minister
* The Inter-Departmental Privatisation Committee
* The Ministry of Transport

* The Port Authority
* The Civil Service Union (CUEPACS)
* Aseambankers
* Kleinwort Benson
* Schroeder Wagg
* Kontena Nasional
* P&O Australia
* National Equity Corporation

In addition to the diverse interests of the participants, the complexity of the scheme necessitated a number a legal agreements. Each one required that opposing parties make concessions and demonstrate a willingness to reach compromises. For example:

* Amendments to Port Authorities Act of 1963 (Parliament)
* Amendment to the Pension Act of 1980 (Parliament)
* Memorandum of Understanding (Government, the Authority, KTK, and KCT)
* Sale and Purchase of Business Agreement (KCT and Authority)
* Joint Venture Agreement (KNSB and P&O Australia)
* Management Contract (KTK and KCT)
* Lease Agreement (KCT and Authority)
* Licence to operate the terminal (KCT and Authority)
* Ancillary Services Agreement (KCT & Authority)

As with most privatisation transactions, the challenge for the various stakeholders was to surmount the obstacles posed by competing interests, reconcile their differences and forge agreements that would endure the test of time. The fact that it took almost three years to accomplish this task reveals more about the inherent complexity of the privatisation process than about the intransigence of this particular group of participants.

X. A NEW APPROACH: THE PRIVATISATION MASTER PLAN

Although Port Kelang and the other transactions that were executed after 1985 suggested that some headway was being made, by 1987 the government concluded that the pace of privatisation implementation was unsatisfactory. According to the Ministry of Finance, "The progress of privatisation has been slow in view of the complexity of the exercise involving legal, social and economic constraints, as well as various requirements and procedures that have to be satisfied before the agencies can be privatized." (Ministry of Finance, 1987, p. 85.)

The Director General of the Economic Planning Unit, which had overall responsibility for implementing a privatisation policy, was more explicit about the need for a more systematic process:

> To achieve the objective of reducing the financial burden of the Government, the best alternative for the Government is the sale of all of its interests in the service that is to be privatised so that it can "wash its hands off altogether" in the provision of that service. However, due to several constraints such as legal, capacity of the private sector, the need to protect public interests, etc., this alternative may not always be feasible, so that the next best alternative will have to be considered....No standard criteria has been developed for this purpose. (Wahab, p. 13.)

It was decided, therefore, that a more systematic approach to privatisation must be adapted in order to accelerate the process and achieve more substantial results. This determination resulted in the effort to create a Privatisation Master Plan.

When the government solicited bids from outside consultants in mid-1987 to assume responsibility for designing the new approach, the underlying problem was acknowledged:

> At present there is no formal overall plan or written strategy on privatisation, hence the Government has decided a Master Plan on privatisation should be prepared to guide the privatisation effort in the future. The purpose is to clearly define privatisation objectives and policies, develop an overall strategy, consistent approach and criteria, and an action plan appropriately phased, so that privatisation efforts become easier and less time consuming. (Terms of Reference, p. 1.)

After a lengthy bidding procedure administered by the Privatisation Task Force in the Economic Planning Unit, the contract to prepare a Master Plan was awarded in February 1988 to the British merchant bank, Schroeder Wagg. The designated team of bankers/consultants was given six months to conduct their analysis and submit their findings to the government. According to the Terms of Reference, the technical experts were given an extraordinarily ambitious agenda to achieve:

* Review existing privatisation policies and objectives and recommend changes;
* Critique the Privatisation Guidelines and recommend changes, if needed;
* Identify enterprises that would be viable privatisation candidates, and prioritize them;
* Assess how the government has organised for privatisation and make recommendations on improvements in the organisation structure and decision making process;
* And finally, prepare a so-called "Action Plan" with a 10-year time horizon that would indicate how to implement the recommendations.

Although government officials had high expectations for the Master Plan, hoping that it would accelerate the pace of privatisation, this approach would be subjected to the same limitations as the Privatisation Guidelines that had been produced a few years earlier. Although better planning and organization would be helpful, the most meticulously prepared blueprints could not compensate for such factors as a shortage of skilled manpower to implement the plan, or bureaucratic resistance to change. Most likely, the government would continue to contend with many of these implementation issues on a case-by-case basis, regardless of the admonitions of the Master Plan.

XI. CONCLUSION

The story of realigning the balance between public and private responsibilities in Malaysia contains similarities and differences with numerous other countries that are undergoing a similar transformation. Most significantly, the underlying motivation for the shift appears to hinge more on economic pragmatism than ideological change. Serious questioning of the respective roles of the private and public sectors in the development process began to occur in the early 1980s, when there was a sharp reversal of the buoyant economic performance that marked the previous decade. More than any other factors, privatisation and other liberalisation measures were a public policy response to demonstrably poor state-owned enterprise performance, rapidly increasing external and domestic debt levels, and public sector deficits that became unsustainable. It also was significant that in 1981 there was a change of political leadership, which signaled a willingness to depart from traditional approaches to economic problem solving.

The desired realignment posed special problems for Malaysian policy makers because there was an equally strong commitment to the New Economic Policy, which had been promulgated in the early seventies. An inherent tension existed between the dual objectives of unleashing the energy and resources of the private sector on the one hand, and the desire to protect and promote Bumiputra interests on the other. The dilemma was resolved by such disingenuous methods as allowing the government, through creations like the National Equity Corporation (PNB), to serve as a temporary surrogate for the Bumiputra community until such time as they had the resources to participate directly in corporate ownershi Nevertheless, the problem persisted. As the Prime Minister acknowledged in November 1987, the NEP "...is a constraint on rapid development of the economy. The job of pulling up the Bumiputras to the level of the non-Bumiputras must absorb much money, time and energy. Consequently, we cannot fully achieve our potential for economic growth." (Quoted in Merican, 1987, p. 4.)

The Malaysian story also is instructive because it illuminates the difficulties that even the most developed of the developing countries have when they attempt a significant policy shift. The fundamental decision to change direction occurred as early as 1981-82, shortly after Dr. Mahathir bin Mohamad became Prime Minister. However, progress was slow. A new, more liberal set of investment incentives was not enacted until 1987; it took more than two years for a privatisation policy (i.e Privatisation Guidelines) to be written and gain high level government approval; a government apparatus to oversee implementation of the privatisation policy was not in place until 1985; and, by the end of 1987 the government claimed eleven transactions, none of which entailed full divestiture by the government.

Although these preliminary results may appear meager, they are not. No developing country government that has publicly expressed an intention to shift the balance between the public and private sectors can lay claim to significantly more rapid progress.[13] Policy makers from around the world have discovered that privatisation and related policy changes are considerably more difficult and time consuming to implement than they had imagined. Thus, the impediments encountered by Malaysian policy makers are not particularly unique; they represent the norm in the developing world, even among the relatively privileged group of middle income countries. For example:

* Legal changes take time: In many cases, privatisation must be preceded by legislative action (e.g amendments to the Port Authorities Act, the Telecommunications, the Pensions Act) that is always time consuming and sometimes contentious. If politically feasible, it would be more practical and expeditious to enact some form of omnibus legislation, such as was promulgated by the French government in 1986, that would permit the government to override specified types of existing regulations when privatisation is at stake.

* Each transaction is different: Although the objective is frequently the same from transaction to transaction, rarely is the implementation process replicable. Rather, as the eleven "privatisations" in Malaysia illustrate, each transaction is likely to be structured

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[13] Chile and Jamaica are possible exceptions.

differently and each must be administered individually. Even in the United Kingdom, which has privatised more state-owned enterprises than any country in the world, it took eight years (1980-87) to complete fourteen transactions.

* Developing a consensus on implementation is more elusive than on overall policy goals: Even though it was necessary for the Privatisation Guidelines to be approved by the Cabinet, which inevitably slowed the process, this preliminary step was relatively easy compared to what followed. Once the broad goals were established and it was necessary to forge an agreement on individual enterprises that would be candidates for privatisation, opponents became more visible and implementation more difficult.

* The importance of government organization is under-estimated: In the flurry of activity and debate about privatisation goals and methods, there is a tendency to defer the mundane, but essential decisions about creating an effective government organization that will be vested with the authority and skills to oversee the implementation process. The Privatisation Task Force became operational only after a number of important transaction were either completed, or underway, such as Port Kelang and AIROD. Moreover, once the Task Force was established it discovered that numerous other components of the vast government bureaucracy vied for similar authority in the privatisation sphere.

* The scarcest resource is skilled technical expertise: Privatisation is a relatively new, untested phenomenon. As such, there is a dearth of experts who have the "hands-on" experience in the planning, implementation and monitoring of privatisation transactions. In Malaysia, for example, the government agency vested with the primary responsibility for implementation of the nation's privatisation programme (the Privatisation Task Force) was unable to recruit a single individual with previous privatisation experience. This lack of expertise in the public sector, almost inevitable under the circumstances, placed extraordinary limitations on the implementation process.

* Government pays a high price for labour support: In the Port Kelang Container Terminal transaction each employee was given a guarantee that once the company was privatised he would receive a package of compensation and benefits "no less favourable" than he had previously. A similar arrangement was guaranteed to all employees in the restructured telecommunications company, and it appears that the precedent now is firmly cemented. Over time this formula will prove costly and, in some cases, self defeating. Alternatively the sanctity of employee rights could be protected by other means that should be systematically explored, such as retraining programmes and generous severance packages.

Regardless of the difficulties and uncertainties, many of which were unavoidable, there was little question that by 1988 Malaysia had made significant headway towards a realignment of responsibilities between the public and the private sectors in the nation's economic affairs. Development expenditures as a percent of GNP, for example, were reduced from a peak of 20 per cent in 1981 to 9.4 per cent in 1987;[14] and the annual growth rate of total federal expenditures declined from 9.2 per cent in 1982 to 0.1 per cent in 1987. (Ahmad, 1987, pp. 5, 7b.)

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[14]Net development expenditures declined by a dramatic 30% from 1986, and were at their lowest level since 1979. (Bank Negara Annual Report, 1987, p. 135.)

The government also undertook a series of policy initiatives that demonstrated a shift in priorities. As noted above, considerable progress was made in liberalising policies and regulations for private investors -- both domestic and foreign. And, concrete steps were taken to more closely monitor the performance and expenditure patterns of public enterprises. Institutions such as the National Equity Corporation began to adjust their investment patterns in consideration of the government's privatisation programme. And, most significantly, assets slowly began to change hands. In addition to the transactions noted in section IX, plans were underway in 1988 to privatise the National Electricity board, the Malaysian Railway, and additional port services.

These favourable trends, however, were partially offset by others that raised questions about future success. In addition to the aforementioned obstacles to change, unemployment, at 9.5 per cent, was at its highest level ever; the overall budget deficit remained stubbornly high, at about 10 per cent of GNP; non-financial public enterprises, with few exceptions continued to perform poorly and place additional strain on the public treasury; and the country still was burdened by over M$25 billion of external debt.

This state of economic affairs, moreover, conspired against the government's efforts to stimulate greater private sector participation in the economy. After two years of sharply negative growth, private investment increased in 1987 a meager 4 per cent, which indicated a continued lack of confidence in the government's programme. As one official noted, private investment "...needs to rise more vigorously in the coming years to compensate for the withdrawal of the government fiscal impulse." (Ahmad, 1988, p. 8.)

Serious questions also remain about whether the government has achieved stated objectives with the privatisation transactions that have occurred. The Prime Minister expressed his hope that the "...government-owned corporations transferred to the private sector, either fully or partly, will be better run, more efficient and more profitable." (Mahathir, 1984, p. 5.) However, most of the transactions that occurred prior to 1988 did not change the monopolistic status of the enterprise, which raised questions about the effect of privatisation on efficiency. As one noted observer of this phenomenon has written, "...competition and regulation are more important determinants of economic performance than ownershi...Indeed, preoccupation with the ownership issue is likely to be damaging if it distracts attention from the more fundamental issues." (Yarrow, p. 364.) The Prime Minister's expectation that a mere change of ownership will lead to increased efficiency is likely to be illusory, unless privatisation is accompanied by a series of policy and regulatory adjustments that subject the enterprises to competitive market pressures.

Continued resistance from the labour union for public employees, CUEPACS, was another factor that threatened success. Deeply suspicious about the consequences of the privatisation movement for workers in the public sector, in late 1987 the union issued a policy statement that unambiguously revealed its strategy:

> CUEPACS commits itself to campaigning against future plans for privatizing or contracting out of any essential services, using whatever methods that are most appropriate and lawful....Where the Government proceeds with privatisation exercises, CUEPACS will render all the necessary assistance to the respective trade unions to ensure that there is no retrenchment of workers and that new terms and conditions of employment are no less favourable than those that existed previously. (CUEPACS, p. 6.)

Although the statement also made clear that the union would not oppose the privatisation of "non-essential agencies and enterprises", the government would have to tread carefully to carry out its proposed programme without alienating this important constituency.

Thus, prospects for the future of the government's effort to realign the balance between the public and private sectors were clouded by conflicting signals. On the one hand, a national coalition had been forged that favoured a larger role for the private sector in the development process; there was an unmistakable national will to shift the balance. But on the other, the process of change was proving to be slower and more difficult than anticipated, hindered by an uncooperative bureaucracy, interest groups that sensed that the costs of privatisation would outweigh the gains, and an economy that struggled to recover and stabilize. This combination of circumstances suggested that the tendency towards a more liberalised economic environment would continue to be a high priority; the pace of change, however, would remain open to question.

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Annex 1

OFFICIAL EXCHANGE RATES
(Annual Averages, M$/US$ 1.00)

Year	Rate
1970	3.0612
1971	3.0523
1972	2.8196
1973	2.4433
1974	2.4071
1975	2.4016
1976	2.5416
1977	2.4613
1978	2.3160
1979	2.1884
1980	2.1769
1981	2.3041
1982	2.3354
1983	2.3213
1984	2.3436
1985	2.4829
1986	2.5814
1987	2.5196

Source: International Monetary Fund.

Annex 2

GNP BY DEMAND AGGREGATE, 1970-1987
(Constant 1970 M $ million)

Year	GNP	Annual Change %
1970	12155	+7.0
1971	13005	+6.1
1972	13793	+6.1
1973	15435	+11.9
1974	16734	+8.4
1975	17106	+2.2
1976	19077	+11.5
1977	20612	+8.0
1978	22084	+7.1
1979	23778	+7.7
1980	25858	+8.7
1981	27799	+7.5
1982	29075	+4.6
1983	30197	+3.9
1984	32217	+6.7
1985	31771	-1.4
1986	32436	+2.1
1987[1]	32976	+4.7

[1]Estimate by Bank Negara.

Source: Ministry of Finance Annual Economic Reports

Annex 3

ANNUAL % CHANGE IN
CONSUMER PRICE INDEX[1], 1971-1987

Year	%
1970	Base = 100
1971	1.6
1972	3.2
1973	10.5
1974	17.4
1975	4.5
1976	2.6
1977	4.8
1978	4.9
1979	3.6
1980	6.7
1981	9.7
1982	5.8
1983	3.7
1984	3.9
1985	0.3
1986	0.7
1987[2]	1.5

Source: Various Official Government of Malaysia Documents

[1] Based on Peninsular Malaysia.
[2] Estimate by Ministry of Finance.

Annex 4

MEASURES OF THE SIZE OF FEDERAL GOVERNMENT: 1966-1987
AS A PERCENTAGE OF GDP

Year	Total Expenditure/ GDP	Current Expenditure/ GDP	Capital Expenditure/ GDP	Total Revenue/ GDP	Current Balance/ GDP	Overall Balance/ GDP
1966	23.2	16.6	6.6	17.1	0.82	-4.62
1967	23.9	17.8	6.1	18.2	0.41	-6.1
1968	22.8	17.0	5.8	17.9	0.92	-5.7
1969	21.7	16.6	5.1	18.0	1.40	-4.9
1970	23.7	17.8	5.9	19.7	1.97	-3.8
1971	26.8	18.5	8.3	18.7	0.15	-8.1
1972	30.2	21.6	8.6	20.5	1.04	-9.6
1973	23.9	17.9	5.9	18.2	0.31	-5.6
1974	27.0	18.9	8.1	21.0	2.07	-6.0
1975	31.4	21.9	9.5	22.9	0.97	-8.5
1976	29.1	20.8	8.3	21.9	1.17	-7.1
1977	32.6	22.9	9.7	24.0	1.12	-8.6
1978	31.0	21.2	9.8	23.3	2.11	-7.6
1979	31.5	22.3	9.2	23.3	1.03	-8.2
1980	40.4	26.3	14.1	26.9	0.60	-13.5
1981	47.8	28.0	19.8	28.2	0.21	-19.6
1982	45.5	27.2	18.3	27.3	0.03	-18.3
1983	40.9	27.0	13.9	27.4	0.34	-13.51
1984	39.0	27.1	11.9	36.2	0.60	-11.25
1985	33.1	25.3	7.8	33.2	0.45	-11.25
1986[e]	38.0	28.2	n.a.	27.4	-0.78	-10.55
1987[e]	35.8	27.6	n.a.	22.9	-4.67	-12.90

[e]Ministry of Finance Estimates

Source: Salleh & Hassan (1987), p. 6, and Ministry of Finance Annual Economic Reports.

CONSOLIDATED PUBLIC SECTOR FINANCE, 1970-1987
(M $ million)

YEAR	PUBLIC SECTOR CURRENT SURPLUS[1]		DEVELOPMENT EXPENDITURE Federal/State		DEVELOPMENT EXPENDITURE Public Authority/NFPE[4]		TOTAL EXPENDITURE		OVERALL SURPLUS/DEFICIT[5]	
1970	527	%	878	%	81	%	959	%	-432	%
1971	344	-34	1256	+43	156	+93.0	1412	+47	-1068	+147
1972	80	-76	1478	+18	152	-2.6	1630	+15.4	-1550	+45
1973	438	+448	1340	-93	245	+61.2	1585	-2.7	-1147	-26
1974	904	+106	1999	+99	345	+40.8	2344	+47.8	-1440	+26
1975	471	-48	2467	+23	463	+34.2	2930	+25	-2459	+71
1976	1273	+170	2368	+7	643	+38.9	3281	+12	-1998	-18.7
1977	1134	-11	3454	+31	557	-13.3	4011	+22	-2877	+43
1978	1717	+51	4136	+20	602	+8.1	4738	+18	-3021	+5
1979	1964	+14	4801	+16	920	+53	5721	+20.7	-3757	+24
1980	1748	-11	5603	+17	1230	+34	6833	+19	-5085	+35
1981	3855	+120	12577	+125	2637	+114	15214	+122	-11359	+124
1982	4954	+28	12229	-2.7	4006	+52	16235	+7	-11281	-0.7
1983	5972	+21	10921	-11	6127	+53	17048	+5	-11076	-1.8
1984	7174	+20	9203	-16	7662	+27	16965	-0.5	-9791	-12
1985	8017	+11	8307	-9.7	5282	-32	13589	-19.8	-5617	-43
1986[2]	1972	-75	8157	-1.8	4053	-23.2	12210	-10.1	-9352	+66.5
1987[3]	-694	-135	8325	-2.1	3247	-19.8	11572	-5.2	-12365	+32.2

[1] Public Sector Current Surplus = Current Operating Expenditure + NFPE/Public Authority Surplus
[2] Estimated Actual
[3] Latest Estimate
[4] Non-Financial Public Enterprises
[5] Overall Surplus/Deficit = Public Sector Current Surplus/Deficit - Total Expenditure

Source: Ministry of Finance Annual Economic Reports

Annex 6

CONSOLIDATED PUBLIC SECTOR FINANCE, 1970-1987
(M $ Million)

Year	Net Foreign Borrowing		Net Domestic Borrowing		Net Total Borrowing	
	M$	%	M$	%	M$	%
1970	3		308		401	
1971	345	+11,400	676	+114	1,021	+154
1972	313	-9	826	+22	1,139	+12
1973	118	-62	877	+6	995	-13
1974	295	+150	826	-6	1,121	+12
1975	1,012	+243	1,209	+46	2,221	+98
1976	419	-60	1,660	+37	2,079	-69
1977	642	+53	1,910	+15	2,552	+23
1978	606	-6	1,299	-32	1,905	-25
1979	986	+62	2,547	+96	3,533	+46
1980	1,254	+27	2,194	-14	3,448	-29
1981	4,745	+278	4,260	+94	9,005	+161
1982	6,700	+41	6,672	+57	13,372	+48
1983	7,297	+9	5,350	-20	12,647	-59
1984	5,226	-28	3,542	-34	8,768	-31
1985	1,881	-64	4,182	+18	6,063	-31
1986	1,568	-17	5,961	+42	7,529	+24
1987	-1,389	-188	8,684	+46	7,297	-3

Source: Ministry of Finance Annual Economic Reports.

Annex 7

GOVERNMENT EMPLOYMENT AS A SHARE OF TOTAL EMPLOYMENT, 1970-1986

Year	Government Services[1] ('000)	Total Employment	Share of Government Employees in Total	Index of Government Employment
1970	398.0	3,340.0	11.9	100.0
1971	420.0	3,467.0	12.1	105.5
1972	443.0	3,599.0	12.3	111.3
1973	467.0	3,735.0	12.5	117.3
1974	493.0	3,877.0	12.7	123.9
1975	520.0	4,020.0	12.9	130.7
1976	577.0	4,376.0	13.2	145.0
1977	582.0	4,476.0	13.0	146.2
1978	596.0	4,542.0	13.1	149.8
1979	622.0	4,700.0	13.2	156.3
1980	692.7	4,816.9	14.4	174.1
1981	722.6	5,030.7	14.4	150.6
1982	765.1	5,165.1	14.8	154.6
1983	785.8	5,271.4	14.9	157.8
1984	803.2	5,393.8	14.9	161.5
1985	819.5	5,468.5	15.0	163.7
1986[e]	835.5	5,554.0	15.0	166.3

[e]Estimate.

[1]Includes public administration, health, education, and defense. Excludes many public enterprises misclassified in private sector. In 1984, true public sector employment was estimated at 1.2 million, compared to 868,000 in the published data. If a similar adjustment is made for earlier years, public sector employment was: 1970 - 550,357; 1975 - 719,060; 1980 - 957,870.

Source: Salleh & Hassan, p. 22.

Annex 8

MALAYSIA

SELECTED COMMODITY EXPORTS, 1970-1985

(M $ million)

	1970	1975	1980	1985	Average annual growth rate (%) 1971-75	1976-80	1971-80	1981-85
Rubber								
Volume ('000 tonnes)	1,345	1,460	1,620	1,495.0	1.7	2.1	1.9	-0.4
Unit value (cts/kg)	128	139	300	191.6	1.7	16.6	8.9	-8.7
Value (M $ million)	1,724	2,026	4,680	2,864.0	3.3	19.1	10.9	-9.1
Tin								
Volume ('000 tonnes)	94	80	70	54.5	-3.2	-2.6	-2.9	-4.7
Unit value ($/tonne)	10,777	15,075	35,717	29,240.0	6.9	18.8	12.7	-4.1
Value (M $ million)	1,013	1,206	2.504	1,595.0	3.5	15.7	12.7	-4.1
Sawlogs								
Volume ('000 cu.m.)	10,895	10,766	13,900	18,781.0	-0.2	5.2	2.5	4.4
Unit Value ($ cu.m.)	59	62	175	142.0	1.0	23.1	11.5	-3.9
Value (M $ million)	643	669	2,435	2,667.0	0.8	29.5	14.2	0.4
Sawn Timber								
Volume ('000 cu.m.)	1,339	1,706	3,300	2,577.0	5.0	14.1	9.4	-3.0
Unit value ($/cu.m.)	149	230	370	395.8	9.1	10.0	9.5	0.2
Value (M $ million)	199	392	1,221	1,020.0	14.5	25.5	19.9	-2.8
Palm Oil								
Volume ('000 tonnes)	402	1,161	2,260	3,188.0	23.6	14.2	18.8	8.3
Unit value ($/tonne)	657	1,137	1,140	1,237.0	11.6	0.1	5.7	1.0
Value (M $ million)	264	1,320	2,576	3,944.0	38.0	14.3	25.6	9.4
Crude petroleum								
Volume ('000 tonnes)	3,642	3,240	11,822	17,025.0	-2.3	29.5	12.5	8.7
Unit value ($/tonne)	45	224	609	526.9	37.9	22.1	29.8	-2.5
Value (M $ million)	164	726	7,200	8,970.0	34.7	58.2	46.0	6.0

Source: 4th and 5th Malaysia Plans

Annex 9

OUTSTANDING LOANS TO THE FEDERAL GOVERNMENT FROM PUBLIC AUTHORITIES, STATE GOVERNMENTS AND OTHERS, 1970-1987[1]

(M $ million)

	1970	1974	1978	1982	1987
I. PUBLIC AUTHORITIES					
Federal Land Development Authority	266	716	1,532	2,554	3,636
Telecommunication Department[7]	--	--	547	1,708	4,536
National Electricity Board	86	110	380	845	1,447
Malayan Railway	75	105	143	380	967
Port Kelang Authority	61	131	247	282	253
Majlis Amanah Rakyat	30	122	273	306	278
Urban Development Authority	--	103	351	299	1,153
National Padi and Rice Authority	--	102	66	68	132
Others[2]	169	302	127	1,826	5,209
II. COMPANIES					
Syarikat Telekoms Malaysia Berhad	--	--	--	--	--
PERNAS (National Corporation)	5	130	274	563	583
Malaysian Industrial Development Finance	38	130	120	65	29
Malaysian International Shipping Corp.	12	94	280	446	269
Malaysian Shipyard & Engineering Sdn. Bhd.	--	39	117	128	120
Others[3]	11	123	310	685	1,957
III. STATE GOVERNMENT[4]	302	815	1,808	3,769	6,319
IV. OTHERS[5]	126	114	614	642	9,317
TOTAL	1,181	3,136	7,189	15,066	36,205

1. Excluding Federal Government investment in public enterprise and housing loans to officers.
2. Including Penang Port Commission and Civil Aviation Department and for 1966, 1970, and 1974 also Telecommunications Department.
3. Including Syarikat Jengka Sdn. Bhd., Development Bank of Malaysia, Industrial Development Bank of Malaysia Bhd., Syarikat Malaysia Explosives Scn. Bhd., Food Industries of Malaysia Bhd., and Bumiputra Investment Fund.
4. Including Compensation to Selangor State Government for the transfer of Federal Territory.
5. Including Kuala Lumpur City Council, City Council of Penang, the Municipalities of Ipoh, and Malacca, Petaling Jaya Town Board and all Cooperative Societies.
6. Latest Ministry of Finance Estimates.
7. After 1982, telecommunications became a separate government-owned corporation (Syarikat Telekoms Malaysia Berhad).

Source: Ministry of Finance Annual Economic Reports

Annex 10

ASIAN GROWTH AND WEALTH

		Annual Growth in real GNP per capita 1970-80	GNP at market prices US $ billions in 1981	GNP per capita US $ in 1981
1.	South Korea	7.5%	66	1,700
2.	Hong Kong	7.2%	26	5,100
3.	Singapore	6.7%	13	5,240
4.	Malaysia	5.1%	26	1,840
5.	Indonesia	4.8%	79	530
6.	Thailand	4.2%	37	770
7.	China	4.1%	300	300
8.	Philippines	3.7%	39	790
9.	Japan	3.4%	1186	10080
10.	Sri Lanka	2.8%	4	300
11.	Burma	2.3%	7	190
12.	Pakistan	1.9%	30	350
13.	India	1.5%	177	260
14.	Bangladesh	1.4%	13	140

Source: World Bank Atlas, 1983.

Annex 11

OWNERSHIP OF SHARE CAPITAL OF LIMITED COMPANIES, 1971-1987
(In Percentage)

Ownership Group	1971	1975	1980	1983	1985	1987
Bumiputra						
Individuals[a]	2.6	3.6	5.8	7.6	10.1	13.7
Trust Agencies[b]	1.7	5.6	6.7	11.1	7.7	8.5
Other Malaysian Residents[c]	34.0	37.5	44.6	47.7	56.7	52.9
Foreign Residents	61.7	53.3	42.9	33.6	25.5	24.9
Total in percentage	100.0	100.0	100.0	100.0	100.0	100.0
in M $ billion	6.56	51.08	32.42	49.71	76.11	118.47

[a] Includes institutions channeling funds of individual Bumiputras such as the Muslim Pilgrim Saving and Management Authority (LUTH), MARA Unit Trust Scheme, co-operative, and ASN scheme.

[b] Shares held through institutions such as the National Equity Corporation (PNB), National Corporation (PERNAS), The Council of Trust for Indigenous People (MARA), SEDCs, Development Bank of Malaysia, Urban Development Authority (UDA), Bank Bumiputra Malaysia Berhad, Kompleks Kewangan Malaysia Berhad, and Food Industries of Malaysia (FIMA). It also includes the amount of equity owned by the Government through other agencies and companies which have been identified under the Transfer Scheme of Government Equity to Bumiputras.

[c] Includes shares held by nominees and locally controlled companies (LCC). Nominee shareholding was estimated to account for 5.7% of the total corporate shares in 1985, or about M $4.4 billion. Shares held under the LCC amounted to about M $8.1 billion or 10.7% of the total share capital of limited companies in 1985.

Sources: Ministry of Finance, Annual Economic Reports.

Annex 12

PUBLIC ENTERPRISES IN MALAYSIA[1]

A. FEDERAL AGENCIES/CORPORATIONS (24)	NUMBER OF SUBSIDIARIES
1. Perbadanan Nasional Berhad (PERNAS)	95
2. Heavy Industries Corporation of Malaysia Berhad (HICOM)	16
3. Petroliam Nasional Berhad (PETRONAS)	19
4. Food Industries of Malaysia Berhad (FIMA)	34
5. Malaysian Timber Industry Board (MTIB)	5
6. Malaysian Industrial Development Finance Berhad (MIDF)	8
7. Rubber Industry Smallholders Development Authority (RISDA)	9
8. Malaysian International Shipping Corporation Berhad (MISC)	19
9. Lembaga Urusan dan Tabung Haji (LUTH)	8
10. Majlis Amanah Rakyat (MARA)	59
11. Tourist Development Corporation (TDC)	9
12. Malaysian Airline System Berhad (MAS)	8
13. Federal Land Development Authority (FELDA)	19
14. Urban Development Authority (UDA)	9
15. Bank Islam Malaysia Berhad	4
16. Keretapi Tanah Melayu (KTM)	10
17. Permodalan Nasional Berhad (PNB)	62
18. Bank Pertanian Malaysia	1

19.	Malaysian Shipyard & Engineering Sdn. Berhad (MSE)	4
20.	Bank Pembangunan Malaysia Berhad (BPMB)	34
21.	Lembaga Kemajuan Ikan Malaysia (MAJUIKAN)	3
22.	Lembaga Letrik Negara (LLN)	1
23.	Other companies under Minister of Finance Incorporated	4
	Subtotal	440

B.	STATE AGENCIES/AUTHORITIES/CORPORATIONS (23)	NUMBER OF SUBSIDIARIES
1.	Amanah Saham Pahang Berhad (ASPA)	22
2.	Perbadanan Kemajuan Bukit Fraser	1
3.	Pahang State Agriculture Development Corporation (Pahang SEDC)	4
4.	Selangor State Agriculture Development Corporation (Selangor SEDC)	4
5.	Perak State Agriculture Development Corporation (Perak SEDC)	7
6.	Perlis State Economic Development Corporation (Perlis SEDC)	7
7.	Kedah State Economic Development Corporation (Kedah SEDC)	34
8.	Perak State Economic Development Corporation (Perak SEDC)	60
9.	Penang State Economic Development Corporation (Penang SEDC)	20
10.	Selangor State Economic Development Corporation (Selangor SEDC)	2
11.	Melaka State Economic Development Corporation (Melaka SEDC)	17

12.	Johor State Economic Development Corporation (Johor SEDC)	42
13.	Pahang State Economic Development Corporation (Pahang SEDC)	15
14.	Kelantan State Economic Development Corporation (Kelantan SEDC)	15
15.	Terenganu State Economic Development Corporation (Terengganu SEDC)	21
16.	Negeri Sembilan State Economic Development Corporation (Negeri Sembilan SEDC)	18
17.	Sarawak State Economic Develoment Corporation (Sarawak SEDC)	45
18.	Sabah State Economic Development Corporation (Sabah SEDC)	14
19.	Sarawak Timber Industry Development Corporation (STIDC)	11
20.	Kumpulan Perangsang Selangor Berhad	21
21.	Sabah State Government	3
22.	Permodalan Bumiputra Sabah Berhad	7
23.	Syarikat Permodalan dan Perusahaan Pahang Berhad	6
	Subtotal	396

C.	REGIONAL AGENCIES (8)	NUMBER OF SUBSIDIARIES
1.	Development Authority for Pahang Tenggara (DARA)	17
2.	Kemubu Agriculture Development Authority (KADA)	1

3.	Kelantan Selatan Development Authority (KESEDAR)	3
4.	Kedah State Development Corporation (KEDA)	7
5.	Terengganu Tengah Development Authority (KETENGAH)	8
6.	Johor Tenggara Development Authority (KEJORA)	12
7.	Muda Agriculture Development Authority (MADA)	2
8.	Jengka Development Authority (JENGKA)	2
	Subtotal	52
	GRAND TOTAL	888

[1] This list only includes companies for which the Central Information Collection Unit has compiled at least some information. Thus, the total number of public enterprises may be larger.

Source: Central Information Collection Unit, National Equity Corporation (PNB), October, 1987.