



**Asia-Pacific
Economic Cooperation**

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Agenda Item: 10

Structural Reform and Governance - Malaysia's State-Owned Enterprises

Purpose: Information
Submitted by: Malaysia



**Competition Policy and Law Group Meeting
Putrajaya, Malaysia
14 February 2020**

Structural Reform and Governance :

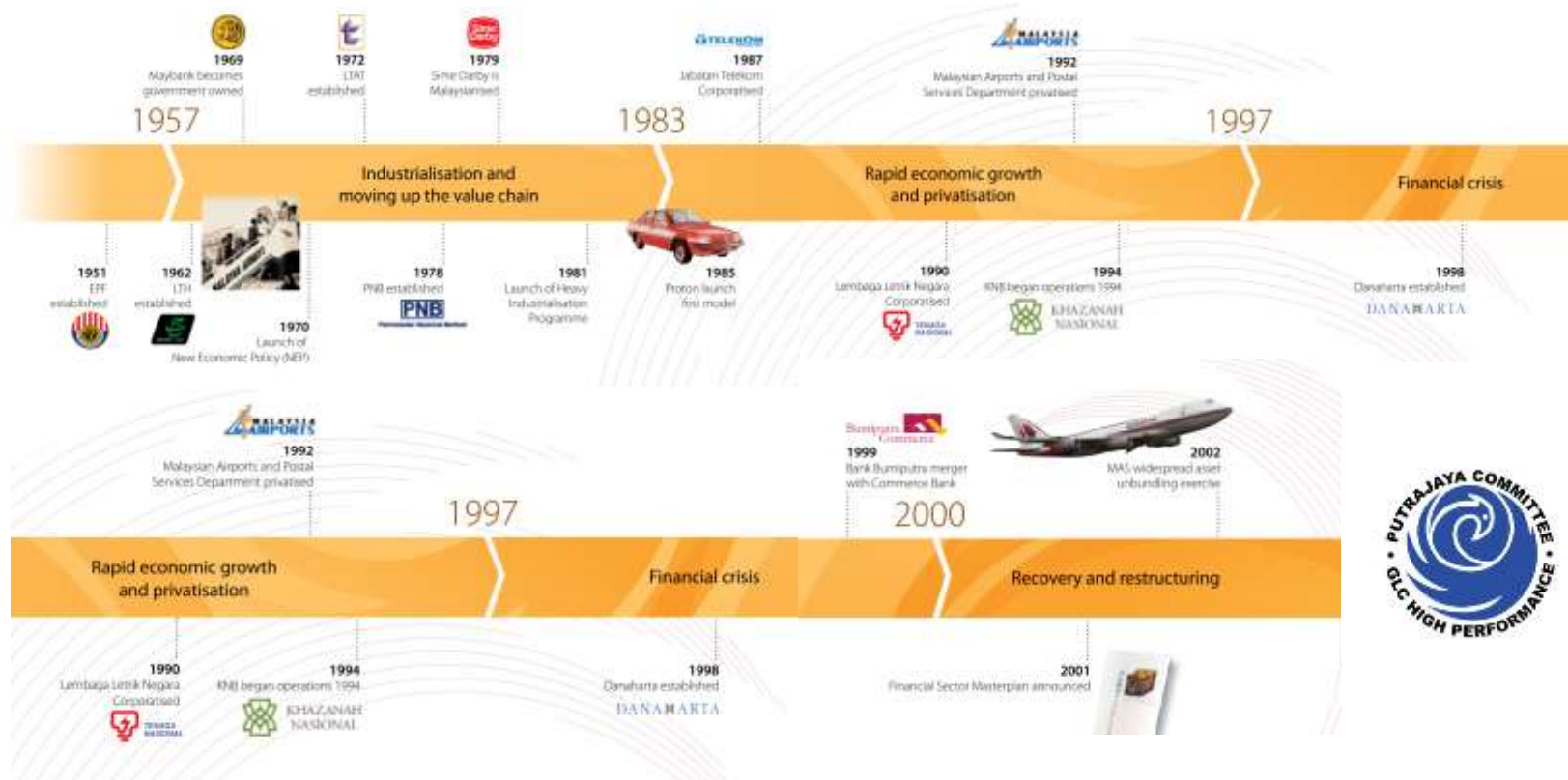
Malaysia's State-owned Enterprises (SOEs)

**APEC Competition Policy and Law
Group Meeting**

Date: 14 February 2020

+Background

The SOE journey in Malaysia



Examples of the role of Government in the economy

Nokia in Finland



Emerged through a merger of Finnish companies covering areas such as rubber and paper.

What the Government Did

- During the 1990s, the Government prioritized labour force towards its policy to support the domestic innovation system.
- Through the National Technology Agency (Tekes), Nokia was a receiver of Tekes grants and loans for in-house research and development projects.

Source: Solvell, Orjan. "Finland and Nokia: Crisis and Transition" and Lemola, T. (2002). "Convergence of national science and technology policies: the case of Finland." *Research Policy* 31(8-9): 1481-1490. and Ali-Yrkkö, J. and R. Hermans (2004). *Nokia: A giant in the Finnish innovation system*.

The Internet and GPS in the US



GPS



The Internet

Origins

Internet: The US Department of Defense (DOD) wanted to create a non-centralized network.

GPS: Originated in the Sputnik era when the United States (US) Navy conducted satellite navigation experiments

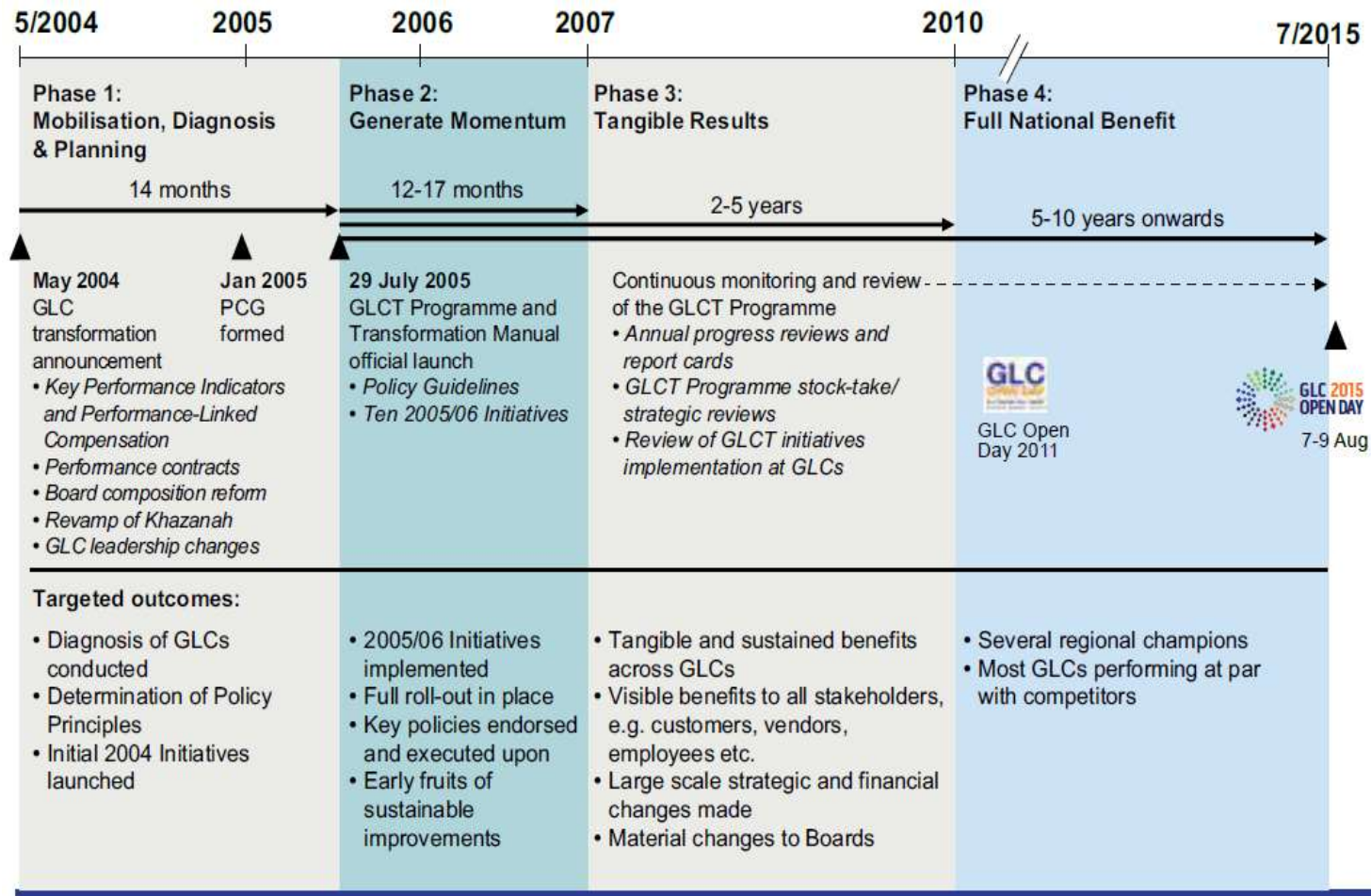
What the Government Did

- In the early 1970's, the US DOD wanted to ensure a robust, stable satellite navigation system for military purposes.
- As part of Defense Advanced Research Projects Agency (DARPA), the internet and GPS were developed and subsequently released to the public.

Source: NASA TV, "Global Positioning System History", "History of the GPS Program". and Defense Advanced Research Projects Agency (DARPA) <https://www.darpa.mil/Timeline/index.html>










The 10-Year GLC Transformation (GLCT) Programme



Note: PCG refers to the Putrajaya Committee on GLC High Performance. GLC refers to Government-linked Company.
 Source: Replicated from Secretariat, P. (2015). GLC Transformation Programme: Report Card (April 2015). Kuala Lumpur, Putrajaya Committee on GLC High Performance.

Key facts and figures at the start of the Programme

Background (2005)

- At the start of the GLC Transformation Programme, GLCs accounted for approximately RM260bn (USD69b) in market capitalization. Approximately 36% of the market capitalization of Bursa Malaysia (stock market).
- GLCs accounted for an estimated 5% of the domestic workforce.
- GLCs were the main service providers in:
 -  Airline
 -  Airports
 -  Banking and financial services
 -  Electricity
 -  Postal services
 -  Public transport
 -  Telecommunications

Issues

- GLCs underperformed their peers and the broader market on numerous operational and financial indicators in the years prior to 2005.
- GLCs had not been employing labour or utilizing capital as effectively as their private sector peers and one study found that GLCs underperformed the broader Malaysian market on all key financial indicators except for size.

The Programme aimed to create high performing GLCs

3 Underlying Principles

GLCs must first and foremost be **focused on performance.**

Only with performance and results can they be **‘part of the solution’** in helping to develop the economy.

In executing the first two principles, GLCs are expected to **operate within a clear governance structure** and **serve stakeholder interests.**

5 Policy Thrusts

Government to **clarify the GLC mandate** in the context of domestic development.

GLC Boards to enhance their effectiveness and reinforce the corporate governance of GLCs.

GLICs to **enhance their capabilities** as professional shareholders.

GLCs to adopt **best practices** within their organizations.

Implement the GLC Transformation Programme.

Note: GLIC refers to Government-linked Investment Company.

Source: Secretariat, P. (2015). GLC Transformation Programme Graduation Report: 10 Year GLC Transformation Programme. Kuala Lumpur, Putrajaya Committee on GLC High Performance.

The Programme was initiated to drive large scale transformation of the GLCs

The 10 initiatives were identified on the basis of their importance as levers for change, potential impact on value, and the ability of the Committee to drive change in these areas.

 **GREEN BOOK**
Enhancing Board Effectiveness

 **MINDA**
Malaysian Directors Academy - Strengthening Directors Capabilities

 **GLIC M&M**
GLICs' Monitoring & Management Framework

 **BLUE BOOK**
Intensifying Performance Management Practices

 **RED BOOK**
Procurement Guidelines & Best Practices

 **YELLOW BOOK**
Enhancing Operational Efficiency and Effectiveness

 **SILVER BOOK**
Achieving Value Through Social Responsibility

 **ORANGE BOOK**
Strengthening Leadership Development

 **PURPLE BOOK**
Optimising Capital Management Practices

 **WHITE BOOK**
Creating Value Through Regulatory Management

Coverage of the Programme

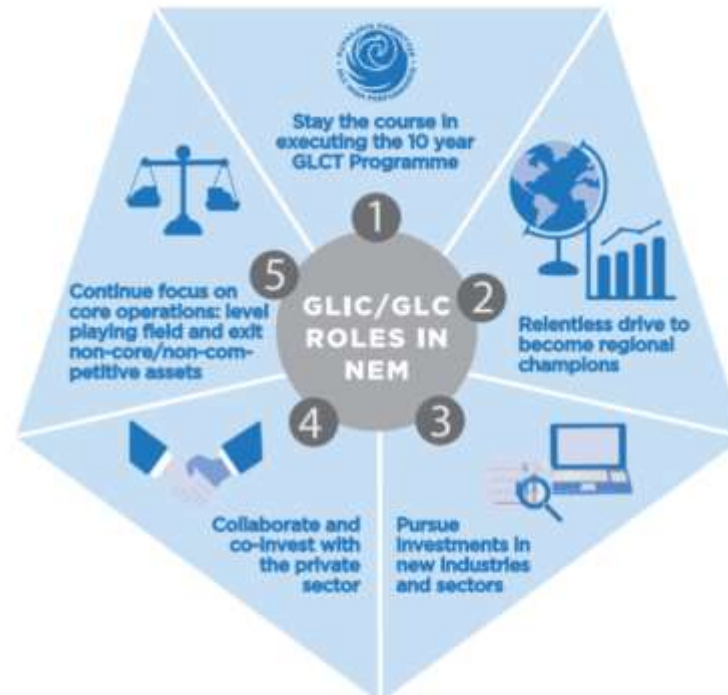
- 5 federal-owned GLICs
- 20 GLCs



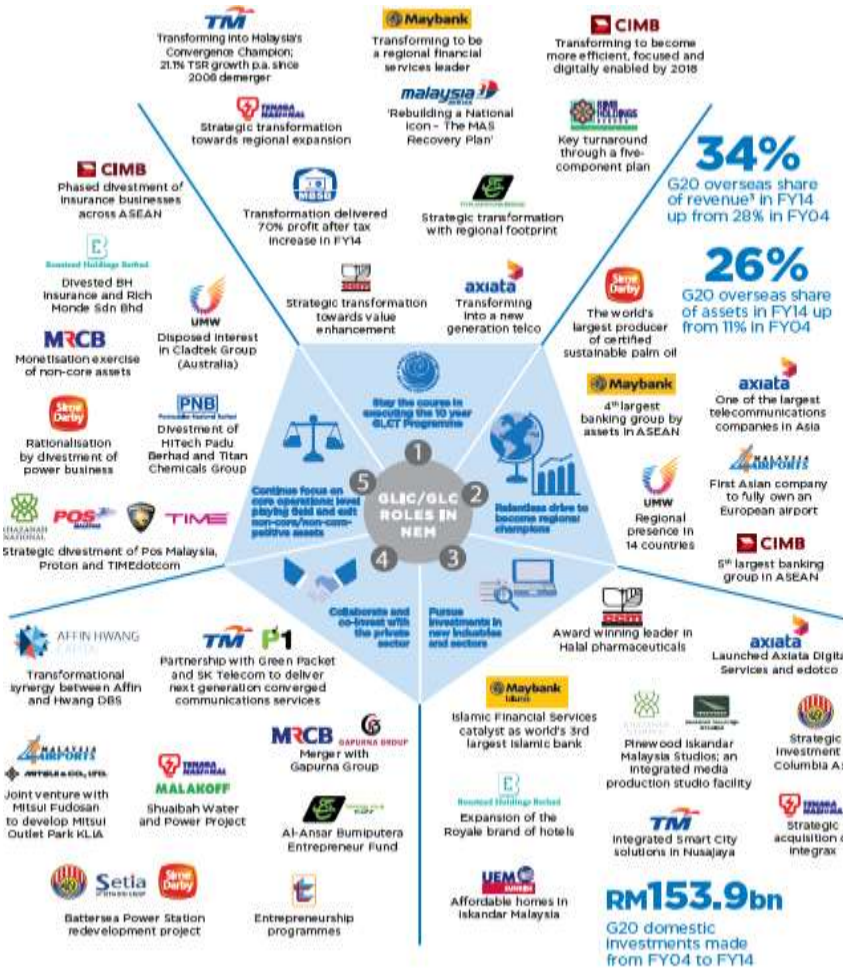
GLICs and GLCs supported economy building initiatives (1)

The New Economic Model was a government initiative launched in 2010. The Programme was aligned with this domestic agenda, by identifying five roles GLICs and GLCs would play to support it.

- **Role 1** :GLICs and GLCs diligently stayed the course in executing their various transformation, turnaround, restructuring and growth programmes.
- **Role 2** :GLICs and GLCs have successfully internationalised with several making a mark regionally and globally.
- **Role 3** :GLICs and GLCs have been leading the way in investing in new, knowledge-based and service-oriented industries and sectors, which are transformative and catalytic in nature. These are aimed at moving the nation further up the economic value chain.
- **Role 4** :GLICs and GLCs have taken the lead in pursuing collaborations with the private sector, both domestically and internationally.
- **Role 5** :GLICs and GLCs have focused on their core operations on a level playing field and have continued to divest non-core and non-competitive assets and free these resources to be optimised by the private sector.



GLICs and GLCs supported economy building initiatives (2)



Government Transformation Programme, Economic Transformation Programme, and other national initiatives

Delivered **major infrastructure projects** such as High Speed Broadband, Penang Second Bridge, KL Sentral and klia2

Promoting **inclusivity** by enhancing diversity of their workforce in terms of gender, ethnicity and age and improving work-life practices

Key players and contributors to the **growth of the sukuk market** by pioneering the **issuance of landmark innovative sukuk**

Active involvement in **economic corridors** as master planners, developers and investors

Professionalising the Bumiputera Empowerment Agenda by implementing various initiatives in a market-friendly, merit-based and transparent manner

Leading in the implementation of **minimum retirement age, minimum wage and providing employment to 225,050 Malaysians** in 2014

G20 represented **half of the Top 10 constituents** on the FTSE Good Bursa Index, which recognises Malaysian companies with **corporate responsibility practices**

Key takeaways from the Programme



Focused on strengthening the financials and enhancing the operational efficiency of GLCs

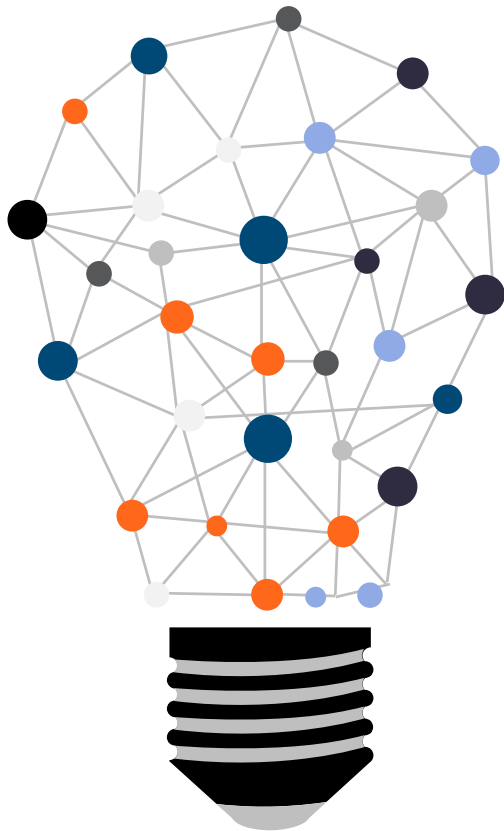


Aligning the strategies of GLCs within the broader economy building initiatives



Ensuring good governance of GLCs

Challenges



GLCs carry multiple objectives – GLCs in non-competitive activities are functioning as service providers and implementor for government policies. However, GLCs are subject to Malaysia’s competition law. Where there are exemptions, competition policy is addressed by sectoral regulators.

GLCs and the broader SOEs are varied in form, structure and legal obligations – The universe of GLCs in Malaysia includes different types of entities, from statutory bodies to companies. GLCs exist in many sectors and are owned/controlled by different Ministries/Agencies at both the federal and state level.

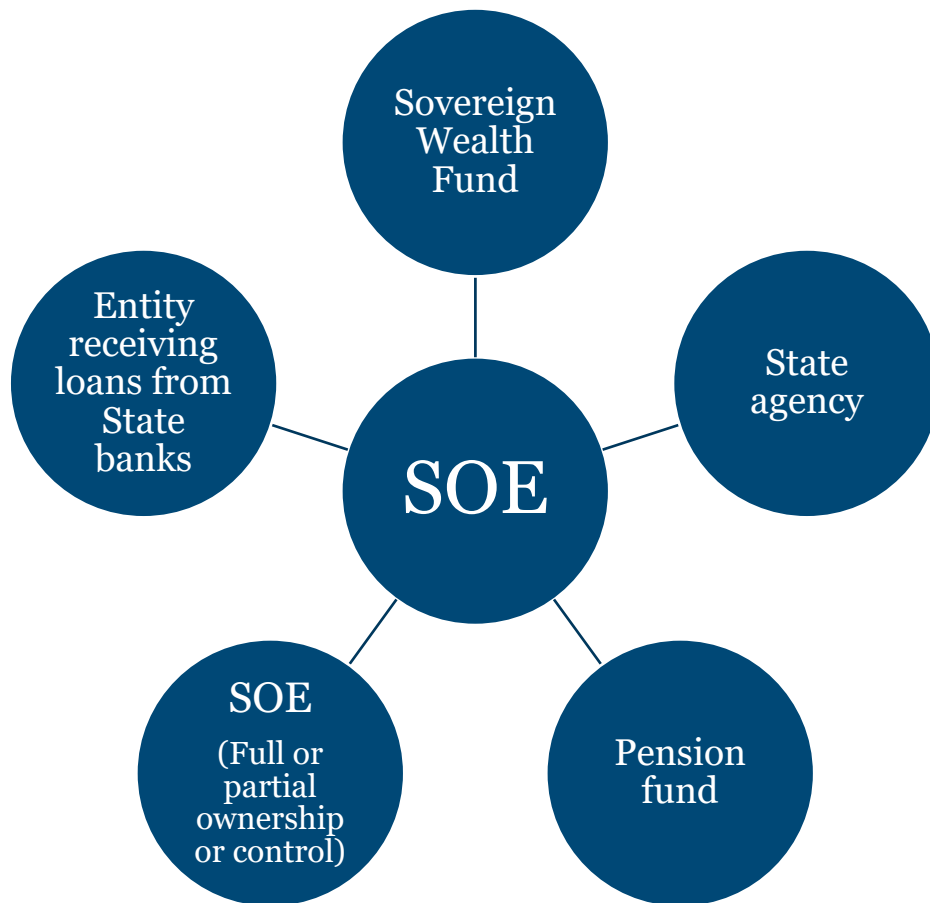
Concepts and international disciplines expected by developed economies may be difficult to reconcile – International rules on SOEs may take a different approach to regulate SOEs as compared to the domestic regulatory framework.



Appendices

Appendix I: The term 'SOE' is loosely used to cover different types of entities

The term state-owned enterprise (SOE) is a broad term that can cover different types of entities. These include:



Types of entities in Malaysia include:

- Government-linked Investment Company (GLIC)
- **Government-linked Company (GLC)**
- Statutory Body
- Foundation
- Special Purpose Vehicle (SPV)
- Development Financial Institution (DFI)
- State Economic Development Corporation (SEDC)

SOEs have a mix of developmental and commercial mandates. These include:

- Purely developmental
- Principally developmental
- Principally commercial
- Purely commercial



Example of the types of State investment in companies

	State agency	Sovereign Wealth Funds invested firm	State pension fund invested firm	State bank loaned firm	State-owned firm	State majority-owned Firm	State minority-owned firm
Legally separate firm	No	Yes	Yes	Yes	Yes	Yes	Yes
Budget	No separate budget	Separate budget	Separate budget	Separate budget	Separate budget	Separate budget	Separate budget
Ownership	Direct	Indirect via ownership by Sovereign Wealth Fund	Indirect via ownership by State-owned pension fund	Indirect via convertible loan by State-owned bank	Direct	Direct	Direct
Level of ownership	Full	Minority investment in private firm by Sovereign Wealth Fund	Minority investment in private firm by State pension fund	Minority investment in private firm via convertible loan by State-owned bank	Full	Majority	Minority and/or golden share in private company
Types of managers	Civil servants	Professional managers	Professional managers	Professional managers	Civil servants/professional managers	Civil servants/professional managers	Professional managers
Level of government influencing firm	Central/federal	Central/federal;	Central/federal; Province/state; Municipal/city	Central/federal; Province/state; Municipal/city	Central/federal; Province/state; Municipal/city	Central/federal; Province/state; Municipal/city	Central/federal; Province/state; Municipal/ city



The purpose of investments differ among SOEs

An example of the purpose of investments for companies under one GLIC, the Minister of Finance Incorporated (MOF Inc) is:



Appendix II: International rules on SOEs

World Trade Organisation (WTO)

- Legally binding commitments.
- Selected rules apply to specific types of SOEs.
- **Trade in Goods** covers State Trading Enterprises.
- **Trade in Services** addresses monopolies and exclusive service suppliers as well as business practices.
- **Subsidies** to private and state-owned enterprises. Provision of subsidies by 'public bodies'.
- Specific commitments on SOEs for China and Russia.

Preferential trade agreements (PTAs)

- Legally binding commitments.
- Some PTAs have a dedicated chapter on SOEs.
- An example of the CPTPP – the agreement recognizes that the unfair advantages to SOEs undermines fair and open trade and investment. This agreement established rules for SOEs that promote a **level playing field with privately owned businesses, transparency and sound business practices.**

Organization for Economic Co-operation and Development (OECD)

- Voluntary commitments.
- OECD Guidelines on **Corporate Governance** of State-Owned Enterprise. OECD has recognized the GLC Transformation Programme as consistent with the best practices and recommendations that its guidelines aim to promote.
- OECD Guidelines on **Anti-Corruption and Integrity** in SOEs.
- OECD projects to assist policymakers on policies on **competitive neutrality.**

International Monetary Fund (IMF)

- Voluntary commitments.
- Focuses on a specific type of SOE – sovereign wealth funds (SWFs).
- Generally Accepted Principles and Practices for SWFs (also known as the Santiago Principles). Principles cover legal, institutional, investment and risk management issues.

Note: CPTPP refers to Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Source: Nawawi, W. K. (2018). Emerging Rules for State-owned Enterprises: Chapter 17 of the CPTPP. Malaysia's Trade Governance at a Crossroads. P. Sauve. Kuala Lumpur, Khazanah Research Institute. and Kowalski, P., et al. (2013). State-owned enterprises: Trade Effects and Policy Implications. Paris, OECD.



THANK YOU

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