

Letting the Taxpayers Pay

Malaysia's Perwaja Steel faces a long road back

*By Sangwon Suh ahd
Steven K.C. Poh / Kuala Lumpur*

THE PROGNOSIS WAS GOOD. On March 30, after visiting one of Perwaja Steel's plants, Malaysian Deputy Prime Minister Anwar Ibrahim expressed satisfaction with the government-owned steelmaker's state of affairs. Billet production was at 92,000 tons in March -- up from 63,000 tons for the same month last year. Rejected billets had dropped from 12% to 0.2% of output, while missed deadlines fell from 20% to 5%. Production costs had dipped from \$516 million to \$367 million, and gross loss from \$152 million to \$19 million. All in all, a solid endorsement for Perwaja.

That, Kuala Lumpur hopes, would end public recrimination and questioning over the company. It would -- if Malaysian taxpayers can forget the \$4 billion in Perwaja debt that they will have to pay off under the steelmaker's rescue. Unless the IOUs are taken off the books, the company's very solvency would be in doubt, and a planned privatization out of the question. Perwaja may then have to be closed, and Kuala Lumpur's entire investment in it totally written off. The hope now is for an eventual return to profitability to fetch the government a decent price for the company. No matter how decent, though, it would be nowhere near the billions lost.

Investors are likely to remain wary. Management and financial problems have dogged Perwaja for much of its 15-year existence. The current woes go back to the company's earlier brush with ruin in 1988, when Eric Chia, a close friend of Prime Minister Mahathir Mohamad, was tasked with turning around the steelmaker. At the time, critics pointed out that Chia lacked experience in the steel sector.

Seven years later Perwaja was in even worse shape than before, with \$2.28 billion in accumulated debt and \$1 billion in accumulated losses as of March 1995. "Perwaja cannot sustain its operations and meet its loan obligations, let alone service its debts over the next eight years," stated a Perwaja internal study in December 1995. By that time, Chia had left.

From 1990 to 1992, the company reported profits, but not real ones, according to a senior Perwaja executive. "They were actually extraordinary income derived from making insurance claims from the breakdown of machinery and prior-year adjustments to depreciation policies," he explains. An internal company report alleged a number of management irregularities during Chia's tenure. In one case, a subsidiary, Perwaja Rolling Mill & Development, had \$50 million in paid-up capital -- and borrowings exceeding \$800 million. But for all the talk of gross mismanagement, even fraud, what exactly went on at Perwaja has yet to be clarified and no charges have so far been brought against anyone. An investigation is continuing -- at a snail's pace.

The debacle notwithstanding, Kuala Lumpur was determined to keep Perwaja Steel alive. Last June a little-known privately owned company called Maju Holdings was brought in to do what Chia could not. It set up Equal Concept to run Perwaja; the management firm is 51%-owned by Maju and 49% by the Finance Ministry. Equal Concept initially got the mandate to manage Perwaja until the end of 1996; early this year it was given another six months to iron out the details of Perwaja's planned privatization.

News of Maju's involvement triggered more debate. Most of its businesses are losing money. Its smallish steel operation and its property development arm are among the few exceptions. Maju Steel has only recently moved into the black. "If Maju can't clean up its own backyard, what can it possibly do to a large loss-making company?" asks a senior executive familiar with its operations. Others wonder why the job didn't go to Lion Group, one of the initial contenders and reputedly Malaysia's leading steel producer. It opted out after being offered only 30% of Equal Concept, but it may return to take a stake in the privatization.

More controversial was Kuala Lumpur's decision, announced in January, to assume Perwaja's debt. "You don't just write off the losses and sweep everything under the carpet," says Syed Husin Ali, president of the opposition Parti Rakyat Malaysia. "Where is the accountability? The money belongs to the taxpayers and they have the right to know."

"If this happened in South Korea, the government would go down with it," says a former high-ranking official. Still, there has been no public uproar over the fiasco. "At the moment, we appear to be a very tolerant society," comments social activist Chandra Muzaffar. "There's no widespread moral indignation because the economy is doing well." Husin agrees. "People have the attitude of 'Let's get on with the business of getting rich,' " he says. "So they don't bother to rock the boat." Moreover, Perwaja did give many people jobs, even in its problem projects. One of them was a facility in Mahathir's home state of Kedah which suffered from logistics difficulties.

Though Perwaja's debts have been wiped away, the rescue's success is far from a sure thing. "The company's cash flow is still extremely weak," says a Kuala Lumpur accountant. And with little public pressure to hold officials accountable and minimize the burden to taxpayers, some critics fear Perwaja may not be the last of the government's financial debacles.