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Indigenizing the state: The New Economic Policy and the Bumiputera State in Peninsular Malaysia

Ho, Khai Leong, Ph.D.
The Ohio State University, 1988

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INDIGENIZING THE STATE:
THE NEW ECONOMIC POLICY AND THE BUMIPUTERA STATE IN
PENINSULAR MALAYSIA

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of the Ohio State University

By

Khai Leong Ho, Dip. Ed., B.A., M.A.

* * * * *

The Ohio State University

1988

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To Jiing-Wen
ACKNOWLEDGEMENTS

In a sense, the process of writing (and rewriting) a dissertation is similar to that experienced by Brahms when he was composing his First Symphony -- one is at once enthralled and harrowed by the pedigree before him. In comparison, one could only endlessly agonize over the originality and contribution of his own work. While Brahms waited fourteen years to publish his first symphonic work, a doctoral candidate has neither the time nor the necessity to wait that long, if he ever wants to fulfill his academic requirement.

This dissertation has no provocation, goal, or ability so grand as those of Brahms' First Symphony. But my writing experience is miniaturely Brahmsian in two senses. First, I have felt paralysis in the shadows of towering works which constantly stride behind me. The painstaking task of writing added more torment. Second, to the same pioneers I have much to thank for, however. As no artist or writer can escape from the paradigm of his discipline, this study has relied heavily on other similar research, both theoretical and empirical. These works have taught me much over the years, some of which I have acknowledged in the footnotes.

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On a more personal note, my first debt is to Professor R. William Liddle. That I ended up working on a study of Malaysia's New Economic Policy at all is due to some intriguing lectures on the works of Albert Hirschman by him. His encouragement gave me the assurance to take on an elusive topic as the New Economic Policy and the state, and his own work is the inspiration for much that appears here. It is to him that I owe my greatest intellectual debt.

While I was shaping ideas at Ohio State, I benefited particularly from the comments and criticisms of Professors Bradley Richardson and David Lampton. A special thank to Professor Giacomo Sani who so readily agreed to serve on the oral committee despite a short notice.

Also many colleagues have been kind enough to comment on and proof-read some of the chapters of this dissertation. For such help I am grateful to Hsio-fen Chu, Yujen Chou, Charng-yeong Ku, and Jaushieh Wu.

To be sure, my debts extend much further: My ability to continue and complete graduate study and this dissertation depended on the generosity of the Department of Political Science at the Ohio State University for modest financial support that I required.

When I was in Malaysia in the Summer of 1986, many individuals and organizations aided in my research. I must single out Miss Ea Sew Yock who helped and enriched my research for primary documents, and who so patiently send me
new materials when I requested them back in Columbus. It is to her that I must say a special thank you. At the Selangor and Kuala Lumpur Chinese Chamber of Commerce, the entire staff proved friendly and helpful. Also, I would like to thank the staff at the Chinese Resource Center, the Education Research Center at the Malayan Teachers' Association, the Material Resource Unit of the Malaysian Chinese Association, and the Malaysian Chinese Associated Chamber of Commerce. I am also grateful to those politicians, bureaucrats, and officers of groups who agreed to grant interviews.

The libraries of the Ohio State University, Ohio University at Athens, University of Malaya, and the National University of Malaysia gave me facilities and assistance which contributed to the accomplishment of the research.

Finally, I would like to thank Jiing-Wen, my wife, for her enormous patience and understanding. Our time spent together with Elaine, our daughter, on reading, talking, and listening, or simply together, has kept the solitary and secluded life of a dissertation writer from further estrangement. Indeed, she has contributed to the completion of this dissertation in many profound ways.
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Studies in Politics of Industrialized Society. Professors Bradley B. Richardson and Giacomo Sani

Studies in Public Policy. Professor Randall Ripley
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<td>Abim</td>
<td>Angkatan Belia Islam Malaysia (Malaysian Muslim Youth Movement)</td>
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<td>ACCCIM</td>
<td>Associated Chinese Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>AMCJA</td>
<td>All-Malaya Council of Joint Action</td>
</tr>
<tr>
<td>ASNB</td>
<td>Amanah Saham Nasional Bhd. (National Unit Trust Berhad)</td>
</tr>
<tr>
<td>BBMB</td>
<td>Bank Bumiputra Malaysia Berhad</td>
</tr>
<tr>
<td>BDMB</td>
<td>Development Bank of Malaysia</td>
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<td>BMF</td>
<td>Bumiputra Malaysia Finance</td>
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<tr>
<td>CGC</td>
<td>Credit Guarantee Corporation</td>
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<tr>
<td>CIC</td>
<td>Capital Issues Committee</td>
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<tr>
<td>CLC</td>
<td>Communities Liaison Committee</td>
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<tr>
<td>DAP</td>
<td>Democratic Action Party</td>
</tr>
<tr>
<td>DDP</td>
<td>Draft Development Plan</td>
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<tr>
<td>EDD</td>
<td>Entrepreneurial Development Division (MARA)</td>
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<td>EDP</td>
<td>Entrepreneurship Development Programmes</td>
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<tr>
<td>EPU</td>
<td>Economic Planning Unit</td>
</tr>
<tr>
<td>FELCRA</td>
<td>Federal Land Consolidation and Rehabilitation Authority</td>
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<td>FELDA</td>
<td>Federal Land Development Authority</td>
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<td>FIC</td>
<td>Foreign Investment Committee</td>
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<td>FIDA</td>
<td>Federal Industrial Development Authority</td>
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<tr>
<td>FINA</td>
<td>Food Industries of Malaysia</td>
</tr>
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<td>FMS</td>
<td>Federated Malay States (Perak, Pahang, Negri Sembilan, and Selangor)</td>
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<tr>
<td>Gerakan</td>
<td>Gerakan Rakyat Malaysia</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development (World Bank)</td>
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<td>ICA</td>
<td>Industrial Coordination Act (1975)</td>
</tr>
<tr>
<td>IMP</td>
<td>Independence of Malaya Party</td>
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<tr>
<td>ISA</td>
<td>Internal Security Act</td>
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<td>KSM</td>
<td>Malaysian Multi-Purpose Co-operative Society</td>
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<td>KLSE</td>
<td>Kuala Lumpur Stock Exchange</td>
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<td>LUTH</td>
<td>Muslim Pilgrim Saving and Management Authority</td>
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<tr>
<td>MARA</td>
<td>Majlis Amanah Rakyat (Council of Trust for the Indigenous People)</td>
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<tr>
<td>MARDI</td>
<td>Malaysian Agricultural Research Institute</td>
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<tr>
<td>MAS</td>
<td>Malaysian Airline System</td>
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<tr>
<td>MCA</td>
<td>Malaysian Chinese Association</td>
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<td>MCP</td>
<td>Malayan Communist Party</td>
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<tr>
<td>MCS</td>
<td>Malayan Civil Service</td>
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<tr>
<td>MDU</td>
<td>Malayan Democratic Union</td>
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<tr>
<td>Acronym</td>
<td>Full Name</td>
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<tr>
<td>MEDEC</td>
<td>Malaysian Entrepreneurship Development Center</td>
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<td>MIC</td>
<td>Malaysian Indian Congress</td>
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<tr>
<td>MIDA</td>
<td>Malaysian Industrial Development Authority</td>
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<tr>
<td>MIDF</td>
<td>Malaysian Industrial Development Finance</td>
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<tr>
<td>MSC</td>
<td>Malaysian International Shipping Corporation</td>
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<tr>
<td>MMC</td>
<td>Malaysian Mining Corporation</td>
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<tr>
<td>MPAJA</td>
<td>Malayan People's Anti-Japanese Army</td>
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<td>MPH</td>
<td>Multi-Purpose Holdings</td>
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<tr>
<td>NCC</td>
<td>National Consultative Council</td>
</tr>
<tr>
<td>NEP</td>
<td>New Economic Policy</td>
</tr>
<tr>
<td>NF</td>
<td>National Front (Barisan Nasional)</td>
</tr>
<tr>
<td>NOC</td>
<td>National Operations Council</td>
</tr>
<tr>
<td>NPC</td>
<td>National Productivity Center</td>
</tr>
<tr>
<td>OSA</td>
<td>Official Secrets Act</td>
</tr>
<tr>
<td>PAP</td>
<td>People's Action Party (Singapore)</td>
</tr>
<tr>
<td>PAS</td>
<td>Partai Islam Se-Malaysia (formerly PMIP)</td>
</tr>
<tr>
<td>PDA</td>
<td>Petroleum Development Act (1974)</td>
</tr>
<tr>
<td>PERNAS</td>
<td>Perbadanan Nasional (National Corporation)</td>
</tr>
<tr>
<td>PETRONAS</td>
<td>Petroleum Nasional (National Oil Corporation)</td>
</tr>
<tr>
<td>PMCJA</td>
<td>Pan-Malayan Council of Joint Action</td>
</tr>
<tr>
<td>PMIP</td>
<td>Pan-Malayan Islamic Party</td>
</tr>
<tr>
<td>PN</td>
<td>Party Negara</td>
</tr>
<tr>
<td>PNB</td>
<td>Penodalan Nasional Berhad (National Equity Corporation)</td>
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<td>PUTERA</td>
<td>Pusat Tenaga Rakyat (Council of People's Action)</td>
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<td>RIDA</td>
<td>Rural and Industrial Development Authority</td>
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<td>RISDA</td>
<td>Rubber Industry Smallholders Development Authority</td>
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<tr>
<td>SEDC</td>
<td>State Economic Development Corporation</td>
</tr>
<tr>
<td>SF</td>
<td>Socialist Front</td>
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<tr>
<td>SS</td>
<td>Straits Settlements (Penang, Malacca, Singapore)</td>
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<tr>
<td>UCSCAM</td>
<td>United Chinese School Committes' Association</td>
</tr>
<tr>
<td>USCTAM</td>
<td>United Chinese School Teachers' Association</td>
</tr>
<tr>
<td>UDA</td>
<td>Urban Development Authority</td>
</tr>
<tr>
<td>UMBC</td>
<td>United Malayan Banking Corporation</td>
</tr>
<tr>
<td>UMNO</td>
<td>United Malays National Organization</td>
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<tr>
<td>UMS</td>
<td>Unfederated Malay States (Johore, Perak, Kelantan, and Trengganu)</td>
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INTRODUCTION

"The social order is of course conditioned by the economic order to a high degree, and in its turn reacts upon it"

-- Max Weber (1864-1920)

A. Stating the Problem

This dissertation is a study of the political impact of the implementation of the New Economic Policy (NEP) in Peninsular Malaysia from 1971 to the present. It explores in a detailed way the cause-and-effect relationships involved among the powerful economic, political, and social


2The Federation of Malaya became an independent sovereign state on 31 August 1957. The Federation of Malaysia, which incorporated the Malay Peninsula, Singapore, Sabah, and Sarawak, was formed in 1963. Singapore was expelled from the Federation after three years.

This study is primarily concerned with Peninsular Malaysia only. I do this for two reasons: (1) The states of Sarawak and Sabah are distinctly different from Peninsular Malaysia in terms of their history, geography, social composition, and political and economic development; and (2) while the New Economic Policy covers both the Peninsular Malaysia and the states of Sarawak and Sabah, the former is given priority and much more emphasis by the Malaysian government as well as academics. Whenever the term Malaysia is used, it denotes Peninsular Malaysia only.
currents generated by the NEP and the Malaysian state. The study offers an explanation for the post-1970 Malaysian political economy and an interpretation of a crucial transitional period in Malaysian political history based on a conceptual premise different from the bulk of the literature on pre-1970 Malaysia. It argues that investigations of basic political, economic, and social trends generated by the NEP and NEP-inspired policies provide the most fruitful point of departure for an understanding of the structure of the Malaysian state, its politics and state-society relations in the post-1970 period.

My thesis is as follows: since 1971 when the New Economic Policy was implemented, Malaysia has increasingly become an ethnic hegemonic state as a result of a shift in political and economic resources to the state and the Bumiputera elites. The Malaysian state has gradually become

---

3 This phrase is inspired by, and builds upon, the work of Myron Weiner. See his "Political Change: Asia, Africa, and the Middle East," in Myron Weiner and Samuel P. Huntington (eds.), Understanding Political Development, Boston: Little, Brown, 1987.

4 Bumiputera, in the Malay language, means "sons of the soil." It refers to the Orang Asli or aboriginal people, the natives of Sabah and Sarawak, and the Malays. In the last twenty years, especially after the implementation of the NEP, it has been equated with Malayism. My usage of the term in this dissertation has a more specific meaning. For a complete statement on its significance, see section E in this chapter.
what I call the Bumiputera State. My main theme is that over time the implementation of the NEP has changed the character of the state's political, economic, and social control. The content of the NEP has determined, not only the economic conditions, but also the political agenda and social order of the Malaysian society. Consequently, the NEP has ushered in a new order in the pattern of the Malaysian state and its relation to the plural society.

B. Elaborating the Problem

No subject or policy has in recent years so intruded into the political, economic and social lives of the Malaysian society as the New Economic Policy. It is, in effect, the single most important document beside the Malaysian Constitution in Malaysia's political history. While the Malaysian Constitution has been amended many times over the years, the objectives of the NEP have been pursued single-mindedly. Except during the period of economic recession in 1986 when the Prime Minister Datuk Seri Dr.

Mahathir expressed concern over the attainability of the policy goals and declared its temporary abeyance, the NEP is the policy that has eclipsed all others.

Formulated after the racial riots in 1969, the NEP is a set of grand policies designed by those in the Bumiputera ruling stratum to address what were perceived to be the basic economic problems in the country. With the benevolent "over-riding objective of national unity," and its two-pronged strategy, -- "to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race," and "to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic functions," the NEP is perhaps one of the most ambitious preferential policies in developing states.

6 The Asian Wall Street Journal, June 2, 1986. Such a concern was made to an Australian audience when the Prime Minister was on an official visit. No such statement ever appeared in Malaysia's news media.


therefore important to understand the circumstances that led to its emergence. What were the factors and events that led to its formulation? What were the theoretical and conceptual components? What, if any, does its formulation process say about its contents?

In accordance with the second strategy, namely the restructuring of Malaysian society, the NEP has set a 30% target for transferring the national wealth to the Bumiputeras by 1990, its termination date. In order to achieve this target, the NEP has relied substantially on the state's investment in public agencies and state-owned enterprises and state regulation of the private sector, and the extension of Bumiputera "special rights" stretching from educational scholarships to employment quotas in the bureaucracy. With the establishment of state-owned enterprises and the introduction of legislative guidelines and regulations into the private economy, a number of important questions are raised: how did the institutional

---

structures and procedural constraints induce political control? What is the relationship between policy implementation and ethnic relations in the country? How did these processes lead to the enhancement of the status of the state?

Related to the process of policy implementation, and the further extension of Bumiputera special rights, a two-headed Bumiputera politico-business class has been created. This group apparently possesses strong party loyalty and attachment to the United Malays National Organization (UMNO), the most dominant party in the Barisan Nasional (National Front) coalition government. The role of the UMNO (now almost a social institution in the Malay society) in the coalition government has become increasingly more powerful with the coalescence of this class. It will remain so as long as a significant proportion of the Bumiputera middle and upper class remain satisfied (or at least not unified in opposition). In this connection, the power of the Bumiputera ruling class is further strengthened, forming a horizontal class-based alliance of Bumiputera politicians and businessmen. This raises a number of important questions: how did a coalition of Bumiputera political and business elites come about? What is the role of the NEP in this context? What effects did this class have on the Malaysian political process?
Embedded in this thesis -- that the NEP has produced significant policy and political outcomes -- is the argument that the NEP has acted as a catalyst for other policies. In many instances, the NEP is self-generating. It propagates a sequential generation of new policies, thereby continually renovating the economic structure and parts of the rest of the Malaysian society with it. Although the policy contents are fixed, its principles are sufficiently general so that the nuances fluctuate with changes in the political and economic climate. In official thinking, the NEP is clearly perceived as an all-encompassing policy. The present Prime Minister Dr. Mahathir, for instance, once remarked: "The NEP is not only the allocation of shares or contracts. The NEP covers all economic and social activities."\textsuperscript{10} In this study, the NEP is viewed specifically as a catalyst for accelerating the intended economic and social goals of education policy. What is the relationship between the NEP and education policy? How did the NEP induce the further commitment of the monolingual and social restructuring objectives of the education policy?

After the argument of the ethnic hegemonic state is presented, another related issue that will be addressed is the tensions and conflicts that exist between the Bumiputera

\textsuperscript{10}A speech given at the 1986 UMNO general assembly. The Star, September 19, 1986.
State and the Malaysian plural society. Since the nation's first federal election in 1955 to 1969, the form of government was supposedly coalitional or consociational -- in my argument, it was quasi-consociational. With the implementation of the NEP in 1971, the increased role of UMNO has meant a parallel decline of the non-Malay parties, the Malaysian Indian Congress (MIC) and the Malaysian Chinese Association (MCA) in particular. Such disegulibrria of relations amounted to the political marginalization of non-Malays. It was a forceful assault on the structure of political consensus practiced in the pre-1969 quasi-consociational state. In the 1969 election and after, the alienated non-Malays were increasingly dissatisfied with and detached from their political representatives in the government, and periodically voted against them in general elections. This lack of constituent support has caused


12 This is especially true for the Chinese electorate. While the MCA gained considerable support from the Chinese in the 1974 and 1982 elections, it was defeated badly in the 1978 and 1984 elections. For a general discussion on Malaysian electoral politics and election outcomes from 1959 to 1978, see Lee Kam Hing and Michael Ong, "Malaysia," in Myron Weiner and Ergun Ozbudun (eds.), Competitive Elections (Footnote Continued)
segments of the non-Malay political elites, especially the MCA, to be partially cutoff from sharing the perquisites of power and office. Meanwhile, the Malaysian plural society persists and grows. There are in effect definite apprehensions and constant strains between the two entities. What is the role of the NEP in the existing tensions between the Malaysian state vis-a-vis society?

These are some of the questions that this dissertation raises and tries to answer. An empirical analysis of the Malaysian experience -- the role of the state and the debate on public policy -- requires a prior discussion of several conceptual and theoretical issues centered on the state and politically directed socioeconomic change. An intellectual effort is made to raise some of these issues found in the theoretical literature relevant to this study. This is what we will turn to next.


13 Perhaps the most important (and often used) indicator is that in the sixties and into the mid-1970s, Chinese Ministers held the Finance, and Trade and Industry portfolios, and the governors of Malacca has also been Chinese. All these prestigious offices have been taken over by Malays.
C. The Intellectual Terrain: the State and Policy Process

Few theoretical issues have galvanized the attention of political scientists in recent years as dominantly as the performance of the state. Scholars in the Marxist and Weberian traditions have made similar claims that their major concern is with the issues of the state, class, and bureaucracy. In this connection the state's capabilities, weaknesses, external and societal connections, and impact are analyzed. Contemporary Marxists, building on the ideological terrains of Marx and Lenin, and the works of Poulantzas and Miliband, have renovated the Marxist


project by adding concepts such as corporatism and dependencia. Approaches such as these are mostly utilized in understanding the developing countries. The exploitative and the imperialistic nature of the state as well as the prevailing underdevelopment in the Third World are the dominant themes in these literature.

The Weberian tradition, on the other hand, is much more complex and harder to access. Among Weber's concerns were the rationalization of society and the emergence and consolidation of the bureaucratic state. His writings have inspired a wide range of literature in sociology and economics, beginning with Talcott Parson's translation of The Protestant Ethics and the Spirit of Capitalism in 1930. In political science, the study of political development takes no exception. From the "crises and sequences" school of the Social Science Research Council's (SSRC's) Committee on Comparative Politics, and the "modernization" school

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represented by Daniel Lerner and David Apter, to Gabriel Almond's "structural functionalism" and Samuel Huntington's "political order", and the "development administration" school, a tradition influenced by Weber's ideas and thoughts can be traced. They form the prevailing paradigm of today's "mainstream" comparative development theories.

At first glance, the subject matter of the state in this literature seems elusive. In a recent article Almond remarked that "mainstream" political scientists have been dealing with the function of the state all the time, and Marxists cannot claim to have a monopoly over its study. Even granted such an argument, its recent resurrection in


the political science literature is quite astonishing. A virtual tidal wave of books, conceptual as well as empirical, bearing the word state in the title has accompanied the latest surge of interest. Recent assessments of the political development field acknowledge this unusual trend of scholarly activities. The recent volume edited by Evans, Rueschmeyer, and Skocpol and the three pieces in a volume edited by Weiner and Huntington point to a definite trend in this direction.  

Within this literature, especially in the field of comparative study of Third World development, there is an effort to tie the study of the state closely with the policy process. In the vaguely defined area of "policy studies," the central concern is with the "political" in policy processes rather than economic variables that have occupied so central a focus in the study of Third World economic development. The policy-orientation of this approach is predominantly concerned with a micro-theoretical...

conceptual frame of reference, reducing the various variables in modernization theory and dependency theory to a smaller and more manageable conceptual frame. Recent empirical studies in this tradition have ostensibly broken new ground for further research.

Indeed, all indications are that the debate on the policy nature of the state has come to occupy center stage. This overriding preoccupation emanates from the underlying assumption that the policies carried out by the state constitute a superior means for the fulfillment of economic and social aspirations of a society. Participation in the state's policies and its activities, however minimal, is deemed beneficial. Therefore various sectors of society have strived for association with the state's institutions and to gain access to its resources.

My theoretical concern is with the cause-and-effect relationship between the policy processes and the distribution of political power of the state. The central


question is: do policies have political consequences? And if so, what are they?

In the theoretical literature of policy process and decision-making, these problems have been addressed. For example, Lewis Froman has suggested that policy content should be considered as an independent variable and that the differential impact of different contents on policy-making processes should be observed.27 Theodore Lowi, in an influential article, carries the argument further. He identifies a threefold taxonomy of policy as distributive, regulatory, and redistributive. Lowi argues that

these areas of policy or government activities constitute real arenas of power. Each arena tends to develop its own characteristic political structure, political process, elites and group relations.28

Froman and Lowi thus have given us a theoretical linkage between policies and political process. In effect, they argue that policies should not only be regarded as an "outcome" of the political process, but also as an "input."


Applied to the comparative study of Third World development, such an approach has found a way into the works of Guillermo O'Donnell and Albert O. Hirschman. According to O'Donnell, the economic policies that were designed to resolve the "deepening" crises of industrialization of Latin American countries demanded harsh sacrifices from the working class. This in turn inevitably resulted in political repression in the various developmental stages -- oligarchic, populist, and bureaucratic-authoritarian. In short, O'Donnell's thesis of the "bureaucratic-authoritarian model" accords the major causes of the emergence of the political regime to economic variables.

Hirschman refutes some of the arguments made by O'Donnell. First of all, the methodology question of establishing a cause-and-effect relationship looms large.

To establish the connection of some puzzling events -- say, regime change in the authoritarian direction in a number of countries -- to some underlying casual factor, such as the difficulty of "deepening" the productive structure, it is not enough to show that the latter systematically preceded the various regime changes. There is a need to demonstrate a plausible,

meaningful connection between the two series of events.

Second, while Hirschman accepts the argument that the ills of today's Latin American problems are largely due to the implementation of economic policies, he regards them as determinants rather than consequences.

What we have here, therefore, is not an economic explanation of authoritarianism, but a political explanation of a turn in Brazilian economic development: prior existence of an authoritarian government facilitated the shaping of economic policy strongly oriented toward the expansion of a special category of consumption.

Hirschman then constructs an argument in which he incorporates his conceptual notions of the "entrepreneurial function" and the "reform function." The interactions between these two tasks become crucial for the economic and political outcomes of the growth process. The "entrepreneurial function," as Hirschman explains,

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31 Hirschman, "The Turn to Authoritarianism," p. 108.
improve the welfare and position of groups that have been neglected or squeezed, and at redistribution of wealth and income in general. This is the "equilibrating," distributive, or reform function. Like the entrepreneurial function, it can be performed by different actors, that is, by the interested parties themselves through collective action or by the state.\(^\text{32}\)

While Hirschman attributes political, social, and ideological forces in understanding regime change, he also assigns economic determinants of political strategies a major role in the explanation of developmental processes.

In one sense, my own perspective of looking at the Malaysian experience falls within the Hirschmanian approach. It is yet another attempt to combine it by examining the political aspects of the New Economic Policy and the development of an ethnic hegemonic state.

I have no illusions, however, that all these theoretical concerns would be successfully incorporated into my analysis. My modest goal has been to single them out as comparative generalizations and as useful analytical frames of reference in order to emphasize the importance impact of economic policy processes on political and economic structures in the empirical study of Malaysia's public policy.

\(^{32}\)Hirschman, "The Turn to Authoritarianism," p. 124.
D. Malaysian Studies: Politics, the State, and the NEP

Questions of ethnic differentiation in the historical, economic, and cultural contexts have dominated the analysis of Malaysian politics over the past few decades in Malaysian studies. During the late 1950s and 1960s scholars concentrated on the constitutional balance during the period of independence, party politics, the bargaining process between the ethnic leaders, and the future of political development. Historical interests also produced some substantial amount of literature on the Malayan Union, the


Communist insurgency, the separation of Singapore from the Federation, and the conflict with Indonesia. As political trends in the country swung toward issues of economic disparities after the May 13 racial riots in the 1969 election, a theme centered around the politics of


39 Leon Comber, 13 May 1969, A Historical Survey of (Footnote Continued)
economic development and a debate on economic policies began to evolve. By the late 1970s, increasing signs of class polarization due to rapid economic growth on the Peninsula led predictably to a growing concern with issues such as class conflict and class formation. Along this argument, some analysts have concentrated on the historicist

(Footnote Continued)


interpretation of Malaysian political realities. In the early 1980s, the political significance of the revival of the Islamic Dakwah movement has attracted some attention of scholars.

If it is possible to discern a central theoretical difference among contemporary Malaysian political analysts (to the extent that their studies are theoretically conscious and conceptually guided), that theoretical difference is surely the utilization of two perspectives: the pluralist and neo-Marxist interpretations.

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44 It is interesting to note that a comprehensive survey of the political science discipline by Felix Gagliano failed to mention the neo-Marxist school. See Felix Gagliano, "Political Science," in John Lent (ed.), Malaysian Studies: (Footnote Continued)
The pluralists, utilizing a framework established by the seminal works of J.S. Furnivall and M.G. Smith, and further reinforced by the works of Alvin Rabushka and Kenneth Shepsle, Cynthia H. Enloe, and E.A. Nordlinger, agree that race and communalism are the key to unlock the political, economic and cultural problems in Malaysia. They suggest that ethnic and cultural divergence in the Malaysian context has produced competition among systems of values. In other words, race becomes the overriding variable in the study of "the political consequences of communal

(Footnote Continued)


Indeed, there has been a proliferation of literature using the pluralist framework in Malaysian politics from the date of publication of Furnivall's work to the present. Studies along this orientation provide the classic analysis of the interplay of ethnicity and politics in the Malaysian political system. Their analysis of the colonial period of British rule, the historical formation of Malaya, the racial riots of 1969, and the electoral and administrative process present not only a pluralist perspective for understanding contemporary Malaysian politics and policies, but also underscore the perennial problem of communalism and ethnic conflict in the multiracial society.

While these analysts have suggested ethnicity as the explaining factor, others sought to employ class analysis to explain the same phenomena. Their argument against the pluralists is that this approach neglects the possibility

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47 Ratnam, *Communalism and Political Process*, p. iii.

that cultural differences may actually shield the group from other conflicts. Conversely, and perhaps most crucially, if ethnic conflict is produced by the incompatible values, there is no explanation of why so many conflicts in plural societies occur among and within the segments of the various groups that are culturally the most similar. The neo-Marxists then emphasize the importance and priority of the economic variable in terms of class conflict in society. Most of these analyses are the work of leftist intellectuals.

There are at least two recurring themes in these neo-Marxist writings: colonialism/imperialism and class conflicts. Colonialism and imperialism are seen as the major causes of Malaysia's antagonistic ethnic relations. The colonial capitalists exploited the physical and human resources. It is argued that the colonial tactic of divide-and-rule, in effect, is the primary source of ethnic conflict and friction in contemporary Malaysia.

The argument of class antagonism states that the ruling class has tried to hold on to power through the strategy of economic and political Bumiputeraism and communal politics. In other words, communalism arises only out of the class

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distortion by manipulation of the ruling class. Racialism is promoted by the government to suppress the interests of the lower class.\textsuperscript{50} Explanation of the present ethnic antagonism in Malaysia is also supplemented by "the ruling class political domination" thesis.\textsuperscript{51} For example, the UMNO is described as the political expression of "an alliance of aristocrats, bureaucrats, urban capitalists and rural landlords in collusion with foreign capital to exploit and oppress the Malaysian peasant and workers," and "all racial conflict in the Malaysian social formation has its origin in the struggle between classes."\textsuperscript{52}

In effect, there is a common denominator in these neo-Marxist arguments: it emphasizes the "class" element as the precipitator of Malaysian politics. Class groups are perceived to engage in struggles for political resources and thus manipulate the ethnic element in the milieu to safeguard or acquire positions of power and influence in the political and socioeconomic arena.

While in many ways such an analysis is an old Marxist view and strikes a familiar note in Latin American and

\textsuperscript{50}Lim, "Ethnic and Class Relations"; Stenson, \textit{Class, Race and Colonialism}; Brennan, "Class, Politics and Race"; and Cham, "Class and Communal Conflict."

\textsuperscript{51}Hua, \textit{Class and Communalism}, p. 2.

\textsuperscript{52}Brennan, "Class, Politics and Race," pp. 190 and 209.
African studies, it really establishes the parameters of the new radical thinking on Malaysian politics. In contrast to the historical apolitical language, it sharpens rather than blurs the distinction between the relationships of state, society, and individual. The colonial period has been reinterpreted as the era of capitalist penetration and, in varying degree, the introduction into Malaysia of capitalist production. This in turn created a class proletariat, which in the Malaysian context cut across ethnic lines.

Closely related to this line of thought, and parallel to the trend in political science, is the study of the "state" in Malaysia. While attempts were made to equate the state with various institutions that include the legislature, the executive, the bureaucracy, the judiciary, the police and army, the approach to the subject is essentially neo-Marxist in orientation. It can be

inferred that the Malaysian state, in essence, is viewed as a "bourgeois" apparatus to suppress the interest of the masses, and is used as an instrument predominantly for ethnic domination. The state, as one writer puts it, "is not simply an instrument of class rule but also an expression of class struggles in which conflicts and contradictions -- class, ethnic, religious, etc. -- in society are played out in the state arena. This is because the state, having the monopoly of a legitimate use of force in society, is a prize coveted by different groups wishing to dominate society."54

In my view, the neo-Marxist approach seeks to simplify what is, admittedly, a difficult analytical task. The essential problem with the neo-Marxist approach is its reductionist character -- its failure to recognize that a variety of factors are operating and its insistence on finding the "determining" variable. Such an approach is bound to obscure as much as it enlightens. Specifically, the neo-Marxist approach presents two difficulties in the Malaysian case that cannot easily be resolved. First, the

(Footnote Continued)

significance of class polarization, which has traditionally been underemphasized, seems to have been exaggerated by these writers at the expense of racial antagonisms. While it is emerging, class formation is still to a certain extent "subordinate" to the omnipotent issue of race relations in the Malaysian context. Moreover, to identify class action and class interest is partial and incomplete. Second, the approach to the study of the state is unsatisfactory for two reasons: it fails to distinguish the state from the more conventional term "government;" and it fails sufficiently to recognize that the nature of the state has to be viewed in relation to the society.

Most of the writings of these two perspectives -- pluralist and neo-Marxist -- on the New Economic Policy so far have been less than satisfactory. This problem is more serious in the nascent discipline of Malaysian political science than in other fields. To the extent that there are sustained political analyses on the NEP, they have been engaged in conjectural discourse for the pluralists and trapped in the ideological Marxist arrangements for the neo-Marxists.

Inadvertently, because it is understood as an "economic" document, the debate on the NEP has been couched
in an economic context. The overwhelming bulk of writings on the NEP focus on income distribution, employment quotas, public enterprises and the like. Such studies have provided substantial information about the economic effects of the NEP on Malaysian society in general and the Bumiputera community in particular. They have also furnished insights into the expanding presence of the state in the productive sectors of the Malaysian economy.

Recent political and economic trends, however, have also raised a number of significant and largely unexplored questions about the political outcomes of the NEP. What major similarities and differences exist between the pre- and post-1970 Malaysian state? What is the role of the NEP that accounts for these similarities and differences? What are the conditions generated by the NEP that have resulted in the emergence of an ethnic hegemonic state? The answers to these questions will not only enhance the understanding of the politics of public policy in Malaysia, especially the

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NEP; they will also provide a firmer basis for speculating about the future of Malaysian political trends.

The writings and research on the New Economic Policy to date have not attempted to answer these questions, but only raised them. There are a few important works that I would like to single out that have provided direction for my research.

The works by Craig, Rudner, and MacAndrews provide an important dimension in the study of Malaysia's economic planning: the addition of political variables for economic analysis. MacAndrews, for example, wrote, "Planning in Malaysia as a result of its development has always been highly political as well as economic in focus . . ." More specifically, R.S. Milne, among the foremost students of Malaysian politics, seeks to establish a relationship


between politics and the NEP. He gives a detailed and descriptive analysis of the major circumstances that led to the formulation and implementation of the NEP and the response of the various interest groups in the country. Milne points out, rightly, that "not only are its (NEP) origins political, but it also has profound political implications." He has identified the major historical explanations for the emergence of the NEP. Milne's contribution to the understanding of the origins of the NEP is significant, though incomplete.

There have been various assessments of the NEP to date. Donald Snodgrass is fairly representative of many economists who provide an economic assessment of the various aspects of the NEP. Snodgrass analyzes the patterns of inequality in terms of policies and programs of NEP under four headings: fiscal redistribution, rural development policies, urban development policies, educational and other general policies. Insofar as this is an economic assessment, Snodgrass's study altogether reveals the seriousness of the NEP's dilemma: "how a productive and self-reliant group of

entrepreneurs and workers can be created under direct
government sponsorship."\textsuperscript{61}

Another timely work which focuses on the NEP is done by
Ozay Mehmet.\textsuperscript{62} Mehmet's provocative work provides almost
entirely a negative evaluation of the performance of the
NEP, and echos the argument of Snodgrass that poverty has
grown during the period of the NEP. "The central argument",
says Mehmet, "is that the ruling elites, in assuming the
role of trustees, have emerged as a cartel. In the process,
they have effectively cornered economic planning and
decision-making to enrich themselves while paying
lip-service to poverty eradication. Inter-racial income
inequality, historically a major source of conflict in
multi-racial Malaysia, is now being replaced by widening
intra-ethnic inequality, especially the Malays." The NEP is
described as "a strategy of development of trusteeship."\textsuperscript{63}

Such negative verdicts by two respected social
scientists -- one an economist, the other an international
developmentalist -- outside the Malaysian academic circle
should not cause surprise. Since the beginning of its

\textsuperscript{61}Snodgrass, \textit{Inequality and Economic Development}, p.
139.

\textsuperscript{62}Ozay Mehmet, \textit{Development in Malaysia: Poverty, Wealth

\textsuperscript{63}Mehmet, \textit{Development}, preface.
conception, the NEP has been overwhelmed by criticism for not able to reconcile the conflicting goals of growth and equity. Its bias for ethnic preference during the implementation stages has also caused anxiety among non-Malays.

E. The Argument of this Study

The implementation processes of the New Economic Policy have significant political outcomes which consequently increase the power of the state. The state's intervention into the economy, the increasing regulation of the economy, the coalescence of the Bumiputera political and business class, and the expansion of monoethnic social and cultural commitments by the UMNO-led government have led to the emergence of what I call the Bumiputera State.

Ultimately my emphasis is on the following two aspects: (a) the increased role of the state in the socioeconomic development of the country, with the establishment of state-owned enterprises and Bumiputera trust agencies, and the introductions of various economic regulations, quota and controls into the private economy; and (b) the consolidation of political and economic resources in the hands of the Bumiputera politico-business elites. Thus the Bumiputera State has evolved with the strengthening of the state and the institutionalization and extension of Bumiputera "special rights" in the economic, social, military,
judiciary, administrative, and educational spheres, and of various Islamic religious and Malay cultural symbols in the multiracial Malaysian society. The further exertion of political dominance and the acquisition of economic power have meant the triumph of the Bumiputera-centered and state-centered polity. In short, a hegemonic state dominated by the Bumiputeras has replaced the quasi-consociational state.

Before proceeding further, a definition of "state" and "Bumiputera" is in order. In the Malaysian historical literature, the term "state" is loosely used. It refers to and is a direct translation from the Malay word "negeri." In the pre-colonial period, it has a meaning that relates more to "territory" in the form of river settlement rather than to modern administrative structure. When British colonial control was established in the Peninsula, the Malay States referred to individual states such as Perak and Selangor.

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The notions of Federated and Unfederated Malay States were coined under this conceptual frame.

A more rigorous concept rooted in political science is used by Clive Kessler. His notion of "Malay State," applied to the state of Kelantan, attached a degree of demographic concentration of a particular ethnic group, the Malays. The social system -- its politics, religion, customs, and culture -- is essentially defined by the Malay norms and character. The state in essence is inclusive of the Malay government and the Malay society. Despite embracing such a more elaborate meaning than previous historical literature, Kessler's "state" is still confined to the provincial.

Two other political scientists stretched the notion further. Milton Esman's "Administrative State" and Bruce Gale's "Patrimonial State" are two attempts to label the Malaysian state. These two titles used for the Malaysian state were derived from the authors' studies of the bureaucracy and public enterprise respectively, and are therefore subject-focused. The Administrative State, according to Esman, is "one in which the state is the dominant institution in society, guiding and controlling

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more than it responds to societal pressures and administrative institutions. Personnel, values and styles are more important than political or administrative organs in determining the behavior of the state and thus the course of public affairs.\textsuperscript{67} Gale's patrimonial state, on the other hand, is defined in accordance with the patron-client relations so apparent in the Malaysian political system.\textsuperscript{68}

My notion of the state, situated on this continuum at any rate, derives from the work of Weber. Weber characterized the state as based on a monopoly of physical coercion which is legitimized by its legal authority.\textsuperscript{69} Foremost among the state's institutions is the bureaucracy. While Weber contended that the state is not an effect of


\textsuperscript{68}Gale defines the "Patrimonial State" as follows: "The patrimonial ruler may sit at the apex of the political system; he is, however, forced to accede to the wishes of his immediate subordinates at least as often as he can impose his will on them. His subordinates, in turn, face a similar situation with their own clients or retainers. Bargaining and compromise between patrons and clients at various levels in the hierarchy occurs continuously through the system. The resulting dilution of top leader-willed policies may not be as readily apparent as changes arising from the challenges of powerful interest groups, parties, or electoral majorities in liberal-democratic systems." Bruce Gale, \textit{Politics and Public Enterprise in Malaysia}, Kuala Lumpur: Eastern Universities Press, 1981, p. 175-176.

capitalist development, he argued, however, that capitalism provided an enormous impetus to its expansion.70

Concomitantly, I have conceived of the Malaysian state as a link of ethnic and class interests which impinges on politics. Because of the preponderance of Bumiputera political resources, I have therefore emphasized its hegemony. The "state" in this study also brings into consideration the relations between state and society, and the subsequent impact on the relations in the society itself. That is to say, the definition of the state has to be viewed in relations to the civil society. In this regard, Nordlinger's notion of the "autonomy-enhancing capacities" of the state vis-a-vis the interests of the society becomes a central concern.71 My understanding of the state accepts the following premise by Alfred Stepan:

The state must be considered as more than the "government." It is the continuous administrative, legal, bureaucratic and coercive systems that attempt not only to structure relationships between civil society and public authority in a polity but also to structure many crucial relationships within civil society as well.72


72 Alfred Stephan, State and Society, p. xii.
The word "Bumiputera" (or Bumiputra) literally means "son of the soil," referring to the country's aboriginals, the natives of Sabah and Sarawak, and the Malays.\textsuperscript{73} The conceptual difference between "Bumiputera" and "Malay" is subtle and is determined more by politics than ethnicity. There is a long history of debate over what constitutes and who qualifies to be a "Malay" or "Bumiputera."\textsuperscript{74} However, the growing terminological usage of the term "Bumiputera," especially after the implementation of the NEP, has given it a more specific connotation.\textsuperscript{75} Its meaning has been narrowed specifically to mean the Malays.

The recurring use of the term Bumiputera, rather than Malay, seems to provide one particular ethnic group with a larger claim for the rightful and legitimate prerogative of

\textsuperscript{73} It first appeared in Malaysian political discourse in 1965 when the MARA Bill was debated and passed by Parliament. See Tan Chee Khoon, \textit{Without Fear or Favor}, Singapore: Eastern Universities Press, 1984, p. 10.


\textsuperscript{75} Tham Seong Chee, \textit{Malays and Modernization: A Sociological Interpretation}, Singapore: Singapore University Press, p. 185.
control over the state and the society. While the provision for Malay special rights was a product of Malay "political" nationalism in the 40s and 50s, Malay "economic" nationalism in the 70s constituted a comparable conviction in the economic arena. In redefining the identity of a Bumiputera and determining who is a member, the UMNO-led government has strengthened its the commitment to the country as "Tanah Melayu" (Land of the Malays). Consequentially the ideological strand of Bumiputeraism has been established in Malaysia.

Thus, the dichotomy of Bumiputera and non-Bumiputera, or as one writer puts it, "indigeneity" versus "immigrantism," has emerged. It is clear that the Bumiputera opinion elites play a vital role in articulating and promoting the values of the Bumiputera Ethos. Because language usage shapes consciousness, a psychological polarization of ethnic groups is therefore rooted in their identities. The current "politics of Bumiputera and non-Bumiputera" is very much the reflection of such a trend. At this point it is irresistible to quote Tunku Abdul Rahman, the country's first Prime Minister. He commented:

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"There is so much talk about bumiputras today that it appears in the minds of the other (races) that they are being turned into second-class citizens in the country."  

My usage of the term Bumiputera as a label attached to the state in Malaysia acknowledges this anomaly. Its meanings include, first, an institutional pattern of ethnic management by the Bumiputera politico-bureaucratic-business class, and second, a more specific ideological content used to justify ethnic domination. Taken as an integral component, it signifies the emergence and consolidation of an ethnic hegemonic state.

In this thesis, Malay and Bumiputera will be employed interchangeably and synonymously as a reference to a collective community. While Malay will be used with the same meaning as in the conventional Malaysian literature, Bumiputera is used to underline the politics of mono-ethnicity and to denote the central theme of this study.

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77 The Star, May 9, 1977.

F. Organization of the Dissertation

Chapters I and II are devoted to the political economy of pre-1970 Malaysia. In keeping with the overall emphasis, Chapter I argues that we must undertake a statist analysis of politics in order to identify the factors that contributed to the Colonial Administrative State and the Post-colonial Quasi-consociational State.

Chapter II takes up the question of why the Malaysian government did not have a more comprehensive economic policy before 1970 to correct the economic imbalance between ethnic groups and the defects of the Malaysian market in equity distribution. To answer it, the chapter attempts to identify broad patterns within Malaysian economic policy planning and to account for their persistence in the face of continuing economic and political problems.

Chapter III considers the contents and some of the attributes of the New Economic Policy through the examination of the evolution of its origins and objectives. It tries to answer two basic questions: What is the New Economic Policy? and how did the New Economic Policy evolve?

Chapters IV and V discuss the implementation processes of the NEP. Chapter IV analyses the institutional configurations of the NEP: the public sector, state-owned enterprises and corporate transfers through Bumiputera trust agencies. Chapter V looks at the regulative and legislative aspects of the NEP. Its purpose is to provide a detailed
picture of the procedural constraints embedded in the government's policies in trying to control and takeover local and foreign businesses as a strategy for meeting the objectives of the NEP.

Chapter VI assesses one of the most important policy outcomes of the NEP: the coalescence of the Bumiputera politicians and businessmen. The argument is that the by-product of the NEP is the emergence of a Bumiputera politico-business class. Their relationship has had a significant impact on the Malaysian political process.

Chapter VII examines the NEP from another perspective. It contends that the NEP is not only an economic and political document, but it is also a catalyst for the further implementation of Bumiputera-centric education policy. In effect, the NEP has provided a policy substance for social restructuring and the determination of monolingual state and society.

Chapter VIII concludes with a further elaboration of the relationship between the NEP and the Bumiputera State. An effort is made to recast Malaysia's state-society relations in light of the tensions that exist between them. The future of post-NEP policies is discussed.
CHAPTER I

THE STATE IN PRE-1970 PENINSULAR MALAYSIA:

THE COLONIAL ADMINISTRATIVE STATE AND

THE POST-COLONIAL QUASI-CONSOCIATIONAL STATE

"I doubt if Asiatics will ever learn to govern themselves; it is contrary to the genius of their race, of their history, of their religious systems, that they should."

-- Sir Federick Weld¹
Governor of the Straits Settlements
(1880-1887)

"...the first phase was UMNO's fight for the Malay rights against others, and the second phase was to fight for Independence in Alliance with the others..."

-- Tunku Abdul Rahman²
Prime Minister of Malaysia
(1957-1970)

The purpose of this chapter is to outline the factors and events that contributed to the nature of the state in


Malaya in the two separate historical periods from the late eighteenth century of British colonial rule to the outbreak of the communal violence in 1969. It analyzes (1) the political and social forces that affected British administrative control in the colonial period and, (2) the relative degree of quasi-consociationalism or delicate balance of power in the Malayan political system from 1955 to 1969. In effect it provides a general background of the country's political and social patterns during these periods. I should emphasize that this chapter is intended not as a reinterpretation of Malayan history, but rather as an introductory discussion that is built upon an enormous literature available.

I would like to make two observations. First, from the late eighteenth century when the British began its colonial rule in Malaya to the first Federal Election in 1955, the nature of the state of British Malaya was essentially dominated by the British administrative apparatus. The state is hitherto identified as the Colonial Administrative State. Second, the first Federal Election, with the formation of the Alliance, which made up the United Malays National Organization (UMNO), the Malayan Chinese Association (MCA), and the Malayan Indian Congress (MIC), and subsequent

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3The UMNO, as a political party, has attracted some (Footnote Continued)
political independence in 1957 began an era of coalition of elites of the three major ethnic groups -- the Malays, Chinese, and Indians. Until the racial riots in 1969 and the introduction of the New Economic Policy in 1970, the politics of quasi-accommodation was practiced. The state is hitherto identified as the Post-colonial


Quasi-consociational State. The analysis here will necessarily be brief; the intention is merely to set the stage for further discussion on the post-1970 Malaysian political economy.

A. The Colonial Administrative State

The British rule in Malaya is well-documented. The study of the British bureaucratic structure, in particular, has shed some light on the nature of its control. The "Administrative State" will be used to describe the particular pattern of British colonial administration in Malaya. It denotes a state in which the bureaucracy dominated over all other forms of system in the polity. The administrative machinery became the prime instrument of the government's day-to-day operation. It was in essence in the center of governing. Consequently, it also became the pivotal force for political and economic change in the society. Malaya under British rule was essentially led by

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such an administrative apparatus. As Tilman observes, "The British colonial bureaucracy was the agency by which political and economic modernization were introduced into the Peninsula."\(^5\) The following analysis is based on the acceptance of such a premise.

1. The British Colonial Political Legacy: Early Administrative Period

The political and administrative legacy of the British rule in Malaya, which stretched from 1786 to 1957,\(^6\) began with the motivation of trade and commerce. In 1786, the British landed on the island of Penang. This was the base from which the British exercised the commercial control essential to facilitating trade in Malaya. Such control became increasingly political as it spread to other part of the Peninsula. By 1874, with the signing of the Treaty of Pangkor between the British and one of the several

\(^5\)Tilman, Bureaucratic Transition, p. 60.

pretenders to the Throne of Perak, most of British Malaya was under the administrative and legal jurisdiction of the British government.

Administratively, the Malay Peninsula under British rule was divided into ten political entities: the Straits Settlements (SS) (the islands of Singapore and Penang, and Malacca, which were Crown property and the inhabitants were British subjects); four Federated Malay States (FMS) (which included the States of Perak, Selangor, Negri Sembilan and Pahang); and five Unfederated Malay States (UMS) (which included the States of Johore, Kedah, Perlis, Kelantant and Trengganu).

In the FMS, the so-called British residency system was practiced. A British resident or advisor, appointed by the Governor of the Straits Settlements and High Commissioner for the Malay States, had to be consulted by the Rulers in major policy making. His council "must be asked and acted upon on all questions other than those touching Malay religion and custom" while revenue was collected and appointments made in the name of the Sultan.

Under such a protectorate system, the sultans and princes, once powerful, became merely figureheads or functionaries. In most cases, they were sidestepped or

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altogether ignored in the administrative process. At the local level, the British officers replaced the penghulu (district headman) as the chief administrators. Such procedures enabled the British to act in their own interests and gave minimum considerations to the local communities. In sum, the British administration was all-dominating in the affairs of the Malay States.

Such a domination was possible with the assistance of the Malayan Civil Service (MCS). The MCS was indeed the backbone of the British administration in which political power resided.\(^8\) At a time when there were no elected officials or appointed politicians to guide the government, the MCS functioned as the primary source of social management and political articulation.

Much has been written on the strategy of direct and indirect rule of the British colonial administration in Malaya. Indirect rule, practiced in the Federated Malay States (FMS) and the Unfederated Malay States (UMS), was a system in which the day-to-day administrative responsibility was delegated to compliant indigenous Malays. The decisions, however, came exclusively from the top echelon of the British bureaucracy. Such an arrangement was mutually advantageous and convenient: the British economized on

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\(^8\) Tilman, Bureaucratic Transition in Malaya.
officers and utilized a well-developed tax collection system, while the traditional aristocracy, under British control achieved a invulnerable and secure hegemony through the elimination of important source of internal resistance.⁹

Rupert Emerson, in a classic work, has argued that there was no difference between indirect and direct rule.¹⁰ In either case, the British colonial administration exercised complete control and occupied center stage in the policy and decision-making process, except during a short period of decentralization. Indeed, British administrative dominance took several forms, from direct sovereignty over the Straits Settlements to the system of Resident and Advisors in the other Malay States. Its influence on all aspects of public activities persisted and endured even after Malaya's independence.

2. The Colonial Social Legacy: Pluralization of the Malayan Society

One of the most contentious issues of the British colonial legacy is the emergence of the Malayan plural


¹⁰Emerson, Malaysia, p. 7.
society. A plural society, defined by J.S. Furnivall, comprises a diversity of groups within a political unit: 11

They mix but do not combine. Each group holds by its own religion, its own culture and language, its own ideas and ways. As individuals they meet, but only in the market place, in buying and selling. There is a plural society, with different sections of the community living side by side, but separating within the same political unit. Even in the economic sphere there is division of labour along ethnic line.

The Malayan society was undergoing rapid changes during the colonial period. With its cultural, religious, linguistic and racial diversities that emerged, it was "the example par excellence of Furnivall's plural society." 12

It was during the period of British administration that immigrants came steadily from China and India. Their only aim was to pursue a better livelihood. The Chinese were caught in periods of great transitions: from dynastic rule to Sun Yat-Sen's Republic, the subsequent events of the war


against the Japanese, and the civil war between the Communist and the Kuomintang. On the other hand, they were attracted to the unexplored wealth of the "Nanyang" (South Seas). They therefore migrated outwards, coming mainly from the southern provinces of Fukien, Kwangsi, and Kwangtung.13

Indian migration was also motivated by similar pull-and-push economic factors. Indian labors were imported from Southern India to the coffee and tea estates as well as rubber estates. Under the indenture and kangany system of recruitment, Indian labors came steadily.14 The encouragement of the British administration of Indian immigration was shepherded by the Indian Immigration Fund set up in 1907.

The flow of the immigrant communities produced significant changes in the Malayan social structure. The population trend during this period incontrovertibly showed Malaya as multiracial in characteristic -- a dual society with two groups coexisting and developing. Table 1 shows the rapid growth of the immigrant communities from 1871-1941.


Within a period of seventy years, the number of Chinese and Indians increased sharply. For the Chinese, its percentage of total population had increased from 34% to 44%. In the case of Indians, the number had also increased steadily -- with its percentage of total population increased from 11% to 14%. By 1941, the population of Malaya was such that the non-Malay communities had outnumbered the Malays, with the Chinese 44%, Indians 14%, and Malays 40.5%.  

Furnivall argues that the plural society is a direct consequence of the colonial policy of allowing migration to occur as economic needs arose. From this perspective, the social heterogeneity and the emergence of the Malayan plural society can be largely attributed to the British colonial administration. While such a cause-and-effect relationship was difficult to draw, the encouragement and motivation of the British colonial administration was surely a factor. British labor policy was essentially geared toward the use of immigrant labor. In order to sustain the economic activities, especially in tin-mining and rubber-planting, the British had the self-interest to allow their inflow. In fact, it found their continuing inflow not only desirable but also necessary.


When the British Colonial State was superimposed onto the Malayan plural society, the connection became increasingly more complex. For the British, part of a wider

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16 Furnivall, Colonial Policy and Practice.

administrative policy for control of local population was the strategy of "divide-and-rule." In essence, it meant keeping the three ethnic groups apart economically and politically so as to diffuse coherence among them. For the three ethnic communities, they were quite contented to be left alone in their own spheres of activity. When the time was ripe for the British to grant self-government to the country, however, it became increasingly clear that colonial values and indigenous ethnic interests were heading for a precarious conflagration.

Two episodes in Malayan history -- the Malayan Union scheme in 1946 and the Federation of Malaya Agreement in 1948 -- illustrate the dilemma confronted by both the British and the Malayan ethnic leaders. For the British, there was the incessant skepticism and doubt over the ability for an ethnically divided society to govern itself once granted independence. For the Malayan leaders, the central issue was to ensure their political and legitimate rights and a share in the economic benefits in the independent country.

Since the early 1940s the elites of the three ethnic groups already attempted to influence indirectly the British Colonial Office in drafting proposals for constitutional and
legal reform in post-war Malaya. The initiatives for the British to give self-government to Malaya, however, did not come until World War II, which in effect ignited a new course for political activities in Malaya. In early 1942, the British administration, driven out of Southeast Asia by the Japanese and in exile in London, was devising an ambitious and controversial scheme which would ultimately grant independence to Malaya.

The scheme was the Malayan Union proposal. The central and the most controversial proposal of the Malayan Union was the elimination of the traditional aristocratic rule of the Malay sultans and the granting of citizenship to the Chinese. The formal sovereignty of the Malay Rulers (the

18 However, it was also true that the planning of the Colonial Office on post-war Malaya was not influenced by these opinions, although proposals were sent to British policy-makers. For a detailed account of such activities, see C.M. Turnbull, "British Planning for Post-war Malaya," Journal of Southeast Asian Studies, vol. V, no. 2, 1974: 239-254.

19 Exhaustive research has been done on the Malayan Union, although the last word may not have been said. Excellent works are James Allen, The Malayan Union, New Haven: Monograph series no. 10, SEA Studies, Yale University, 1967; Mohamed Noordin Sopiee, From Malayan Union to Singapore Separation: Political Unification in the Malaysia Region, Kuala Lumpur: Oxford University Press, 1976; and A.J. Stockwell, British Policy and Malay Politics during the Malayan Union Experiment, 1942-1948, Malayan Branch of the Royal Asiatic Society Monograph no. 8, Kuala Lumpur, 1979. Wong Lin Lean argues that much work remains to be done on the Malayan Union. See his "The Malayan Union: A Historical Retrospect," Journal of Southeast Asian Studies, 13 (Mar. 1982): 184-91.
Sultanates) would be made subordinate to the central government made up of the Executive and Legislative Councils. The powers of the Malay Sultans were severely curtailed, permitted only to be involved in Muslim religious questions and the administration of a Malay Advisory Council. The Sultans' jurisdiction, in effect, was transferred to the British Crown. As regards to the citizenship issue, the Union was "to promote a broad-based citizenship which will include, without discrimination of race or creed, all who can establish a claim, by reason of birth or a suitable period of residence, to belong to the country." In essence, this made the granting of citizenship to the non-Malays almost automatic.

The Malays, led by Dato Onn bin Jaafar, chief minister of the state of Johore, objected to the scheme fervently. The birth of the United Malays National Organization (UMNO)


21 For a detailed account of the citizenship issue, see Cheah Boon Kheng, "Malayan Chinese and the Citizenship Issue, 1945-48" Review of Indonesian and Malayan Affairs (Sydney) 12 (2) 1978: 95-122; and Huang Ying Jung, Double Citizenship in Malaysia, Singapore, Institute of Southeast Asia, Nanyang University, 1970.

at this historical juncture exemplified the united Malay opposition to the proposal. This was also the crowning point of post-war Malay nationalism. With its slogans such as Hidup Melayu ("Long Live the Malays") among others, the UMNO led mass demonstrations, sit-ins, and a campaign of non-cooperation with the British. At the same time, the halfhearted and complaisant support from the non-Malays for the Malayan Union idea seemed to have beclouded the very hope of the British's determination to go through with the scheme.

At the end of this strenuous confrontation, the British finally gave way, and initiated another formula with the Malays: the Federation of Malaya Agreement in 1948. The drafting of the Constitution in 1947 was solely an Anglo-Malay event. In this agreement, Malay sovereignty and political privileges were endorsed and non-Malay rights were further diluted, with the granting of citizenship more difficult.


This time the objection of this Anglo-Malay agreement came from the non-Malays. Tan Cheng Lock, a prominent Chinese from the state of Malacca who later founded the Malayan Chinese Association (MCA), mobilized opposition to the Anglo-Malay negotiation. The All-Malaya Council of Joint Action (AMCJA), which was made up of the socialist Malayan Democratic Union (MDU), the Malayan Communist Party (MCP), some of the Malay radical nationalist groups, and some of the conservative Chinese business organizations, gathered some support, but not enough to prevent the establishment of the Federation of Malaya.  

The experience of the Malayan Union and the Federation of Malaya Agreement ushered in a new phase of political activities in Malaya. It had kindled the flame of communalism. Ironically, at the same time, it also had the effect of making the Malayan ethnic elites more daring in experimenting with the politics of non-communalism. The British had made it clear that the granting of Merdeka (Independence) could only be possible if the Malayan plural society was committed to communal unity.  


26 See, for example, the directive issued by the Secretary of State for the Colonies to General Gerald (Footnote Continued)
leaders believed that the best approach toward achieving this aim was to abandon communalism as the basis of Malayan politics, and for a very brief period they endeavored to do just that. This was especially exemplified by the actions of Dato Onn, the president of UMNO. In a complete turn of position, Dato Onn advocated in 1949 that the UMNO admit non-Malays as members, and proposed changing laws to enable non-Malays to become citizens. He further proposed that the UMNO be changed to United Malayan National Organization, so that it be racially all-embracing. While the proposals were accepted at the top level, they faced stiff resistance from the UMNO's rank-and-file. The event was so controversial that Dato Onn resigned in 1951 and set up his own non-communal party, the Independence of Malaya Party (IMP).

4. Patterns of the Colonial Administrative State

The Colonial Administrative State established several important precedents in the Malayan political system. The British colonial administration, armed with the resident and advisor system and an established bureaucracy, was in firm control of the political system before World War II. To the extent that it was possible, the Colonial Office had tried

(Footnote Continued)
to impose its values onto the system, both administratively and judicially, particularly in states which were perceived to have economic significance. Such administrative control became a strategy of "direct" and "indirect rule" — which in turn permitted the British to claim plenary powers of occupation and exploitation of the Malayan Peninsula, its minerals, and human labor. While it used the moral justification of indirect rule, it was clear that its real raison d'etre was domination and control.²⁷

A more positive assessment, however, can be presented. Such a structural arrangement also provided the Malay States a transition process from traditional patterns of kinship to a more modern form of state organization. The nourishment of the conditions for the emergence of a modern sovereign state by the British cannot be underestimated. The concept of territoriality and sovereign domain, emerged only after the British occupation of the Peninsula, carried important implications for the political system during its struggle for independence. The classification of Malaya into the Strait Settlements, the Federated and Unfederated Malay States as administrative entities was a major step forward in the process of state-building. In striking contrast to the pre-colonial Malayan state system, boundaries of state

²⁷ Emerson, Malaysia.
became organized, and all persons were compelled to acquire a territorial classification. In fairness, the bureaucratic structure that the British left behind ultimately formed the base for establishing sovereignty and controlling the state apparatus.

The Colonial Administrative State was also a protectorate system. Within this structure the Malays and non-Malays were able to strive for their own interests. British colonialism can be viewed, as one writer at that time put it, "as a kind of umbrella under whose shelter two different societies grew in vigor and strength until they combine to discard the protecting cover." With the role of policeman and as head of the family, the British apparently provided an administrative forum to different and conflicting interests between the three major communities. Von Vorys wrote:

Insofar as inter-communal contact was necessary, British authorities served as stabilizers. They so defined the parameters of legitimate conflict that no community's minimum, non-negotiable interests were jeopardized; and in case of a stalemate in negotiation they stepped in and arbitrated.


It was precisely when the "protecting cover" was being discarded that communal interests came to the surface and commanded center stage. During the transitional period from the Colonial Administrative State to the practice of participatory politics, there was an attempt, embodied in the Malayan Union scheme, to transfer to the indigenous political system some of the jural philosophy of the European state -- constitutionalism, civil liberties, and liberalism. This did not survive. What emerged, however, from the remnants of the dispute in the Malayan Union experience between the British administration and the Malay nationalists of the UMNO was a constitution without the participation of the non-Malays. While it did take into account the unique cultural and social patterns in the subjugated Malayan society, the Constitution of 1947 clearly was discriminatory towards the non-Malays. In the final analysis, the newly negotiated constitution created out of the pen of the Colonial Office and the Malayan nationalists "clearly denied representation to the non-Malay communities

30."...the short period of the Union was like a door to full political participation which was for a fleeting moment opened and shut again. Thus, in one bold and abortive act, the British succeeded in releasing the energies of all three main communities and inducing them all to consider their potential rights in a new Malaya." Wang Gungwu, "Malayan Nationalism," Royal Central Asian Society Journal, Vol. XLIX, October, 1962, p. 320.
at the most important stage of the constitution making process."\textsuperscript{31}

While our analysis necessarily emphasizes an evolutionary continuum, the year 1955 must nevertheless be singled out as a definite milestone in that process. It is regarded as a cutting point dividing the two state patterns in Malaya for two reasons. First, for the first time a full-scale election, a signal for the beginning of participatory politics, was held that year. Second, it was in 1955 that we see the UMNO-MCA-MIC Alliance in full operation. It was a historic juncture that began a long period of association and partnership. The "Administrative State," in essence, was transformed. This is the period we turn to next.


The municipal elections for Kuala Lumpur in 1952, which saw the birth of the UMNO-MCA Alliance, the Federal Election in 1955, and Merdeka in 1957 brought important changes in the character of the state, as well as major transformations in the nature of the politics of ethnicity in Peninsular Malaya.

\textsuperscript{31}Means, Malaysian Politics, p. 56.
Arendt Lijphart's notion of consociational democracy provides an impressive analytical frame of reference to the nature of the Malaysian state between the period 1955 to 1969. Consociational democracy, according to Lijphart, has four major characteristics: (1) government by a grand coalition of the political leaders of all significant segments of a "plural society," wherein political divisions follow cleavages of a religious, ideological, linguistic, regional, cultural, racial, and ethnic nature. The other basic elements are (2) the mutual veto or concurrent majority principle, designed to protect vital minority interests; (3) proportionality as the principal standard of political representation, civil service appointments, and allocation of public funds; and (4) a high degree of autonomy for each segment to run its own internal affairs.

Lijphart writes that "the all-important consociational device of Malaysia is the Alliance." Clearly he considers the horizontal solidarity between the principal ethnic

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33 Lijphart, Democracy in Plural Societies, p. 25.

34 Lijphart, Democracy in Plural Societies, p. 151.
elites as the starting point of his analysis. Indeed, the Alliance functioned as a platform for political negotiations between the ethnic groups which were clearly separate or potentially hostile and contentious population segments. Significant ethnic compromise did emerge from semi-secret and 'off-the-record' negotiations conducted by ethnic leaders at the top of the hierarchy.  

While consociational democracy is a relevant conceptual and explanatory device, my endorsement of it as applied to Malaysia is less than complete. First, an important distinction may be drawn from the second principle in which all ethnic parties have a mutual veto on policy matters that relate to group interests. Clearly the Alliance was UMNO-led, with the MCA and MIC as minor partners. While their bargaining positions were stronger prior to 1970, this by no means diminishes the fact that the political position of the MCA and the MIC within the Alliance were not equal to that of the UMNO. From the very beginning of the formation of the Alliance, a policy process was emerging in which the UMNO was clearly the dominant decision-maker. After a decade

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35 In my interview with Datuk Lee Kim Sai, the Minister of Labour and Vice President of the MCA, he confirmed that the negotiation process within the Alliance is "give-and-take" and no formal votes are taken on policy issues. Interview August 1986. Gordon P. Means made a similar observation. See his Malaysian Politics, London: University of London Press, 1970, p. 124.
of independence, the Alliance as an organization, and the new Parliament, perhaps the principal arena for the expressions of the non-Malay viewpoints, enjoyed little influence on policy. The fact that UMNO-MCA-MIC convened a joint coalition decision-making committee had not diminished the fact that policy decisions emanated almost exclusively from the supreme council of the UMNO. Indeed, the demand of the MCA leadership led by Lim Chong Eu in 1958 for a relationship of equality among the three partners, and the strong reluctance of the MCA's rank-and-file to support the government's refusal to make the Chinese language an official language in the 1960s, were attributable in part to a protest against the MCA's powerlessness in the government.

The second, and in my view a more powerful, argument against consociationalism is the way the Alliance was formed. The birth of the UMNO-MCA Alliance was purely a coincidence. It was merely a temporary electoral agreement between the Selangor State branch of the MCA and the Kuala Lumpur branch of the UMNO in the 1952 Kuala Lumpur Municipal Council election. The Chairman of the Youth Section of MCA, Sim Mo Yu, was put on trial for his opposition of the government's language policy. The indictment against him was dropped later. According to him, his position had received wide support from MCA's rank-and-file. See Ho Khai Leong, "An Interview with Sim Mo Yu, President of the United Chinese School Teachers' Association, Federation of Malaya," Teachers' Journal, (in Chinese) October, 1975: 14-26.

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elections. The national leadership was not notified of the agreement until after the fact. In effect its formation was due more to political convenience at the local level rather than a deep commitment to communal compromise between the national Malay and Chinese leadership. Vasil commented:

Two facts about the formation of the Alliance deserve special mention. First, it was brought into existence by leaders of the UMNO, who were then strongly committed to the idea -- as expressed by UMNO's new president Tunku Abdul Rahman -- that Malaya is for the Malays and should not be governed by other races. It was not created by leaders of the Malays such as Dato Onn bin Jaafar, who believed that the future of Malaya could be ensured only through multi-racialism and a national political organization representing all the peoples of the land on an equal basis. Second, the Alliance was not the product of idealism or lofty principles. This pair of circumstances not only activated its formation but also affected the character of the Alliance during its entire existences. Expediency, rather than a profound commitment to non-communalism and multiracialism, guided Malaya's political hybrid from beginning to end.

Consequently, a comprehensive balance sheet on power, role in decision-making, and abilities of interest

articulation among these parties would produce a picture that would differ from Lijphart's perspective. It would be useful to think of consociationalism as a heuristic model, i.e. an abstraction from reality that does not exist, yet is useful in analysis.  

In arguing that consociationalism is better regarded as a heuristic model, I do not mean to imply that we should discard it altogether. Indeed, while the conceptual lens of consociationalism project too perfect a picture of Malaysian political realities, it does offer some insights for understanding the system. Judging from the various policy processes and ethnic configuration transformed from the Colonial Administrative State, the politics of quasi-consociationalism seems to be a more appropriate description. I would build on such a premise and observe that the state from 1955 to 1969 was quasi-consociational in nature. By calling the state quasi-consociational, I mean that the partnership was unequal, and cooperation was present but strained.

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1. Electoral Politics: the Alliance in Action

The original UMNO-MCA Alliance came into existence in the 1952 Kuala Lumpur municipal elections in response to the Dato Onn-led Independence of Malaya Party (IMP). The UMNO's cooperation with the MCA, in part, was due to its reliance on Chinese monetary support. With the UMNO's organization capacity and the MCA's financial base, the partnership won 9 of the 12 seats in the election. The IMP captured only two seats. Such an electoral success laid the foundation for the Alliance's cooperation in future election.


Besides these two major parties (Alliance and Party Negara), there were Pan-Malayan Islamic Party (11 candidates), Labour Party of Malaya (4 candidates), National Association of Perak (9 candidates), Perak Malay League (3 candidates), People's Progressive Party (2 candidates) and Independents (18 candidates). See Tinker, "Malayan Elections," p. 271.
and Party Negara, which was strongly pro-Malay, was complete.

Elections were held again in 1959 and 1964. The results of both elections were major victories for the Alliance. The 1959 election was held just two years after independence, and thus represented to the Alliance a referendum of the constitution contract of 1957. It won 74 of the 104 federal constituencies and held majorities in 9 out of 11 state assemblies. The Pan-Malayan Islamic Party (PMIP) had won 13 federal seats and control of the state legislatures of Kelantan and Trengganu. The Socialist Front (SF) carried 8 and the People's Progressive Party (PPP) 4 federal constituencies. 41

The 1964 election continued such electoral support for the UMNO-MCA-MIC Alliance. Two important events proved to have asserted tremendous weight on the election: the confrontation with Indonesia and the subsequent expulsion of Singapore. These two situations had enabled the Alliance to gain the support of the electorate. The election results

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showed that the Alliance had won again; it gained 15 seats in Parliament and 33 in the state legislatures.42

One indication of the realism of the UMNO-dominated coalition's quest for national unity in the nature of a quasi-consociational state was the allocation to the MCA and MIC of a substantial number of parliamentary and state seats in the elections. In 1955, the Chinese made up only 11% of the electorate (compared with Malay 84% and Indians 4%) during the election, although they numbered more than 40% of the population. Thus 28.8% of seats allocated seemed a fair compromise (In the Alliance, the total number of candidates were 52 -- UMNO 35, MCA 15, and MIC 2).43 The allocation of seats in the 1959 election indicated the same pattern.44 Other key policy decisions, such as the allowance for the growth of Chinese primary and secondary education, albeit severe restrictions placed on them, have had the


43Tinker, "Malayan Election," p. 27.

44Of a total of 104 candidates of the Alliance, the UMNO has 69, MCA 31, MIC 4. See Vasil, Communalism and the Political Process, p. 162.
effect of ameliorating potential opposition and displeasure of the Chinese community.

The support from the electorate seemed also to have ensured that the inter-ethnic bargaining process in the Alliance would be a successful endeavor. The three major ethnic parties that represented their communities had been, by and large, installed and functioned. They had attempted, especially during the period of the Emergency, to expand their activities to the rural areas. Their ability to use their regional base to influence the communities and at the same time work with the Colonial administration had enabled them to win their support. The election results provided the Alliance with confidence and thereby helped to strengthen the partnership.45

2. The Coalition of Ethnic Elites in Negotiations

Perhaps the most important clue of the Post-colonial Quasi-consociational State was the coalition of the three ethnic communities in the Alliance. Much of this coalition existed only at the elite level. Within the political organization of the UMNO, MCA, and MIC, the top elites had, albeit disagreements and conflict of interests, attempted to

cement a "horizontal solidarity" among themselves. They were mostly western-educated, conservative, strongly nationalistic, and deeply committed towards communal interests. They shared an experience that was unique in Malaysian political history. Decisions were made with the participation of these leaders, although their role in policy making might not be equally significant. By all account, the Alliance during the initial period of its association was more broadly based in terms of ethnic participatory decisions. Bargaining was an endemic element of government operations. In the words of one writer, it worked through "a process of asymmetrical political patronage, sentiments, consensus and accommodation."

The coalition of ethnic elites functioned at two levels of the bargaining process: internal and external. First was the internal bargaining among themselves. This happened, for example, in the negotiation of the Constitution in 1957.

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46 von Vorgs, Democracy without Consensus, p. 162.

47 The top elites were composed of Tunku Abdul Rahman, Tun Abdul Razak, Tun (Dr.) Ismail, Aziz bin Ishak, Abdul Mohammad Khir Johari, Abdul Rahman bin Talib, Abdul Ghafar bin Baba of UMNO, Tan Cheng Lock, H.S. Lee, Tun Tan Siew Sin, T.H. Tan, Ong Yoke Lin, Khaw Kai Boh, and Lim Swee An of the MCA, and all along Tun V.T. Sambanthan of the MIC.

Second was bargaining as a united group with an external entity. This was illustrated in 1957 when the UMNO-MCA-MIC Alliance claimed independence from the British.

Although the Constitution of 1957 was described as "the creature of compromise" and "consensus was its base," we know very little about how the compromise and consensus were reached, especially within the Alliance itself. We do know, however, that the Alliance leadership did negotiate intensely among themselves on the controversial issues of citizenship and special rights for the Malays long before the trip to London in 1956.

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50 An account of the bargaining process within the Alliance can be found in B.N. Cham, "The 'Racial Bargain' in West Malaysia", in Gordon Means (ed.) Development and Underdevelopment in Southeast Asia. Ottawa, Ontario: Canadian Society for Asian Studies, 1977: 198-217. However, very little details on how the compromise was reached were revealed.

51 Means wrote, "The recommendations of the Alliance Political Committee were preceded by five months of negotiations and discussions between the three communal associations affiliated under the Alliance banner. On the most controversial issues -- those involving communal interests -- the Alliance proposals represented compromises already agreed upon by leaders of the respective communal organizations in the Alliance." Means, Malaysian Politics, p. 173.
When the Alliance came face-to-face with the Constitutional Commission led by Lord Reid, it had an agreed proposal at hand. Initially, the Reid Commission had drafted a plan and attempted to initiate the form of constitution to strike a balance between the claims of indigenous and non-indigenous community. In doing so, it has seemingly granted favours to the non-Malays. Some of the Commission's proposals, however, were rejected during the negotiation process. Alternations were made later and significant concessions were made to the UMNO in areas of citizenship, Malay special rights, and the position and power of the Rulers.

The Constitution of 1957 signified a triumph of post-war Malay nationalism. Among the major features were: Malay would be the national language; Islam would be the state religion, while freedom of worship was guaranteed to all creeds; the Paramount Ruler was required to safeguard the special position of the Malays in respect of such matters as recruitment to the public service, award of government scholarships, Malay land reservations, and the grant of permits for certain types of business activity; the

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52 Ratnam, *Communalism and the Political Process*, p. 58.

citizenship qualifications were more relaxed. All children born in the Federation after independence would be citizens, i.e. *jus soli* was recognized but not retrospectively.

While the document was based on broader consultation than the Anglo-Malay agreement in 1948, it nevertheless revealed a major flaw in the negotiation structure among the ethnic elites: although the interests of the Chinese and Indians were given considerations, it was always the case that the Malays had distinctive advantage of results. On the one hand, dissents from the non-Malays within the Alliance were muted by the demands made by the powerful UMNO nationalists. The MCA and the MIC leadership, while adamant about reducing the communities to "second class citizens", in the end conceded to the provisions of Malay special rights in exchange for the granting of citizenship. On the other hand, oppositions coming from outside the Alliance were ignored.  

Thus the foundation of today's Malaysian Constitution was laid. Such a foundation gravitated not so much from a

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54 Victo Purcell wrote that constitution making process in 1956 and 1957 "revealed a large section of the Chinese in a far less conciliatory mood than that reflected by the Malayan Chinese Association. Agitation against the citizenship and language provisions of the constitution was also voiced by the Indians, the Eurasians, and the Straits Chinese British Association." Victor Purcell, "After Merdeka: The Constitutional Outlook in Malaya," *Parliamentary Affairs*, Vol. 10, No. 4 (August 1957), p. 393.
political center as they were forged from political opposites. A special emphasis was placed on "the special rights of the Malays" vis-a-vis "the legitimate interests of the other communities." In assigning such immense importance and significance to the Malayness of the political and social culture, it reinforced the notion of "Tanah Melayu," that the land belonged to the Malays only. In generating cultural and ethnic cleavages, it had encouraged ethnic political mobilization. It made race the prerequisite and the basis for intense national political competition, and so accentuated cultural insecurity. As one leading interpreter of Malayan Constitution put it, "Racial consciousness is heightened by the Constitution itself."

3. The Patterns of the Post-colonial Quasi-consociational State

The key feature of Malaysian politics from 1955 to 1969 was quasi-accommodation. The Malay political elites, by necessity or by choice, were more willing to accommodate and reconcile the interests of the non-Malays than after 1969.

55The phase "special positions of the Malays" and "legitimate interests of the other communities" first appeared in the Federation of Malaya Agreement, 1948. It reappeared again in the Constitution of the Federation of Malaya 1957, Article 153.

Despite their uncompromising and resolute grip of political power and inviolable privilege and special rights in the constitution, they sought cooperation with the non-Malays. In a relative sense, as we come to see later in Malaysian political development, the approach used for settling ethnic conflict and dissent by the ethnic elites were rather pragmatic. To the extent that policies had taken into account the interests of various ethnic groups, they had avoided bloodshed and violence, except for the period of the Malayan Communist insurgency.

In my view, the politics of quasi-accommodation during this period was due to two interrelated reasons: the pattern of decolonization; and the lack of a Malay administrative structure for implementing policies during a transitional period of political power.

Two crucial attributes of decolonization in Malaya were negotiation and election. The UMNO-dominated Alliance coalition did not come to power as a consequence of outright military victory, as in the case of Vietnam's and Indonesia's experiences in their struggle for independence, but, in an important part, as a result of negotiated arrangement, franchise, and election. To be sure, the approach of the UMNO in the Alliance coalition had always been to supplement discriminatory practices with negotiations, especially after 1957 when the major offensive was against the Communist insurgency movement. This is not
to say, however, that the Malay-biased Constitution was of secondary importance in the overall practical strategy. Tunku Abdul Rahman, then Chief Minister, would never have negotiated with the non-Malays, or made any concessions on citizenship, without the guaranteed provision of Malay special rights in the Constitution. Nonetheless, at the decisive moment, the Alliance coalition accession to power took a fairly democratic route. The British offered the Malayan leaders an electoral opportunity and they wisely took it. Indeed, open (except for the Communists), fair and all-party election (though there were actually only two major parties -- the Alliance and Party Negara) was a principal item in the demands made by the British colonial office throughout this period.

This process of decolonization, by ballot and not by the bullet, in part explains the style and approach of the UMNO-dominated Alliance coalition as a government in the post-colonial period. Instead of the politics of retribution and compartmentalization, Tunku Abdul Rahman initiated the politics of communal accommodation. During this period,

57 Tunku Abdul Rahman recalled the two important items during the period of negotiation, "First, we arrived at a definite conclusion that the special position of the Malays must be protected. Second, in return, we agreed that the other races should have citizenship rights based on the principle of "jus soli", as well as other safeguards for their interests." Tunku Abdul Rahman, Looking Back, Kuala Lumpur: Pustaka Antara, 1977, p. 59.
Tunku wrote, "By far the most important issue was achieving complete understanding between the three major elements of the Alliance -- UMNO, MCA and MIC -- the Malays, the Chinese and the Indians working in harmonious trinity, one for all and all for one. The goals should be harmony within each party and unity in the Alliance." With some exceptions he had resisted the temptation and pressure to treat his Malay supporters with priority, and other ethnic groups as the "vanquished." Instead, the Alliance government coalition in 1957 granted, in principal at least, fairly important Cabinet seats and senior posts in the state apparatus to political allies. In effect, the Tunku's personality facilitated the process of consensus and compromise. Once he had ascended to the Prime Ministership the Tunku attempted to chart a development course in which a balance was struck among diverse and competing interests. In this regard, the sentimentality which tied old political comrades together, which was lacking in the post-Tunku period, was extremely significant for the functioning of the consociational process.

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58 Tunku Abdul Rahman, Looking Back, p. 44.
A quasi-accommodating style of politics had been adopted also as a matter of choice. Beyond the internal constraints inherited from the British colonial administration in the government, Tunku Abdul Rahman acted voluntarily to embrace rather than exclude other ethnic parties. The appraisal of political currents within the country apparently led Tunku Abdul Rahman to deemphasize the UMNO's position for the purpose of forming a coalition government. Its alliance with the MIC was also for the latter purpose. In effect, the 1955 and 1957 elections was the success of the Alliance, rather than the UMNO alone.

A second reason is more negative. There was the lack of Malay bureaucratic establishment to carry out what the UMNO wanted. The acquisition of state power and bureaucratic apparatus by the UMNO was still incomplete after a few years of independence. Indeed, the UMNO-led coalition policies were tied by the structural constraints in the initial period of power consolidation. The Malays were involved in power accumulation and consolidation rather than power execution during and after independence. The exercise and implementation of political power to the Malays was at best rudimentary and nascent. Norman Parmer wrote at the eve of
Malayan independence: "What the Malays enjoyed was mostly political privilege and not political power."  

In negotiating to an end of colonial rule and to self-government, the UMNO elites, though not completely obliged to stick to the Constitution of 1957, had to a certain extent accepted a constitutional framework that was not entirely of its own design. The Constitution of 1957, while providing minimum protection of non-Malays rights, also entrenched safeguards to ensure the continuity (and thus British style) of the bureaucracy. The existing administrative machinery was protected by committing the Alliance government to continue the administrative service through the Malaysian Civil Service (MCS) which was at that time undergoing the Malayanization process. It was clear that the highly centralized bureaucracy served only the goals of the British Colonial Office. This arrangement in many ways did not provide the Malays with their own preferences for administrative purpose.  


organizational and implementation capacity of the British colonial state was in place, it by no means guaranteed the implementation of pro-Malay policies. Indeed, once transferred to the hands of the new government, its equivalence of implementing policies became questionable.\(^{62}\)

The immediate problem facing the government, therefore, was to move beyond the acquisition of mere legislative power and to gain full control of the administrative and coercive instruments of the state apparatus.

At the time of independence, the Alliance leadership constituted a thin veneer lying atop a largely untransformed state apparatus and bureaucracy in the British tradition. The cabinet of Tunku Abdul Rahman found itself in a delicate position because institutions wholly or partly controlled by the British-trained civil servants, or expatriates, were interposed between policy formulation and implementation. The British-trained civil servants occupied the same

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(Footnote Continued)

strategic posts as they had in the past, commanding a say in almost all policy decisions that affect the Federation.\textsuperscript{63}

At the same time, much attention was directed toward the Communist insurgency between 1945 and 1948 which drained much of the state's political, economic, and military resources. The development of an indigenous bureaucracy in a relative way was neglected.

Under such conditions it was questionable whether the UMNO-dominated coalition had the tactical mobility and strength to pursue policies that it fervently believed in. Without unequivocal control of the bureaucracy, in the Weberian notion at least, it was difficult for any government to guarantee the enforcement of its policies. In addition, during a period of regime transition, as this was the case, the time and attention of the leadership were diverted to the management of crises at the expense of policy initiatives.

Despite such challenges, the new Alliance government made considerable progress in consolidating its hold on power during the first few years in office. Perhaps the most striking achievement was the Malayanization of the civil service. By 1962, the Malayanization of the bureaucracy was

\textsuperscript{63}Tilman, "The Bureaucratic Legacy of Modern Malaya."
almost complete and was no doubt a success. The leaders in the UMNO were gaining an appreciation of the limits of governmental capacity in development and policy matters, and administrators began to comprehend and act upon the new policy instructions emanating from above.

At the same time, the UMNO had been able to assert its dominance in the Alliance and the Cabinet. On each occasion of policy decision, the UMNO leadership was able to agree on a strong course of action and to implement it relatively decisively. One example was the implementation of the Razak Report on Education in 1956 despite fervent Chinese opposition against the "ultimate objective" of making Malay the main medium of instruction (This will be discussed in more detail in Chapter VII).

How would one explain the dominance of the UMNO during this period? Part of the answer lies in the divisions among the Chinese community; part of it in the weakness of the Indians, lacking as they were in economic resources and political influence. Part of the explanation must be sought in the driving force of a highly integral, self-conscious Malay community whose impetus for power arose no less from self-confidence in its own values and its own approach to a vastly complicated situation than from its fear of

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submergence either by western liberalism from the British, or by the numbers of non-Malays within the country.

On balance, the structure that constituted the essence of the Post-colonial Quasi-consociational State was the UMNO-dominated Alliance. The inter-ethnic coalition had passed through the constitution-making period and popular elections, but the acquisition of state power, political as well as economic, by the UMNO remained an item of unfinished business.

C. Conclusion

A sketch of the nature of the Colonial Administrative State and the Post-colonial Quasi-consociational State suggests the profound influence of the British colonizers and the ethnic heterogeneity of the Malaysian society in shaping the political patterns of the Malaysian state. Bureaucratic and ethnic structures were legacies of colonial rule, under which the British incumbents had been the dominant class for almost half a century. The state in post-colonial Malaya was characterized by the politics of pluralism and quasi-accommodation, in which the coalition of ethnic elites at best was quasi-consociational.
CHAPTER II

THE ECONOMY OF PRE-1970 PENINSULAR MALAYSIA:

COLONIAL ECONOMY AND DEVELOPMENT PLANNING

"The general policy of the British advisers has been ... to attract capital -- European, Chinese and others; to encourage the immigration of Chinese, Indian and other labourers; to assist the development of the mineral and agricultural resources of the States by making roads whenever the necessity for them was apparent, by constructing railways, by works of drainage and irrigation; by establishing security for life and property; by constructing Courts of Justice, by opening free hospitals and schools, by giving good titles to lands and by abolishing import duties (except opium and spirit) and all restraints on trade, commerce and industry."

-- W.H. Treacher¹
Acting Resident-General of FMS (1900)

"The proposed programmes will, in the course of time, transform the Federation and particularly the rural sector, into a more progressive economy providing the ra'ayat with a higher level of living and also lay the foundation for further and stable economic growth."

-- Second Five-Year Plan, 1961-1965²

This chapter continues to outline the two historical state patterns in pre-1970 Peninsular Malaysia focusing on


the characteristics of the economy and the economic management by the British colonial administration and the post-independence Alliance government. In particular, attention will be called to the economic policies of the Colonial Administrative State and the Post-colonial Quasi-consociational State, policies which, since they included different kinds of activity in the two periods and have been prompted by very different motives, have defined the contrast between them.

Like Chapter I, this chapter is intended to provide a general background and a prologue to the discussion of the post-1970 political economy. Since it is impossible to examine every aspect of the Malayan economy in one single chapter, only a certain component of the economic policy is treated here. Analysis is largely confined to the state's economic policies, strategies, and activities that bear relevance to the general argument of this thesis.

I would like to make two specific observations. First, the British colonial state participation in the economy was instrumental in determining the direction and nature of foreign private enterprise, the scope and location of infrastructure construction, and the environment and development of immigrant labor in the Peninsula. The execution of these policies had encouraged the exploitation of the export sector, uneven development of regions, and division of occupational activities along ethnic lines.
Second, the planning process and the plans' objectives in the pre-1970 period displayed the UMNO elites' aspiration and potential capability to take control of the economic agenda. They also signified a change in planning design from a fiscal management perspective to a more development-oriented approach. These plans, however, did not provide a momentous break from the policies of the colonial state, nor were they designed to tackle the problem of the redistribution of economic wealth between the ethnic communities. In general, they embodied the seed of Malay economic nationalism and were indicative of future policies.

A. Basic Characteristics of the Colonial Economy

A description of the characteristics of the Malayan colonial economy is critical to understanding the Colonial Administrative State economic policies, the strategies of development plans of the Alliance government, and the emergence of the New Economic Policy in 1970. Therefore they need to be outlined in more detail.

The first notable characteristic of the Malayan colonial economy is its dependence on primary products, primarily tin and rubber. In the 1930s, Malayan rubber production accounted for more than 50% of total world output, and Malayan tin mines yielded roughly one-third of
the total world production. The dependence upon the world market of these two standard items also meant a volatile and unstable economy. This was made forcefully clear after the breakdown of the Stevenson Restriction Scheme in 1928 and the Depression years from 1929 to 1932 when rubber and tin prices collapsed. Such an effect on the Malayan economy was catastrophic. Employment, income, and government revenue were seriously jeopardized. At the same time, the problem created from competition of synthetic rubber was equally serious. While efforts were made to diversify from these products and to establish an industrial base, it did not come until the 60s. In effect, the Malayan colonial economy was predominately agricultural in nature and the country was a "typical" underdeveloped country having been a tin and rubber exporter for almost half a century, and was characterized by instability and income fluctuation.

A second seldom stressed characteristic that made for the specificity of the Malayan colonial economy was its relative dependence on foreign capital. Indeed for a long period, British, American, Dutch, French, and Japanese capital supplied the deficiencies of indigenous private enterprise. It was also evident that large scale foreign

monopolies, especially British capital, had infiltrated into development of rubber, mining, banking, manufacturing industries, shipping, and public utilities in Malaya.4 These foreign investments were highly concentrated in the exporting sectors. In 1937, rubber accounted for 52% of the total investment; and tin accounted for 13%.5 The British contribution in this area was considerable; it contributed 70% of the total business investment.6 By 1953, the foreign share in the economy became even greater. In the rubber-planting industry, European companies owned 1.6 million acres of rubber estate land, or 83% of the total 1.91 million acres.7 In 1954, European mines produced 62% of total Malayan tin output, compared to 38% by Chinese-owned mines.8

Apart from foreign investment, Chinese business capital was also significant. In 1937, Chinese business investment was estimated at US$200 million. A major share of these

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6Callis, Foreign Capital in Southeast Asia, p. 52.
investments were in tin mines. It was estimated that 64% of the total tin mines were owned by Chinese in 1920. However, the figure declined to 33% in 1938 due to increase competition from the European dredge mining technique.\footnote{Victor Purcell, \textit{Chinese in Malaya}, 1948.}

The third characteristic is associated with the labor situation. The Malayan colonial economy was functionally connected to the utilization of immigrant labor. The rapid increase in world market prices for rubber and tin in the late nineteenth and early twentieth centuries led to expanded foreign investments in export production. Foreign capital with the compliance of the colonial state organized massive recruitment campaigns to obtain low-cost labor required to meet high production schedules. While immigrants from China and India were already actively streaming into the Peninsula, the recruitment efforts of colonial administration brought an even greater number.

One particular feature of demographic change was reflected in occupation activities of the immigrants and indigenous population. Table 2 shows the distribution of the three ethnic groups in major industries in 1947.
Table 2  Malaya: Distribution of Ethnic Groups in Major Industries, 1947

<table>
<thead>
<tr>
<th>Industries</th>
<th>Total (Thousand)</th>
<th>Malays (%)</th>
<th>Chinese (%)</th>
<th>Indians (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>889.3</td>
<td>57</td>
<td>30</td>
<td>12</td>
</tr>
<tr>
<td>Peasant (including padi)</td>
<td>508.3</td>
<td>70</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>Padi</td>
<td>333.2</td>
<td>88</td>
<td>10</td>
<td>*</td>
</tr>
<tr>
<td>Plantation</td>
<td>381.0</td>
<td>39</td>
<td>33</td>
<td>27</td>
</tr>
<tr>
<td>Mining</td>
<td>39.4</td>
<td>14</td>
<td>71</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing, construction, utilities</td>
<td>124.8</td>
<td>19</td>
<td>70</td>
<td>6</td>
</tr>
<tr>
<td>Tertiary</td>
<td>407.2</td>
<td>27</td>
<td>48</td>
<td>23</td>
</tr>
<tr>
<td>Government</td>
<td>104.9</td>
<td>54</td>
<td>11</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>1,461.7</td>
<td>44</td>
<td>40</td>
<td>15</td>
</tr>
</tbody>
</table>

Note: * negligible


Indeed, major specialization of functions were along ethnic lines. Most of the population was in the agricultural sector, a majority were Malay (57%). The Malays were least likely to be in the tin-mining and manufacturing sectors, which were predominantly Chinese (71% and 70% respectively). While the Indians showed a more even distribution, they were most conspicuous in plantations (27%) and the public sector (30%).

In short, the Malayan economy at that time was a trade-oriented economy specializing in the export of rubber and tin. At the same time, it was dependent on external sources for essential foodstuffs and manufactured goods. These characteristics of the colonial economy carried
significance for the colonial state administration for two reasons. First, they were partly the results of British economic policies. Second, they also partly constituted the general motive and prevalent causes of British economic policies.

B. Economic Policies of the Colonial Administrative State: Private Enterprise, the State, and Labor Policy

The development of the Malayan economy was largely a function of British Colonial Administrative State interests, and it was clear where these interests lay. Commercial motives loomed first and foremost in the early British penetration of the Malay Peninsula. Hence, they saw little reason to develop Malaya except for the extraction of raw materials, primarily tin resources, for her industrial development. Therefore in the very early period of British colonial rule, British economic policies in terms of development in a strict and narrow sense did not exist. Comparatively, the work of immigrant labor seemed to play a more significant role.10 The quotation by W.H. Treacher in

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10 As Swetteham pointed out, "Up to the year 1900 it may be fairly said that the prosperity of the Malay States was due to the enterprise and labour of the Chinese ... the progress made in development was due to local effort and Asiastic capital." F.A. Swetteham, British Malaya: An Account of the Origin and Progress of British Influence in Malaya, London: Allen and Unwin, 1948, p. 351.
the beginning of the chapter provides a good guideline of British policy during this period. In effect, the Malayan economy was largely left to its internal logic of development.

In the later period, however, this disposition changed. When the Colonial Office had a firmer grip on political control of the Peninsula, it began to influence the course of economic development. State economic policies in colonial Malaya can be broadly classified into three more or less distinct areas.

First, the colonial state economic policy allowed private venture and foreign capital to go forth and prosper. The British colonists brought with them a capitalist system and an ideological persuasion that favored private enterprise. The colonial state essentially practiced a hands-off approach which allocated tremendous autonomy in trade and commerce for foreign capital.\footnote{Allen and Dornnithorne observed: "The government has no direct part in economic activity. It provided an arena in which private enterprise could work unhampered (or unassisted) by official direction and guidance." Allen and Dornnithorne, \textit{Western Enterprise}, p. 43. Roger Freeman also made a similar observation and argued that the economic structure of post-war Malaya was largely that of free enterprise. See Roger A. Freeman, \textit{Socialism and Private Enterprise in Equatorial Asia: The Case of Malaysia and Indonesia}, Stanford, California: Stanford University Press, 1968.}
A distinction can be made here between private and state investments. The fact was that 80% of the total investment was private investment. Most of these investments were made by large monopolies, merchant and managing-agencies that included such firms like Guthrie and Company Limited, Harrisons and Crosfield, and Sime Darby. The state investments were mainly in public utilities, and the participation of the state in productive and commercial activities as minimal.

Such a policy, however, had its other side. Since the colonial state administration had wide discretionary powers, one of the objectives was to ensure the whole economic purpose of colonization. Policies were also designed to encourage investments in specific branches of production in the Peninsula. The colonial bureaucracy employed policies designed to create conditions that would encourage the development of primary export production and to manage a trading system that would ensure private favored access to colonial markets. Provisions of infrastructure services, agricultural extension and research, and control over the legal framework of marketing and production were within this

12 Callins, Foreign Capital in Southeast Asia, p. 50.
policy periphery. Clearly British colonial administration provided an imperative for the stimulation of investment in export production. Hence, in an important way, the colonial economic policies were instrumental in the determination of the scope, direction, and profitability of specific industries or groups of related industries. Indeed, from the point of view of private capital, the actions of the colonial state and private business were not separate fields of activities, but complementary parts of a single imperial scheme.

Second, the Colonial Administration State organized the planning, construction, and maintenance of physical infrastructure projects such as railways, harbors, and ports, and other transportation facilities, in addition to water and land improvement and related public development programs. The mode of transportation was largely confined to the development of railroads, with revenues from tin, to connect the inland mining centers with the seaports. Indeed, the state's interest in infrastructure construction was mainly confined to linking main economic centers where tin-mining was the main economic activity. This meant the development of the western half of the Malay Peninsula that included states like Selangor, Perak, and Negri Sembilan. Thus private investments in mining and rubber-planting generally determined the purpose, location, scale and degree of flexibility of railroads, ports, roads, communications
and power facilities. In effect, these infrastructure facilities were available to foreign capital as a whole, and to specific large-scale industries engaged in the exploitation of natural resources for export.

At the same time, the Colonial Administrative State was engaged in various initiatives to provide various forms of public overhead capital and institutions. The Department of Agriculture and the Mines Department were set up to provide a framework for resource management. Regulations and labor codes were also introduced. Official efforts to create these basic economic institution can be interpreted as attempts to provide a prerequisite for state-directed capital accumulation.

Finally, the Colonial Administrative State had a labor policy that was based principally on the recruitment and utilization of immigrant labor. The state-administered system of immigrant labor enabled foreign employers -- monopoly and non-monopoly alike -- to acquire sufficient quantities of labor at a low cost. In the main, young men in the prime of life from China and India were recruited to work for a designated duration in the European mines and plantations.

In effect, the colonial state was engaged in the concerted effort to divide the immigrants and indigenous population in terms of economic functions. There was the autocratic desire on the part of the British colonists to
preserve the Malays as peasants and fishermen. While a large number of Chinese were already engaged in tin-mining and manufacturing even before the advent of the British, additional labor was recruited to work in other economic areas. Meanwhile Indian labor was imported to work predominantly in European-owned rubber plantations. Indeed, the colonial state administration was largely instrumental in imposing the ethnic division of labor. Such a state's policy could be regarded as a political as well as an economic policy maneuver.

This basic stance of the colonial state was reinforced by an education policy toward the Malays and the immigrant communities. From the point of view of the colonial state, the aim of education for the Malays was not to turn out skilled artisans for the industrial sector or to compete in an open labor market, but to ensure that they remained in their traditional role as peasants and fishermen.

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16 Two excellent studies on British education policy in (Footnote Continued)
educational practices were not solely a matter of colonial governmental policy. They had their root in the prejudices and the social beliefs of the British bureaucrats governing the country.\textsuperscript{17} The education of the immigrant communities was largely left to their own capabilities for finance as well as teacher training and recruitment.

These three areas of colonial state economic policies certainly do not exhaust the wide range of significant instances of state participation in colonial economic activities. Towards the beginning of the 50s, the colonial state attempted public finance management in the Draft Development Plan (DDP) of 1950-53.\textsuperscript{18} Whatever the combination of policies practiced, the period of colonial rule can claim a substantial accomplishment in expanding the export economies of the Peninsula. An impressive growth in export volume and value has been recorded in the twentieth century.


century, the only serious interruption occurred during the years of the Great Depression. At the same time, however, this primary process of economic change brought about by the inauguration of export activity and ethnic division of labor had juxtaposed two contrasting types of economic undertakings. One was a commercial and exploitative economy, largely introduced by the outsiders, and the other, the traditional peasant economic system of the indigenous people. This has enormous significance for the economic development plans and race relations in the country.

C. Basic Characteristics of the Post-independence Malayan Economy: Continuity and Change

The general argument that has often been made that the character of the post-independence Malayan economy was largely an outgrowth of development during the colonial period. While the economic strategies and performance had been affected subsequently by political events, both internal and external, the basic character of the Malayan


The economy remained remarkably similar to the colonial pre-independence period.

Such an argument may be supported by factual evidence. A comparison of economic indicators of 1947-50 and 1961-65 illustrate the point. In 1947-50, rubber and tin were reported to have accounted for about 83% of the gross export. In 1969, the situation did not change very much. Rubber and tin still made up 75% of the gross export. The fact that exports were not diversified, relying on tin and rubber, meant that the growth of the Malayan economy and the size of the government budget were almost entirely dependent on the price fluctuations of two commodities on the world market.

As for foreign investment and ownership, the situation did not change very much either. After two decades of independence, foreign investment and capital still dominated the Malayan economy. As late as 1970 foreign ownership made up as much as 61% of the capital in the Malaysian economy. Foreign capital ownership was highest in modern agriculture (75.4%) and mining (72.5%), which together made up the major export sectors. Similarly, the export trade was dominated by foreign capital as can be seen from the figure for wholesale trade.

trade (70.1%). In the financial and manufacturing sectors, more than half was controlled by foreign capital. Only in two areas, transport and construction, had the local ownership exceeded foreign capital.  

The third characteristic of the post-independence economy associated closely with the colonial economy was the inequality of income within and among ethnic groups. At the time of independence in 1957, income inequality within ethnic group was most serious in the case of the Chinese. However, the comparison that bears the most significance is the income inequality between ethnic groups. Between 1957-70, the Malay appeared to be worse off compared to Chinese and Indians.

Another indicator of income inequality is the size of the household income. In 1957, Malays had the lowest mean income of $140, compared to Chinese $302, and Indian $243. By 1970, Malay households still had the lowest mean income and Chinese mean income was almost twice that of the Malay.

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However, among the three ethnic groups, the Malay enjoyed the highest rate of increase.\textsuperscript{24}

In short, the study by Snodgrass showed that the distribution of wealth and income was highly disproportionate among the Malays, Chinese and Indian communities during the eve of independence and after.\textsuperscript{25}

There seemed to be a direct link between income and occupational activities; higher income groups were generally urban households who were engaged in non-agricultural employment. While the connection of income inequality with the legacy of the colonial policy was perhaps less direct, the impact of the divide-and-rule policy was certainly present.

Malaya's situation in the post-independence period was thus ironical: an economy that had a relatively high external reliance on the international economy and was

\textsuperscript{24}\textsuperscript{24}Snodgrass, "Trends and Patterns," p. 264.

juxtaposed internally with high dependencies on foreign capital. Ironically too, the Malay peasants in rural areas were among the poorest when Malay political power was being attained and consolidated. These two situations appeared to be a major force behind the motives for development planning. The prevailing belief during the postwar period and the experience of the Soviet Union that planning can be used as a way to redress such important economic problems provided the Alliance government a rationale to use such planning strategies further to redress unevenness and imbalance in the economy.

To summarize, the structure of the Malayan economy was based on primary commodities at the eve of independence, and this characteristic remained largely intact in the period 1957-70, although efforts were made to industrialize and diversify economic activities. It has the features of most peripheral underdeveloped countries. Independence was achieved one decade after most Southeast Asian countries, and the extra years of colonial rule resulted in, to a certain extent, substantial structural stagnation and labor segregation in the economy. The cost of this stagnation and failure amid rapid modernization was already manifested in the marked disparities between urban living standards and the subsistence levels pertaining in certain rural areas, indeed between non-Malays and Malays.
D. Economic Policies of the Quasi-consociational State: Planning, Development, and Ethnicity

This no doubt presented a challenge for transition to the post-1957 Alliance government in the form of unfamiliar economic opportunities and constraints. The experiences of other Southeast Asian governments, except insofar as they pointed to initiatives and pitfalls, offered few models relevant to the Malayan case.\(^26\) The new Alliance leadership, after a prolonged period of political exchange, was faced with a unique situation of pluralistic interests in a quasi-consociational democracy that required a unique strategy of economic development. At a general level, the challenge differed from other Southeast Asian governments which were concerned with bringing about socialism (as in Indonesia) and revolutionary strategies (as in Vietnam). In Malaya, the issue was how to expand production, redistribute opportunities, and reduce inequalities, thereby convert the colonial economy into a planned development process to the benefit of groups in the Malayan plural society who had hitherto been excluded.

When independence came in 1957, the principal focus was on the writing of the constitution and the building of the

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political system. While economic issues were stressed emphatically, they were not given as high a priority. At the outset, there was an implicit understanding between the British government and the Malayan leaders that the Malayan economic system would continue with the capitalist system inherited from the British colonial state. Though a party of nationalist Malays, the UMNO articulated a clear preference for market economy. At the same time some of its policy statements during the pre-independence period hinted at a greater governmental involvement in improving the plight of the Malay economic position. This policy direction, however, became more apparent only after the Alliance was in power. Whatever the philosophical position behind its policy, as a government, the Alliance coalition had inherited, and had to operate, a colonial economy with specialization in the production and processing of primary commodities.

The desire and need to take command and control of the economy was apparent. Policy choices had to be made, and indeed they were, slowly but surely. Between the period 1956-1970, there were three five-year plans. These are the First Malaya Plan, 1956-1960, the Second Five-Year Plan, 1961-1965, and the First Malaysia Plan, 1966-1970. These plans, by and large, signified the government's attempt to

27 Rudner, Nationalism, Planning, and Economic Modernization, p. 25.
"Malayanise" the economic process. The goals of the government inadvertently proceeded from "order to economic or development goals."

The First Malaya Plan, which was based on the recommendations of the International Bank for Reconstruction and Development (IBRD), showed major continuity of the colonial economic policy. The Malayan leaders at that time were not free to depart radically from British policy, but within the limit of their autonomy, they worked to increase the state's economic role. While this plan was in place, the specific policy directions of the UMNO-led Alliance coalition took some time to crystallize. This, in effect, enabled the weight of the colonial economic system and the supporting political interests to be felt.

The main objectives of the First Malaya Plan were so general as to be politically meaningless: to generate more revenue for the government and to provide employment for the

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28 Martin Rudner observes that "these relatively unsophisticated planning instruments marked the beginnings of a process of Malayanization of the country's hitherto colonial economy." See Rudner, Nationalism, Planning and Economic Modernization, p. 5.


adult population. The Plan states the principal objective of public policy must be to increase income, output and wealth which would result in more revenue for the government for the general purpose of development. Education, health, or social welfare issues were not given prominence. However, as a first major state document, it made two important recommendations. First, social overhead expenditure should be concentrated on the non-export, rural sector of the economy. Second, there should be a rehabilitation of the rubber replanting program. 31

Political control of the planning process was more evident in the Second Five-Year Plan and the First Malaysia Plan. In 1959 when the Second Five-Year Plan was contemplated, the Alliance-directed Central Working Committee, now had replaced the Economic Secretariat and the Economic Committee of the Executive Council led by an British expatriate official in the First Malaya Plan. The replacement of colonial officials with a local political management team represented a leap in the nationalist sentiments of the Malayan leaders.

The objectives of these plans inevitably exhibited political motives. As they coincided with the attainment of independence, they had displayed sensitivities towards

local constituent needs. This was possible as the Alliance became increasingly confident by its election victories and began to exert the political power that it had. One of the consequences of the movement to political independence was that many of the formal constraints on domestic economic policy implied by colonial administration had been and were being removed. The Alliance government had a wider range of discretionary policy instruments at its disposal than were available to its colonial predecessors; it had a greater degree of autonomy in monetary and fiscal affairs and more maneuverability in trade and commercial policy. Furthermore, the structural constraints of the bureaucracy, a serious stumbling block for Alliance policy implementation, had begun to melt down due to the effort of Malayanization. In an important sense, the Malayanization of economic planning by Malayan leaders began only with the Second Five-Year Plan.

These plans were more polished documents in that policy direction and options were outlined in more detail. They represented a shift of objective as well as orientation. A development-oriented objective was stated explicitly, and these plans were no longer preoccupied with the issue of fiscal management.\(^{32}\)

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\(^{32}\)Rudner, *Nationalism, Planning, and Economic* (Footnote Continued)
While the overall objective of these two plans was expected, their specific policy recommendations were cast in a more pragmatic and development orientation. Apart from the continued emphasis on the raising of per capita output of the economy and the provision of employment, the Second Five-Year Plan also expressed concern for the improvement of the economic and social well-being of the rural population through the provision of facilities and opportunities. The First Malaysia Plan advanced these objectives further. Four strategies are noted in these two plans: (i) a faster rate of economic growth, (ii) a lower level of unemployment, (iii) greater economic stability, and (iv) a more equitable distribution of income and wealth for the rural population.

A review of policy decisions of these documents reveals several elements in the developing planning strategy of the Alliance government. Four principles can be discerned: (i) to dichotomize the Malay and non-Malay communities; (ii) to increase efforts in rural development; (iii) to expand production, and (iv) to increase the use of public expenditure and public agencies.

(Footnote Continued)
Modernization.

33It was to improve the economic environment in the country so that "Malaysians from all walks of life" could enjoy the benefits of economic and social development. First Malaysia Plan, 1966-1970, p. 2.
1. Malay/non-Malay Dichotomy

Efforts were made to address the basic issues of economic disparities in terms of race which were already apparent during that particular period of historical development. The first step had already been taken in the Constitution of 1957 where a dichotomy between the "special rights of the Malays" and the "legitimate interests of the other communities" was established. The former had a quota for employment and education for the Malays. The only grievance for the Malays was that their economic position was still far behind. A second step was a dichotomy of Malays and non-Malays in the economic arena. In effect, Malays and non-Malays were officially divided not only as different racial groups, but also in economic terms. Although the dichotomies seemed almost naive in their simplicity from the vantage point of the New Economic Policy in post-1970 period, they represented the beginning of a long process of Malay economic nationalism.

What is remarkable given the political climate of fervent Malay nationalism during this period is that references to Malay and non-Malay in these documents were couched in quite a mild language. The closest, and deliberately vague, reference to the Malay in these three
plans were phases like "the rural population"\textsuperscript{34} and "Malaysia's rural inhabitants."\textsuperscript{35} While it was clear rural-urban schism referred to inter-ethnic dichotomy, the impression was that the concerns of policy-makers were with the general health of the economy and how it would effect the general population as a whole.

The issue of income inequality and ownership between the different ethnic communities was molded in these vague terminologies. Special efforts would be made for rural development which was supposed to bring about the rise in the standard of living of the rural inhabitants, while urban development would not be neglected.

This situation was paradoxical. While the special political position of the Malays was explicitly stated, their participation and share in the economy were not as clear. One reason was that the UMNO elites had to be very scrupulous in not encroaching on the Chinese share of the economy which was the unwritten understanding in the political bargain of 1957. The fact was that despite the desire of the UMNO leaders to improve the economic health of the Malays, they had not found an effective strategy to achieve this end. The opposition to the Malayan Union and

\textsuperscript{34} Second Five-Year Plan, 1961-1965, p. 16.

\textsuperscript{35} First Malaysia Plan, 1966-1970, p. 2.
the subsequent struggle for their political rights had more or less exhausted their energy during this period.

This is not to suggest, however, that Malay economic nationalism emerged only with the formulation of the New Economic Policy. Way back in 1946 the UMNO had already expressed its concern about the lack of Malay businessmen. Its pressure on the colonial state produced a decision which grant special privileges to the Malays in the acquisition of licences for businesses. The Rural and Industrial Development Authority (RIDA) was started largely because of UMNO pressure. The Bumiputra Economic Congresses in 1965 and 1968 saw the creation of Bank Bumiputra and MARA to spearhead the growth of Malay businesses. The Federal Land Development Authority (FELDA) was set up to alleviate the problem of Malay landlessness; the Federal Agricultural Marketing Authority (FAMA) was created in 1965 to improve agricultural marketing to get rid of the pervasive influence of middle-men. In swift succession the Malaysian Agricultural Research Institute (MARDI) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA) followed.

2. Rural Development

One of the most distinguished development strategies of these plans is the effort on rural development. Although the efforts on rural development did not start with the
First Malaya Plan, they were significantly intensified. Since for the Alliance government the rural sector meant the Malay peasantry, this course of action had enormous significance for ethnic differentiation. The state intervention in the rural areas was the cutting edge of experiments in structural reform, and the success or failure of introducing communal or collective production for some generalized attempts at statist transformation.

The Alliance government cleared the ground for the development of the rural sector in the first three plans. In particular, resolution of the problem of rural development was declared to be central to the government's policy. Efforts began with the establishment of the Rural and Industrial Development Authority (RIDA) in 1950. It was designed to undertake the task of promoting the welfare of Malay small-holders, with particular emphasis on agricultural credit, inputs, and markets, as well as on education and health facilities.

Table 3 Peninsular Malaysia: Rural Development Expenditure, 1955-1970

<table>
<thead>
<tr>
<th></th>
<th>First Plan 1956-60</th>
<th>Second Plan 1961-65</th>
<th>First Malaysia Plan 1966-70</th>
<th>Total 1956-70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$Million (%)</td>
<td>$Million (%)</td>
<td>$Million (%)</td>
<td>$Million (%)</td>
</tr>
<tr>
<td>Total Development</td>
<td>964.0 (100%)</td>
<td>2,344.4 (100%)</td>
<td>2,210.8 (100%)</td>
<td>5,519.20 (100%)</td>
</tr>
<tr>
<td>Agricultural Development</td>
<td>227.5 (23.6%)</td>
<td>411.1 (17.5%)</td>
<td>1,570.0 (71.0%)</td>
<td>2,209.46 (40%)</td>
</tr>
<tr>
<td>Drainage and irrigation</td>
<td>38.8 (3.9%)</td>
<td>108.5 (4.6%)</td>
<td>328.5 (14.8%)</td>
<td>475.3 (8.6%)</td>
</tr>
<tr>
<td>Federal Land Development</td>
<td>16.8 (1.7%)</td>
<td>129.8 (5.5%)</td>
<td>393.0 (17.8%)</td>
<td>539.5 (9.7%)</td>
</tr>
</tbody>
</table>


Another indication was the size of the development fund allocation for this sector. Table 3 shows the rural development expenditure of the three plans. The percentage allocated for rural development in the three categories had increased over time. Agricultural development had increased from 23.6% in the First Malaya Plan to 71% in the First Malaysia Plan. Drainage and irrigation registered a 100% increased in real dollars. Perhaps the most ambitious project was the Federal Land Development Authority Scheme.
(FELDA), organized in 1956. It had an allocation of $393 million during 1966-70 compared to only $16.8 million in the 1956-60 period.

3. Expanding Production

In order to quickly restore growth to the economy and provide surplus for redistributive measures, the Alliance government decided that existing and new enterprises in all sectors were to be encouraged to boost output. The Second Five-Year Plan states this primary objective with clarity: "to raise the per-capita output of the economy and to protect per-capita living standards against the adverse effects of a possible decline in rubber prices," estimated for the next decades at about 4 percent per annum in real terms. The approach was both to capitalize on the productive strength, and the employment generating and export-earning capacities of proven economic activities in the rubber-planting and tin-mining industries.

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time, it aimed at redirecting productive investments into neglected areas such as manufacturing industries. The stance of the Alliance government towards agriculture was a good example of this ambidextrous approach: farmers were encouraged to increase the agricultural production for national self-sufficiency and export, while simultaneously plans were made and resources sought to improve the low productivity and low income per capita of rural inhabitants.

In addition, the Alliance government attempted to provide explicit signals to foreign and domestic investors that there was a role for private capital in Malayan development, especially in the manufacturing sector. "For the future, the importance of manufacturing to the Federation's long-run development and economic diversification can hardly be over-emphasized. It is the policy of the Government to rely on private initiative for this development, but at the same time to encourage the growth of private industry through every reasonable means of assistance, consistent with the general interest."\(^{41}\)

In sum, the intention was that the form of the modern capitalist sector should be coupled with a statist approach. The economy, therefore, was structured by nationalist and statist pressures. The hope was to provide full employment

that was the key to social equity and political stability, as well as the economic surplus for public investments in the rural sector.

4. Increased use of Public Expenditure and Public Agencies

How did the Alliance government manage to reach these stated objectives of rural development and expansion of production? The answer lies in the increase in public expenditure. The Alliance government had shown its willingness to back up its philosophy with the use of the public budget as an instrument of resource redistribution. Table 4 shows the total public expenditure in these three plans.

Table 4  Malaysia: Public Expenditures for Five Year Plans, 1956-70
( $millions)

<table>
<thead>
<tr>
<th>Five Year Plan</th>
<th>Expenditure</th>
<th>Cumulative GNP at Current Market % of GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Five-Year Plan</td>
<td>$1,007.0</td>
<td>N.A.</td>
</tr>
<tr>
<td>Second Five-Year Plan</td>
<td>3,108.7</td>
<td>32,224</td>
</tr>
<tr>
<td>First Malaysia Plan</td>
<td>4,242.4</td>
<td>43,426</td>
</tr>
</tbody>
</table>

Note: Figure of First Five-Year Plan is for Malaya only.

Sources: First Malaysia Plan, Table 2-6 and 4-1; and Second Malaysia Plan, Table 5-1. Cumulative GNP obtained from Economic Report, 73/74, p. 84.

Over the period of the first three national economic plans, public investments increased more than four fold. The total expenditure as percentage of GNP was maintained at
around 10% in the Second Five-Year Plan and the First Malaysia Plan. The highest priority of the First Five-Year Plan went to the promotion of existing major export commodities of rubber and tin, and to agricultural development. The next items were housing and education. In the Second Five-Year Plan and the First Malaysia Plan, the emphasis shifted to economic diversification, to modernization of sections that were relatively undeveloped, and to redistributive programs designed to benefit the poor in the society.

At the same time, perhaps more significant, there has been a substantial shift in allocation from the private to the public sectors. Instead of placing such heavy emphasis on programs designed to induce private and foreign investments, the plans placed increasing reliance on public corporations to initiate new economic ventures and to promote national economic development in accordance with the targets set by the government.

One of the strategies was the establishment of public agencies/corporations. The Rural and Industrial Development Authority (RIDA) was reorganized in 1966 and renamed Majlis Amanah Ra'ayat (MARA, Council of Trust for the Indigenous People). Its functions were expanded to spearhead a major effort to promote Malay participation in commerce and industry. Other corporations were also set up with public funds to engage in industrial, commercial and banking
activities in order to promote Malay ownership and participation in these fields. Prominent examples were the National Corporation (PERNAS), the Urban Development Authority (UDA), Malaysia Industrial Development Authority (MIDA), Komplex Kewangan, and State Economic and Development Corporations (SEDCs). Thus, the expanded role of the government in the economy has been matched by the proliferation of agencies in economic ventures particularly in the more dynamic sectors of the economy.

The objectives and achievements of the Second Five-Year Plan and First Malaysia Plan reflected the political strength, and the limit, of the Bumiputera elites. The quasi-consociational patterns of these plans were remarkably similar to the political patterns of the period under review. But while the Malay elites were consolidating political power and increasingly confident in using it, similar signs of Malay confidence began to emerge in the economic arena.

This phenomenon illustrates a major dilemma inherent in the politics of quasi-consociationalism. It points to the difficulty of achieving a development strategy that satisfies all interests. Inequality between ethnic groups necessitated an expensive public spending program in rural development. At the same time, however, the capacity of the government to raise revenue is curbed by the need to
cultivate investor confidence in the economy. There are limits to which tax revenues can be levied from domestic and transnational income earners without provoking a boycott of capital or an exodus of skills. To a certain extent, and for a limited period, the government's goals that outreached its resources can be met with political rhetoric, ethnic chauvinism, and from foreign assistance. Ultimately, however, it was a zero-sum game. The Alliance government had to face hard choices about who shall benefit from public spending and who shall pay for it.

To this end the planning process was a cautious one. While the motivations for economic control and reform were high, these plans, especially the First Five-Year Plan, were moderate and incremental. One interpretation of such moderation and incrementalism is that the margin of choice for economic reforms during the initial consolidation of political and bureaucratic power was severely limited (see Chapter I). Furthermore, preferences for immediate structural transformation of the economy were seen as involving

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42 Hirschman's comment on policy-making style in Latin America is instructive. When there is "the tendency of motivation to pull ahead of understanding," said Hirschman, it is "likely to make for a high incidence of mistakes and failures in problem-solving activities." From this perspective, the planning process of the Alliance in the pre-1970 period can be regarded to have avoided these pitfalls. See A.O. Hirschman, Journeys Toward Progress, New York: W.W. Norton & Co., 1973, p.237-38.
high costs which could be unaffordable. It also meant, to a certain extent, that the inherited colonial economic structure had certain strength which should be retained, although the diversification process of the economy from the agricultural sector to the tertiary and manufacturing sectors was advocated in all these plans.

D. Conclusion

A discussion of the British administrative legacy in the Malayan economy and a sketch of the economic characteristics and planning strategies in the Post-colonial Quasi-consociational State can serve as a beginning in understanding the relationship between politics and economic policy in the post-1970 period. The transition from the colonial economy to independence during the period under review showed certain continuities. But at the same time, it had also produced some economic changes and had swollen the values of many of the measurable indices of economic development. The pace of change had not been uniform throughout these two periods, nor had the secondary effects of economic expansion been identical. In large measure, these differences in results were closely related to contrasts in the political motives and structural patterns in the two periods considered. As we will see later, economic characteristics and policies of these two periods
have important significance for the emergence of the New Economic Policy.
CHAPTER III

THE NEW ECONOMIC POLICY:
OBJECTIVES AND EVOLUTION

"If the bumiputeras do not have a stake in the economy of the country then there is no assurance that in time to come non-bumiputeras will be able to carry out their economic activities in peace and harmony."

-- First Bumiputera Economic Congress, 1965¹

"The Government's aim is to foster the emergence of a full-fledged Malay entrepreneurial community within one generation."

-- Second Malaysia Plan, 1970-75²

After establishing the two state patterns in the colonial and the post-independence era, and looking at the changes and continuities in the politics of economic policies in the pre-1970 period, it is time to consider the New Economic Policy (NEP). The principal purpose of this


chapter is to answer two basic questions: What are the NEP's objectives? and how did the NEP evolve?

It is necessary, at the outset, to make three observations. First, the NEP departed drastically from the preceding Malaysian development plans in that the priority was no longer production expansion and overall aggregate growth of the economy. Instead, the emphasis had shifted to the restructuring of society in terms of redistribution of wealth. Second, the conceptual variable that was central in the NEP's formulation and implementation has been the category of ethnicity. Even though it had the "over-riding objective" of national unity and the auxiliary objective of poverty eradication irrespective of race, the implementation of the NEP has concentrated on the transferring of economic resources to the Bumiputeras. Third, the ideology of Bumiputera economic nationalism which gathered momentum in the 60s received its strongest confirmation in the NEP. The NEP created more complexity in government institutions and procedures, and at the same time it effectively operationalized the commitment of the ethnic hegemonic state.

A. The Objectives of The New Economic Policy

The NEP was formulated during the period of UMNO rule by decree. In the process, the UMNO excluded almost all political opposition. This independence freed all attempts
at unilateral and decisive actions. In essence, there were two groups who formulated the NEP. The first group consisted of politicians including Tun Abdul Razak, then the Chairman of the National Operations Council (NOC), Ghazali Shafie, Chairman of National Unity Board, Pathmanaban, and Agoes Salim. The second group consisted of bureaucrats. It was Tan Sri Abdul Kadir Shamsuddin, the Chief Secretary, who convened the "task group" of officials to hammer out the details of the NEP. While the initial formulation of the NEP had its origin in the National Unity Board, it was the Economic Planning Unit (EPU) -- a powerful department in the prime minister's office -- that finally put together the plan. It is interesting to note that historically, the

3 Dr. Agoes Salim chaired the working groups which helped formulate the Rukunegara and was deeply involved in the discussions leading to its direct outgrowth, the NEP. Pathmanaban, who was the director of planning unit in the social sector in the Economic Planning Unit in the Prime Minister Department at that time, was also involved. Also, the person who was most responsible to push through the policy was Ghazali Shafie. In an interview, Dr. Agoes Salim was quoted as saying, "If you ask me, however, who really pushed it through, it was Tan Sri Ghazali Shafie. He was behind it all the way and ensured that the NEP was incorporated into the development plans." The Star, October 4, 1986.

policy attitude of the EPU was in many ways an antithesis to what were seen as the conservative policies of the ministry of finance and the Central Bank (Bank Negara).\(^5\) Tun Abdul Razak used the phrase "New Economic Policy" for the first time in a speech in July 1969.\(^6\)

The NEP was first inaugurated in the Second Malaysia Plan, 1971-1975. Its principles were made part of public policy when the Barisan Nasional government tabled it in Parliament on June 25, 1971 when Tun Razak emphasized that the NEP represented "no continuation of past policies."\(^7\)

The "over-riding objective" of the NEP, we are constantly reminded, is national unity. The Second Malaysia Plan states rhetorically: "Under the New Economic Policy, development will be undertaken in such a manner that in the

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\(^5\) FEER, Sept 12, 1970.  

\(^6\) How the writings of Albert O. Hirschman influenced the formulation of the NEP was unclear initially. In October 1986, however, Datuk K. Pathmanaban disclosed in an interview that during the NEP formulation period, the policy makers were reading "an article in American Economic Review by a Harvard Professor named Albert O. Hirschman." The Star, October 1986. Unfortunately Pathmanaban did not name that article. A reference to the American Economic Review shows that only five articles by Hirschman had been published before 1969. Based on the contents and relevance to the Malaysian case, the article that was referred to is most likely "Investment Policies and "Dualism" in Underdeveloped Countries," American Economic Review, Sept, 1957.  

\(^7\) FEER, July 31, 1971.
process of growth and expansion, it makes the maximum contribution to the achievement of national unity."

How is "national unity" defined? What does it involve? In official thinking, the search for national unity is all-consuming: "This search for national identity and unity involves the whole range of economic, social and political activities: the formulation of education policies designed to encourage common values and loyalties among all communities and in all regions; the cultivation of a sense of dedication to the nation through services of all kinds; the careful development of a national language and literature, of art and music; the emergence of truly national symbols and institutions based on the cultures and traditions of the society." The next question that logically follows relates to policy implementation: How could this national unity be achieved? The answer lies in the "greater equity and balance among Malaysia's social and ethnic groups in their participation in the development of the country and the sharing of the benefits from modernization and economic growth. National unity cannot be fostered if vast sections of the population remain poor and if sufficient productive

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8 Second Malaysia Plan, 1971-1975, p. 3.
9 Second Malaysia Plan, 1971-1975, p. 3.
employment opportunities are not created for the expanding labour force. While there must be no delusion that national unity can be achieved by purely economic means, the eradication of poverty and the restructuring of the society and economy are necessary conditions for national unity."\(^\text{10}\)

The conditions for national unity are clear. Racial imbalance in the socioeconomic arena stands in the way of unity and that unity depends on the elimination of such imbalances. But first a distinction has to be made between the two communities if there are to be policies to correct the imbalance. It is clear that a strategy of disseminating racial tensions by satisfying the socioeconomic means of the Malays pays a price of isolating the non-Malay communities. In order to reduce such a sense of isolation, strategies that are based on the principle "irrespective of race" are pursued. The solution that they eventually hit upon was to combine the notion that the state was and would remain the guardian of all ethnic interests with the idea that an ethnically divided society cannot function with economic disparities among ethnic groups. However, it inevitably implies the further erosion of non-Malay rights and standings in the political economy. Thus the intermittent statements publicized by the UMNO-dominated Barisan Nasional

\(^{10}\text{Second Malaysia Plan, 1971-1975, p. 3-4.}\)
government that the aim of the NEP is National Unity really formed a strategy to placate fears of non-Malays.

Another form of such a strategy is the Rukunegara (National Ideology). Formulated by the National Consultative Committee (NCC), and without the participation of the DAP, it was conceived more or less at the same time as the NEP and promulgated on 31 August 1970. It has five principles: (1) Belief in God; (2) Loyalty to King and Country; (3) Upholding the Constitution; (4) Rule of Law; and (5) Good Behavior and Morality. While the theme is undoubtedly national harmony, it has a more political purpose: it is designed "to ensure acceptance of the existing Constitution in principle." Indeed, to put it more succinctly, it is to ensure that "non-Malays will be accepting the legitimacy of the regime."11

The "two-pronged" strategy of the NEP to achieve national unity is the elimination of poverty and the restructuring of society. The Second Malaysia Plan reads:

The Plan incorporates a two-pronged New Economic Policy for development. The first prong is to reduce and eventually eradicate poverty, by raising income levels


and increasing employment opportunities for all Malaysians, irrespective of race. The second program aims at accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. This process involves the modernization of rural lives, a rapid and balanced growth of urban activities and the creation of a Malay commercial and industrial community in all categories and at all levels of operation, so that Malays and other indigenous people will become full partners in all aspects of the economic life of the nation.

In the chapter Outline Perspective Plan (OPP) of The Mid-Term Review of the Second Malaysia Plan, 1971-1973, more specific guidelines appeared. The "two-pronged strategy" of the NEP was stated in more detail. It includes:

(a) eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians, regardless of race. This is to be achieved by programs aimed at raising the productivity and income of those in low productivity occupations, the expansion of opportunities for intersectoral movements from low productivity to higher productivity activities and the provision of a wide range of social services especially designed to raise the living standards of the low income groups;

(b) accelerating the process of restructuring Malay society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. Programmes for this purpose include the modernization of rural life, the rapid and balance development of urban activities, the establishment of new growth centres and the creation of a Malay commercial and industrial community in all categories and at all levels of operation. The objective is to ensure that Malays and other indigenous people will become full partners in all aspects of the economic life of the nation.

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people will become full partners in all aspects of the economic life of the nation.\textsuperscript{14}

As far as the 'restructuring' of Malaysian society is concerned, wealth is to be redistributed approximately proportional to the ethnic distribution of the Malaysian population. The NEP set a goal that Malays should own 30\% of Malaysia's commerce and industry by 1990, as compared to about 2\% in 1970.\textsuperscript{15} The Second Malaysia Plan reads: "The Government has set a target that within a period of twenty years, Malays and other indigenous people will manage and own at least 30\% of the total commercial and industrial activities in all categories and scales of the operation."\textsuperscript{16} In this connection, the intention of the government was to foster a class of Malay businessmen capable of competing with the non-Malay and foreign enterprises in the economy.

\textsuperscript{14} The Mid-Term Review of the Second Malaysia Plan, p. 1.

\textsuperscript{15} The 30\% target of Malay shares in the economy was advocated by Tun Dr. Ismail Abdul Rahman. It was Pathmanaban who recalled this. "It was the late Tun Dr. Ismail Abdul Rahman who came up with the 30 per cent figure. His proposal was that since the non-Malays, including the foreigners, controlled 70 per cent of the private sector and the Malays controlled 70 per cent of the public sector, there was 30 per cent on either side which we could make the target." The Star, October 10, 1986.

\textsuperscript{16} Second Malaysia Plan, p. 41-42.
The first strategy will be implemented by a sustained rate of economic growth. The emphasis on growth is to ensure the non-Malays that they too are included in the economic reforms. As the NEP puts it, it would make sure that "no particular group experiences any loss or feels any sense of deprivation in the process."\(^{17}\)

"Restructuring" of Malaysian society also entails a change in the education and employment patterns. The official policy has been to restructure these sectors so that they reflect the population ratio of the country.

B. The Evolution of the New Economic Policy

The ideas embedded in the NEP had their origin in the proposals and resolutions of the UMNO-organized Bumiputera Economic Congresses of 1965 and 1968.\(^{18}\) Proposals and resolutions of these congresses submitted to the UMNO were considered. Various practical policies were taken. For example, Bank Bumiputra was set up, and RIDA was reconstituted and renamed MARA. Full-scale pro-Malay economic policies, however, were not implemented until the

\(^{17}\) It was Tun Abdul Razak who specifically included this phase. *The Star*, October 10, 1986.

aftermath of the May 13, 1969 post-election riots which really provided a policy window for these proposals.

The intellectual debate surrounding the significance of the 1969 riots in Malaysian political development is divided into two schools of thought. One school points to the intensity of the conflict and regards it as a "turning point." These observers conclude that Malay political power consolidated in a very determined manner after 1969 when the UMNO leadership was handed to the new guards. A second school sees it as just an important event, serious enough to warrant attention but not critical enough to change the courses of events. They believed that if May 13 indeed was a turning point at all, it was not that clear-cut. The event had less to do with Malay political dominance, which was basically intact with the 1957 Constitution, than with its consolidation.

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The bulk of evidence and documentation accumulated during the last seventeen years after the event, especially with the implementation of the NEP, seems increasingly to confirm the former perspective. My position on the interpretation of the event hinges on its impact in the formulation and implementation process of policies. While I readily accept the second argument that the Malay political foundation was indeed intact prior to 1969, my thesis holds that the 1969 conflict reinforced and intensified not only the desire of the UMNO elites to mobilize their political resources which were plentiful, but also their determination to surge ahead with the long-held conviction of Bumiputera economic interest. The significance of the event lies not only in the impact on the state and political system, but also in its repercussions on policy input and outcome. As a policy input, the event has a direct causal link with the emergence of the NEP. Emerging in 1971 as a policy program to reinforce Bumiputera control, the NEP was the expression of rejection of the quasi-consociational system. It was a reverberation of, indeed the official solution to, the causes of the racial riots.

The racial crisis of May 1969 was undoubtedly the most explosive expression of Malaysia's ethnic relations.²² It

²²There has been a substantial amount of literature on (Footnote Continued)
came as an aftermath of the 1969 election which took place at a time when the communal cleavages had sharpened in the social and economic arena. In the economic area, the Malays were increasingly dissatisfied with their economic progress despite the government efforts in rural development and in promoting Malay capitalist development. In the field of education, the non-Malays were fervently opposed to the government's policy of monolingual instruction, and in 1969 a group of Chinese educationists -- led by the United Chinese School Committees' Association Malaysia (UCSCAM) and the United Chinese School Teachers' Association Malaysia (USCTAM) -- initiated the Merdeka University project to

(Footnote Continued)
establish a Chinese University. This communal animosity was further heightened by political rhetoric exploited by all political parties in the election campaign. The opposition, led by the Chinese-based Democratic Action Party (DAP), which had its pedigree in Lee Kuan Yew's PAP in Singapore, and Parti Islam (PI), attracted a large number of urban Chinese and rural Malay votes. The election result was a crippling setback for the Alliance coalition. Out of the 89 Parliamentary seats it had won in 1964, the Alliance lost 20. Their popular vote was only 49.1%, the first time it had fallen below the 50% mark. The MCA, which has always claimed to represent the Chinese, received the heaviest blow: it lost 14 of its 27 seats. As one observer put it, it represented "a vigorous non-Malay challenge to the prevailing political order." 23 Indeed, non-Malays have mounted a challenge to, not only the consequences of the political system and the twelve-year old UMNO-led regime, but its very basic premises. The fact that the MCA, led by Tun Tan Siew Sin, made a decision to withdraw from the Cabinet and the executive councils of the state assemblies, points to the emotionalism that existed in the coalition.

Events immediately following proved to be out of control. Non-Malays were jubilant about the election results and held post-election celebrations in the streets of Kuala Lumpur, the capital. The Malays responded with more radical actions. With the leadership of Datuk Harun, the Menteri Besar (Chief Minister) of Selangor, radical Malays resorted to violence. When the incident was over, 200 people were officially reported killed. Curfew was imposed; the National Operations Council (NOC) -- comprised of senior Ministers of the cabinet, top bureaucrats, the military and police chiefs, with Tun Abdul Razak as its Director -- was set up to replace the suspended Parliament.

The racial riots led to a series of events that later were to bear major significance for Malaysia's development. First, it touched off a major crisis in the UMNO. The growth of internal dissent was becoming apparent. This splinter group within the party -- led by Mahathir Mohamad and Musa Hitam -- claimed that Malay special interests were systematically neglected by the ruling hierarchy. While this group was ultimately banished from the party (but later resurrected in the late 70s), its actions amounted to an explicit rejection not only of the Tunku's leadership in the UMNO, but of the quasi-consociationalism of the political system. While the Tunku remained as Prime Minister until 1970 when parliamentary rule assumed, the reins of
government were in fact in the hand of Tun Abdul Razak. As the Deputy Prime Minister, Razak had long been considered as a more pro-Malay politician and technocrat. Although the National Consultative Council (NCC) was set up, Razak's direction in the NOC virtually established an authoritarian regime for thirteen months when policy decisions were taken almost exclusively by his close allies.

Indeed, the interpretation of the causes of the incident by the Alliance government was of utmost importance in understanding the series of policy options taken. The immediate response from the Tunku was that the riots were caused by the communists' attempt to overthrow the government. Later, in a more reflective mood, the NOC's report -- with the personal imprints of Tun Abdul Razak -- attributed the major blame to the following:

The eruption of violence on May 13 was the result of an inter-play of forces that comprise the country's recent history. These include a generation gap and differences in interpretation of the constitutional structure by the different races in the country, and consequently the growing political encroachment of the

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24 One interpretation of the event was that some younger generations within the UMNO ranks wanted to overthrow the Tunku with the intened riots. See, for example, Subky Latiff, "UMNO: 30 Years After" in Southeast Asian Affairs 1977. He wrote, "The May 13 Incident did not occur spontaneously. It was planned quickly and purposely. The identity of the planner of the incident cannot be stated with accuracy. Whatever it was that happened, the May 13 Incident was a form of coup d'etat against Tunku Abdul Rahman." p. 161.
immigrant races against certain important provisions of the Constitution which relate to the Malay language and the position of the Malays, principally Articles 152 and 153; the incitement, intemperate statements and provocative behavior of certain racialist party members and supporters during the recent General Elections; the part played by the Malayan Communist Party (MCP) and secret societies in inciting racial feelings and suspicion; and the anxious, and later desperate, mood of the Malays with a background of Sino-Malay distrust, and recently, just after the General Elections, as a result of racial insults and threats to their future survival and well-being in their own country.  

Thus the official explanation of the riots was that they were a product of Chinese political extremism. Later, however, we see another shift in position -- Tun Razak decided that the root cause of the riots was Malay economic resentment.  

While there were far more fundamental causes, such an interpretation provided a wide-open policy window. Besides the Constitutional and Sedition Act amendments which prohibit discussion of all sensitive issues (Malay special rights, language policy, citizenship, and the position of the Sultans and the Yang Pertuan Agong), all other "solutions" were prescribed in the NEP that was to be formulated in the following year. The elimination of English medium education, the implementation of Bahasa Malaysia


Malay) at all levels of education, an admission quota for Malays to universities, and the intensification of Malay participation in the economy, were only some of the measures taken in the NEP. It was the first time an official economic document appeared that explicitly used a dichotomy between Malay and non-Malay. While it had to appear fair to all communities, it had conformed to a position for looking at the causes of tensions as racial in origin. By initiating an effort to help one particular ethnic group, it had differentiated two groups which stand opposed to each other.

The 1969 conflict was also a crisis of authority for the representative structure of the state, namely a rejection of the quasi-consociational arrangement. It was a situation when the quasi-consociational state was unable to provide sufficient room for the management of ethnic tensions. The demands from the two communities, one political and the other economic, had reversed the bargain which gave the Malay a special position in politics and an

27 Initially the dichotomy of Bumiputra and non-Bumiputra was not included. Instead the phrase Malays and other indigenous communities or MOIC was used. In an interview, Datuk Pathmanaban is quoted as saying, "In the first place, we in the EPU in our discussions and in formulating the policy were very careful not to include the words bumiputra and non-bumiputra because there was a general understanding that this would create a dichotomy. So, we used the phrase Malays and other indigenous communities or MOIC, as we used to call it." The Star, October 10, 1986.
understanding of Chinese continual dominance in the economy. If the NEP was really "a restatement of the 'bargain' between the races," as Milne maintained, then it was even more biased against the non-Malays. Whereas the Constitution of 1957 included partial participation of the non-Malays, the formulation of the NEP was an exclusive process in which non-Malays had no input. The end result of this "restatement" amounted to a reversal and a rebuttal to the constitutional arrangements of 1957.

Given the historically strong element of Bumiputeraism in Malay political ideology, including the "special rights" strain specifically, such a development is not at all surprising. As one observer wrote, "The election results which precipitated the riots have unfortunately been interpreted as confirmation that power will accrue to that party which most blatantly appeals to narrow communal interests." There were three important pieces of evidence for such an argument. First, the establishment of the National Operations Council (NOC) marked for the first time the suspension of Parliamentary rule. It virtually established an authoritarian regime which was to rule by decree where all policy-making decisions were in the hands'
of Razak. Second, the resignation of the Tunku from the prime ministership and the presidency of the UMNO in 1970 signalled a new era in Malaysian politics. When Tun Razak took over the leadership, he called his new government the "New Order" as opposed to the Tunku's "Old Order." While Razak's main pressure came from the Malay "ultras," his policies were themselves different from those of the Tunku's. Finally, the event also put an end to the Alliance arrangement. What emerged was a broader coalition, the Barisan Nasional, formed in 1974. Such an arrangement involved an increased number of political parties, many of which were formerly in the opposition. In Razak's mind, the Barisan Nasional was to convince the Malaysian citizenry that it was to be a platform for national unity and communal peace. Ironically, the impression it gave to the Chinese was that such an arrangement further diluted their political representation. The standing of the MCA was further reduced with the addition of Gerakan, a rival Chinese party. The quasi-consociational nature of formulating policies -- with UMNO-MCA-MIC participation -- was further circumscribed by the inclusion of memberships.

See Tun Razak's inaugural speech in UMNO in 1971.

The composition of the constituent parties in the Barisan Nasional has changed over years. The original constituent parties in 1974 were UMNO, Berjasa, Berjaya, MCA, MIC, Gerakan, PPBB, PPP, SNAP, SUPP, and USNO.
There is another interpretation of the 1969 crises, and subsequently the formulation of the NEP, that hinges on class analysis. According to this view, the racial riots were a product of class frustration within the Malay community. As Stenson wrote: "It would not be too much to argue that the Malay instigated race riots of May 1969 arose from a form of transferred frustration having its roots in intra-Malay class conflict."  

Our perspective of class, however, is directed towards policy formulation. The class element, as a vertical set of cleavages in the Malaysian polity, has become an important, though dubious, motivation for the generation of policy proposals. While they did not clearly acknowledge social class as a relevant analytical category for the NEP's formulation, policy makers of the NEP have invariably incorporated the class element as one prong of the two-pronged strategy of the NEP: "to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race." The key phrase is "irrespective of race." Such a usage swings the pendulum away from redistribution of ownership of productive assets to the general notion of

32See, for example, the works of Michael Stenson and Martin Brennan.

poverty eradication. In this regard, it deemphasizes the objective of societal restructuring along the line of ethnicity, and therefore modifies the tacit assumption in the NEP that poverty is basically a Bumiputera phenomenon. Therefore, the NEP is described by the government as being pro-rural rather than pro-Malay.

Ironically, the concept that appears to have the closest link with "class" produces the least "class effects." That is to say, while poverty eradication is a strategy that eliminates class distinction within the various community, the objective remains unfulfilled. Instead, we see class formation within the Malay community as a result of the second prong -- societal restructuring.

All told, the May 13 riot was episodic in character, but pervasive in consequence. It was really the political funnel that directed the UMNO's sensitivity towards more political and economic advancement. It had sharpened not only the perception for reform, but also the need for political actions. The ubiquitous character of the conflict opens opportunities for the Bumiputera elites to claim broader legitimacy. The profusion of Bumiputera claims in the form of the NEP is in fact expressed in a distinctly

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34 Hirschman's argument that a crisis is an important ingredient of reform is instructive here. See Hirschman, Journeys Toward Progress, pp. 260-264.
parsimonious common rhetoric. The terminology of the NEP is the language of unity and equity, a remarkable collective idiom for appropriation that is advanced on an ethnic basis. It was to reinforce Malay political dominance and implementation of economic policies that provide substantive rather than symbolic benefits to the Bumiputeras. The 1969 election results highlighted the non-Malay's discontent with the quasi-consociational arrangement. To the Malays, such a challenge was unacceptable. "The lesson of the recent disturbances is clear." Razak wrote, "This Nation cannot afford to perpetuate a system that permits anybody to say or do things which would set one race against another."\(^{35}\) Resolving this crisis demanded both a new structure and a new relationship between the Malay and the non-Malay communities. While both communities rejected the system, they did so for different reasons. Thus these two communities had drifted further apart. The response of the Malay elites, like the previous reaction to the opposition to the Malayan Union, was rooted in their belief in Malay rights and privileges in a land which they claimed to be rightfully theirs. Only this time power was in their hands and political resources were at their disposal. They were

determined to use these resources to align their political view of the state with policies.\textsuperscript{36}

C. Conclusion

Two points need to be summarized. First, in replacing the old philosophy of economic laissez faire, the NEP meant to turn a page in Bumiputera history: from government neutrality to active support and intervention. It intends to achieve "economic nationalism," defined as Bumiputeraism. It departs significantly from Malaysia's previous economic plans because of its particular emphasis on redistribution as a strategy to bring about a more equitable society.

Second, the explanation of NEP evolution points to the particularity of the Malaysian political process. The racial riot of 1969 was clearly the funnel through which the NEP emerged. Ethnicity is the primary category of its formulation, whereas the element of class, while disguised in the policy implementation of "irrespective of race" but rooted in the creation of a Malay entrepreneurial community, supplements the former category. In short, the politics of the NEP encapsulate the general point that the politics of

\textsuperscript{36}It is significant that after 1969, the Minister of Trade and Industry, and the Minister of Finance since 1974, have been Malays. "These events were a translation into terms of Cabinet appointments of Malay determination to direct the economy." R.S. Milne, "The Politics of Malaysia's New Economic Policy," p. 255.
policy formulation in the Malaysian polity is a complex amalgam of multilayered factors.

Surely as prominent and significant a program as the NEP would generate other consequences in Malaysian society, anticipated or otherwise. What is the nature of the state's intervention in the public economy? What is the role of the state in the private sector? What political and social outcomes were being generated? In what ways has the NEP added to the strength of Malay state hegemony? These are some of the questions raised in the following chapters.
CHAPTER IV

INSTITUTIONAL CONFIGURATIONS:
PUBLIC SECTOR, STATE-OWNED ENTERPRISES, AND TRUST AGENCIES

"We have to mention, and give prominence from time to time, bumiputra participation and what we are doing for the bumiputra in the context of the NEP, because if we don't do so, the Malays will have a misconception of it. They will think we are doing nothing. 'What is being done for us?' they will say. They will become nervous."

----- Datuk Hussein Onn
Prime Minister (1976-1981)

The commitment to create a productive pattern of Bumiputera capitalist development in the commercial and industrial sector is one of the major challenges elucidated in the NEP. Central to the execution of this task is the state: as a direct investor itself, and as the regulator of patterns of private economic investment. In connection to these roles, two far-reaching types of policy have been adopted to encourage and protect the development of Bumiputera entrepreneurship. The first essentially involves

1Interview in FEER, January 26, 1979, p. 20.

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the institutional expansion of the role of the public sector and state-owned enterprises, supporting preferential loan capital concessions, providing training and consultation services, and practicing the discriminatory allocation of corporate shares to Bumiputeras. The second policy type is procedural in nature and is characterized by a well-defined network of state bureaucratic commissions, legislation and regulations that are designed as a means to gain control over private non-Bumiputera and foreign corporate businesses.

This chapter deals with the first type of policy. The purpose of this chapter is fourfold. First, it examines the development of the public sector and state-owned enterprises in commerce and industry after 1970. Second, it argues that the implementation of state-owned enterprises is really a two-faceted strategy -- accumulation of wealth for the trust agencies and the transfer of wealth to private Bumiputera individuals. Third, it provides an analysis of the results of these policies. It becomes clear that the Bumiputera share in the non-corporate sector has increased and its share in the corporate sector will certainly achieve the target of 30% by 1990, if not earlier. Finally, it suggests that recent policy efforts, such as the Malaysia Inc. and privatization policy, are conceived politically in the general pattern of consolidating economic resources. Taken as a whole, all these steps have led to a stronger state,
and more power for the Bumiputera elites who control the state.²

A. The Public Sector

The analysis in Chapters I, II, and III — the colonial legacy in the economy, the lack of a Bumiputera entrepreneurial community, and the subsequent emergence of Malay nationalism — can explain, to a certain extent, the rationale for state intervention in the Malaysian economy. What it cannot explain, however, is the choice of instrument.

This choice of instrument is the public sector. Before we go into the details, it is important to recall in broad outline the wide areas included in the government's

²These arguments are build on two propositions that have been established elsewhere. First, the NEP has created a prominent role for the public sector in the economic development of Malaysia. In particular, state-owned enterprises as a means to involve wider Bumiputera participation in the economy have thrived significantly. Second, the state has chosen to create a private Bumiputera business class as a means of restructuring Malaysian society so as to eliminate the identification of ethnicity with economic role. See, for example, R. Thillainathan, "The Public Enterprise as an Instrument for Restructuring Society: The Malaysian Case," in S. Chee and S.M. Khoo (eds.), Malaysian Economic Development and Policies, Kuala Lumpur: Malaysian Economic Association, 1975; and Mavis Puthucheary, "The Political Economy of Public Enterprise in Malaysia," in Lim Lin Lean and Chee Peng Lim (eds.), The Malaysian Economy at the Crossroads: Policy Adjustments or Structural Transformation, Kuala Lumpur: Malaysian Economic Association, 1984, pp. 217-235.
activities in Malaysia and the historical heritage leading to the NEP pattern of government intervention. In the Malayan capitalist productive system in the 50s and 60s, state-owned enterprises were few -- in 1957, there were only ten in the country. In addition, relatively large-scale public projects were rare in the colonial and post-independent periods. The exceptions were public subsidized rural projects by the Rural and Industrial Development Authority (RIDA) and the Federal Land Development Authority (FELDA) in the 1950s. Even regarding these projects as being large-scale, the state cannot be said to have played an important role. These schemes were based on the principles of "gotong royong" (mutual assistance) and self-reliance, rather than on the rationale of massive state intervention. Monopolistic government control of economic activities was largely limited to essential public services such as railroads, postal communication, and hospitals.

The NEP, in a stroke, changed this policy pattern. The public sector was significantly enlarged, not only in terms of capitalization, but also in terms of aims and functions.

For the purpose of restructuring society and accelerating Bumiputera economic activities, the state now began to perform the entrepreneurial role. This policy was set forth rhetorically in the Second Malaysia Plan: "the Government will assume an expanded and more positive role in the economy than in the past." The state believed explicitly in the generative power of the public sector and recommended intervention of the public sector both on economic and political grounds. The extent to which the state has adhered to this broad policy guideline is clear from a consideration of the growth of state activities. By the 70s, the government ownership and control had expanded into mining and petroleum as well as the plantation sector, and banking and finance. By 1983, there were 115 statutory boards, research institutions, public corporations and other entities that came directly under the authority of federal ministries. Extensive regulations and the strict provisions in the Petroleum Development Act 1974 (PDA) and the Industrial Coordination Act 1975 (ICA) rounded out this network.

5 FEER, Sept. 15, 1983.
1. General Government Agencies: Capitalization and Expenditure Patterns

Analytically, the Malaysian state apparatus has been officially divided into two categories: the general government agencies and the "public authorities." The former consists of all governmental undertakings including the Federal Government and its ministries, State Governments and so on. Public authorities, on the other hand, are more specific, and in this study I refer to them as state-owned enterprises. Both these apparatuses are used as a strategic means to reduce ethnic and regional economic imbalances, and especially to promote Bumiputera participation and ownership in commerce and industry.

In this section, I will describe how large the general government agencies have become in terms of capitalization and the areas of concentration of public expenditure.

Data available, as shown in Table 5, show a continual increase in consolidated public sector finance for all the development plans. During the period 1966-70, the cumulative consolidated public sector expenditure accounted for 27.4% of the GNP at market prices. For the Second Malaysia Plan

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6 Beginning with the Fifth Malaysia Plan, the public sector has been classified into "general government" and "Non-Financial Public Enterprises." The former consists of Federal Government, 13 State Governments, 4 local governments: Penang, Ipoh, Kuala Lumpur, and Malacca. The latter comprises 35 institutions. See Fifth Malaysia Plan, 1986-1990, Table 7-1, p. 225.
1971-75, it has increased to 35%, and the Third Malaysia Plan 43.1%. In 1983, the proportion has increased to 52.5%.

What is most striking, however, is the size of the consolidated public sector deficit after the implementation of the Second Malaysia Plan (that is, from the beginning of the NEP). It was only 0.02% of the GNP during the period 1966-70, but rose dramatically to 8.8% for the period 1971-75. It increased gradually to 11.1% for the period 1976-80. In 1983, it jumped to 19.1%. What this means is that with the implementation of the NEP, the public sector finance has increasingly relied upon both domestic and foreign borrowings.

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<tbody>
<tr>
<td>1. Consolidated public sector:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenditures</td>
<td>10,371</td>
<td>20,446</td>
<td>49,743</td>
<td>21,148</td>
</tr>
<tr>
<td>Development expenditures</td>
<td>3,799</td>
<td>9,901</td>
<td>27,337</td>
<td>12,313</td>
</tr>
<tr>
<td>Total public sector expenditure</td>
<td>14,170</td>
<td>30,347</td>
<td>77,080</td>
<td>33,461</td>
</tr>
<tr>
<td>2. Overall deficit</td>
<td>-15</td>
<td>76,649</td>
<td>20,202</td>
<td>12,173</td>
</tr>
<tr>
<td>3. GNP at current market price</td>
<td>51,598</td>
<td>86,524</td>
<td>178,858</td>
<td>63,802</td>
</tr>
<tr>
<td>4. Total public sector expenditure as % of GNP</td>
<td>27.4</td>
<td>35.0</td>
<td>43.1</td>
<td>52.5</td>
</tr>
<tr>
<td>5. Consolidated public sector deficit as % of GNP</td>
<td>0.02</td>
<td>8.8</td>
<td>11.1</td>
<td>19.1</td>
</tr>
</tbody>
</table>

As important as the size of this governmental economic initiative has been its strategic significance for Bumiputera economic growth. The planned expansion of the public sector not only enabled an increase in its capitalization, but also brought about a shift in emphasis of development in different sectors. Table 6 shows the public expenditure on the infrastructure, rural, and commerce and industry sector. Resources that were devoted to basic infrastructure have now been shifted to commercial and industrial development. During the first decade of planning (1956-65), about 50% or more of public expenditure was invested in infrastructure facilities and public utilities. This amount has decreased overtime, to about 30-35% since 1965. The amount of funds spent on agricultural and rural development was 26.3% in the First Malaysia Plan, but it has steadily declined since the Second Malaysia Plan. The public expenditure on commercial and industrial development, conversely, increased significantly. From 3.3% between 1966-70, it jumped to 13.2% in the Second Malaysia Plan. In the Fifth Malaysia Plan, this category constituted 27.29% of the total developmental expenditure. One recognizes that government policy has become increasingly discriminatory in favour of commercial and industrial sectors. Despite official denial of priority treatment for the urban sector over the rural sector, a de facto policy of emphatic action
in the former is readily recognizable. (For a more detailed table, see Table 24 in Appendix).

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Malaysia: Public Development Expenditure for Infrastructure, Agriculture, Commerce and Industry, 1966-1990 ($million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>2,685.4 (63.3)</td>
</tr>
<tr>
<td>Agriculture and Rural Development</td>
<td>1,114.1 (26.3)</td>
</tr>
<tr>
<td>Commerce and Industry</td>
<td>141.30 (3.3)</td>
</tr>
<tr>
<td>Infrastructure (Transport, Communications, Utilities)</td>
<td>1,429.3 (33.7)</td>
</tr>
</tbody>
</table>

1. Figures for First Malaysia Plan (1966-70) and Fifth Malaysia Plan (1986-1990) are estimated. 2. Figures for Second, Third, and Fourth Malaysia Plan are revised allocations.


Another evidence of such a shift in emphasis can be found in the financial allocation towards programs for the eradication of poverty and the restructuring of society. Programs for eradication of poverty correspond more or less to rural development, and the restructuring of society to development in the commercial and industrial sector. There
are projects that overlap in both areas. In the past decades, emphasis has shifted from eradication of poverty to the objective of restructuring society. As shown in Table 7, during the Second Malaysia Plan, the allocation of anti-poverty projects amounted to $2,350 million or 26.3%, while the allocation for restructuring of society amounted to $508 million or 5.6% of the federal allocation. During the Third Malaysia Plan, the amounts were $6,373 million or 20.3% and $2,376 million or 7.6% respectively (for a more detailed table, see Table 25 in Appendix).

Table 7  Allocation Directed Towards the Eradication of Poverty and the Restructuring of Society Under the Second Malaysia Plan (1971-75) and Third Malaysia Plan (1976-80) ($million)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Second Malaysia Plan</th>
<th>% of total Expenditure</th>
<th>Third Malaysia Plan</th>
<th>% of total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eradication of Poverty</td>
<td>2,350.0 (26.3%)</td>
<td></td>
<td>6,373.4 (20.5%)</td>
<td></td>
</tr>
<tr>
<td>Restructuring of Society</td>
<td>508.3 (5.6%)</td>
<td></td>
<td>2,376.0 (7.6%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Fourth Malaysia Plan, p. 127.

In conclusion, these two movements -- a significant increase in the capitalization of the public sector in the economy and a shift of emphasis to commercial and industrial development -- implement the larger political aim of
creating a Bumiputera entrepreneurial community. The public sector provides an environment conducive to Bumiputera entrepreneurial growth largely by removing discrimination against Bumiputera enterprises where it exists and by providing resources and opening up opportunities for exploitation by Bumiputera entrepreneurs.

At the same time, however, these policies point to an inherent difficulty faced by the UMNO, that is, it is not possible to meet the specific needs of both the Bumiputera middle-class and rural peasants at the same time. Consequently these policies have created an ironic situation. While the basis of the UMNO's legitimacy in the post-independence period largely rests on its socioeconomic concern for rural Malays, the plight of the latter is not given priority. Despite implementation of huge rural projects such as the Federal Land Development Authority (FELDA) and the recent New Agricultural Policy initiated by Dr. Mahathir, the high incidence of rural poverty remains relatively unchanged and peasant resistance to authority exist in various forms.7

Ultimately, the UMNO's programme of creating a commercial class of Bumiputeras has the effect of alienating

rural Bumiputeras, who traditionally have been a group that voted the UMNO to power. The rural population's dissatisfaction with the government's policies was real. The extensive politicization of Malay villagers in the past three decades has further reinforced their political awareness of the situation. Indeed, while we should not read too much into the various sporadic rural unrests, such as the Baling incident in 1974 when about 10,000 Malay peasants demonstrated against the government, they serve as a reminder that the aggravated and impoverished Malay rural peasants can be politically active.

Moreover, these circumstances are sure to be, and were, manipulated by the Parti Islam (PAS), the UMNO's main rival for Malay votes in rural areas. For example, the demonstration of farmers in the Muda Scheme in January 1981 was mobilized and given strong support by PAS. In short, it is important to point out that while the UMNO's policy actions of discriminatory allocation of resources reflected its desire to appeal to the Bumiputeras, these policies also created a potentially precarious situation in which UMNO's rural constituents are increasingly dissatisfied.

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2. State-owned Enterprises

The rapid expansion of the public sector has been accompanied by an increasingly significant role of state-owned enterprises in the economy. Their significance can be measured by both their size, range, functions, and strength. State-owned enterprises now handle most of the important exports; they control the banking systems and insurance; they pioneer the industrial as well as commercial sectors; they control important services like electricity, railways, harbors etc. In terms of numbers, they had increased many fold over the decades. There were only 10 public enterprises in 1957; by the end of 1974 the number had become 82 with 65 subsidiaries and 185 joint-ventures.9

In Malaysia economic planning, state-owned enterprises -- defined as enterprises which are either state-owned or in which the state is a significant shareholder -- have many names. They are also known as "public corporations" and "public authorities."10 For the purpose of consistency and precision, I will use the term state-owned enterprises.


10"Public Corporations" and "Public Enterprises" are terms often used in the Malaysian economic literature. Only the term "public authority" is legally defined. A public (Footnote Continued)
State-owned enterprises can be subdivided into three categories according to roles and functions. First, there are the socioeconomic authorities, such as RIDA and FELDA. Second, there are the industrial or commercial corporations, such as PERNAS, PETRONAS, UDA, and MAS (Malaysian Airline Systems). Third, they are the public utility authorities such as Electricity boards, railways, postal service, and port authorities. Some of these categories sometimes overlap, for example, PERNAS also functions as an institution that provides socioeconomic benefits.

Within this classification, there is a significant overlapping category called trust agencies. They are statutory institutions where shares and stocks are held by the government on behalf of the Bumiputeras, with the ultimate intention of transferring them to Bumiputera individuals by the end of the NEP. Examples of trust agencies are MARA, PERNAS and the PNB. These trust agencies,

(Footnote Continued)

authority is "a statutory authority exercising power vested in it by Federal or state law" or any "authority" appointed by or acting on behalf of the government. See Malaysian Constitutions, Article 160 (2).

These public authorities were referred to as off-budget agencies (OBAs) prior to the Fifth Malaysia Plan. In the Fifth Malaysia Plan, they are referred to as non-financial public enterprises (NFPEs). Fifth Malaysia Plan, p. 224.

designated as "Malay interests," are to hold 3/4 of the targeted 30% of Bumiputera ownership in trust, while the remaining 1/4 would be in the hands of Bumiputera individuals by 1990.

The most important, and politically charged, state-owned enterprises in Malaysia are located in the socioeconomic category: more specifically, the large trust agencies. These agencies account for the great bulk of the state's total investment in the public sector. Among the most important state-owned enterprises and trust agencies are MARA, PERNAS, SEDCs, and UDA.

MARA (Majlis Amanah Rakyat -- Council of Trust for the Indigenous People), reorganized from RIDA, was founded in 1966, before the NEP. Before the government decided to use state-owned enterprise as an instrument to restructure society, MARA activities were already making headway. As an independent economic entity without establishing direct linkages with non-Bumiputera and foreign enterprises, its major aim is the development of small Bumiputera entrepreneurs and petty traders. For this purpose, it has concentrated in three areas of activities: (1) provision of credit facilities and capital investment; (2) direct participation in industries by initiating Bumiputera business ventures especially transport enterprise and constructing (including the acquisition of suitable sites) premises for Bumiputera businessmen; (3) provision of
business training, by such institutions as the MARA Junior Science Colleges, the Institutes for Skills Development (Institut Kemahiran MARA), and the MARA Institute of Technology. In short, MARA's activities in promoting Bumiputera commerce and industry are extensive. Its five divisions -- Commerce and Industry, Transport, Credit Finance, Advisory Services and Enterprise Development, and Education and Training -- reflect the breadth of its activities.\(^1\)

PERNAS (Perbadanan Nasional -- National Corporation) was registered as a public company in November 1969 under the Companies Act of 1965. Supposedly profit-oriented, it is to act as "a catalyst" to intensify Malay participation in commerce and industry.\(^2\) Initially PERNAS was concerned with areas that overlap with the of MARA's, namely providing the Bumiputeras with the know-how in the setting up of business ventures; setting up joint ventures in which the Malays would be encouraged to take part; by acting as a


\(^2\) A phrase used by PERNAS's general manager, Wan Abdul Hamid bin Mohamed Salleh. Straits Times, 9 March 1971.
distributor of goods to the Malays.\textsuperscript{14} As it evolved, however, its strategy changed from that of Bumiputera assistance to that of corporate takeovers. Focusing on taking over existing companies which were large and successful profitable ventures in the late 1970s, PERNAS moved rapidly into the corporate sector. By the late 1970s, it has grown into a huge conglomerate of 67 subsidiary, joint-venture and associated companies involving investment of $393 million and total assets of $1.17 billion.\textsuperscript{15}

The techniques employed by PERNAS signified a new era in the method of government intervention. These techniques -- direct block purchase of equity, equity investments, initiation of joint-ventures with transnationals; control over import-export permits for certain commodities through its subsidiary PERNAS Trading -- were aggressive and active, and in many ways went beyond the traditional functions of state-owned enterprises.\textsuperscript{16}

UDA (Urban Development Authority) was established in 1971 with the endorsement of then Prime Minister Tun Abdul Razak. Its primary purpose was closely related to MARA -- as

\textsuperscript{14} Straits Times, 9 March 1971.
\textsuperscript{15} PEER, Sept. 7, 1979, p. 60.
an instrument for enlarging the field of Bumiputera participation in commerce and industry in small manufacturing, retailing and service sectors. Initially confined to the Chinese-dominated urban commercial centers such as the Kuala Lumpur area, its functions were to carry out projects in urban development areas, to acquire and to construct business premises in Malaysia's main urban centers for selling, renting or leasing to Bumiputera businessmen. It also issued applications for loans to improve or expand existing Bumiputera business premises. Although its success was limited over the decades, it was furnished with extensive power to secure a Bumiputera share of Malaysia's urban commerce.\footnote{Peter W. Amato, "The Malaysian Urban Development Authority: A Case Study." in John C. Taylor and David G. Williams (eds.), Urban Planning Practice in Developing Countries, Oxford: Pergamon Press, 1982; Mohammed Anuar bin Wok, "The System of Performance Evaluation of Public Corporation: A Case Study of Malaysia with Special Reference to the Urban Development Authority," Ph.D. Thesis, University of Pittsburgh, 1979; Gale, Politics, Chapter V; and A.K.M. Yusof, "Urban Development Authority," in V.V. Ramanadham (ed.), Public Enterprises. Studies in Organizational Structure, London: Frank Cass, 1986.}

SEDCs (State Economic Development Corporations) were set up in the early seventies to propel economic expansion for Bumiputeras at the state level. The first SEDC set up was the Selangor SEDC, followed by other states. The SEDCs undertook a spectrum of economic activities such as equity
purchase, construction, property development, manufacturing, and expansion of cottage industries. Many of these SEDC enterprises were joint ventures with the private sector, and sometimes duplicated the activities of other agencies. The difference, however, was that in the case of the SEDCs, the authority of individual state governments were involved, especially in important natural resources such as lands, forests, and minerals. The SEDCs can be regarded as an operating arm of the state in the market.¹⁸ Companies formed by the SEDCs are viewed as important training ground for Bumiputera entrepreneurs. Now numbered 13, the SEDCs have owned or participated in some 320 companies, the best of which have been transformed to FERNAS.¹⁹

Three general features can be traced from the above descriptions of state-owned enterprises: they are financially massive, organizationally formidable but loosely controlled, and deeply rooted in the political environment in which they were established.

(1) Finance. The major source of finance of these institutions consist of government grants, treasury loans and loans from other sources. The financial allocation of these state-owned enterprises, shown in Table 8, shows a

¹⁸ Thillainathan, "Malaysia," p. 60.
¹⁹ FEER, Sept. 15, 1983.
dramatic increase with the implementation of the NEP in the Second Malaysia Plan.

Table 8  Malaysia: Financial Allocation for MARA, PERNAS, UDA, and SEDCs, 1966-1985

<table>
<thead>
<tr>
<th></th>
<th>First MP</th>
<th>Second MP</th>
<th>Third MP</th>
<th>Fourth MP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$million</td>
<td>$million</td>
<td>%</td>
<td>$million</td>
</tr>
<tr>
<td>MARA</td>
<td>50.9</td>
<td>215.27</td>
<td>2.1</td>
<td>315.00</td>
</tr>
<tr>
<td>PERNAS</td>
<td>10.0</td>
<td>150.00</td>
<td>1.5</td>
<td>200.00</td>
</tr>
<tr>
<td>UDA</td>
<td>--</td>
<td>175.00</td>
<td>2.0</td>
<td>217.00</td>
</tr>
<tr>
<td>SEDCs</td>
<td>--</td>
<td>192.93</td>
<td>2.3</td>
<td>423.80</td>
</tr>
</tbody>
</table>

Source: Second Malaysia Plan, p. 69; Third Malaysia Plan, p. 240; and Fourth Malaysia Plan, p. 241.

There has been a constant increase in financial allocation since 1970 in terms of dollar expenditures, although as a percentage of total public development expenditure there has been some decline. For instance, the percentage of total public development expenditure for MARA for the period 1971-75 was 2.1% compared to 1.7% and 1.3% in the Third and Fourth Malaysia Plans respectively. For PERNAS and UDA, their percentage of total public development expenditure for the same period shows a similar pattern. For SEDCs, the increase in financial allocation was evident, from 2.3% to 2.9% of total public expenditure during the same period. In short, the accumulation of wealth under these trust agencies is enormous.
(2) Control and Organization. Control over state-owned enterprises in Malaysia has been a matter of relations between individual enterprise and the central government as represented by a supervisory ministry. The relatively closed Malaysian political system has removed from the scene other potentially important agents of social control over the state-owned enterprises, for example, the legislature, political parties, consumer groups and labor unions.

Indeed, the parliament, supposedly a central institution, has played little or no role in determining the policy orientation of the state-owned enterprises. The political system denies the legislature the power either to alter the amount or the purpose of the funds being requested. In practice, the parliament has acted as a rubber stamp on most expenditure bills presented for its consideration by the chief executive, especially those involving the priority development projects of the government.

Since these state-owned enterprises are under the administrative control of the executive and not under parliamentary supervision, a huge bureaucracy was created to manage them. The complexity of the control setting of the state-owned enterprises is reflected in a hierarchy linking these ministries. The list of government agencies able to influence decision making in the state-owned enterprises includes: (1) Ministry of Public Enterprise; (2) The
Economic Planning Unit through National Development and Planning Committee (NDPC) and the Estimates Sub-Committee of NDPC; (3) The National Action Council (NAC); (4) The Treasury through the Budget and the Finance Divisions. Theoretically these statutory bodies are under Ministerial control. The boards are obliged to present the Minister with regular reports and he in turn must present theirs to the Parliament, which was a way of achieving public accountability. Unfortunately, this is seldom done. For instance, UDA did not submit its first report to Parliament until 1977 after the Auditor-General and the Public Accounts Committee of the Dewan Rakyat expressed dissatisfaction. Such a lack of public accountability was really a concern when other institutions were spending more than they received. MARA, for example, spent $140 million in 1971-73 out of an allocation for the whole of Second Malaysia Plan of only $100 million. There were more efforts on the part of Ministries to question the accountabilities of these agencies. This development should be seen, however, as an attempt by the Ministries to inform


22 FEER, June 17, 1974.
themselves more fully about their clients' activities rather than a fundamental shift in the relationship.

(3) Political Environment. The history of these enterprises testified to the fact that they were deeply rooted in the political environment in which they were born. It was common for Malay politicians to take opportunities using state-owned enterprises for political support to increase personal popularity. Two examples are instructive. The birth of RIDA in the 1950s was really the work of Dato Onn bin Jaffar, as a means to counter the Malay Union proposal at that point in history. The birth of the UDA was directed by Tun Razak when he was slowly moving up the ladder to succeed Tunku Abdul Rahman as the president of the UMNO.

Despite episodes of personal animosity among powerful politicians, and inter-organizational struggle, these enterprises are surprisingly stable in organizational structure. They have grown over time and their position in the Malaysian economy cannot be challenged. Most of them are immune from political criticism as a result of the poorly defined coordination rules. Moreover, they had the unwavering support of the Bumiputeras. The only criticism from the Bumiputeras comes when these enterprises competed with individual Bumiputera businessmen, who are at a disadvantage because of lack of capital and economies of scale.
In summary, the expansion of the public sector and the establishment of state-owned enterprises point to a deep commitment of the Bumiputera political elites to upgrade the economic position of the Bumiputeras with the help of the state. The trust agencies have been generally successful in putting in place the essential infrastructure based upon which Bumiputera entrepreneurship was built. Along the way, the state-owned enterprises have become much more visible in the economy, as suggested by data portraying their steadily increasing shares of development expenditure. Behind these numbers lies a record of institutional configurations by the UMNO-dominated government. Through the process, the state-owned enterprises are able to distribute the finance, train Bumiputeras, and engage in the political maneuvering that results in the steady expansion of the Bumiputera share in the Malaysian economy. With the roles of patrons, trustees, joint venture partners, and "complements," state-owned enterprises cover almost all possible areas of assistance. 23 Insofar as the development of Bumiputera

23"(i) as 'patrons' of the Bumiputras, providing the necessary assistance to accelerate the latter' participation in the commercial and industrial sectors,(ii) 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, (iii) as 'joint venture' partners with the Bumiputras themselves with the objective of relinquishing their portion of the ventures (shares, control, management) to the bumiputras when the (Footnote Continued)
enterprises is determined by the public sector and state-owned enterprises and the Chinese- and foreign-dominated economy which, it is argued, tend to subvert Bumiputera initiatives, the state plays a powerful role in promoting Bumiputera capitalist development.

B. State Assistance to Bumiputera Individuals: Credit, Training, and Corporate Share Transfers

The expanded role of the state, as exemplified in the general government agencies and state-owned enterprises, has an important objective, namely, to assist and create a Bumiputera entrepreneurial community. The target is the Bumiputera individual who has the initiatives either to start a business or to invest. For those Bumiputeras wanting to start a business, state assistance takes the form of credit and training, and for those who want to invest, the institutional means to transfer business assets to them are available.

(Footnote Continued)
latter have proven themselves able and capable of taking over, (iv) as 'complements' to the efforts of the Bumiputra in the commercial and industrial sector by participating in and pioneering ventures that Bumiputras themselves are for the present, unable to undertake due to various inadequacies." See Rafidah Aziz, "Implementation Capacity of Public Enterprises to Fulfill the New Economic Policy Targets," Paper presented at the Fourth Malaysian Economic Convention, 1977, pp.3-4. She was the Minister of Public Enterprise.
1. State Assistance: Credit and Training

Bumiputera individuals who are keen on launching their own businesses generally lack not only capital but also business know-how and technical knowledge. In a Chinese-dominated economy, they have few contacts. Like every newcomer, they come up against entrenched interests. Because of the structurally ambivalent characteristics of the capital-less Bumiputera entrepreneurial community, its underdevelopment and the strict limits placed on it by colonialism and foreign capital, the state itself becomes an important vehicle to help sponsor its development. There are two forms of state assistance performed by the trust agencies to the Bumiputera entrepreneurs: credit assistance and training.

a. Credit

The most pressing problem of Bumiputera traders is the availability of credit. In 1969 only 4% of the total commercial bank loans was allocated to Malays. In 1972, the state insisted that banks concentrate their lending business to Bumiputera small businesses. The acquisition of various banks -- such as UMBC and Malayan Banking -- in the country increased the government's control over lending policy, in addition to money supply and interest rate. The commercial banks -- subjected to policy guidelines laid down by the Bank Negara and the political influence of its governor --
complied. In 1976, the most important guideline was that a minimum of 20% of new loans must go to Bumiputera individuals and Bumiputera-controlled companies.

Despite such efforts, progress has been slow. Bank Negara Governor Tan Sri Ismail Mohamed Ali sharply reprimanded commercial banks for failing to meet quantitative guidelines laid down by the central bank for lending to Bumiputeras. New lending institutions were set up to change the financial structure. The establishment of Bank Pertanian (Agricultural Bank), Bank Rakyat (People's Bank), Development Bank of Malaysia (BPMB), and the lending schemes in MARA and UDA are some examples of these efforts. The most important of these institutions are the Bank Bumiputera, which was powered by deposits flowing in from the oil industry, and the Malaysian Industrial Development Finance (MIDF), which is the most important industrial development financing institution in Malaysia. In 1972, the Credit Guarantee Corporation (CGC) Scheme was set up to guarantee 60% of the value of each loan by a consortium that included all commercial banks operating in Malaysia. The intention to set up these lending institutions indicates disappointment with the credit facilities available to Bumiputera businessmen, despite the contribution of commercial banks and the trust agencies such as MARA, PERNAS and UDA.
Table 9 shows the amount of credit assistance made available to Bumiputeras as compared to non-Bumiputeras from 1971 to 1985. Bumiputeras increased their share of loans significantly from banks and finance companies from $149.3 million or 5% in 1971 to $6,324 million or 21.0% in 1980. The amount increased to $17,266.3 million or 28.2% in 1985. Meanwhile, loans and advances to non-Bumiputeras increased from $2,851.4 million to $23,782.5 million from 1971 to 1980. This amount increased to $44,032.6 million in 1985, but the share of the total declined from 95% to 79% to 71.8% during the same period.

### Table 9  Malaysia: Values of Credit Assistance, 1971-85 ($million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>BPMB</td>
<td>--</td>
<td>--</td>
<td>150</td>
<td>--</td>
<td>68.4</td>
<td>--</td>
</tr>
<tr>
<td>MIDF</td>
<td>13.1</td>
<td>56.9</td>
<td>57.2</td>
<td>135.1</td>
<td>13.2</td>
<td>68.1</td>
</tr>
<tr>
<td>MARA</td>
<td>15.0</td>
<td>--</td>
<td>90.0</td>
<td>--</td>
<td>46.8</td>
<td>--</td>
</tr>
<tr>
<td>CGC</td>
<td>(150)</td>
<td>(200)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Commercial Banks and Finance Companies

<table>
<thead>
<tr>
<th>Institutions</th>
<th>1971</th>
<th>1981</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>149.3</td>
<td>6,324.9</td>
<td>17,266.3</td>
</tr>
<tr>
<td>% of total</td>
<td>5%</td>
<td>21%</td>
<td>28.2%</td>
</tr>
</tbody>
</table>

* Figures for CGC are for 1980.

B = Bumiputeras; NB = Non-Bumiputeras.

Sources: Fourth Malaysia Plan, p. 66; Fifth Malaysia Plan, p. 116.
With these efforts, a strange situation occurred, where there was a lot of funds available but no borrowers. Banks at one time appeared to reach a limit in reaching Bumiputera businessmen in order to get their lending up to the officially prescribed minimum. Such a situation was hardly surprising. Indeed, while Bumiputera entrepreneurs are increasing, they are not doing so at the same rate as the lending ability of banks. Moreover, the capacity of the Bumiputera businessmen to absorb these funds was limited.\textsuperscript{24}

b. Training

The introduction of financial incentives is not enough. The public policy of the UMNO-led government is to increase the supply and quality of Bumiputera entrepreneurs, and the role of these agencies is to complement such a policy. Therefore these agencies have set out to study and remove obstructions in the market and improve gap filling and input completing capacities. Of course not all the desirable entrepreneurial characteristics are trainable, but clearly, some business skills are. Although it is difficult to teach Bumiputera entrepreneurs to identify opportunities, they can be taught how to appraise them.

\textsuperscript{24} FEER, Nov 18, 1977.
With this rationale, all these agencies have vigorously pursued a deliberate policy of education and achievement training in an effort to promote Bumiputera managerial and technical expertise. A wide range of programs aimed at developing more appropriate entrepreneurial skills occurred in a host of institutions. Examples of these institutions are MARA, the National Productivity Center (NPC), Malaysian Industrial Development Finance Ltd (MIDF), and Malaysian Industrial Estate Ltd. (MIEL), and the Development Bank of Malaysia (BDBM). NPC concentrates on providing short term courses in technical and management aspects for small businessmen, while MARA concentrates on formal training of professionals.

A comprehensive program that incorporates these institutions is the Entrepreneurship Development Programmes (EDP), another facility available to Bumiputera business. The program includes: (1) MARA -- Entrepreneurial Development Division (EDD); (2) The Malaysian Entrepreneurship Development Centre (MEDEC); and (3) The National Productivity Center (NPC).25 Another program is the Petty Traders Programme for Small Business which was allocated $50 million in Fourth Malaysia Plan.

All these agencies provide research and consultancy services. They conduct courses for small-scale entrepreneurs in order to equip them with knowledge in various fields such as management, accounting, marketing and construction. Table 10 shows the number of participants in various entrepreneurial training programmes in 1981 and 1985. As expected, participants were overwhelmingly Bumiputeras. The leading institutions were MARA, the National Productivity Center (NPC), and the Public Works Department (PWD).

<table>
<thead>
<tr>
<th></th>
<th>1981</th>
<th>1985</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>N-B</td>
</tr>
<tr>
<td>NPC</td>
<td>4,940</td>
<td>15</td>
</tr>
<tr>
<td>PWD</td>
<td>222</td>
<td></td>
</tr>
<tr>
<td>BPMB</td>
<td>134</td>
<td></td>
</tr>
<tr>
<td>BBMB</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARA</td>
<td>14,614</td>
<td></td>
</tr>
<tr>
<td>Pernas Edar</td>
<td>1,447</td>
<td></td>
</tr>
</tbody>
</table>


Such deliberate policies afford a mechanism for promoting and encouraging entrepreneurial development by actively promoting Bumiputera entrepreneurship through financial management, technical, and other linkages. They also help to encourage the birth of new ventures, and promote the emergence of an entrepreneurial cadre from the Bumiputera population.
2. Corporate Share Transfers: National Equity Corporation (Permodalan Nasional Bhd.— PNB) and National Unit Trust Berhad (Amanah Saham Nasional Bhd.— ASNB)

How the government intends to transfer government-held shares in the corporate sector to private Bumiputera individuals is best understood when we look at the institution which is designed for such a purpose. The Bumiputera Investment Foundation (Yayasan Pelaburan Bumiputera) was launched by Prime Minister Datuk Hussein Onn on April 14, 1978, nearly two years after it was first proposed in the Third Malaysia Plan. The Foundation, whose Board of Trustees is made up of UMNO ministers, is an open-ended unit trust which takes up shares reserved for Bumiputeras in corporate enterprises and redistributes them into small units which would eventually bring equity investment within the scope of Bumiputera individuals. In May 1979, the National Equity Corporation or Permodalan Nasional Bhd. (PNB) was incorporated as a wholly-owned subsidiary of the foundation. Under the scheme, Bumiputeras would be able to own shares in state trust agencies through the purchase of trust units. For this purpose, the National Unit Trust, or Amanah Saham Nasional Bhd (ASNB), a subsidiary of PNB, was established in May 1979.  

26 PNB's main function "is to evaluate, select, and purchase a sound portfolio of shares in companies with growth potential. The shares are to be held in trust for
sole responsibility of transferring unit trusts to individual Bumiputeras.\textsuperscript{27}

Since it was launched, the PNB has wasted no time in acquiring assets. In 1981, PNB acquired Guthrie Corporation through a lightning dawn raid on the London Stock Exchange. In 1982, nine months later, PNB succeeded in bringing home Harrisons Malaysian Estates (HME). Under the terms of the scheme of arrangement worked out with its British-based parent company, Harrisons and Crosfield (H & C), control over HME will be transferred to a newly-created Malaysian company called Harrisons Malaysian Plantations Bhd. (HMPB), which will in turn become a subsidiary of PNB.\textsuperscript{28}

With the takeover of both Guthrie and HME, the government has increased the Bumiputera share in the plantation sector in particular and the economy in general by proving itself to be an excellent mechanism for restructuring. As noted earlier, in the plantation sector,

(Footnote Continued)
subsequent transfer to individual Bumiputeras through the ASN scheme. These shares were acquired through purchase in the stock market and from institutions, allocation of shares through company restructuring from the Ministry of Trade and Industry, and the Transfer Scheme of Government Equity to Bumiputeras." \textit{Fifth Malaysia Plan, 1986-1990}, pp. 110-111.

\textsuperscript{27} For a detailed look at the structure of these two organizations, see Sieh Lee Mei Ling, and Chew Kwee Lyn, "Redistribution on Malaysia's Corporate Ownership in the New Economic Policy," \textit{Southeast Asian Affairs 1985}, pp. 235-258.

\textsuperscript{28} \textit{FEER}, June 11, 1982.
Bumiputera shares have increased to 32%. In 1985, the total investment in the plantation companies accounted for $2,343.8 million, one-third of PNB's total investment of $5,735.7 million. 

The rationale for the need of giant state-owned corporations such as PNB is clear. Previously, private companies blamed the Bumiputera community itself for being unable to attain the target shares. Although these companies were willing to offer a substantial part of their equity to Bumiputeras, there were no purchasers mainly because of capital deficiency. In fact, the Bumiputeraization of giant corporate entities like Guthrie and HME would not have been possible but for PNB. Despite the growth of the Bumiputera private sector in the last decade, it would have been difficult if not impossible to raise the necessary amount of cash required. Indeed, the lack of capital investment in the Bumiputera community seems to be a serious dilemma. It not only hinders greater Bumiputera involvement in the economy, but it also drains the already limited resources of the government. According to one report, Bumiputeras accounted for only 26.1% of the total $12.1 billion in capital investments covering 3,196 manufacturing projects in 1984.

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29 *Fifth Malaysia Plan*, p. 113.

30 This is disclosed by the deputy industrial promotion (Footnote Continued)
There were fears that if steps were not taken to ensure Bumiputera savings, it was conceivable that a mere 4%-5% of the Bumiputera 30% would be in the hands of the Bumiputera elite when the NEP 1990 target date was reached -- a point raised by the Chairman of Bank Bumiputera and head of the Malay Chamber of Commerce, Senator Kamarul Ariffin.

Most of the shares of leading companies went to the ASNB, the National Unit Trust Berhad. With a tone-setting call from Prime Minister Datuk Hussein Onn "to Bumiputeras to show their determination to meet the objectives of the New Economic Policy," the ASNB began selling shares to Bumiputeras. For the ASNB, its purpose is twofold. First, it aims to endow among Bumiputeras, particularly those in the middle income group, a sense of participation in the corporate sector, expanding the slice of national wealth held by private Bumiputera individuals. Second, it is to expedite the restructuring of the economy by providing and

(Footnote Continued)

director of Malaysian Industrial Development Authority (MIDA) Mohamed Iqbal Mohamed Ismail. New Straits Times, April 2, 1986.

From this perspective, the ASN is the biggest mobilizer of Bumiputera savings, attracting net investments of $1,986.4 million by 2,077,108 investors up to February 1986 since its launching in 1981. New Straits Times, 21 May, 1986.

31 Datuk Hussein Onn also said, "The time has now come for Bumiputera to prove their determination in fulfilling what they have always wanted." New Straits Times, April 21, 1981.
sustaining funds for the purchase of shares on behalf of the Bumiputera community, thus facilitating it to fulfill the NEP goal of 30% ownership of the corporate sector.

The fact that the government has set up the ASNB and decided against a direct transfer of its shares to Bumiputeras seem to serve two purposes. First, it underlines the government's intention to ensure that the shares stay in Bumiputera hands only, instead of being put on the market to be sold to non-Bumiputeras for quick gains, as has been widely reported in other instances. Second, it is to ensure maximum participation by all Bumiputeras, especially the middle class.

While an initial investment in the Bumiputera unit trusts may be made with a minimum investment of $10, most of the purchases are done by those who possessed enough resources and contact. Furthermore, individual Bumiputeras will be allowed to purchase up to 50,000 units. While this actually minimizes the risk of rich Bumiputeras monopolizing the scheme, it was also inevitable that only the urban and salaried Bumiputeras would benefit most since they have more propensity or ability to save than rural Bumiputeras. The size distribution of holdings in 1984 shows that 84% of

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32 Mahathir Mohamad disclosed that 90% of the Bumiputera shares had been sold off and that in the case of individually-owned shares the figures was nearer 100%. FEER, Jan 23, 1981.
the investors own 10 to 500 units. Those holding more than 10,000 units are only 1.8%. In 1986, the percentage for these investors was 82.9% and 3.3% respectively.

Table 11  Malaysia: National Equity Corporation (PNB) Group Shareholdings by Sector, as at December 1985

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of companies</th>
<th>Investment cost ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>106</td>
<td>1,241.6</td>
</tr>
<tr>
<td>Finance</td>
<td>11</td>
<td>1,684.9</td>
</tr>
<tr>
<td>Property</td>
<td>17</td>
<td>560.4</td>
</tr>
<tr>
<td>Plantation</td>
<td>17</td>
<td>2,353.8</td>
</tr>
<tr>
<td>Mining</td>
<td>8</td>
<td>322.4</td>
</tr>
<tr>
<td>Total</td>
<td>159</td>
<td>6,163.1</td>
</tr>
</tbody>
</table>

Source: Fifth Malaysia Plan, p. 113.

A look at the investments of PNB, which includes those of its subsidiary ASNB, show how huge these two corporations are. Table 11 shows the number of companies and the distributions of investment by sector for PNB. In 1985, PNB and ASNB have 159 companies of which 103 were quoted companies, with a total share value of $6,163 million as of December 1985. Their investments are in plantations ($2,353.8 million), finance ($1,684.9 million),

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34 New Straits Times, May 21, 1986.
manufacturing ($1,241.6 million), properties ($560.4 million), and mining ($322.4 million), in that order.

The examples of PNB and ASNB are illuminating. Operating as publicly owned companies with public funds, but with a mandate to benefit only the Bumiputeras, PNB and ASNB disregarded the interests of the non-Bumiputera community. While there was talk of opening up the unit trust to everyone when the NEP is achieved, 35 political pressures from the Bumiputera community are likely to make this impossible. 36

The process of private corporate transfer seems to signify a policy in which the priority is the transfer of wealth, rather than the creation of an environment for Bumiputera entrepreneurship development. That is to say, the official version of creating a Bumiputera entrepreneurial community is really a process of concentrating on the transfer of business assets rather than making the Bumiputeras self-reliant or independent. In the long run, whether this would have a negative effect will take time to

35 _PEER_, Jan 23, 1981.

assess. Meanwhile, the transfer of shares by PNB to Bumiputera individuals is lauded as a big step.

C. Bumiputera Ownership of the Non-corporate Sector.

The ownership and participation of Bumiputera in the non-corporate activities of the economy, especially in the small-scale commercial and services sectors through proprietorships and partnerships, showed progress. Bumiputera ownership and participation in these areas provide an important foundation for the efforts to encourage Bumiputera entrepreneurship and equip them with the necessary skills in commercial ventures. The data, as shown in Table 12, indicate that Bumiputera businesses made significant headway in increasing their ownership and participation in the small-scale non-corporate commercial and services sectors during the period 1971-1981.

In the wholesale and retail trade, for example, the number of establishments owned by Bumiputera increased by 10 times over the period, while their turnover increased by almost 40 times. In the services sectors, such as transport, tourist and travel as well as professional services, Bumiputeras also made progress. In the transport sector, in particular, their ownership and participation increased much faster and in a number of services, exceeded those belonging to the non-Bumiputeras (see also Table 26 in Appendix).
We must note that while the ownership and participation of Bumiputeras in the small-scale business were still relatively low, the Bumiputera participation rate in business has increased significantly since the implementation of the NEP. In 1981, Bumiputera enterprises accounted for 24.9% of the total number of businesses registered with the Registrar of Businesses. In 1985, the percentage has gone up to 30.5% (see Table 27 in Appendix).

While Bumiputeras had made progress in a number of commercial and industrial areas, they tended to overconcentrate in a few specific areas such as in the provision of security services, restaurants, construction,
and motor vehicle distributorships. There was indeed insufficient diversity of Bumiputra investment and participation in the commercial and industrial sectors.

D. Bumiputra Ownership of the Corporate Sector

Most discussion of the NEP, in actuality, centers around the statistical target of 30% corporate wealth in the hands of the Bumiputeras by 1990. It is projected that by 1990, corporate share ownership should be divided thus: 30% for Bumiputeras, 40% for non-Bumiputeras, and 30% for foreigners.

Table 13 shows the percentage breakdown of ownership and control of the corporate sector from 1970 to 1990 (for a more detailed table, see Table 28 in Appendix). At the end of the 1970s, ownership of share capital in limited companies by Bumiputera individuals was still low, but had increased from 2.6% in 1971 to 4.3% in 1980. In addition, the share of Bumiputera trust agencies had increased from 1.7% in 1971 to 8.1% in 1980, thus the share held by Bumiputera individuals and Bumiputera trust agencies combined had increased to 12.4%. A massive boost, particularly through the acquisition of shares by the state-owned institutions occurred during the period of the Fourth Malaysia Plan. By 1985, the share of Bumiputera trust agencies had jumped up to 18.4%, and the share of Bumiputera
individuals to 4.6%, making the total shares for Bumiputeras 23%.

Table 13 Malaysia: Ownership and Control of the Corporate Sector, 1971-1990 (%)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Malaysian residents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bumiputra individuals and trust agencies</td>
<td>4.3</td>
<td>9.2</td>
<td>12.4</td>
<td>23.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Bumiputra individuals</td>
<td>2.6</td>
<td>3.6</td>
<td>4.3</td>
<td>4.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Bumiputra trust agencies</td>
<td>1.7</td>
<td>5.6</td>
<td>8.1</td>
<td>18.4</td>
<td>24.8</td>
</tr>
<tr>
<td>Other Malaysian residents</td>
<td>34.0</td>
<td>37.5</td>
<td>40.1</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>2. Foreign residents</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share in Malaysian companies</td>
<td>32.9</td>
<td>31.3</td>
<td>27.1</td>
<td>22.6</td>
<td>19.5</td>
</tr>
<tr>
<td>Net assets of local branches</td>
<td>28.8</td>
<td>22.0</td>
<td>20.4</td>
<td>14.4</td>
<td>10.5</td>
</tr>
</tbody>
</table>

* Figures for 1990 are projection.

Sources: Compiled from, Mid-Term Review of the Third Malaysia Plan 1976-1980, Table 3-5, p.49; Fourth Malaysia Plan 1981-1985, Table 3-14, p. 62; and Fourth Malaysia Plan 1981-1985, Table 9-7, p. 176.

One question appears to be crucial in our analysis. Is the official figure 23% in the Fifth Malaysia Plan for Bumiputera achievements to date accurate? Our evidence suggests that the answer to the question is no. In the past fifteen years (1971-1985), the Bumiputera share in the economy has increased phenomenally. The Bumiputera share in the major sectors is actually more than the 23% reported in the Fifth Malaysia Plan. Government figures not only
under-represent Bumiputera achievements, they have also deliberately over-stated the proportions of shares held by non-Bumiputeras. Table 14, compiled from various sources, shows the actual percentage of Bumiputera ownership in the most important economic sectors.

<table>
<thead>
<tr>
<th>Economic Sectors</th>
<th>Percentage</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plantation Sector</td>
<td>32% (1984)</td>
<td>Fifth Malaysia Plan</td>
</tr>
<tr>
<td>Mining</td>
<td>34% (1982)</td>
<td>MT Review of Fourth MP</td>
</tr>
<tr>
<td>Banking and Finance</td>
<td>69% (1984)</td>
<td>Fifth Malaysia Plan</td>
</tr>
<tr>
<td>Insurance</td>
<td>37.2% (1988)</td>
<td>New Straits Times, Jan 8, 1988</td>
</tr>
</tbody>
</table>

The growth of the Bumiputera share in the economy is most significant in the Banking and Finance sector. The top three banks, Bank Bumiputra, Malayan Banking and United Malayan Banking (UMBC) are all controlled by state-owned institutions -- the Chinese-owned UMBC being taken over by PERNAS in 1976. Sixth-ranked United Asian Bank and seventh-ranked Perwira Habib are controlled by Bank Negara, the central bank. Ninth-ranked Kwong Yik is 51% owned by Malayan Banking and 41% by the UMNO. Number ten, Southern Bank, is controlled by the royal family of Selangor state. Of the top echelon banks, only two, fourth-ranked Public Bank and eight-ranked Malayan United Bank, are in the hands
of Chinese business. In 1980, 77.4% of the local banking industry and 50% of the total banking industry belonged to the state. By 1985, the amount has increased to 69% of the total banking industry. The Fifth Malaysia Plan reports that "in terms of overall equity share in domestic banking and finance companies, the share of Bumiputera interests, including trust agencies, increased from 60% in 1980 to 69%, as of June 1985." By 1988, the figure is closer to 90% by one account.

In the insurance sector, since 1975, out of a total of 41 foreign-owned companies, 31 have restructured with Malay participation in their equity shares. Another report claimed that Malay ownership in these companies is more than 51% equity in seven and more than 10% in 11 companies. By the beginning of 1988, the Deputy Finance Minister Mohamed Farid Ariffin reported that Bumiputeras have a 37.2% interest in local insurance companies as of June 1987.

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37 FEER, 8 May 1981; 2 April 1982.
40 New Straits Times, Jan 8, 1988.
total of $216 million of the $580.7 million total share capital of insurance firms.\textsuperscript{42}

The plantation sector -- which produces rubber, palm oil, and cocoa -- saw substantial increases too. The Bumiputera interest now owned and controlled almost all the major companies such as Sime Darby, Boustead Holdings, Highlands and Lowlands, Barlows Boustead Estates, Harrisons and Crosfield, Harrisons Malaysian Plantations Berhad, Kumpulan Guthrie Sendirian Berhad, and United Plantations Berhad.\textsuperscript{43} The hectarage owned by these companies together with those owned by several other agencies, such as the SEDCs and the Muslim Pilgrim Saving and Management Authority (LUTH), constituted about 32% of the total corporate sector in 1984.\textsuperscript{44}

In the mining sector, the control and ownership of petroleum and natural gas is solely in the hands of the National Oil Corporation (PETRONAS). Tin-mining, once an overwhelmingly Chinese- and foreign-dominated industry, was increasingly encroached upon by the government. PERNAS, together with Chartered Consolidated, has also acquired London Tin Corporation in 1975, the largest tin-mining

\textsuperscript{42} \textit{New Straits Times}, Jan 8, 1988.


\textsuperscript{44} \textit{Fifth Malaysia Plan}, p. 110.
company in the country. The company has since become Malaysian Mining Corporation (MMC) which by 1981 PNB had a majority control. In 1978, it produced 25% of the total Malaysian tin output. In 1981, it controlled more than 29% of the 61,500 tonnes of tin output in Malaysia. By 1982, the percentage share of Bumiputeras in the mining sector was 34%. The MMC also had interests and control in eleven other quoted tin mining companies which were listed in the Kuala Lumpur Stock Exchange (KLSE).

The Fifth Malaysia Plan in 1986, however, omitted the figures on the ownership of share capital of limited companies by ethnic groups and sector, thus hindering comparisons.

In the transportation sector, the public sector virtually controls air and sea transport. The government-owned Malaysian Airline System (MAS) has a monopoly over air transport. The Malaysian International Shipping Corporation (MISC), in which the government has a majority of shares, is the only international shipping company in the country. Through the bureaucratic control of licensing by the Ministry of Public Enterprise, the percentage increase of Bumiputera shares has been

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46 FEER, 4 September, 1981.
47 Fifth Malaysia Plan, p. 110.
tremendous. In 1985, for example, Bumiputeras accounted for 63.9% of the total 4,250 transportation licences issued, compared to 50.2% of the total 6,824 in 1981.48

The four main sectors, banking and finance, plantation and mining, transportation, and manufacturing, account for about 60% of the GNP in Malaysia. While the figures for manufacturing are not available, all the other sectors show a bigger percentage of Bumiputera shares than the government's overall percentage for Bumiputera shares in the corporate sector. If shares of Bumiputeras in these sectors are approximately 30% in addition to other sectors, then it is obvious that its share in the economy is more than 23% as reported.

The above analysis supports the argument that the share of Bumiputeras in the corporate sector has reached beyond the official estimate of 23%.49

While the best effort has been made to gather data in order to present a more complete picture in the proper

48 *Fifth Malaysia Plan*, p. 116.

49 One study done by the Malaysian People's Movement Party (Gerakan) shows figures that are more conservative. In 1983, it was estimated that Bumiputera ownership of share capital in the corporate sector by industry was as follows: Modern Agriculture 45%, Mining 50%, Finance and Banking 70-80%, Manufacturing 18%, Construction and Others 10-15%. Weighted Average is 30%. See Malaysian People's Movement Party, *The National Economic Policy -- 1990 and Beyond*. Kuala Lumpur: Parti Gerakan Rakyat Malaysia, 1984. p. 184.
perspective, the above conclusions are arguably controversial. Part of the problem in this regard is not only the fact that actual access to data is extremely complicated and not always easily calculated, but also a desire by the government to maintain secrets. The chief criticism of the more recent plans is that the government has furnished the public with missing, and sometimes misleading, data.

D. Malaysia Inc. and Privatization: A Retreat or Advance

The logic of the economy — using the state-owned enterprises in particular — flows from the political realm. Economic considerations take second priority. Indeed, the rapid growth of the public sector was paid for with a relatively high level of public investment. This investment was, moreover, financed to a large extent by borrowing from foreign sources, and perhaps more importantly, from other sectors of the economy. This undoubtedly is made at high opportunity cost to the private sector. Moreover, criticisms have been directed at the efficiency of these state-owned enterprises. The performance of many SEDC ventures are cases in point. Questions have been raised whether performance would not have been better had these sectors operated as profit- or growth-maximizing enterprises, free of government control in their operating and pricing and more responsive to market pressures.
On top of that, the economic recession in the early 80s also forced policymakers to reexamine the role of the state in the economy. The sharp drop in the rate of creation of the state-owned enterprises in the late 70s and early 80s was certainly one outward sign of this process of reexamination with an eye to a secular retrenchment in the public sector's share of the GNP.

The Mahathir administration ostensibly sought to answer these questions by two closely related policy initiatives. On February 25, 1983, the Prime Minister announced the concept "Malaysia Incorporated." Its overall objective is to foster public and private sector cooperation. "The private sector will form the commercial arm of the natural enterprise while the government provides the major policy framework, direction and the necessary back-up services." This concept is an adaptation of Japan Inc., which runs parallel to Mahathir's Look East policy.

The direct product of the concept "Malaysia Incorporated" is privatization. At its most basic level, privatization is the direct opposite of nationalization or

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50 Mid-Term Review of the Fourth Malaysia Plan, p. 24.

Through the process of privatization, many organizations that are traditionally under the control of the government will be transferred to the private sector. The Prime Minister made clear repeatedly his intention to remove gradually the state from all sectors where its presence was not essential, that is, where it competed with, or preempted, a role for private enterprise. The Economic Planning Unit has broadly identified agriculture, manufacturing, construction, utilities, transport and communication as sectors for privatization. In 1985, Malaysian Airline System was privatized, and the container terminal of Port Klang and the telecommunications Department were serious candidates.

Why did the government embark on such a move? How should this initiative be interpreted? There are at least two motives: economic and political.

From the economic vantage point, the most obvious reason is that the government has been expanding its activities at such a rapid rate that the costs cannot

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53 Fifth Malaysia Plan, p. 256.
possibly be sustained. The government acknowledged the problem, "The size and extent of the activities of the Government in the economy has increased its financial burden . . . ." 54 Indeed, the problem of overspending was the central problem faced by the economy. The deficit of the public sector as a proportion of GNP, for example, rose from 8.8% during the period 1971-75 to 11.1% during the period 1976-80, and increased to 19.1% by 1983 (see Table 5). With such high budget deficits, the government has gone deeper in debt.

Secondly, it was apparent that there has been an over-proliferation of state-owned enterprises, without an adequate management base to control their activities. 55 From a theoretical vantage point, the proliferation of public organizations could mean that what is in principle a state-run economy is in fact ungovernable. 56 The recent cases of corruption and mismanagement of public funds -- the Bumiputera Malaysia Finance and United Malaysia Banking Corporation scandals are cases in point -- in the Mahathir Administration provide evidence for such a need for

54 Mid-Term Review of Fourth Malaysia Plan, p. 22.
55 One example of low level of government control of state-owned enterprise is in 1983 1/3 of the SEDCs did not submit their annual report.
accountability and responsible management. The new policy thrust was certainly important in halting the growth of state-owned enterprises in the early 80s.

This leads to the obvious implications of handing over some of the tasks traditionally managed by the public sector to the private sector. Indeed, the economic superiority of private enterprise over the public sector is in terms of profit and efficiency.

However, to argue in microeconomic terms is to miss the point of these two initiatives. While the ostensible motive for reversing the process is based on economics, the real reason is political. My argument is that privatization not only would not reverse the process, but it would supplement the already Bumiputera-centric economic policies.

The privatization policy has two political aims. This assertion ought not be controversial if we consider the following arguments. First, they are aimed at transferring ownership to the already emerging Bumiputera managers and entrepreneurs who would ultimately benefit from the scheme. It is not surprising that the areas of privatization are areas where Bumiputera enterprises are most concentrated.\(^\text{57}\) Second, if such processes are unsuccessful, management is

\(^{57}\) Bumiputeras concentrate on few specific areas: provision of security services, restaurants, construction, and motor vehicle distributorships. *Fifth Malaysia Plan*, p. 112.
retained by the state. Milne made an important distinction between change in management and ownership, and change in ownership only. In many cases, ownership changed hands, but management remained the same. If a distinction can be made between "state economy" and "private economy", then privatization should be viewed as the intrusion of the state in the private economy.

Indeed, the tensions between state intervention in the economy and the process of privatization are real. As noted, state-owned enterprises were set up with the aim of increasing Bumiputera participation in the economy. One question is whether the private sector would have enough capital to sustain the huge public sector; for example, telecommunication -- projects was between $4 billion and $5 billion. The second, and more important, question is whether there is sufficient private Bumiputera capital to buy and run the privatized concerns, and if not, how to raise this capital for them, and thus maintain the NEP targets? This is what is meant when Prime Minister Mahathir Mohamad said that the concept will not contradict the objectives of the New Economic Policy.


59 New Straits Times, 6 April 1983.
The reason for some skepticism on the eventual extent of privatization in Malaysia hinges on the policy guidelines issued by the government. "Privatization will be implemented within the context of the NEP and it must be stressed that it will not negate the NEP." The Fifth Malaysia Plan reiterates that privatization "is expected to open up new opportunities for Malaysian entrepreneurs, particularly bumiputeras, within the context of the NEP." A close look at the guidelines drawn up by the Economic Planning Unit in the Prime Minister's Department showed signs of a government intention to intervene in the private economy. Its most important emphasis is that privatization is to be implemented within the context of the NEP as privatization is expected to create new openings for accelerating the reform initiated by the NEP. As one economic adviser of Dr. Mahathir commented, "It (privatization) must be economically feasible, politically acceptable and in line with the NEP." A close look at the guidelines would provide further evidence. They specify that as far as possible the share capital of the company involved in privatization

60 Mid-Term Review of Fourth Malaysia Plan, p. 23.
61 Fifth Malaysia Plan, p. 23.
63 FEER, Sept. 15, 1983.
should be distributed in such a manner that no one interest or company will hold an absolute majority. However, foreign interest in a company participating in privatization may be considered.

Perhaps most important, it says that Malaysian equity in the privatized joint ventures can be up to 70% with at least 30% held by Bumiputeras and, if necessary, about 10 to 15% by the government. Where no foreign interest is involved, the extent of the ownership between Malaysians will have to be decided on a case-by-case basis. In the selection of Bumiputra interests, priority will be given to private Bumiputera interests, depending on the circumstances.

Bureaucrats and government officials' statements point to the same conclusion. "Privatization will result in a democratization of ownership of enterprises within the guidelines of the New Economic Policy."64 Another has said, "the private sector will need to complement a number of activities of the public sector particularly in research, training and management. It would be more involved in policy-making and have to be socially responsible and

64A statement by Tan Sri Ibrahim Mohamed, Chairman of Promet. New Straits Times, 12 October 1983.
sensitive to public aspiration. The then Deputy Prime Minister Musa Hitam himself declared that he wanted to ensure that any act of privatization of any government agency would take into account the participation of Bumiputeras. Minister in the Prime Minister's Department Datuk Abdullah Ahmad Badawi reiterated that these concepts would be planned to help reach NEP objectives.

So where does this leave privatization? A large number of small firms at the margin of state-owned enterprise are certainly candidates for sale to the private sector should interested parties be found. These would include shipping lines, airlines and other odd components of the public sector. Yet all these types of firms taken together represent a very small proportion of the state-owned enterprises in Malaysia. Moreover, the political and economic mechanisms to preserve Bumiputera dominance are already in place. In any case, many of these enterprises exclude the trust agencies, which in the last analysis made no difference for Bumiputera and non-Bumiputera share of the

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65 Statements by Economic Planning Unit Director General Tan Sri Sallehuddin Mohamed, quoted in New Straits Times, 12 October, 1983.


67 New Straits Times, 26 August 1983.

economy. The new policy thrust is very unlikely to result in any significant change in the size and shape of the state-owned enterprises as we know it in the 80s.

D. Conclusion

It is pertinent to reiterate the argument of this chapter by restating that the strategic development of the public sector, the state-owned enterprises, and the trust agencies provided a distinct advantage for the Bumiputera elites to consolidate economic resources on behalf of the Bumiputera community. There were two important policy effects. First, there exists a confrontation between a Bumiputera public economy and non-Bumiputera private economy. The study of state-owned enterprises in Malaysia quickly became a study of competition between Bumiputera public sector and a foreign- and Chinese-dominated private sector. Second, the policy has by and large benefited the urban-based Bumiputera entrepreneurs. The NEP-inspired policies of Malaysia Inc. and privatization, which were a means to relieve the burden of the public sector, are really policies that enhance and reinforce Bumiputera commercial participation.
CHAPTER V

PROCEDURAL CONSTRAINTS:
REGULATORY AGENCIES AND INDUSTRIAL LEGISLATION

"The NEP is not only the allocation of shares or contracts. The NEP covers all economic and social activities."

-- Datuk Sri Dr. Mahathir Mohamad
Prime Minister (1981 - )

In the preceding chapter, we have discussed the steady growth of the public sector and the state-owned enterprises as well as the transfer of corporate equity to Bumiputera individuals by the various trust agencies as a facet of the implementation process of the NEP. Specifically, the institutional arrangements have initiated a productive pattern of Bumiputera capitalist development in the Malaysian economy.

The supplementary utilization of regulatory agencies and industrial legislation in the private sector completes the two-pronged operational strategy needed to implement the


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broad policy goals -- state-assisted Bumiputera capitalist development and state participation in the Malaysian political economy. Control and regulation of the economic mechanism were designed as a set of procedural constraints that would put a significant limit on non-Bumiputera and foreign participation in the private economy. Regulatory agencies and industrial legislation, in short, have led to a total reconstruction of the legal framework within which the private sector has to operate.

Regulatory agencies and industrial legislation, however, remain a neglected topic in most political and economic analysis in the Malaysian literature. This chapter looks in more detail at the political aspects of the procedural constraints imposed by the regulatory agencies and industrial legislation emanating from the NEP. We will examine, in particular, the roles of the Foreign Investment Committee (FIC), the Capital Issues Committee (CIC), the Petroleum Development Act 1974 (PDA), and the Industrial Coordination Act 1975 (ICA).

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2If they are discussed at all, they are viewed in the economic context as no more than a set of government investment programs, or an attempt to provide guidelines for greater efficiency in and the development of industry. Take, for example, David Lim (ed.) Further Readings in Malaysian Economics, Kuala Lumpur: Oxford University Press, 1983. In a comprehensive book such as this one, there is no discussion on the Industrial Coordination Act and Industrial Petroleum Act.
My central argument in this chapter is as follows: regulatory agencies and economic regulations -- representing a combination of administrative and legislative actions -- not only have transformed the nature of industrial activity, but also have enhanced the state's control of the private economy in general. Indeed, the emphasis placed on the need to define industrial policies in the early 70s, as in the case of state-owned enterprises, constituted a symbol of the change of attitude of the state, and the sign of a rupture with the previous economic order.

A. The Rationalization of Regulatory Agencies and Industrial Legislation

The pattern of industrial policy that we are about to describe was strongly motivated by the political rationale of the planners. Its origins lie in three areas: (1) the structural transformation of Bumiputera private capital; (2) the policy goals of the NEP; and (3) the desire to break the economic dependence on foreign capital.

First, the nature of Bumiputera capital is one of the most important factors that determines the drastic regulative measures undertaken by the Malaysian state. Historically Bumiputera capital and non-Bumiputera capital were formed in a totally different manner. On the one hand, the Malaysian economy has been predominantly developed by British capital and immigrant communities. Non-Bumiputera capital, especially Chinese capital, has been relatively
independent of the state. It was self-subsistent and operated within a sphere outside government influence. On the other hand, the inability of the Bumiputera to penetrate into the private sector and the need to accumulate Bumiputera capital mandated governmental activity of some magnitude. After independence, with government efforts, Bumiputera capital began to pick up momentum. In essence, Bumiputera capital can be considered as totally state capital. Meanwhile, the government, with the Bank Negara as the main agent, had persistently attempted to influence the total quantities of credit extended to the economy and occasionally gave guidelines for the commercial banks to give priority to Bumiputeras in their lending.

Another factor that motivated the planners to utilize regulative measures is the NEP target for transferring 30% of the national wealth to the Bumiputeras and the twenty-year time frame. Reaching this 30% objective within the time frame requires more than developing state-owned enterprises and individual entrepreneurship. It calls for the participation of the private sector and the increased role of private investment as well as acquisition of big companies by state-owned enterprises on a grand scale. Such a process can only be hastened by legal and procedural facilitations.

The third consideration that stimulated state regulation was the desire to break the country's economic
dependence on foreign capital. Such a move would give substance to the goal of political independence. This was especially the case during the Mahathir administration where the aim to Malaysianize foreign-controlled interests has been the yeast for further governmental initiatives.

Under these conditions, industrial legislation was utilized as an opportunity to reduce the inter-ethnic economic gaps: defined by a government, they appeared appropriate for promoting certain economic activities, while integrating them into a wider context and, at the same time, capable of meeting certain collective aspirations of the Bumiputera leadership. Indeed, the experiences of industrialized nations, such as France and Japan, and other developing nations, such as Taiwan and Hong Kong, suggest that in order to tackle distributive problems Malaysia needed an industrial policy based less on voluntarism and more on rationalization enforced directly by the state. Only in conjunction with an activist industry policy could more expansional macroeconomic policies begin to address the underlying problems of the economy.

B. Regulatory Agencies and Policy Guidelines

The determination and commitment of Bumiputera governing leadership to institute procedural and legislative reforms to wrestle greater control of the economy were apparent. Practically this means the establishment of an
elaborate array of agencies, committees and advisory councils to serve as channels of communication and policy adjustment. Many of these bodies -- such as the Private Sector Consultative Committee of the National Development Planning Committee (NDPC) and Wages Council -- are relatively unimportant. Others are specialized organizations recognized and approved by the government to function as instruments of policy implementation. These organizations by and large perform policy-making and executive functions. By far the most important of these organizations are the Foreign Investment Committee (FIC) and the Capital Issues Committee (CIC).

1. Foreign Investment Committee (FIC)

The FIC, like the Urban Development Authority (UDA), was the brainchild of then Prime Minister Tun Abdul Razak. Established in February 1974, its principal purpose is to regulate the acquisition of assets, mergers and take-overs of companies and businesses in the country. Tun Abdul Razak said the following in a press conference when issuing the Guidelines: "In the light of the existing pattern and extent of foreign ownership and control, the acquisition by foreigners of assets or interests of Malaysian companies and businesses, through mergers and take-overs, if left unregulated, will further accentuate the present imbalances
and nullify the objectives of the New Economic Policy."\(^3\) The original intention of the FIC was therefore clear. First, it is geared to the objective of the NEP; and second, it is utilized as an instrument to control foreign investment.

The FIC is composed of members drawn from apex government organizations and business groups. The bulk of the membership, however, is contributed by the government. It is chaired by the Special Economic Advisor in the Prime Minister's Department, and its committee is made up of the Governor of Bank Negara Malaysia, Secretary General in the Ministry of Finance, Director General in the Economic Planning Unit, Secretary General in the Ministry of Trade and Industry, and Chairman of the Malaysian Industrial Development Authority (MIDA).

The FIC is a policy formulating body. Its primary task is to formulate policy guidelines on foreign investment to ensure the fulfillment of the NEP. In this regard, it also has the function of coordinating and regulating the acquisition of assets or any interests, mergers and take-overs of companies and businesses. The FIC plays an especially important role. It reviews the criteria and

procedures used by government in regulating the acquisition of assets, mergers and take-overs of companies in the country. In a more important role, the FIC makes recommendations for changes. These recommendations for changes are usually accepted by government.4

Despite the official rhetoric of bringing the private sector into consultation with the government, the private sector is not represented in the committee. The thrust of the composition of the committee, it can be inferred, was to close the operations of government to broader citizen participation. As one study observes, "This is an indication at least that private sector interests are not viewed as useful or reliable in the deliberations of the committee. The key weakness of this absence is that business imperatives will not get as sympathetic a hearing as it otherwise would."5

The FIC's "Guidelines for the Regulation of Acquisition of Assets, Mergers and Takeovers," dictates conditions for corporate ownership transfer. The Guidelines are a means of restructuring the pattern and structure of ownership and

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4For example, in 1981, FIC recommended that Bumiputera interests in Dunlop be raised to 51%. It was accepted by the government. FEER, Nov. 6, 1979.

control of the corporate sector. The principles by which the FIC determine such ownership transactions are directly or indirectly related to the objectives of the NEP in corporate restructuring.

The FIC guidelines apply to the following:

(1) any proposed acquisition by foreign interests of any substantial fixed assets in Malaysia; (2) any proposed acquisition of assets or any interests, mergers and take-overs of companies and businesses in Malaysia by any means, which will result in ownership or control passing to foreign interests; (3) any proposed acquisition of 15% or more of the voting power by any one foreign interest or associated group, or by foreign interests in the aggregate of 30% or more of the voting power of a Malaysian company and business; (4) control of Malaysian companies and businesses through any form of joint-venture agreement, management agreement, and technical assistance agreement or other arrangement; (5) any mergers or take-over of any company or business in Malaysia whether by Malaysian or foreign interests; (6) any other proposed acquisition of assets or interests exceeding in value the sum of $1 million, whether by Malaysian or foreign interests.

While the FIC is said to be directed towards foreign investments, this set of guidelines however shows that it exercises influence on both foreign and domestic investments. The issue that bears the most important implications on redistribution is that both foreigners and Malaysians, if they intend to purchase equity that is more

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6 Guidelines for the Regulations of Acquisition of Assets, Mergers and Take-overs.
than $100,000, have to seek FIC approval. This enables the government to look into the various structures of the companies to make sure they comply with the NEP's objective of Bumiputera participation.

The government has acknowledged that the efforts of the FIC have contributed towards increased Bumiputera shareholding. Between 1981 and 1985, the FIC approved proposals submitted by 1,721 companies. With conditions imposed on Bumiputera equity, these proposals contributed to a higher shareholding by Bumiputera enterprises and institutions.7

2. Capital Issues Committee (CIC)

The Capital Issues Committee (CIC) was set up as the Capital Investment Committee in 1969 after the racial riot by the National Operations Council (NOC) and the Cabinet, under the chairmanship of Tun Tan Siew Sin, then the Minister with Special Functions. It was only legally formalized in the revised Securities Industry Act (SIA) in 1983.8 In effect, it is a "consultative body" which "may

7Fifth Malaysia Plan, p. 111.

from time to time advise the Registrar on matters relating to the securities industry." Its committee comprises the Governor of Bank Negara Malaysia, Secretary Generals in the Ministry of Trade and Industry, the Ministry of Finance, and Registrar of Companies.

The original motive of the CIC seemed to have nothing to do with the NEP since it was established before 1970, at a time of increasing public interest in share investments to safeguard the interests of the public and to encourage the growth of a healthy and orderly capital market. The following statement shows the purpose of the CIC:

The Capital Investment Committee has been established to provide for top level review of the country's industrial development policies and programmes -- both those of the Central Government and of the State -- with a view to co-ordinating these into a stronger, more consistent and integrated development strategy. Particular attention will be given to the encouragement of labour-intensive industries and those industries which have strong export potential. The CIC will identify and enuciate development priorities including the siting of industries in the less developed regions of Malaysia, formulate policy guidelines, and where necessary, propose new incentive measures for the effective implementation of Malaysia's industrialisation drive.

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In effect, it concentrated on only four areas of commercial activities: (i) Approvals for Industrial Projects; (ii) Specific Investment Promotion Programme; (iii) Industrial Development Strategy; (iv) Private Sector Advisory Panel to the CIC.11

Later, when the Capital Investment Committee was renamed Capital Issues Committee, the functions and objectives of the CIC were modified. Specifically, the responsibilities of the CIC are:

(a) to examine all applications by public companies in the issues of shares in Malaysia and in the Kuala Lumpur Stock Exchange (KLSE). All such activities have to be approved by this committee.

(b) together with the Registrar of Companies, to check all activities by public companies, to assure that the Boards of Governors and shareholders are abiding by the 1965 Companies Act, and to protect public interests.

(c) to help the government to formulate policies and regulations for the Merchant Bank business.

While these responsibilities are general enough and may seem harmless, there are two important elements we have to look at. First, while the CIC introduced new and important

clauses designed to prevent insider trading by stockbrokers and market manipulation, it also insists on more disclosure by brokers. Under Part IV of the Act, every share dealer, dealer's representative, investment adviser or investment representative must have a licence issued by the Registrar of Companies (a government appointment under the Ministry of Trade and Industry), who will determine whether "the applicant is a fit and proper person to hold the licence." Furthermore, the Registrar can determine whether the applicant is a "fit and proper person" by demanding to see the details of every single transaction in which he has been directly or indirectly involved over the past 12 months.

Second, perhaps more important, the CIC removes a large part of the responsibility for managing the stock exchange from the committee and places it directly in official hands. This is to tighten control of the Kuala Lumpur Stock Exchange (KLSE) because of accusations of malpractice against traders and brokers. Accusations are increasingly being made that share prices are manipulated, insider trading is common, and listing requirements are frequently broken. On November 1983, the Registrar of Companies revealed that three companies -- two of them housing developers -- had raised $22.5 million from the
public without even registering a prospectus.\footnote{\textit{FEER}, Dec. 1, 1983.} Ironically, this has a negative effect. Improper share swapping by directors of listed companies -- undervaluation of shares prior to acquisition of another company with transfer back at the same price and sale on the exchange after nominee buying -- has been made easier by the CIC policy to encourage enterprise growth by generally undervaluing shares.\footnote{\textit{FEER}, Dec. 1, 1983.}

The above rationalization is economic. There is, however, a political motive for taking over the KLSE. The KLSE has gone through a crisis which was raising doubts about its long-term value as a source of capital and a vehicle for redistributing wealth, since it has a crucial role to play in the transfer of assets from foreign investors and local Chinese to the Bumiputeras. There was a concern about the market's ability to fulfil its economic and social role.

In 1986, a further step was taken. The new guidelines in 1986 set out the criteria and standards for compliance by public companies wishing to issue securities by public issues, rights issues, special issues, bonus issues or share
issues for purposes of acquisitions.\textsuperscript{14} Officially, the publication of the CIC guidelines in 1986 was to enable merchant bankers and directors of public companies as well as the general public to have a better appreciation of the role of the CIC in promoting a strong and healthy securities market in line with the Securities Industry Act 1983.

In reality, however, there were many details that reflect the government's intention of redistribution. First, the new CIC guidelines accord priority to a special issue of shares to Bumiputera investors approved by the Ministry of Trade and Industry in accordance with Government directives and the NEP. Second, before the issuing of shares, the CIC would examine the viability and the profitability of the company. Should future profitability be doubtful, the company may be required to defer the special issue. The issue price would be determined after considering the profitability, dividends, net tangible asset value and the market price of the shares. As a broad benchmark, the profits of the company should be able to support a dividend yield of between 8 and 10%. In instances where special issues are made simultaneously with rights issues, or very near in timing to rights issues, the price of the special

\textsuperscript{14}The Star, April 4, 1986.
issue should not be lower than that of the rights issue so as to be fair to existing shareholders of the company.¹⁵

Many of these policies were without the consultation or participation of the private sector. In 1983, for example, the government proposed changes to the KLSE to enable "the minister to direct the [KLSE] committee to admit any Malay whom he considers suitable to be a dealer in securities [and] to be a member of the exchange."¹⁶ Reactions from brokers, while heated, nevertheless were ineffectual. One broker complained that "the amendments were being rammed down our throats without any consultation."¹⁷

To sum up, the FIC and the CIC form the institutional regulatory superstructure of state intervention in private business and industry. They are concerned directly with capital, approve new issues, monitor bids, and negotiate schemes for assets and domicile transfer. One notable characteristic of these committees is that they tend toward a broad and general mandate, such as to develop policies "in accord with the general health of the economy." In theory, they seek a balance between competing values, being

¹⁵The Star, April 10, 1986.
¹⁶Quoted in FEER, Dec. 8, 1983.
¹⁷FEER, Dec. 8, 1983.
concerned with equity effectiveness as well as with efficiency. In practice, however, the function they perform affirmed the political ideal of the government for redistribution.

The FIC and CIC are more susceptible to political processes than to private sector input. Take, for instance, the takeover of Dunlop Estates by Pegi in 1982. UMNO Youth leader Datuk Suhaime Kamaruddin protested that Bumiputera participation was not sufficient. The FIC immediately made it known that once the offer was completed the share must be raised to 50% from 37.3%. Ghafar Baba, Chairman of Pegi, also immediately responded by saying that the takeover would "reflect the requirements of the New Economic Policy."

C. Industrial Legislation

When the Petroleum Development Act was introduced in 1974 and the Industrial Coordination Act in 1975, industrial policies were officially placed on the political agenda: their preeminence in the political economy was henceforth affirmed forcefully. This corresponded to the procedural constraints imposed by the FIC and the CIC and implementation of the new logic of private sector development as enunciated in the NEP. In general, they

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consisted in taking a number of measures with a view to reorganize the structure and management of the Malaysian economy. Their significance, therefore, needs to be looked at in detail.

1. The Petroleum Development Act 1974 (PDA)

The initial introduction of the Petroleum Development Act 1974 provides the legal form for PETRONAS (National Oil Corporation) — a state-owned enterprise formed along the lines of Indonesia’s Pertamina — to exercise control over the petroleum industry.19 Under the Act, the entire ownership of oil and natural gas resources in Malaysia is vested in PETRONAS. It has the exclusive rights and privileges of exploring and exploiting petroleum resources and complete control over all aspects of the industry, including licensing power. In short, the Act had the effect of nationalizing the oil industry.20


One of the most controversial propositions to emerge from this Act is Section 6A which was inserted in the first amendment in April 1975. This section provides for all companies engaged in the processing and marketing of petroleum and petrochemicals to create a new class of shares called management shares. They will represent 1% or more of a company's capital, and will be issuable only to PETRONAS. Each management share will carry voting rights equal to 500 ordinary shares. In effect, this act gave PETRONAS the power to acquire control of the "downstream" oil companies -- companies that are engaged in refining and production -- for a nominal price.

It was the introduction of the management shares provision into the Act which initially raised fears among foreign oil companies that Malaysia planned some degree of takeover of the oil industry. The Act provides that any company processing or refining petroleum, or marketing or distributing petroleum and petrochemical products in Malaysia may be required to issue to PETRONAS management shares equal to 1% or more of the issued and paid-up capital of the company. Each management share is entitled to 500

(Footnote Continued)

votes per share on any resolution relating to appointment or dismissals. PETRONAS would be able to acquire effective control of a company (by determining the members of the board and management) for a minimal cash outlay. This is viewed with concern by foreign petroleum and petrochemical firms and holds the potential of de facto nationalization without full compensation.22

The second controversial provision is that the Act extends the powers of PETRONAS to include the marketing and distribution of petroleum or petrochemical products. The original 1974 Act only provided that the refining, processing or manufacturing of such products come within its scope — that is, the permission of the Prime Minister is required for any companies other than PETRONAS to carry on such business. This extension came as little surprise to those concerned; it is generally considered that marketing and distribution were omitted from the original Act due to an oversight in drafting.

Strong protests from the oil companies induced marginal changes in the legislation. The high decibel level of complaint surely derived in part from the fact that the PDA affected a much broader segment of the oil industry than did any other programs. Introduced as the Petroleum (Income Tax)

22FEER, October 29, 1976.
Amendment Act, the second amendment contains two modifications. First, it deleted the provision allowing PETRONAS to take management shares and control of downstream activities. Second, it reduced the tax rate for the petroleum industry from 50 to 45%.

To sum up, the PDA is a means for the Bumiputera ruling strata to take control of the management of the oil industry in particular. As one commentator put it, the PDA "sought to make drastic changes in the structure and management of the petroleum industry in Malaysia." In a larger sense, it reflects their policy intention of meddling into the industrial operation for an objective. It is a small instance of the larger phenomenon at work.

2. The Industrial Coordination Act 1975 (ICA)

The origin of the ICA went as far back as 1969, when Federal Industry Development Authority (FIDA) suggested legislation to the CIC. The main reason for such a proposal was to protect the positions of the new manufacturers, to avoid competition with established manufacturing industries. In addition, it was to limit certain types of manufacturing

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industries, and to encourage investment in certain industries in order to achieve the objective of industrial diversification. A working committee was set up in June 1970 to look into the legislation and was introduced in April 1975.

The ICA extended to the entire manufacturing sector and provided the framework for the licensing and regulation of industrial investments in the country. The principal objectives of the ICA, as enunciated by the Minister of Trade and Industry, are to enable the Ministry charged with industrial development to coordinate various aspects of the manufacturing sector, to ensure orderly industrial development in the country, to ensure orderly development and growth of industries, and to facilitate the collection of industrial information.

While these objectives seem harmless enough in a broad sketch, a closer look reveals many of the important intentions of the policy planners. First, the ICA stipulates that all manufacturing activities with shareholders' funds of at least $250,000 and with at least 25 full-time paid employees must apply for a manufacturing licence. Second, it gave the Ministry of Trade and Industry the authority in deciding whether an application for a licence should be approved or refused. Clause 4, Section 4 of the Act states that "The Minister, in issuing a licence, may impose such condition as he may think fit" with which the manufacturers
must not fail to comply. It will consider whether the issue of a licence is "expedient in the national interest" and would "promote the orderly development of manufacturing activities." The Minister is also vested with supreme power to decide on the transferability of licence and the variation of licensed products, and to revoke at any time the licence of any manufacturers who fails to comply with any of the numerous restrictions and conditions to be imposed.

The ICA gave the bureaucracy vast powers to control and regulate private industry. Furthermore, its jurisdiction over the awarding of industrial licences gives it a predominantly distributive impact. Since all existing scheduled industries were required to register with the government, and a licence was required before any new facilities could be built, the regulative power of the government was certain. Once registered, the industries became subject to government regulations which included the power to: investigate their operations and issue directives for changes; assume management and control of industries where warranted; and control the supply, distribution and prices of their production.

The ICA affected new or recent foreign investments in manufacturing, which already required approval from FIDA to qualify for promotional tax incentives. The restructuring targets of the NEP require practically every individual
company to be licensed under the Act. Its principal target, however, is established foreign and non-Bumiputera firms that failed to live up to the NEP's requirement of 30% Bumiputera employment and ownership participation in the commercial and industrial sectors.

The political response of non-Bumiputera business to these regulations has been vigorous. For the non-Bumiputera businessmen through the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCIM), the objections were twofold: the general objective of the ICA, and the content of the ICA.

As far as the general objectives of the ICA were concerned, critics argued that they were just irrelevant excuses. First, enough legislation has also been enacted to govern or regulate manufacturing activities, e.g. Sales Tax Act, 1972 enforced by the treasury, the Excise Tax Act by the Customs, the Forest Rules enforced by the respective State Governments, the Pineapple Industry Ordinance 1957 by the Malayan Pineapple Industry Board, Environment Quality Act, Employment Ordinance etc. Second, industrial information and data could be easily obtained by virtue of the Statistics Act 1965 enforced by the Statistics Department, and also from other government agencies.

Finally, industrial development up till now does not reflect lack of coordination or orderly development. It has not been haphazard as alleged by the Ministry of Trade and
Industry. There might have been some causes of anomalies as in any other sectors, incidentally resulting in wasteful competition and excess production capacity, but subject to prompt adjustments among the manufacturers themselves with negligible impact on the country's industrialization trend. The utilization of investment capital, land and trained manpower could be optimized without the enactment of the ICA. Moreover, coordination is almost impossible given the number of manufacturing establishments in the country. According to the 1982 survey of manufacturing industries, there were 8,343 manufacturing establishments in Malaysia.

As far as the content of the Act was concerned, the main objection was that it vested too much power in the hands of the minister, lacked machinery for appeals, and conditions imposed could be varied as the minister deemed fit. The minister had the authority to issue, refuse or revoke licences and no machinery for appeal was incorporated.

The most important defect of the ICA is that it acts as a disincentive to investment. While the fulfillment of the targets for the private sector requires the maintenance of a conducive investment climate, implementation of the ICA constitutes the primary impediment dissuading the private sector, both foreign and Malaysian business community, including Bumiputeras, from playing the role required of it. The very Act that was designed to help the private sector as
a whole was regarded as its own worst enemy. In 1975, industrial investment applications totalled only 471, compared with the peak of 651 in 1973. The months following the passage of the Act, there were only two or three inquiries of potential investors a month, compared to 50 in the previous period.

The serious setback of Malaysia's investment after the Act raised serious question about its desirability. Amendments to the Act were made in 1977, notably those relating to licensing and equity participation. There were three notable changes. First, manufacturing enterprises with shareholders' funds of less than $250,000 capital will not be required to restructure their equity participation. Second, appeals for grievances arising from implementation of the Act can be made to the Minister of Trade and Industry. And third, a licensing officer who was appointed to consult with the manufacturers in respect of the conditions to be imposed on the licences.

These changes were criticized as cosmetic at best. Such amendments transferred the authority to issue licences from the Minister to a "licensing office" (who is the Secretary...
The "licensing officer" has in effect the same authority as the Minister, that is, he can impose conditions as he thinks fit taking into consideration the national economic and social objectives. Appeals will be allowed if a manufacturer is refused a licence, if it is revoked, or if a transfer of licence is refused. But such appeals can only be made to the minister. He is the sole and final arbiter and his judgement cannot be questioned in any court of law. Ultimate power therefore still remains with the minister and nothing has been changed from the original provision. The uncertainty of having varying conditions imposed on manufacturers remains. The difference, if any, is that the conditions are now imposed by the licensing officer.

In both cases, policy adjustments were minor and marginal. Suggestions from the private sector regarding the establishment of an Advisory Council and an independent Appeal Board were ignored. It is probably the current economic malaise and poor investor confidence which has prompted the government to act determinedly. While some of the detailed provisions were amended or dropped to allay misgivings and to avoid overlap with other enactments, the basic structure of the law remain unchanged. Indeed, the main point of the amendments seems to be the creation of a second tier of administrative machinery that manufacturers
have to contend with without conceding much of the powers of the Act.

In June 1979, the ICA was further amended in response to criticism from the private sector. This time, an Industrial Advisory Council was established. In 1985 further amendments were announced by Trade and Industry Minister Tengku Razaleh Hamzah. There were two important provisions. First, it raised the level of exemption from licensing of manufacturing activities from $250,00 to $1 million or in respect of the number of workers from 25 to 50. Companies with shareholders' funds of less than $2.5 million would also not need to seek approval before they expand production capacity or diversity. In addition, the government has agreed to issue a "clearance letter" to those companies who wanted to comply with the NEP but have not been able to find a suitable Bumiputera partner. This letter is to facilitate their dealings with Ministries and government agencies.

The relaxation of ICA requirements, however, does not mean the aims of the NEP are to be taken any less seriously. Political stability and economic growth advance when all sectors and groups have opportunities to share the wealth. The spirit of the ICA lies in its intention to promote fair access to economic opportunities. Indeed, the Trade and Industry Minister has said that such a relaxation should not be considered as an exemption from the equity conditions.
The relaxation to equity conditions is subject to review after one year. In short, an assurance was made that the ICA changes would not affect the implementation of the NEP.

In sum, the ICA with its derivative regulations have had an adverse impact on the Malaysian manufacturing sector over the past decade. Despite several amendments made after its enactment in 1975, the intrinsically questionable features on this legislation have not yet been removed. The Act retains its character as an instrument, not primarily for regulating the orderly development of manufacturing industries, but for promoting social restructuring. In effect, it acts as an obstacle to investment. The share of real private investment to total investment declined from about 70% in 1970 to 50% in 1985. Despite the introduction of the Investment Incentives Act of 1968 and the locational incentives scheme, which were to encourage domestic and foreign investment, overall investment fell. Table 15 shows the number of approvals of investments by types of incentive. For the cumulative period 1971-75, the total

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27 Trade and Industry Minister Tengku Razaleigh was also reported to have said that the shares must be allocated "as and when there are interested Bumiputera investors." Business Times, December 12, 1985.


29 Fifth Malaysia Plan, p. 13.
number of approval was 2,104. It fell to 1,737 for the period 1976-79.

Table 15 Malaysia: Number of Approvals by Type of Investment Incentives

<table>
<thead>
<tr>
<th>Cumulative</th>
<th>1971-75</th>
<th>1976-79</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneer status</td>
<td>748</td>
<td>420</td>
</tr>
<tr>
<td>Investment tax credit</td>
<td>131</td>
<td>264</td>
</tr>
<tr>
<td>Labour utilization relief</td>
<td>54</td>
<td>28</td>
</tr>
<tr>
<td>Locational incentive</td>
<td>10</td>
<td>46</td>
</tr>
<tr>
<td>Other incentives</td>
<td>48</td>
<td>12</td>
</tr>
<tr>
<td>Without tax incentives</td>
<td>1,113</td>
<td>967</td>
</tr>
<tr>
<td>Total</td>
<td>2,104</td>
<td>1,737</td>
</tr>
</tbody>
</table>

Source: Fourth Malaysia Plan, p. 141.

This survey of the PDA and ICA leads to three observations. First, the major assumption implicit in these laws is that growth and allocation of resources should be looked after wholly or mainly by administrative guidance, promotion and control, and hardly at all by the market mechanism. Government controls are pervasive and the government policy tools for managing the economy are so plentiful that business is totally dependent on government.

Second, since the policy tools designed to manage the economy have made government controls all pervasive, the result is that a large part of a businessman's time and creativeness have to be devoted to manipulating the various control systems.
Finally, in addition to endowing government with vast regulatory powers, the licensing procedure provided an almost unlimited reservoir of benefits which it could distribute to Bumiputera individual businessmen in the private sector. The industrial license was the most important benefit bestowed by government, because it almost automatically provided a near monopoly in the field.

D. The Political Significance of Procedural Constraints

The foregoing analysis of regulatory agencies and industrial legislation suggests that they were primarily designed to impose the state's control over foreign and local investment, and to increase the capacities of the Malaysian state to inspire or direct industrial development. The state, rather than the market, was to be the instrument that selected the firms to survive, reorganized industry, and rejuvenated the Malaysian economy. To that end, product markets were to be made less competitive by regulation.

Fundamentally, this position is dictated by the realization that economic participation is essential for the hegemony of the Bumiputera community. Recognizing this, the UMNO-dominated government has found it necessary to assume an increasingly active role in the economy. The FIC controls the transfers of equity of domestic and foreign investors; the CIC controls the commercial and industrial capital market; the PDA controls the monopoly of the petroleum
industry; and the ICA controls all aspects of manufacturing industry. In short, these industry policies contain one common denominator: the degree of state pressure that is brought to bear on the reorganization and reallocation of resources within industry.

What is the significance of this pattern of industry policy?

First, the post-1970 policy pattern seems to have reinforced the ability of government to intervene into the market for reorganization. The regulative role of the NEP, in terms of management control and industrial legislation, can be regarded as deleterious in the sense that it not only is equipped with disincentives for private commercial ventures, but also acts as a framework of legal jurisdictions for the government to control and take over local and foreign businesses.

Despite the growth and encouragement of the private sector, Malaysian industry policy has tended to reinforce the power and the growth of the state apparatus and the extension of intervention vis-a-vis the private sector, making a further economic implementation of pro-Bumiputera policy while expanding on political control. The growth of regulation seemed to business executives to constitute a dramatic and threatening extension of the power of the government. The result was more the domination of the public sector over private powers than their interpenetration
leading to the creation of a broad area of shared authority. The principal effect of the ICA, for instance, was to strengthen the ability of bureaucratic actors to implement policies for various forms of distribution. Such a system of industrial policies in a mixed economy resulted in government dictating what the private sector could and could not do and also necessitated a complex system of interaction between public and private sectors to the extent that they were expected to play a role in economic development.

Second, the resort to regulatory agencies and regulations vitiated an important component of the Malaysian government's original intention at the time of independence to provide economic management without direct interference in the affairs of the private sector. Although this legislation was designed to integrate the private sector into a national system of economic growth, it actually accelerated a trend toward the disintegration and disinvestment of domestic managers themselves. Private capital gave up most of its authority over investment and resource allocation directly with the autonomy of the foreign investors over the principal preoccupation, shares determination. One unintentional effect of ICA was to turn the private and foreign investors into public antagonists of the state.

In sum, the concentration of responsibility within the Malaysian state tended to extend the willingness of its most
powerful officials to develop an industrial strategy. Power over the direction of economic policy remained with Ministries or committees that had much industrial expertise and explicit responsibility for Malaysian industry. Initiatives remained at the political level where concerns focused not only on the short-term alleviation of inefficiency, but, perhaps more important, the long-term reallocation of investment towards redistribution and state control of the economy.

E. Conclusion

This chapter highlights the procedural constraints imposed by the Malaysian state on the private economy. It argues that the regulatory agencies and economic regulations have transformed the nature of Malaysia's industrial activity. Industrial regulations pit government against business in an adversarial relation marked by widespread litigation among non-Bumiputera and foreign capital. The delegation of broad discretion to regulatory agencies in the final analysis provides the discriminatory implementation of policies. More important, they signify the systematic commitment of the state in the private economy, thereby enhancing and strengthening the role of the state in the political system.
"In trying to redress the imbalance, it will be necessary to concentrate your effort on the Malays, to bring out more Malay entrepreneurs and to make more Malay millionaires, if you like, so that the number of Malays who are rich equals the number of Chinese who are rich, the number of Malays who are poor equals the number of Chinese who are poor and the number of unemployed Malays equals the number of unemployed Chinese . . . then you can say that parity has been achieved."

-- Datuk Sri Dr. Mahathir Mohamad,¹
Prime Minister (1981 -- )

The principal argument of this chapter is that there are significantly more Bumiputera politicians active as businessmen, both on their own behalf and on the UMNO's behalf, and as well, more Bumiputera businessmen active in politics in the post-NEP period than before. The effect of this is the intensification of the Bumiputera State's interest in and involvement in the economy. Many political

¹Quoted in Malaysian Business, October 16, 1986.
bargains were struck between these groups with the consolidation of a horizontal class-based alliance, which ultimately has important implications for policy-making in Malaysia.

A. The NEP and Class Formation -- Neo-Marxist Perspective

A serious accusation by political critics of the NEP was directed towards the objective of the creation of a Bumiputera entrepreneurial community. The creation of a Bumiputera entrepreneurial community, they argued, by and large means that benefits flow to only a small fraction of the community, since state capital, albeit in part committed to a sustained effort for rural development, would concentrate primarily on the commercial and industrial sectors. The urban-biased tendency of such a process would only create Bumiputera "instant millionaires" as opposed to the Chinese "capitalists." What was intended as a benefit to the general Bumiputera community would turn out to be an exclusive opportunity for a specific class of Bumiputeras for wealth concentration.

High-level political officials of course viewed such charges as one-sided arguments, since rural development was also one of the top priorities of government economic policies. However, they did not hide their view that such a pattern of propagating rich Bumiputeras is politically desirable and necessary, and is indeed the ultimate
intention of the NEP economic reform. The outcome may even result in the psychological satisfaction of the Bumiputera community. The quotation at the beginning of this chapter by Prime Minister Dr. Mahathir is indicative of the spirit of this policy direction.

In short, there is a strong argument to be made that a specific class of Bumiputeras has a comparative advantage in the NEP implementation process. The logical question that then arises, who is this class? Are they ordinary folks who climb up the economic ladder, albeit with state assistance, and are therefore entrepreneurs in their own right? Are they state officials, who with bureaucratic advantage and privileged channels, obtain favors for themselves? Or are they those who profit from political influence, using it to acquire wealth? DAP secretary general Lim Kit Siang seemed to have an answer. He charged: "Almost without exception the new Malay rich have acquired their wealth from opportunities afforded by their domination of politics and the bureaucracy. Almost all rich Malays have been political leaders or senior civil servants."^2 While this may sound like political rhetoric at its highest pitch, such a shrewd observation is to a degree supported by Malaysian academics.

The Malaysian neo-Marxist literature, in this regard, is abundant with analysis of what in political context is called class formation. There are two central arguments. First, it is argued that the policy initiation for a capitalist pattern of development was made by a specific Bumiputera class. Indeed, the initial ideas for the formulation of the NEP as embedded in the Bumiputera Economic Congresses in 1965 and 1968 were seen as a broad response by the state to the growth of certain Bumiputera interests — the rising Bumiputera political elites, including investment-conscious individuals drawn from other strata, particularly civil servants and professionals. Using resources in the government, these interests were harnessing the state to their own advantage. The Malaysian state after the implementation of the NEP arguably has been dominated by the hegemonic fraction of Bumiputera capital and the apparatuses and functions of the state have been realigned since 1970 to foster the development of this class. ^ Second, this group of literature claimed that the NEP has by and large benefited a particular class of Bumiputeras. Consequently a Bumiputera upper class emerged on the basis

of state capital vis-a-vis the lower class of Bumiputeras. The popular notion of "the bureaucratic capitalist class" or "bureaucratic bourgeoisie" is a useful conceptual reference.⁴

The general argument from this literature can be summarized as follows: the NEP had benefited only a small number of Bumiputeras — the so-called bureaucratic capitalists; the spoils were going to a few well-connected people with access to loans or new share issues at favorable prices. Such a class relied almost entirely on state-controlled sources for their capital investment.

Such arguments are perhaps the most important contributions made by Malaysian leftist intellectuals and have contributed enormously to our understanding of class formation in Malaysia. While many of these arguments are polemical, in one important respect they offer a sharper dimension to the debate by departing from past patterns of Malaysian research.

⁴"The bureaucratic capitalists today are drawn mainly from the ranks of leading politicians with business connections, businessmen with strong ties with those in politics or the bureaucracy, as well as present and former high level bureaucrats (including military and other government officers) in direct and in indirect control of those enterprises set up or otherwise controlled by the state." K.S. Jomo, "Restructuring Society: The New Economic Policy Revisited," Paper presented at Fifth Malaysian Economic Convention, 1978, p. 15. For a longer list of leftist literature in this regard, see Introduction of this study.
Our contention, however, is that in the final analysis, the most important outcome is not so much class formation, but the effect of this class on the intensification of the Malay State's grip on society. While the top Bumiputera politicians and bureaucrats have forged a close alliance with business, almost all the businessmen are heavily dependent on the state. It is the state, not the businessmen, who are in control. At the same time, the support of the businessmen has measurably strengthened the state and increased its ability to shape social change.

To begin with, the Bumiputera politicians at the top of the political structure provide for the maintenance and expansion of business interest. Beneath them are the top Bumiputera bureaucrats who occupy positions that serve to interlock these relations. Outside the state are those Bumiputera businessmen who have organized politically to further their own economic interest and are allied with the Bumiputera politicians. What I try to do in the following is to provide the nature of the development of Bumiputera political and business class coalescence and its implications for policy-making in Malaysia.

B. The Nature of Bumiputera Politico-Business Relations

There is a complex web of connection between Bumiputera politicians, businessmen, senior bureaucrats, and the aristocracy in the Malaysian political system. As noted,
much has been written about the historically close associations between Bumiputera politicians and bureaucrats. The aristocracy is also an institution that has major political significance in Bumiputera politics. From our perspective, however, the most important relationship of all is that between Bumiputera politicians and businessmen.

The direction of their association is a two-way street, where Bumiputera politicians are often involved in profit-making business transactions and Bumiputera businessmen seek entry into the political arena. Such a relationship, while new, has developed expeditiously with the implementation of the NEP and is now at a flourishing stage. To be sure, there is a considerable duplication of these two roles and the line is difficult to draw between the two. As Beaglehole noted, "What has proved to be of great importance in the long run has been the emergence of a more vocal Malay business class. The considerable overlap of economic and political power within the Malay community has proven the latter ready access to the centers of power within politics and administration, and this has meant that the separation of these two roles is becoming difficult to sustain." The entry of Bumiputera politicians into business and Bumiputera businessmen into politics, and their

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alliance, have important political consequences in the Malaysian context. It is the nature of this relationship, and its political consequences, that most concerns us here.

Before we proceed to discuss the nature of the Bumiputera politico-business class coalescence, we must note the difficulty involved in this analysis. First of all, it is difficult to identify the direction of entry of Bumiputera politicians into business or of Bumiputera businessman into politics. In some cases, the holding of business interests preceded entry into politics. But in other cases, the acquisition of business interests followed the move into the ranks of the professional politicians. Second, there are no data on the number of Bumiputera politicians in business, or for that matter, Bumiputera millionaires. There is little doubt, however, that one of the direct results of the NEP has been the emergence of a generation of Bumiputera nouveau riche. One can make specific observations on certain cases to illustrate the general point.

1. Bumiputera Politics and Business

Since independence, the power of Malaysia's dominant Bumiputera elites has been derived from its relation to the political apparatus rather than its relationship to the economy. In other words, the Bumiputera elite is historically the Bumiputera political class. Accordingly,
the Bumiputera political elite can be defined as those who occupy strategic positions within the ruling party, the governmental apparatus (including the police and army), state-owned enterprises, and who participate in the determination of national policy.

With the implementation of the NEP, however, two groups have emerged within this class of elite. One group is comprised of Bumiputera political elites who also have an interest in the commercial sector and were increasingly involved in business transactions. The other group is an emerging Bumiputera business-owning class. In both cases, their source of support is the state.

This section surveys the first group, namely, the top Bumiputera political echelon in business. The entry of the Bumiputera politicians into business is a recent phenomenon in Malaysia. It takes two forms: as groups (in the form of party organization) and as individuals.

a. Party Organization: The UMNO in Business

The Malaysian political process provides various venues in which both politics and business can easily become one entity. The susceptibility of business to the political process is made possible by the patron-client tradition and political culture. In many ways, the process encourages political parties to operate as business organizations.
Our focus here is UMNO. Figure 1 shows the extent of UMNO's involvement in business.

UMNO's principal investment organ, the Fleet Group, is among the largest in Malaysian business. Through it the party controls a business empire of finance and insurance companies, hotels, and television stations. It also owns 50.3% of the New Straits Times Press (Malaysia), which publishes the New Straits Times, Business Times, and Berita Harian.

UMNO also owns the Koperasi Usaha Bersatu Malaysia, which in turn has extensive dealings in property, banking, and mining businesses. Individual UMNO state divisions, the most conspicuous of which are Pahang, Penang, and Johor, are also involved in various investments.

The policy of privatization in part has provided UMNO's business organizations with huge public projects. Indications are that preference in awarding contracts and in reallocating the services formerly provided by state-run public utilities were given to business organizations associated with UMNO. A case in point is the award of the country's first private TV licence to a joint venture that includes the Fleet Group. Another case is the $1.4 billion North-South Highway being awarded to United Engineer Malaysia (UEM). In 1987, UEM was the successful bidder for the largest public work project. Later it was exposed by the DAP that it was owned by the UMNO.
Figure 1 UMNO Business Network

These politics-business operations were by and large successful ventures, and there are signs that further expansion of UMNO's business connections are coming. Indeed, the UEM is emerging as a kind of holding company on the pattern of the Fleet Group. In early 1988, UEM is buying controlling interests in two companies: publicly listed Aokam, a listed mining company, and Istidaya, a private investment company controlled by members of the UMNO. The two in turn control 15% each of Roxy Electric, a major appliance maker. Roxy has a controlling interest in D&C Bank, the country's fifth largest commercial bank, which until recently, was owned by the family of Deputy Agriculture Minister Alex Lee. Aokam also owns 22.5% of Cold Storage Malaysia, the country's largest supermarket chain. The acquisitions boosted the value of UEM shares on the grey market, where they have been languishing since the company was suspended from the stock market in 1985 and sued over its role in the highway projects.\(^6\)

While the UMNO business empire is extensive, it is also complex. Such complexity leads to confusion in management and bookkeeping. It was reported that the UMNO itself has no idea how much the total business assets are. In early 1988, UMNO's treasurer Datuk Daim Zainuddin tried to remedy this

situation and initiated an urgent internal inquiry into the extent of the assets.  

The general pattern that emerged from this survey is that the UMNO leaders are capable and willing to invest in business to gain more commercial and political clout for their party organization. It is "money politics" that signifies the emerging trend of UMNO political activities.

b. Individuals: Politicians in Business

The Malaysian political system is full of examples of Bumiputera politicians at the highest level using the political base to create a business empire. As is to be expected, there is no aggregate data on the number of Bumiputera politicians in business. The following survey, inescapably a subjective exercise, is an attempt to highlight some of the important cases to illustrate the general point.

The former Mentri Besar (Chief Minister) of Selangor, Datuk Harun Idris, who allegedly provoked the May riots in 1969, is an example of a powerful Bumiputera politician using state resources for personal gain. With the patronage of Tun Razak, he rose to the position of Mentri Besar of Selangor and head of the UMNO Youth. Although his

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7FEER, 10 March, 1988.
involvement in business was prior to the NEP, he was able to create an extensive network of patron-client relations with his followers. Under the Hussein Onn administration, Harun was charged with criminal breach of trust and forging Bank Rakyat documents. Later he was expelled from the UMNO.

Another example is Datuk Syed Kechik bin Syed Mohamed. With Kedah as his base, he started as the Assistant Secretary of the Kedah Alliance Party. Then he was appointed the political secretary to the Minister of Information and Broadcasting. In the 60s and 70s he became a close associate of former Sabah Chief Minister Tun Mustapha and was appointed Senator for Sabah from 1973-77. His involvement in business is extensive. His wealth is reported to be around $800 million.\(^8\) His business interests include Rakyat Berjaya, Syed Kechik Holdings, Syed Kechik Film Production, Malayan United Industries (MUI), Development and Commercial Bank (D & C), Highland and Lowland, Castlefield Development Sdn. Bhd., Asian Finance Publications, Sri Hartamas Development, Asean Investor Group, Penang Regency Hotel, and Solar Organization.\(^9\)

\(^8\)Business Times, 10 May, 1982.

There are many factors that lead Bumiputera politicians to enter business. Probably the most important is the proximity to power. Others have ties with the royal families, and also there are those who have retired from the bureaucracy and military. The political facilitation of these groups for entry into business is therefore self-evident. Of course it would be unfair to generalize that all politicians-businessmen have attained their business wealth through politics. Many of these politicians have succeeded through their entrepreneurial skills and sheer hard work.

Another factor is the existence of state-owned institutions and trust agencies which provide ample opportunities for those Bumiputera politicians who want to be involved. Of the 30% of shares to be held by Bumiputeras by 1990, about three-quarters is to be accounted for by "Bumiputera interest" and only the remaining quarter is to be held by Bumiputera individuals. Such a trusteeship for the Bumiputera community no doubt resulted in very handsome benefits to the (albeit numerically small) emergent class of Bumiputera shareholders.

(Footnote Continued)
Indeed, publicly the issue of shares in Bumiputera economic institutions was much discussed, in particular the alleged restrictive allocation of shares to certain sections of the public and the apparent transfer of very large blocks of shares to single prominent individuals. With almost no degree of risk, some argued, a few rich Bumiputeras who had been able to buy shares were placed in a position of reaping unearned income. In 1978, for example, it was disclosed that several prominent Bumiputera individuals acquired more shares than they were entitled -- the so-called Kementerian shareholders.

Among them were the Sultan of Selangor, Rahim Baba, Chairman of the UMNO branch at Sungai Besi, Ramli Ngah Talib, and UMNO state assemblyman from Perak, Yaacob Harun from Alor Star and Musa Lebai Mat Salleh from Shah Alam, both local branch chairmen of UMNO Youth, and Raja Noorra Ashikin Raja Abdullah, Chairwoman of UMNO Woman's economic bureau. Also implicated were Abu Bakar Rautin, UMNO Member of Parliament for Alor Merah in Kedah, Datuk Haji Ibrahim Mohamed, Chairman of Genting Highlands Hotel, and Datuk Hajjah Aishah Ghani, the Minister of Welfare Services.

More systematic analysis of at least "public" issues does suggest, however, that with some exceptions, shares were distributed among more than the handful. See Mehmet, *Malaysian Development*. 

The ambiguous nature of some state-owned institutions further complicates the picture. One notable example is PERNAS. Since it is not a statutory body, it is not subject to direct Ministerial control. There exists a degree of detachment of the government from the corporation. Apparently this is to show a disconnection between them. At the same time, however, the corporation is clearly controlled by UMNO interests. The Prime Minister is able to issue policy directions to the institution since it is charged with implementing national policy. As a commercial institution, it enjoys huge government funds and political support from UMNO ministers. The connections are so close and obvious that DAP Secretary General Lim Kit Siang once charged that "Pernas is just UMNO in other clothes."\(^\text{12}\)

One example which illustrates the political influence in state-owned institutions in connection with business dealings is the application for business loans. At one point, the opposition charged that "friends, relatives and members of political parties" were getting the lion's share of government assistance from statutory bodies.\(^\text{13}\) MARA was among these institutions. The evidence is that those with party and high level state positions have benefitted from a

\(^{12}\) *New Straits Times*, Jan 22, 1974.

particularly marked level of access to state loan facilities. A study shows that for those Bumiputeras who applied for credit and loans through the established state institutions, at least a third of them have special connections with politicians and bureaucrats.\(^{14}\)

In other cases, elements of corruption are involved. The Bank Rakyat corruption case in the mid-1970s involved a large number of Bumiputera politicians and businessmen which amounted to a Who's Who in Bumiputera politics and business. The Chairman of the board, the former Mentri Besar of Selangor, and the managing director were charged with embezzlement of public funds, and criminal breach of trust.\(^{15}\) The Bank Bumiputera Finance (BMF) scandal in 1983 is also another example of a complex pattern of self-enrichment and the misuse of public funds by political figures. This has raised concern over accountability and whether politicians should be barred from holding office in state-owned institutions.\(^{16}\)

\(^{14}\) Oliver Popenoe, "Malay Entrepreneurs: An Analysis of the Social Backgrounds, Careers and Attitudes of the Leading Malay Businessmen in Western Malaysia," University of London, Ph.D. thesis, 1970, p. 407a. This percentage must be regarded as minimum since 55% did not respond to the question whether they solicited any help in their applications.

\(^{15}\) FEER, July 13, 1979.

\(^{16}\) Star, June 23, 1979.
In any case, the entry of Bumiputera political organization and political elites into business interests in fairly substantial numbers was partly a function of their increasing economic entrenchment or maturity. The NEP opened a whole new venue of opportunities for them in terms of business ventures and investment opportunities. It would appear that the structural change in the economic system brought about by the NEP was particularly conducive to the dramatic entry of the Bumiputera politicians into this part of the economic system. Therefore, their presence in business was if anything greater than the economic strength of the class would suggest.

We should, however, put the involvement of Bumiputera politics in business in perspective. Indeed, such a development was not exclusively a Bumiputera phenomenon. The Chinese and Indian political parties and their politicians were also involved in commercial activities. The Malaysian Chinese Association (MCA), for example, set up the Multi-Purpose Holdings (MPH) in 1979. While officials denied any formal links between the two organizations, the political intent was clear. Rapid growth of MPH was made possible by the subscriptions of many small Chinese investors, either directly or through the MCA's cooperative, the Koperatif Serbaguna Malaysia (KSM -- National Cooperative Society). The idea was to give small Chinese investors something akin to the Bumiputera funds and
corporations. Although MCA has no share in MPH as such, individual party members are shareholders, and the party's Multi-Purpose Cooperative Society has a sizable stake in the company.\footnote{FEER, Sept. 3, 1982.}

The Malaysian Indian Congress (MIC), on the other hand, established the Nesa Cooperative Society. Like the MPH, this society has been involved in massive capital operations designed to protect the economic interests of the Indian community.

Both these cooperatives were largely a response to the proliferation of state-assisted Bumiputera agencies and the strict regulatory measures of the Industrial Coordination Act (ICA). There is, however, a big difference. Government Bumiputera agencies are state-based, and eventually turned party-based, whereas the Chinese and Indian capital operations were party-based and derived their capital resources from the respective communities.\footnote{Officially the aims of these cooperatives were coined in broader terms. The aim of the MPH, for instance, according to official documents, is "to foster, promote, advance and secure inter-communal economic cooperation in keeping with the economic policy of the nation." FEER, Sept. 3, 1982.}
2. Bumiputera Entrepreneurs and the Business Class, and their Relation to Politics

The involvement of Bumiputera businessmen in UMNO politics is not a new phenomenon. What is new, however, is the number and the nature of Bumiputera businesses involved. Traditionally, the UMNO membership was mostly comprised of rural upper class such as the village headmen (penghulu) and government servants (mainly school teachers.)\textsuperscript{19} Quite a large portion of the UMNO members identified themselves as "businessmen," which evidence suggests, were merely village traders and owners of small shops.\textsuperscript{20}

Surveys of the UMNO leadership in the pre-1969 and early 70s periods also show that the largest group of the UMNO leaders were drawn from the bureaucratic class (including teachers). Businessmen and professionals, though conspicuous, comprised only a small portion.\textsuperscript{21}

The socioeconomic effect of the NEP, with the emergence of the Bumiputera entrepreneurs and business class, signified a change in the nature of UMNO politics. In terms of characteristics, the post-1970 Bumiputera entrepreneurs

\begin{itemize}
\item \textsuperscript{20}Funston, Malay Politics, p. 103.
\item \textsuperscript{21}Funston, Malay Politics, p. 106.
\end{itemize}
are those who own small enterprises, most frequently in commerce, and utilize a component of family labor. A growing number, however, could be classified as small capitalists, employing wage labor. This classification of businessmen differed markedly from those Bumiputeras who identified themselves as "businessmen" in the pre-1969 period.

Our attention, however, is focused on a small but significant group of Bumiputeras who could be identified by the late seventies as a true bourgeoisie or business class. Members of this class own large and complex operations, necessarily divorced from the labor process and even perhaps from the management of some of their holdings.

The political significance of this class is particularly clear from the early eighties. The growing strength of the Bumiputera business lobby was reinforced not only by the growing acquisition of business interests by

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incumbents of high level state positions, but also by the strongly increased presence of businessmen within the UMNO itself. One way to determine this trend is to look at the increase of Bumiputera businessmen as UMNO's candidates for elections.

In 1964, Milne and Ratnam reported that businessmen constituted the largest single group of candidates in the election. Out of a total of 80 parliamentary candidates from the Alliance, almost 24% (19 of them) were businessmen. The indications were, however, that most of these businessmen were non-Malay candidates from the MCA and MIC in the urban areas (32 out of 50 businessmen). Therefore, assuming the remaining 12 were UMNO candidates, it constitutes about 24% of total UMNO candidates. This must be regarded as a maximum estimate. The actual figure should be lower.

This result is further substantiated by Gagliano's study of the occupational background of the 1964 Members of Parliament. His study shows that only 11.8% of the Malay M.P.s were identified as businessmen. Since the study did not categorize M.P.s according to political parties, the

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percentage for the UMNO M.P.s classified as businessmen should be lower. A similar study by Neuman confirmed that the percentage of Malay businessmen in the Parliament is 11.1%.25

Indeed, one of the most important features of the election in 1986 was the extent to which it marked the emergence of a substantial number of UMNO M.P.s with business interests. The following table shows the occupation/position of the UMNO M.P.s in 1986.

<table>
<thead>
<tr>
<th>Occupation/position</th>
<th>number</th>
<th>%</th>
<th>number with business interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbent M.P.</td>
<td>36</td>
<td>42.3</td>
<td>10</td>
</tr>
<tr>
<td>Wage or salaried employee</td>
<td>12</td>
<td>14.1</td>
<td>4</td>
</tr>
<tr>
<td>Businessmen</td>
<td>10</td>
<td>11.8</td>
<td>10</td>
</tr>
<tr>
<td>Professional</td>
<td>9</td>
<td>10.5</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>8</td>
<td>9.4</td>
<td>--</td>
</tr>
<tr>
<td>Unknown</td>
<td>10</td>
<td>11.8</td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100.00%</td>
<td>27</td>
</tr>
</tbody>
</table>


26There is no biographical directory listing the background information of Malaysian public officials. The directories consulted sometimes provide only sketchy information. Though all efforts were made to ensure accuracy of the information, margin should be allowed for error.
In the 1986 election, out of 86 UMNO candidates, 85 were elected to the Parliament, 2 unopposed. At least 11.8% of all new M.P.s were solely classified as businessmen. Since background information on all M.P.s was not available, this must be regarded as a minimal estimate. In addition, there were a number of others, including incumbent M.P.s, wage and salaried employees and professionals, who also had business interests. Adding them up together, those with business interests is as high as 31.7%.

The most prominent figure in the business-political connection is Datuk Daim Zainuddin, a close confidante of Dr. Mahathir, the Prime Minister. After less than five years in business, Daim was appointed Finance Minister in July 1984. He was reported to have property valued close to $600 million. As UMNO party treasurer, he is the owner of Fleet Group, which obtained the contract for TV3. He also has stakes in both Aokam and Cold Storage. Hamilton, a company controlled by associates of Daim, acquired Aokam in 1986 from state-owned Malaysia Mining Corp. In 1987, when Daim was divesting his interests in listed companies, his own

company, Pradaz, sold its controlling interest in Cold Storage Malaysia through a share swap.  

Of course not too much should be made of one man's career, important as his position might be. But his prominence speaks to a larger point regarding the changing nature of party leadership in the UMNO. The governments formed by UMNO predecessors -- Jaffar Onn, Abdul Rahman, Abdul Razak, Hussein Onn -- were really a kind of grand coalition of factions, ranging from the western-educated intellectuals and civil servants to radical religious leaders and regional clique. We would not claim that this tradition has entirely disappeared, but it seems to have receded. The UMNO leadership in the 80s, especially under the tenure of Dr. Mahathir, is composed of bureaucrats, businessmen, and those with business interests. In part this reflected the preferences of Dr. Mahathir, whose motivation to bring the Bumiputera community into the economic mainstream stems from his belief in the "capitalist spirit." In part it also represents the fact that social changes generated by the NEP in the past two decades have simply created a pool of businessmen-politicians.

In an important way, the change in the UMNO leadership style has contributed in part to a shift in emphasis from

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inter-party cooperation to intra-party struggle. The decline in the strength of the moderate element in the UMNO seems to match a trend away from moderate and accommodating policies and towards a harder, more class-based orientation of the party, mirroring the rise in the importance of politics-business connections in the party.

The influence of Bumiputera business in politics derives from three sources: financial contributions, links with decision makers, and group lobbying.

The significance of Bumiputera involvement in politics can be seen from their financial contributions. Many Bumiputera businessmen played a vital role in UMNO politics by contributing their resources at critical moments. For example, in the 1984 UMNO election total money spent on votes was allegedly well in excess of $20 million. Given how little money was spent in the past, such an amount was eye-catching. In his speech, the Prime Minister specifically mentioned the emergence of "money politics" in the election campaign and he observed that in one case, an UMNO member had spent $600,000 to become a division chairman. Consequently, influence over UMNO elections has shifted from

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the rural constituency to the urban-based Bumiputera business community. \(^{30}\)

Another way to look at the involvement of Bumiputera businessmen in politics is to look at the occupational background of the UMNO delegates in the 1987 UMNO General Assembly. The majority of the UMNO delegates were school teachers who traditionally formed the strongest supporters of the party. In 1987, however, the group has declined significantly in term of numbers. On the other hand, Bumiputera businessmen were said to constitute the majority of the delegates. \(^{31}\)

Another issue that has to do with money and politics is the abuse of public issues of shares in party politics. It was reported that major public share offerings were being used as vehicles for financial advantages to influential Bumiputera politicians and businessmen, and helping to

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\(^{31}\) Various writers have made such observations, which probably were impressionistic rather than based on any statistical evidence. Diane Mauzy, for example, wrote the following in a footnote in an article: "An occupational breakdown of the UMNO delegates reveals that the largest groups were businessmen and civil servants, followed by school teachers (who in the past had been dominant among the delegates) and members of Parliament and state assemblymen." Diane Mauzy, "Malaysia in 1987: Decline of 'The Malay Way'?" Asian Survey, Vol. XXVIII, No. 2, February 1988, p. 214.
grease the wheels of the UMNO. The UMNO's holding the public issues shares on behalf of the Bumiputera community is hard to defend, since such a phenomenon breeds fear within the Bumiputera community that there was really a misuse of funds in politics.

The second approach which Bumiputera business uses is to exploit links with decision makers. In this case, the significance is the convergence of interests. The links will take a variety of forms. The most obvious links are personal. The Chairman of the Malay Chamber of Commerce and Industry, for example, was Tengku Razaleigh. Elected as Member of Parliament in 1974, he was at various times Chairman of PERNAS, PETRONAS, and Bank Bumiputera. He was also Finance Minister, Vice-president of UMNO, and was named "Father of the Malaysian Economy." He was the head of the Cabinet Committee that evaluated the Third and Fourth Malaysia Plans. Another Chairman of the Chamber was Senator Kamarul Ariffin. His involvement in politics and business is well-known. He was the chairman of the Private Consultation Committee in preparation of the Third and Fourth Malaysia Plans. A respected banker, he was also Chairman of Bank Bumiputera and the UMNO's Cooperative Bersatu. Apart from

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\[32^\text{th} \text{PERR, Oct 2, 1978.}\]
his own law practice, he owns about 5% of Motorola, and runs the merchant bank Asiawest as well as KAF Discount House.\textsuperscript{33} We must bear in mind that the Bumiputera businessmen operated within the context of a welter of economic policies and competition from non-Bumiputeras -- all of which affected their enterprises. Within this framework, they sought concessions and favors, such as the lifting of unwarranted restrictions for the reward of government contracts. The duplication of roles allowed special concessions to be arranged through personal relationships in the government, the party and elsewhere. While the ad hoc nature of such contacts makes systematic discussion of them difficult, the convergence of interests for Bumiputera business and politics is apparent. Members of the Bumiputera business community identify with the UMNO and feel that "their" party is in power when the UMNO is in office.

Another expression of such a close rapport between Bumiputera politicians and business is the nature of Bumiputera business organization. Many of these organizations were formed under the patronage of prominent Bumiputera politicians. The Petty Traders Association, for example, was inaugurated by Tun Abdul Razak in 1975, and

Ghafar Baba became the patron.\textsuperscript{34} The closeness of these organizations to ministers and civil servants is obviously their greatest asset. This relationship creates an opportunity for exclusive participation in decision making when policy options are open.

Organized influence of Bumiputera businessmen is also evident. Bumiputera business organizations attempted to influence government policies and actions through open lobbying on behalf of their members. These organizations include the Malay Chamber of Commerce and the Kuala Lumpur Malay Petty Traders Association. These groups also serve to represent Bumiputera interests in contact with non-Bumiputera organizations. The former represent close cooperation at both national and state level. The latter was established by Malay petty traders or street vendors at both national and state levels with branches in state capitals -- assisting members to obtain MARA loans. "In fact, MARA made it mandatory that its small loans to petty traders be awarded to Association members."\textsuperscript{35} Each group included some but not all of the Bumiputera businessmen engaged in the same type of business. While not all Bumiputera businessmen

\textsuperscript{34} Lim, "Contradictions," p. 51.

were members of these business groups, comparatively more Bumiputera than Chinese businessmen joined these organizations.\(^{36}\)

The overall picture which emerges from these various patterns of cooperation and patron-client relationship is one of a tightening nexus between state and Bumiputera business class. The ambivalent relationship between Bumiputera business owners and the state thus grows and becomes increasingly complex through a two-way process. On the one hand it occurs through the entry of businessmen into politics; on the other hand it has involved the acquisition of business interests by those in party and state positions and often the exit from such positions to exclusive location within the capitalist class.

In summary, that a Bumiputera business class has emerged during the course of the NEP implementation, and that it has expanded greatly in size in recent decades, should be a matter beyond much dispute. Available evidence regarding property ownership, access to public resources via party channels, institutional entrenchment in chambers of commerce, state-owned corporations and agencies, demonstrate the variety of avenues which have facilitated Bumiputera capital expansion in Malaysia, and the collaboration among

members of the Bumiputera business class to further their mutual interest.

C. Effects of Bumiputera Class Coalescence on Policy Decision Making

In 1969, after analyzing the contributions made by RIDA and MARA for the Bumiputeras, Beaglehole wrote perceptively: "What may prove to be of great importance in the long run has been the emergence of a more vocal Malay business class." Part of what we have done in the preceding sections, in effect, is to confirm this observation. It would appear that during the seventies and eighties a politically conscious and active Bumiputera owning class has emerged in Malaysia, symbolized and necessarily reinforced by the increased presence of businessmen in politics.

However, this is only half the picture. The preceding analysis of the nature of the class coalescence between the Bumiputera politicians and businessmen raises important new questions on the operation of the Malaysian political process. The question is: What is the impact of this class on policy decision making?

The formulation of policy is really a function of the balance of social forces, and class interest is one of them.

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What is important here is the extent to which the increased movement into business of Bumiputera politicians and Bumiputera businessmen into politics enhances the potential for their increased influence over policy.

The coalescence of a Bumiputera politico-business class is particularly important in the articulation of class-based pro-Bumiputera policies. Indeed, some of the shared orientations of this class allow the articulation of policies in the economic and social order which in turn permit them to gain important privileges. As the functionaries of capital, this class controls and directs the productive process and plays a key role in determining the actions of the state apparatus. Moreover, as a political and social nucleus, this class is important not only to Bumiputera business as their political representative; it is also numerically important and politically influential and serves to guarantee the stability of Bumiputera domination.

We must recall that the presence and degree of consciousness of this class were factors in the choice of a development strategy which afforded it a fundamental role. The Bumiputera Economic Congresses in 1965 and 1968, and the subsequent congresses, remain one of the most influential forums on government decision making and policy planning. The extremely close links between Bumiputera business interests, the bureaucracy, and the political center gave
Bumiputera business interest a degree of access to decision makers unmatched by non-Bumiputera interest groups.

Business interests were also served by their financial resources. Since they were one of the few sources of funds, Bumiputera businessmen significantly influenced the course of events in UMNO elections, and hence the nation's policy agenda. Even as early as 1969, Bumiputera business demands were influential in decision-making. For instance, complaints from delegates at the 1968 Bumiputera Economic Congress on MARA loans pressured the then MARA Chairman to announce that the conditions of MARA loans were to be relaxed. 38

Moreover, the increasing participation of large scale Bumiputera capital within the economy, if still limited, was by the eighties, however, sufficient to make its political demands credible. Obtaining a hearing before policymakers was easy. The input usually was carried through. For instance, in early 1987, the National Malay Chamber of Commerce and Industry proposed a $500 million allocation for ailing Bumiputera companies to the Prime Minister. In February 3, 1988, it was reported that the Central Bank

Popular pressure and demands were not simply made by a body external to the state, but also from within. What made them more significant and effective was the fact that these were political groups. The most influential of these groups is the UMNO Youth. In the early 70s, the UMNO Youth, representing the Harun faction within the UMNO, joined by business organizations such as the Malay Contractors' Association, was among those regularly called for a lowering of interest rates of loans provided by MARA.\(^\text{40}\)

Thus it would appear that, from the mid-70s, pressure exerted both inside and outside the UMNO from business as well as political groups had increasingly served to reinforce economic policies. Bumiputeras with business interests would agree to more government involvement in the economy so long as it helps their interest. On one hand the effect of such pressure was the strengthening of the implementation of pro-Bumiputera economic policies. On the other it was to amplify Bumiputera capitalist class interests as applied to the political system. Such collaborative links between government and business led to a

\[^{39}\text{New Strait Times, Feb. 3, 1988.}\]
\[^{40}\text{Gale, Politics, p. 66.}\]
political impact somewhat disproportionate to the economic position of the Bumiputera enterprise.

In contrast, the persistent petitioning of the government by the organizations of Chinese petty capital (in particular the Associated Chinese Chambers of Commerce and Industry of Malaysia -- 19 Chinese Chambers of Commerce through the country) has been largely ineffective because of the clear political weakness of this group in the first decade of independence. Resolutions passed in economic conferences, such as the Malaysian Chinese Economic Conference in 1978, were not followed largely due to the Chamber's political weakness. Drawing the attention of the government becomes extremely difficult.

Thus a full-fledged coalescence of the Bumiputera businessmen and politicians took root. While the state is undoubtedly in control, it would seem that the support of Bumiputera capital is increasingly serving to strengthen the state. The relationship between the Bumiputera political and business elites, therefore, should be conceived as one that provides mutual benefits and consolidates mutual interests. The Bumiputera politico-business elites have come increasingly to assert their interests in the political and economic systems, with the state providing the resources and the businessmen supporting the state. The pattern of development is further reinforced with Dr. Mahathir's emphasis on capitalist development. So far, there is little
indication that this process of assertion would not continue and grow.

D. Conclusion

Parallel with the efforts of state participation, investment, and regulations in the economy are the entrepreneurial and business opportunities being opened up for Bumiputera individuals. In effect, the dynamics of the expansion of indigenous capitalism generated by the NEP implementation has opened up a new venue of development. In this regard, one of the most important policy outcomes of the NEP has been the extent to which it marks the emergence of a substantial number of top Bumiputera politicians with business interests and concomitantly the entry of Bumiputera businessmen into politics. Because their interests coincide, the coalescence of these groups has begun to have profound implications for the policy-making process in Malaysia. Most important, it has provided an increasing grip of political power in the hands of the Bumiputera elites.
CHAPTER VII

THE NEP AS A CATALYST:
MONOLINGUALISM AND SOCIAL RESTRUCTURING IN EDUCATION

"We want a single language and we want a single culture."

-- Datuk Sri Dr. Mahathir Mohamad,¹
Prime Minister (1981- )

Virtually all thinking and discussion about the contents of the New Economic Policy has been couched in an economic context. Research topics centered on poverty eradication, redistribution of economic equity, rural development, and occupational restructuring are among the most predominant in NEP scholarship. Quite rightly, the NEP is defined as an economic document which has a pervasive influence on Malaysian economic life.

The argument of this chapter is that there are policies connected with the NEP in the social and cultural realms,

carefully engineered by the UMNO-dominated government to consolidate its own resources in the Malaysian state and society. These policies were directly or indirectly inspired by the NEP. The central concern of this chapter, therefore, is with the cultural and social aspects connected to the NEP, specifically using education policy as a case study. I will seek to analyze (1) the relationships between the NEP and education policy; (2) the monocultural and monolingual intentions of the education policy; and (3) the occupational restructuring aspects of the education policy.

In the final analysis, my argument is that the NEP acts comprehensively as a catalyst for policy commitments and changes. That is to say, while it did not provide significant changes in the policies which have their roots in the country's political development prior to 1970, the NEP has unquestionably invigorated the commitments of these policies and accelerated their implementation, thereby affecting further change.

A. The Relationships between The New Economic Policy and Education Policy

First of all, it is important to point out that much of the policy agenda in Malaysia has been motivated and formulated with the apparently benevolent objective of
pursuing "national unity."² For the Bumiputera governing elites, national unity a la Malaysia is defined as a stage when Bumiputeras and non-Bumiputeras have closed the economic gap and when the non-indigenous elements have been assimilated into the Bumiputera community. The slogan, "satu bangsa, satu bahasa" (one people, one language), inspired by the pre-World War II Indonesian independence movement in the 1930s, represents the key goal of Malaysian nation-building according to Bumiputera political elites. In this regard it is not surprising that the seeds of those policies that were geared towards such an objective had already been sown prior to 1970. Indeed, the central agenda item of building a state which is geared towards monoethnicism and monoculturalism, with its core buttressed in the ideological underpinning of indigenization, has been pursued by the UMNO-led government most consistently since independence.

Viewing the sequence of policy formulation from the historical perspective, the NEP signifies both continuity and change. On the one hand, the formulation of the NEP provides a continuing and definitive signal that it was not to be a regression in the attainment of national unity, but

²Datuk Hussein Onn, when he was the Prime Minister, once commented that all aspects of government policy were geared towards the attainment of national unity. See New Straits Times, 9 April, 1976. This may be an overstatement, but one can detect almost a fixation with "national unity" in the minds of Malaysian governing elites.
a progression and consolidation of it. This central theme of unity furnishes the best evidence that the emergence of the NEP is inferentially linked to past policies. On the other hand, the NEP changes the logistics in goal-attainment. That is to say, while the ends remain the same, the means employed change in tempo as well as substance. Policies emanating from the NEP ramify a process of cultural and social engineering that is more aggressive in effort and more politically profound in repercussion.

There are two strategies in achieving national unity. One is economic in nature. The institutional configurations and procedural constraints represent one facet of the strategy in achieving this "over-riding objective".

The other facet lies in the policies that are more discreet and noneconomic. In the Second Malaysia Plan, under the heading of "National Unity and the New Economic Policy", the government acknowledged that:

The search for national unity involves the whole range of economic, social and political activities: the formulation of education policies designed to encourage common values and loyalties among all communities and all regions; the cultivation of a sense of dedication to the nation through service of all kinds; the careful development of a national language and literature, of art and music; the emergence of truly national symbols and institutions based on the cultures and tradition of the society.³

³Second Malaysia Plan, 1971-1975, p. 3.
In short, the search for national unity cannot stop at the economic doorstep. Economic means are necessary but not sufficient. Unity has to consist of an additional formulation of an educational policy and a national culture policy. With careful calculation and deliberation, the NEP incorporated these two policies.

In regard to education, the Second Malaysia Plan has aimed for the further "consolidation of the education system to promote national integration and unity"4 -- an objective which can be called the "public face" of Malaysia's education policy.5 The Second Malaysia Plan went on to say that among the main programmes in respect of national integration and unity are:

(i) the implementation, in stages, of Bahasa Malaysia as the main medium of instruction in schools;
(ii) closing the gap in educational opportunities among regions and races.

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4Second Malaysia Plan, p. 231.

5R. Murray Thomas refers to the "two faces" of Malaysian education. "One is public, the other private. The public face is the official visage, the one the government hopes the rest of the world will accept. The private face the government prefers to keep from view, for it reflects vexing political tensions that mark the nation's ethnic relations." See R. Murray Thomas, "Malaysia: Cooperation versus Competition -- or National Unity versus Favored Access to Education," in R. Murray Thomas (ed.), Politics and Education. Cases From Eleven Nations, Oxford: Pergamon Press, 1983, p. 149.

6Second Malaysia Plan, p. 232.
From the first pronouncement, it is apparent that there is an additional intent of the NEP. It is the acceleration of the implementation of Bahasa Malaysia (or Malay) as the main medium of instruction in schools. After the 1969 riots, the National Operations Council (NOC) under the direction of Tun Abdul Razak attributed the lack of progress of Bahasa Malaysia as the main medium of instruction to be one of the major reasons for the occurrence of the tragedy (see Chapter I). Not surprisingly, this policy agenda was integrated into the basic objective of the NEP as a further commitment to promote the implementation of Bahasa Malaysia.

[The New Economic Policy] seeks to bring about a restructuring of the nation's economy so as to ensure a more or less proportionate participation of the different races in the urban commercial and industrial life of the country. The other important area of imbalance is education which has so direct a bearing on economic development and social progress.

The emergence of the NEP also signalled an increase in the importance assigned to education in the government's political strategy. Education, although its roots were already firmly buttressed in Malay-centricism, was regarded as a means to Malay indigenization. While manipulated for political ends, the issue was language. However, the

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formulation of the NEP's objectives, the restructuring of Malaysian society among them, requires the utilization of education as a strategic instrument for achieving political as well as economic ends. Indeed, it is not only seen as an end in itself, but also as a means to an end. As one writer puts it, education policy has "evolved from being an object to becoming an integral subject, or instrument, of national policy-making, producing radical changes in educational organization and orientations in the process."\(^8\) Consequentially, education policy in the post-1969 period has been functionally geared towards the two basic objectives of the NEP: poverty eradication and restructuring of the employment patterns. The Second Malaysia Plan acknowledges that "education is seen as one of the most powerful measures\(^9\) in the restructuring of society.

The above analysis of the interrelationships between these policies paves the way for investigating the elements in the education policy which for its part has assisted in the elucidation of monolingualism and monoculturalism in Malaysia. A study of the education policy will provide us

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with a coherent idea of how the UMNO-dominated government, in the process of consolidating state power, was able to co-opt the Malay elements into the state and society, and how the NEP, with its various policy innovations, has further reinforced and accelerated this commitment.

B. Education Policy and The Politics of Monolingualism

1. Early Roots and Commitments

The history of educational development in Malaysia reveals much about the cultural diversity and political tensions of Malaysia today. There are two important factors that contribute to the multifarious nature of education in colonial Malaya: the historical and cultural heterogeneity of its people, and the noninterventionist disposition of the British colonial administration.

Historical and cultural traditions of the three major ethnic communities -- Malays, Chinese, and Indians -- were diverse and different. As such, separate and distinct systems of education emerged within each community. Naturally the main medium of instruction for education was the mother tongue of each community. The Malays had their traditional and religious Koran schools, and Malay boys were taught to read in Arabic and Roman characters. The Chinese established their schools largely by private initiatives, and Mandarin (then called Kuo-Yu, literary National Language) was the medium of instruction. The Indians, concentrated in the rubber plantations and estates, had their Tamil schools. English schools were set up by missionary bodies, mainly the Roman Catholic and Methodist Churches. English education was first introduced when Penang Free School was established in 1816.

The orientation of the curriculum in these schools, like the medium of instruction, was distinctly ethnic in character. The curricula of Chinese schools, for example, were largely orientated towards China. Such a preoccupation logically reflected the attitudes of the Chinese at that time who regarded themselves as "Overseas Chinese", devoting their allegiance and loyalty to China. Only after the mid 1950s did they begin to rewrite their curriculum content from the local perspective, adjusting them for domestic needs and consumptions. The Indian case was quite similar.
For the Malay traditional schools, the content of their curriculum was primarily centered on Malay society and culture. Until the time of independence in the 1950s, its contents never acknowledged the fact that Malaya at that time had become multiracial or multilingual. English schools predictably were geared towards educating students to become "Englishmen," and their curricula were borrowed from the British system of education.

The division of four distinct systems of schooling along ethnic lines did not matter to the British colonialists whose main concern was to establish a territorial claim and political legitimacy in the Peninsula, as well as to facilitate the extraction of raw materials for their industrial development back home. Before the Second World War, there was nothing that could be called an educational policy. In short, their attitude towards education was indifferent and adopted a position of non-interference. Only when their interests were threatened directly or indirectly did they take some form of action.

If there was a colonial policy at all that effected education, it was the policy of "divide-and-rule". The British attitude on education was closely geared towards separating the three ethnic communities, while securing the support and goodwill of the Malays, which ultimately meant the confidence of the Sultanate (see Chapter I).
If one were to locate the central issue of education in Malaya from the colonial era to the period of independence, it is undoubtedly the language issue. Specifically, it was the altercation between monolingualism and multilingualism.

A need for Malay (later Bahasa Malaysia) to become the National Language that would act as the official language and ultimately a 'lingua franca' for communication between all its citizens has been a continual objective for many Bumiputera elites. The 1957 original Constitution of the Federation of Malaya, Article 152 laid out the language policy: "The national language shall be the Malay language and shall be in such script as Parliament may by law provide, provided that (a) no person shall be prohibited or prevented from using (otherwise than for official purposes), or from teaching or learning, any other language."

Such a provision established firmly the position of Malay as the national language. At the same time this did not imply the disappearance of all alternative modes of language expression of the other communities. However, the gradual, but consistent and determined, phasing out of

Chinese, Tamil, and English schools later on are meant exactly to achieve the latter.

In order to trace the development of this controversial question in Malayan education, one has to look at a series of education committees and their reports, which were either set up by the British administration or the newly elected Malayan government. In 1948, when the Federation of Malaya was established, the British colonial administration considered the need for reviewing the education policy. In 1949, the Central Education Advisory Committee was set up, and the Holgate Report was published in 1950, which advocated two major proposals: (1) English as the medium of instruction, and (2) free education at the primary level. However, it was met with stiff opposition and was later abandoned.

Historical events played a part at this juncture. From 1945 to 1950, the Malay community was involved in the anti-Malayan Union movement, putting great pressure on the British administration to withdraw provisions that were unfavorable to the Malays and at the same time making demands that would benefit them. One of the demands was the improvement of the Malay schooling system.

The Barnes Report was the product of these historical circumstances. A committee under the chairmanship of L.J. Barnes, Director of Social Training at Oxford, was set up "to inquire into the adequacy or otherwise of the
educational facilities available for Malays."\textsuperscript{12} While it touched on many issues including post-secondary education and teacher training, the focal point of the report was the pattern of primary education. It proposed (1) that primary education in Malaya should be organized in such a way as to build a common Malayan nationality, and that it should be reorganized on a new inter-racial basis; that education "is concerned as a school of citizenship, a nation-building school."\textsuperscript{13} (2) that education based on racial communities should be abolished and replaced by a single type of primary school common to all — the National School, which is bilingual (Malay and English).

Predictably such proposals were opposed by the Chinese vernacular schools movement. The United Chinese School Teachers' Association Malaysia (UCSTAM), in a memorandum submitted to the "Select Committee on Education," reiterated that it was "strongly opposed to the recommendation submitted by the Barnes Committee regarding establishment of 'National Schools' all over the country."\textsuperscript{14} Other


\textsuperscript{13}Committee on Malay Education, p. 24.

\textsuperscript{14}The United Chinese School Teachers' Association, Federation of Malaya, "Memorandum on Chinese Education", dated 1st September, 1952. For a detailed account of the role of the UCSTAM, see Tan Puay-Ching, "The Role of the (Footnote Continued)
organizations, including the Chinese newspapers, joined in the protest.

Under such pressures, the British administration appointed another committee to investigate Chinese vernacular education. In 1951, the committee, under the chairmanship of William P. Fenn, an American, and Wu Teh-yao, an official at the United Nations, was set up. 15 The Fenn-Wu Report, as it is now commonly known, was "to make a study of Chinese schools in the Federation" and to make "recommendations that would lead to a greater contribution by Chinese schools in Malaya to the goals of an independent Malayan nation composed of people of many races but having a common loyalty." 16 As one commentator puts it, the Fenn-Wu report "represented the first serious attempt to elaborate a way in which Chinese education could be

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(Footnote Continued)


15 The British administration at first resisted the appointment of Wu Teh-yao because it thought a Malaysian would not be suitable. On the the insistence of William Fenn, the British administration finally approved. This was told by Wu Teh-yao himself in an interview in Sin Pin Daily News, August 23, 1981.

integrated into the broader framework of a national Malayan education."17

If the Barnes Report represents the monolingual approach in Malayan education, the Fenn-Wu report can be considered as a reflection of the multilingual mode of thinking. The Fenn-Wu Report differed markedly from the Barnes Report in that it advocated a system of education that encouraged vernacular education. The ultimate aim of national unity was to be based on the diversity of language and culture in the country. Specifically, Chinese Malaysians, if they chose to be so, could remain trilingual. In short, the Fenn-Wu Report postulated that since language and culture are intertwined, a society which speaks of itself as "multi-racial" should value the contributions of the various ethnic groups to its cultural heritage, and encourage the linguistic expression of cultural pluralism by fostering the retention of the native tongue among its immigrant communities.

the political situation did not support a favorable image of the Malayan Chinese. During the Japanese occupation, the Malayan Chinese were fighting alongside the British forces against the Japanese invaders, but in 1949 when the government in Mainland China was taken over by the Communists, the British administration was cautious about the various activities of the Malayan Chinese and became increasingly vigilant. Domestically, since the establishment of the Federation of Malaya, the British administration had a tradition of taking a minimum interest in the plight of the Chinese community. Moreover, implementation of such a policy proved to be difficult because of financial constraints.\(^\text{18}\)

The Education Ordinance 1952, passed in the newly elected Legislative Council, took up many of the proposals made by the Barnes Report. Amid Chinese protests, three basic principles were adopted: (1) National Schools were used as the basic pattern in primary education; (2) Indian and Chinese vernacular schools were not to be accepted as part of the national system; (3) Tamil and Chinese would be taught as a third language if at least 15 pupils in any standard requested it, thus creating the so-called P.O.L. classes (Pupils' Own Language).

When the Alliance government came into power in 1955, one of its priority plans was the modification and reorganization of the education system so as to establish a more Malay-centric national educational system. Indeed, education was perceived by the Bumiputera political elites as the main tool for social, cultural and political integration and for the forging of a monoethnic society out of the diversified ethnic groups. Since Malay as the National Language had long been associated with national identity and, perhaps mistakenly, with loyalty, Malay monolingualism rather than vernacular education was believed to be the best instrument. In short, vernacular education was regarded as dysfunctional and divisive.

Since 1955, two educational reports have had the most important influence upon Malaysian educational development. They are the Razak Report and the Rahman Talib Report. These two reports provided the fundamental policy guidelines in post-independence Malaysia.

In 1956, one year after the Alliance came into power, an education commission, headed by the Minister of Education, Abdul Razak (later the second Prime Minister of Malaysia, 1970-1976), was set up. The Razak Report had two major recommendations. First, Malay was to be a compulsory subject in all schools since it was the National Language. Second, primary schools were to be divided into Standard Primary Schools in which the medium of instruction is Malay;
and Standard-Type Primary Schools in which the medium of instruction may be Chinese or Tamil or English.

Perhaps the most contended issue of the Razak Report is its "ultimate objective". It states

We believe further that the ultimate objective of the education policy in this country must be to bring together the children of all races under a national educational system in which the national language is the main medium of instruction, though we recognize that progress toward this goal cannot be rushed and must be gradual.

The Razak Report formed the backbone of the Education Act of 1961, which in turn laid the foundation of future Malaysian education policy.

2. Post-Independence Education Policy: Continuity and Change

Against this background stood an educational policy that was Malay-centric in core and character. The nationalist sentiments in independent Malaya in 1957 swept across all major policy decisions, and education policy was no exception. Malay leaders in the government demonstrated decisively a full commitment to the implications of Malay-centricism.

Post-independence Malaysia's formal educational policies until 1970 revealed two trends: a shift in emphasis
away from multi-cultural identity to reforms which went to make up a more Malay outlook; and a further commitment to implement the Malay-centric policies.

The Education Review Committee Report of 1960 represented both of these trends. The major objective of the Rahman Talib Report, as it is commonly referred to, was to review the recommendations made by the Razak Education Committee of 1956. The document contained several specific proposals for reorganizing the educational system. First, government aid to secondary schools would not continue, and government aid would only be given to schools which chose to be converted to National-Type. Second, examinations would only be conducted in Malay and English. These principal points reflected the influence of the Razak Report. This laid the foundation for the formulation of the Education Act of 1961.

Opposition to the Rahman Talib Report from the Chinese education movement was as loud as that to the Razak Report.

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20 In its own words, the aim of the report was "To review the Education Policy set out in Federal Legislative Council Paper No. 21 of 1956 (the Report of the Education Committee, 1956) which was approved in principle by resolution of the Federal Legislative Council on the 16th of May, 1956, and in particular its implementation so far and for the future; to consider the national and financial implications of this policy including the introduction of free primary education; and to make recommendations." Report of the Education Review Committee 1960, Government Press, 1960, p. 1.
Lim Lian Geok, President of the United Chinese School Teachers' Association, wrote:

The Talib Report is a weapon to kill Chinese education. Its damage to Chinese education is more serious than the Colonial Government's Education Ordinance 1952. It is not difficult to look for the evidence in the 1963 Education Act. After the implementation of this policy, Chinese secondary schools were made vulnerable. Even Chinese primary schools will one day be eliminated.  

(Translation mine)

The significance of the Rahman Talib Report was not so much that its ideas and proposals represented a continuation of the Razak Report, which they did, but rather that its publication signified the beginning of a more committed attempt to make them operational. It was clear that the Malay-centricism of the educational system was established by the UMNO-led government. The basic policy and curriculum orientation of the public schools reflected the Malay theory of Bumiputera political domination and economic development.

C. The NEP as a Catalyst: Accelerating the Assimilating and Restructuring Process

The NEP, while not a systematic review of education policy like the other education reports, provides important guidelines that serve to determine the patterns of...

continuity and change in Malaysian education. It touches on two significant areas: the issue of language, and the restructuring of Malaysian society to "correct imbalances" among the various racial communities in the country. From this perspective, the NEP provides additional force to the assimilation of Malaysian educational policy. To the issue of language it adds a new dimension: the socioeconomic issue of educational opportunities.

1. The Continuing Saga of the Language Issue in Educational Policy

The incorporation of the language issue into the NEP has its historical background. One of the causes of the tragedy of May 13, 1969 given by the National Operations Council (NOC) led by Tun Abdul Razak was that the Bumiputeras were dissatisfied by the slow progress of the implementation of the Malay language in the education system (see Chapter III). From this point of view, it is not surprising that the National Language Policy was incorporated into the NEP. Indeed such a perspective reflects the philosophical foundation of the governing elites. In a paper entitled "Our Education Policy," Hussein Onn laid out explicitly the objectives of the government in terms of the guidelines of the NEP:

(a) to develop and strengthen the National Education system in support of the overall planned objective of promoting national unity; (b) to redress the unbalance in educational opportunities and materials between the
rural and urban areas; (c) to implement still further the National Language Policy; and (d) to improve the education system in both its quantitative and qualitative aspects at all levels so as to contribute to our country's economic, social, cultural and political development.22

The consolidation of what was already planted prior to the conception of the NEP in the education system becomes a dominating element in the policy process after 1970.

The Second Malaysia Plan, which incorporated the NEP, has important guidelines for education policy in the four major areas which were singled out for improvement and implementation.23 It further notes that one of the programmes for national integration is "the implementation, in stages, of Bahasa Malaysia as the main medium of instruction in schools."24 Statements to this effect have repeatedly surfaced in subsequent Malaysia plans. The Third


23 These four general areas are: "(a) consolidation of the education system to promote national integration and unity; (b) orientation and expansion of education and training programmes towards meeting the manpower needs of the country; (c) improvement of the quality of education for the building of a progressive society oriented towards modern science and technology; and (d) improvement of the research, planning and implementation capability to meet the above objectives." See Second Malaysia Plan, p. 231.

24 Second Malaysia Plan, p. 231.
Malaysia Plan, for example, noted that "Bahasa Malaysia will continue to be implemented as the main medium of instruction to strengthen the basis for national integration and unity among the people of Malaysia."\textsuperscript{25}

In addition, the Constitutional Amendment Act in 1971, which was formulated in the spirit of the NEP, is clearly used as a supplemental strategy to achieve national unity. The Act defines certain "sensitive issues" such as matters pertaining to citizenship (Pt. III of the Constitution), Malay as the National Language (Article 152), the special rights of the Malays (Article 153), and the Sovereignty of the Rulers (Article 181) to be banned from public debate. Thus the Act can be regarded as an integral part of policy reinforcement for the objectives of the NEP.

The implementation of Bahasa Malaysia as the main medium of instruction was consistent with the policy. By 1975, all subjects, except English and other languages, were taught in Bahasa Malaysia at the primary level in all English medium primary schools (converting them into Malay schools), and by 1982 secondary education, including Form Six, was in that medium. By 1983, all courses, other than languages, for new admission to pre-university students were conducted in Bahasa Malaysia.

\textsuperscript{25} Third Malaysia Plan, 1976-1980, p. 384.
The language issue in Malaysian politics is perhaps best illustrated by three cases in point: the Merdeka University; Section 21 (b) of the Education Act 1961; and the "3R" curriculum.

The Merdeka University issue provides the climactic point in Malaysia's language politics. In response to the rising discontent of Chinese parents about the limited places in tertiary education in the country, Chinese community leaders proposed the establishment of the Merdeka University. Supported by the Chinese community, and led by various Chinese guilds and associations, Merdeka University was to be a Chinese university insofar as the medium of instruction is concerned. The sponsors of the University proposed that they would not challenge the status of Bahasa Malaysia as the national language, but contended that a monolingual education system does not promote national unity. The University would help to relieve the shortage of university places for the Chinese younger generation, and "to help the government shoulder the responsibility in education."26 The quota system implemented by the government had in their view severely curtailed education opportunities for the Chinese community.

Petition was made to the Yang di-Pertuan Agong to grant a charter in 1978, as provided for in the Universities and University Colleges Act of 1971. The UMNO, particularly UMNO Youth, was stridently opposed to it and made public calls for government to reject the plan. Chinese political parties were divided. The DAP was in favor of such a move, while the MCA leadership and its rank-and-file indulged in some desultory arguments in favor of the university in the beginning.

The petition was rejected. Education Minister Datuk Musa Hitam, in the UMNO general assembly September 17, 1978, announced that the government dismissed the proposal based on three grounds: (1) the university would use Chinese as medium of instruction, (2) it would be a private university; and (3) it would cater to students from Chinese-medium schools.\(^\text{27}\)

Another storm has centered around Section 21 (2) of the Education Act of 1961 which states: "Where at any time the [Education] Minister is satisfied that a national-type primary school may suitably be converted into a national

\(^{27}\)After the rejection, the Merdeka University Berhad filed a suit against the Government in the High Court. On November 8, 1981, High Court Justice Datuk Eusoffe Abdoolcader dismissed the suit. Appeal was made again to the Federal Court on February 15, 1982. On July 6, 1982, a 4-1 majority decision turned down the appeal. The dissenting vote by George Seow, a Chinese, was considered to be very significant to the movement. FEER, July 16, 1982.
primary school, he may by order direct that the school shall become a national primary school." This is an issue for the standard-type National primary schools, which primarily applies to Chinese primary schools. While the government admitted that this may have caused the Chinese community much anxiety, it defended this act by saying that it had never been used except once when a Tamil primary school applied to be converted due to financial problems. This issue continued to be one of the main issues in Malaysian politics.

In 1981, another indirect attempt allegedly was made to transform the nature of the Chinese primary schools by implementing Bahasa Malaysia in Chinese Primary schools. The Education Ministry, motivated by the belief that the old system left many young school children unable to read or write, announced the "3R" curriculum (Writing, Reading, and Arithmetic) in all primary schools to be implemented innovatively without the boredom of rote learning. However the Chinese community saw a political motive behind this move. There were three important implications for Chinese primary schools under this system: (1) all teaching materials except for mathematics and Chinese language will be in Bahasa Malaysia; (2) the teaching of subjects such as

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Humanities and Environment, Moral Education and Music will be based on Bahasa Malaysia texts; (3) fifty percent of the songs taught are to be Malay and the rest Mandarin translated from Malay. The Chinese community considered this move as a "prelude" to ultimately alter the essence of Chinese primary schools. The government finally decided to drop the system in 1982 due to stiff opposition.  

In all these cases, the UMNO's stand ranged from tough, which expressed a tone of finality, to flexible, which amounted to testing the water. When the UMNO is confronted with a broad policy issue that it conceives to be non-negotiable, it can be very rigid. In rejecting the Merdeka University case, for example, Datuk Musa Hitam expressed the following hard-line statement, "The education policy is clearly stated and easily understood by anyone interested in education. This decision should be accepted by those who are truly nationalists. Chinese who value their citizenship would appreciate the government's decision on the matter." On the other hand, the UMNO may yield as far as the details of the implementation processes are concerned, but only when opposition is strong enough. In the case of the 3R issue, when a strong opposition denounced the

29 FEER, Jan 22, 1982.
program, the blame was quietly put on bureaucrats who misinterpreted and therefore misimplemented policies.

The Chinese political parties, on the other hand, were divided in all the issues. In the Merdeka University case, the MCA leadership proved to be politically ineffectual, unable to influence policy decisions made by the UMNO, and in the end had to back them. What it finally achieved was the marginal increase (2%) in the non-Bumiputera quota of intakes to the five local universities. The Gerakan expressed doubt over the UMNO decision to reject the Merdeka University project but was sternly condemned by Bumiputera opinions. The DAP gained political capital by making an issue out of the rejection. It introduced a private member's bill in parliament, asking the government to change the law to allow for establishment of private institutions like Merdeka University, but it went nowhere.

In the 3R case, the DAP denounced it; the MCA, which had repeatedly said that it would "sink or swim with the Chinese primary schools," was also tough. The MCA president Datuk Lee San Choon made a public announcement that he would not support such a program. What is significant was that his vehemence in this case was public rather than through the private channel of communication in the cabinet. Behind the

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scene, meanwhile, Deputy Prime Minister Datuk Musa Hitam was assuring the MCA Youth leader Datuk Lee Kim Sai that the Chinese language as a medium of instruction in primary schools would be retained.32

In all these cases, the major interest groups were the UCSCAM, USCTAM, the various Chinese Chambers of Commerce, assembly halls and clan associations. They were either at the forefront of initiating the policy project, as in the case of the Merdeka University, or checking and responding to major or subtle changes in the UMNO's education policies. Lacking political resources and somewhat disorganized, these groups were often at the receiving end of the Malaysian political process.

In conclusion, the continuation and reinforcement of objectives in education policy and the consistent progression of reports, often complementing each other, reflected two political realities in Malaysia. First, they manifested the Bumiputera-centric demands made by Malay nationalists on the Malay-dominated government. The UMNO, in turn, was always ready to respond to popular pressure, partly due to its own political conviction, and partly due to the influence on the party of outside pressure.

32 *FEER*, Jan 22, 1982
Second, these policy actions mirrored the weak links of non-Malay interests and opposition groups with power and influence relative to the Malay-dominated government. Non-Malay interests, while theoretically represented principally by the MCA and MIC in the Barisan government, were only given token recognition. Each time a report or a new initiative was promulgated, that very move created opposition from the non-Malay community. This was the case with the Razak Report, the Talib Report, and the quota system. These two realities remained the case in each subsequent effort as the ethnic hegemonic state strove to maintain its power in a plural society. The MCA, while generally disenchanted about its political position in the Barisan Nasional, nevertheless settled for a pro-government stand in the end. In both parliament and cabinet, the MCA was conceived to be in a policy position opposite to that represented by the Chinese guides and associations.

2. Tertiary Education Policy: The Quota System, Field of Study, and Occupational Restructuring

While the attempts for implementation of Bahasa Malaysia as the National Language were continuing, official thinking moved increasingly toward the economic and social aspects of the educational policy. Specifically, the concern was the question of how to utilize education to achieve the economic and social ends of the NEP. The objective to
upgrade the occupational status of the Bumiputeras was conceived in terms of upgrading their level of education.

The logical step that followed was a formulation of policy linking education with Bumiputera participation so as to achieve social and occupational restructuring. Because of the close link between the level of educational attainment, socioeconomic mobility, and income level, as Hoerr has noted, the emphasis of government policies is on tertiary education. Indeed, the important factor in the distribution of education opportunities is the extent to which Bumiputeras are enrolled in tertiary education.

To put it more succinctly, "nation building" should be viewed as a process which can be achieved in part through the NEP's objective of restructuring society through higher education. Indeed, the commitments of Bumiputera leadership to bridging, narrowing or even closing the ethnic socioeconomic gap were expressed in the platforms of UMNO general meetings and official government statements. The Mid-Term Review of the Second Malaysia Plan reads, "the introduction and expansion of educational programmes to

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34 For a representative account of this view, see Sharom Ahmat, "Nation Building and the University in Developing Countries: The Case of Malaysia," Higher Education, 9, 1980: 721-741.
enable a greater supply of Malays and other indigenous people to meet the requirements of racially balanced employment and a viable Malay commercial and industrial community.\textsuperscript{35}

While primary and secondary education was dominated by the language issue, criteria of admission and allocation of field of study, and the effects on occupational mobility, were the central issues in tertiary education. This section will analyze the two efforts to bring about more Bumiputera educational opportunities — the quota system and redistribution of areas of study — and their effects on occupational restructuring.

a. Quota System

The quota system existed in a different form in the 1960s. It was primarily used to allow Malays with low grades who otherwise would be unqualified to enter the university to do so. No fixed numbers of Malay and non-Malay students were set. After 1970, official thinking was increasingly moving towards the strict use of the quota system for university admission. The Majlis Ismail Report, for example, assumes Malays are a disadvantaged group and therefore

\textsuperscript{35}Mid-Term Review of the Second Malaysia Plan, 1971-1975, p. 184.
academic criteria should not be used alone for admission.\textsuperscript{36} Such a policy suggested that Malay enrollment in tertiary education should be dependent upon ascription rather than achievement.\textsuperscript{37}

This application of the quota system reached its peak in the 1977/78 enrollment year. Statistical information shows that the new students in degree courses in the five universities consisted of 75% Malays and only 25% non-Malays.\textsuperscript{38} This adverse situation for the non-Malays deescalated a little when the Merdeka University issue was hotly debated during that year, and a formula was worked out among party members in the Barisan Nasional, in which non-Malay students would be steadily increased by 2% each year until the number of Malays reaches 55% and non-Malays 45%.\textsuperscript{39}

\textsuperscript{36}Report of the Committee appointed by the NOC to Study Campus Life of Students of the University of Malaya (Majlis Ismail Report), Kuala Lumpur, 1971.


\textsuperscript{39}The government acknowledged that the decision to allocate the percentage of enrollment of various ethnic groups in tertiary education is reached by member parties in (Footnote Continued)
This formula agreement again calls into question how the bargaining process of the Barisan Nasional partners works. In this case, the MCA, after rejecting the Merdeka University project and being pressured by the Chinese community, had to make a political stand and show that it was still a viable partner in the coalition. The MCA leadership demanded to meet with Prime Minister Hussein Onn to discuss the quota for non-Malays and a four-hour meeting took place. MCA President Lee San Choon emerged from the meeting very pleased, and announced that a formula had been reached. The whole process suggests that the conventional image of smooth compromise in the Barisan political coalition is deceptive. Indeed, the apparent compromise in the end explains only the result rather than the process.

In order to see the effects over time of the quota system in tertiary education, an analysis of student enrollment by ethnic groups in the categories of degree, certificate and diploma courses is in order.

(Footnote Continued)
the Barisan Nasional coalition. This is disclosed by the Deputy Education Minister Chan Seng San in an answer given to Parliamentary questions. Nanyang Siang Pau, 26 November 1980. At the same time, the Education Minister Musa Hitam warned that the determination to increase Bumiputera enrollment is a "final decision" and cannot be questioned. Nanyang Siang Pau, 14 November 1980.

40 FEER, August 31, 1979.
Figures for student enrollment at local and overseas institutions by ethnic groups are given in the Mid-term Review of the Third Malaysia Plan and the Fifth Malaysia Plan. As shown in Table 17 and Table 18, they are calculated as the total enrollment by ethnic group (for more detailed tables, see Tables 30 and 31 in Appendix). During the period 1971-1975, the share of Malays to total enrollments in domestic tertiary institutions increased from 49.7% to 65.1%. Much of this increase took place at the degree level. A look at the degree courses category shows that the percentage of Malay enrollments had increased from 39.7% in 1970 to 57.2% in 1975. By 1980, it had come down to 45.4%, and it levelled off at 49.4% in 1985 (see Table 18).

<table>
<thead>
<tr>
<th></th>
<th>1970</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma &amp; Certificate Courses</td>
<td>2,865 (82.9)</td>
<td>11,539 (85.4)</td>
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<td></td>
<td>537 (15.5)</td>
<td>1,810 (13.4)</td>
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<tr>
<td></td>
<td>36 (1.0)</td>
<td>138 (1.0)</td>
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<tr>
<td>Degree Courses</td>
<td>3,237 (39.7)</td>
<td>8,153 (57.2)</td>
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<td>4,009 (49.2)</td>
<td>5,217 (36.6)</td>
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<tr>
<td></td>
<td>595 (7.3)</td>
<td>743 (5.2)</td>
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<tr>
<td>Preliminary &amp; Pre-University Course</td>
<td>520 (30.3)</td>
<td>815 (21.9)</td>
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<td>1,141 (66.4)</td>
<td>2,751 (73.8)</td>
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<td>47 (2.7)</td>
<td>157 (4.2)</td>
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<td>Total</td>
<td>6,622 (49.7)</td>
<td>20,547 (65.1)</td>
</tr>
<tr>
<td></td>
<td>5,687 (42.7)</td>
<td>9,778 (31.1)</td>
</tr>
<tr>
<td></td>
<td>678 (5.1)</td>
<td>1,038 (3.3)</td>
</tr>
</tbody>
</table>

Table 18  Malaysia: Enrollment in Tertiary Education by Ethnic Group and Level of Education in Local and Overseas Institutions, 1980 and 1985 (number and %)

<table>
<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>2,338 (19.6)</td>
<td>8,287 (69.3)</td>
<td>1,205 (10.1)</td>
<td>13,445 (38.5)</td>
<td>16,955 (48.5)</td>
<td>4,072 (11.6)</td>
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<tr>
<td>Diploma</td>
<td>13,809 (59.5)</td>
<td>7,636 (32.9)</td>
<td>1,563 (6.7)</td>
<td>27,151 (66.5)</td>
<td>11,066 (27.1)</td>
<td>2,355 (5.8)</td>
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<tr>
<td>Degree</td>
<td>18,804 (45.4)</td>
<td>18,381 (44.3)</td>
<td>3,928 (9.5)</td>
<td>29,875 (49.4)</td>
<td>24,647 (40.7)</td>
<td>5,581 (9.2)</td>
</tr>
<tr>
<td>Total</td>
<td>34,951 (45.6)</td>
<td>34,304 (44.8)</td>
<td>6,696 (8.8)</td>
<td>70,471 (51.7)</td>
<td>52,668 (38.7)</td>
<td>12,008 (8.8)</td>
</tr>
</tbody>
</table>


Comparably, the percentages for Chinese enrollment in the degree category show a dramatic decline from 49.2% in 1970 to 36.6% in 1975. By 1980, the Chinese student figure reached 44.3% and levelled off at 40.7% in 1985. The percentage of Indian student enrollment showed a decline in the 70s and a slight increase in the 80s.

It must be borne in mind, however, that in the figures for the years 1980 and 1985 (i.e Table 18), enrollment in foreign institutions is included, substantially altering the percentages. Our calculation shows that if foreign institutions are excluded, Malay enrollment remains overwhelmingly high: 62% in 1980 and 63% in 1985. The
figures were 31.2% and 29.2% for the Chinese, and 5.7% and 6.5% for the Indians during the same period.

In the case of enrollments for diploma and certificate courses, the percentage of Malays has been consistently high, 82.9% in 1970 and 85.4% in 1975 (see Table 17). Non-Malay enrollment was 16.5% (Chinese 15.5% and Indians 1.0%) and 14.5% (Chinese 13.4% and Indians 1.0%) over the same period.

The figures in the same category were manipulated in the 80s which make inter-temporal comparison difficult. There are two small but important differences in the Third Malaysia Plan and Fifth Malaysia Plan. First, figures for diploma and certificate courses were aggregated in the Third Malaysia Plan, but were given separately in the Fifth Malaysia Plan. Second, local private institutions and institutions abroad were included in the calculations.

When a comparison is made for the certificate courses in the government sponsored institutions in 1980 and 1985, our calculation shows that enrollments for the three ethnic groups were: Malays 61.1%, Chinese 34.8%, and Indians 3.7% in 1980, and 65.8%, 30.5%, and 3.2% respectively in 1985.

The situation in the diploma category in 1980 and 1985 is overwhelmingly in favor of Malays. Again, if local private institutions and institutions abroad are excluded, enrollments for the three ethnic groups were Malays 93%, Chinese 5.8%, and Indians 0.8% in 1980, and 94%, 5.2%, 0.6%
respectively in 1985. Even when local private institutions and institutions abroad were included, figures for Malay enrollment are still disproportionately high. In 1980, Malay enrollment was 59.5% compared with Chinese 32.9% and Indians 6.7%. In 1985, the figures were 66.5%, 27.1%, and 5.8% respectively.

In order to obtain an accurate picture of what the NEP has done in restructuring the ethnic enrollment pattern in tertiary education, we have separated local private institutions and foreign institutions in our calculation. A case must be made to justify such a subdivision. First, our purpose is to look at the government efforts to increase Bumiputera educational opportunities, and this can only be done through an analysis of enrollments in government financed institutions. The primary consideration of local private institutions and foreign institutions is monetary. Their admission policies do not reflect consideration of racial quotas. Second, nearly all non-Bumiputera students in local private and foreign institutions pay their own way, whereas a majority of Bumiputeras in foreign institutions are sponsored by the Government and its agencies.\(^1\) It is therefore not surprising to find a high proportion of

\(^1\)In 1980, for example, government scholarships were given to 351 Malays, and 2 Chinese for higher education in Australia. See Lim Kit Siang, *Malaysia: Crises of Identity*, Petaling Jaya: DAP, 1986, p. 114.
non-Malay students enrolled in foreign institutions. This is especially the case in degree courses, where numbers of non-Malays in foreign institutions were 14,209 (72.8% of the total), and Malays 5,194 (26.6%) in 1980. In 1985 it was 16,514 (72.8%) and 6,034 (26.6%) respectively (see Table 31). In terms of government dispensations, therefore, the inclusion of the figures for students in the local private institutions and foreign institutions serves only to show that the bias in favor of the Bumiputeras is even greater than suggested by the enrollment pattern in local government and government financed institutions.

b. Field of Study

The second area of education policy in which the NEP has had a substantial impact is the distribution of the area of study by ethnic group. Table 19 shows the enrollments in tertiary education by race and field of study in 1970 and 1975. In 1970, before the launching of the NEP, Malay enrollments were largely concentrated in areas of study in the arts and humanities (arts and language 62.3%, humanities 50%). Except in the area of economics (36.8%), Malay enrollment in other fields was generally low. For example, enrollment in science was 12.4%, medicine, dentistry and pharmacy 17.2%, and engineering 1.3%. Non-Malay enrollment in these courses was disproportionately high.
### Table 19 Malaysia: Enrollments in Tertiary Education by Race and Field of Study, 1970-75

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<tbody>
<tr>
<td><strong>1970</strong></td>
<td></td>
<td></td>
<td><strong>1975</strong></td>
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<tr>
<td><strong>Malay</strong></td>
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<td><strong>Malay</strong></td>
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<td>399</td>
<td>27</td>
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<td>tecture and Town and City Planning</td>
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<td>Statistics, Computer Science and</td>
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<td>Actuaries</td>
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<td>Science and Technology and Applied</td>
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<tr>
<td>Science</td>
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<tr>
<td>Animal Science, Fisheries and</td>
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<td>Forestry</td>
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<td>34</td>
<td>3</td>
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<td>3</td>
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<td>Hotel Catering</td>
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<td>Secretarial Science</td>
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<tr>
<td>Interpretation/Translation</td>
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<tr>
<td>Certificate in English Language</td>
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<tr>
<td>Teaching</td>
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<tr>
<td>Others</td>
<td></td>
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</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>2,865</td>
<td>537</td>
<td>36</td>
<td>19</td>
<td>3,537</td>
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<td><strong>Degree courses</strong></td>
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<td>Arts and Language</td>
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<td>870</td>
<td>210</td>
<td>123</td>
<td>3,337</td>
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<td>661</td>
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<td>52</td>
<td>1,342</td>
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<td>41</td>
<td>17</td>
<td>3</td>
<td>122</td>
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<tr>
<td>cation, Social Science and Social Science with Education</td>
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<td>Islamic Studies</td>
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<td>Diploma in Education</td>
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<td>237</td>
<td>36</td>
<td>24</td>
<td>443</td>
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<tr>
<td>Diploma in Public Administration</td>
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<td>2</td>
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<td>18</td>
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<tr>
<td>Science, Science with Education</td>
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<td>1,222</td>
<td>66</td>
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<tr>
<td>and Applied Science</td>
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<td>10</td>
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<tr>
<td>and Agricultural Engineering</td>
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<tr>
<td>Engineering (including Petroleum) Engineering)</td>
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<tr>
<td>Architecture, Land and Quantity Survey, Town and Country Planning and Evaluation</td>
<td>5</td>
<td>365</td>
<td>11</td>
<td>11</td>
<td>392</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td>3,237</td>
<td>4,909</td>
<td>593</td>
<td>307</td>
<td>8,148</td>
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<tr>
<td>Preliminary and pre-university courses</td>
<td>320</td>
<td>1,141</td>
<td>47</td>
<td>11</td>
<td>1,719</td>
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<tr>
<td><strong>Total</strong></td>
<td>6,622</td>
<td>5,687</td>
<td>678</td>
<td>337</td>
<td>13,324</td>
</tr>
</tbody>
</table>

Source: Third Malaysia Plan, pp. 402 and 403.
This pattern of enrollment changed substantially by 1975. In 1975, 29% of Malays were enrolled in science and technical courses at the degree level, as compared to only 12% in 1970. Malay enrollment in the arts and humanities increased a little, but in science and medicine the enrollment doubled. The increase was especially huge for engineering. However, Malay enrollment in these areas of study still lag behind the non-Malays.

These figures were only available for 1970 and 1975. Figures for 1980 and 1985 were never published. Nevertheless, it is clear that the NEP, as in the case of Bumiputera participation in the economy, has created a momentum in higher education which can hardly be turned back. Malay enrollments in these areas of study can be assumed to have increased in the 80s. Such patterns of education enrollments among the Malays in areas where they were in short supply are in line with the overall manpower needs and the objective of restructuring the racial composition of employment in various occupational categories, which we turn to next.

c. Effects on Occupational Restructuring

The close relationship between education and occupational recruitment produced major changes in the occupational profiles. The changes in the employment profiles of the country during the implementation of the NEP
are in three areas. First, let us consider the employment profile by sector and race as shown in Table 20. The first point to note is that there is a general pattern of Malay increase in the secondary and tertiary sectors. While a majority of Malays are still in the traditional primary sectors in 1983 (66.8%), during the period 1970-1983 there is an increase of Malay participation in the "modern" sectors of the economy: secondary (32.1% to 40.4%) and tertiary (42.6% to 50.1%) sectors. The Chinese, however, are still predominant in the secondary sector in 1983 (49.7%).

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</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>C</td>
<td>I</td>
<td>M</td>
</tr>
<tr>
<td>Primary&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>36.1</td>
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<td>Tertiary&lt;sup&gt;3&lt;/sup&gt;</td>
<td>42.6</td>
<td>45.5</td>
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</tbody>
</table>

Note: M=Malay; C=Chinese; I=Indian.
1. Agriculture, forestry, hunting and fishing.
3. Wholesale and retail trade, banking, public administration, education, health, defence and utilities.

Source: Fourth Malaysia Plan, p. 57; and Fifth Malaysia Plan, p. 96.

Second, let us consider the racial composition of key professions in the country. Table 21 shows a cross-section of racial distribution in the key professions. A high percentage of Chinese are among architects, accountants, engineers, surveyors, lawyers and doctors, while Indian also shows a high percentage as lawyers,
doctors, and veterinary surgeons. From 1970 to 1984, the increase, however, was only in as accountants for the Chinese and as dentists for the Indians. The participation of Malays, on the other, shows in general a pattern of increase in almost all areas, especially with regard to surveyors (from 31.2% in 1980 to 35.8% in 1984); veterinary surgeons (from 17.8% to 26.3%), engineers (from 7.3% in 1970 to 25.2% in 1984), and dentists (from 3.1% in 1970 to 20.3%). While many argue that such a profile still does not reflect the racial composition of the population, it does show a tremendous momentum towards such a configuration.


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<tbody>
<tr>
<td>Architects</td>
<td>4.3</td>
<td>6.7</td>
<td>10.7</td>
<td>15.6</td>
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<tr>
<td>Accountants</td>
<td>6.8</td>
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<td>8.9</td>
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<tr>
<td>Engineers</td>
<td>7.3</td>
<td>7.5</td>
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<td>Dentists</td>
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<td>2.6</td>
<td>10.3</td>
<td>20.3</td>
</tr>
<tr>
<td>Doctors</td>
<td>3.7</td>
<td>4.4</td>
<td>9.7</td>
<td>16.7</td>
</tr>
<tr>
<td>Veterinary Surgeons</td>
<td>40.0</td>
<td>38.6</td>
<td>17.8</td>
<td>26.3</td>
</tr>
<tr>
<td>Surveyors</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>Lawyers</td>
<td>n.a</td>
<td>12.8</td>
<td>14.8</td>
<td>16.0</td>
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</tbody>
</table>

Source: *Fourth Malaysia Plan*, p. 60; and *Fifth Malaysia plan*, p. 105.

Third, in terms of occupational categories (Table 22), which government supporters usually ignore in presenting their case for further implementation of pro-Malay policies,
the profile reflects the racial composition of the population and also the general pattern of increase of Malay participation. In both 1970 and 1985, the largest group of Malays is in the professional and technical groups (47.2% in 1970 and 54.4% in 1985). It should be noted, however, that a large proportion of the members of these groups consisted of teachers and nurses. In all other occupation groups, the general pattern is an increase of Malay participation.

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<tr>
<td></td>
<td>M</td>
<td>C</td>
<td>I</td>
<td>M</td>
</tr>
<tr>
<td>Professional &amp; Technical</td>
<td>47.2</td>
<td>37.3</td>
<td>12.7</td>
<td>48.5</td>
</tr>
<tr>
<td>Administrative</td>
<td>22.4</td>
<td>65.7</td>
<td>7.5</td>
<td>32.4</td>
</tr>
<tr>
<td>Managerial</td>
<td>33.0</td>
<td>51.0</td>
<td>14.3</td>
<td>38.7</td>
</tr>
<tr>
<td>Clerical</td>
<td>23.9</td>
<td>64.7</td>
<td>11.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Sales</td>
<td>42.9</td>
<td>42.5</td>
<td>13.4</td>
<td>48.3</td>
</tr>
<tr>
<td>Service</td>
<td>68.7</td>
<td>20.8</td>
<td>9.6</td>
<td>68.3</td>
</tr>
<tr>
<td>Agricultural</td>
<td>31.3</td>
<td>59.9</td>
<td>8.6</td>
<td>37.0</td>
</tr>
<tr>
<td>Production</td>
<td>51.4</td>
<td>37.0</td>
<td>10.7</td>
<td>52.6</td>
</tr>
<tr>
<td>Total (%)</td>
<td>51.4</td>
<td>37.0</td>
<td>10.7</td>
<td>52.6</td>
</tr>
</tbody>
</table>

Source: Third Malaysia Plan, pp. 82 and 83; Mid-Term Review of Fourth Malaysia Plan, p. 981; and Fifth Malaysia Plan, p. 120.

Two conclusions can be discerned from the above analysis. First, an essential part of education policy is to supply trained professional Bumiputra to meet the NEP objective of employment restructuring. That is to say,
educational attainment is viewed as an effective means of occupational recruitment. The quotas for university entrance and the job preferences for Malays are designed to overcome the Malay under-representation in certain categories of occupation. Second, such restructuring is most successful in the tertiary and "modern" sector. The increased involvement of the state in commerce and industry and its commitments to bring about a professional Bumiputera community have contributed to a more "balanced" occupational profile, especially in the tertiary sector. The agricultural sector, meanwhile, remains relatively unchanged. This is in line with the government objective of cultivating a community of middle-class Bumiputeras.

What is the political implication of these results? First, while the use of ethnic quotas in education and occupation, especially in the civil service, undermines the meritocratic status of both these areas, the real issue is a fairer share of the national "cake." If the expectations of the Bumiputeras become higher and non-Bumiputeras become increasingly dissatisfied, then the real test of the political system is the maintenance of a political as well as economic equilibrium that would satisfy both communities. Second, as tertiary education policy has shaped the character of the Bumiputera middle class, which to a large extent is dependent on the state for resources, it is likely that the UMNO will intensify its efforts in seeking the
political support of this group. To the extent that this group is satisfied with their socioeconomic status, the UMNO can be assured of their allegiance.

D. Conclusion

The NEP has acted as a catalyst both for the intensification of a monolingual education policy and for the objective of social restructuring through tertiary education. The catalytic effects reaffirmed the place of the Malay language and Malay special rights in both education and employment. Indeed, that considerable importance is attached by the Bumiputera policy makers to the continuation of Bahasa Malaysia as the only language and to the promotion of Bumiputera occupational mobility can be discerned from the fact that both of these trends have been reinforced with the implementation of the NEP. The education policy, then, has provided the impetus for further commitment of national unity defined by the Bumiputera elites.
CHAPTER VIII

CONCLUSION:

TOWARDS THE BUMIPUTERA STATE

"The NEP is simply not just some document of economic reform. To the Malays it has become a political, economic and emotional thing now. After Islam and the national language I can't think of anything more important. It has become one of the means to sustain Malay political power."

--- Datuk Abdullah Ahmad, Member of Parliament for Kok Lanas

In this study, I have examined the four areas of the ethnic hegemonic state in Malaysia, namely institutional configurations, procedural constraints, coalescence of the Bumiputera political and business elites, and the catalytic effects of education policy. I have presented these areas as policy implementation processes, policy outcomes, as well as NEP-inspired policies. Taken together, they have helped to transform the structure of the Malaysian state and society.

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1 Quoted in Malaysian Business, October 16, 1986.
A few analytical conclusions can now be suggested about the nature of the emerging ethnic hegemonic state, specifically, about the political program for the development of the Bumiputera State. I shall demonstrate the transparent impact of this transition on Malaysia's state-society relations. Finally, I shall speculate on the nature of future economic policies in the post-NEP era.

A. The New Economic Policy and the Bumiputera State

Our study of the four policy areas of the NEP reveals a Malaysian polity best understood as a hegemonic, not a consociational, or even a quasi-consociational, system. If the Malaysian Constitution can be regarded as a first step toward the consolidation of a Malay State, the NEP can be considered as a supplemental strategy for achieving that political ideal. As we read the evidence, the NEP has been the cause of a shift in the preponderance of political resources to the Bumiputeras. In an important way, it has changed the nature of the Barisan system.

To be sure, there are policy issues (e.g. in the foreign policy and security realms) in which exchange and bargaining between the ethnic leaders may still be quite extensive. Equally obviously, when there is a strong elite consensus in the Barisan Nasional that an issue is threatening their respective positions and credibility, bargaining behind closed doors in the Cabinet and the
Barisan's supreme council -- dubbed by politicians as the "proper channels" -- still seems common.

Nonetheless, the bulk of issues dealing with ethnic configurations that the political system must address are resolved through a process of Bumiputera domination. Bargaining, to the extent that it is meaningful, occurs around the edges of the issues involved. The flavor of this relationship is best indicated by the following statement from a Chinese politician in the coalition: "Our dilemma is the Barisan in recent years has really just worked as an electoral pact rather than a coalition party."\(^2\)

Fundamentally, the nature of the Malaysian political process suggests that the superficial appeal of the idea that the Barisan Nasional should settle value conflicts, provide consensus, and check and balance, is not in tune with reality.

One of the most important factors effecting such a change has been the rise to political prominence of the two-headed Bumiputera elite. Strategies of consensus formation through problem solving, persuasion, bargaining or coercion in the Barisan Nasional are now substituted by strategies of Bumiputera class domination. The complexity of policy issues is reduced through a process of sequential

\(^2\)Quoted in *Asiaweek*, Sept. 6, 1987.
decision-making that concentrates power in the hands of this
group. The significance of this group is out of proportion
to its numbers.

In effect, the NEP network has transformed the
suzerainty of the Malaysian UMNO-MCA-MIC alliance system,
breaking up that coalition's ethnic balance for power. Now,
the alliance between the Bumiputera politico-business elites
is more influential. The growth of Bumiputera business
interests has had the effect of creating a political link
among Bumiputera interests in the UMNO government which is
sufficiently strong to have forced large scale policy
change.

Bumiputera hegemony, however, does not necessarily or
exclusively derive from class solidarity or the controlling
of events. Hegemony comes from the preponderance of
influence exercised by the UMNO in the political process as
the party copes with its own internal conflicts and attempts
to manage anticipated or unanticipated events. Bumiputera
hegemony also does not mean the elimination of dissent.
Instead, it possesses the means to funnel dissent to other
channels and perhaps to suppress them. In our view,
consensus and compromise within the coalition are often
superficial phenomena as a consequence of UMNO hegemony.
Therefore, they should be regarded as a result rather than
an explanation for the Malaysian policy and political
process.
The resultant tendency toward ethnic hegemony and a disregard of plural interests is also evident in the NEP-inspired policies affecting education. That considerable importance is attached by Malaysian educational policy to the continuation of Bahasa Malaysia as the only language and to the development of a national culture with a Bumiputera core is indisputable. Clearly the intention of the UMNO-dominated government to eliminate vernacular education is a strategy of linguistic assimilation. This policy not only is "Malay in symbolism," but is actually Bumiputeraism in core. The process of collective indigenization, which the education policy invoked, is resisted by the plural interests in the society. It is within this policy area that we witness the most explosive issue in Malaysian politics.

From this analysis of the characteristics of the Bumiputera State, the Malaysian state then can be conceived as an institution that is supported by four policy pivots -- institutional configurations, procedural constraints, class coalescence, and NEP-inspired policies. Between each of these pivots, there is little room for concession. There exists a great propensity for the state to create preferential policy change in favor of one ethnic group and

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a particular class. Indeed, all of these policies are by implication concerned with obtaining compliance at the bottom with edicts from the top, and they contain an explicit assumption of ethnic and class hegemony. The image of the Malaysian state as "Bumiputera," seen over time, reflects accurately the ways in which its policies have evolved and improved upon themselves.

B. The Bumiputera State and the Plural Society: Recasting Malaysia's State-society Relations

Malaysia's state-society relations, from the colonial to the present period, have undergone constant changes. Between the two, the entity that has experienced the most transition has been the state itself. The coalition arrangement of the government and structural features of the state have changed in form and substance. In contrast, the Malaysian plural society, characterized by a high degree of social pluralism and low level of national integration has remained remarkably. The change in state-society relations, therefore, is really a function of deviations in the state.

Keeping the plural society as a constant, a comparison can be made between the dominant features of the three patterns of state: the Colonial Administrative State, the Post-colonial Quasi-consociational State, and the Bumiputera State. Table 23 shows the basic features in the three historical state patterns.
For these historical state patterns, perhaps the most important common strand that runs through them is the institutional dominance of the bureaucracy. While the Malayanization process in the 50s had the effect of replacing British bureaucrats by Bumiputera officialdom, its position in the Malaysian polity has remained dominant -- by its rapid expansion in both quantities and functions. Using its well-organized bureaucratic structure, the Colonial Administrative State exercised control over the multi-racial population to consolidate its political and economic benefits. Beside the Malay aristocracy, the colonial bureaucracy was the most visible public institution. The

other institutions and groups (economic as well as political), to the extent they were functional, were relatively weak.

The process for attaining independence invariably brought changes to the nature of the Malaysian state. The state, once dominated by a foreign bureaucracy and jurisdiction, began a process of indigenization. What emerged was a constitutional system of government which gave prominence to Malay special rights, but accommodated non-Malay legitimate interests. The plurality of ethnic interests, albeit in the shadow of Malay dominance, came to the forefront of the Malaysian political theater. Under the best circumstances, consociational politics contributed positively to the stability of the multi-racial polity.

Consociationalism, however, had its limits. Compromises of the three ethnic groups did not gravitate from a political center as much as they were forged from political opposites. In this regard, the UMNO occupied by far the strongest position in the political process. So predominant was the UMNO that the shattering of opposition ideas and interests was often mistaken for consensual politics. During this period, policies of the UMNO-dominated government have always been directed and designed to reconcile the difficult task of inhibiting the political salience of ethnic cleavages and manipulating them for political purposes at the same time.
During the early period of independence, the reasoning of the UMNO elites was probably that the consolidation of constitutional power was a prerequisite of the consolidation of state power, which was in turn a prerequisite for intervention in the economy. State power took primacy precisely because the state was the instrument that the UMNO was likely to use if the politics of cultural pluralism ever gave way to the further consolidation of Bumiputera political power vis-a-vis non-Bumiputera interests. The UMNO elites, at this particular junction of history, did not want to tackle entrenched economic and political interests from a position of organizational weakness; reforms and reorganization of administrative and military institutions were first required. It was unlikely that the difficult task of restructuring political alignment and economic production could be achieved in the absence of Bumiputera-dominated administrative machinery. What this meant was that the ultimate Bumiputera strategy of creating a political system in their own image had to wait.

After the racial riots of 1969, a policy window was wide open. With the formulation and implementation of the NEP, the UMNO was left in its customary position of control over the government and national agenda. As argued in this study, the NEP network, which has the paradoxical objective of redistribution and holding together a plural society, was the principal agent which helped the domination of the
Bumiputera in the political system after 1970. The conventional image of a consensual and quasi-consociational system thus no longer capture the complexity of the working of the Malaysian political system.

These developments raised important new dimensions about the nature of the state. The state, as expressed in the NEP, reflects a complex interplay of institutional, cultural, group and class interests. Clearly, the state in practice is, at the very least, monoethnic and class-based. It serves nationalist and capitalist interests. It sides with Bumiputera capital vis-a-vis non-Bumiputera and foreign capital. In short, it is a Bumiputera State.

So far we have concentrated our analysis on the state. What about the Malaysian plural society? The Malaysian society, evidence suggests, is today more pluralistic than the government-promoted images of silat gayong (a Malay martial art) and wayang kulit (shadow play) would lead one to expect. Malaysian pluralism is both a product of the past and of the present. The historical process in which Malaysian society was formed and the contemporary reality of societal pluralism that grew out of this historical process confirmed the permanence of this characteristic, giving each of Malaysia's diverse ethnic groups powerful claims through history and through its contributions to Malaysian development to share in the control of the community.
Societal pluralism has functioned as a counterforce to any attempt to build a monoethnic state. It is contrary to what the Bumiputeras think of the country -- as a Bumiputera society dedicated to the values of Islamic civilization. Pluralism's resistance to the development of the contemporary Bumiputera State takes the form of political, cultural, religious, and linguistic impediments.

The central question relates to the reconcilability of ethnic and cultural plurality with the Bumiputera State leaders' notions of monoethnicism and monoculturalism. While the society is essentially plural, the state as a political unity is successfully dominated by Bumiputera power. In this regard it is poised to impose from above a set of values for nation-building. While the constitution in plural societies provides safeguards to the rights of different communities, it does not guarantee the proper implementation of policies.  

The difficulty of interpreting Malaysian politics, therefore, lies in these two questions. First, what forms do the tensions between state-society take? Second, if communal peace and political stability are the ultimate end of the Bumiputera State, how are these tensions resolved? In other

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words, what connects the Malaysian Bumiputera State to its plural society? Drawing on a few policy areas of the NEP, I would like to illustrate the tensions between state and society and how the Malaysian political process bridges (or widens) the gap between the Bumiputera State and the plural society.

The adversarial tension between the state and society is found in all these areas. In the area of institutional configurations, for example, state-owned enterprises and regulations remain a distinctive aspect of Malaysia's policy. Industrial regulations pit government against business in a public, adversarial relation marked by widespread litigation with non-Bumiputera and foreign capital. The delegation of broad discretion to independent regulatory agencies in the final analysis provides the potential for discriminatory implementation of policies.

On another level, the emergence of the two-headed Bumiputera elite further aggravates state-society relations. The Bumiputera political class and the Bumiputera community think of the state and society as separated but intimately related. State interests in their eyes are more than the sum total of individual or group preferences. Public sentiments favoring close cooperation between state and society are made compatible by a persistent faith in state "special rights" and "preferential treatment" for the Bumiputeras. The common ideological base is anchored in a process of
reaching a resolution based on ethnic domination and the imposition of policy goals by state officials on antagonistic political and social actors.

As far as education policy is concerned, the basic philosophy of the UMNO-dominated government is unity via uniformity rather than unity within diversity and cultural particularity. In trying to build a monoethnic state in which one racial community predominates in the polity, the UMNO-dominated government feels that there is an intrinsic need for control of the distribution of education and a nexus between language and state. To the extent that the society remains plural, Bumiputeraness must prevail to form its core. The political process by which education policy was instituted in the early 50s and reinforced in the NEP points to the importance of the pro-Malay tendencies of the Malaysian system of coalition. On this point Malaysia education policy both reflects and reinforces the structure of politics at large.

Our arguments, then, can be summarized as follows: tensions between the Bumiputera State and the plural society remain a recurrent feature of Malaysian life. When these tensions surface, they are likely to be resolved in ways predominantly favorable to the Bumiputeras. In most situations, the Bumiputeras in articulating their particularistic demands are likely to succeed. The Malaysian
state as a result has changed and the Bumiputera State is the institutional form this resolution has taken.

C. The Reordering of the NEP: The National Economic Policy

In lieu of this conclusion, let us consider the ongoing debate as to whether the NEP will be continued or terminated after 1990 and several uncertainties that remain to be resolved through further research and reflection.

As this is written, post-NEP economic policy remains very much a matter of political maneuvering. There have been official and unofficial statements about the fate of post-NEP policy. Prime Minister Datuk Seri Dr. Mahathir, during the 1986 election, said that the continuation of the NEP would depend on member parties. At another instance, however, he has said that the NEP has enhanced Malaysia's political stability and therefore should be continued. Then Deputy Prime Minister Musa Hitam dropped the same hint as early as 1984, saying that the NEP objectives have not been fulfilled, and therefore it will be continued as the National Economic Policy.

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6 *New Straits Times*, October 9, 1986.
A political analyst has ventured to predict that "the NEP will continue in one form or another." Such a conclusion, which I share, ought not be surprising if one considers several structural features of today's Malaysian political system.

(1) Coalition politics in Malaysia has undergone a sea change. The non-Bumiputera parties, MCA, MIC, Gerakan, and other smaller parties uneasily coexist with the dominant UMNO. While the number of the UMNO parliamentary seats in the Barisan Nasional is slightly more than half, it is quite clear that it dominates the coalition. The Alliance, and the Barisan Nasional, historically have shown serious gaps and only the UMNO has acted as a dominant source of policy ideas and a motive political force. The scarcities of resources in this dominant system do not provide opportunity for much bargaining to occur. Perhaps the most sharply worded criticisms of the UMNO-dominance in the Barisan Nasional have been those focusing on the extent to which political dominance has meant a lack of political accountability. The idea that coalition parties in the Barisan Nasional could provide checks to "avoid dictatorial trends and attitudes" -- a phrase used by the then Home Minister Tan Sri Ghazali

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Shafie\footnote{Quoted in FEER, Oct 11, 1974.} -- is largely an exaggeration of the power of the coalition parties. The logic is simple enough. In practical policy terms, we do not expect much influence of the non-UMNO parties on decision making. Indeed, the rarity of contact on either personal or organizational levels means that there are all too few opportunities for learning one another's point of view. The complete absence of similar experiences in the Bumiputera and non-Bumiputera leadership that could tie them together signifies a generational gap that has pulled the two communities further apart. To the extent that horizontal intra-elite connections exist, they are certainly very weak.

(2) Consider the important premise of the policymaking style of the system. All the technical complexities of many policy decisions are worked out in the bureaucracy. Policy guidelines are ultimately taken by the highest levels in the executive. In the context of an overpowerful political executive and clear decision rules, it means that the UMNO elites frequently have made virtually final decisions internally before asking for policy input from other parties. While trade-off may be involved, the decision process is one of UMNO predominance.
Consider also the general wall of secrecy that envelopes the key decisions. Indeed, key decisions are made with minimal public debate and often come wrapped in the impenetrable blanket of "national unity."

(3) The existing system has a lot of coercive as well as co-optative resources at its disposal. Indeed, the image of an hegemonic state is reinforced by the way it deals with dissent. Widespread use of coercion not only enhances the regime's ability to motivate sectors of the populace essential for achievement of its economic goals, but also stifles political opposition, which are in official thinking "both evil and unnecessary."\(^{11}\)

Both these tasks are achieved by legislative procedures in the form of a powerful executive and a rubber-stamp parliament to pass laws in the state favor. Recent Malaysian history is replete with illustrations of such de facto dictatorial practices. The Societies Act (Amendments) 1981, for example, sought to categorize registered societies into "political" and "friendly" bodies, which has had the ultimate effect of prohibiting anyone but politicians and political societies from commenting on political matters. The detention-without-trial Internal Security Act is another example. The clampdown of opposition groups at the end of

\(^{11}\)A phase used by the then Home Minister Tan Sri Ghazali Shafie. Quoted in FEER, Oct 11, 1974.
1987 -- dubbed by the press as the "October swoop" -- using the Internal Security Act is the most vivid example of a coercive political system. Co-optation of opposition in the Malaysian political system is also common. The most notable example is Anwar Ibrahim, an active government critic and president of the 40,000 member Malaysian Muslim Youth Movement (Abim), who joined UMNO in 1982. He has since become a rising star in Mahathir's cabinet. Although less tangible than coercion, co-optation plays an important role in neutralizing the most dynamic elements in the opposition.12

(4) UMNO populist sentiments also stand firmly in the way of any major changes in the current structure of the NEP. Political and bureaucratic leaders are judged by subordinates by their capacity to defend their interests against external encroachment. Leaders who do not play to gain additional political and economic resources ultimately lose popular support. Examples are the loss of Malay support for Datuk Onn Jaafar when he proposed the inclusion of non-Malay members into UMNO after the Malayan Union scheme; and the opposition experienced by Tunku Abdul Rahman just before the 1969 racial riot when his policies could not

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satisfy Malay popular demands. Such a sentiment also explains why the UMNO tends to over-react to any demands made by the Chinese and Indian communities. In this regard, the emphasis on the NEP for the Bumiputera by Datuk Hussein Onn is made in this spirit.\(^{13}\)

Moreover, the NEP has provided rising expectations for the Bumiputeras. The thrust of much NEP political rhetoric has been attached to the numbers game of economic distribution. Arguments such as that 30% is only the minimum and not the maximum for the Bumiputeras, and that the Bumiputeras should seek complete control rather than 30% of the country's economic assets, have been raised very often.\(^{14}\) Such a phenomenon prompted anxieties as to the demands made by one particular ethnic group. Even the Prime Minister Datuk Seri Dr. Mahathir Mohamad himself has warned the Bumiputera against setting too high a target as regards their participation in the economy and urged them to be circumspect in keeping with a realistic assessment of their capabilities.\(^{15}\)

\(^{13}\)See the quotation in Chapter IV, p. 152 of this dissertation.

\(^{14}\)The comments, for example, were raised in the Third Bumiputera Economic Congress in 1980. *New Straits Times*, May 31, 1981.

\(^{15}\) *Business Times*, June 2, 1980.
(5) A final point worth underlining relates to the institutional setting. Bureaucratic organizations develop their own distinctive organizational personalities or ideologies. The proliferation of state-owned enterprises has come to a point where they are the status quo. Even when financial discrepancies and incompetence were revealed, policies have been modified to accommodate them rather than to dismantle them altogether. The privatization policy, for example, is formulated to take over the mismanagement of some of the state-owned enterprises. Indeed, most of these organizations are in place and are difficult to dissolve or dismantle.

Moreover, the economic system of Malaysia has put great demands on the state and its bureaucracy, making their reduction impossible. The political and economic functions of organization have become increasingly apparent for the consolidation of power for the ruling party. It is used as political machinery. There is a need for the UMNO to penetrate into every level of the Bumiputera community to spread ideological commitment to the regime. Similarly, if there are still the populist sentiments that there should be justice through economic distribution, there must inevitably be huge organizations to undertake the economic tasks. The complaints about implementation discretions will probably never go away.
At the moment, Malaysia's public policy towards state sector expansion remains strong, despite talk of privatization. For example, the Industrial Master Plan places strong emphasis on the strength of government machinery and its approach to long-term implementation of the NEP as well as the development of a Bumiputera entrepreneurial class. Where a political presence of Bumiputera capital has been established, the orientation of the bureaucracy is more likely than not to be characterized by aspirations for more business involvement. This would be expected to reinforce the probability of choosing a strategy incorporating a role for Bumiputera capital. It could be contended, therefore, that a more Bumiputera-centric and statist solution is the most probable outcome. In all likelihood, the government will produce a post-1990 economic policy fundamentally similar to the NEP.
APPENDIX

(DETAILED TABLES)
Table 24  Malaysia: Public Development Expenditure, 1966-1990 ($ million)

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<td>1. Economic</td>
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<tr>
<td>Agriculture</td>
<td>2,685.4 (2,210.8)</td>
<td>63.3%</td>
<td>6,378.06 (5,251.07)</td>
<td>70.4%</td>
<td>18,480.55 (17,432.45)</td>
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<td>Rural Develop­</td>
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<td>ment</td>
<td>1,114.1 (911.2)</td>
<td>26.3%</td>
<td>2,197.19 (1,835.60)</td>
<td>23.5%</td>
<td>6,464.31 (5,251.07)</td>
</tr>
<tr>
<td>Commerce and</td>
<td>141.30 (137.0)</td>
<td>3.3%</td>
<td>1,238.73 (1,159.70)</td>
<td>13.2%</td>
<td>4,255.98 (4,159.70)</td>
</tr>
<tr>
<td>Industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>544.9 (355.9)</td>
<td>12.8%</td>
<td>1,624.65 (1,056.68)</td>
<td>17.5%</td>
<td>4,462.99 (3,038.59)</td>
</tr>
<tr>
<td>Communications</td>
<td>203.0 (159.5)</td>
<td>4.8%</td>
<td>491.25 (357.60)</td>
<td>5.2%</td>
<td>1,252.71 (931.01)</td>
</tr>
<tr>
<td>Utilities</td>
<td>681.4 (646.8)</td>
<td>16.1%</td>
<td>983.55 (831.01)</td>
<td>10.5%</td>
<td>1,931.69 (1,644.45)</td>
</tr>
<tr>
<td>2. Social</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education and</td>
<td>752.1 (644.7)</td>
<td>17.1%</td>
<td>1,351.57 (1,093.90)</td>
<td>14.4%</td>
<td>5,494.63 (4,456.68)</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health and</td>
<td>146.6 (128.9)</td>
<td>3.5%</td>
<td>226.79 (179.63)</td>
<td>2.4%</td>
<td>529.42 (426.91)</td>
</tr>
<tr>
<td>Family Planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. General Admin­</td>
<td>188.1 (109.0)</td>
<td>3.3%</td>
<td>369.56 (260.99)</td>
<td>3.9%</td>
<td>862.42 (569.99)</td>
</tr>
<tr>
<td>istration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Security</td>
<td>666.8 (645.7)</td>
<td>15.3%</td>
<td>1,050.51 (1,050.51)</td>
<td>11.2%</td>
<td>6,309.41 (6,309.41)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,242.4 (3,110.2)</td>
<td>100.0%</td>
<td>9,350 (17,659.49)</td>
<td>100.0%</td>
<td>36,722.01 (59,649.38)</td>
</tr>
</tbody>
</table>

1. Figures for First Plan (1966-70) and Fifth Malaysia Plan (1986-1990) are estimated. 2. Figures for Second, Third, and Fourth Malaysia Plan are revised allocations. 3. The figures in brackets are for Peninsular Malaysia only. These figures were not available from the Third Malaysia Plan onwards.

Table 25 Allocation Directed Towards the Eradication of Poverty and the Restructuring of Society Under the Second Malaysia Plan (1971-75) and Third Malaysia Plan (1976-80) ($million)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Second Malaysia Plan, 1971-75</th>
<th>Third Malaysia Plan, 1976-80</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Poverty</td>
<td>% Restructuring</td>
</tr>
<tr>
<td>Agriculture and Rural Develop-</td>
<td>2,127.4</td>
<td>23.8</td>
</tr>
<tr>
<td>ment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commerce and Industry</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Social</td>
<td>122.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>109.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>2,350.0</td>
<td>26.3</td>
</tr>
</tbody>
</table>

1 Includes both direct and indirect effect on the particular NEP objective.
2 Programmes/projects contributing to both poverty eradication and restructuring.
3 Based on the Federal Allocation of $8,950 million for the SMP.
4 Based on the Federal Allocation of $31,147 million for the TMP.

Source: Fourth Malaysia Plan, p. 127.
<table>
<thead>
<tr>
<th>Services Industries By Ethnic Group, 1971 and 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1971</strong></td>
</tr>
<tr>
<td><strong>Bumiputera</strong></td>
</tr>
<tr>
<td><strong>Wholesale</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Turnover (S million) (%)</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Turnover (S million) (%)</td>
</tr>
<tr>
<td><strong>Tourist and travel operators</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Shipping companies</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Hotels and other lodging places</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Laundries and laundry services</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Photographic studies</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Hairdressing and beauty salons</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Cinemas</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
</tr>
<tr>
<td>Number of establishments (%)</td>
</tr>
<tr>
<td>Revenue (S million) (%)</td>
</tr>
</tbody>
</table>


Notes:
1. Figures for 1971 refer to Peninsular Malaysia only, while figures for 1981 refer to Malaysia.
2. Includes Bumiputera individuals and trust agencies.
3. Excludes joint ownership which refers to establishments whose paid-up capital is owned 50 per cent by Malaysians and 50 per cent by non-Malaysians.
4. The individual totals do not add up to the total number and revenue or turnover as they do not include ownership of other Malaysians and joint ownership between Bumiputera and non-Bumiputera and between Malaysians and foreigners.
5. The data for 1971 and 1981 in respect of wholesale and retail sectors refer to 1970 and 1980, respectively.
6. Includes bus and taxi transport as well as road haulage. For 1971, however, the figures exclude taxi transport. Bus transport includes establishments registered with the Road Transport Licensing Board, while road haulage includes those establishments which have been issued with public carriage permit and licences.
7. Includes only those hotels and lodging places having 10 rooms and above in the urban areas. Data for 1973 refers to 1973.
8. Covers establishments in legal, dentistry, engineering, accounting, and medical fields.
10. n.a. Not available.

Source: Fifth Malaysia Plan, pp. 114 and 115.
Table 27: Malaysia: Selected Indicators of Participation in Commerce and Industry, 1981 and 1985

| Indicator | 1981 | | | | 1983 | |
|-----------|------|---|---|---|---|
| Value of credit assistance (S million) | | | | | | |
| BIMB | 190.0 | 100.0 | - | - | 68.4 | 100.0 |
| MIDF | 57.2 | 29.7 | 135.1 | 70.3 | 13.2 | 19.2 | 68.1 | 83.8 |
| MARA | 90.0 | 100.0 | - | - | 46.8 | 100.0 | - | - |
| Commercial banks and finance companies | | | | | | |
| 6,324.9 | 21.0 | 23,782.5 | 79.0 | - | 17,266.3 | 28.2 | 44,032.6 | 71.8 |
| Number of new housing (S million) | | | | | | |
| PWD | 212 | 100.0 | - | - | 398 | 100.0 | - | - |
| BPPMB | 34 | 100.0 | - | - | 343 | 100.0 | - | - |
| BBMB | 14,614 | 100.0 | - | - | 16,000 | 100.0 | - | - |
| MARDI | 1,447 | 100.0 | - | - | 1,000 | 100.0 | - | - |
| Number of advisor licences | | | | | | |
| PWD | 3,428 | 50.2 | 33,962 | 49.8 | 2,718 | 63.9 | 1,532 | 36.1 |
| Number of new housing developer licences | | | | | | |
| 74 | 29.6 | 176 | 70.4 | - | 79 | 30.0 | 184 | 70.0 |
| Number of logging licences | | | | | | |
| 678 | 66.1 | 348 | 33.9 | - | 332 | 73.5 | 120 | 26.5 |
| Number of printing licences | | | | | | |
| 195 | 15.1 | 1,099 | 84.9 | - | 182 | 16.2 | 943 | 86.8 |
| Number of private agency licences | | | | | | |
| 52 | 52.0 | 48 | 48.0 | - | 84 | 54.9 | 69 | 45.1 |
| Number of approved permits | | | | | | |
| 372 | 21.7 | 1,346 | 78.3 | - | 1,406 | 31.0 | 3,132 | 69.0 |
| Number of export licences | n.a. | n.a. | n.a. | n.a. | 82 | 1.3 | 637 | 98.8 |
| Number of import licences | n.a. | n.a. | n.a. | n.a. | 675 | 7.9 | 7,903 | 92.1 |
| Number of advisory service | 12,117 | 100.0 | - | - | 6,915 | 100.0 | - | - |
| Number of registered businesses | | | | | | |
| 78,961 | 24.9 | 237,602 | 75.1 | - | 154,215 | 30.5 | 351,661 | 69.5 |
| Number of distributors registered with Ministry of Trade and Industry | | | | | | |
| 2,239 | 20.7 | 8,592 | 79.3 | - | 2,622 | 15.0 | 14,850 | 85.0 |

Source: The Council for Trade with Indigenous Peoples ( NAFA ), Development Bank of Malaysia (DBM), Malaysian Industrial Development Board (MIDF), Bank of Malaysia (BIMB), Ministry of Finance (DFW), Public Works Department (PWD), Drainage and Irrigation Department (DID), Federal Land Development Authority (FEFLO), Rubber Industry Smallholders Development Authority (RISDA), National Electricity Board (NEB), Telecommunications Department, Urban Development Authority (UDA), Pahang Transport Development Authority (PTDA), Sarawak Regional Development Authority (KESERA), Selangor Regional Development Authority (KETENGAH), Terengganu Regional Development Authority (KETERO), Kelantan Regional Development Authority (KETEKA), Trengganu Regional Development Authority (KETE- TERA), Johor Tenggar Regional Development Authority (KETERRA), Road Transport Licensing Board, Ministry of Housing and Local Government, Department of Forests, Ministry of Defence, Ministry of Trade and Industry, and Ministry of Finance.

Notes:
1. The indicators are by value or value per person. The figures are as provided by the commercial banks and finance companies. The values are the accumulated amounts.
2. The values of credit approved by MARA for 1985 were estimated for the commercial banks and finance companies, the values were the accumulated amounts.
3. The value of contracts awarded in 1984 was $2.1 million awarded by the Telecommunications Department to Malaysian and foreign joint-venture companies and $17.8 million awarded by the National Electricity Board to foreign companies. For 1985, the values did not include $75 million which was awarded by PWD in 1982 to Bumiputera and non-Bumiputera joint-venture companies which were scheduled to be completed in 1987. It did not also include $32 million and $35 million awarded in 1984 by PWD to Bumiputera and non-Bumiputera joint-venture companies and foreign companies, respectively, and $127 million awarded by NEB to foreign companies for the non-Bumiputera. In both years, the values also include the contracts awarded to joint-venture companies between Bumiputera and non-Bumiputera. The value of contracts awarded in 1985 by PWD, the value of contracts awarded in 1984 to joint-venture companies between Bumiputera and non-Bumiputera, and the values awarded to joint-venture companies between Bumiputera and non-Bumiputera.
4. Figures for 1983 only refer to the period from June 30, 1982.
44. Figures for 1983 refer to 1984.
Table 28 Malaysia: Ownership and Control of the Corporate Sector, 1971-1990

<table>
<thead>
<tr>
<th>Ownership Group</th>
<th>1971-80</th>
<th>Rate (%)</th>
<th>1981-90</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysian residents</td>
<td>2,512.8</td>
<td>38.3</td>
<td>10,369.9</td>
<td>53.0</td>
</tr>
<tr>
<td>Bumiputra individuals and trust agencies</td>
<td>279.5</td>
<td>4.3</td>
<td>2,156.2</td>
<td>10.3</td>
</tr>
<tr>
<td>Bumiputra individuals</td>
<td>168.7</td>
<td>2.6</td>
<td>757.2</td>
<td>3.6</td>
</tr>
<tr>
<td>Bumiputra trust agencies</td>
<td>110.9</td>
<td>1.7</td>
<td>1,399.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Other Malaysian residents</td>
<td>2,233.2</td>
<td>34.0</td>
<td>5,653.2</td>
<td>37.5</td>
</tr>
<tr>
<td>Foreign residents</td>
<td>4,051.3</td>
<td>61.7</td>
<td>8,037.2</td>
<td>53.3</td>
</tr>
<tr>
<td>Share in Malaysian companies</td>
<td>2,159.3</td>
<td>32.9</td>
<td>4,722.8</td>
<td>31.3</td>
</tr>
<tr>
<td>Net assets of local branches</td>
<td>1,892.0</td>
<td>28.8</td>
<td>3,514.4</td>
<td>22.0</td>
</tr>
<tr>
<td>Total</td>
<td>6,564.1</td>
<td>100.0</td>
<td>15,084.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes:
- Estimated
- Classification is based on residential address of shareholders, not by citizenship. It includes foreign citizens residing in Malaysia. Steps have been taken to enable classification of ownership group by citizenship status.
- Includes institutions channelling funds of individual Bumiputeras such as Lembaga Urusan dan Tabung Haji, Amanah Saham MARA and Cooperatives.
- Shares held through institution classified as Bumiputera trust agencies such as PERNAS, MARA, UDA, SEUCs, Bank Bumiputera, BPMB, FIMA and PND. Previously this item was classified as Bumiputera interests.
- Includes shares held by nominee and other companies.
- Excludes government holdings other than through trust agencies.

Sources: Compiled from Mid-Term Review of the Third Malaysia Plan 1976-1980, Table 3-5, p. 49; Fourth Malaysia Plan 1981-1985, Table 3-14, p. 62; and Fourth Malaysia Plan 1981-1985, Table 9-7, p. 176.
Table 29: Malaysia Public Development Expenditure, 1981-85 for State-owned Economic Enterprises

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td>Economic Enterprises</td>
<td>3,359.13</td>
<td>10.8</td>
<td>2779.16</td>
</tr>
<tr>
<td>Perbadanan Nasional Berhad (PERNAB)</td>
<td>382.53</td>
<td>1.2</td>
<td>300.50</td>
</tr>
<tr>
<td>Urban Development Authority (UDA)</td>
<td>300.00</td>
<td>1.0</td>
<td>254.60</td>
</tr>
<tr>
<td>Majlis Amanah Rakyat (MARA)</td>
<td>231.92</td>
<td>0.7</td>
<td>212.75</td>
</tr>
<tr>
<td>State Economic Development Corporations (SEDCs)</td>
<td>662.67</td>
<td>2.1</td>
<td>493.13</td>
</tr>
<tr>
<td>Malaysian International Shipping Corporation (MISC)</td>
<td>302.89</td>
<td>1.0</td>
<td>292.90</td>
</tr>
<tr>
<td>Malaysian Shipyard and Engineering Sdn Bhd (MSE)</td>
<td>97.43</td>
<td>0.3</td>
<td>86.64</td>
</tr>
<tr>
<td>Credit Export Guarantee Scheme</td>
<td>2.50</td>
<td>--</td>
<td>2.50</td>
</tr>
<tr>
<td>Permodalan Nasional Berhad (PNB)</td>
<td>500.00</td>
<td>1.6</td>
<td>425.00</td>
</tr>
<tr>
<td>Kompleks Kewangan</td>
<td>80.00</td>
<td>0.3</td>
<td>80.00</td>
</tr>
<tr>
<td>Bank Simpanan Nasional</td>
<td>6.00</td>
<td>--</td>
<td>6.00</td>
</tr>
<tr>
<td>Bank Rakyat</td>
<td>155.00</td>
<td>0.5</td>
<td>155.00</td>
</tr>
<tr>
<td>Bank Bumiputra</td>
<td>232.00</td>
<td>0.8</td>
<td>189.00</td>
</tr>
<tr>
<td>Malayan Banking Bhd</td>
<td>48.00</td>
<td>0.1</td>
<td>--</td>
</tr>
<tr>
<td>Bank Kewajuan Perusahaan</td>
<td>120.00</td>
<td>0.4</td>
<td>95.00</td>
</tr>
<tr>
<td>Bank Pembangunan</td>
<td>100.00</td>
<td>0.3</td>
<td>90.00</td>
</tr>
<tr>
<td>Malaysian Handicraft Development Corporation</td>
<td>31.19</td>
<td>0.1</td>
<td>28.14</td>
</tr>
<tr>
<td>Syarikat Gula Padang Terap Bhd</td>
<td>77.00</td>
<td>0.3</td>
<td>43.50</td>
</tr>
<tr>
<td>ASEAN Rock-salt</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Syarikat Malaysian Explosive Sdn Bhd</td>
<td>30.00</td>
<td>0.1</td>
<td>24.50</td>
</tr>
</tbody>
</table>

| Table 30 Malaysia: Enrollments in Tertiary Education by Race 1970-75 |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                | Malay          | Chinese        | Indians        | Others         | Total          | Malay          | Chinese        | Indians        | Others         | Total          |
|                | Malay          | Chinese        | Indians        | Others         | Malay          | Chinese        | Indians        | Others         | Malay          | Chinese        | Indians        | Others         | Malay          | Chinese        | Indians        | Others         | Total          |
| Universiti Malaya | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             |
| Universiti Pertanian Malaysia | 458           | 72             | 3              | 12             | 545            | 1,691          | 139            | 27             | 1              | 1,858          |
| Universiti Teknologi Malaysia | 390           | 198            | 23             | 7              | 618            | 1,557          | 118            | 9              | 12             | 1,696          |
| Institut Teknologi MARA | 1,801          | --             | --             | --             | 1,801          | 7,524          | --             | --             | --             | 7,524          |
| Politeknik Ungku Omar | 216            | 267            | 10             | --             | 493            | 744            | 341            | --             | --             | 1,136          |
| Kolej Tunku Abdul Rahaan | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             | --             |
| Sub-total      | 2,865          | 537            | 36             | 19             | 3,457          | 11,539         | 1,810          | 138            | 20             | 13,547          |
|                | 82.9%          | 15.5%          | 1.0%           | 0.6%           | 100.0%         | 85.4%          | 13.4%          | 1.0%           | 0.2%           | 100.0%         |
| Degree Courses |                |                |                |                |                |                |                |                |                |                |
| Universiti Malaya | 3,005          | 3,861          | 559            | 302            | 7,727          | 3,590          | 3,515          | 504            | 122            | 7,731          |
| Universiti Sains Malaysia | 68            | 144            | 35             | 5              | 232            | 1,205          | 1,205          | 179            | 14             | 2,759          |
| Universiti Kebangsaan M'sia | 164           | 4              | 1              | --             | 169            | 2,337          | 2,337          | 35             | 4              | 2,502          |
| Universiti Pertanian Malaysia | --             | --             | --             | --             | --             | --             | 538            | 538            | 22             | --             | 695            |
| Universiti Teknologi Malaysia | --             | --             | --             | --             | --             | --             | 483            | 483            | 3              | 1              | 567            |
| Sub-total      | 3,237          | 4,009          | 595            | 307            | 8,148          | 8,153          | 5,217          | 743            | 141            | 14,254         |
|                | 39.7%          | 49.2%          | 7.3%           | 3.8%           | 100.00         | 57.2           | 36.6           | 5.2%           | 1.0%           | 100.00         |
| Preliminary & Pre-University Courses |                |                |                |                |                |                |                |                |                |                |
| Universiti Malaya | 28             | 14             | 6              | 2              | 50             | 190            | 3              | --             | --             | --             | 193            |
| Universiti Sains Malaysia | 10            | 3              | --             | --             | --             | 19             | 92             | --             | --             | --             | 92             |
| Universiti Kebangsaan M'sia | --             | --             | --             | --             | --             | 54             | 5              | --             | --             | --             | 60             |
| Universiti Pertanian Malaysia | 31            | 2              | --             | 7              | 40             | 99             | 4              | --             | --             | --             | 103            |
| Universiti Teknologi Malaysia | 74            | --             | --             | --             | 74             | --             | --             | --             | --             | --             |
| Institut Teknologi MARA | 341            | --             | --             | --             | 341            | 348            | --             | --             | --             | --             | 348            |
| Kolej Tunku Abdul Rahaan | 30            | 1,122          | 41             | 2              | 1,195          | 32             | 2,759          | 157            | 4              | 2,932          |
| Sub-total      | 520            | 1,141          | 47             | 11             | 1,719          | 815            | 2,751          | 157            | 5              | 3,728          |
|                | 30.3%          | 66.4%          | 2.7%           | 0.6%           | 100.00         | 21.9           | 73.8           | 4.2%           | 0.1%           | 100.00         |
| Total          | 6,622          | 5,687          | 678            | 337            | 20,547         | 9,778          | 1,038          | 166            | 31,529         |
|                | 49.7%          | 42.7%          | 5.1%           | 2.5%           | 100.00         | 65.1           | 31.1           | 3.3%           | 0.5%           | 100.00         |

Table 31: Enrollment in Tertiary Education by Ethnic Group and Level of Education in Local and Overseas Institutions 1980 and 1985 (Number)

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Abdul Ghani Othman et. al.  

Abdul Khalid Ibrahim.  

Abdul Maulud Yusof.  

Abdul Rahim Mohd, Said.  

Abdul Rahman, Tunku.  

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Abdul Rahman, Tunku.  

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Carnell, F.G.

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Carnoy, Martin.

Chai, Hon Chan.

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Cham, B.N.

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