The State of Malaysia

Ethnicity, equity and reform

Edited by Edmund Terence Gomez

The State of Malaysia

This book provides an overview of the current state of Malaysia, looking at political and economic developments and at governance, and discussing the impact of ethnicity, patronage and the reform movement. Apart from discussing issues such as Islamisation and identity transformations within Malaysian society, it reviews policies like privatisation and provides an examination of business enterprise, exploring how control of 'corporate Malaysia' is interlinked with political developments. This study's primary focus is an analysis of why the reform movement failed to secure substantial support in the late 1990s even though many Malaysians then appeared ready to hold the government accountable for its poor record of a democratic and transparent form of governance. This volume also assesses the likelihood of change as a result of the retirement of Prime Minister Mahathir Mohamad.

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For Evelyn, in her memory

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Preface and acknowledgements

In August 2001, the Malaysian Social Science Association convened its biennial International Malaysian Studies Conference. Included among the primary objectives of this conference was an analysis of new research on issues and problems in contemporary Malaysia. This volume comprises a selection of papers presented at the Malaysian Studies Conference with a focus on the theme of political reform in Malaysia since 1998.

The Asian currency crisis in 1997, which had a serious effect on the Malaysian economy, subsequently contributed to monumental changes in the domestic political scene. In September 1998, Prime Minister Mahathir Mohamad removed from office his charismatic heir apparent, Deputy Prime Minister Anwar Ibrahim who was also eventually sentenced to a long jail term after being found guilty on charges of corruption and sexual impropriety. The sacking and jailing of the deputy prime minister who had enormous support among members of Mahathir's party as well as a large segment of Malaysians led to the unprecedented emergence of a popular reform movement. This mass-based drive for reformation was institutionalised in the form of a multi-party consociationalist-type opposition, the *Barisan Alternatif* (BA, or Alternative Front). The BA emerged as a serious threat to Mahathir's hegemony in the United Malays' National Organisation (UMNO) and the ruling coalition that it leads, the *Barisan Nasional* (BN, or National Front).

The BA went into the 1999 national election promising Malaysians the creation of a more democratic and egalitarian society. The opposition failed, however, to make serious inroads into the stranglehold that the BN had over parliament, although the BA did manage to secure control of two of the 13 state governments in the Malaysian federation. Despite this setback, it then appeared that the BA would continue its struggle to institute political reforms in Malaysia. By early 2002, however, the sustainability of this opposition front was called into question when the Democratic Action Party (DAP), a leading member of the coalition withdrew from the BA, citing irreconcilable differences with the influential Islamic party, *Parti Islam SeMalaysia* (PAS).

This volume serves a two-fold function. First, the studies in this book attempt to provide insights into why the burgeoning reform movement failed to secure substantial support during the 1999 general election even though many

Malaysians then appeared ready to hold the BN government accountable for its poor record of a democratic and transparent form of governance. One major reason offered for the inability of the BA to secure massive support during this general election is that the electorate questioned the credibility of an opposition coalition promising reforms when it was led by a former leader of the ruling BN. To further substantiate the point that former UMNO members now in the opposition had a poor track record of accountable leadership, the second function of this volume is to provide an analysis of key policies implemented in Malaysia. Among the policies reviewed in these chapters are affirmative action through the New Economic Policy (NEP), privatisation and those implemented to promote the principles of Islam.

I am extremely indebted to the contributors to this volume for agreeing to publish their new research here. Since all the chapters in this book have been re-written and revised a number of times after numerous discussions, I am grateful to the contributors for always responding promptly to the changes that we agreed were required. Not all the studies in this volume were presented at the Malaysian Studies Conference. I am very beholden to those who responded positively to my appeal to contribute a chapter to fill in gaps that appeared in the volume. Since I was particularly interested in the role played by UMNO leaders – who are now in the opposition – in some major policies, I was pleasantly surprised when two doctoral candidates, Lorraine Salazar and Kikue Hamayotsu, agreed to write a chapter presenting their recent research on privatisation and Islamisation respectively. I am also indebted to Claudia Derichs for agreeing to my request to publish her chapter in this volume, an important contribution in terms of highlighting the viewpoints of the Malaysian intelligentsia about the reform movement.

I would like to thank a number of people who have contributed, in different ways, to the preparation of this book. Jomo K.S. read the manuscript and drew my attention to issues that needed further analysis and suggested ideas to make the volume more focused. I am indebted to Abdul Rahman Embong, Mohd Hazim Shah and Phua Kai Lit for their insights on the chapters to be included in this volume and their feedback on the issues raised here. I benefited from the advice of the executive committee members of the Malaysian Social Science Association whenever I raised matters about this book project during our meetings. I also wish to acknowledge the contribution of Lee Hock Aun and Mohd Aslam, both of the University of Malaya, who were actively involved in this project.

I wish to thank Peter Sowden and Barry Clarke of RoutledgeCurzon for their unstinting support and encouragement. This book is the first to be launched under the 'Malaysian Studies' series, introduced by the Malaysian Social Science Association to promote publication of scholarship on Malaysia. Barry and Peter were extremely supportive when the Association first proposed the idea of a new series under RoutledgeCurzon devoted to research on Malaysia.

Finally, and as always, I thank Sharmani for her support and constructive criticism, especially during our countless discussions on ethnicity, identity and

politics in Malaysia. Our children, Evie, Eric and Eshward, contributed more to this volume than they realise. They were a source of love, and hope for a better Malaysia.

We have endeavoured to be as objective as possible in our research about the politics of reform and the organisational structure and performance of the *reformasi* movement. We hope that at the very least this volume will contribute to the ongoing discussions on how to move forward to create a more democratic and just Malaysian society.

Terence Gomez

Abbreviations

ABIM	Angkatan Belia Islam Malaysia
	(Malaysian Islamic Youth Movement)
AIM	Amanah Ikhtiar Malaysia
BA	Barisan Alternatif (Alternative Front)
Bhd	Berhad (Limited)
BN	Barisan Nasional (National Front)
ceramah	political rallies
DAP	Democratic Action Party
FELDA	Federal Land Development Authority
Gerakan	Gerakan Rakyat Malaysia
	(Malaysian People's Movement)
HICOM	Heavy Industries Corporation of Malaysia Bhd
ISA	Internal Security Act
ISP	Internet Service Providers
JAKIM	Jabatan Kemajuan Islam Malaysia
	(Islamic Development Department)
JIM	Malaysian Islamic Reform Society
Keadilan	Parti Keadilan Nasional
	(National Justice Party)
KKN	*korupsi, kolusi, nepotisme*
	(corruption, collusion, nepotism)
KLSE	Kuala Lumpur Stock Exchange
KMM	Kumpulan Mujahidin Malaysia
	(Malaysian Mujahideen Group)
MAS	Malaysia Airlines Bhd
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MSC	Multimedia Super Corridor
NDP	National Development Policy
NEP	New Economic Policy
NGO	non-governmental organisation
NTP	National Telecommunications Plan
NVP	National Vision Policy

OSA	Official Secrets Act
PAS	Parti Islam SeMalaysia
	(Malaysian Islamic Party)
PBB	Parti Persaka Bumiputera Bersatu
PBS	Parti Bersatu Sabah
Petronas	Petroliam Nasional Bhd
	(National Petroleum Corporation)
PPP	People's Progressive Party
PRM	Parti Rakyat Malaysia
	(Malaysian People's Party)
Proton	Perusahaan Otomobil Nasional Bhd
Reformasi	Reformation
SAPP	Sabah Progressive Party
Sdn Bhd	Sendirian Berhad (Private Limited)
Semangat 46	Parti Melayu Semangat 46
	(Spirit of '46 Malay Party)
SEPA	South East Asian Press Alliance
SMEs	Small and Medium-scale Enterprises
SOE	State-Owned Enterprise
SUPP	Sarawak United People's Party
ulama / *ustaz*	Islamic scholars
UMNO	United Malays' National Organisation
Yayasan	foundation
YPEIM	Yayasan Pembangunan Ekonomi Islam Malaysia
	(Malaysian Islamic Economic Development Foundation)
zakat	wealth tax

Introduction

Politics, business and ethnicity in Malaysia: a state in transition?

Edmund Terence Gomez

Mahathir hegemony, modernisation and reform

In June 2002, Mahathir Mohamad made an announcement of epochal proportions, informing the nation that he would resign as prime minister of Malaysia within 16 months, that is in October 2003. Mahathir, by then the longest serving prime minister in the world, had assumed the post in July 1981 proclaiming a vision to transform Malaysia into an industrialised country. Among the most notable outcomes of the Mahathir era include the rise of a large middle class, conspicuous infrastructure and technological development and considerable rural–urban migration. Mahathir's style of governance has also decisively re-shaped his country's politics. By 2002, the dominant features of Malaysian politics were serious intra-ethnic Malay divisions and deep factionalism in the party Mahathir leads, the United Malays' National Organisation (UMNO), the hegemonic party in the multi-party ruling coalition, the *Barisan Nasional* (BN, or National Front).[1] Considerable transformations have also occurred involving the autonomy of government institutions. The monarchy, judiciary and parliament are reputed to have lost the capacity to check the executive, while the bureaucracy, military and police have apparently become extremely subservient to the office of the prime minister where enormous power has come to be concentrated. At the same time, however, the emergence of the middle class has contributed to the rise of non-governmental organisations (NGOs) that play a more pronounced role in society, including the promotion of political reforms.

Although analysts of Malaysian politics have long debated whether this country has a semi-democratic, semi-authoritarian, soft authoritarian, author-itarian or an authoritarian populist political system, probably none of them have questioned Mahathir's hegemony over the state.[2] These qualified terms on the state of authoritarianism suggest that democratic norms do remain, but since the political crisis of 1998 it has become patently clear that even the minimal conditions necessary for the practise of democracy, particularly fair elections, adequate opportunities for political opinion-making and political organisation and minimal protection for the individual from arbitrary state power, do not prevail in Malaysia.

The capacity of the prime minister to undermine democratic norms by circumventing constitutional constraints on the office of the executive indicates one key aspect of Malaysian politics during the Mahathir era, that is the expansion of executive power and its impact on the issue of separation of powers. The foundation of the doctrine of separation of powers rests on the capacity of key institutions, specifically the legislative and judicial arms of government, to hold accountable the executive for its form of governance. Mahathir hegemony has, however, brought into question the relevance of political institutions, such as the BN, its component parties – including UMNO – and parliament as well as the judiciary. Are these institutions merely functioning bodies, allowed to retain their institutional presence to provide the Mahathir regime with a veneer of democracy? Some analysts would contend that there was an element of check and balance in government with the rise of other powerful leaders, in particular, the former deputy prime minister, Anwar Ibrahim (see Gomez and Jomo 1998; Hwang 2003). While Mahathir controlled the Malaysian state through the office of the prime minister, where he concentrated power, Anwar had developed a grassroots base within – and outside – UMNO, giving new relevance to this institution. Mahathir's dominant political presence and the rise of Anwar had, however, so extremely personalised Malaysian politics that all discussion on development and change would revolve around the capacity of these two men to enforce their respective visions (see Hwang 2000).[3]

Mahathir's controversial dismissal of Anwar as deputy prime minister and UMNO deputy president in September 1998 and the latter's subsequent arrest under widely-believed trumped-up charges of sexual impropriety and corruption led to the emergence of the *reformasi* (reform) movement. The primary concern of the reformists was to transform the way authority was exercised, to check Mahathir's now total domination of the state. Institutions outside the state began to acquire new meaning, while the manner of Anwar's public humiliation and prosecution visibly revealed the subservience of the media, police and judiciary to the executive. The *reformasi* movement quickly evolved into an unlikely coalition that united socialists, Islamists and social activists. The newly-established multi-party coalition, the *Barisan Alternatif* (BA, or Alternative Front), comprised the leading opposition parties, the Islamic party, *Parti Islam SeMalaysia* (PAS), and the socialist-oriented, multi-ethnic Democratic Action Party (DAP) which had long been unable to forge a common pact against the BN. Anwar's dismissal helped bring NGO activists into mainstream politics through the formation of the *Parti Keadilan Nasional* (Keadilan, or Malaysian National Justice party), whose members included an UMNO faction.[4] The *Parti Rakyat Malaysia* (PRM, or Malaysian People's Party) was the other component party in the BA. Anwar was declared the *de facto* leader of the BA.

The formation of the BA indicated a resistance against another prevailing feature of the Malaysian state that had become quite obvious with the ousting of Anwar – unaccountable abuse of power to protect vested political and economic interests. These post-1998 developments led to public discourses on the nature of democracy and form of economic development that had been accompanied by

rampant corruption and nepotism. These discourses transformed the middle class in an unanticipated way, and for a while gelled rural Malays, the urban middle class and youths. Undoubtedly, however, differences of ideology existed among the component BA parties and members of *reformasi*, one based on Islam, though also represented by class, gender and generational difference. With discernible growing support for the BA, the prospect of change from outside UMNO appeared quite possible for the first time since Mahathir secured the premiership.[5]

Aiding the prospects for political change in Malaysia was the outcome of the 1997 currency crisis which eventually evolved into a critical economic situation. The currency crisis exposed many problems that had been camouflaged by the Malaysia's impressive economic growth during the past decade. The key issues of concern included heightening doubts over the quality of corporate and entrepreneurial development and increasing problems involving state–society relations. No other Malaysian prime minister had devoted so much attention to the development of the domestic corporate sector, especially the promotion of big ethnic Malay capital. During the ensuing currency crisis, a number of large Malay-owned enterprises collapsed, while others were sustained only through government bailouts. In 2002, Mahathir admitted that his concerted attempt to develop Malay entrepreneurs had failed, a key factor precipitating his decision to step down as prime minister. Within Malaysian society, while intra-ethnic Malay fissures had become extremely serious because of class divisions that had emerged partly from Mahathir's promotion of these capitalists, there were growing concerns about deteriorating inter-ethnic relations.

But the prospects for Malaysian society had not always looked this bleak during the Mahathir administration. In 1990, many Malaysians welcomed Mahathir's Vision 2020 which espoused an explicit commitment to forging a *bangsa Malaysia*, a Malaysian nation, which transcended ethnic identities. This objective was to be achieved partly through the creation of an 'economically just' society with inter-ethnic parity. The need to develop a *bangsa Malaysia* had drawn attention to the issue of equality for all citizens, be they *Bumiputera* or non-*Bumiputera*.[6]

Within society, however, the impact of rapid modernisation had contributed to a number of new social problems, including climbing divorce rates among ethnic Malays, escalating gangsterism among poor ethnic Indians who had migrated to urban shanty areas and a burgeoning drug problem among youths, including the abuse of the drug ecstasy, among young ethnic Chinese. Among rural Malays, there was growing concern that they were not sharing in the country's progress, despite the promotion of affirmative action endeavours in their favour, because of Mahathir's inordinate attention to his privatisation and heavy industrialisation policies that were of little benefit to them. Apart from their poverty and feeling of economic marginalisation, rural Malays were also growing anxious over the influence of Western-style modernism on Malaysian, especially Muslim, society. These factors contributed to growing support for PAS, which offered Islam as the answer to the social malaise enveloping the country. The eroding rural Malay

electoral support for UMNO was evident during the 1995 general elections when the BN secured its best ever election victory (see Gomez 1996a). Interestingly, and one could say, paradoxically, while Malaysia's impressive economic growth has been ascribed to the reputedly visionary administration of Prime Minister Mahathir, the political, corporate and social problems that had emerged were attributable to his major policy recommendations.

The new political and social cleavages that have emerged in Malaysia were visible in the importance of differences based on class, gender, religion and ethnicity in political mobilisation in the post-currency crisis period. These cleavages have best manifested themselves in the rise of the BA. The formation of the BA also lay in the severe factionalism in UMNO that has, in large measure, contributed to intra-ethnic Malay class differences. The emergence of the multi-ethnic, multi-religious BA coalition where parties representing the different cleavages in Malaysian society were represented, allowing for open dialogue, suggested imminent and incontrovertible changes, a harbinger of a more unified, democratic and egalitarian Malaysian society. Following the emergence of democracy in neighbouring Indonesia, with the overthrow of its long-ruling president, Suharto, through a primarily middle-class uprising, the hopes for regime change in Malaysia grew appreciably.

The political liberalisation and reforms that the rise of the opposition coalition portended did not, however, materialise when the BA failed to make an impact in the 1999 national elections. The BA did not even manage to deny the BN its customary two-thirds majority in parliament (see Weiss 2000).[7] What were the factors that hindered the political liberalisation that appeared imminent in Malaysia?

Modernisation, the middle class and democratisation

Modernisation theorists argue that developing countries need an authoritarian political system – a strong state, if you like – where power is concentrated to ensure rapid economic growth (see, for example, Huntington 1968). This strong state would face little resistance from social groups within society and in the political arena, like trade unions and opposition parties respectively, allowing the government to implement economic policies that would facilitate rapid development. Economic progress would contribute to the rise of a new, economically independent middle class whose threshold for autocratic rule would diminish. This new middle class, educated, well-informed and economically self-sufficient, would serve as the vanguard to loosen rigid political controls, leading eventually to the dismantling of the strong state and the rise of a democratic, fairly-elected, accountable government.

Between the late 1980s and the early 1990s, democracy began to flourish throughout East and Southeast Asia, beginning first in the Philippines before encompassing industrialised Taiwan, South Korea and Thailand. In these four countries, a middle class-led uprising demanding rule of law and representation advanced this democratisation process. In Thailand, South Korea and Taiwan,

students, especially university undergraduates, were in the forefront of the struggle for democracy. In newly-industrialised Malaysia, Singapore and Indonesia, however, authoritarian leaders continued to retain their overwhelming dominance over these states.

One key factor ostensibly hindering the emergence of democracy in these three Southeast Asian countries was their 'Asian' culture. Pye (1985) and Neher (1994) argue that since Asian political culture emphasises collective, rather than individual, freedom and needs, and favours order over conflict, Western practices of liberal democracy are alien to East Asians. Neher and Marlay (1995) also argue that democracy in Asia is characterised by a strong state under the control of a dominant party as well as patron–client relationships and a politics of personalism. From 1986, as democracy began to spread throughout East and Southeast Asia and as authoritarian governments came under scrutiny, Mahathir – and Singapore's Lee Kuan Yew and Indonesia's Suharto – adopted this culture-based argument to justify their style of governance. Mahathir contended that Malaysia's political system was based on a different kind of governance – an 'Asian' form of democracy – although he did not define or interpret this particular version of democracy. Mahathir's reasoning, however, failed to take into account Malaysia's long-standing historical tradition of suppression of political rights that had stifled political participation and competition.

Bell and Jayasuriya (1995), with their focus primarily on Singapore, offered another culture-based argument to explain the reluctance of the emergent middle class to foster democracy in Southeast Asia. They asserted that 'whereas the experience of liberal capitalism helped to nurture an entrepreneurial middle class grounded in a culture of competitive individualism in Western Europe, in East Asia the experience of static economic paternalism has produced a middle class grounded in a culture of dependence. These cultural traits in turn produce a middle class constantly anxious about instability and insecurity' (Bell and Jayasuriya 1995: 13).

On the other hand, Crouch and Morley (1992), who also attempted to explain the limited democratisation in Southeast Asia by adopting a modernisation perspective, raised the 'civil society' factor. According to them, sustained economic growth contributes to the rise of civic groups comprising members of the new middle class. These civic groups facilitate, usually indirectly, political mobilisation, which is required to effect a change of regime. Democratisation, therefore, is the outcome of the emergence of a civil society. That democratisation had not emerged in Southeast Asia was, in their opinion, due to the capacity of a strong state to undermine groups promoting political liberalisation.

The argument that the middle class possesses a reformist potential is justifiable, even in the Southeast Asian context, given that it was this class that led the movement to topple authoritarian rule in Thailand and the Philippines, both of which have a proportionately smaller middle class than Malaysia. However, in the absence of a middle class-led democratisation movement in Malaysia, the relative size of the middle class does not help explain why these

Southeast Asian countries had democratised while Malaysia had not. To explain the peculiarity of the Malaysian – and Singaporean and Indonesian – case, the ethnic factor was advanced. The still limited cooperation among middle-class Malaysians, due to the still relatively undiminished ethnic polarisation, was apparently the key issue inhibiting mobilisation within this class for political liberalisation. Ethnic differences divided the middle class, impeding their ability to coalesce, thus hindering them from forging a united front to insist on political reforms. This argument held ground until the rise of democracy in Indonesia in 1998, discrediting also in the process the cultural factors that apparently defined an 'Asian' form of democracy.[8]

Analysts who dismissed cultural-based arguments used to examine the Malaysian political system proffered the contention that given the inability of the opposition to combine forces in a meaningful way, if change leading to greater democratisation was to come about, it depended primarily on machinations within UMNO, arising from the deeply divided nature of the party and growing unrest with Mahathir hegemony and his long rule (see, for example, Gomez and Jomo 1998). Democracy was possible only if UMNO became more open and internally democratic, thus forcing the government to be more responsive and accountable.[9] With the dismissal of Anwar, and when a large UMNO faction followed him out of the party to forge a new opposition coalition, the prospects for democracy in Malaysia appeared more promising.

One reason attributed for the failure of the reform movement in Malaysia was 'developmentalism' and the limited role of the middle class in the struggle for the transition from authoritarianism to democracy (see Loh 2002). Loh (2002) asserts that since the middle class, who had benefited appreciably from economic development, is a materialist, self-centred community, they possessed little reformist zeal to drive the burgeoning democratisation movement. While there may have been some merit to the argument proposed by Loh (2002), he provided little empirical evidence to substantiate his view of the middle class.

Moreover, it appeared that other factors may have hindered the rise of the BA, including public concern about the sustainability of this new coalition because of the ideological differences of its members.[10] Another probable reason for the limited support that the BA secured was that Malaysians recognised that Anwar himself had contributed to many of the problems prevalent within the state. In this volume, Kikue Hamayotsu shows how the implementation of policies based on Islam actively promoted by Anwar helped serve his own political interests (see Chapter 8). From the early 1980s, the UMNO-led government had introduced Islamic-based policies to counter the inroads made by PAS among rural Muslims. Anwar, brought in by Mahathir to drive the government's Islamic programmes, originally appeared genuinely concerned about developing these endeavours, including zakat, to help alleviate the problems of the Malay poor.[11] Anwar did not, however, actively advocate this policy when he had the capacity to do so as deputy prime minister and finance minister mainly because he had no authority over the distribution of zakat funds. Anwar preferred to secure control of private institutions, popularly known as *yayasan*, or foundations, which had

the authority to collect funds for distribution to the poor drawing further attention to his image as an advocate of social justice. Other UMNO leaders, in similar fashion, did not promote policies based on Islam if it did not help them advance their position in the party. The promotion of yayasans to eradicate poverty among Malays garnered these leaders enormous support, crucial in a party where personalised politics was the order of the day.

Claudia Derichs reveals in Chapter 4 how intellectuals felt that Anwar's rhetoric about corruption and patronage rang hollow as the rise of his supporters in corporate Malaysia had been through their access to considerable government concessions. Through Anwar's patronage, UMNO politicians began acquiring a strong presence in the corporate sector, enabling him to secure control of an ever-enlarging fund-raising machine. The need for constant access to funds was imperative for aspiring UMNO leaders because of the importance of money as a means to mobilise support of party members. While 'money politics' had emerged as a serious problem in UMNO long before Anwar's ascendancy to the second highest post in the party, it was alleged that he had contributed to the escalation of the problem by mustering enormous support through the extensive allocation of funds to party members (see Gomez 1996b). Eventually, long before the 1998 crisis, Mahathir voiced concern that money politics had become a cancer in UMNO that would eventually destroy the party. This criticism had been levied against factions in UMNO led by senior leaders, including Anwar, who had selectively implemented public policies to muster grassroots support. Consequently, while Malaysians were probably perturbed by Mahathir's administration, the alternative offered in the form of an Anwar-led coalition did not appear to represent to the middle class a perceptible change of governance. An analysis of the results of the 1999 general elections provides evidence that the urban middle class had withheld their support for the BA while the electorate in the rural Malay heartland strongly backed PAS.

Ambivalence of the 1999 general elections

Most analysts of the 1999 elections argue that the BN's retention of control of the federal government was due to its capacity to maintain the appreciable increase in Chinese support it secured during the 1995 general elections.[12] The split among the Malays in the peninsula had reportedly contributed to UMNO's loss of Bumiputera support to PAS. On the other hand, apart from PAS, the other BA members, the DAP, PRM and Keadilan, had failed to capture as many of the parliamentary seats in the federal elections as expected.

Table I.1 indicates the share of votes secured by the BN during the 1990, 1995 and 1999 general elections in Bumiputera-majority areas in the Malay heartland states of Kelantan, Terengganu and Kedah. In the 31 parliamentary seats listed in Table I.1, Malays constitute 80 per cent or more of the electorate. Compared to the 1995 elections, the BN gained more electoral support in 1999 in only two of these 31 seats. Both these seats were in Kelantan, one of which was retained by Razaleigh Hamzah, who had returned to the UMNO fold after

Table I.1 Change in support for the BN in Bumiputera-majority parliamentary
constituencies in the 1990, 1995 and 1999 general elections (in percentages).
(Change in support in parentheses.)

State	Percentage share of BN support				
	1990	*1995*		*1999*	
Kedah					
Baling	61.4	55.7	(−5.7)	48.0	(−7.7)
Sik	59.4	53.6	(−5.8)	49.0	(−4.6)
Jerlun	59.5	53.9	(−5.6)	49.0	(−4.9)
Padang Terap	58.4	54.4	(−4.0)	48.0	(−6.4)
Pendang	52.9	51.0	(−1.9)	46.0	(−5.0)
Yan	57.2	55.7	(−1.5)	50.0	(−5.7)
Kubang Pasu	75.4	74.2	(−1.2)	65.0	(−9.2)
Kuala Kedah	52.8	52.3	(−0.5)	49.0	(−3.3)
Pokok Sena	53.8	54.0	(0.2)	46.0	(−8.0)
Terengganu					
Kemaman	62.6	57.6	(−5.0)	48.0	(−9.6)
Kuala Nerus	53.6	51.5	(−2.1)	40.0	(−11.5)
Dungun	54.0	50.5	(−3.5)	39.0	(−11.5)
Marang	48.2	47.6	(−0.6)	37.0	(−10.6)
Hulu Terengganu	53.1	52.5	(−0.6)	43.0	(−10.1)
Setiu	55.7	55.5	(−0.2)	46.0	(−9.5)
Besut	50.4	54.6	(4.2)	45.0	(−9.6)
Kuala Terengganu	45.3	53.5	(8.2)	35.0	(−18.5)
Kelantan					
Tumpat	33.1	46.1	(13.0)	35.0	(−11.1)
Pengkalan Chepa	26.1	29.6	(3.5)	25.0	(−4.6)
Rantau Panjang	38.1	40.4	(2.3)	36.0	(−4.4)
Bachok	32.8	42.0	(9.2)	38.0	(−4.0)
Kuala Krai	30.8	42.5	(11.7)	43.0	(0.5)
Kota Baru	29.3	41.6	(12.3)	38.0	(−3.6)
Pasir Mas	33.9	44.3	(10.4)	39.0	(−5.3)
Tanah Merah	33.7	46.9	(13.2)	43.0	(−3.9)
Pasir Puteh	35.0	44.1	(9.1)	40.0	(−4.1)
Machang	32.6	43.4	(10.8)	40.0	(−3.4)
Peringat	35.3	50.5	(15.2)	43.0	(−7.5)
Gua Musang	22.7	21.9	(−0.8)	56.0	(34.1)
Jeli*	—	51.1	—	49.0	(−2.1)
Kubang Kerian*	—	33.5	—	27.0	(−6.5)

*New seats in the 1995 general election.

disbanding his opposition party, Semangat 46. Razaleigh's seat was the only parliamentary constituency in Kelantan won by the BN. The BN secured two seats in the state-level election in Kelantan in 1999. A comparison, however, of the voting trends in Kelantan during the elections in 1999 and 1990 (when UMNO failed to win a single parliamentary and state seat) indicates that, in a majority of the state's parliamentary seats, the proportion of Malay support for the BN was higher in 1999.

Of the 58 parliamentary constituencies where an UMNO candidate faced a direct fight with a candidate from PAS, the BN won only four more seats than the opposition. UMNO barely secured 51 per cent of the popular vote in these 58 parliamentary seats. A majority of the contests between members from PAS and UMNO were in parliamentary constituencies in the Malay heartland.

In Kedah, the fall in electoral support for the BN between 1995 and 1999 was by more than 5 percentage points in all but one of the nine Bumiputera-majority parliamentary seats. Although the BN retained control of Kedah in the state-level elections,[13] PAS won eight of Kedah's parliamentary seats compared to UMNO's victory in only five of the 13 constituencies it contested.[14] In Mahathir's constituency, Kubang Pasu, the erosion of support for him between 1990 and 1999 was by almost 10 percentage points.

In Terengganu, diminished Malay electoral support for the BN was even more striking, with an almost double-digit percentage point fall in support in all constituencies, contributing to the BN's loss of control of the state to PAS. UMNO did not win any of the eight parliamentary seats it contested in Terengganu. Of the 31 state seats in Terengganu that UMNO contested, the party won in only four constituencies.

In spite of the BN's landslide victory in the 1995 elections, Table I.1 indicates that between 1990 and 1995, the ruling coalition had already begun to lose much Malay support in Kedah and Terengganu. In 1995, Malays in rural areas had voted against the BN mainly because of their disillusionment with the social implications of rapid economic development and modernisation on their community. Rural Malays, involved primarily in agriculture and in small-scale industries, believed that the government's economic policies hardly focused attention on promoting their interests. In spite of this, after the 1995 election, Mahathir did little to address the economic and social concerns of rural Malays. For this reason, it is probable that the BN would have faced further erosion of Malay support in many of these Bumiputera-majority constituencies even if Anwar had not been dismissed as deputy prime minister. Undoubtedly, however, the manner in which Anwar, who had presented himself as having a more populist orientation, was dismissed, contributed to the scale of Malay swing against UMNO, specifically in Terengganu and Kedah. It is also probable that discontent among the UMNO grassroots over Anwar's dismissal and the choice of party candidates for this general election contributed to the party's poor performance in Kedah and Terengganu. Prior to the 1999 election, PAS had no parliamentary seats in Kedah and only one in Terengganu (down from two in 1990).

Of the 104 parliamentary seats that UMNO contested in the 1999 election, the party secured victory in only about 69 per cent of these constituencies, that is 72 seats. In the 1995 election, UMNO had won 89, or 87 per cent, of the 102 parliamentary seats it contested. This was the first time in UMNO's history that the party commanded less than half the total number of seats in parliament.[15]

Table I.2 shows the difference in voter-support for the BN in Chinese-majority parliamentary constituencies between 1990 and 1995 and between 1995 and 1999. In these constituencies, the Chinese constitute at least 45 per cent of the electorate.[16] The percentage point difference in votes secured by the BN between the 1990 and 1995 general elections indicates a substantial Chinese swing to the coalition during this period. This was due primarily to the consistent growth rates recorded by the Malaysian economy during the early 1990s. Apart from this, the government's economic and cultural liberalisation policies introduced since the early 1990s helped the BN secure enormous Chinese support.

It is widely presumed that the BN obtained considerable Chinese support in the 1999 election. A comparison of the results between 1995 and 1999 reveals, however, an appreciable fall in support for the BN in 64 per cent, or nearly two-thirds, of these Chinese-majority constituencies. The BN's support in a number of Chinese-majority constituencies in Penang and Perak declined in this election compared to 1995. In Penang, the BN secured victories in six of the 11 parliamentary constituencies; in the 1995 election, the BN won eight of these 11 constituencies.[17] In Johor, even though the proportion of popular support for the BN was 70.55 per cent, the highest in the country, the ruling coalition registered an erosion of support in four of seven Chinese-majority constituencies. In Negeri Sembilan, the BN secured victory in all the parliamentary and state constituencies – the opposition previously held three state seats – but there was an appreciable decline in support for the ruling coalition in the three Chinese-majority parliamentary seats.

There is further evidence to question the common assumption that in 1999 the BN had managed to sustain the Chinese support it secured during the 1995 elections. Table I.3 indicates the difference in support for the BN component parties and the opposition in the 1995 and 1999 elections. In spite of the presumed non-Malay swing to the BN, the Gerakan and MIC actually recorded a fall in support. The MCA's margin of increase in support between the 1995 and 1999 elections was by less than one percentage point. The leaders of the MCA, MIC and Gerakan attributed this erosion of support to decreased votes from Malays, but this argument is questionable. As Table I.3 reveals, the decline in UMNO's support between 1995 and 1999 was by less than four percentage points, even though the party incurred serious losses in the Malay heartland areas. However, in spite of the erosion of Chinese support for the BN in 1999 compared to 1995, Table I.3 also indicates that the DAP registered a fall in support of about five percentage points between these two elections. The figures in Table I.3 suggest an ambivalence in the election results, when compared with the electoral data in Tables I.1 and I.2.

Table I.2 Change in support for the BN in Chinese-majority parliamentary constituencies in the 1990, 1995 and 1999 general elections (in percentages). (Change in support in parentheses.)

State	Chinese % of Electorate, 1995	Percentage share of BN support				
		1990	1995		1999	
Penang						
Tanjong	87.0	29.1	40.7	(11.1)	45.0	(4.3)
Bukit Bendera	73.8	36.6	51.8	(15.1)	50.0	(−1.8)
Bukit Mertajam	67.3	46.7	60.9	(14.1)	47.0	(−13.9)
Jelutong	65.3	39.2	48.2	(9.0)	51.0	(2.8)
Bagan	64.4	45.9	48.7	(2.8)	47.4	(−1.3)
Bayan Baru	64.3	46.6	54.5	(7.8)	58.0	(3.5)
Nibong Tebal	48.0	50.7	59.4	(8.8)	46.6	(−12.9)
Perak						
Ipoh Timur	86.0	40.6	49.4	(8.8)	52.0	(2.6)
Ipoh Barat*	66.3	—	54.2	—	54.0	(−0.2)
Batu Gajah	75.7	37.1	50.5	(13.4)	47.0	(−3.5)
Kampar	61.2	48.1	65.6	(17.5)	59.7	(−5.9)
Beruas	52.7	50.1	65.9	(15.8)	52.0	(−13.9)
Gopeng	50.8	60.6	71.0	(10.4)	57.5	(−13.5)
Lumut	45.4	50.9	77.9	(27.0)	50.7	(−27.2)
Teluk Intan	45.1	51.5	65.5	(13.9)	54.0	(−11.5)
Johor						
Senai	57.9	54.7	69.3	(14.6)	68.7	(−0.6)
Bakri	55.1	52.5	60.5	(8.0)	68.0	(7.5)
Kluang	49.2	52.4	70.6	(18.2)	71.0	(0.4)
Gelang Patah*	49.2	—	72.1	—	74.0	(1.9)
Segamat	47.9	51.7	68.4	(16.7)	62.0	(−6.4)
Pontian	46.9	58.4	83.4	(25.0)	82.0	(−1.4)
Labis	45.4	56.6	69.8	(13.2)	71.0	(1.2)
Kuala Lumpur						
Kepong	93.5	29.2	44.2	(15.0)	47.2	(3.0)
Seputeh	90.6	28.7	43.7	(14.9)	44.5	(0.8)
Cheras	84.1	40.0	33.5	(−6.5)	40.0	(6.5)
Bukit Bintang	79.5	20.8	41.5	(20.7)	48.0	(6.5)
Segambut*	52.6	—	65.9	—	60.0	(−5.9)
Selangor						
Serdang	56.6	45.8	54.3	(8.6)	53.0	(−1.3)
Klang	55.4	42.0	52.1	(10.1)	54.6	(2.5)
PJ Selatan*	50.5	—	61.3	—	54.0	(−7.3)
Negeri Sembilan						
Rasah	60.0	51.4	58.1	(6.8)	51.0	(−7.1)
Seremban	45.0	48.3	62.1	(13.8)	58.0	(−4.1)
Telok Kemang	45.0	66.6	72.1	(5.5)	61.0	(−11.1)
Malacca						
Kota Melaka	66.7	35.6	44.0	(8.4)	42.0	(−2.0)
Pahang						
Bentong	45.0	65.7	73.6	(7.9)	65.0	(−8.6)
Kedah						
Alor Setar	46.0	54.3	68.6	(14.3)	68.0	(−0.6)

*New seats in the 1995 general election.

Table I.3 Change in popular support secured by all parties in the 1995 and 1999 general
elections (in percentages).

	1995	*1999*	*Change in support*
Barisan Nasional			
UMNO	56.11	52.15	−3.96
MCA	24.07	24.86	0.79
MIC	4.86	4.57	−0.29
Gerakan	6.28	5.03	−1.25
Others	8.69	12.78	4.09
Total support	65.1	56.5	−8.60
Opposition parties			
PAS	20.83	34.41	13.58
DAP	34.70	29.28	−5.42
Semangat 46	29.47	—	—
Keadilan	—	26.52	—
PBS	9.33	4.95	−4.38
PRM	n.a	2.38	—
Independents	3.59	1.37	−2.22
Others	2.06	1.09	−0.97
Total support	34.9	43.5	8.60

Source: *The Star* 5 December 1999.

Although Keadilan, which contested primarily in constituencies that could be considered Bumiputera-majority areas, obtained almost 27 per cent of the popular vote, the party secured only five seats in parliament. Of the five parliamentary seats won by Keadilan, all victories were secured in direct fights with an UMNO candidate; there were direct fights between UMNO and Keadilan candidates in 32 parliamentary constituencies. Keadilan did not win any seats in its contests against MCA candidates.

Among Kuala Lumpur's large middle-class population, where the BA was expected to do well, the proportion of popular support for the BN was 49.74 per cent. In the Bumiputera-majority constituencies of Titiwangsa, Bandar Tun Razak, Batu and Lembah Pantai, the BN secured narrow victories, in spite of significant Malay discontent with the ruling coalition.[18] Table I.2 also indicates that although the BA won the Chinese-stronghold seats of Bukit Bintang, Seputeh, Cheras and Kepong in the Federal Territory,[19] the BN managed to secure increased support in these areas, going against the grain of diminishing support for the ruling coalition in Chinese-majority areas. This suggests that the BN had managed to secure sufficient non-Malay support in Kuala Lumpur to win six of the ten parliamentary seats under contest. In the 1995 election, the BN had won seven of these ten parliamentary seats. Non-Malay middle-class support

for the BN was also probably high among KL residents. In Penang, where ethnic Chinese are the majority population, the BN obtained 51.4 per cent of the total votes cast. In Perak, another state with a large Chinese population, the BN secured about 55 per cent of the popular support. In Selangor, Negeri Sembilan and Johor, all states with a large Chinese electorate, the BN secured victories in all the parliamentary seats under contest.

Although the proportion of BN's popular support fell by nine percentage points, from 65 per cent in 1995 to 56.1 per cent in this election, the level of support for the ruling coalition was still four percentage points higher than the 52 per cent popular support it received in the 1990 election. Moreover, a comparison of the percentage of support in Chinese-majority areas for the BN in 1990 and 1999 indicates that the decline in support in these constituencies was not enough to secure an opposition victory in many of these seats (see Table I.2). For example, although support for the BN declined in a number of Chinese-majority constituencies in the southern states of the peninsula, the ruling coalition still managed to retain control of all the parliamentary seats in Johor and Negeri Sembilan and denied the opposition any representation in these state governments. Even in Perlis and Kedah, in spite of the BN's loss of a greater number of seats in both parliamentary and state constituencies to the opposition in this election compared to 1995, the ruling coalition still secured about 55 per cent or more of the popular support in these two states.

These voting trends are a further indication of an ambivalence among the electorate in their support for either the BN or the BA. The election results suggest that in spite of the general public discontent with the BN, the BA did not appear to be a viable alternative to many Malaysians. While Bumiputera support for the BN was weak in the economically less-developed Malay heartland states, the ruling coalition appears to have maintained the community's support in the southern areas of the peninsula, suggesting intra-ethnic class dichotomies. Non-Malays appeared rather evenly split in their support for the opposition. The DAP won only one additional parliamentary seat in 1999 compared to 1995, in spite of the decline in Chinese support for the BN.[20] The DAP's two main stalwarts, Lim Kit Siang and Karpal Singh, lost both the parliamentary and states seats they contested in Penang. A comparison of the election results in Chinese-majority constituencies in 1999 and 1990, when the DAP won 20 parliamentary seats, suggests that the party has yet to regain much of the support it had in 1990.

PAS may have benefited most in this election because of these intra-ethnic splits among Malays and non-Malays, specifically with the capture of another state government, Terengganu. But, the results also suggest that any opposition coalition encompassing PAS will not be able to muster much support in a majority of parliamentary constituencies. PAS has little or no support in Malacca, Negeri Sembilan, Johor, Sabah and Sarawak.[21] In the 1995 election, PAS fielded 45 parliamentary candidates in all states except Sarawak but won only seven seats; in Kelantan (six) and Terengganu (one). Since protests against Mahathir's administration appear to have been the primary reason for PAS's electoral gains,

this suggests that support for theocratically-based parties among a large segment of Malaysians is limited.

This analysis of the election results in Bumiputera- and Chinese-majority parliamentary constituencies supports the widely-held view that the BN's support among the Malay electorate, particularly those in rural areas, continues to erode, a trend that commenced during the 1995 election. Chinese support for the BN during the 1999 election had declined compared to the support that it had been able to garner during the 1995 election. In the long term, the election results, and the voting trends over the past decade, suggest that the politics of race is becoming increasingly unacceptable, while mobilisation based on a theocratic ideology will not garner a party much support nationwide. Since both the BN and the BA have not managed to secure mass support of either the Malay or non-Malay communities, there is a need for political parties to consider institutional and organisational reforms.

It is unlikely that such reforms will occur in the BN, or UMNO, even when Mahathir steps down as prime minister. Moreover, given Mahathir's control over the media and his capacity to effectively emasculate dissidents, real and imagined, as evidenced in the case of the influential Anwar, even if UMNO grassroots discontent with Mahathir heightens, his position is under no threat. This may be to the benefit of the BA. The challenge for the opposition is to recognise the changing configurations in society and create an institutional structure that is widely acceptable to a majority of Malaysians.[22]

For UMNO, the dilemma the party faces is that if it invokes ethnic and religious politics to regain Malay support, its non-Malay support will diminish, which the BN can ill-afford in future general elections. Since the rejection of the BN by rural Malays is partly due to economic factors, Mahathir will have to review his economic priorities, including his support of debt-ridden, well-connected businessmen and controversial, unviable prestige projects. In mid-2001, following the departure of Daim Zainuddin, Mahathir's closest ally and the influential finance minister, from the cabinet, it appeared that the prime minister would revise his economic policies, including his support for the promotion of Malay capitalists, and introduce reforms to ensure greater transparency and accountability in corporate Malaysia. There has, however, been some scepticism about these transitions in corporate Malaysia, an issue we turn to.

Patronage, bailouts and the national interest

Following the race riots of May 1969, the affirmative action-based New Economic Policy (NEP) was introduced in 1970 to help create an economically independent Bumiputera community. Since NEP implementation to achieve this objective involved extensive government intervention in the economy, this eventually allowed UMNO to consolidate its hegemony over the state. This concentration of political and economic power at the top of the UMNO hierarchy eventually contributed to increased friction among Malay politicians over access to lucrative state concessions or 'rents' (Gomez and Jomo 1999). The ever

growing ties between capital and politics and the rent-seeking activities of politicians also contributed to growing conflicts within the business class, particularly the breed of new well-connected Bumiputera businessmen that had arisen through extensive state patronage. These rivalries transpired despite the admission by government leaders that although Malay businessmen have been created through state policies and patronage, genuine and competent entrepreneurs had failed to emerge in satisfactory numbers by the early 1990s (see *New Straits Times* 28 June 1994). Inevitably, the business class was hardly autonomous of the state and extremely dependent on the political elite for access to government projects, licences and privatised rents. This subservience of capital to the state hindered the consolidation of the business class as an effective check against the abuse of power by the political elite for vested interests. Moreover, since aspiring UMNO leaders could only secure grassroots support through the practise of money politics, this continued to impel state patronage, thereby consolidating the linkages between the business class and the political elite. Without much transparency, the abuse of power for vested political and business interests was not overtly obvious to the public – unless exposed by members of the ruling elite themselves in an attempt to discredit their opponents – and continued to prevail even though the rapidly burgeoning middle class was increasingly concerned over corruption and money politics.

Anwar had not shown much interest in the corporate sector when he was first inducted into government in 1982. Although he originally opposed strongly the mix between politics and business, Anwar soon realised that with the rise of money politics and as UMNO members had become accustomed to some form of patronage in exchange for support, it was imperative that he cultivated avenues to secure access to funds. By 1993, just two years after his appointment as finance minister, a new large group of mainly Bumiputera businessmen was closely identified with him. None of these businessmen would, however, emerge as major corporate figures before the 1997 currency crisis (see Gomez 2002).

This trend of selective patronage by Mahathir, Daim and Anwar, the three most powerful politicians in Malaysia by the mid-1990s, led to discontent among Anwar's allies since businessmen linked to Mahathir and Daim were capturing the most lucrative state rents. Many of these ambitious new businessmen had long been frustrated by the dominance of the Malay corporate world by Daim's protégés, including Halim Saad, Tajudin Ramli and Wan Azmi Wan Hamzah, and non-Malays associated with Mahathir, like Vincent Tan Chee Yioun, Ananda Krishnan, Francis Yeoh and Ting Pek Khiing. While none of Daim's protégés were UMNO members, many Malay businessmen linked to Anwar were active in party politics. Anwar-linked businessmen were also hoping to use the funds accruing from state rents to facilitate their ascendancy in UMNO.

Among more independent Malay businessmen, there was growing resentment that disbursement of state-generated rents was far too limited to an elite. Such resentments have grown following disclosures of poor management of these rents, particularly the privatised projects, after the onset of the currency crisis.

Almost all major privatisations did not evolve through transparent public–private negotiations.[23] A number of key privatisations were awarded based on private discussions between the prime minister and select business groups, many of whom eventually encountered serious problems with their projects. Ting Pek Khiing's multi-billion ringgit Bakun Dam project and Vincent Tan's monorail and sewerage projects, for example, came to be mired in controversy and financial crises. The privatisation of the Heavy Industries Corporation of Malaysia Bhd (HICOM) to Yahya Ahmad and of Malaysia Airlines Bhd (MAS) to Tajudin Ramli have been dismal failures, leading to the renationalisation of both firms.[24] There was no transparency in the privatisation of all four of these major projects.

It is unlikely, however, that any of the recipients of these privatised projects expected a bailout in the event of a crisis even though they did not have the expertise to deal with the concession involved. It is also probable that Mahathir did believe that those who secured these rents, particularly the larger privatised projects, had the ability to fulfil their contractual obligations. Ting, for instance, lobbied strongly for the Bakun Dam project, arguing that he could raise the massive financing required to complete the contract independently. The case is similar with Tan and the privatised sewerage contract. In both instances, although neither Ting nor Tan had any experience in implementing such contracts, they probably had the capacity to develop links with foreign enterprises to complete the projects, acquiring know-how in the process. When Francis Yeoh's YTL Corp Bhd and Ananda Krishnan secured their privatised power supply and telecommunications licences respectively, neither had any experience in these fields, but both have managed to develop thriving enterprises in these two sectors through an alliance with foreign firms. Yeoh and Ananda now lead these enterprises independent of their foreign partners.

Although the distribution of government-generated rents had become extremely personalised with concentration of power in the office of the executive, Mahathir was also becoming increasingly intolerant of rentiers who did not productively develop the concessions they had received from the state. Moreover, in a number of cases, selective distribution of rents had been accompanied by the need to ensure that the recipients were exposed to competition. In the telecommunications sector, the recipients of licences – Halim Saad, Tajudin Ramli, Ananda Krishnan and Vincent Tan – all well-connected businessmen, were exposed to considerable competition (see Chapter 7 in this volume). In the banking sector, well-connected Malay businessmen like Azman Hashim and Rashid Hussain were also exposed to much competition.

Despite Mahathir's desire to develop dynamic private domestic enterprises, the close nexus between politics and business during his tenure has meant that Malaysia's corporate history is replete with cases of business scandals (see Gomez 1990, 1991, 1994, 2002). Moreover, even if selective rent distribution had been conducted in an open, transparent manner, it could have led to wealth and income disparities, contributing to new social and political problems. This then raises the question whether selective distribution of rents is a fair method of

correcting inter-ethnic economic disparities. Furthermore, while there was, undoubtedly, a need to diversify the economy, promote industrialisation and achieve inter-ethnic harmony, to what extent was there a need to largely marginalise dynamic Chinese enterprises to achieve inter-ethnic income and wealth parity? Clearly too, selective distribution of government rents had not helped promote the development of independent, entrepreneurial Malay capital. In fact, when the currency crisis occurred, the companies that were in much need or aid or bailouts were those that had benefited most from state patronage, including Renong Bhd, controlled by Halim Saad, a firm reputed to represent the rise of Malay capital.

Interestingly, corporate bailouts were justified as being in the 'national interest', a term conveniently used to justify state support for specific companies. Perusahaan Otomobil Nasional Bhd (Proton), manufacturer of the Malaysian car that had been privatised, had to be bought from the debt-ridden DRB-HICOM Bhd by the government-owned and cash-rich petroleum firm, Petronas Bhd, because the car manufacturer had been incorporated to drive Malaysia's heavy industrialisation initiative. Government-owned Bank Bumiputra Bhd could not be put out of business ostensibly because it helps promote the development of Bumiputera capital. Renong was important because it represented the kind of large-scale Malay company that the government was keen on developing. The loss- and debt-ridden MAS, the nation's privatised airlines, had to be renationalised to rescue it from imminent bankruptcy. Since the construction of the privatised Bakun Dam had commenced before the onset of the currency crisis, the contractor, Ting's Ekran Bhd, had to be compensated for work already completed before the project was taken over by the government.

The arguments of government leaders regarding the need to save these companies as being in the 'national interest' diverted attention from important questions. In the case of the UMNO-linked Renong, was it necessary to have a company of this size as a symbol of the development of Malay capital, especially when it is clear that this private company did not represent the interests of all Bumiputeras? Who was accountable for the pattern of growth undertaken by Renong that had contributed to its debt problem? Should the public and state-owned enterprises be used to bail out Renong? Why was Renong not forced to divest its assets, particularly in non-core activities, to deal with its debt crisis? In 2001, four years after the onset of the currency crisis and following some controversial bailouts, Renong was finally taken by the government and put through a restructuring exercise. The Renong takeover and restructuring occurred only after a fall-out between the prime minister and Halim's patron, Daim.

When the bailout of DRB-HICOM was instituted through the government's takeover of Proton, this exercise was justified on the ground that it was in the national interest to save Malaysia's automobile industry. Yahya Ahmad, a UK-trained engineer, had some knowledge of the car industry before Proton was privatised to him. And, before Yahya's untimely death, he had innovative ideas to improve the company, evidenced in his purchase of the research and engineering

division of Lotus of England. But even if the renationalisation of Proton can be attributed to the demise of Yahya and the need to sustain Malaysia's automobile industry, other more innovative restructuring schemes could have been considered instead of its takeover by the government. One way was to involve Chinese companies in the automobile production industry.

A number of Chinese firms have been actively involved in car manufacturing in Malaysia. In order to create an automotive industry that is internationally viable, the government could have incorporated these Chinese businesses in this sector, a factor that would have also greatly promoted inter-ethnic relations. Although Mahathir clearly recognised the dynamism of Chinese enterprise, he appeared reluctant to incorporate these businessmen in the restructuring of Proton. This is probably because most Chinese involved in various sectors of the automotive industry are rather independent of political patronage, for example the Tan family's Tan Chong Motors Bhd and the late Loh Boon Siew's Oriental Holdings Bhd, while others like the Hong Leong and Lion groups were reputedly aligned to Anwar. It appeared that political divisions in UMNO prevented a prudent response to a crisis in the car manufacturing sector.

Bailouts, like policy responses, were dictated by the interests of key leaders. Anwar, for example, overtly disapproved of bailouts, probably because of public criticism of Mahathir's arguments to save well-connected firms. Anwar was also critical of the government's acquisition of debt-ridden businesses owned by Mirzan Mahathir, the prime minister's eldest son. Mirzan's public-listed shipping concern Konsortium Perkapalan Bhd (KPB), which was drowning under huge debts, was eventually bailed out when government-owned and publicly-listed Malaysian International Shipping Corporation Bhd (MISC) acquired, for cash, subsidiaries owned by KPB; most of these KPB subsidiaries were the companies that had been saddled with loans (*The Star* 7 March 1998). Anwar's reluctance to support this acquisition was widely presumed to be a factor that contributed to the split between him and Mahathir.

When Anwar was dismissed, companies owned by businessmen linked to him were channelled to Daim's allies. For example, T.K. Lim, who was closely associated with Anwar, lost control of the highly-diversified Multi-Purpose Holdings group to businessmen linked to Daim. Anwar's friends who owned the leading media companies, the New Straits Times Press Bhd and TV3, ceded control of these firms to Mahathir's and Daim's allies. The disputes between political elites, first between Mahathir and Anwar and then between Mahathir and Daim, led to major changes in corporate ownership and control patterns (see Chapter 6). These changes in business ownership patterns were used by the government to argue that Mahathir was intent on improving corporate governance in Malaysia. By the end of 2002, however, no legal action had been taken against any of the businessmen closely linked with UMNO leaders, including Halim and Tajudin. Meanwhile, it appeared that a new breed of well-connected Malay businessmen was being cultivated by the state, suggesting that Mahathir has not embraced the lessons of the past of selective patronage.[25]

The chapters that follow

The studies in this volume will consider one fundamental question – why has the reform movement failed to make an impact in Malaysia? In the chapters that follow, the contributors will examine why Malaysians have been reluctant to accept the new formidable opposition coalition led by Anwar despite their concerns about poor governance by Mahathir. The contributors will also analyse the themes and conflicts that animate Malaysian politics and business, specifically the difficulties of maintaining large-scale, multi-ethnic political unions and creating sustainable domestic entrepreneurial enterprises. The empirical focus of this volume is on electoral voting patterns and major government policies, to assess their outcome on the state, corporate sector and society. By analysing how Mahathir has exercised power, an insight is provided into who has benefited most from his policies and of how responsive his government has been to evolving demands from Malaysian society.

Chapters 1 to 5 focus on new trends in Malaysian politics. The articles in these chapters analyse why the reform movement has been unable to check Mahathir's hegemony even though there was a major fissure between the two most powerful politicians in Malaysia, a fracture that should have assisted the rise of democracy. These chapters also review the reasons behind the growing discontent with the Mahathir administration among rural Malays (obvious in their support for PAS) and the middle class, especially urban Malays (apparent in their representation in Keadilan).

In Chapter 1, William Case, conceptualising Malaysia's form of authoritarianism as a 'pseudo-democracy', traces the avenues through which the BN has been able to stymie the rise of the BA. Case notes that the expelled deputy prime minister was not able to count on his considerable support within UMNO to check Mahathir's attempt to oust him. Many of Anwar's supporters were reluctant to leave UMNO for fear of their loss of access to state patronage. Another reason why party members were reluctant to follow Anwar was the rapid demise of new parties formed out of breakaway UMNO factions. Through an analysis of the 1999 national elections, and an assessment of the performance of the BA in the Malay heartland, Case offers reasons why the BA has not been able to benefit from growing Malay aversion for Mahathir's form of governance. One key issue that he highlights is the fragmentations between and within the middle and working classes which have hindered their capacity to cooperate to demand reforms of this government. Case further argues that the key factor that has hindered the opposition from making a greater impact is the presence of the Islamic party, PAS, in the BA. While a growing segment of Malaysian society outside the Malay heartland states of Kelantan, Terengganu and parts of Kedah and Pahang appear wary of PAS's goal of creating a theocratic state, this objective has led to the partial break-up of the BA, with the departure of the influential DAP from this coalition.

In Chapter 2, Sumit Mandal provides an assessment of inter-racial relations, with a focus on the issue of ethnic and identity change in Malaysia. Mandal

argues that within Malaysian society, a new multi-racial and national identity appears to be emerging, especially among the younger generation. Young people appeared to have emerged as a bulwark against the practise of ethnic politics. Ruling politicians and opposition leaders are either unaware of identity transformations among Malaysians or are reluctant to advance institutional and ideological reforms in their parties to accommodate these changes. In the hegemonic UMNO, since the party's basis of mobilisation is the promotion of Bumiputera interests, this has reinforced notions of Malay dominance, an idea that is not inclusive nor one that permits the incorporation of other ideas, like multi-culturalism. This pattern of mobilisation accentuates the importance of ethnic identity, not national identity, in spite of the government's stated desire to promote the creation of a *bangsa Malaysia*. While UMNO factionalism and intra-ethnic Malay cleavages have helped promote the prospects for greater political liberalisation, they have also brought to the fore new perceptions of ethnic and religious difference. These new developments also indicate changes in identity formation, specifically among the younger generation of Malaysians. In this regard, the possibility of the emergence of a more inclusive state appeared possible with the formation of the BA. However, Mandal contends that the rhetoric of political parties in the BA – as in the BN – continues to divide Malaysian society along ethnic and religious lines.

In Chapter 3, Jason Abbott looks at the impact of new technologies on politics, following Anwar's dismissal and the rise of the BA. Abbott asks why the BA has not been able to build on the momentum of September 1998 even though it has been able to reach out to a wider audience through effective use of the Internet. Although the Internet has been utilised well to provide more informed analyses of problems within the state and the economy for mass consumption, Malaysian society appears to have become increasingly disillusioned with the BA. Abbott poses this question: Although the Internet serves as a key tool for mobilisation and dissemination of information and alternative viewpoints, does the present institutional framework under which the opposition operates require reform before society can respond positively to its call for change? The analysis provided by Abbott suggests that it is not the medium (i.e. the Internet) that has failed to capture the imagination of the electorate. Rather, the institutions established in the post-Anwar crisis period do not appear to be a viable alternative to the ruling BN.

In Chapter 4, Claudia Derichs presents her study on the views of Malaysian intellectuals on the reform movement. Through feedback from interviews with these intellectuals, Derichs analyses why the middle class has not been more actively involved in trying to bring about reforms. These interviews draw attention to the considerable divisions that exist among members of this class in Malaysia. This fragmentation of the middle class, indicating the heterogeneity of the groups subsumed under this class, is seen by Derichs as the primary reason why they have been unable to lead the reform movement. Moreover, since the state has played a key role in the development of the middle class, this has prevented this community from helping to overhaul the government, even in

periods of economic crises. In this regard, the prominent role of the younger generation, who have yet to experience the conforming influence of state patronage, is significant in the reform movement. One important point that Derichs notes about the middle class is the growing feeling of multi-racialism among members of this community, which she attributes to the homogenising effect of modernisation. The patterns of political mobilisation by the leading ruling and opposition parties, however, contribute to reinforcing the idea of ethnic difference, which hinders the promotion of national unity.

In Chapter 5, Bridget Welsh provides an analysis of by-elections – and the Sarawak state election – since 1999. Between 1999 and 2002, a major spilt occurred within the BA with the departure of the influential DAP, while the BN's overwhelming victories in the Sarawak state election and two by-elections in Sabah reinforced the point that the opposition needed to restructure itself in order to secure broad-based national support. In the peninsula, although the BA won only two of the seven by-elections, suggesting a decline of the opposition coalition, Welsh's study indicates that the BN has still not managed to retrieve overwhelming Malay support. Other important features of the Malaysian electorate that emerged during the 1999 election remain unchanged: the urban middle class appear indecisive about their support for the BA despite their criticisms of the BN's form of governance, while the younger generation, especially Malay youths (products of the Mahathir era), still staunchly back the opposition. The two by-elections won by the BA were both in Kedah, Mahathir's home state, indicating that the prime minister's controversial leadership remained a problematic issue for UMNO. The BN's position among the electorate has strengthened primarily as a result of the problems within the BA, not because UMNO has managed to re-invent itself as a reformed party responding appropriately to the criticisms of the electorate. Welsh argues that despite the decline of the BA, the opposition, especially PAS, remains a potent challenge to the BN, specifically in the rural Malay heartland. Non-Malay support and the vote of Sabahans and Sarawakians remain crucial to the BN if the coalition hopes to retain its two-thirds majority in parliament in the next general election.

The analyses in Chapters 1–5 provide some noteworthy viewpoints on new patterns of representation and attempts to create a more inclusive form of governance, despite the limited impact of the BA. Keadilan, multi-ethnic and comprising leaders of all ethnic communities, is in fact a party where there is Malay hegemony. Keadilan was established to capture the support of people who could not be mobilised by PAS. It is also probable that Keadilan leaders were concerned about PAS's ideological stance, which was seen as reactionary and a divisive proposition to propagate in a multi-ethnic, multi-religious environment. To overcome this problem, the BA was formed and presented as a truly consociationalist form of politics.[26] The BA component parties represented the different cleavages that existed in Malaysian society, forcing negotiation and accommodation. The BA parties had an equal voice and voting rights, regardless of the extent of their influence among the electorate, in terms of number of state and federal seats they controlled. Thus, PRM, which has not won a state assembly

or parliamentary seat for nearly 30 years, had an equal vote in all decisions as did PAS or the DAP, the leading opposition parties, or the newly-formed but apparently influential Keadilan. PAS's continued insistence on the formation of an Islamic state appeared too disruptive, however, to sustain the BA as a unified force.

The authors of Chapters 1–5 note that other factors have also contributed to the BA's apparent decline. Global events, particularly the terrorist attacks of 11 September 2001 in the United States, have had a bearing on domestic politics. UMNO's effective use of the media to denigrate the opposition, especially PAS, as an Islamic deviationist party in the post-September 11 period has served to further undermine the party's credibility with the urban middle class. Moreover, the use of some draconian government legislation, like the Internal Security Act (ISA), which allows for long-term detention without trial, to arrest PAS activists allegedly linked to Islamic terrorist groups has weakened the opposition. The ISA arrests of the most dynamic young leaders in Keadilan, apparently for organising street demonstrations, have crippled the capacity of the opposition to continue to organise the party machinery and mobilise support.

Chapters 6–8 gauge the outcomes of the major policies introduced since 1981, including those dealing with positive discrimination, privatisation and Islamisation. The manner of implementation of these policies has given rise to questions about the nature and quality of economic and social development, equity in wealth distribution and corruption, patronage and abuse of power for vested interests. With the end of the 10-year National Development Policy (NDP) in 2000 – the successor of the 20-year NEP – debates over the distribution, and redistribution, of economic resources appear to have been ethnicised.[27] These debates have drawn attention to the feasibility of affirmative action initiatives mainly because of the new cleavages in society that they have fostered.

Since the inauguration of affirmative action following the horror of the 1969 riots, the NEP and NDP have been controversial policies. In Chapter 6, Terence Gomez discusses how until the onset of the 1997 currency crisis, Malay hegemony over politics had been prolifically used to create a new breed of politically well-connected, mainly Bumiputera, business people. By the early 1990s, UMNO leaders had secured overwhelming control over the corporate sector, directly as well as indirectly. But with the collapse of most big Malay enterprises and the spilt among UMNO leaders, Bumiputera ownership of Malaysia's leading enterprises diminished significantly. By 2000, only one Bumiputera, Rashid Hussain, was listed among the owners of the top 20 quoted firms in Malaysia, though even he would lose control of his main business enterprise, the RHB Bank, in 2002. In spite of the active promotion of privatisation, the government still retained ownership of more than half of these top 20 publicly-listed companies, partly because state-controlled enterprises had been used to take over the assets of businessmen aligned to politicians who had fallen out with Mahathir. This turn of events also meant that, in spite of the prime minister's overwhelming influence over the corporate sector, the idea of Bumiputera control and ownership of the economy was again perceived as being

under threat, especially in the absence of a dominant leader like Mahathir. Mahathir's dilemma, however, is that patronage has obviously not been a constructive way to build enterprising, sustainable Malay-owned firms. Mahathir has since exhorted Malays to dispense with their dependence and patronage mentalities and to acquire a spirit of competitiveness in order to develop independent, entrepreneurial business enterprises.

On the other hand, non-Bumiputera capitalists, from a position of economic independence in the immediate post-colonial period, have become increasingly subservient to the state with NEP implementation and the emergence of Mahathir hegemony. Even after the currency crisis, it was obvious that the state still had the capacity to divest Chinese business people of their ownership of their corporate assets.[28] The dilemma of the Chinese is the choices they feel they have, i.e. between a Malay hegemonic, but secular, state represented by UMNO, or a government under PAS, which might possibly be more democratic, especially if it has to share power with other parties to secure a majority in parliament. Since the Chinese are aware that they have managed to develop their enterprises in spite of state policies, provided they conform to most regulations, they would prefer to retain the ruling BN, a point also noted by Case in Chapter 1. Among Chinese owners of large-sized firms, they believe they can also benefit if they know how to accommodate the state and influential Malays, though this can be problematic if their patron falls from grace. This problem contributed to the decline or demise of a number of Bumiputera capitalists nurtured by certain government leaders.

In Chapter 7, Lorraine Salazar similarly indicates how Mahathir attempted to use another key government policy, privatisation, to achieve a number of goals, including to reduce the size of the state in the economy, to improve competitiveness and efficiency among Malaysian enterprises and to help create Malay capitalists. When rents were privatised, Malay businesses were given preference over other Malaysian firms. Since most privatisations did not evolve through any public–private collaboration involving transparent discussion, major projects were privatised to firms controlled by well-connected corporate figures or politicians-cum-businessmen. Through a case study of the telecommunications sector, Salazar shows that Mahathir did attempt to introduce some competition in this industry, but over-exuberant liberalisation of this sector and poor government oversight eventually necessitated consolidation. These limitations in government supervision had contributed to enormous wastage of funds by the firms that had secured licences to venture into this sector. Malay involvement in the telecommunications sector has diminished following the consolidation exercise. The firms controlled by the well-connected Halim Saad and Tajudin Ramli have been taken over by government-owned enterprises, another indication of the failure of the state to promote Malay capital.

The protection and promotion of vested interests during the implementation of key government policies is the principal theme in Chapter 8, a study on the government's Islamisation policy by Kikue Hamayotsu. During the implementa-tion of this policy, actively promoted by Anwar from 1982, there is clear

evidence that it was used to fulfil its stated social and economic objectives. Hamayotsu, however, also provides ample evidence to indicate that the implementation of this policy has served the vested political and business interests of UMNO leaders. This study highlights the paradox of policy implementation in Malaysia, i.e. while the goals of the policies are pursued, they are simultaneously used to cultivate vested political and economic interests, a feature common during the NEP decades and when privatisation was actively promoted. These vested interests have hampered or undermined the effective development of important Islamic institutions, specifically those with a financial-welfare component.

With the failure of Malay capital, given the need to increase domestic investments and since Mahathir does not believe in using state capital to promote development, the government has increasingly come to recognise the need to incorporate and accommodate non-Malay enterprises in a more meaningful way in the economy. Moreover, Mahathir remains driven by the desire to industrialise the economy and since he is concerned about his legacy, it is probable that some of the changes he will institute will be in the national interest. However, as the chapters in this volume indicate, the prime minister can also be selective about his reforms and he can insist on doing things as he had done prior to July 1997, i.e. selectively distribute concessions in a non-transparent manner as a means to achieve his long desired goals of creating Malay capitalists and developing Malaysian conglomerates of international repute.

A transition, thus, has been noted in Malaysia, in spite of discriminatory policies and an unprecedented centralisation of political power. The government is reviewing its stand on affirmative action, including introducing meritocracy in education and business, as a means to deal with the problems that have emerged in Malaysia. Improved corporate governance is being espoused, corruption is apparently no longer tolerated and small and medium-scale enterprises (SMEs), rather than big businesses, are being given more government support. As Mahathir's tenure comes to an end, and since his successor, Abdullah Ahmad Badawi, does not have similar hegemony over the state, the need for the government to liberalise politically and economically will become more imperative.

Notes

1 The other major parties in the BN, comprising about 14 organisations, include the ethnically-based Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC), the socialist-based *Gerakan Rakyat Malaysia* (Gerakan, or Malaysian People's Movement), the People's Progressive Party (PPP), the Sarawak-based *Parti Persaka Bumiputera Bersatu* (PBB) and the Sabah-based *Parti Bersatu Sabah* (PBS, or Sabah United Party).

2 See Zakaria (1989), Case (1993), Crouch (1996), Munro-Kua (1996), Means (1998), Gomez and Jomo (1999), Hilley (2001).

3 Mahathir's brusque manner and his rather iron-fisted control of UMNO and the government was persistently compared with Anwar's charismatic, open style and his

visible attempts to engage in discourses about creating a more democratic, inclusive form of governance in Malaysia. See Anwar's *The Asian Renaissance*, 1996.

4 In Anwar's absence, his wife, Wan Azizah Wan Ismail, led Keadilan.

5 The rise of the BA and Keadilan was not, however, the first time that Mahathir faced a serious challenge to his position, emanating from divisions within his own party. In 1987, during an UMNO leadership crisis, then Trade & Industry Minister, Tengku Razaleigh Hamzah, almost unseated Mahathir as president during the party elections. This challenge eventually spilt out of UMNO when Mahathir cleverly manoeuvred Razaleigh and his supporters out of the party in 1988. During the 1990 general elections, the BN faced a formidable opposition when Razaleigh, who had formed a new party, *Semangat 46* (Spirit of '46), forged two new opposition coalitions. Although the BN managed to retain control of the federal government in this national election, the coalition lost control of the Kelantan state government to the opposition (see Khong 1991). Kelantan remains under the control of PAS. Semangat 46, however, floundered badly, and after faring poorly in the 1995 general elections, Razaleigh and his supporters returned to UMNO in 1996.

6 Literally translated, 'Bumiputera' means 'princes of the soil', an epithet used to refer to the members of the ethnic Malay community, although it includes the indigenous people of Sabah and Sarawak.

7 The BA did, however, manage to wrest control of the state government of Terengganu from the BN. The BA also retained control of Kelantan.

8 The importance of culture in an analysis of politics – and business – in Asia would, however, remain a dominant explanatory tool for Huntington. See for example his volumes *The Clash of Civilizations and the Remaking of World Order*, 1996 and *Culture Matters: How Values Shape Human Progress*, 2000.

9 Anwar supporters in UMNO would argue that the role of leadership was important. UMNO leaders had to make an option for democracy and social justice, all the more important with the rise of a middle class that had greater expectations of their government than merely ensuring economic growth.

10 This argument, often repeated by Mahathir, was well-publicised by the government-controlled mainstream media. For a discussion on the BN's use of the media to muster support and denigrate the opposition, see Chapter 1 in this volume.

11 Zakat represents a means of achieving social justice. In practice, it involves a payment by Muslims for the benefit of the poor. The payment of zakat is obligatory, as it is one of the five pillars of Islam.

12 For a study of the 1995 elections, which provides an analysis of the conspicuous rise in Chinese support for the BN that year compared to the 1990 elections, see Gomez (1996a).

13 The BN component parties won 24 seats, while PAS won in all the other 12 state constituencies. UMNO won 16 of the 28 state seats it contested in Kedah.

14 The BN's MCA won the two other parliamentary seats in Kedah.

15 During this election, a total of 193 parliamentary seats were contested, one more than the seats in parliament during the 1995 electoral contest. In between these two general elections, an additional parliamentary seat was created in Sarawak.

16 These figures do not include the Indian or other non-Bumiputera communities.

17 In the state level election in Penang, the opposition won three seats, two more than the number it held after the 1995 election.

18 Keadilan contested three of these five constituencies; the Batu constituency was contested by PRM, while PAS fielded a candidate in Titiwangsa. The narrow victories secured by the BN in Kuala Lumpur were an indication of an evenly divided electorate in the Federal Territory.

19 All four of these parliamentary constituencies in Kuala Lumpur were contested by the DAP.

20 The DAP won only 10 of the 46 parliamentary seats it contested.

21 The BN's performance in the Borneo states of Sabah and Sawarak was impressive.
    These two states contribute 48 seats to the Malaysian parliament, of which the BN lost
    only three, all in Sabah. In the 1995 election, the opposition won eight seats in Sabah
    and one in Sarawak.

22 Chapter 2 in this volume provides a comprehensive study on the evolving ethnic and
    social trends in Malaysian society.

23 See Chapter 7 for a case study of the privatisation of the telecommunications industry
    which draws specific attention to the importance of the nexus between politics and
    business in determining the recipients of the licence to enter this sector.

24 In the case of HICOM, only one component of this diversified firm was renationalised,
    that is Perusahaan Otomobil Nasional Bhd (Proton), the producer of the Malaysian
    car.

25 See Chapter 6 for a discussion on the emerging trends in corporate Malaysia
    following the departure of Anwar and Daim.

26 Consociationalism refers basically to ideas about a democratic form of governance
    in a multi-ethnic society. Given the diversity of identities and interests in this type of
    society, the participation of a number of constituent groups in government is
    necessary. Decisions on government policies should preferably be reached through
    consensus. Lijphart (1977) provides a comprehensive study of this concept.

27 In 2001, the government introduced the National Vision Policy (NVP) to replace the
    NDP. The tenor and major objectives of the NVP are similar to those of the NEP and
    the NDP.

28 When it became clear during the crisis that many Chinese enterprises were able to
    sustain themselves – in fact, for a while there was much talk of big Chinese firms
    bailing out the collapsed Malay enterprises – the feeling of Malay insecurity
    re-emerged over their hegemonic position in the economy.

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1   Testing Malaysia's pseudo-democracy

William Case

Introduction

Malaysia has often been characterised as an exemplary pseudo-democracy, its government steeled with single-party dominance (see Zakaria 1989). In this configuration, the government has limited, but not fully extinguished civil liberties, while distorting, but not tightly rigging electoral procedures. Indeed, elections retain much competitiveness, with the opposition gaining up to 45 per cent of the popular vote at the federal level, while winning some state assemblies outright. Despite systematic electoral abuses, then, such as district malapportionment, gerrymandering and highly partisan use of state-owned facilities and media outlets, rule-bending has never been so severe that major opposition parties have resorted to boycotts, street actions or other anti-system strategies. Accordingly, Malaysia's government has earned some legitimacy for its lengthy tenure through the modicum of electoral uncertainty that it allows. As the long-time prime minister, Mahathir Mohamad, advises, 'Our way is through general elections. If [the people] like us they will elect us. If they don't they can elect someone else' (*New Straits Times* 21 April 2001).

Hence, as it is practised in Malaysia, pseudo-democracy involves a pattern of limited civil liberties, but at least moderately competitive elections, driven by, yet in turn helping to sustain, a government that centres on a single dominant party. To win elections in even these conditions, the government must, however, do more than truncate civil liberties. In attracting necessary thresholds of constituent support, the government must provide positive inducements of clientelist patronage and populist distributions, a general prosperity through which to fund these benefits, and a galvanising repertoire of 'mentalities' and tactical appeals. It may be, though, that pseudo-democracies, in allowing governments greater policy latitude than fuller democracies do, while sparing governments the deep mass resentments that can mar harder forms of authoritarianism, provide the political wherewithal with which best to carry out these functional tasks. Elections, then, prefaced by curbs on civil liberties, lift what in a fuller democracy might constitute a government plurality into a slight electoral majority, while boosting a slight majority into an extraordinary one. It is this amalgam, then, of policy autonomy and societal acquiescence, the

reproduction of electoral padding – and the elite-level consensus that results – that gives pseudo-democracy much of its intrinsic stability.

Nonetheless, the performance of even governments that operate pseudo-democracies must falter episodically, and as clientelist and populist resources dwindle, economies contract, and mentalities thin, so too can elite- and mass-level compliance. Geddes (1999: 139) argues strongly that single dominant parties remain 'remarkably resilient' amid economic crises and sundry other pressures. However, if social grievances grow intense, they may finally test this party's pseudo-democracy, sweeping over the curbs on civil liberties. In these circumstances, elections do less to inflate the government's standing than to trumpet the rise of the opposition. To be sure, a government may react to its electoral defeat either by accepting or repudiating it. Either way, the pseudo-democracy is destabilised, with elections heralding a transition to a new type of regime characterised by fuller democracy or harder authoritarianism. This chapter, then, seeks to investigate the recent stresses in Malaysia's pseudo-democracy, as well as the origins of this regime type and its long record of stability.

Pseudo-democracy's origins in Malaysia

Through British colonial rule, Malaysia acquired parliamentary procedures and a competitive party system, relatively high levels of bureaucratic and judicial capacity, and reasonably professional security forces. This amounted to a 'tutelary' experience marked by rule-bound competitiveness, offering what Weiner (1987: 3–34) understands as a favourable precondition for stable democracy. However, the British also bequeathed to their Malayan possession a set of developmental patterns, social structures and elite-level expectations that weakened democracy's prospects. As Diamond (1989: 13) reminds us,

> British rule – like all colonial rule in the developing world – was highly authoritarian. If it educated elites in democratic values and ways, while permitting quite limited but gradually expanding indigenous representation and competition, its first and most important goal was the preservation of its own authority.

British colonial experience thus involves a mixed legacy, causing politics during the first decade of independence to mutate into a distorted form of 'consociational democracy' (Lustick 1979: 325–44; Case 1996), later a paradigmatic pseudo-democracy.

More specifically, the British geared the Malayan economy to commodities exports, thereby preventing the emergence of any significant industrial base, as well as any complex and free-standing local bourgeoisie. Further, in order to perpetuate this dependence, the British constructed a classic plural society (Furnivall 1956), one in which indigenous, and hence 'sovereign' Malay sultans and bureaucrats oversaw a co-ethnic mass base of cultivators. At the same time, immigrant Chinese and Indians were deployed in the tin mines and rubber

plantations that made up the economy's modern sectors. These immigrants were, however, regarded as sojourners who, even if occasionally accumulating wealth, were effectively denied citizenship and political rights. Colonial officials defended this configuration as a harmonious one. It sooner amounted, though, to a mutually negating social structure wherein nominally ascendant, but collectively indigent Malays were pitted against more economically rewarded, but disenfranchised non-Malays. Finally, when negotiating decolonisation after World War II, the British convened ethnic leaders in a series of meetings (Means 1976: 122–24). This strategy exalted the statuses of local elites, thus encouraging elite-level aspirations and collaborative behaviours. It did little at the mass level, however, to unite the disparate ethnic communities of plural society in shared notions of national identity and democratic procedures.

Unremarkably, then, the terms of independence satisfied collaborating elites. These elites presided over their new democracy in consociational ways, forming a trio of ethnic political parties – the United Malays' National Organisation (UMNO), the Malayan (later Malaysian) Chinese Association (MCA), and the Malayan (later Malaysian) Indian Congress (MIC) – then formed a grand coalition called the Alliance. They also shared out their respective resources in politics and business. Top UMNO politicians ceded to leading Chinese business people in the MCA control over the economic ministries, then gained seats on the boards of Chinese-owned companies in turn.

Following Independence in 1957, however, social grievances simmered over delays in development and the inequalities between ethnic segments that could be mobilised. During the 1960s, Malaysia's free markets, only slightly moderated by import substitution, perpetuated dependence on British investors and commodity markets. Where a local business community and urban middle class began to take root, it remained almost wholly Chinese and Indian.

The Alliance won the first two parliamentary elections held after independence in 1959 and 1964, but in 1969, elections finally gave vent to rising discontents, posing a sharp challenge to the government. Many Malays, gathering at the fringes of rapidly urbanising areas, there to view the comparative prosperity enjoyed by the Chinese, began to question the value of the UMNO's holding office when it refused to better their economic lot. At the same time, the Chinese bristled over the MCA's apparent inability to raise their political and cultural standings. In this situation, significant numbers of voters from both communities turned from the collaborative Alliance to more avowedly sectarian parties in opposition. Many Malays voted for the Pan-Malaysian Islamic Party (*Parti Islam se-Malaysia*, PAS), while many non-Malays supported the Democratic Action Party (DAP) and the Malaysian People's Movement (*Gerakan*). Although the Alliance retained power at the federal level, it was gravely weakened, and it lost control over two state assemblies. The Malays appeared stunned by the UMNO's setback. The Chinese, meanwhile, celebrated this outcome, holding 'victory' processions in the capital city of Kuala Lumpur. Malays soon confronted Chinese, culminating in a watershed event of ethnic rioting known as the 13 May incident (Von Vorys 1973).

In the wake of this upheaval over economic stagnancy, persistent ethnic inequalities and the temporising of independence-era elites, a faction of new elites gained ascendancy in UMNO, then moved dramatically to reconfigure Malaysia's political economy in ways more compatible with structural conditions. In brief, UMNO drew most of the opposition parties into the ruling coalition, now re-badged the *Barisan Nasional* (BN, or National Front), then firmly established its party dominance (see Mauzy 1983). Fortified by greater state power, UMNO penetrated deeply into the economy. UMNO created a range of state enterprises through which to pursue more vigorous policies of import-substitution. It also embarked on a concerted programme of affirmative action. Labelled the New Economic Policy (NEP), the new state enterprises that had been erected were staffed with Malays, while ethnic quotas were imposed on private sector employment and equity stakes. In these ways, the developmentalist visions of a late-industrialising country, the mass-level aspirations of the Malay community and the acquisitiveness of Malay elites could be systematically fulfilled through import-substitution, exclusionary populism and clientelist patronage, made manifest in a stream of state positions, licenses, contracts, generous lending and, during the 1990s, a skewed privatisation of state assets, followed by a renationalisation amounting to bailouts.

In this way, UMNO re-energised much of its Malay following. Through the NEP, however, most rigorously enforced during the 1970s, the government also alienated many Chinese and Indians. Non-Malay resentments were then articulated by the DAP which, alone among the opposition parties, avoided absorption into the UMNO-centred BN. Moreover, during the 1980s, UMNO's commitments to breakneck industrialisation appeared to breed 'social ills' that began to trouble many Malays. These respective concerns were expressed by PAS which, in having withdrawn from the BN, acquired a more strident Islamicist demeanour.

In these conditions, the government recognised that it possessed enough support that it could afford to hold elections. In order to restrict the PAS and the DAP in their mobilising activities, the BN greatly tightened controls over civil liberties (Munro-Kua 1996). A new sedition law, controls over the media, some 'draconian' constitutional amendments that forbade student organising and bureaucratic disclosure and more frequent use of preventive detention under the Internal Security Act (ISA) underscore the contraction of Malaysia's consociational democracy into a pseudo-democracy. In these circumstances, while still tolerating levels of electoral competitiveness that must be assessed as meaningful, the government curbed civil liberties enough that it was able to win all seven parliamentary elections that were held after the 13 May incident, extending its run over a quarter-century from 1974 to 1999. Plainly, UMNO, having established it single-party dominance, recognised its capacity to operate, and to derive the legitimating benefits from, a pseudo-democratic regime.

Testing Malaysia's pseudo-democracy

Notwithstanding the restrictions inherent in Malaysia's long-standing pseudo-democracy, UMNO's single-party dominance was abruptly challenged in the most recent general election, held in November 1999. Although the BN won this election, taking 55 per cent of the popular vote, UMNO, as the centrepiece of the ruling coalition, was sharply diminished. Indeed, the party is estimated to have lost the support of half, perhaps more, of the ethnic Malay electorate.

Prior to this election, a number of factors had eroded the standing of UMNO and its leader, Mahathir. The economic crisis of 1997–98 shook the confidence of many Malaysians in the government's capacity for economic management. The ensuing split between Mahathir and his deputy and finance minister, Anwar Ibrahim, culminating in the latter's expulsion from UMNO, arrest and long prison sentence, also stirred doubts about government commitments to judicial independence and social justice. The government's bailing out of favoured business elites, while urban middle-class and rural populations endured economic uncertainties, encouraged resentments over perceptions of cronyism, that coincided with a new burst of Islamicist fervour.

These sentiments found expression in calls for reform, helping to vitalise the opposition parties and civil society (see Weiss 2000). The PAS, though committed to the formation of an Islamic state, and the DAP, officially multi-ethnic, but most responsive to the cultural grievances of the Chinese, embarked on a rapprochement, bridging the gap between their respective poles with smaller political parties and NGOs. Organised ethnic Malay groups like the Islamic Youth Movement of Malaysia (ABIM) and the Malaysian Islamic Reform Society (JIM) rallied around PAS in forming the Malaysian People's Movement for Justice (*Gerak*). Predominantly Chinese NGOs like Malaysian People's Voice (*Suaram*) gathered with the DAP and the Malaysian People's Party (PRM) in forming the Coalition for People's Democracy (*Gagasan*). Various multi-ethnic and women's groups also affiliated with these gathering social movements which, in anticipation of elections, sprouted a new monitoring apparatus, Malaysian Citizen's Election Watch (*Pemantau*). Finally, a new NGO that was simply labelled *Adil* (Justice), led by Wan Azizah Wan Ismail, the wife of Anwar Ibrahim, emerged as a linchpin between *Gerak* and *Gagsan*. Upon its gaining registration in early 1999 as the National Justice Party (*Parti Keadilan Nasional*), it was able also to rally the PAS, the DAP and the PRM under the banner of the *Barisan Alternatif* (BA, or Alternative Front) through which squarely to challenge the ruling BN.

Faced by this rise in civil society and evident new synergies between opposition parties, the government responded in pseudo-democratic ways, most notably, by manipulating flows of communication. The BA was barred from mainstream electronic and print media outlets, most of which are owned by the state, the ruling parties or closely allied business people. The government then staged a concerted media 'blitz', celebrating its long record of rapid industrialisation and social peace, while foreshadowing the chaos that it claimed

would result if the BA came to power. It also supplemented its curbs on civil liberties with promises of pay rises and greater payments for civil servants and pensioners, while increasing development spending in rural Malay areas. Finally, the government tampered with procedures on the electoral dimension, preventing an estimated 680,000 newly registered voters, most of them young people thought to favour the opposition, from casting their ballots, ostensibly on the grounds that time had been too short to update the electoral roll.

In spite of these conditions, the government was able to win only 55 per cent of the popular vote. Non-Malay parties in the BN performed well, with their constituents remaining suspicious of long-standing PAS commitments to creating an Islamic state. Of course, many young Chinese had grown so alienated by the government that notwithstanding the PAS's Islamicising aims they expressed support for the opposition; their impact was, however, blunted by the brevity of the electoral roll. Much more serious, then, from UMNO's perspective was its abandonment by upwards of half of the Malay voters, despite the disenfranchisement of new registrants. Thus, where UMNO confronted the PAS directly, especially in the northern 'Malay states', it was frequently beaten, with the Islamic party retaining control over the Kelantan state assembly, while also winning in oil-rich Terengganu. Only in the ethnically mixed constituencies on the west coast and in the overwhelmingly non-Malay states of Sabah and Sarawak, areas in which the UMNO was bolstered by its coalition partners, was the government able to win by large margins. Net losses were severe, however, with UMNO's parliamentary standing reduced from 89 seats to 72.

Malaysia's pseudo-democracy was thus tested, with the election in 1999 failing to legitimate fully UMNO's single-party dominance. Indeed, the government's limiting civil liberties, though having inflated electoral victories and legitimacy in the past, appeared this time to be counterproductive. The PAS chief minister of the northern state of Kelantan, Nik Aziz Nik Mat, alluded to the resentments that the government's media blitz had caused: '[It] backfired and helped us to retain the state with a much more comfortable margin' (*The Sun* 30 November 1999). Further, the government's highly partisan use of state facilities and capricious distribution of development grants, while traditionally shaping the preferences of rural voters, seemed this time to have little effect. In reflecting on the UMNO's performance in Kelantan, a party official pondered the motivations of local voters: '[It is] as though the roads and poverty eradication projects are of no consequence to them'.[1] In addition, the district malapportionment that greatly favours rural Malay voters over urban Chinese, though advantaging UMNO in the past, now weighed heavily on the party, dependent as it had become on Chinese support. Intricate gerrymandering lost effectiveness too, with the PAS gaining ground everywhere across the northern Malay states.

The opposition's chances of winning federal elections in Malaysia have long been diagnosed as 'minimal' (see Crouch 1996a: 115). But they improved in 1999 to the extent that despite the persistence of limits on civil liberties, government turnover became imaginable. UMNO officials thus revealed their foreboding over the next general election, due by 2004. Opposition politicians,

particularly in PAS, but also in Keadilan, displayed a commensurate optimism, declaring their expectations of winning another state assembly or two in the north, while making additional gains in parliament.[2] In these circumstances, with UMNO pondering an even more serious electoral setback, perhaps even defeat, the pseudo-democratic regime that it operated appeared to be readied for transition, either to more democracy or much less.

Transitions from pseudo-democracy

Until 1999, Malaysia's pseudo-democracy, operated by a single dominant party amid a classic plural society, demonstrated great resilience. But UMNO now alienated large parts of its Malay following, while indicators grew during the campaigning in 1999 that the Malays had grown better able to cooperate across ethnic lines with the Chinese, enabling them collectively to press for reforms. It was in these conditions that the country's pseudo-democracy appeared poised for transition.

Haggard and Kaufman (1999: 72–96), though focusing more closely on the conditioning effects of economic crisis than transition-by-election, offer a roster of core constituencies that governments operating authoritarian regimes must regularly renew if they are to avoid any fuller democratisation. They begin at the top: 'Most crucial to the survival of authoritarian regimes is the continuing loyalty of the political-military elite itself'. Invoking O'Donnell and Schmitter's maxim, they add that 'the proximate cause for the exit of authoritarian regimes can almost always be found in splits within this elite' (Haggard and Kaufman 1999: 78).

UMNO had long dispensed clientelist patronage, helping to secure the loyalties of party elites. To be sure, during economic crises and deficits in patronage, strain points have appeared, erupting occasionally in leadership challenges (see Case 1995: 69–107). In conditions of single-party dominance, Geddes (1999: 131) contends:

> The benefits of cooperation are sufficiently large to insure continued support from all factions. ... During leadership struggles, most ordinary cadres just keep their heads down and wait to see who wins. Thus ... leadership struggles within single-party regimes do not usually result in [democratic] transitions.

We recall that East Asia's economic crisis swept Malaysia during 1997–98, cutting patronage sharply. It also instigated a fierce struggle between Mahathir and Anwar that raged through UMNO, the bureaucracy, business conglomerates and the media with which different party factions were allied. While many UMNO elites came to disparage Mahathir's behaviours during this period, they recognised too the bleakness of life in opposition – a lesson learned during the late-1980s, after another challenge to the prime minister's leadership by the former finance minister, Tengku Razaleigh Hamzah, led to the formation of a

new opposition party, the Spirit of '46 (Semangat '46). Razaleigh's followers grew frustrated by their loss of patronage, prompting him to dissolve his party in 1996 and then humbly rejoin UMNO. Two years later, then, despite the widespread sympathy felt for Anwar, few elites chose to follow their fallen leader out of UMNO. Indeed, the threat of expulsion from the party and the loss of all patronage remained Mahathir's most formidable disciplining tool.

If Geddes (1999) has shown that single dominant parties are immune to the elite-level defections and ruptures specified by Haggard and Kaufman (1999), the motivations held by elites for remaining in such parties, especially when recklessly pursued, may serve equally to ready a pseudo-democracy for transition. During economic crises and shortfalls in patronage, such patronage as is distributed among elites contrasts ever more sharply with the hardship endured by social constituents. Moreover, with these constituents no longer inured to party corruption by any broader economic prosperity, they may grow seriously alienated.

This thesis helps us to understand UMNO's much diminished electoral appeal in 1999, with popular resentments over the party's corruption – entwined with Islamic resurgence – greatly enlivening the opposition. Mahathir acknowledged the damage being done to UMNO. Hence, in preparing for the party's internal assembly election in 2000, he banned the campaigning for posts associated with 'money politics', that is, the trading in state contracts, licenses and cash payments that have historically shaped delegate preferences. Mahathir also made known the candidates whom he favoured for the party's three vice-presidential posts. However, party elites and delegates persisted in their deal-making, then rejected Mahathir's preferred slate, instead electing vice-presidents who had long been suspected of corrupt practices (see Chin 2000: 19–23). Thus, as Mahathir reflected afterward on his inability to restrain patronage, seemingly exposing UMNO's dominance to additional risk in the next general election, he fretted, 'I have tried asking nicely, begged and even cried … Money politics is the worst kind of disease which can cause UMNO to rot from within' (*The Star* 12 May 2001).

Still, however much UMNO's electoral appeal might dim, the party could rely on the security forces to contain the opposition's rise. Malaysian prime ministers have typically enjoyed close relations with top military commanders through ethnic and in many cases familial ties (see Crouch 1991: 121–37)). Enduring norms of civil governance and professionalism seem also to have encouraged obeisance. In addition, the police special branch, set up by the British to deal with the Communist insurgency during the 1950s, has since assisted UMNO in monitoring opposition activities and mass sentiments, while covertly detaining dissidents under the ISA. Other cohorts like the police field force and federal reserve unit have also helped in suppressing street protests (Crouch 1996b: 137), evoking the cohesion across political and military elites cited by Haggard and Kaufman (1999) as helpful in resisting democratic transitions.

Although the police might support the government in this way, the partisanship with which they undertook their work during the late 1990s, spotlighting the

force as a fearsome defender of executive prerogatives, appeared proportionately to dim UMNO's electoral appeal. Anwar was beaten by the inspector general of police while in custody, and his battered visage appeared prominently in the campaign posters and literature used by the opposition while campaigning for the 1999 election. In addition, videotapes of police clubbing protesters and internet accounts of detainees undergoing harsh interrogation sessions were widely disseminated. With government control strategies tilting from populist programmes and consensual mentalities to crude forms of coercion, breeding social resentments that could only be subdued by further applications of state violence, the character of pseudo-democracy in Malaysia approached a qualitative shift.

In sum, despite a comparative scarcity of patronage during this period, UMNO's single-party dominance deterred the kinds of elite-level defections and splits that Haggard and Kaufman (1999) assert as necessary for changing authoritarian regimes. But pseudo-democracy, as a distinct type of authoritarianism, can be changed in another way, its competitive elections venting extraordinary social grievances that may exceed the limits on civil liberties, finally producing a government turnover. In Malaysia during the late 1990s, these grievances were fuelled by the very methods through which UMNO elites were seeking to perpetuate their own cohesion and single-party dominance. Of course, military elites could have been called upon to impose even deeper coercion than that applied by the police. However, just as the government's turnover would signal a change in regime, so too would the government's increased use of coercion to prevent such an outcome, with Malaysia's pseudo-democracy sliding into a harder form of authoritarianism.

In taking a political economy tack, Haggard and Kaufman (1999: 77) turn next to business, arguing that 'the cooperation of some segments of the business elite is crucial for the stability for authoritarian rule'. When alienated, business elites refuse to invest, thus contributing to the economic crises through which democratisation can take place.

In reviewing the conditions that led up to the UMNO's 1969 electoral setback and the 13 May incident, the Malay community had held only a tiny stake in the economy's modern sectors. Accordingly, as UMNO acquired more state power, it bred new cohorts of Malay business elites. Few of these elites gained market competitiveness, but with their portfolios helping to fulfil their ethnic community's longings for greater status, they served to stabilise politics in another way. As Jesudason (1989: 10–12) argues, 'feelings of envy and jealousy might well occur within the group, but within the broader system of inter-ethnic contention for recognition and worth, the less successful might have a stake in defending the *nouveau riche*'. In short, in finding satisfaction in the debut of new 'Malay millionaires', their high-level dealings and lifestyles suddenly matching those of more established Chinese tycoons, mass-level constituents might return to the fold, lending support to UMNO's new single-party dominance and pseudo-democratic regime.

During the post-1997 economic crisis, though, many Malay business elites revealed their need for even greater injections of financial assistance. In several

prominent cases, the government obliged them. For example, much of the debt held by Mahathir's eldest son, Mirzan, was removed through the purchase of his shipping interests by Petronas, the national petroleum company. Assistance was also extended to the most favoured protégés of Daim Zainuddin, Mahathir's long-time collaborator, Anwar's successor as finance minister, and party treasurer of UMNO. In this way, Halim Saad, the majority shareholder of Renong, a deeply indebted holding company linked to UMNO, was permitted to 'tap' PLUS (Projek Lebuhraya Utara-Selatan), a subsidiary made profitable by its government-sanctioned toll operations on the peninsular highway (*Far Eastern Economic Review* 7 December 2000). Further, in propping up an under-subscribed share offer mounted by Renong's telecoms subsidiary, the government drew financing from the national provident fund. When the share price of the Malaysian Airlines, the national carrier, fell precipitously, the government purchased the portfolio held by its ethnic Malay chairman, Tajudin Ramli, a Daim protégé, at pre-crisis prices.

To be sure, political sensitivities, as well as scarcities of resources in the wake of the crisis limited the extent to which bailouts could be administered. Neglected business elites were thus aggrieved, though rarely expressed their resentments openly.[3] Hence, far more pressing for the government was the ways in which the fortunes of those elites who had been favoured threw into sharper focus the economic uncertainties faced by minority shareholders and middle-income taxpayers. Thus, just as mass-level constituents had grown alienated over the corruption of UMNO politicians, so now did their contempt extend to many Malay business elites. Indeed, the activities of these elites, once inspiring ethnic pride, now stirred deep resentments, leading to their widespread denunciation as 'cronies' and 'proxies'. Probably no other factor so fuelled mass-level grievances during this period than perceptions of unevenly shared hardship amid economic crisis.

Ethnic Chinese business elites, for their part, more often performed along the functional lines of wealth creation that Haggard and Kaufman (1999) have argued make the loyalties of business elites so crucial in warding off democratic pressures. During the economic crisis, these elites applauded the government's introduction of capital controls, especially the currency peg that lengthened planning horizons – quite in contrast to their counterparts in Indonesia who openly derided Suharto's monetary proposals. During the election campaigning in 1999, the Chinese renewed their support for the government, having remained wary of the BA and its most potent element, the PAS (*New Straits Times* 25 November 1999).

As the economy slowed again a year after the election, some Chinese business elites began to intimate their impatience over persistent corruption in UMNO.[4] They were angered also by a proposal to consolidate the banking sector that would have greatly reduced the number of Chinese-owned institutions. Of course, these elites were never so alienated that they contemplated joining the opposition, there to make the kind of bourgeois contribution to democratisation that has occurred in some other Southeast Asian countries (see Case 2002:

chapter 7). If not alienation, the attitudes of most Chinese business elites can best be characterised as ambivalence, inducing them to cease local investment.[5] Thus, even if the government avoided any outright defections by Chinese business elites, this did no more to revitalise the economy at this stage than the way in which it perpetuated the loyalties of some key Malay business elites. The government's management of business elites, then, though regenerating the loyalties of some, while avoiding the outright alienation of others, probably did little in terms of enhancing UMNO's broader electoral appeal.

Haggard and Kaufman (1999) extend their attention next to social forces, cast in their study as 'middle and lower-income groups'. But in pushing the analysis beyond the elite level in which the study of democratisation was once rooted, we find in the case of Malaysia that social forces have historically been weak. As we have seen, UMNO did much through the NEP to re-energise its urban Malay constituencies. It also placated rural Malays with developmental programmes and Islamisation campaigns. Thus, through an exclusionary populism that promoted a new Malay middle class, yet retained support among most rural Malays, the government effectively pre-empted the community's demands for democratic participation.

In re-energising the Malays, the government discriminated systematically against the Chinese. To be sure, Chinese business elites were mostly able to avoid NEP quotas through their high-level access to UMNO (Jesudason 1989: 147–59). But many smaller Chinese business people, especially in areas like wholesaling, retail, construction and transportation, bore the brunt of restructuring measures, deepening their grievances. Thus, while a large middle class emerged in Malaysia through processes of rapid industrialisation and urbanisation, it grew polarised between a largely placated Malay segment and increasingly resentful Chinese. Even civil society activities remained disconnected, with Malay NGOs geared to broader reforms tinged with Islamicism, while activist Chinese have tended to focus on single issues like consumer protection and environmentalism. In this way, the democratising role often ascribed to middle classes was blunted in Malaysia (see Crouch 1993: 133–57; Gomez and Jomo 1998: 113–44).

In large measure, these kinds of divisions have also been reproduced within the industrial working class (see, for example, Ackerman 1986: 145–67). This fragmentation has been exacerbated by the gendering of manufacturing tasks and the regionalisation of labour markets. In brief, foreign direct investors in export manufacturing have mostly recruited Malay workers, with males appointed as supervisors and young women deployed as assemblers. Smaller, locally owned factories have tended to hire non-Malays. Meanwhile, immigrant workers from Indonesia, the Philippines, Myanmar and Bangladesh, mostly undocumented, have worked in construction, street vending and cleaning (Gurowitz 2000: 863–88). Accordingly, Malaysia's working class, like its middle class, has remained fragmented, leaving it unable to bring the pressure that has been identified by Rueschemeyer et al. (1992) as pivotal to democratisation.

The government has taken care also to regenerate support among rural Malays, even as it has given priority to rapid industrialisation. A variety of state

agencies have been set up to promote rural development and alleviate poverty, most notably, the Federal Land Development Authority (FELDA), dedicated to farmer settlement and plantation agriculture. Crouch (1996a: 122) makes plain, however, that these programmes have performed a mobilising function: 'Demand for places on FELDA land was very strong among poor rural Malays, who were often selected on the basis of their political loyalties'.

Over time, though, this exclusionary populism changed social outlooks, finally limiting the possibilities for the government's divide-and-rule strategies that weakened democratic pressures. Put simply, affirmative action, applied across both urban and rural sectors, softened Malay enmity toward the Chinese who came slowly to gain a heightened sense of security. Both communities were gratified also by the boom conditions and prosperity that prevailed from the late 1980s to the late 1990s. Public memories of the 13 May incident began to fade, and shibboleths of 'Malay unity' and 'Malay special rights' lost their invigorating punch.

Nonetheless, the government demonstrated a continuing capacity to control agendas that has been identified by Pempel (1990: 7) as useful in 'reconstituting followings' and perpetuating 'single-party dominance'. In the case of Malaysia, Jesudason (1996: 128–60) has conceptualised this ability to adapt in terms of a 'syncretic state', one that has deftly modulated appeals and policy outputs in ways that contain social discontents. During the early 1990s, then, UMNO began to de-emphasise its role as protector of the Malay community in order to hail the 'new Malay' (*Melayu Baru*), able at the end of long NEP tutelage to compete unaided with the Chinese in business. The MCA followed suit, announcing the 'new Chinese', wholly available for cross-ethnic dealings. In these circumstances, the government unveiled its Vision 2020, wherein the Malays and Chinese would merge in a new, more uniform Malaysian identity (*Bangsa Malaysia*), one able to globalise the country's economy in ways that would attain developmental levels on a par with those of the West.

However, with the end of economic growth during the late 1990s and a corresponding surge in social resentments over bailouts and corruption, the 1999 election revealed the government's suddenly diminished capacity to control agendas. As one local observer argued with respect to the Malay middle class, 'every government move is greeted with distrust and disbelief. Even sensible and straightforward decisions are greeted with derision. Nothing is accepted at face value because the media commands no respect'.[6] In this situation, we have seen that upwards of half the Malay community abandoned the government, seeking instead the reforms pledged by the BA and the Islamic revivalism integral to the PAS.

Of course, a majority of Chinese, still fearful of PAS aims, continued to support the government. Nonetheless, there were reasons for thinking that the Malays and Chinese had gained new capacity for cooperating in their pursuit of political change. Notwithstanding their programmatic differences, turning principally on the notion of an Islamic state, Malay and Chinese opposition parties, NGOs and new social movements forged a common platform upon which

to demand greater government accountability, enabling it to win nearly 45 per cent of the popular vote in the 1999 election. Afterward, the government reverted tactically to communal appeals that echoed the early NEP period, involving, for example, the formation of the UMNO *Puteri* (Daughters of UMNO) organisation and the opening of an opulent new campus of the International Islamic University amid much fanfare. More negatively, Mahathir denounced the Election Appeals Committee (*Siuqu*), a grouping of Chinese associations, as 'worse than the communists', then admonished after ethnic killings in a Kuala Lumpur squatter settlement that 'the Malays must fight as one'. But in having so recently canvassed Vision 2020 and a more unified Malaysian identity, policies that seemed to take root in the country's changed social structure, the government was now helpless to rescind its vision. Its new communalist bent thus energised little support, revealing instead that the government had lost the capacity to set agendas and reconstitute followings that Pempel (1990) had identified as essential for single parties to extend their dominance. In these conditions, journalists began to write Mahathir's political 'obituary', while predicting further setbacks for the UMNO at the next general election, due by 2004.[7]

Re-equilibrating pseudo-democracy?

Throughout a period of nearly four years that began with the economic crisis in 1997, the standing of Malaysia's government steadily declined. Anwar's ongoing trial proceedings and imprisonment, reinforced by the ISA detentions, first of top Keadilan officials, later PAS figures, perpetuated doubts about the impartiality of the attorney-general's chambers, the judiciary and the police. The economy flickered to life during 1999 to 2000, only to stagnate once again amid softening markets for export electronics, rekindling anxieties over job security among the new middle class. A steady diet of authoritarian measures, including tighter restrictions on the opposition's use of print media and web pages, provided background for rising discontents.

During 2001 to 2002, however, other developments took place that dispelled many grievances, abruptly reviving the government's fortunes. First, with Anwar sidelined, Mahathir began to quarrel bitterly with Daim Zainuddin over a variety of issues, including patronage distributions, personal financial abuses and reportedly, family rivalries. Daim had been a pivotal figure in the promotion of new Malay business elites since the mid-1980s, and in the wake of the economic crisis, he arranged the bailouts for his closest protégés. Mahathir was apparently angered by the ways in which this assistance, especially the costly renationalisation of Malaysia Airlines, inflamed social resentments, hence doubtless further eroding the UMNO's electoral appeal. Mahathir was reportedly embittered too by Daim's personal rapaciousness, made manifest in efforts to seize the assets that were held by Anwar's one-time associates. Finally, it appears that business dealings between Daim and Mahathir's second son, Mokhzani, went sour, prompting Daim to pressure his partner intensely, thereby again incurring the wrath of the prime minister (see Gomez 2001).

In these circumstances, through a prolonged, but opaque process, Mahathir ousted Daim from the cabinet. The door was thus opened also for the removal of Daim's protégés from their corporate positions. Halim Saad and Wan Azmi Wan Hamzah stepped down as the respective managers of Renong and Land and General, while Tajudin Ramli was threatened with police investigations. Speculation over how renationalised assets might then be deployed ranged from their being held 'in trust' by the state for the broader Malay community in a manner reminiscent of the NEP to their being readied through more professional management and so-called 'special purpose vehicles' for a 'second-try' round of privatisation (*Far Eastern Economic Review* 14 February 2000 and 14 March 2002). Either way, though patronage has not been extinguished, Mahathir has been able to cast Daim's ouster as a boon for good governance, thereby cheering portfolio investors and lifting the stock market, while apparently easing social resentments over cronyism.[8]

In opposition, PAS's great success in the 1999 election, enabled it to eclipse its coalition partners, encouraging it to pursue its vision of an Islamic state. To be sure, PAS took pains to purvey a 'non-racialised' form of Islam, one that would even allow an ethnic Chinese, so long as he were a pious Muslim, to rise to the country's prime ministership. Although ethnic relations may have improved in Malaysia, lingering non-Malay suspicions over Islamicism could not be surmounted. The DAP, its electoral prospects seeming to worsen through its association with the PAS, withdrew from the BA toward the end of 2001. Meanwhile, Keadilan erupted in bitter factionalism between pragmatists who had fled UMNO and now sought to make electoral headway, Islamicist elements traceable to ABIM, reformists with origins in various NGOs and a coterie of loyalists seeking principally to gain Anwar's release from prison. This greatly strained the party's programmatic coherence, while so frustrating the much respected deputy president, Chandra Muzaffar, that he was prompted to resign. In these circumstances, with PAS striding forcefully ahead, the DAP breaking away, and Keadilan marked by multiple cleavages, the opposition reverted to its typically polarised form.

Finally, even the standing of PAS, by far the most potent force in the opposition, appeared to be sharply diminished by the events of September 11. Enraged PAS leaders responded to United States retaliation in Afghanistan by demanding holy war, calling for young Malays, even the Malaysian military, to rise in defence of the Taliban. The PAS president, Fadzil Noor, led a large demonstration before the US embassy in Kuala Lumpur, culminating in traffic disruptions and police actions. In these circumstances, it appeared that many urban middle-class Malays recoiled from PAS, looking with fresh appreciation upon their new social statuses, at least partly dependent on the prosperity and acquisitiveness of US consumers. As Abdul Razak Baginda, a local analyst observes, 'Prior to September 11, PAS was on the ascendancy and challenging the pre-eminence of UMNO. Now PAS is being seen increasingly as an extreme party. This could well be the end of infatuation of the Malay middle class with PAS' (quoted in *The Age* (Melbourne) 12 January 2002).

Doubtless too, PAS militancy did even more to deepen the apprehension of the Chinese.

In this setting, Malaysia's government secured new approval from many middle class Malays, most of the Chinese community, and importantly, US officials. Mahathir came to be looked upon by some policy advisers and think tanks in Washington in the way that Anwar had once been viewed, namely, as a moderate Islamic leader with whom the West could do business. Few public criticisms were expressed, then, as Malaysia's government, under the guise of combating religious terrorism, tightened its authoritarian controls. A ban on all political meetings was extended, finally halting the opposition's *ceramah* (public gatherings). A number of high-level PAS officials were arrested under the ISA, including the son of Nik Aziz, the Kelantan chief minister, allegedly for membership in a shadowy organisation that the government variously labelled the Malaysian Mujahideen Group and the Malaysian Militant Group, both bearing the acronym KMM.

In turn, PAS seemed to play ever more deeply into the government's hands. In the Terengganu state assembly that it now controlled, the party prepared to table in mid-2002 a new criminal code bill based on its interpretations of *Syariah* law and *hudud* punishments, replete with stonings and amputations. Reservations were forcefully articulated by a broad spectrum of advocacy groups, especially those geared to women's issues, moderate Islam and secular politics. The government, for its part, allowed PAS to continue deliberations in Terengganu for a time, probably anticipating that this would deepen the party's isolation, though warned too that even with the code's passage, it stood to be negated by the federal constitution.

In sum, Malaysia's government, by removing some of the most conspicuous beneficiaries of its clientelist patronage, eased social resentments over cronyism. The opposition, its multi-ethnic cooperation dissolving in Islamicism, squandered much of its standing as a viable alternative to the BN. Accordingly, the government gained new capacity to curb civil liberties without re-igniting wider social resentments, thereby appearing to do much to re-equilibrate Malaysia's pseudo-democracy. Far from facing the next general election with foreboding, then, the government seemed tempted to call an early one, perhaps by late 2003.

The dynamics of Malaysian politics during this period were by no means straightforward. Instead, they threatened over time to culminate in new dilemmas. Most crucially, UMNO may have succeeded in alleviating social resentments by modulating its patronage flows. But this may also weaken disincentives to elite-level defection, gradually putting UMNO's cohesion, and hence its single-party dominance, at risk. Thus, even as the government appears to pursue better governance today, observers remind us that 'UMNO still has to be funded' (see *Far Eastern Economic Review* 23 May 2002). State contracts continue to be awarded through closed tender processes to Malay business elites, such as Syed Mokhar Al-Bukhary, and to UMNO-linked companies, like Malaysian Resources Corporation. What is more, some of the so-called mega-projects, like Bakun Dam, that were suspended during the economic crisis, have lately

been revived, even if in more modest form. But the rub, of course, lies in this renewal of patronage and elite-level loyalties rekindling social resentments, especially during periods of economic slowdown. Renewed flows of patronage at the elite level will also alienate Malay constituencies if at the same time the government, in the name of easing economic inefficiencies and dependence, grows more serious about its restated intentions to scale back the quotas and benefits associated with the NEP.

With respect to the opposition, though the BA may have split, its party components, freer now to declare their most cherished aims, may find new support in their respective bailiwicks. Thus, while the PAS's call for holy war against U.S. forces may have led to its being re-evaluated by the Malay middle class in Kuala Lumpur, the party's other constituencies, especially in its rural strongholds, appear to remain loyal (Funston 2002). Hence, PAS's tabling an Islamicist criminal code in Terengganu may have drawn fierce denunciations from NGOs in the Klang Valley and Penang, but little opposition has been expressed by the local people against whom the code would be enforced. Among urban Malay youths, the Muslim Undergraduates Society – whose 'social and religious influence among the students is legendary'[9] – remains closely aligned with PAS. While losing control recently over student councils in the country's newer universities, it retains its grip on the major institutions, including the University of Malaya, the Malaysian National University and the Malaysian Science University.

At the same time, it may be that the DAP, in returning to a more traditional posture based on the educational and cultural grievances of the Chinese, will re-energise some of the support it once possessed in urban constituencies. The redelineation exercise currently underway in parliament could also boost the DAP's numbers in parliament if it turns out that the government has miscalculated on Chinese sentiments and acts significantly to redress malapportionment. Finally, the prospects for PAS and the DAP finding new strength through their amiable separation might be bolstered through some residual cooperation in the form of electoral agreements, a task that could presumably be facilitated by Keadilan's further decline.

In sum, the ouster of some prominent Malay business elites, the fracturing of the BA and the more stringently Islamicising activities of PAS pose quite ambiguous implications for Malaysian politics. UMNO must finesse the dilemmas over its clientelist patronage, with the loyalties of elites and mass followings in some measure varying inversely, especially during periods of low economic growth. Further, if the opposition has split, its parties may be able to win new support in their separate constituencies, PAS hardening its Islamicism in the north of the peninsula, while the DAP returns to Chinese grievances in urban areas.

In June 2002, political uncertainties were deepened by Mahathir's abruptly announcing his resignation, ostensibly to take effect in October 2003. At the time of this writing, the precise motivations and consequences associated with this action were unknowable. On the one hand, some initial analyses characterised

the resignation as a *sandiwara* (shadow play), designed either to bolster impressions of Mahathir's indispensability across UMNO's membership, or to remove the greatest source of his party's unpopularity among PAS supporters prior to the next general election being held. Indeed, once these aims had been achieved, the 16-month time frame for Mahathir's withdrawal would appear to give him time to reconsider, citing the 'demands' of the party or the country that he still serve in office. On the other hand, observers who viewed Mahathir's resignation as genuine cited his having in some measure restored UMNO dominance and economic buoyancy, enabling him to depart in a way that would ensure a favourable legacy. Alternatively, he was seen to have grown hopelessly frustrated in his efforts to wean the Malay community from its many ethnic privileges, ensuring its role in business and technology remained a secondary one.

Equally, Mahathir's resignation, whether real or feigned, held ambiguous implications for UMNO's single party dominance and pseudo-democratic stability. Within UMNO, Mahathir appeared to prepare for a smooth transfer of power to his deputy, Abdullah Badawi. But perceptions of Mahathir's lame-duck status and Abdullah's leadership weaknesses seemed also to re-activate factional rivalries in the party, hence threatening the succession. Further, in the broader party system, when a pair of by-elections was held in mid-July in rural Kedah, UMNO narrowly won one and PAS the other, supporting Mahathir's claims that the government had regained some lost ground in the Malay heartland.[10] PAS, meanwhile, insisted that its rural base remained intact. Amid these ambiguities, it could hardly be asserted that UMNO dominance and pseudo-democracy had lately re-equilibrated.

Conclusions

In this chapter, we have investigated pseudo-democracy in Malaysia, one of the national settings in which it has been most effectively practised. We have conceptualised pseudo-democracy as a kind of authoritarianism, one in which civil liberties are tightly limited, yet electoral processes remain competitive. Hence, it systematically understates support for the opposition, yet still does much to legitimate the government. Further, in a pattern of cyclical reinforcement, the scope for autonomous decision making that results may enable a government to nurture its elite and mass-level constituents in ways that gain single-party dominance. Thus, with pseudo-democracy providing legitimating cover for the government, it is better able to perpetuate its pseudo-democracy, imbuing the regime with much resilience.

However, this chapter focused more closely on the ways in which pseudo-democracy, while normally persistent, can periodically be tested. Specifically, pseudo-democratic elections, though waged in ways meant to exaggerate, yet legitimate, a government's incumbency, may at some junctures provide the chink through which challenges can be mounted. If confronted by electoral defeat, the government must respond by repudiating or accepting it. Either way, a transition-

by-election will have occurred, whether toward a harder form of authoritarianism or fuller democracy.

In Malaysia, despite rapid industrialisation and profound social change, politics have remained remarkably stable. Through processes of mutual reinforcement, UMNO's single-party dominance and its pseudo-democratic regime have persisted for nearly three decades. But in the wake of the country's recent economic crisis and leadership conflicts, efforts to perpetuate elite-level loyalties across UMNO and key business conglomerates through the use of bailouts, contrasting starkly with new mass-level uncertainties, sparked social resentments that despite tight restrictions on civil liberties gained expression in the 1999 elections. There were indications too that with improved ethnic relations and hence, greater scope for cooperation among opposition parties, the government would suffer a still greater setback in the next election, perhaps precipitating change in the country's pseudo-democracy.

Recently, however, expectations have shifted quite dramatically. Perceptions have grown of improving governance in UMNO–business relations, deep disarray in the opposition and growing militancy in PAS. In this situation, the government appears to have re-established single-party dominance and pseudo-democratic stability, gaining a standing that it is keen to confirm through early elections.

Nonetheless, while the next election may enable UMNO to recover its electoral majorities and legitimacy, dilemmas may appear in the longer term. Reductions in clientelist patronage, while gratifying mass-level constituents, must strain elite loyalties over time, hence putting the party's internal cohesion at risk. On the other hand, the resumption of patronage, perhaps already underway, may alienate mass followings anew, thereby increasing external pressures. This latter scenario grows more likely if the government acts at the same time to roll back its exclusionary populism, either because of low economic growth and shortfalls in funding or some new push to reduce Malay dependence. In sum, UMNO's single-party dominance may come under siege either from on high or below. The impact of Mahathir's resignation is at this stage unknowable. Thus, while pseudo-democracy in Malaysia may lately have gained a new lease of life, further testing will no doubt take place.

Notes

1 *Bernama* wire service, 30 November 1999, quoted in Weiss, 'General Elections', p. 426.
2 Discussions conducted at UMNO state headquarters and PAS-controlled government offices in Kota Baru and Kuala Terengganu, April 2001.
3 Terence Gomez, personal communication, 24 June 2002.
4 Interviews with Selangor MCA officials, Petaling Jaya, April 2001.
5 Discussion with former high-ranking Multi-Purpose Bank official, Kuala Lumpur, January 2002. See also Asian Development Bank, *Asian Recovery Report*, p. 68, http://aric.adb.org/aem/malaysia.
6 Karim Raslan, 'Malaysia's Media and Middle Class Alienation', *Jakarta Post* (9 June 2001).

7 See, for example, Barry Wain, 'Mahathir's Swan Song', *Asian Wall Street Journal*, Dow Jones Newswires, posted alternatif-net@yahoogroups.com, 24 May 2001; Philip Bowring, 'Who Stirs Things Up in Malaysia?', *International Herald Tribune*, alternatif-net@yahoogroups.com, posted 25 May 2001.
8 A research analyst for a major foreign investment agency observed, 'Apart from Korea, Malaysia could be the best-regulated and most transparent market in Asia right now'. Quoted in *Far Eastern Economic Review* (23 May 2002).
9 'News Analysis by Joceline Tan', posted on bungaraya@listserv.net-gw.com, 2 December 2001.
10 'Government Winning Back Malay Vote PM', *Reuters* 19 July 2002, posted on bungaraya@listserv.net-gw.com.

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2 Transethnic solidarities, racialisation and social equality[*]

Sumit K. Mandal

Introduction

Being Malaysian at the start of the twenty-first century is often defined in two primary ways: the strategic aims of party politics and everyday *teh tarik* nationalism. The former requires no further explanation. Teh tarik, on the other hand, is a sweet milky tea commonly assumed to be of Indian origins that is made frothy by draining the mixture from one hand-held container into another in a long arcing movement. Malaysians commonly identify themselves and their national identity through this tea and similar symbols of consumption regarded as unique to the country. Party political aims and tea come together in government or private sector-backed teh tarik contests held nationwide. Teh tarik thus comes to symbolise contemporary Malaysian nationalism through the stomach.

Strategies blessed by the state such as this effectively project a nationalism emptied of self-reflection, ambiguity or contradiction. The introduction by the Prime Minister Mahathir Mohamad in 1991 of the term *Bangsa Malaysia* (encapsulating the aim of building a 'Malaysian nation') found many supporters and anticipated the cosmopolitan social dispositions of an even more integrated global economy. A decade later, at the start of the new millennium, the state embarked on an international tourism promotion effort under the theme 'Malaysia, Truly Asia'. The country's culturally diverse population has been thereby marketed as Asia in miniature. The 'multi-racialism', or 'multi-culturalism' in present day parlance, captured in the preceding instances reflects what Cheah Boon Kheng (2002: 236) considers 'inclusivist' Malaysian nationalist politics. According to Cheah, every prime minister of the country has championed such an inclusivism and thereby mitigated the tendency towards an 'exclusivist' Malay nationalist politics. As a result of this political balancing act, then, Malaysia was politically stable for the last three decades of the twentieth century.

In this chapter, I make a distinction between transethnic solidarities and the language of inter-ethnic harmony used in the preceding instances, at whose heart lies an unquestioned acceptance of 'race' and racialisation. Transethnic solidarities constitute an area of scholarship that has significant ramifications for Malaysian studies as well as approaches to cultural diversity, ethnic politics

and other topics of global relevance. By transethnic solidarities I refer to a variety of efforts whereby Malaysians actively participate in society without respect to ethnic background and by rejecting primordial notions of ethnicity.[1] Included in these solidarities are the social and cultural activities of arts groups, religious communities, civic and business groups, and so forth. Transethnic solidarities are one of the most obvious and yet least studied aspects of Malaysian society. The sparse scholarship on the subject includes the work of Lloyd Fernando on language and literature, Tan Sooi Beng on the *Bangsawan* performance tradition as well as recent writings by Farish Noor, Mohan Ambikaipaker and myself.[2] Scholars have lagged behind theatre practitioners, visual artists, writers and other members of the arts community who in Malaysia have been the primary intellectuals to articulate or be inspired by transethnic solidarities in their creative work. To name but a small fraction, they are Usman Awang (poetry); Krishen Jit, Noordin Hassan, Jo Kukathas, Leow Puay Tin and Jit Murad (theatre); Wong Hoy Cheong (visual arts); Marion D'Cruz, Aida Redza and Ramli Ibrahim (dance); Sunetra Fernando and Saidah Rastam (music), Amir Muhammad (film) and Janet Pillai (theatre education).

Race is not as totalising as it would appear, given the preliminary evidence offered of transethnic solidarities. Nevertheless, as Khoo Boo Teik notes, an 'ethnic perspective' dominates the study of politics in Malaysia (Khoo 1995: xvii). He observes the following of this scholarship: 'the most important division is that between an "indigenous Malay community" which possesses political power, and an "immigrant non-Malay community" which controls the economy'. The country's politics thus is 'viewed as a process of managing inter-ethnic divisions, tensions, and conflicts amidst the efforts of avowedly ethnic-based political parties to advance the interest of "their" communities'. In contrast, a 'class perspective' has since the 1970s 'typically tried to highlight class transformation, domination, and contention in state policies, political ideology, and the struggles for the control of the state in Malaysia' (Khoo 1995: xviii). Departing from the limitations of these approaches – due largely to their mutually exclusive character – Khoo believes 'that the theoretical acceptance of a simultaneous and intertwined influence of ethnicity and class makes a more rewarding point of departure for the study of Malaysian politics' (Khoo 1995: xix).

The landscape of race politics in Malaysia has been little ploughed with a disciplined critique and towards elucidating the instability of race as a concept and social phenomenon. Both proponents, and instructively, opponents of racialisation in many instances, attribute to race a pre-eminent primordial and unpredictable force, so much so as to render transethnic possibilities unimaginable or incidental. Undoubtedly, race has played a crucial role in the making of Malaysia's party politics and society, though not without displaying significant ambiguities and inconsistencies. Elucidating the instability of the concept and social phenomenon requires a departure from the dominant party political framework of academic and journalistic analyses to the realm of cultural politics. Race wins elections in the country's party politics (though not without

upsets and surprises). It does not, however, rule social and cultural movements with equal success. As such, this essay draws on cultural tendencies and movements and raises them as areas of significant inquiry rather than relegate them, as does conventional social science analysis, to the margins of political life. Drawing from the point of departure offered above by Khoo (1995), I pay particular attention to the cultural politics of language as a space in which ethnicity and class intersect in Malaysia.

I do not wish to create a dichotomy between 'transethnicity' and 'race' in the pages to follow. The scholarship on race and anti-racism underscores the significance of seeking a fresh conceptual approach to the subject rather than resting on ethical, moral and political oppositions in themselves. Michael Banton has shown that simple oppositional critiques may not only be fruitless but counterproductive. He observes 'that the international anti-racist movement has tended to recycle some of the very ideas it set out to eliminate' (Banton 2002: 214). Furthermore, he notes that this movement 'constructed a bogey figure of racism as an evil that acts like an opponent in a contest, when what matters most is to transcend the opposition by reformulating in more satisfactory terms'. Put simply, criticism hurled defensively at the agents of racialisation can actually advance rather than diminish racialisation. Banton's work draws attention to the need for self-awareness and nuance in developing the conceptual language to analyse the politics of race. In paying attention to language, he ties the conceptual closely to the literal, as he explores the particular prominence and meaning 'race' has acquired in popular English usage in contrast to other languages (Banton 2002: 17–25).

Joel Kahn's study of modernity and racism offers comparative evidence against the totalising claims made in the name of race. He observes that racism has been seen as both antithetical to modernism as well as intrinsic to it. 'Modernist intellectuals', he notes, 'assert that modernism – understood as the reflexive dimension of modernity – stands in direct opposition to racialising ideologies and practices, while modernism's post-colonial, post-modern, feminist and multicultural critics have argued that the two are intrinsically connected' (Kahn 2001: 129). Departing from the abstract terms of this debate, Kahn's ethnographic study of modern popular cultures demonstrates that exclusion has been neither uniform nor easily predictable in shape and outcome. Kahn thus departs from the dominant understanding of modernity and racism as abstractions of universal shape and applicability across the world. His analyses of popular culture in the United States, Great Britain and Malaysia reveal distinctive as well as parallel expressions across space. Given 'a multiplicity of modernities', it is not surprising 'to find in them an analogous diversity of constructions of otherness ranging from notions of the other as a primitive version of the modern self to the other as irreducibly alien, from a visible and speaking other to one that is more or less completely invisible and silent' (Kahn 2001: 130). Notably, by placing Malaysia in a rare comparative context, he dismisses the idea that modernity outside of Europe and the United States is merely derivative, thereby further levelling the historically uneven playing field

of scholarly inquiry in the study of modernism. Kahn's ethnographic and comparative approach suggests that the study of racism merits textured and bold global comparisons. At the same time, racism cannot be attributed to causes that 'lie completely in ethos or world-view' and is 'shaped as much by social, economic and political factors as cultural circumstance' (Kahn 2001: 131).

Malaysia's racialised political system has worked. The country's successive governments credibly claimed political stability in the final decades of the twentieth century, especially given the lasting setback to economic growth caused by the Asian financial crisis in 1997. However, the damage done by institutionalised inequality and the lack of critical thinking on the debilitating consequences of 'race' and racialisation are cause for concern and an impetus for embarking on the present essay. Furthermore, besides the inter-ethnic compact within an authoritarian structure, other factors as well have contributed to political stability. In this connection, I propose and will elaborate in due course the significance of the relatively shallow racialisation of society in Malaysia and Southeast Asia in comparison to other regions. Differently constructed and stable social worlds have emerged in the region in comparison to the historical racisms that have existed in countries like the United States and South Africa. This is not a cause for celebration as the lack of recognition of the region's distinctive past in Malaysia's public discourse is striking. At the same time, in comparison to the contemporary United States and South Africa, there is little collective concern in Malaysia about the social inequalities that have been advanced in the name of race. Complaints abound nevertheless in the name of individual ethnic groups, itself a trend shaped by racialisation.

In both the United States and South Africa, and closer to home, Indonesia, significant efforts have either long been underway or just begun towards debating and bringing about social equality. In August 2002, the People's Consultative Assembly (*Majlis Permusyawaratan Rakyat*) of Indonesia rejected an attempt to include in the country's Constitution an official distinction between so-called 'indigenous' and 'non-indigenous' (*pribumi* and non-pribumi) citizens. This was a radical step given the use of this distinction to institutionalise racism towards Chinese Indonesians during the three decades of Suharto's New Order (1967–1998). Moreover, it is worth observing that the decision was arrived at after some debate in the legislature complemented by public discussions. Indonesian intellectuals such as Asvi Warman Adam articulated arguments in the mass media against the proposed constitutional amendment.[3] The anti-discrimination ruling was a demonstration of the viability of democratic processes in an Indonesia often portrayed by Malaysia's political elites and mass media as this country's 'Other': steeped in inter-ethnic violence, unstable and underdeveloped (Heryanto and Mandal 2003: 8–11). Academic critiques and dialogues, let alone public discussion in Malaysia, rarely if at all have engaged racialisation with the conviction, critical thinking and informed public debate that has distinguished the same question in Indonesia since 1998.

Without denying the importance of race in Malaysia, this chapter offers some insights into how much more unstable it is than often acknowledged, and how

giving primacy to race renders marginal or invisible much that functions across or beyond boundaries. The term 'race' in itself is not at issue, as it can be used without the punishing exclusiveness of racism, and thus resembles the contemporary scholarly notion of 'ethnicity'. In this essay, 'race' is used specifically to represent scholarly and other perspectives that see Malaysia as primarily constituted by the mutually exclusive and reified tripartite: 'Chinese', 'Malays' and 'Indians'. Such perspectives render these groups' cultural identities and social composition homogeneous while attributing to them an unchanging and primordial quality. Racialisation in this chapter is seen as a process by which groups are categorised, selectively privileged and marginalised without necessarily imposing the claims of supremacy, violence and outright repression typically associated with racism. Racialised oppression can operate in highly sophisticated, undramatic and ultimately much more insidious ways than racism. The distinction between the two and its significance is explored further in the chapter.

One of the debilitating social and political consequences of racialisation is the absence of a shared public space within which social and cultural differences may be negotiated by dialogical means. There is hardly the language to speak of transethnic solidarities let alone political community in Malaysia. Under such circumstances, a language has to be forged that describes society beyond the terms of race and articulates the nuances, heterogeneity and diversity of cultural identities, as well as their relational character. In the following three parts, I explore the ways in which transethnic cultural politics has been erased from history in Malaysia, provide a critique of 'race' as well as the existing scholarship, and sketch a history of transethnic solidarities in the region. In the fourth part, I turn to Toni Morrison for a framework to locate the ongoing search by Malaysians for a collective means by which to speak of transethnic solidarities.

Historical erasures

Numerous efforts have been initiated in Malaysia's history to grapple with the fragmented state of society in order to forge a common purpose or stand. The creation of an encompassing political community has been the key challenge faced by those to the left and right of the political spectrum in the colonial and post-colonial eras. Given the present day dominance of racialised perceptions of the past, all but forgotten is the establishment in 1947 of a united political front by anti-colonial left movements representing different ethnic groups. The alliance between the All-Malaya Council for Joint Action (AMCJA) and *Pusat Tenaga Rakyat* (PUTERA, or Center of People's Power) resulted in the first collective agreement regarding the provision of citizenship rights for all and the elimination of racially discriminatory practices. This transethnic political effort, the blueprint for future efforts to establish the nation-state (Cheah 1984: 91), was among the casualties of the British war against left movements between 1948 to 1960. To the historically significant AMCJA–PUTERA alliance, could be added

the reflections on the forging of transethnic solidarities in the writings of James Puthucheary and Ahmad Boestamam (Puthucheary 1998: 142–45; Ahmad 1972: 132–44). These two men represent those intellectuals and political leaders, schooled in the English and Malay mediums respectively, who recognised the importance of bridging ethnic and linguistic divides in the struggle for Independence. The language and schools that formed these men were the primary influences on their public identities, and not their ethnic backgrounds (Mandal 1998).

Path-breaking movements and events of the past have been so effectively erased in contemporary Malaysia as to make it no longer imaginable that a significant champion of the Malay language in the 1950s was ethnic Chinese. It was the efforts of Lim Chin Siong, the trade union leader, that established Malay as the national language of Singapore when leading ethnic Malays doubted the language's potential. This observation, attributed to Samad Ismail, is found in the important work of historical recovery written by Said Zahari (2001: 190); both men were journalists and political activists in Lim's time. One of many significant historical erasures, the reference to Lim is a reminder of the need to render imaginable a past that was informed not only by racialisation but meaningful empathy and solidarity across social divides. Indeed, Lim, Said, as well as the Singaporean theatre practitioner Kuo Pao Kun, the Malaysian poet Usman Awang and others continually transgressed national and communal divides.

The question of transethnic solidarity has been suppressed or erased by complex structural and ideological means. Legal instruments of the state, derived from regulations put in place during the repression of 1948–1960, continue to be invoked against the discussion of matters such as race because they are deemed 'sensitive'. These instruments are in turn justified by invoking the entrenched idea – not unique to Malaysia – that multi-ethnic polities are inherently unstable given the primordial loyalties attributed to race. Yet the varieties of social and cultural tendencies found in the country's history, including the pre-colonial and colonial eras, indicate not only social fragmentation but stable creolised and multi-ethnic polities. Dominant historical narratives nevertheless frame the past along racialised lines.

Official history is tied closely to the interests of the United Malays' National Organisation (UMNO), the ethnic Malay-majority party that dominates the *Barisan Nasional* (National Front), the coalition that has ruled since 1973. UMNO's ascendancy was achieved in the late 1940s by appropriating the form but not the substance of political nationalism as well as revitalising pre-existing notions of sovereignty, besides British support for the party's conservative and elite-centred agenda (Amoroso 1998). The newspaper *Majlis* presented the party as the 'most viable, if not the only, national body of the Malays' while casting the left movement as 'insufficiently Malay and traitors to the *bangsa Melayu* (Malay race)'. By fully exploiting the 'public, theatrical, confrontational, and self-conscious' character of post-war politics, UMNO wrested the political momentum away from the Malay left which had enjoyed substantial popular support previously (Amoroso 1998: 259, 273). Thereafter, formal historical

narratives have highlighted the race politics championed by the party as the nationalist aspirations of ethnic Malays. Typically taking the form of the glorification – and often emotionally charged – defence of 'Malay unity', UMNO keeps alive this political appeal as the party claims the inviolability of both Malay unity as well as its special role as the sole guardians of that unity.

The Alliance, the coalition consisting of UMNO and other race-based parties, principally the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), negotiated with the British in order to attain the country's independence in 1957. The Alliance and Barisan Nasional, both based on inter-racial cooperative efforts, are given pre-eminence in official narratives and regarded as the source of the long-term political and social stability the country has enjoyed. The left movements that forged the earliest 'national consciousness' (Amoroso 1998: 262; Cheah 1984: 80–81, 90–92), weakened if not eliminated as organisational forces by the 1960s, have been erased from official history. In sum, significant transethnic solidarities have been eliminated from the memory and experience of Malaysians as a consequence of racialisation. These historical erasures have been critical to the establishment and durability of the authoritarian state in power since independence.

The location and instability of 'race'

Scholars have largely abandoned the term 'race' in favour of 'ethnicity', given the former's historical derivation from dubious scientific, principally biological, categorisations of human beings. In the nineteenth century, ethnic groups were hierarchically ordered with the most 'advanced' Europeans (Whites) ranked above all others. As a consequence of the socialisation and institutionalisation of this hierarchy by the imperial powers, race as a social category gradually began to acquire its present day global prevalence. The advent of race in the *Nusantara* (Malay-Indonesian archipelago) is thus relatively recent, in the latter half of the nineteenth century under the auspices of the Dutch and British colonial states respectively. There were no words in the Malay language for 'race' at the time. The present day terms *bangsa* and *kaum* remain approximations that retain their historical semantic versatility. Racialisation nevertheless had a profound and lasting impact. European dominance and economic exploitation of the Nusantara was synonymous with the attribution of an inherent 'lazy' quality to their subject 'races'. Syed Hussein Alatas (1977) interrogates this stereotype to render the far-reaching and debilitating consequences of racialisation in the colonial era.

E.J. Hobsbawm sheds further light on race and ethnicity. Ethnicity, he observes, is neither a programme nor a political concept, though it 'may acquire political functions in certain circumstances, and may therefore find itself associated with programmes, including nationalist and separatist ones' (Hobsbawm 1992: 13). He sees ethnicity in general terms as 'a readily definable way of expressing a real sense of group identity which links the members of "we" because it emphasizes their differences from "them"' (Hobsbawm 1992: 13). Rejecting primordialist definitions, he reminds historians to take note of

'how easily ethnic identities can be changed' (Hobsbawm 1992: 13–14). Ethnic identity at any given moment may be likened to a still frame of a film that captures a momentary image in a larger story. So captured, ethnicity would appear to be characterised by the elements of the particular image and not those that precede or follow. Reduced in character and complexity, particular and unchanging qualities may be easily attributed to the ethnic identity, thus essentialising it in a manner no different from racial identity; the terms become interchangeable. Nationalism, according to Hobsbawm, 'thirsts for identification with ethnicity' in precisely its essentialised form, 'because it provides the historical pedigree "the nation"' that most nationalist movements lack (Hobsbawm 1992: 13).

Social construction approaches implicitly contain the historicised perspective advocated by Hobsbawm as they proceed 'beyond theories which essentialise or view as "natural", instead of constructed, ethnic identity', in an effort 'to explore how human agency shapes culture and community and take seriously questions of representation, which are critical to understanding race and ethnic relations' (Nair 1999: 59). When used generally and without historical specificity, the primordial and unchanging character assigned to ethnicity conveys misconceptions that can have serious implications in society as in the case of contemporary Indonesia. A militant and destructive politics of identity has been on the rise in the country since the end of Suharto's regime in 1998. Ethnic, religious and other identities are deeply ingrained enough to seem natural or inherent to many Indonesians and worth asserting by militant means. Should social construction approaches be made meaningful to the present crisis, Ariel Heryanto argues that the destructive and violent assertions of essentialised identities may be stemmed. He observes that the inability of Indonesians 'to recognise the constructedness of social identities is responsible, to a considerable extent, for the widespread violence that threatens to dismember the nation' (Heryanto 2001).

Theories of social construction critically engage racialisation by introducing a strong measure of doubt to essentialised notions of ethnicity, held with too high a degree of comfort in contemporary Malaysia. While the violence in Indonesia has on occasion been dramatic and grossly damaging in character, the lack of recognition of racialisation may be said to lead to less dramatic and everyday forms of violence in Malaysia. On the one hand, such theorising may be validly criticised for nihilism when it is crudely supposed from the constructed character of communities that they have no real circumstances and features. The internalisation of social identities, as acknowledged by Heryanto, may be inappropriately dismissed as a result. On the other hand, constructionist theories render visible the historical making and unmaking of very real social identities.

The constructed character of ethnic identities in Malaysia has been demonstrated in studies of censuses across time that reveal inconsistent and arbitrary categorisations of the population (Hirschman 1986; 1987). The 'races' listed vary considerably from one census to another. Entire communities appear in one instance and disappear in the next when the social composition had not changed quite so dramatically. Censuses thus construct races not only by

enumerating but by naming and omitting them. Given such power, censuses have been important instruments by which colonial and post-colonial states have racialised the social landscape to suit the exigencies of the day (Anderson 1991: 169). Race in this regard has been very much a state project.

Rather than explore the complexities and limits of colonial era racialisation, the public discourse on race in Malaysia tends to recollect only the fragmentation of society under the British. This fragmented condition, according to official narratives, was corrected under the inter-ethnic leadership of the Alliance. Colonial rule thus is seen as having established a well-defined racialised world. However, this condition is more a reflection of formal institutional politics rather than social realities. While colonial era racialisation profoundly shaped particular spheres such as the economy and political institutions, it was not necessarily as effectively socialised across the board. Racialisation's course has been far more complex, suggesting in certain respects the failure of the race project (at least in comparison to the history of the US and *ancien régime* South Africa). Race has nevertheless resulted not only in significant social divides in Malaysia but lasting conflicts in the construction of an anti-colonial and national self (Nair 1999: 60, 68, 76–77).

The absence of a critical examination of race has meant that it assumes a murky space in society with potentially harsh social and political consequences. Myths of racial primordialism and the inherent instability of multi-ethnic polities remain unchallenged. Racialised, and even racist, instruments of state and politics find their place in the public spaces of Malaysia without much sustained and rigorous criticism. Although in disfavour in the public discourses of their land of origin, Europe, terms such as 'race', 'stock' and 'breeding' remain in use. Notable examples of racialised language are the primordialist terms *ketuanan Melayu* (Malay supremacy)[4] and *pendatang* (newcomer) used by chauvinist elements in the Malay leadership to assert an inherent difference between their 'own' and 'migrant' others. In recent decades, these chauvinist terms have come to the fore during elite political crises in order to galvanise groups along racial lines. As a consequence, citizens long established in the country suddenly find themselves in a disturbingly uncertain state. The profound social alienation caused by such racialised language is vividly portrayed in the short story 'Arriving' by K.S. Maniam.

A striking example of the normalised character of race is the full-page advertisement placed in a leading newspaper by the major insurance firm Sime AXA Assurance.[5] High-achieving insurance agents are ranked in a number of different categories of accomplishment, with members of different ethnic groups represented in each. Those of ethnic Malay background, however, are separated. The respective categories are: 'Top Agency Managers', 'Top Unit Managers', 'Top Agents' followed by 'Top Malay Agents'.

Besides Prime Minister Mahathir Mohamad's well-known racialised understanding of politics and society, it is worth noting resonances of the same in his opponents. Nik Abdul Aziz Nik Mat, the chief minister of the state of Kelantan and spiritual adviser to the *Parti Islam SeMalaysia* (PAS, or Malaysian Islamic

Party) commented on Mahathir's claim that PAS had abandoned talks with UMNO in order to win the support of Chinese voters. Nik Aziz, as the chief minister is commonly known, responded as follows: 'Reminders or advice to [the Chinese] will not make any difference. The Chinese are, after all, more civilised and advanced than many other races'.[6] The predilection for colonial language, thinking and institutions does not apply to the question of race alone (Shamsul 1999: 19–23; Fan 2001). The racialisation of state initiatives like the New Economic Policy (NEP) have institutionalised race and made it part of an effective political system, thus furthering its unproblematised existence. As a result, the state may be credited with making colonial era racialisation a post-colonial success.

In advancing a critique of race, the word racialisation rather than racism is preferred as the former allows for a broader framing of the problem. Racism is a particular social and political manifestation of racialisation that does not necessarily reflect the condition of state and society in Malaysia. Although racist discourses – as distinct from racialising ones – have surfaced from time to time these have neither been fully or consistently supported by the state nor have they been widely socialised. Hence, when oppositional groups, including non-governmental organisations, accuse the state of racist politics, their arguments often run aground and do not find widespread support.[7] Rather than the systematic structural and ideological implementation of social divisions, as in the case of South Africa under apartheid, racialisation has been a function of politics in Malaysia in complex, uneven and contested ways. Take for instance the notion of *ketuanan Melayu* noted earlier. While the chauvinist expression remains in use today, it has ebbed and flowed in both rhetorical flourish and popular support.[8] Should it have become the basis of government, then Malaysia could appropriately be characterised as racist. Under the circumstances, racialisation rather than racism best covers the range of experiences in the country's race politics. This claim by no means reduces the weight of the debilitating consequences of race but represents an effort to seek a salient language to engage it without necessarily giving it totalising implications.

As is the case elsewhere, racialisation in Malaysia has not followed a smooth course but has been made and unmade through time, with little sustained institutional support until the 1970s. In Malaysia, the NEP was set in motion in 1970 to eliminate the identification of ethnicity with specific economic roles.[9] As noted previously, the politics that ensued, however, led to the increased but complex racialisation of the country. While on the one hand economic and social privileges were accorded to *Bumiputera* ('indigenous') groups (primarily Malay in terms of numbers and political power), other ethnic groups were able for the most part to advance in society and the economy. The history of the several relevant decades would require more elaboration than possible here, but it is worth noting that racialisation has been promoted in society with some political checks and balances against the alienation of ethnic groups.

Racialisation is no less cause for concern than racism. The transformation of the civil service, army and police force into largely single-ethnic group enclaves

has significant everyday as well as larger political implications. The government's efforts in 2001 to promote ethnic diversity in the civil service indicate an official awareness of the potential problems.[10] The debilitating consequences of racialisation are rendered less obvious and verifiable given the absence of a systematic racism, a ruling coalition claiming to represent all ethnic groups, and a stated concern for inter-ethnic equity. Notably, the state has invested also in efforts to redress poverty in poor Chinese and other communities (Andaya and Andaya 2001: 304). As a result, racialisation acquires a dispersed character that makes it much harder to identify and challenge – and possibly more insidious – than outright racism.

The study of ethnic divisions by Edmund Terence Gomez (1999) is instructive in this regard. The part titled 'Recession, Racism and Repression' discusses the repressive actions taken by the state in face of the economic recession of the early 1980s. He shows here the political uses to the state of particular instances of ethnic mobilisation in what is principally a study of party political racialisation. Nevertheless, the racism he notes at the outset is not only unsubstantiated but unmentioned in the ensuing discussion. Rather than a sign of inattentive scholarship, this lapse indicates the difficulties of engaging the racialisation in question and the need for further studies and analyses of the location and character of this social process.

Two questions may be asked of scholarship on Malaysia in advancing the present critique of race. First, what is the salience of race in advancing our understanding of social and cultural developments as a whole (quite apart from its usefulness to party political and economic interests)? Second, to what extent may individual ethnic groups be studied without relating them to others in the nation-state, however racialised the social conditions? In answer to the first, a number of scholars have produced studies of the social and economic divisions that have been historically constituted along ethnic lines, thereby providing valuable analyses of Malaysian society (Sanusi 1984; Shamsul 1999; Gomez 1999; Abdul Rahman 2000). At the same time, others have intelligently explored the valuable and productive results, namely political stability, of inter-ethnic alignments in the colonial and post-independence eras (Cheah 2002; Harper 1999). Absent in most cases, however, is a disciplined and sustained critique of the very notion of 'race'. Syed Husin Ali makes the distinction between 'ethnicity' and 'race' but without questioning the dubious origins of the latter (Syed Husin 1984: 13–14). Instead, he offers an explanation of the difference between ethnic groups in Malaysia versus those elsewhere by using racial classification to explain his own preference for the term 'ethnicity'.

Malaysian studies have comfortably accommodated racialised norms with the consequence of affirming the official division of the population into 'Malays', 'Chinese', 'Indians' and 'Others'. The order of the ethnic groups typically named is of course in keeping with the normative value placed on formal political control and numerical size; Malays thus are on top and the unnamed Others at the bottom. Usually the latter category is left unmentioned except in official documents, tourist information and so forth. This categorisation reduces

the diversity and complexity of the country and may be of no particular value besides being of use to party political and official interests. Not only are the complexities of each of the so-called major races eliminated, so too the remarkable diversity of ethnic groups listed under 'Others': the Kadazan, Dayak, Bajau, Iban and others in Sabah and Sarawak, and the Temuan, Senoi and others on the Peninsula. Despite the questionable salience of the racialised categories, scholarship persists in deploying them.

The now classic history of Malaysia by Barbara and Leonard Andaya exemplifies how scholars can propagate racialised language and perspectives in spite of the contradictory evidence offered by their own writing, which is often of high quality. The related and politically important question of indigeneity serves as a useful point of departure. Having discussed the 'indigenous' and notably 'dominant' ethnic Malay communities, the authors describe the country's 'non-indigenous' as follows: 'Among the Peninsula's non-indigenous population, which includes a range of different groups such as Arabs, Armenians, Eurasians, Filipinos and so on, the main communities are the Chinese, estimated at 29.4 per cent in 1991, and the Indians, including individuals of Pakistani, Bangladeshi and Sri Lankan Origin (9.5 per cent)' (Andaya and Andaya 2001: 4). I have little doubt from the authors' complex, rich and well-crafted narratives that they know just how difficult it would be to offer a sound intellectual defence of the indigenous versus non-indigenous distinction. Of the many questions that emerge, one may ask the following: what would be the statute of limitations – in a manner of speaking – for indigeneity in the case of the many long-established Chinese communities? Consider the less well known urban communities of Kota Baru, Kuala Selangor, Kuala Terengganu, Kuching and so forth, and let alone Penang and Melaka with their famous *Baba-Nonya* (creole Chinese) communities. Well in advance of scholars, the visual artist Wong Hoy Cheong insightfully rendered the historical and cultural contradictions in the indigenous/non-indigenous dichotomy by among other things exploring through his art how plants commonly regarded to be indubitably 'native' such as the chili were actually introduced by the Spanish and Portuguese some five hundred years ago (Mandal 2000b).

There is a wealth of valuable and complex detail in the Andayas' discussion of particular communities and ethnic groups to render obsolete the dominant racialised framework. Yet the authors themselves appear to accommodate if not affirm the same framework, as indicated by their reading of indigeneity which mirrors official history. The Andayas are not unaware that each ethnic group they name in their book is complex and diverse in social composition. They observe of the turn of the twentieth century that 'even the term "Indian community" is misleading' as it included a great variety of people with very diverse historical and cultural backgrounds and who spoke different languages, including Tamil, Telugu, Malayalam, Punjabi and Hindi (Andaya and Andaya 2001: 182–83, 227). Similar kinds of complex histories are revealed throughout the text for other groups. Why do they stop here though, only to resume their narrative along conventional lines? Why not, as proposed in this essay, take as their point of

departure the dynamic and complex identities and social composition their narrative itself uncovers? Towards a tentative answer to the question posed at the outset of this section, race is not necessarily salient to illuminating Malaysia's social and cultural history. Rather more valuable and interesting is to examine precisely the social complexities that make such terms as 'Indian community', according to the Andayas, 'misleading' in the first place.

Colin Abraham's substantial and valuable work offers further insights into the course of racialisation in scholarship, in this instance through the study of 'race relations'. The author systematically studies the impact of British rule on social class formation to show that the resulting pattern of race relations was shaped by colonial political, economic and ideological structures. Although the study observes that social classes were transformed under colonialism, it takes as given the ostensibly discrete ethnic groupings formed thereafter. On the one hand, the historical documentation and theoretical analysis nicely locate racialisation in a particular colonial context. On the other, it would seem that 'race' itself is given an unchanging character though it too is socially constructed and in flux.

The vast literature on 'race relations' offers helpful insights into the dynamics of social conflict. Nevertheless, the tendency towards modular approaches in this literature attributes a false stability to race by affirming its apparently primordial character. This in turn reinforces the premise that multi-ethnic societies are unstable polities. By claiming the salience and universality of race, the literature attributes far too much of consequence to the 'racial' rather than the social, cultural and political dynamics that give shape to the category in the first place. Social interactions are characterised by modular shifts in behaviour as a result; race relations tend to 'improve' and 'decline' in such analyses. Such relations do not merely deteriorate or improve; the politics of race is a complex arena, involving, to state the matter simplistically, structural divisions along party political and class lines as well as social and cultural conditions. Party political crises are relatively easy to observe and relate to racialised strategies or instances of aggression and violence. Broader social and cultural tendencies may support such developments but not necessarily or completely.

I do not mean to suggest that there cannot be social disintegration along racial lines, say the gulf that may result between communities with the racialisation of everyday practices, norms and attitudes. Evaluating this gulf, nevertheless, poses real challenges, especially given the controlled mass media in Malaysia and the absence of outright and dramatic forms of verbal and physical violence whose impact would be immediate and visibly alienating. It is particularly hard to ascertain radical shifts in racialised discourse in the social life of Malaysians as these are not necessarily conveyed by the press. Such shifts tend to develop gradually and show their head in isolated social phenomena. In contrast, expressions of inter-ethnic harmony such as those noted in the introduction, given the state's explicit support, are comfortably accommodated in the mass media. The questions posed by ethnicised societies require paying close attention to the intersection of culture, politics and the economy in shaping social interactions along particular lines and not the simple shifts in attitudes

ascribed to races. Malaysia's racialisation calls for even more nuanced observations of alienation and inequality along ethnic lines. Rather than the modular and ascriptive approach of 'race relations', we need to consider ethnic groups in *relational* terms, as we turn to the second question posed earlier: is it possible to study ethnic groups as isolated social phenomena?

Numerous studies provide rich analyses and ethnographic accounts of individual communities in Malaysia and may thus be defensible arguments for looking at the parts rather than the whole (Lee and Tan 2000; Arasaratnam 1979). Few if any see ethnic groups in relational terms, suggested here in broad terms to reflect the influence that each group has on the other. Misreadings abound of numerous social phenomena as a consequence. In the case of theatre, for instance, Kathy Rowland notes that the paucity of 'relational perspectives' results 'in an imprecise, if not fragmentary understanding of the growth of theatre' (Rowland 2003: 14). She believes the commonalities of theatrical efforts across ethnic and linguistic boundaries 'warrant grouping them under the label "modern Malaysian theatre"'. More often than not, dominant racialised views ensure that this significant transethnic arts space is obscured if not rendered quite incidental.

Seeing social phenomena in relational terms could radically alter many prevailing notions about Malaysian society. Sheila Nair notes 'that for many scholars an analysis of Malayan, and later, Malaysian nationalism, has meant an engagement with Malay politics' (Nair 1999: 56). The valuable 1967 study on the subject by William Roff, she observes further, 'is principally an examination of Malay nationalist politics' (Nair 1998: 56). Put in relational terms, however, the rise of Malay nationalism could be more intimately and substantially linked to the fear of the 'Chinese', especially as an encroaching economic power. Roff mentions this defining factor without further elaborating the subsequent historical relationship between Malays and Chinese. As such, his work offers insights into the internal dynamics of ethnic solidarity without speaking with much care of its messy border spaces, shared variously by tendencies towards absorption, rejection, tolerance, accommodation or empathy, not only with ethnic Chinese but Indians, *Orang Asli* (native people), Britishers and so forth in a long list of the inhabitants of colonial Malaya. This significant omission in the work of an insightful and prolific scholar such as Roff may nevertheless be a salient reflection of the exclusively Malay imaginaries prevalent shortly before the country's independence in 1957. Kahn observes that the early films of the well known director and actor P. Ramlee focused on ethnic Malays to the exclusion of Chinese or any other ethnic groups. In his experience 'there is little doubt that the silence about "ethnic" Chinese that so strikes a viewer of Ramlee films is very real, especially among Malay villagers' (Kahn 2001: 124). Instructively, Kahn's very approach to studying Malays is relational.

Communities, defined along ethnic or other lines, may not be studied adequately in isolation from others, given their location in the modern nation-state – most responsible for the construction and preservation of ethnic identity. The study of one group cannot ignore the influences exerted by others, whether

before or after the advent of race in the colonial era. While scholarly work on Malaysia that takes this tack is scant, there are exceptions. Tan Chee Beng observes in his study of culturally diverse Chinese communities in Malaysia that '[t]heir life-world (world of daily life) is not merely a Chinese social world, it is a multi-ethnic social world'. In the same breath, he observes that 'Chinese Malaysians share with Malays, Indian Malaysians and other Malaysians a certain stock of knowledge, sentiments and ways of life that can only be described as Malaysian' (Tan 1984: 191–92). Notable also is the anthropological examination of Chineseness in the capital city Kuala Lumpur by Yao Souchou. Although discussing the experience of ethnic Chinese, this study uncovers the significance of dominant constructions of this group by Malays (aligned with the state) that operate in nuanced ways, thereby making inextricable the experience of the respective ethnic groups. Besides Yao, other scholars such as Noboru Ishikawa and Eric Thompson have produced work that takes the study of Malaysia well beyond the now traditional 'race' orientation into social science approaches informed by nuanced conceptions of cultural identity, borders, space, neighbourhoods and so forth.

It is imperative to advance a critique of race given its notable absence in the scholarship on Malaysia. The existence of individual ethnic groups with particular cultural identities and practices is undeniable and does not necessarily pose a problem. The reification of these communities into neatly defined and separate races or ethnicities that affirm primordialist notions, however, is cause for concern. With this in mind, it is worth recounting that the racialisation of the colonial and post-colonial era has taken particular shape in this country. The nation-building imperative so important to nations that emerged from colonialism has been one of the key influences on scholarship. Cheah (2002) is but a recent example of important and valuable contributions towards this body of knowledge principally but also the politics and policy-making that falls under the rubric of nation-building. This brand of scholarship also advanced racialisation, inevitably in the Malaysian case, given the conservative ruling politics in the aftermath of independence. While, as a result, the privileging of racial social and political constructions has been significant in particular ways, it has not been totalising. Too often the claims made by ethnicity-based parties as well as the ethnicised conditions of public institutions and spaces are taken as the primary reflection of society and thereby made into Banton's 'bogey figure' and the object of contestation. As noted in the introduction, Banton believes the far more critical goal, to which scholarship especially must apply itself, is the reformulation of the terms of the debate itself. Keeping this goal in mind demands the recognition that the claims of party politics and social realities are seldom congruent and mutually contested. Both the notion as well as the advent of ethnically bounded constituencies require immense organisational and social mobilisation (Gomez 1999: 169, 174, 180–81, 188, 193). Then again, these efforts are neither always nor entirely successful.

Defending his effort to create a dialogue between the ethnic Malay-based ruling and opposition political parties on the constitutional special rights of

Malays (such as the position of Islam and the national language as well as the status of Malay rulers), Mahathir commented as follows: 'When [special privileges] is questioned, the Malays do not respond in unison, instead [they respond] based on political parties when the threat is not to the parties but to the community'.[11] The prime minister's frustrations appear to stem from the choice of ethnic Malays not to support their 'own' along the racialised lines promoted by UMNO for decades as indicated in the introduction to this chapter. The community, in his understanding, is the Malay race, attributed with inherent shared qualities, hitherto represented by UMNO. Given the primordial qualities he attributes to Malays, Mahathir apparently finds it hard to fathom changes in their social and political proclivities.

The politics of *reformasi* – the term of Indonesian origins given to post-1998 oppositional politics – that followed the sacking of Anwar Ibrahim as deputy prime minister has been seen as a sign of the loss of support of Malays for singular party political representation. Ethnic Malay political proclivities, like those of other groups, are not fixed in character or time. A variety of political movements, communist, socialist, Islamist, ethnicist and so forth have risen and fallen from the 1930s to the 1990s with Malays assuming contrary political positions. One relatively recent example will suffice to indicate the changing character and complexity of this ethnic group's politics. In 1988, with the establishment of *Semangat 46* (Spirit of 46) a serious party political challenge was launched against UMNO's claims to singular representation of Malays.

The social construction of 'race' and the process of racialisation each have not proceeded apace or in a simple causal manner. The making of one does not naturally translate into the other and, more significantly, differentiating the kinds of racialisation that have existed offers important insights. Racialisation in Southeast Asia, in comparison with the history of the United States and South Africa, as well as other countries, did not proceed apace with the race project because its imposition by the state was not uniform, rigid or systematic over the long term. Racialised social relations in the region may not be easily likened to the exploitation and denigration of White on Black that resulted in the dehumanising conditions of slavery and oppressive segregation in the United States – powerfully captured in James Baldwin's fiction and essays – or ancien régime South Africa. In the Malaysian context, the creation of racialised social structures and cultural frameworks in the colonial era did not lead to a deep but a more provisional socialisation of race as a marker of identity. Kahn notes in this regard that 'there is no developed thinking – scientific or otherwise – on the nature of race and racial difference [and] very little history of popular racial stereotyping in the popular media' (Kahn 2001: 125). Thus, the racialisation initiated by the imperial powers in the nineteenth century and perpetuated in the post-independence era in modified ways has not been totalising. Examined against social realities, the very term represents a politics that is less biologically determined than cultural for Malaysians. It is noteworthy that natives and knowledgeable foreigners can have complex and disaggregated understandings of racial terms if and when they choose to use them. On the whole, the quality of

racialisation in the Malaysian context suggests that the space for negotiations and dialogues between groups is more substantial and the social dynamics more nuanced than racist societies.

Racialisation in Malaysia remains an urgent matter for the careful attention and elucidation of scholars given that the political, social and cultural marginalisation and oppression based on race is difficult to articulate and challenge effectively. The manner in which race has impinged on party political mobilisation is clear and the subject of much scholarly attention. Typically, 'race conflicts' have been traced back to the 1940s and seen as threats to national cohesion, of which the political violence in 1969 which took a racialised form is a landmark (Gomez 1999: 175, 180). The significant, complex and perhaps insidious influence of race in society, however, has been neglected for the most part. Racialisation's debilitating consequences have typically taken the shape of a diffused social mistreatment, neglect, marginalisation, and abuse (including violence), giving rise to uncertain social identities and rights as a citizen.

Race has not been a compelling, omnipresent and socially driven marker of identity until recent times and, as a result, has not uniformly displaced tendencies towards creolisation, defined broadly to mean identities of mixed cultural elements. Transethnic social forms have continued to exert an influence though they have been eclipsed in public discourses by official notions of 'race'. Official histories credit the long-term political stability of Malaysia to the successful coalition building between elite representatives of the different ethnic groups. This view rests on the premise that multi-ethnic polities are naturally inclined towards disintegration and hence require inter-ethnic and authoritarian leadership. The resistance to racialised social and political friction may nevertheless be attributed to the persistence of a hybrid cultural and social temper that has as its basis a less bounded sense of self and empathy towards difference with roots in the region's historical *longue durée*. It is no surprise therefore that Robert Winzeler in his study of Thais and Chinese in Kelantan (1985) shows that cultural differences in themselves do not lead to conflict while noting the continuity in the post-colonial era of pre-colonial social patterns – to which we turn next.

Historical transethnic polities

Oliver Wolters elucidation of the Southeast Asian 'cultural matrix' informs the present effort to engage contemporary racialisation and elaborate transethnic solidarities grounded in the region's historical cultural diversity. Wolters finds good reasons to believe that long-term influences, indigenous to the region and its sub-regions (including the Malay world) continue to assert themselves in meaningful and potentially creative ways. Southeast Asia has often been seen as a confluence of the world's peoples and civilisations, resulting in mixed societies that are unusual in depth and range of diversity. In other words, both the cultural syncretism and the widely different elements that constitute it have been highlighted as a feature characteristic of and even unique to the region. While

Southeast Asia is indeed diversely constituted, it is so within a global context in which peoples and civilisations have influenced each other in profound ways throughout history. This much too obvious assertion is made here given the tendency towards the increased individuation of regions and countries that followed the establishment of colonial empires and the independent nations that emerged from them. Contrary to contemporary tendencies towards celebrating multiculturalism, the presence of cultural diversity may be neither virtue nor vice. As Wolters' work itself exemplifies, it is more significant to render what shape the diversity takes within particular historical contexts, and how it may be meaningful in enriching our understanding of the world. Creole communities and cultural spheres emerged in the Nusantara during the modern era whose historical formation and relevance are explored in this part.

'Creole' and 'creolisation' provide not only the analytical terms with which to describe multiple and mixed ethnolinguistic communities but insights into the making of a world of complex cultural identities. A creole community has been typically characterised as one where the elements of different ethnic groups form the basis of a shared culture which departs from its origins enough to constitute a new identity. The Baba-Nonya of Penang, Melaka and Singapore would be an example of a creole community because its shared Chinese and Malay traditions constitute an identity quite apart from either Chinese or Malay culture. The use and meaning of the term creolisation, with its history in the study of linguistics and social life in the Caribbean, has been a matter of some debate. Jonathan Friedman (1994) offers a critique of the use of 'creole' to mean a community of mixed ethnic identities as such an understanding assumes the pre-existence of social groups, typically organised along racial lines in the modern era, that are 'pure'. Rather than constitute a critical engagement with 'race' as a marker of identity, he fears the use of 'creole' would affirm instead its essentialised character and normalise the process of racialisation as a consequence. For Friedman, the term is as much an analytical tool and perspective as it may be a social manifestation of particular substance and form. Thomas Eriksen (1999), locating the term and its usage in the particular context of the Mauritius, shows its validity in the historical self-naming of certain groups, the state's system of social classification and the advancement of a creolised worldview of sorts with which people identify themselves despite their official or social naming. While the debates elaborate differently the precise meaning of the term and its application, they share a common concern with elucidating cultures as social constructions that change with time. This confluence of the debates is the point of departure of this chapter. 'Creole' and 'creolisation' as used here take heed of the social constructionism underlying Friedman's argument and the contextual basis for claims to creole identities advanced by Eriksen. 'Creole' is understood to represent forms of transethnic solidarity and cultural diversity that are non-racial in character and part of the region's historical longue durée.

The recovery of historical creolisation is a key intervention in the search for a language to engage racialisation. The persistent theme in colonial and post-colonial racialisation is the marginalisation or erasure of creolised communities,

turning them at best into historical curiosities. The Baba-Nonya and the descendants of the sixteenth-century Portuguese colony in Melaka exemplify this trend. Far from being marginal to the region, Engseng Ho argues that the key sultanates formed in the littoral regions of the Nusantara from the late eighteenth century onwards were creole in character (Ho 2000; 2001). Networks of Arabs, principally *sayyid* (descendants of the Prophet Muhammad) from the Hadhramaut valley in Yemen, became an integral part of seafaring communities of Malays, constituted primarily by ethnic Bugis but also Javanese, Malay and others. As a result, cultural centres emerged that were neither distinctly 'Arab' nor 'Malay' but creole. Writers such as the seafaring trader and emissary Abdullah al-Misri emerged from such creole communities, to chart in the Dutch occupied Nusantara, like Abdullah Munsyi in areas under British influence, the modern course of Malay culture: determined less by 'race' boundaries than a shared linguistic and cultural space (Mandal 2001a). These creoles of the nineteenth century, and arguably into the early twentieth, were part of a cosmopolitan world that emerged within the historical transformations wrought by colonialism. To the diffused character of racialisation in Malaysia discussed in the previous part, may be added the modern history of transcultural movement and cosmopolitanism that has had lasting implications.

The words to say it: contemporary narratives and languages

Toni Morrison's (1990) essay on race and culture, *Playing in the Dark*, is an illuminating analysis of the meanings and uses of 'Whiteness' in the American literary imagination. It is a quest for the words to speak of racialisation in a manner that is not proprietary in its claims to social identity. Hence, the essay is not only about how blacks are exploited in the writings of White American authors or how White America justifies racist power relations. Morrison uncovers the deeper dynamics of the relationship between blacks and whites in the cultural imagination. She finds the fates of these categories of people to be intimately bound, however much they may be separated along ideological, political and economic lines. Morrison's perspective, whose complexity has been much reduced for the sake of brevity, informs the following discussion of cultural politics in contemporary Malaysia.

   This chapter considers cultural production to be a site with significant political implications that merits more substantive inquiry than it has traditionally received. The argument is cognisant of the theoretical observation made by Lisa Lowe and David Lloyd who view culture as a site of political potential 'when a cultural formation comes into contradiction with economic or political logics that try to re-function it for exploitation or domination' (Lowe and Lloyd 1997: 1). The authors thus reconfigure the 'social' to represent the terrain in which politics, culture and economics meet in important ways. Given this observation, the arts and cultural production as a whole may possess far greater political meaning than is commonly assumed, especially in the context of Malaysia where the arts in particular constitute a rare public forum for the sustained and

stimulating engagement of questions of race politics and other matters considered taboo by the state. Highlighting the discursive dimensions of contemporary culture ought not to suggest that society as a whole has not been transformed in significant ways. Research in the late 1990s on pluralism shows a marked tendency towards transcultural relationships despite the longstanding racialisation at work in Malaysia. Beyond the state and party political apparatus, new and cross-boundary relationships have emerged in civic, religious and business organisations which concretely assert transcultural rather than racialised agendas, though an encompassing political community has not been attained (Abdul Rahman 2000; Mandal 2001b). The present discussion complements the findings of this research by turning to the politics of sites typically considered outside the realm of conventional social science analysis.

There have been numerous and significant instances of cultural crossovers in the creative production of Malaysia. Two examples suffice in substantiating the assertion, first an artistic form and second, an individual artist. The first example, the *Bangsawan* theatre tradition, was widespread in the early twentieth century throughout the larger towns of British Malaya as well as the Netherlands Indies where it often took the name Stamboel (after Istanbul the capital of the Ottoman empire). As Tan Sooi Beng's study shows, Bangsawan consisted of a play, typically based on famous stories of classical Malay courts, staged with numerous intermissions when comedies, dances, duets and other entertainment were interspersed. Performed in the Malay language, it typically incorporated individual artistes and themes of Indian, Persian and other origin and provided a popular form of entertainment for all social classes and across ethnic groups. Sponsors were often ethnic Chinese businessmen who among other things rented out their cinema halls for the performances. The hybrid theatre form thrived mostly before the Second World War and began to decline in the years before Independence.

Today, the Bangsawan is being revived, usually by state-sponsored agencies, and often takes an ethnicised shape that makes it quite different from its historical antecedents. The August 1996 Kuala Lumpur production of the Bangsawan *Raja Laksamana Bentan* [King and Admiral of Bentan], directed by Rahman B and Krishen Jit, offered highly stereotypical renditions of the 'Chinese' and 'Indian'. Sponsored by the National Academy of the Arts and the Ministry of Culture, Arts and Tourism, the supporting role of the 'minority' ethnic characters nicely reflected their ostensible place in the country's party political order. Although out of step with the humour and sensibilities of its time (evident in the poor attendance), the production was in keeping with official efforts to erase cultural hybridity.

Noordin Hassan, the playwright to whom this discussion turns next emerged from the *Boria* performance tradition which shares the hybrid character of Bangsawan. Like the latter, Boria blossomed in the cosmopolitan cultural milieu of Penang, where it was part of the ten nights of festivities at the start of the Muslim month of Muharam. Noordin grew up in a creole Malay community made up of people with Arab, Indian, Sri Lankan, Bengali, Pakistani, Thai and

Chinese origins where the Malay spoken was shaped by equally diverse linguistic influences (Noordin 1996: 20–21). Of Indian and possibly Persian ancestry himself, he grew up in a family of Boria performers with songs and poems rendered in a creolised Malay. His mother would repeat to him the following poem, the first two lines in Hindustani, the rest in Malay:

> *Husein Cedi ye ke bat, bat,*
> *Bat bolega pan supari;*
> *Adakah tuan pernah melihat,*
> *Sirih bertepuk pinang menari*
>   (Noordin 1996: 7).[12]

Fifty years after his mother uttered the poem, in 1992 Noordin staged a play in his native state titled after the last line, bringing to the foreground the influence of his creole cultural background.

Despite the formative creole influences in his life, Noordin is celebrated today, at least within official arts circles, as an important ethnic Malay and Malay language playwright. He has been productive on the Malaysian stage for several decades and has achieved some of the highest honours in the arts granted by the state. Notably, few if any other Malaysians are given such recognition at least by the state, though it is equally true that few of other ethnic groups are leaders in the Malay language arts. Like other ethnic Malays nationally prominent in the arts, it is primarily an essentialised view of Noordin's identity that is foregrounded rather than the diverse influences in his life. Nevertheless, his works speak for themselves, and have challenged essentialised notions. *Anak Tanjung* (Cape Child), staged in 1987, reflected on the budding nationalism of the colonial era by departing from the Malay-centredness of the dominant narratives. He portrayed the emergent solidarity in a multi-ethnic and poor fishing village as transethnic by narrating the common struggles and intimate relationships between Chinese and Malay characters on the margins of colonial society. Criticised for rendering a history that was 'Malaysian' rather than 'Malay', he observes that his intention was indeed to show 'the contribution of the Chinese to the country ... not just in the character [Ah Heng], but deeper still'. He adds that '[t]he sacrifice of Ah Heng, the closeness of Ah Heng to the Malay family, his concerns' make him 'a good Chinese; a good Malaysian; a good human being' (Solehah Ishak 1992: xxv).

These examples hardly constitute an exhaustive survey.[13] They serve to remind us that hybrid cultural politics did not die with the establishment in the 1950s and entrenchment after the 1970s of race-based party politics. While the party political system has indeed been as stable as the ruling coalition claims, its existence is contingent upon the persistent mobilisation of support along ethnic lines. At the same time, different identities and cultural solidarities have persisted and developed. Signs of new cultural solidarities are noticeable in public intellectual life and social movements in the country with the advent in 1998 of *reformasi*, which Khoo Boo Teik (1998a) describes as 'a movement of cultural

opposition'. Reflecting on the state's efforts to racialise the political ferment at the turn of the century, Khoo (1998b) notes that the portrayals of potential violence, drawing heavily from Indonesian news footage, existed only in official fears and imagination. Social conditions were a far cry from state narratives. He observes that 'ideas of multiculturalism' had genuine appeal in the 1990s, enough to foment a potentially viable transethnic opposition to the racialised and authoritarian rule of Mahathir. It is important to note, however, that at the same time the broad shape of the oppositional movement had racialised overtones, indicating the need for a critical awareness of racialisation in Malaysian political life as a whole.[14]

The persistence of racialised thinking, practices and strategies in opposition party politics deserves some attention, though a serious study of this important area is not intended here. At least one reason for this persistence appears to be the practical difficulties faced by the opposition parties in breaking away from the electoral precedent set by the ruling coalition: nominating candidates according to the ethnic profile of particular constituencies. At the same time, and closer to the concerns of this chapter, it is unclear if the opposition parties regard the very question of 'race' to be of much import. There is little doubt that these parties reject discrimination based on ethnicity and cultivate multi-ethnic support. What is not clear however is if they believe a radical critique of the very notion of 'race' and its primordial associations is necessary. Besides *Parti Sosialis Malaysia* (the Socialist Party of Malaysia), a small and avowedly anti-racist party whose registration remains held up by the government at the time of writing, other opposition parties tend to consider the challenges of race politics resolved through sheer goodwill and multi-ethnic representation.

The 'cultural opposition' of the *reformasi* years is reflected in two notable arguments articulating hybrid culture and histories. They stand out because of their substance and their articulation in Malay (the language of the majority which, contrary to the historically more elitist English, goes well beyond ethnic Malays to reach the working classes and poor) (Mandal 1998). In 1999, Amir Muhammad, the writer, playwright and film-maker, published an article on the English language and realpolitik in *Berita Minggu*, the Malay-language Sunday newspaper with a wide circulation. In the article, he defends the use of both English and Malay in public life, a contentious position to take in a country where the defence of Malay – at least in name – is of much political weight. Amir argues that each language has its place in the social and professional worlds of the country and furthermore, not only has Malay declined as a result of its association with the ruling party's ethnicisation, but English has become the *de facto* national language as it is a space within which all Malaysians engage each other. His article provides the basis for arguing in favour of a cultural politics that crosses the ethnic boundaries of party politics and implicitly advances the notion that creativity emerges from hybrid rather than ethnicised social spaces (see also Mandal 2000a).

Another writer, Razif Ahmad (1999), wrote in the oppositional newspaper *Eksklusif* – one of many that emerged in 1998–1999 – a historically grounded

critique of notions of racial purity (in the case of Malays in particular but Malaysians in general). He spoke for many supporters of *reformasi* who became increasingly suspicious of the benefits of ethnic politics if not outright defenders of equality for all. He was prompted to write by chauvinistic remarks made by a cabinet minister and directed against Wan Azizah Ismail, the wife of Anwar Ibrahim, who was still at the early stages of her political career. Her light complexion and eyes indicated, according to the slurs hurled at her, 'the stamp of the dragon [*cap naga*]' on her person, implying Chineseness. The incident was widely reported in the major daily newspapers.

Instead of denying the claims, Razif argues that the notion of ethnic Malay purity is a falsehood by showing how each of Malaysia's prime ministers since independence were of mixed ethnicity, including in their creole identities Arab, Turkish, Indian and Thai ancestry. In so doing, the writer not only cogently relayed pieces of information already known to the public, but inserts into popular discourse a social constructionist approach to ethnic identity. Instructively, the slurs hurled by the minister at Wan Azizah were one of the reasons that cost the former his job. It would appear that race-baiting tactics of the state failed in this instance. Although the strong rejection of ethnicisation and notions of racial purity made by Razif Ahmad was not necessarily a reflection of prevailing opinion, it resonated with many, within and outside *reformasi* circles.

Cultural politics more generally and language specifically have become increasingly obvious sites in which questions of ethnicity and class come together. Amir's views herald wider developments. To dwell on but one example, individuals have stepped off their respective stages – the ethnically and socially diverse English and Malay language theatre worlds – to conduct dialogues. Cultural activists such as Kathy Rowland, Lorna Tee, Marlia Musa and others have been engaged in public dialogues to discuss creative production in the different linguistic spheres.[15] Through such dialogues, members of the arts community from a variety of backgrounds learn of the common challenges in their efforts, notably how to produce good work that is sustainable financially. While a public forum like this is not easily organised and faces challenges from established ethnic ideologues, such efforts actively create a shared public sphere that easily enables transethnic conversations.

When this emergent public space is described as 'Malaysian' in the present context, it stands neither for the defensive nationalism encouraged by the state after the financial crisis in 1997, nor the promotion of the country as a uniquely 'multi-Asian' tourist destination. Rather 'Malaysian' expresses a creative vigour – an élan – of considerable charge. Far from merely making a positivist claim, Rowland's articulation of the existence of 'modern Malaysian theatre' earlier in this chapter, for instance, expresses the pleasure of cross-boundary creative work and subverting racialisation. Kahn appreciates the significance of this pleasure when he discusses Malaysian urban youth culture, in this instance in relation to *nasyid*, the popular music typically performed by male a capella groups distinguished by an Islamic identity in their music and public face. 'The growth in the generalised idea of a Malaysian urban youth culture, which at least for a time

includes the *nasyid* performance', he notes, 'implies a subtle but none the less significant shift in the patterns of racialisation in popular Malaysian discourse' (Kahn 2001: 148). While nasyid may manifest silences about cultural diversity, he adds, 'Malaysian youth culture, of which it forms a part, certainly does not'.

Morrison's (1990) study of race in the United States, as alluded to earlier, is helpful in elucidating the value of the preceding efforts. She does not consider her work to be in the interests of any one group but an illumination through literature of the whole experience of racialisation as it impinges on both 'Whites' and 'Blacks'. Similarly, Razif and Amir neither write for any single ethnic group nor position themselves along racialised lines. They have found the words to say it, to speak to each other as Malaysians. Their writings articulate the ways in which race has permeated the politics of state and society and find a means of uncovering the very things it obscures and marginalises but does not eliminate: transethnic cultural politics.

Conclusion

Finding the words to speak of transethnic solidarities does not in itself amount to a resolution of the problem of racialisation in contemporary Malaysia, which is manifest in insidious and damaging forms of social inequality. Rather, this effort calls into question the racialised political order by exemplifying cultural and social developments that have rested on the inclusion, mutual empathy and equality of social identities. The transethnic cultural politics discussed in this chapter are not the mere shadows of an alternative history and society but salient suggestions of a shift from the present day political order.

Scholarly concern with social equality more generally remains imperative. Much is made and even celebrated of the country's multi-ethnic political order and its long-term stability at the turn of the twenty-first century. Bangsa Malaysia, and other official appeals, are easily and often with good reason seen as laudable calls for social cohesion; hence the widespread support among intellectuals, business leaders, social organisations and the population as a whole. Given the history of fragmentation in national political life, the possibilities offered by appeals to social integration are attractive to many. The pleasure derived from exploring things 'Malaysian' then is not confined to the arts community discussed previously. Nevertheless, no active effort has been made to change the racialised foundations of the present order with the advent of Bangsa Malaysia. The insidious and uncertain violence of racialised social inequality in Malaysia thus remains in tact.

Scholars unconvinced by the self-satisfaction expressed by the state and elements of society, unconvinced also by the simplistic and over-determined critiques of oppositional groups, continue to engage Malaysia's racialisation. Joel Kahn and Khoo Boo Teik acknowledge significant cultural and political shifts away from racialisation. They do not, however, dismiss underlying problems as a consequence. They see race and its potential conflicts as embedded in the political economy, society and culture, and remain insistent of the need for social

equality within and beyond national frameworks (Kahn 2001: 151; Khoo 2001: 17–18). In this connection, Ishak Shari notes the growing income gap between and within ethnic groups since 1990 as economic growth achieved phenomenal rates spurred by liberalisation measures. Structural problems that have emerged as a result, namely entrenched divisions along ethnic lines between rich and poor, remain challenging issues facing Malaysians today. While rumours circulated of the orchestrated nature of the violent confrontation between Malays and Indians in March 2001 in the Petaling Jaya area, a salient cause of the unrest is indisputable: endemic urban poverty. Undoubtedly, conflict along ethnic lines need not necessarily be restricted to the poor, but it may be exacerbated and initiated by their socially and politically marginalised condition. At the same time, the ease with which state and socially sanctioned race politics advances, and the small numbers of organised men (typically) it takes to foment racialised violence, remain to be addressed.

As noted in the introduction, whereas in Indonesia there have been dramatic instances of violence along ethnic and religious lines, in Malaysia conditions have been relatively calm. Both government and social groups can credibly take credit. What has emerged in Indonesia and is lacking in Malaysia, however, is a strong critical engagement with race or identities attributed with primordial qualities. The public discussion of these issues may be taking Indonesians a little closer to the self-consciousness of social construction that Ariel Heryanto (2001) believes is necessary as a bulwark against identity conflicts. Institutions have been initiated and remade, some from the ground up and others state-led. In Malaysia, on the other hand, while institutional change has been much slower, there has been a significant recognition and assertion of transethnicity within different social groups.

Engaging afresh the racialised social order in Malaysia requires a shift from the modular 'race relations' literature to approaches that more readily name and elucidate the nuanced character of racialisation in Malaysia. Race is quite fundamental to Malaysian political culture but it is not totalising in character. 'Malaysia', as such, has been invoked historically not only in racialised terms, but also as a space shaped by the liberating terms of social equality.

Notes

1 Further empirical material and analysis of such solidarities may be found in Mandal (2001b).

2 Farish Noor, Mohan Ambikaipaker and I presented papers, with Sheila Nair acting as discussant, in the panel 'Reframing Race and Culture in Malaysia' at the Third Malaysian Studies Conference, 6–8 August 2001, Universiti Kebangsaan Malaysia, Bangi, Malaysia. An earlier draft of the present chapter was first presented on this occasion.

3 'Jangan Buat Masalah Lagi dengan Kata "Pribumi"', *Kompas* (10 August 2002). See also http://www.kompas.com/utama/news/0208/10/004311 (12 January 2003).

4 Compare with the discussion of *ketuanan Melayu* in Cheah (2002: 237) where it is translated as 'Malay dominance' and regarded as 'part of the informal "bargain"' agreed upon by the Alliance.

5 *The Sunday Star* (15 August 1999).

6 Sulaiman Jaafar, 'Chinese wise in politics, says Nik Aziz' (*The Sun* 30 March 2001).

7 At the panel discussion entitled 'Multi-Culturalism and Respect for Minorities' held at the Selangor Chinese Assembly Hall, Kuala Lumpur on 7 December 2000 in conjunction with Human Rights Day, a Chinese Malaysian educator based in the East Coast of Peninsular Malaysia claimed that ethnic Chinese on the West Coast were oppressed by a Malay-dominated state through its assimilation measures. In contrast, Chinese on the East Coast, he observed, assimilated by gradual means, encouraged by the tolerant political and cultural environment. Should his claims of repression be true, it is less likely the result of racism than authoritarianism for ethnic Chinese political leaders constitute as much a part of the state in question. Related to this educator's views, though more nuanced and substantiated by ethnographic and historical accounts, is the study by Tan Chee Beng (1984) of cultural differences among Chinese Malaysians.

8 As noted earlier, Cheah (2002) argues that the premiership has typically contained the racist potential within the ruling politics. This may be true. The point cannot be overstressed, however, that the institutional structures and public discourse remain disconcertingly racialised. There is not a great deal separating Cheah's translation of *ketuanan* as 'dominance' and my own 'supremacy' (see note 4). Both pose different kinds of intellectual and ethical dilemmas when it comes to the question of social equality.

9 In contrast, Indonesia under Suharto's New Order instituted a bureaucratic form of oppression of Chinese Indonesians that became full blown in the 1970s and 1980s, and in conjunction with an alliance with key businessmen from the community, assigned 'Chineseness' with inherent qualities of entrepreneurship, exclusivity and ethnic cunning. This worked nicely to scapegoat Chinese Indonesians in periods of economic and political decline by pitting their interests against those of the *pribumi* ('indigenous' Indonesians). See Khoo (2001) for an analysis of the way the NEP worked in Malaysia and why it would be unfeasible in Indonesia.

10 Of some 800,000 civil servants on 1 January 2001, parliamentary secretary in the Prime Minister's Department, Khamsiyah Yeop, reports that approximately 76 per cent were ethnic Malay, 9 per cent Chinese, 5 per cent Indians and 7 per cent *Bumiputera* ('805,219 employed in civil service', *The Sun* 2 August 2001). Bumiputera in this particular instance refers to those considered indigenous to the states of Sabah and Sarawak. In addition to noting the absence of racial discrimination in the selection process, she observes as follows: 'The government is increasing its efforts to provide a more balanced civil service sector in terms of racial composition'. An aspect of the problems of single ethnic group dominance in government bodies is revealed in the efforts to resolve the racialised violence of March, 2001 in Petaling Jaya. The mostly ethnic Malay security forces deployed to quell the unrest between Malays and Indians would likely have been perceived as partial to their 'own' under the highly racialised circumstances of the time.

11 'Defend rights: PM', *The Sun* (9 March 2001).
12 Husein Cedi gives these things words, words / And betel wraps will speak; / Have you sir seen, / Betel leaves clapping, betel nuts dancing. I am grateful to Devkumar Mandal, Ayesha Jalal, Sugata Bose and Nandini Sundar for their views on the initial two lines in Hindustani. I am nevertheless responsible for the present translation.
13 I do not intend an exhaustive survey here. For further discussion and examples of transethnic and hybrid cultural politics, see Mandal (2000a and 2000b).
14 I owe this insight to Sheila Nair.
15 Azman Ismail, 'Teater: Tiada batasan Inggeris, Melayu', *Utusan Malaysia* (7 August 2002).

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3   The Internet, *reformasi* and democratisation in Malaysia

Jason P. Abbott

Introduction

Libertarian supporters of the Internet argue that the medium is a universal space allowing access to unfiltered flows of information, that it lacks established hierarchies of power and is 'a raucous and highly democratic world with no overlords or gatekeepers' (Warf and Grimes 1997: 261). For many, cyberspace resembles the nineteenth-century American West: vast, unmapped and legally ambiguous. Increasingly easy access to e-mail and the World Wide Web globally allows politically disenfranchised groups to communicate with like-minded or sympathetic audiences. Furthermore, particularly in regimes where the freedom of the mainstream media is restricted either by direct regulation and legislation opposition groups have been able to have a voice. Indeed, for some commentators, in such regimes, the Internet is not only a medium of communication, it is effectively a vehicle for political change and transformation (Warf and Grimes 1997; Perrit 1998: 431) or indirectly as a result of conservative corporate ownership, the Internet has become an alternative medium through which opposition groups have been able to have a voice. Indeed, for some commentators, in such regimes, the Internet is not only a medium of communication, it is effectively a vehicle for political change and transformation (Warf and Grimes 1997; Perrit 1998: 431).

This chapter examines the impact of the Internet on the reform movement in Malaysia in the aftermath of the detention of former Deputy Prime Minister Anwar Ibrahim in 1998. In particular, this chapter explores three main issues: First, the extent to which the Internet in Malaysia is a medium largely free of government regulations and controls. Second, whether the Internet was an enabling force for bottom-up pressures for democratisation and political change. Finally, why despite the initial pressures for change on the Mahathir regime, the reform movement was unable to effect real political transformation.

Control and regulation of the Internet in Malaysia

The libertarian possibilities of the Internet have raised the prospect that activists can use it to affect political change and reform in authoritarian regimes. The

many progressive uses of the Internet include the dissemination of documents and audio and video files, communication among like-minded people, e-mail petitions and as a medium for organising more traditional forms of protest. Globally, innumerable groups use the Internet for their own political interests and agendas; from civil and human rights activists to special interest groups, political parties, religious movements and terrorist groups (Warf and Grimes 1997: 263). In the developing world, the Internet offers the potential of cheap access to sympathetic counterparts abroad and the ability for almost instantaneous transmission of news, reports and AV footage. There are, for example, between four to five million human rights-related web pages available on the Internet.[1] Dozens of country specific studies by Amnesty International, Article XIX, Friends of the Earth, Greenpeace, etc. report actions and events in authoritarian political systems around the world, often providing information that is not available through the traditional media. Furthermore, several websites stand out as important 'jump' stations for progressive uses of the Internet: the *Institute of Global Communications*, the *Electronic Democracy Information Forum* and the *National Endowment for Democracy*. Nonetheless, whatever the potential information available, the Internet does not exist in a political vacuum. Access to the Internet itself, as well as access to materials available through this medium, is contingent upon the legislative, political and regulatory framework within which the user is located.

At the core of the various regulatory mechanisms by which the Malaysian government is able to control the media is the Printing Presses and Publications Act of 1984. This Act requires all publications to obtain licences that have to be renewed annually. The Minister for Home Affairs, whose decisions are final, can revoke these licences at will. The Minister can restrict or ban a publication if it is considered 'likely to be prejudicial to pubic order, morality ... [or] security', may 'alarm public opinion', or 'be prejudicial ... to the national interest' (Human Rights Watch 2000). Once a decision has been taken by the Minister to restrict or ban a publication, there is no recourse in law for the decision to be challenged. Furthermore, maliciously publishing 'false news' is a crime under Article 8A of this Act. This article presumes malice on the part of the defendant who must prove that he took 'reasonable measures' to verify the truth. An individual may be arrested without a warrant on this charge, and if found guilty, can be punished with three years imprisonment, fined up to 20,000 ringgit or both (Human Rights Watch 2000).

In the aftermath of the November 1999 general election, for example, licences for three magazines critical of the government – *Detik*, *Eksklusif* and *Wasilah* – were withdrawn, while *Harakah*, the twice weekly newspaper of the Islamic opposition party, *Parti Islam SeMalaysia* (PAS), was forced to restrict its publication from twice weekly to twice monthly. In addition to media-specific legislation, press freedom is also curtailed through the use of legislation against sedition and libel, the Internal Security Act and the Official Secrets Act.

The Sedition Act – dating back to British colonial administration – broadly criminalises any speech judged to have a 'seditious tendency'. This includes any

speech that may 'bring into hatred or contempt or to excite disaffection against' the government, promote 'feelings of ill-will and hostility between different races' or questions the constitutional preferences given to Malays in business, education and government employment. Under this Act, the intent and accuracy of the speaker's statement are irrelevant, and if convicted is punishable by up to three years in prison, a 5,000 ringgit fine or both. The vague language of the Act invites selective application against political opponents for any kind of criticism, and it has been used several times since the November 1999 elections against opposition figures who criticised the government. In December 1999, for example, Zulkifli Sulong, the editor of *Harakah*, was charged with allegedly violating the Sedition Act. The Official Secrets Act (OSA) gives the government punitive powers to prosecute any journalist who publishes official information without authorisation, while the Societies Act requires every society to get government permission for its establishment.

Of all the legal mechanisms at the disposal of the government, the one that attracts the most opprobrium is the Internal Security Act (ISA). Originally passed in 1960 at the end of the Communist-led insurgency (1948–1960), the ISA allows police to arrest without warrant any person suspected of acting in 'any manner prejudicial to the security of Malaysia ... or the economic life thereof'. Once arrested, the suspect can remain under detention without trial for up to two years with the possibility of a renewal of the detention every two years. While its original justification was to check internal subversion, the ISA in practice has been used against leaders of opposition parties and social interest groups. In fact, prior to being formally charged with corruption and sodomy, Anwar and 16 of his associates were arrested under the ISA (see, for example, Amnesty International 1998). Following the general election in November 1999, the ISA has been used repeatedly against members of the constituent parties of the opposition coalition *Barisan Alternatif* (BA, or Alternative Front), against non-governmental organisation (NGO) leaders, journalists and other political commentators.

Such regulation, while not exclusively limited to the media, nonetheless often results in a form of self-censorship as journalists steer clear of stories or coverage that might result in their prosecution. 'As a result, most journalism [in Malaysia] is tame, and reporters have no effective organisational voice to fight for greater freedom. The National Union of Journalists, for example, failed to protest any of the closures or other restrictions placed on alternative publications in 2000'.[2]

If the regulatory mechanisms at the government's disposal were not enough, virtually all mainstream newspapers in Malaysia are owned or controlled by parties allied with the ruling *Barisan Nasional* (BN, or National Front) coalition. For example, in 1993, four individuals closely related to leaders of the dominant party in the ruling coalition, United Malays' National Organisation (UMNO), secured effective control of the New Straits Times Press Bhd, which publishes the *New Straits Times*, *The Malay Mail*, *Berita Harian*, *Berita Minggu*, *Harian Metro* and *Shin Min Daily News*. UMNO is also the largest shareholder of the principal Malay-based media corporation, Utusan Melayu Bhd (Nain 2002:

113–17). The Chinese language press in Malaysia has been more independent, relatively speaking, in its coverage of Malaysian politics. In June 2001, however, the Malaysian Chinese Association (MCA), another of the constituent parties that make up the BN, controversially acquired Nanyang Press, which publishes two of the four Chinese daily newspapers, *Nanyang Siang Pau* and *China Press*.[3]

There is no independent radio news, and allies of Prime Minister Mahathir Mohamad control all television broadcasting. Furthermore, like many states in Asia, the Malaysian government has – arguably even since Independence in 1957 – viewed the media and in particular television as 'an essential tool for promoting "national development", "national harmony" and "national security"' (Anuar 2002: 138). Consequently, the government has denied the opposition broadcast time on the national radio and television corporation, *Radio Televisyen Malaysia* (RTM),[4] and this agency is widely viewed as the 'the official channel of the government of the day' (see, for example, Brown 2003). The net result of all of this is that it makes it virtually impossible for alternative voices to reach the public.

The Internet, however, is a curious exception when it comes to the regulation of the media in Malaysia. When the government was examining the issue of whether to censor the Internet, a decision was made that unlike the strict controls that applied to mainstream television and print media, regulations would be minimal. In particular, unlike their tabloid and broadsheet counterparts, Internet newspapers were exempt from the Press and Publications Act.

While acknowledging publicly his concerns about the availability of pornographic material and dissident voices on the Net, Mahathir was determined to give Malaysia a competitive advantage over its neighbour Singapore where stringent controls had been imposed on Internet Service Providers (ISPs).[5] Furthermore, the decision not to censor the Internet was taken in order to encourage foreign investment in the much-vaunted Multimedia Super Corridor (MSC) project that Mahathir launched on 1 August 1996. The MSC project envisaged a huge purpose-built high-tech zone which would provide an optical fibre telecommunications infrastructure able to handle all kinds of multimedia traffic that would connect to the emerging global broadband network via 'direct high-capacity fibre links to Japan, US, Europe and SE Asia'.[6] The project also envisaged the creation of two new 'smart cities', Putrajaya and Cyberjaya.[7] Putrajaya would become a new capital city where the federal government including the prime minister, would work electronically, while Cyberjaya would be 'an IT nirvana ... [of] intelligent buildings wired with the latest technology' (Einhorn and Prasso 1999). Envisaged to take 20 years to reach its full potential at an estimated cost of US$20 billion, the MSC would catapult the Malaysian economy firmly into the digital age by facilitating and upgrading the diversification of the economy at a time when Malaysia faced increased competition from lower wage economies in the region, such as China and Vietnam. Consequently, the decision not to censor material on the Internet was taken for commercial rather than political reasons and the pledge was written into the MSC's 'Bill of Guarantees'.

Despite the government's more relaxed attitude, the Internet did not become a significant alternative medium until the sacking of Anwar Ibrahim as deputy prime minister in September 1998. Prior to the beginning of the Anwar affair, in a population of 20 million, less than a quarter of a million people had access to the Internet, and the popularity of reform-based websites and newsgroups was quite limited.[8] As M.G.G. Pillai (2001), the editor of the popular political discussion newsgroup Sang Kancil, comments:

> [I]n 1996, I began a local discussion group called Sang Kancil . . . for its first two years [it] drifted along with a few hundred subscribers. It was listless and dragged on, mainly with my daily political commentaries. Then in September 1998, the whole scene changed . . . Anwar's supporters went out into the streets . . . [and] hundreds of websites came out in support of the detailed politician.[9]

Anwar's dismissal and subsequent arrest led increasing numbers of Malaysians to turn to the web in protest, so that within a few months over 50 pro-Anwar websites had emerged, circulating everything from Anwar's letters from prison, to eyewitness accounts of demonstrations and foreign news reports of the political crisis. In the words of the webmaster of the site *Anwar On-Line*, '[t]he Web site's success was enormous . . . there weren't a lot of graphics, but access became slow because of the traffic. I didn't expect so many responses' (quoted in Zain 1999).

The Malaysian government's initial attempts to counter the use of the Internet by opposition were unsuccessful. This was because, to quote from veteran journalist and political commentator Pillai, the government

> does not know how it works, nor how it can be used to spread information, nor how it can be a useful armoury in the cultural battle for the hearts and minds of the Malay community. Its opponents saw it as a practical tool to overcome the official and government control of the mass media and took to it like ducks to water.
>
> (Cited in Zain 1999)

For example, when attempts were made by the government to 'filter' Malaysian ISPs, pro-reform groups simply either moved their websites to non-Malaysian hosts[10] or set up mirror sites there in case their Malaysian sites were closed down.

When the government ordered all cybercafés to register users and if necessary provide police with information – rumours circulated on the Net that Mahathir had instructed the police to track down the sources of many of the most outspoken websites – it appeared to many that the government had reversed its policy of avoiding censorship of the Internet. This response caused consternation among foreign investors in the MSC as it signalled a reversal of the key pledges in the 'Bill of Guarantees'. Alvin Toffler, for example, boycotted the

International Advisory Panel of the MSC in protest, and in an interview with the international magazine *Businessweek* rebuked the government for its attempt to silence its internet critics. According to Toffler, '[t]he essence of Silicon Valley is not fiber optic cables; it is the creative, innovative drive, with large numbers of people racing to create new ideas [t]hat's hard to sustain in an atmosphere charged with political repression' (cited in Einhorn and Prasso 1999). Concern about the impact that such comments would have on investment in the MSC led the government to reverse this order on 16 March 1999.

Subsequently, the government did become more sophisticated in its attempts to minimise the impact of the Internet. They lodged complaints with Tripod, who closed down all the *reformasi* websites it was hosting,[11] and tried, with less success, to exercise pressure on other non-Malaysian hosts to follow suit. The government also began to use the array of legal weaponry at its disposal to arrest prominent web masters. Raja Petra Kamaruddin, the Director of the Free Anwar Campaign (FAC) and webmaster of its accompanying website was investigated for sedition under the Sedition Act and later detained under the ISA. Such tactics and the increasing use of the ISA against reform activists were adopted not just to silence the individuals concerned, but also to frighten other webmasters into closing their sites or at least to effectively render them dormant.[12]

Finally, opposition websites began to find that they were increasingly becoming the targets of Denial of Service attacks (DoS),[13] hackers and viruses. As Raja Petra comments:

> My e-mail is bombarded by hundreds of virus-contaminated e-mail every day. Each e-mails is about 500,000kb, so just 20 e-mails are enough to put my e-mail out of action. I have to download my e-mail a few times a day and delete them just to clear my box or else new e-mail cannot get in. It makes a lot of work. If I take just one day off, my e-mail goes out of action, as there is a maximum limit each service imposes. I also have to maintain a dozen e-mail accounts because of this.[14]

While there is no explicit government campaign behind this, activists suspect the work of pro-government sympathisers with the tacit approval of the authorities. Sabri Zain (1999) describes how one pro-government site 'advises users to email bombs to offending webmasters and to provide a list of known targets. A zip file of the Avalanche email bombing software is conveniently available for download'.

The Internet as an enabling force for democratisation

In the wake of Anwar's arrest, increasing numbers of Malaysians turned to the web in protest. The first *reformasi* website, Anwar On-line, was launched on 1 September 1998, the day before the deputy prime minister was sacked, and within three days had recorded a million hits. As the director of the Free Anwar Campaign comments:

the people were confused and not sure what was going on. The mainstream media was no help and no one trusted its news anyway. So they turned to the Internet for what they felt was the best source of accurate news. Anwar On-line became that trusted source of news.[15]

Within a few months, the number of pro-Anwar and pro-reform websites had mushroomed to over fifty. Given the controls on the mainstream media, the Internet soon became both the principal means of communication for the opposition and increasingly a source of news for Malaysians.[16] Estimates suggest that by the time the tenth general election took place on 29 November 1999, the number of Internet users in Malaysia had exceeded 500,000, rising to an estimated two million users in 2002.[17] While low by international standards, this figure is quite high among developing world countries and as a proportion of the total population on-line is the seventh highest in East Asia and the second highest in ASEAN. Furthermore, the impact of these users was much wider since interviews confirmed that before, during and after the 1999 general election, the Internet had an 'amplification effect'. The more activist-inclined users printed materials from the web, photocopied them and then distributed by fax, mail or hand to tens of thousands more.

Development of the Internet as an alternative medium

In those first few months after the Anwar crisis, the Internet in Malaysia did resemble the 'raucous world' Warf and Grimes (1997) depict. Many of the sites that initially sprung up were blatantly accusatory and insulting. While at its peak there were over fifty *reformasi* websites, four years later the number of such sites that were 'active' had fallen sharply.[18] Many of the more accusatory sites have simply disappeared or are no longer operational. However, rather than simply representing a decline in enthusiasm for political reform, their demise can be attributed to a number of factors. First, the demise of some of the unofficial sites is probably a process of natural wastage as more official sites come on line, and their webmasters run out of interest or time. Second, as alluded to before, a number of webmasters have ceased their activities because of the increase in repression that has followed the 1999 elections. Finally, while more research needs to be done into the role of the Internet in (semi) authoritarian regimes,[19] what has become clear in Malaysia is that the *reformasi* movement on the Internet has matured from a cacophony of accusatory and insulting diatribes into a more mature, alternative, independent medium. To quote from Raja Petra again:

> The Internet in Malaysia has now matured. People now expect more from the Internet. In the beginning, three years ago, it was a case of anything goes . . . as long as it was news, never mind if it was true or not. It just had to be sensational. Today, people expect accurate news and the writers need to substantiate what they write and put their name to their writings.

> Anonymous writings and slander that cannot be verified is no longer on. You can say, in short, the people have become more choosy, or sophisticated, in what they read.[20]

Many of these more professional sites are operated by the opposition parties themselves or by civil rights oriented NGOs, for example *AIM* (Abolish the ISA Movement),[21] *Aliran Online* (Aliran), *HarkahDaily* (PAS), *Berita Keadilan* (FAC, Adil, Keadilan), the *Free Anwar Campaign* (FAC),[22] *Suaram* (Suaram), etc. In addition, the constituent parties of the BA themselves have increasingly sophisticated multi-media sites, most of which are now tri-lingual. Many of these sites provide links to each other, thus encouraging 'interaction and negotiation between supporters of Malaysia's often divided opposition. A PAS supporter in Kelantan may have little inclination or opportunity to engage with the West Coast, Chinese-based DAP. One click, however, can bring him from the PAS website to the DAP's' (Brown 2003). The ostensibly multi-racial Democratic Action Party (DAP) secures its support primarily from ethnic Chinese and had long been the dominant opposition party in Malaysia until the rise of PAS in 1990.

Among the most interesting and successful of this 'second generation' of websites is *Malaysiakini*, which has carved a niche for itself as 'independent' news site. Taking the Malaysian government at its word not to censor the Internet, Steven Gan launched the country's first commercial on-line newspaper, *Malaysiakini*, just nine days before the general election of 1999 with funding from international press freedom groups, including the South East Asian Press Alliance (SEPA).[23] As Pillai comments, 'its web site made the pages of the main English and Malay newspapers seem weak and tired'[24] and the success of the site took the editors and staff completely by surprise.[25] *Malaysiakini* has gone on to record average daily hits of approximately 200,000. The paper began life as something of a 'guerrilla outfit'[26] with a shoestring staff of only three journalists producing only two or three stories per day. Within four years, the site had expanded its content dramatically, producing a total of 40–50 items per day, including 10–15 local stories, 3–4 opinion pieces, 10–11 letters and some foreign news sourced from *l'Agence France-Presse* (AFP). Furthermore, *Malaysiakini* has won warm praise from around the world, as well as a number of international awards for journalism.[27]

The government initially struggled trying to decide what to do about *Malaysiakini*, but then on 2 February 2001 the *New Straits Times* reported that the *Far Eastern Economic Review*, in its forthcoming 8 February edition, had identified billionaire financier George Soros as being one of the newspapers financial backers.[28] Accordingly, the government argued that such a link 'proved' that *Malaysiakini* was in the pay of foreigners who wanted to undermine Malaysia. The prime minister himself railed '... these people [*Malaysiakini*] really behave like traitors, asking foreigners to harm their own country... people who love Malaysia would not support *Malaysiakini*'.[29] What followed was a chorus of denunciations of *Malaysiakini* that sought to discredit it among both

its readers and perhaps, more importantly, among its advertising clients. Around the same time, the government siezed on a rarely applied accreditation rule to deny *Malaysiakini* journalists access to government news conferences. Subsequently, the deputy home minister, Chor Chee Heung, announced that *Malaysiakini* journalists would be barred from all government events because it was not a licensed publication.

While the allegations against *Malaysiakini* were rather spurious,[30] it nonetheless hit advertising revenues as clients pulled their ads from the newspaper's website. Coupled with a general downturn in Internet advertising and the end of the start-up grants from SEPA, *Malaysiakini* hit serious financial difficulties in 2001, barely meeting 20 per cent of its revenue target. As a consequence, the paper has been forced to make an increasing share of the stories it provides available on a fee-paying basis only.[31] Nevertheless, despite the concerted attack against it, *Malaysiakini* continues to prove a 'thorn' in the government's side and its website is becoming increasingly sophisticated.

Of the politically-backed websites, by far the most popular is PAS's *HarakahDaily*. Following the arrest of Anwar, the biweekly newspaper of the Islamic party, *Harakah*, became the *de facto* voice of the opposition, increasing its circulation from approximately 65,000 to over 375,000 in the run up to the 1999 general election.[32] Such figures, if accepted, reveal that *Harakah* was Malaysia's most widely read newspaper.[33] Although, by law, distribution of the *Harakah* is limited to members of PAS only, in the aftermath of Anwar's arrest and subsequent trial, this restriction was widely flouted.

Although the government stopped short of banning *Harakah* outright, on 1 March 2000, deputy prime minister and minister for Home Affairs, Abdullah Ahmad Badawi, reduced the frequency of publication of the newspaper under the Printing Presses and Publications Act from eight to two a month under its new publishing permit. While initially a severe blow to the opposition, PAS instead channelled resources into its web-page newspaper, *HarakahDaily*. Like *Malaysiakini*, *HarakahDaily* is not bound by the restrictions on print media and now provides web radio and web TV transmissions, attracting an audience of over 60,000 a day.

Theorising democratisation

Since 1985, when street battles commenced between pro-democracy activists and the former government of President Ferdinand Marcos in the Philippines, the world has apparently been witnessing a 'Third Wave' of democratisation (Huntington 1991). This irresistible force, having arisen in the West, is now, according to such theses, moving into Asia and into areas where liberal democracy has not taken root. In 1987, the Koreans brought down the autocratic government of Chun Do-Hwan. In 1992, the struggle between the military and demonstrators in Thailand ensured that democracy returned after a brief military interlude, while in 1998, mass protests ended the 32-year rule of Indonesia's Suharto.

Commencing with Huntington's work on democratisation (1991, 1996), liberal theorists see liberal democracy as the panacea for all the world's ills. The prime movers behind the rise of the democracy movement are the emerging middle classes in Asia. As Robison and Goodman (1996: 1–2) state:

> [i]n recent years the imagination of the West, and indeed, of the East as well, has been captured by the dramatic emergence in East and Southeast Asia of a new middle class and a new bourgeoisie ... [t]hey are increasingly regarded as the economic dynamisers of the twenty-first century ... [and] seen as embodying universal interests which will create an Asia more like the liberal stereotype: more rational, more individualistic, democratic, secular and concerned with human rights, the environment and rule of law.

Much of the recent literature on democratisation echoes the work of modernisation theorists in the 1950s. These modernisation theorists, predominantly American political scientists, proposed that democratisation was a normative programme for the transformation of societies from 'backward', rural, largely authoritarian societies, into modern democratic ones (see, for example, Rostow 1960). Implicit in this viewpoint was both an empirical relationship and positive correlation between economic and political development. The more developed a society was economically, the more democratic it would be politically. Furthermore, open relations with the capitalist world economy would stimulate both economic and political development since capitalism would encourage the growth of a domestic bourgeois elite that would become the vehicle for modernisation and the political transformation of the state.

Recent theorists of democratisation in the developing world, while proposing a more complex relationship between capitalism and democratisation, effectively reach the same conclusions. The relationship between capitalist development and democratisation is close because capitalism shifts the balance of power in societies from authoritarian governments to social groups more inclined to democratic norms. As Rueschemeyer, Stephens and Stephens (1992: 7) note:

> [c]apitalist development is associated with democracy because it transforms the class structure, strengthening the working and middle classes and weakening the landed upper class. It was not the capitalist market nor capitalists that emerged as the new dominant force, but rather the contradictions of capitalism that advanced the cause of democracy.

Nonetheless, such theorists do not discount the importance of civil society organisations and the impact of exogenous factors such as war, alliances and economic crises.

A number of these commentators have begun to suggest that this 'Third Wave' could be, and is likely to be, a 'jagged wave' (Luckham and White 1996), that is a jagged wave of successes and failures. In other words, while the number of democracies worldwide might increase, there may nonetheless be democratic

breakdowns and transitions in the opposite direction, breakdowns that do great harm to justice, human rights and political freedom (Diamond 1996: 20). There have, after all, been previous waves of democratisation that were shattered by authoritarianism, such as in Latin America with the rise of the 'bureaucratic authoritarian state' during the 1970s. Furthermore, modernisation approaches often do not differentiate between formal procedural aspects of representative democracy and popular participation and control. For several reasons, democratic forces in Asia may not result in a replica of Western democracy since one has to take into account the impact of history, the degree and impact of economic development, as well as more contingent factors such as economic cycles and the strength and nature of civil society in the societies under investigation.[34]

Although far from an ideal democratic type, in Malaysia 'democratic procedures ... have nonetheless given legitimacy to the dominant party' (Jesuadson 1996: 132) and when necessary sanctioned the use of coercion as a political strategy, in particular the use of the ISA to detain opponents without trial. Unlike during the more authoritarian phases of politics in the Philippines, South Korea and Taiwan, limited electoral participation and procedures socialised a majority of the population to accept the more coercive aspects of government as legitimate (Barraclough 1985: 820; Welsh 1996);[35] hence, the description of Malaysia as a 'semi-democracy' or 'semi-authoritarian' state (see, for example, Case 1993). Ironically, it is since the 1980s and 1990s, during the so-called 'third wave of democratisation', that Malaysia has become less democratic (see Jesudason 1996: 128). Under the leadership of Prime Minister Mahathir, the independence of the judiciary has been curtailed,[36] and the powers of the elected monarchy weakened.[37] Moreover, internal democracy within the ruling UMNO has been truncated.

Paradoxically, this authoritarian turn has taken place during a period of rapid economic growth and an expansion of Malaysia's middle class. Between 1981 and 1989, economic growth averaged 5.4 per cent, rising to 8.8 per cent between 1990 and 1996 while the middle class expanded from 20 per cent of the working population in 1970 to approximately 45 per cent by 1993 (Abdul Rahman 2001; Saravanamuttu 2001). Overt opposition to this authoritarian turn was difficult to discern. To a considerable extent, however, it can be argued that Mahathir enjoyed a degree of developmental legitimacy.[38] Low unemployment, rapid growth and rising living standards mitigated the growing democratic deficit. Nonetheless, the growth of the middle class did result in the emergence of several prominent public interest NGOs, including civil rights-oriented organisations such as Aliran (1977), Suaram (1987), Hakkam (1991); women's rights groups, Tenganita (1990) and Sisters in Islam; and consumer groups such as the Consumer Association of Penang (CAP).

Although the impetus for civil society associations often stems from the failure of the political system to articulate specific interests and concerns, it is important to note that until more recently most of the founders and members of many of Malaysia's public interest organisations came from the non-Malay population (see, for example, Jesudason 1996: 149–55). This, Jesudason (1996)

suggests, is a result of the political dominance of UMNO, the weakness of non-Malay political parties and the privileging of Malay rights.[39] In addition, Brown (2001) notes that during the 1980s and early 1990s, civil society in Malaysia was largely dominated by small organisations.[40]

Despite the growth of civil society, many political theorists argue that this development cannot by itself spark the overthrow of an authoritarian system. Nor can interest groups, which often have narrowly defined and specific agendas, simply take the place of political parties and replicate their functions. For democratic pressures on the state to develop, civil society must work with and through political society. The focus thus returns to a narrowly defined elite politics, with democracy less of a normative concept and more of a descriptive one.

The political crisis in Malaysia in 1998 arose out of a conflict among the UMNO elite, between a group of 'softliners' that coalesced around the former deputy prime minister Anwar and a group of hardliners centred on Mahathir. The *reformasi* movement was the result of an elite struggle, precipitated by the 1997 Asian currency crisis that threatened to diminish the channels of patronage available to UMNO leaders as well as to devalue the assets of politically well-connected businessmen (Case 1999). Indeed, transition theorists, such as O'Donnell et al. (1986: 19), argue that democratic civil society will only develop after the actual process of transition from an authoritarian to a democratic state has taken place, since 'there is no transition whose beginning is not the consequence – direct or indirect – of important divisions within the authoritarian regime itself'. It is clear that the semi-democratic Malaysian regime did, however, allow for the emergence of a lively NGO sector from the 1970s onwards. Indeed, despite their limited support base, in terms of its transnational activities, the NGO sector grew more sophisticated during a retrenchment of civil and democratic rights.

While civil society had developed before the onset of the 1998 political travails, the arrest of Anwar[41] proved to be a catalyst for coordination and cooperation among the NGO community,[42] galvanising such groups into united action and consequently forging horizontal relations across civil society.[43] For example, on 27 September 1998, 18 parties and organisations formed a new coalition, *Gagasan* (Coalition for Peoples' Democracy), to campaign for greater political freedom. Gagasan announced a 10-point joint declaration demanding the right to freedom of speech and assembly, the right to a fair trial and impartial hearing in a public court of law and the abolition of the ISA. At the same time, another opposition coalition, *Gerak* (Malaysian Peoples' Movement for Justice), was formed grouping together mostly Islamic NGOs. Both coalitions attracted not only NGOs, but also existing opposition political parties. The largely Chinese DAP joined Gagasan, while the leading Islamic-based NGO *Angkatan Belia Islam* (ABIM, or the Islamic Youth Movement) aligned itself with Gerak.[44] Three months later Anwar's wife, Wan Azizah Ismail, launched a further umbrella organisation to press for political, economic and social reform: the Movement for Social Justice, or *Adil*. What was noteworthy about these

organisations and Adil, in particular, is that not only did they bring together activists from disparate political and class backgrounds but more importantly societies and parties representing different ethnic and racial constituencies. In April 1999, Adil was turned into a multi-ethnic political party and renamed *Keadilan* (National Justice Party). Within its first month, Keadilan had attracted over 100,000 members and 'recruited' several prominent NGO leaders, including Tien Chua (Gagasan), Chandra Muzaffar (JUST) and Irene Fernandez (Tenganita). Chandra, former deputy president of Keadilan, explained that his decision to join party politics occurred because the Anwar affair 'made it evident that NGO activity alone could not achieve the desired results. Instead, there was a need for a more immediate challenge of the abuse of power and the destruction of crucial institutions such as the police and the judiciary'.[45]

The Asian currency crisis undermined the legitimacy of the existing regime, leading ultimately to the split between Mahathir and Anwar that precipitated the emergence of the *reformasi* movement. The Anwar affair was, however, able to have the catalytic effect upon civil society that it did because of the impact of the Internet in creating 'dense networks linking geographically dispersed activists … that constitute themselves into the building blocs for bottom-up democratisation processes' (Grugel 1999: 7). These networks ultimately, however, did not prove sufficient to promote regime change and democratisation.

The failure of *reformasi*?

The key question Malaysianists have to deal with when analysing the *reformasi* movement and Anwar affair is why was the reform movement unable to secure regime change or major political concessions, despite the catalysing of civil society, the economic turmoil caused by the Asian crisis and the split among the Malaysian political elite? There are three main reasons for the limited reforms in the post-currency crisis period. First, the nature of the split in the political elite was of limited significance, failing as it did to result in any realignment of socio-economic forces. Second, that the government was able to increase repression to demobilise civil society. Third, the importance of the Internet in 'catalysing' civil society was if not exaggerated at least misconstrued.

The elite crisis

Most transition theorists seem to agree that, regardless of the strength of civil society, the process of democratic transition requires a crisis of legitimacy for the existing regime (Haggard and Kaufman 1995: 7). While such a crisis may arise from the failure of the government to deliver certain responses in specific areas, it is often a result of an economic crisis precipitated, or accompanied, by the process of economic liberalisation (see O'Donnell et al. 1986). Indeed, Case (1999: 1–19) argues that initially the Asian economic contagion precipitated a political struggle within the Malay elite by diminishing the channels of patronage and devaluing the assets of local business elites.

Whether economic liberalisation precedes or succeeds a downturn in economic cycles, liberalisation has profound political ramifications since it indicates the state's willingness to 'roll back' some of its functions and transfer economic decision-making and power to market forces and social actors with the potential to empower civil society. Since liberalisation creates an environment in which private business can acquire new resources and achieve greater organisational autonomy, it can result in these groups allying themselves politically with the forces of change and reform. Furthermore, when liberalisation occurs under specific conditions of political 'stress', it often suggests those existing implicit or explicit bargains between political leaders and their key support groups are no longer working, and that the rules of the game have changed (Haggard and Kaufman 1995). In such circumstances, the breakdown of existing bargains encourages other economic actors to defect from the regime. As Haggard and Kaufman (1995: 7–8) argue, 'the inability [of the governing elite] to avoid or adjust successfully to economic crisis increases the probability that authoritarian regimes will be transformed and reduces the capacity of authoritarian leaders to control the process of political change, including the terms on which they exist'.

In Malaysia, economic liberalisation preceded the recession of 1998 by over a decade when, in 1983, Mahathir announced his government's commitment to privatisation (Jomo 1996: 42–43). Nonetheless, an extensive series of privatisations did little to strengthen the autonomy of economic actors from the political elite. While the role of the public sector in the economy has diminished, many privatisations did little more than transfer government property or activities to individuals directly or indirectly linked with UMNO. Indeed, a number of privatisations took place without even the formality of a tender system. In 1985, the national lottery, Sports Toto, was allegedly awarded without prior public announcement to Vincent Tan Chee Yioun on the basis of a two-page proposal![46] Consequently, while privatisation is expected to diminish the policy-making coherence and autonomy of the state, because of the political hegemony of UMNO and the inter-relationship between state and party in Malaysia, little effectively changed. As the Malaysian political economist Gomez (1994: 296) notes:

> [t]he close alliance between politics and business has led to the emergence of an elite minority in whose hands a disproportionate amount of the country's economic wealth and political power is vested. Equity based power and political patronage appear to have reinforced each other.

In *Malaysia's Political Economy*, Gomez and Jomo (1999) detail the extent to which the privatisation programme benefited a select group of individuals and UMNO-related companies, such as the Renong, Technology Resources, Land & General, Berjaya and Tanjong groups. Critics have dubbed this state-capital nexus 'party capitalism' or 'money politics', a development that results 'in the blurring of the State and UMNO business interests' (Kahn and Loh 1992: 2) and

ensures that '[t]here are few other political parties in any part of the world which have control over so wide a range of business ventures as does the United Malays National Organisation' (Gomez 1990: 1). One consequence of this is that it is very difficult to envisage a situation in which major sections of the business elite would defect to the opposition since they are so interwoven with the ruling political elite. Indeed, the nature of this complex relationship between the private sector, the party and the state enabled Mahathir to ensure the support of business elites, especially when their financial positions worsened as the currency crisis deepened (Iritanai 1998).

Although economic liberalisation, specifically privatisation, did not lead to the emergence of an autonomous business elite that could destabilise the existing regime by defecting to the opposition, clear differences did emerge within the political elite over the best way to respond to the currency crisis of 1997–98. These differences threatened to challenge not only the existing political elite but also many of the conglomerates and corporate interests that had benefited from close association with UMNO. Indeed, in their work on democratic transitions, O'Donnell (1986: 19) make the general assertion that 'there is no transition whose beginning is not the consequence – direct or indirect – of important divisions within the authoritarian regime itself'.

The principal difference between Anwar and Mahathir emerged over their responses to the deteriorating economic situation as Malaysia was affected by the region wide downturn. Anwar clearly signalled toward the end of 1997 that he favoured a package of austerity measures with significant cuts in government spending. As finance minister, Anwar cancelled a number of high-profile infrastructure projects, such as the Bakun Dam, the development of a purpose built federal administrative centre on the outskirts of Kuala Lumpur (Putrajaya) and a plan to build a bridge across the Malacca Straits. In addition, in April 1998, at an international forum in New York, Anwar argued that the Asian crisis could have positive consequences since it would result in the 'creative destruction' of the crony capitalism that was all too familiar across the region.

As the recession deepened, Mahathir favoured government bailouts of ailing conglomerates. Unsurprisingly, nearly all of the proposed bailouts were for conglomerates with close links to the political elite. They included the UMNO-linked Renong Group, whose borrowings had reached 5 per cent of the Malaysian banking system's total outstanding credit, the privatised flagship national automobile company, Proton, and perhaps more significantly Konsortium Perkapalan, controlled by Mahathir's eldest son, Mirzan (Abbott 1998: 281). Anwar, on the other hand, made his opposition to any rescue packages known and even intervened to cancel bailouts for both Renong and Malaysian Airlines (MAS).[47]

The inter-elite struggle came to a head during the UMNO general assembly in June 1998 when its Youth leader and close Anwar supporter, Ahmad Zahid Hamidi, openly attacked nepotism and collusion between party leaders and leading business figures. Mahathir, however, used his presidential address to the members to reassert his authority, defending government patronage as a

necessary part of the redistributive strategy of increasing the Bumiputera share of national wealth. Mahathir also exposed that Ahmad Zahid and Anwar's family and friends had benefited from government patronage. Daim Zainuddin was subsequently brought back into the Cabinet as minister of special functions.[48] On 1 September, Mahathir personally introduced foreign currency and capital controls to stem the 'flight' of short-term capital; two days later Anwar was dismissed as deputy prime minister and finance minister and removed from his post as deputy president of UMNO. Within a month of Anwar's dismissal, Renong called on the government to guarantee a 10.5 ringgit million bond issue to enable it to refinance overdue loans.[49]

Although Anwar's own credentials on reform are subject to some debate,[50] interviews suggested that his dismissal was in part a consequence of vested interests resisting his programme of fiscal and financial austerity in the wake of the currency crisis since it would adversely affect their business concerns. Consequently, while the currency crisis precipitated an elite political struggle, it did not lead to any significant division among or defection by the domestic business elite, primarily because of their dependence on the state for support (see Case 1999). Anwar did not also secure any serious defections from UMNO in the same way that Razaleigh had in the 1987 UMNO crisis. The Razaleigh affair had clearly indicated to UMNO members that their access to state patronage was limited once they left the party.

Repression and demobilisation

Although 20 of Anwar's associates were detained with him on 28 September 1998 under the ISA, there was no immediate crackdown by the government on the fledgling reform movement akin to that carried out by the government in October 1987. Then, the infamous 'Operation Lallang' saw the arrest of 106 persons under the ISA, including the leaders of the DAP who were held without trial for two years. Of the 97 initially named detainees, 37 were from political parties, 23 from the NGO sector and some 37 individuals.[51]

Between September 1998 and the elections of November 1999, with the exception of Anwar himself, none of the leading opposition political figures was arrested. Furthermore, despite limitations and impediments on the freedom of the opposition to hold widespread *ceramah* (political rallies), large-scale gatherings did routinely take place. There was, however, for whatever reason, no significant and concerted attempt to demobilise the opposition movement. This 'stand-off' of sorts persisted until late 2000 when the government abruptly changed its tactics.

Arguably, the turning point was a gathering of between 10–50,000 people on 5 November 2000 on the Kesas highway, near Shah Alam, a city on the outskirts of Kuala Lumpur. An application had been made to the police to hold a *ceramah* organised by the BA at Bukit Jalil stadium. When the police rejected the application, the organisers decided to try and hold the meeting on private land near the Kesas highway. News of the event was circulated via the Internet on

websites such as the Free Anwar Campaign, chat rooms and via e-mail so that by the afternoon the highway had been brought to a standstill (see Netto 2000; Zakiah 2000). Eventually, the *ceramah* took place about 500m from the Kemuning tollgate and the leaders of the four constituent parties of the BA addressed the crowd. Tear gas, water cannons and batons were used to disperse the crowd in a display of force that Suhakam, Malaysia's Human Rights Commission, criticised in August 2001 as excessive (Kaliban 2001).

The event was highly embarrassing for the government and probably had a bearing on the outcome of the result of a by-election held in Kedah, the prime minister's home state. Keadilan won the contest for the state assembly seat of Lunas, held on 27 November 2000, and as a result of this election, the BN lost its two-thirds majority in the Kedah state assembly. Following accusations by the BN of rioting by opposition supporters in that by-election, in early January 2001 nine government opponents were arrested which proved to be an ominous sign of things to come. On 10 April, prior to a planned demonstration to mark the second anniversary of the sentencing of Anwar, ten *reformasi* activists were detained under the ISA, including five members of Keadilan.[52] The detainees included some of the party's most prominent figures: Vice President Tian Chua, National Youth Chief Mohamed Noor and Deputy Youth Secretary Gobala Krishnan. Also detained was the director of the FAC, Raja Petra Kamaruddin, and filmmaker and social activist Hishamuddin Rais. While four of the ten were subsequently released, Tian Chua, Mohamed Noor and Hishamuddin Rais remained in detention as of the end of 2002. The effect of this detention was devastating since, as Netto (2001) argues, 'the arrests of *reformasi* activists hurt the National Justice Party (Keadilan) of ousted deputy premier Anwar Ibrahim, depriving it of its key campaigners. It also effectively crippled mass *reformasi* demonstrations around the capital'.

In July 2001, the government arrested two key student activists in a bid to silence political activism on the campuses while also announcing a blanket ban on all political gatherings. Whereas Keadilan had relied on large-scale demonstrations, PAS has effectively used much smaller gatherings of anything from a few hundred to several thousand to disseminate their views. The post-ban clampdown by authorities that followed was implicitly aimed at hurting PAS in the same manner that the April arrests had hurt Keadilan. Netto (2001) comments again: 'PAS has consistently banked on its proven formula of regular *ceramah* across the nation almost every night ... a formula that has enabled the party to reach out to the public despite its lack of access in the mainstream media'.

A further round of ISA arrests took place in August 2001, ostensibly to counter the threat posed to Malaysian security by an allegedly radical Islamic group, the *Kumpulan Mujahidin Malaysia* (KMM).[53] Among those arrested were PAS officials and activists including the son of the charismatic Nik Aziz, the *Menteri Besar* (Chief Minister) of PAS-led Kelantan.[54] While those detained were not as prominent as those arrested in the sweep against Keadilan, the detention of alleged KMM members formed part of a concerted government effort to reduce support for PAS by highlighting its alleged 'fundamentalist'

leanings (Martinez 2001: 135),[55] a campaign that took on a whole new dimension following the 11 September terrorist attacks on the United States. Whereas prior to 11 September the US government had been critical of Malaysia's use of the ISA against political opponents, the 'war on terrorism' suddenly cast George W. Bush and Mahathir as allies in the fight against Islamic extremism. If the *reformasi* movement had struggled to keep the international dimension of its campaign going in the aftermath of Anwar's conviction in 1999, after 11 September 2001, this task was made all the more difficult.

In his study of the UMNO crisis of 1987, that led to the creation of a (now defunct) opposition coalition led by Razaleigh Hamzah, Brown (2001: 15) argues that the 'effect of increased repression upon social mobilisation is not always the same. Broadly speaking, it can either have a radicalising effect on civil society, or else a demobilising influence'. In the case of Operation Lallang in October 1987, Brown (2001) argues that the crackdown broadly achieved its goals of demobilising civil society since, in the wake of the ISA arrests, the frequency of demonstrations and the numbers they attracted dropped sharply. Consequently, while the split within UMNO that led to the creation of a new opposition party, *Semangat 46* (Spirit of 1946), and created the hope of more democratic space in the Malaysian political system, it occurred at a time of societal closure thereby diminishing the possibilities for democratisation.

The Anwar affair, however, had a catalytic effect on civil society. Facilitated by the growth of the Internet, civil society was mobilised and radicalised by the treatment the former deputy prime minister received. Initially, the government refrained from widespread repression against the opposition. Where force and detentions without trial were used, it did not succeed in demobilising civil society. Arguably, once Malaysia had recovered from the economic slowdown following the Asian crisis, and UMNO had secured a renewed mandate in the elections of 1999,[56] the government had both sufficient economic and political legitimacy to launch a more concerted campaign against its opponents.

It remains to be seen whether the long-term effect of this campaign will be to effectively demobilise civil society. At this juncture, it is clear that while the renewed use of the ISA has attracted the opprobrium of human rights groups both within Malaysia and worldwide, it has not resulted in the radicalisation of the opposition and civil society. Indeed, rather than the opposition parties making continued progress with the electorate, renewed repression, coupled with continued media attacks on the opposition, contributed to growing distrust between the constituent parties in the BA. These differences ultimately led the DAP to withdraw from the BA in September 2001 (because of growing antagonism with PAS) in the run-up to state elections in Sarawak; elections the BN easily secured victory in.

The medium is not the message

Another factor contributing to the failure of the reform movement to achieve its stated goals is the extent to which activists and commentators alike at best

misconstrued the impact that the Internet is having on politics (be it in Malaysia or elsewhere) and at worst exaggerated its importance. For many, the 'newness' and 'uniqueness' of the technology seemed to raise the prospect of dramatic 'new possibilities for political learning and action' (Bimber 1998) and provided a 'source of inspiration for a possible transformation of democratic politics' (Fedinand 2001: 1). Technophiles, such as Rheingold (2001) and Negroponte (1995), in their enthusiasm for the Internet evoked Marshall McLuhan's (1964) famous dictum that the impact of new media on society would be such that the medium would become the message. In other words, the nature of this medium would 'enhance the political quality of communicative content' (McLuhan 1964).

The truth, however, is perhaps far from as grandiose. Ferdinand (2001) and Bimber (1998) both make the point that 'the chief lesson so far from the impact of the Internet upon democracy is that it is a technology for communication. In itself it is not capable of having any political effect. Its impact depends upon what people choose to do with it' (Ferdinand 2001: 2). Unfortunately for supporters of democratisation, it appears that the majority of populations both in the developed and developing world simply choose to use the Internet to send trivial e-mails to friends and relatives or to play games.

This is not to say that the Internet has had no discernible impact on Malaysian politics, since clearly it has. Instead, the argument is that for the most part the Internet has allowed like-minded activists and individuals to communicate both with each other and with transnational activists. More importantly, in terms of accessibility, stark discrepancies exist both within states as well as globally – forming the so-called 'digital divides'. Indeed, questions must be raised about how effective the Internet can be as a vehicle for political transformation when it is clear that across Asia as a whole only a small minority of the population have access to it. Given the stark inequalities that exist in terms of race, gender, education and income, Internet activism is predominantly an elite past time. The audience of users is an elite that for the most part may already be sympathetic to such messages. As a consequence 'those who may benefit the most from counter hegemonic uses of the Net may be precisely those who have least access to it' (Warf and Grimes 1997: 270). Furthermore, while the Internet allows politically disenfranchised groups an alternative medium of communication, dissemination and organisation, it cannot become a substitute for more traditional forms of political mobilisation and action. In this sense, the loudspeaker will always be more intrusive than the Internet will ever be since with the latter the user must be inclined to 'seek out' the message they want to hear.

Conclusions

This chapter set out to examine the impact that the Internet had on the *reformasi* movement that emerged in the aftermath of former Deputy Prime Minister Anwar's dismissal from office. In particular, it sought to examine three principal issues. First, the nature of the regulatory regime within which the Internet

operates in Malaysia. Second, the extent to which the Internet contributed to the political mobilisation of civil society. Third, an examination of why the *reformasi* movement was unable to achieve any significant concessions from the government.

The analysis of the first of these issues revealed that the media in Malaysia face significant legislative constraints on their freedom. This is compounded by the ownership structure of this industry, such that all major print, radio and television companies are under the control of individuals or corporate groups that are either members of the ruling BN or sympathetic to it. In stark contrast, the Internet in Malaysia is largely free of regulatory constraints and this has resulted in the emergence of a dynamic alternative medium. Nevertheless, it was noted that this situation was not the result of any political volte-face or conversion to liberal democracy but instead the result of commercial and economic pressures to compete in the global market for information communication technologies.

The examination of the impact that the Internet has had on civil society revealed that it provided an important catalytic effect on critical social voices in Malaysia. The Anwar affair had a noticeable impact on both the number of users and the growth of critical and independent websites. While many of these were little more than accusatory scandal sheets, over time a more mature, considered and independent medium emerged that facilitated greater communication and cooperation between disparate groups in civil society, and importantly in the context of Malaysian politics, across ethnic lines.

Finally, the chapter sought explanations for why despite both the relatively liberal regulatory environment of the Internet, and despite the increased communication and cooperation that the technology facilitated, the *reformasi* movement was unable to make any serious impact on the political regime in Malaysia. It argued that three principal explanations could be forwarded for this failure. These were first that the nature of the elite crisis was such that Anwar had secured no serious defection from either the political or business elite following his dismissal. Thus, unlike in a comparable crisis in 1987, the political leadership of the country remained relatively united in the face of opposition calls for reform. Second, that after an uneasy period of cohabitation with the opposition, the government eventually used its legislative and coercive apparatus to try and demobilise the opposition, particularly by using the ISA to detain prominent opposition figures and human rights activists. While it is too early to judge whether this demobilisation will be successful, early signs are that at the very least it has not resulted in a renewed galvanising of opposition strength. Indeed, opposition politics has been marked by increased infighting and disunity since the end of 2001. Finally, the impact of the Internet on politics has been exaggerated and misconstrued. While the Internet will provide a greater range of sources of information and communication it will not significantly alter the 'psychology or sociology of political participation' (Bimber 1998). Consequently, it is not the fault of the medium that was to blame for the failure of the *reformasi* movement. Instead, its failings are a result of the complex interplay of social economic and political relations in Malaysia between 1998 and the present period.

It should, however, be emphasised, as Bimber (1998) does in his conclusion, that despite its shortcomings, the Internet does have an important impact on mobilisation, an impact that we can see in the case of the *reformasi* movement in Malaysia. Bimber (1998) argues that the information and communication flows made possible by the Internet 'will lower the obstacles to grassroots mobilization and organisation faced by political activists, and others'. Furthermore, the effect of this 'lowering of costs' will be felt greatest by those social forces 'outside the boundaries of traditional private and public institutions, those not rooted in ... the constituencies of existing government agencies and programmes' (Bimber 1998). Consequently, given the nature of the political regime in Malaysia, such constituencies include opposition political parties, NGOs and other critical social voices. In this sense Bimber's (1998) conclusion should not lead us to be too pessimistic in examining the processes of democratisation. While the Internet in itself cannot effect regime change, it can accelerate pluralism in a society. The long-term consequences of this acceleration of pluralism remain to be seen, but it is probably fair to say that Malaysians have not seen the last chapter in the Anwar saga.

Notes

1 According to *Yahoo* and *Google*, there are 4,460,000 and 5,040,000 such websites respectively. This search was conducted September 2002.
2 'Bringing News to the Internet', Terence Smith interviews Stephen Gan. Online News Hour Exclusive 21 November 2000, available at http://www.pbs.org/newshour/media/ipf/transcript.html.
3 'MCA to takeover all main Chinese papers', *The Straits Times* (Singapore) (27/5/2001).
4 RTM controls two of the four terrestrial television stations.
5 For an analysis of government attempts to control the Internet in Singapore, see Rodan (1998: 63–89).
6 Multimedia Development Corporation, see http://www.mdc.com.my.
7 Mahathir officially opened Cyberjaya on 8 July 1999. See 'Malaysia launches high-tech city', BBC World, http://www.bbc.co.uk/news.
8 E-interview with Raja Petra Kamaruddin, Free Anwar Campaign, 1 September 2001.
9 According to Pillai, before the Anwar crisis, the number of subscribers to the newsgroup was less than 600. Following Anwar's detention, it increased appreciably. By 2001, Sang Kancil had approximately 2,200 subscribers. E-interview with M.G.G. Pillai, 3 September 2001.
10 The most common hosts are *Geocities* (Yahoo) and *Tripod* (offered by the Lycos network).
11 E-interview with Raja Petra Kamaruddin, 1 September 2001.
12 E-interview with Raja Petra Kamaruddin, 1 September 2001.
13 A DoS attack is an assault on a network that is designed to bring the network to its knees by flooding it with useless traffic.
14 E-interview with Raja Petra Kamaruddin, 1 September 2001.
15 E-Interview with Raja Petra Kamaruddin, 1 September 2001.
16 Telephone interview with Anil Netto, editor of *Aliran*, a Malaysian politics and human rights periodical, on 27 April 2000, in Kuala Lumpur.
17 See http://berita-keadilan.net/english/news/280801sms.htm.

18 Only a handful of independent and exclusively *reformasi* sites remain active, of which perhaps the most sophisticated is *Laman reformasi*, http://www.mahazalim.net (Pillai, e-interview 3 September 2001).

19 The first major piece of work on this subject was that by Gary Rodan (1998). While a welcome piece of work, Rodan's article presents an overly pessimistic account of the emancipatory potential of the Internet and suggests that political control is much more of a possibility than has yet to be demonstrated. See also Abbott (2001a) and Guehenno (1995).

20 E-interview, Raja Petra Kamaruddin, 1 September 2001.

21 A coalition of NGOs and opposition parties to abolish the ISA, the website is managed by Suaram.

22 Unlike most *reformasi* websites which are in Malay, the FAC is entirely in English principally because the campaign 'wanted something than can reach the English speaking foreign community' (Raja Petra, e-interview, 1 September 2001)

23 SEPA emerged as a coalition of journalist associations in Indonesia, Thailand and the Philippines. SEPA aims to promote media freedom throughout Southeast Asia (see Jayasankaran 2000). SEPA is a grantee of the US-based National Endowment for Democracy.

24 Interview with M.G.G. Pillai, E-interview with M.G.G. Pillai, 3 September 2001.

25 Interview with Steven Gan, editor of *Malaysiakini*, August 2000.

26 Ibid.

27 The Press Freedom Award, Reporters Sans Frontiers, January 2000; International Press Freedom Award, The Committee to Protect Journalists, November 2000; and the 2001 Free Media Pioneer Award, awarded by the International Press Institute.

28 'FEER identifies Soros as Malaysiakini backer', *New Straits Times*, 2 February 2001.

29 Quoted by the government's news agency Bernama. See http://www.freemedia.at/wpfr/malaysia.htm.

30 The 'link' proved to be no more than that the Soros-linked Open Society Institute (OSI) had provided funding for SEPA. In a series of rebuttals, SEPA strenuously denied that the grant they had provided *Malaysiakini* had come from the OSI.

31 Apart from this, *Malaysiakini* now operates a paid political analysis service and markets some software provided by its technology department (Brown 2003).

32 Interviews with Zulkifli bin Sulong, Group Editor, *Harakah*, April 1999 and August 2000.

33 By contrast, during that year, the leading Malay language broadsheet, *Utusan Malaysia*, had an average circulation figure of 247,617. *Berita Harian*, the second largest Malay broadsheet, owned by the New Straits Times Press, has a circulation of 227,181. The leading English language tabloid, *The Star*, has a circulation of 206,832, while the English language broadsheet, *The New Straits Times*, trailed much further behind with 163,287 (Malaysian Rating Corporation, 'Utusan Melayu (Malaysia) Bhd', July 2000, http://www.marc.com.my/pdf/Utusan-0900.PDF).

34 For an excellent study of the historical specificity of oppositional forces in Southeast Asia, see Rodan (1996).

35 A survey conducted by Saravanamuttu (2001) in 1992 of office holders in various organisations revealed that a staggering 91 per cent of ethnic Malays agreed with the statement that the system of elections is just. A surprising 62 per cent of the ethnic Indian population and 59 per cent of ethnic Chinese also agreed with the statement.

36 Following a bitter presidential contest in UMNO between Mahathir and his former minister of Trade and Industry Razaleigh Hamzah in 1987, 11 members of the party challenged the election results. During this UMNO election, Mahathir had narrowly defeated Razaleigh in the contest for the post of president. The judiciary found that UMNO was an unlawful society because 30 of its branches had not been registered in 1987. Mahathir quickly formed UMNO *Baru* (new UMNO) to prevent his rivals from using the party name, but again they challenged this action in the courts. Mahathir

finally countered this challenge by suspending the country's top judge, the Lord President. For more details of the Mahathir-Razaleigh struggle, see Shamsul (1988).

37 In 1983, a constitutional crisis ensued in Malaysia over Mahathir's attempt to remove the monarch's right to withhold assent of parliamentary bills. Although a compromise deal allowed the monarch 30 days in which to return a bill with comments, the power of the monarch to block legislation was removed. For more details, see Khoo (1995: 202–09).

38 Deans (1996: 87–90), for example, asserts that developmental legitimacy is an integral component of the so-called 'East Asian capitalist developmental state'.

39 Weiss (2001) makes similar observations, although positing the argument that the concern with global issues reflects the weak ties many NGOs have with Malaysian society.

40 'Aliran and CAP', Brown (2001) notes, 'had between them just 150 members in 1983, and there is every possibility that many of these were members of both'.

41 The beginnings of a coordinated response can, however, be traced back to some months earlier, due to the arrest of Lim Guan Eng, the son of the former opposition leader Lim Kit Siang of the DAP.

42 Until then, commentators and NGO leaders alike bemoaned the fact that civil society remained sharply divided along ethnic lines, often noting that 'ethnic appeals were the ones that mobilised popular support' (Brown 2001: 6).

43 Stepan (1988) contends that this condition is crucial if NGOs are to become politically relevant and agents of democratisation.

44 Anwar had been a long-serving president of ABIM before his induction into UMNO in 1982.

45 Interview, 4 May 1999, Kuala Lumpur.

46 See 'Rogues Row', www.freemalayisa.com, and also Jomo (1996: 45). Tan has been close to both Mahathir and former finance minister, Daim Zainuddin, since the former's premiership began in 1981.

47 When MAS was privatised in 1985, a 32 per cent stake in the company was acquired by Malaysian Helicopter Services (MHS) which is controlled by Tajuddin Ramli, a close associate of Daim Zainuddin (Jomo 1996: 53).

48 This was regarded as a significant move since Anwar had replaced Daim as finance minister in 1991. Daim is regarded as one of the most powerful and wealthiest men in Malaysia – his personal wealth was estimated in 1992 at over US$250 million. Daim is also a favourite target for those who accuse the prime minister of fostering cronyism (for further details see Gomez and Jomo 1999: 54–55)

49 Political and financial opposition to the proposal forced the government to modify its plans. Instead of the government issuing bonds to cover Renong's debts, the group's lucrative toll road operator would instead issue 8.5 ringgit million in bonds. However, as the *Asian Wall Street Journal* (15 January 1999) reported, '[b]y eliminating the sovereign guarantees, it may look better politically. But there will still be aid in the form of higher toll-rate increases in the next two years, write-off of state loans and also a waiver of tax payments. The concept remains the same: using future earnings to repay current debt'.

50 Anwar had given Mahathir his unqualified support throughout the political crises of 1983 and 1987 (see for example, Chandra 1998: 234).

51 'Operation Lallang Revisited', *Aliran*, http://www.freemedia.at/wpfr/malaysia.htm.

52 The detainees were apparently also planning to submit a memorandum to the Malaysian Commission on Human Rights regarding Anwar's trial. See 'Malaysia's Internal Security Act and Suppression of Political Dissent', Human Rights Watch, 13 May 2002, http://hrw.org/backgrounder/asia/malaysia-bck-0513.htm

53 The KMM is alleged to favour the overthrow of the Mahathir government and the creation of an Islamic state comprising Malaysia, Indonesia and the southern Philippines. See Federation of American Scientists list of liberation movements and terrorist organisations, http://www.fas.org/irp/world/para/kmm.htm.

54 'Nik Aziz's Son Arrested Under ISA', *Bernama* (4 August 2001).
55 The BN has also depicted PAS as the 'Taliban' of Malaysian politics through the mainstream media.
56 This was, albeit, a pyrrhic victory. See, for example, Abbott (2001).

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4 Political crisis and reform in Malaysia

Claudia Derichs

Introduction

In the wake of the currency and political crises in 1997 and 1998, the discussion of how to shape Malaysia's future was not confined to economic matters. The question of governance was discussed as well, and thrived across ethnic, religious, societal and generational boundaries. These boundaries had traditionally deterred significantly the promotion of political discourses in Malaysia. The general mood in 1998 suggested, however, that Malaysians had become more politically conscious than ever before. This essay looks at some of the suggestions for political reform in Malaysia that have been brought up by various groups and individuals. It addresses the question of how public ideas of reform spread into the policy domain – if they do at all.

Drawing on a sample of interviews undertaken in August 2001, the argument here is that the role played by think tanks, intellectuals, mass media and non-governmental organisations (NGOs) in the diffusion of ideas took place in a manner quite different from the way many (especially Western) observers would expect. The diffusion of ideas concerning reform and change was not a smooth linear development in one direction. Rather, the pattern of diffusion of these ideas was contingent on socio-structural and socio-economic cleavages. The structural obstacles for an 'idea travel', it is argued, do not exclusively relate to the political system or to rules enacted by the ruling regime, but to a limited response by certain societal groups to the demands of the reform movement.

An assessment of 'idea travel', the role of intellectuals in political discourse and their insights into the form and extent of public participation in policy planning and implementation provides insights into changes that have occurred in Malaysian society, following the rise of a new middle class with rapid modernisation. The extent of the involvement of this middle class in the promotion of democratisation draws attention to important cleavages that exist in this society. These cleavages may sometimes be informed by ethnic and class affiliations. Access to people holding senior government posts, the personalised nature of politics and stringent control of the media determine the nature and extent of 'idea travel'. These factors, as well as the obvious persistence by many political observers – including the mass media – to analyse issues from a racial

perspective, explain why key issues are ethnicised. These factors are also partly the reason why there is not too much hope for political reform despite the growing demand for it.

This chapter addresses two issues. First, it looks at what the interviewees suggest about the way the political status quo can be changed. Second, it tries to search for reasons why such reform ideas do not travel easily into the domain of policy-making. The assumption is that there is a fear among important segments of the ruling elite that they might lose ground when political reforms are implemented. For example, programmatic competition rather than the rhetoric of ethnicity as means of political mobilisation may impair the capacity of these elites to retain hegemony over the state. A telling instance when this nearly occurred was during the 1999 general elections, when the ruling coalition, the *Barisan Nasional* (BN, or National Front), lost a considerable amount of support to the newly-formed reform coalition, the *Barisan Alternatif* (BA, or Alternative Front). The worried voices of leaders of the Bumiputera-based – and dominant BN member – United Malays' National Organisation (UMNO), were audible even in the much-controlled mainstream media. UMNO leaders feared that a split within the Malay community, because of the emergence of the new Bumiputera-led opposition coalition, would diminish or even lead to the loss of their hegemony over the Malaysian state. For the first time in decades, it appeared that Malays differentiated between the competing parties' policy programmes and voiced a need for substantial political reforms. While this could have served as a starting point for pluralism in policy planning, following the 1999 general elections, no significant changes occurred in the practice of politics and the nature of governance in Malaysia. This chapter is an attempt to trace the reasons why these reforms did not occur despite widespread support for political change.

Setting of question and theory

An underlying and popular aspect of Western thinking is that with widespread discourse on change and reform, transformations will occur in a society. This inference has not been proven yet in contemporary non-Western societies. In this chapter, I focus on the context in which ideas of political change and reform are produced and developed in Southeast Asia. Then, I look at the opportunity structures that are available or lacking to allow ideas to find their way into the realms of policy discussion, formulation and, eventually, implementation. Different mechanisms of power and authority determine the spread of ideas in that they allow or deny access to public discourses. The question, however, is whether public discourses really have the power to influence the direction of policy planning among the ruling elite. What obstacles exist for the linear diffusion of ideas of reform and democratisation into the 'black box' of political decision-making? Is it merely systemic and structural impediments that form a barrier against smooth 'idea travel' or is there another dimension to the problem as well, say, for example, socio-cultural and socio-economic cleavages?

This chapter takes a two-fold approach in an analysis of this topic. I look at Malaysia, a country in Southeast Asia where the discourse on political reform and change became remarkably lively in 1998. Four groups of actors, who are deemed to play a crucial role as providers of ideas and perhaps opinion leaders in the public discourse, were identified. They are think tank members, academics, NGO activists and politicians, some of them belonging to two groups at the same time.

In this chapter, ideas are seen as a central qualitative ingredient of discourse. Following the Western scheme of the diffusion of ideas, the suggestion would be that ideas are produced (or born) somewhere in the world, picked up by somebody in the same place or at another place, and elaborated upon in universities, research institutes, think tanks and mass media, from where they spread into the public domain and eventually enter the stage of political elite discussion. During their travel, these ideas may be re-worked or watered down, single aspects may be selected and discussed separately, or they become modified to fit certain codes of communication. This scheme, however, is based on the assumption that academia, think tanks and the mass media are fairly independent bodies. Their job is to discern general trends in world politics and translate them in the local context. Moreover, they are supposed to critically observe policy-making by the government as well as the opposition. The media in particular are expected to function as watchdogs.

In the case of Malaysia, it is debatable if this is the pattern of progress of ideas. Think tanks, for instance, evolved here from the need to intellectually legitimate modernisation goals, which were formulated by political leaders. Many of the Malaysian think tanks cannot claim as much organisational independence as their counterparts in Western democracies. Their existence is bound to the nation-building, development and modernisation strategies of the BN. They are, in a way, expected by the political elite to serve the nation and the government. So too are the thought products of universities and the media. The problem in Malaysia is not that many people do not subscribe to the idea that intellectual and ideational output has to be in accordance with government goals, ostensibly to promote nation building. In fact, a majority of Malaysians would probably have no problem at all subscribing to this view. (Conversely, the Germans, to name a European example, have tremendous psychological problems with a commitment to their 'nation'.) The difficulty for Malaysians with independent views is that the ruling elite holds a monopoly in defining what serves the national interest and what does not.

In a theoretical context, this means that the opportunity structures to let an idea involving political reform spread or travel in a particular direction are limited. It would be too simple, however, to just assert that limitations exist because the holders of power decide which idea can travel how far, hence determining the parameters of the discussion. Rather than that, I want to take some other aspects into consideration, namely aspects of middle-class responses to modernisation and development programmes and socio-structural, cultural and socio-economic cleavages. I argue that the Malaysian middle class has not

responded to ideas of reform and democratisation as much as had been expected by the proponents of such ideas in the wake of the 1997/98 economic and political events. This has weakened the popular reform movement, slowing down the democratisation process in Malaysia.

The empirical setting

In August 2001, I approached about 20 think tank members, NGO and advocacy group activists, academics-turned-politicians and academics at universities to discuss questions I had on political change in Malaysia. (See Table 4.1 for a list of the questions.) In one way or another, all of the interviewees can be subsumed under the category 'intellectuals', although they had a slightly different understanding of the term.[1]

For the purpose of this chapter, I began with Question 1 and worked myself through the set to Question 6. My analysis of their answers to these questions provided me with insights into the similarities and differences participants shared in their interpretation of their role in public and intellectual discourses on policy-planning and decision-making in government. In most cases, I did not pose Question 7 to them because they did not refer to any policy that had emerged from a public discourse initiated by intellectuals.

From the answers given to Questions 1 to 6, it appeared that certain patterns exist on the issue of idea travel, as well as barriers to the dissemination of these ideas, specifically on issues pertaining to Malaysian politics. These patterns of and barriers to idea travel seem to be closely related to the socio-economic and socio-structural issues embedded in Malaysian society. The socio-economic dimension is characterised by the claim that 'NEP beneficiaries' do not care too much about democracy, reform and change because the current situation fits them quite well. (The New Economic Policy (NEP), a 20-year affirmative action policy, was introduced in 1971 as a means to create economic parity between the *Bumiputera* and non-*Bumiputera*, especially Chinese, communities.[2])

Table 4.1 Questions on political change in Malaysia.

1   According to your perception, what has changed politically in Malaysia since 1997?

2   Did events in other countries of the region have an impact on changes in Malaysia?

3   What kind of political reforms would you recommend for Malaysia?

4   Do you regard yourself and your institution/organisation/party as an important participant in political discourses?

5   How do ideas of political change and reform that are discussed publicly enter the realms of policy-making?

6   What impact do ideas of change and reform that are discussed and spread by intellectuals have on policy-making by the national government?

7   Could you name an example of a topic of public political discourse that has been translated into a policy?

The socio-cultural dimension refers mainly to the fact that processes of development and modernisation have a homogenising effect on value orientation, attitude, public behaviour (Bourdieu's *habitus*) and consuming patterns of newly-emerging middle classes. This would suggest that, in the case of Malaysia, ethno-cultural cleavages decrease with development and modernisation, bringing about new social strata. Moreover, modernisation in Malaysia was predominantly shaped by the NEP, that is by a policy based on positive discrimination favouring the Bumiputeras, the major ethnic community in the country. NEP implementation has no doubt had an impact on the ethno-cultural composition of the new middle classes in Malaysia and, in turn, on their attitude towards political change.

The socio-structural dimension relates to the ethnic factor in Malaysian society. The social structure has changed significantly with the implementation of the NEP and its successor, the National Development Policy (NDP, 1991–2000), but it has also brought about a shift in dependency structures between state and society. The fact that primary, secondary and tertiary education was fostered under NEP and the Malays were encouraged to send their children to universities has led to an increasing number of Malays with academic and professional qualifications, which is undoubtedly a positive outcome. However, since student admission to public universities is regulated by a quota system, this has served to encourage yet another form of ethnic segregation. In the public universities, a majority of the teaching staff and students is Malay, whereas in the private tertiary institutions non-Malays significantly outnumber the Malays. The implementation of affirmative action in higher education thus worked to create ethnically separated spheres instead of promoting ethnic integration at tertiary institutions. Moreover, the quota-regulated student intake has often times prevented qualified non-Bumiputera students from entering a university, because of the limited number of places granted to them under this system. During the interviews, it became clear that the government only responded to demands to alter this kind of education policy after the damage had been done, that is after a significant decline in the standard of education in public tertiary institutions. Subsequent policy modifications by the government were seen as 'damage control' measures and not as successful 'idea travel' for educational reform into the arena of policy-making.

Ideas for reform and change

1) According to your perception, what has changed politically in Malaysia since 1997?

Instead of answering the question, some of my informants suggested that the events that precipitated important political changes were those that occurred in 1998, not the currency crisis in 1997. For them, the discussion for reforms in 1997 dealt with economic issues, whereas 1998 was a watershed for political change. There was no doubt among any of my informants that it was the sacking

of former Deputy Prime Minister Anwar Ibrahim in 1998 that led to considerable overt demand for political change in Malaysia. Informants close to the opposition as well as those who tend to support government views shared this view. The increasing number of public demonstrations and other explicit demands for political reforms were seen as issues indicating a significant change in terms of societal involvement in mainstream politics. There were, however, differing views concerning the content of these demands, the outcome of this rising level of political awareness and of the possibility of the emergence of social movements and civil society because of this change. There were sceptical views as well as optimistic expectations about the possibility that the opposition and social movements would play a more prominent role in debates about government policies.

Some informants noted that the events of the year 1998 visibly exposed to the public how government leaders handled potential threats to their position. The government, in turn, had to justify its course of controversial actions and had to meet unprecedented demands for accountability. The process to promote democratisation had been strengthened – opposition views could be disseminated more quickly and widely, for instance – and people now considered alternative opinions as important and part of the political process. The economic and political crises in 1997 and 1998 respectively were seen as events that revealed systemic weaknesses in governance and distribution of power in government. Only one informant spoke about a radicalisation of the political discourse – without giving examples of it.

Others referred critically to the concentration of power in the executive, which had, as they saw it, become manifestly clear to the people. Several outcomes of this 'enlightenment' were mentioned. These outcomes had a positive impact on the political process, specifically in terms of the engagement of society in the discourse on forms of governance. Much of the discourse centred on a critique of executive-centred politics. Among the points mentioned by my informants were that 'in the villages, politics was a keen topic of conversation', 'people wanted to have a say in politics', 'the way people perceived politics had changed', 'the political space had been enlarged and was occupied not just by parties, but also NGOs, contributing to more animated debates on public issues' and that 'the status quo was being challenged by the younger generation'. The views expressed by these intellectuals ranged from the belief that many Malaysians would no longer accept official explanations by government leaders on policies and actions without question, to the conviction that the legitimacy of the ruling regime had been eroded. 'People have started to re-interpret the past, starting with 1997, and we can see a change of attitude towards leadership', one informant told me. Theoretically, this signified a conspicuous change in political culture.

In contrast to the general optimism and expectation of a participatory movement on the rise, some interviewees adopted a more cautious stance on this development. They pointed out that the mechanisms to integrate the general public into the political process had worked quite well before the 1980s, but then declined from the mid-1980s when Prime Minister Mahathir Mohamad, who

came to office in 1981, was challenged by senior members of his own party. This decline in the amount of democratic space had occurred while Anwar had been part of the system. Anwar was then seen as Mahathir's heir-apparent. Anwar's use of the reform rhetoric that spread since 1997 was thus seen as rather hypocritical. The result of Anwar's reform campaign could possibly have led to a transfer of power, one informant believed, although the opposition would not be seen as a credible, new alternative to the ruling coalition.

Another issue, where a differing point of view was mentioned, highlighted the divisions that existed in Malaysian society. According to one informant, there were at least two groups in Malaysia that could be separated analytically. One comprised economic stakeholders, who would prefer to remain with the status quo. The other group comprised those who wanted to abolish the status quo; they sought structural change and the promotion of democratisation. In economic terms, it was observed that the government had won back some of the credibility it had lost during the crisis by actually making attempts to counter corruption and cronyism. This view was, however, not shared by all interviewees.

One informant, a supporter of the newly-formed opposition coalition, expressed disappointment with the new trends in the post-Anwar crisis period. Activists in this coalition were extremely upset with the spate of new waves of repression measures that had been introduced since 2001. The new measures introduced by the government to control dissent included a ban on public *ceramah* (rallies), the order that all teaching staff in public schools and universities sign an 'oath of loyalty' to the government, the prohibition of undergraduates from participating in election campaigns, as well as other impediments to prevent the opposition from mounting effective election campaigns.

There were no dissenting views among informants of different ethnic backgrounds. Their ethnic background did not appear to influence how they answered Question 1. Similarly, the religious affiliations of my interviewees, even elite members of the Islamic party, *Parti Islam Se-Malaysia* (PAS), did not appear to influence their response to Question 1. Socio-structural cleavages, it appears, were a stronger influence here than ethnic and religious cleavages. There were different views among people from different social strata. This was not unexpected since the middle class normally holds a different view on political goods and bads compared to people of a lower-class background. We will address this topic later.

2) Did events in other countries of the region have an impact on changes in Malaysia?

The first words mentioned by my informants in response to this question were 'Yes, Indonesia', or 'Yes, Indonesia, and Thailand to a certain extent'. Almost 90 per cent of the interviewees replied in this way. Those who were convinced that there was no discernible influence from neighbouring countries were a PAS office holder in the state of Terengganu and a high-ranking officer of a government think tank. Both informants supported their opinion on two counts.

First, Malaysians were more concerned about sustaining or improving their economic standing than reform politics; moreover, according to them, Malaysians did not support street demonstrations as a means to reform. Second, the political conditions and state of economic affairs in Malaysia were quite different from those in neighbouring countries. They claimed that, compared to Indonesians (and Filipinos), Malaysians had a dislike for reforms emanating from outside the state and had a strong desire to maintain political stability.

Interviewees not close to either a government or opposition party pointed out how both coalitions exploited political developments to promote vested interests. The opposition parties – and of course Anwar, before he was arrested – clearly used the 'KKN' rhetoric for their purposes. The term 'KKN' (*korupsi*, *kolusi*, *nepotisme*, or corruption, collusion, nepotism) was first coined as a protest cry by the Indonesian *reformasi* movement to mobilise support. KKN referred to the abuse of state power by ruling politicians to support their cronies or family members in business. The Malaysian reform movement subsequently adopted this rallying cry to point to the same systemic problems under the Mahathir administration, which they alleged were the primary reasons for the economic crisis. Indonesia was presented by the opposition as a 'positive' example for the promotion of democracy.

Conversely, the government parties in Malaysia used Indonesia as a negative example, playing up the issue of racial riots and their impact on ethnic co-existence and social stability. They used the case of Indonesia as a warning of what could happen to ethnic minorities, particularly the Chinese, if the Malaysian government could no longer control street demonstrations. The government's argument was simple: If we allow street demonstrations, this could lead to the killing of ethnic Chinese, as was the case in Indonesia, precipitating a racial conflagration similar to the situation in 1969. This argument appeared to have been accepted by a large number of Malaysians, especially the non-Bumiputeras. The social unrest and political restructuring in Indonesia that transpired after the fall of Suharto appeared to have benefited the Malaysian government parties rather than the opposition.

The results of the political restructuring in the countries of the region were, moreover, not very promising, contributing neither to political nor economic stability. In short, the KKN rhetoric was appealing, but the results were disappointing. Stability was thus still much more associated with the ruling coalition in Malaysia than with the opposition. This line of reasoning fits in well with the theoretical argument that the middle class is less concerned about topics like reform and democracy for they fear political change may impair or have a detrimental impact on their economic well-being.

The attitude of my informants towards street demonstrations supports this contention about the limited role of the middle class in promoting democratisation. Most informants pointed out that many members of the Malaysian middle class do not like or support the idea of street demonstrations of the type seen in Indonesia and the Philippines as a form of protest articulation. Different reasons were given by my informants for this assumption. One rather common argument

mentioned was that since Malaysians did not like unrest, they were not willing to jeopardise stability. From a more analytical view, it was argued that since many of the middle class had too much at stake in Malaysia, they preferred incremental, evolutionary change rather than an abrupt and radical transformation of the political system. The large middle class that had emerged, they said, was hardly radical nor even reform-minded enough to mobilise the masses for an uprising through street demonstrations. For these reasons, the differences between Malaysia and Indonesia were stressed and deemed important. Although there were certain spill-over effects within the region, the need to copy events happening in a neighbouring country was not felt strongly.

We can conclude that the social and political liberties achieved in Thailand, the Philippines and Indonesia were widely considered as positive developments, fostering important changes. For the reform movement in Malaysia, this was seen as a signal that Malaysia should be seen as part of a regional movement towards democratisation. Pro-government groups, on the other hand, stressed the negative outcomes of the political and social turbulence in those countries, suggesting that similar changes would have a detrimental impact on Malaysia's multi-ethnic society.

3) What kind of political reforms would you recommend for Malaysia?

At the top of the list of recommendations was the need to strengthen democratic institutions parliament, the judiciary, the electoral commission and others. Regardless of political party affiliation, this recommendation was voiced almost immediately after hearing the question. Another issue mentioned frequently was the need to create channels for the dissemination of dissenting views, so that the opposition could participate in discussions on policies. In 2001, the question of the independence of the judiciary was frequently debated in public and in the non-mainstream media. This debate clearly influenced the answers to the interview questions. According to most interviewees, the quality – and independence – of institutions, such as the judiciary, the police and policy-making bodies, had been eroded and were in dire need of reform.

My follow-up question asked how institutional reforms could be achieved. Here, the views were different, according to institutional and political affiliations. A deputy vice chancellor of a university in the state of Johor, for instance, emphasised that democratic liberties had to be given 'in the right doses', meaning that not too much could be allowed at a given time. 'We have to customise democracy', the argument went. The importance of communitarian values and the 'Asian-ness' of these values were emphasised. This view very much reflected a top-down approach to politics. The main premise of people holding similar views was that the masses had to be guided because they did not really know what was right for them. This argument, which appeared to be the underlying reason for the need to 'customise' democratic and liberal principles, came up again, in a different way, when the need for an evolutionary, instead of a revolutionary, change was emphasised.

Some concrete suggestions for institutional reform that were given are listed in Table 4.2. Apart from the answers in Table 4.2, there were two informants who suggested no change at all. One executive of an Islamic think tank argued that the institution he worked for was a learning institution and was thus not meant to play a role of providing recommendations for political change. Another interviewee, working in an internationally-oriented institute at *Universiti Sains Malaysia* (Science University of Malaysia), argued that the nation-building process in Malaysia had not yet been properly implemented; because of this, he felt that ethnic problems had to be solved first before political change could be discussed. The question of Bumiputera privileges, for instance, was still important to many Malays and could not be ignored in a discussion about political change, he argued. On the other hand, a Malaysian academic of Indian origin mentioned that an important topic was the social imbalance arising from special privileges for

Table 4.2 Recommendations for political change*.

Government-friendly informants	Opposition-friendly informants	Party politicians
Need to strengthen democratic institutions	Need to create a two-party system/two-coalition system	Need to strengthen democratic institutions
Need for mutual respect between executive and other institutions	Need for a regular change of government, even if it is for one year only	Need to permit avenues for the institutionalisation of dissent
Need to modernise key institutions in governance like judiciary and police	Key institutions are eroded; need to become credible again	Need to strengthen opposition and civil society
Need to create more channels to express dissenting views	Restore democratic traditions of the period before 1980	Re-empower the Constitution
Need to reform the electoral system (from a simple majority to a proportional representation system)	Need to change the entire political structure: party structure, power distribution, power acquisition	Make the functions of parliament more meaningful
Give room for expression of opposition	Need to undertake institutional change, not merely a change of persons in key positions	Principle of separation of powers to be enforced; the executive not to influence the judiciary
Elect office holders and executive instead of appointing them (foster responsibility toward the people instead of all responsibility to the government)	Need to end links between businessmen and politicians	Need to become democratic in practice; need also for democrats to become democratic

*Double mentioning possible, because some informants are politicians and think tank members alike.

the Bumiputeras. In the debate on recommendations for political change, the ethnic component could not, therefore, be completely excluded.

Table 4.2 clearly shows that the suggestions for institutional reform are similar across parties and political leaning. On the whole, there was a discernible preference for institutional change. The need for both reform-minded persons in key institutions and reform of a structural kind were explicitly mentioned by some of the interviewees. One think tank director reminded me of a dilemma which was often neglected. 'Malaysians in general', he said, 'feel quite comfortable with the current [stable] situation. So the question arises whether it is worth struggling for democracy and liberty. Why [bother], when everyone is comfortable with the way things are?' This argument, of course, relates to the point mentioned earlier, namely that the middle classes have too much at stake in Malaysia and thus do not want to engage themselves too deeply in the struggle for political liberties. This type of reasoning also supports the findings of modernisation theorists, that the middle classes in East and Southeast Asia tend to be rather supportive of the political regimes that govern their countries (see also Hsiao 1993).

4) Do you regard yourself and your institution/organisation as an important participant in political discourses?

The interesting aspect of the answers given to this question is the distinction the informants made between their own individual influence – often times in an informal manner – and the contribution their respective institutions make to national political discourses. Some of the interviewees deemed themselves to contribute to public political discourses because they regularly write for newspapers or participate in TV discussions. Others claimed to have a voice in the media when it comes to specific topics (gender, Islam, human rights, etc.). Others mentioned their influence in debates within their respective organisations (parties, institutes), but not in public. There were party politicians, though, who lamented that there were no avenues for political discourse, in the party or in public. Interestingly, the politicians in this particular party were not in the opposition but members of the ruling BN coalition; these politicians were, however, elected members serving at the state assemblies, not in parliament.

Most of the academics interviewed were quite frustrated about the limited impact of their studies and views on government and society. I return to this issue under Question 5.

It was not possible to draw a line between informants leaning toward the opposition and those supporting the BN. Rather than this distinction, it appeared that people close to or active in political parties had the impression that they could contribute to political discussion. With the one exception mentioned above, all the interviewees belonging to political parties or think tanks close to parties or influential politicians were quite confident of their ability to bring ideas into the public debate. Among academics, the opinions differed according to the person's access to political authorities. In this regard, a line could be drawn

between those who had access to formal and informal avenues of idea exchange and those who did not have a chance to attend formal or informal meetings. Between these two groups, the existence of access structures clearly relates to political affiliation, that is to the opposition or ruling coalitions. My informants with access to leaders of the BN parties felt more confident about the potential impact of their opinions compared to the interviewees in a relatively marginalised position.

On the institutional or organisational level, all interviewees, except the one from the Islamic 'learning institution', displayed a positive feeling concerning their organisation's participation in public political discourses. Among members of NGOs and think tanks, the answers were issue-related. Organising seminars and workshops, maintaining a critical voice in public discourses and raising their points through the mainstream media when deemed necessary were some of the examples given of the manner in which discursive engagement could take place. In a prominent think tank like the Institute of Strategic and International Studies (ISIS), ideas are formulated which sometimes become a part of the national agenda. The concept of Vision 2020 (*Waswasan 2020*), involving Malaysia's broad objectives to be achieved by that year, and the notion of the K-economy (knowledge economy) were both developed in ISIS. This think tank, however, is in a very prominent position because of the access of its director and management to the ruling political elite. For think tanks lacking access to influential politicians, it is almost impossible for them to advance an idea for consideration during policy-planning (Khoo 1998). Seminars, workshops and discussion forums seem to be about the only formal channels for bringing ideas into the public domain, though this does not mean that interviewees have managed to influence government policies.

The limited access of intellectuals to the mainstream media was considered an important impediment to their contribution to political discourse. However, for many NGOs, opposition parties and non-mainstream information providers, the availability of space on the internet facilitated the spread of information (Derichs 2002a). The opportunity structures for the spread of information regardless of its political origin have obviously improved in the last five years. The public promise of Prime Minister Mahathir in 1996 not to censor use of the Internet[3] in Malaysia generated a wave of activities, particularly among members of the *reformasi* movement, NGOs, advocacy groups and opposition parties.

On an individual level, some members of think tanks and the academia talked of formal and informal meetings with leaders of political parties. Providing expertise when requested by authorities, in 'brain storming sessions', for instance, was mentioned as a formal way of contributing to discussions on policies, whereas attending weddings or other festivities of high-ranking politicians were cited as examples of an informal way to let ideas travel. Writing regular articles or columns for a mainstream newspaper was seen as a very effective way of bringing ideas into the public domain, but access to such avenues was limited due to the nature of control of the media. Most columnists in the leading newspapers are seen as 'non-controversial' figures by the ruling elite.

The question of who contributes in which manner to public political discourses in Malaysia is strongly related to socio-structural criteria, including patterns of patronage. Within the whole group of informants, those who claimed to have the capacity to disseminate an idea were primarily those who had formal or informal access to political elites. The others claimed that they had little chance of participating in public political discourses. The public and the elite discourse are considerably separated spheres, and there is no automatic shuttle service between them.

5) *How do ideas of political change and reform that are discussed publicly enter the realms of policy-making?*

Most of my informants were rather critical of existing political structures and of the limited extent to which public opinion was allowed to influence policy planning. Put differently, the state did not encourage or create avenues for public participation in policy planning. That the necessity of political reforms was not discussed openly in Malaysia was part of the critique. The diffusion of ideas was 'constrained by the power structure of the national government', I was told by one informant. The leaders of political parties in the BN were too caught up in the competition for posts in government to think seriously about change. The latter critique did not come from a party politician, of course.

Some informants also noted that an important impediment to the bottom-up travel of reform ideas was the fact that key posts in the administration are secured through appointments by the executive – at federal and state level – rather than through elections. Mayors, chief ministers and even vice chancellors in universities are not elected by the people, but appointed by the government, under the hegemony of the prime minister. Inevitably, office holders felt the need to serve the interests of their political leaders. The consequence of appointments being made through the government was that the appointees tend not to be too responsive to public opinion and demands.

This state of affairs suggested that there was a missing formal link between the articulation of ideas in the public realm and their diffusion into policy-making circles. Some informants stressed the point that input mechanisms in the West (in terms of political communication) were in no way comparable to those in Malaysia. As one informant put it: 'The relationship between state and society in Malaysia is non-adverse. You cannot transfer Malaysian authority and system structures to Western systems. There will, for example, always be traditional sources of authority like the Sultans'. And: 'Things work differently here. Non-conformity ideas do not reach the policy-making level. If they were allowed to, the motive behind it is "damage control" rather than a genuine interest in fresh ideas'. These and other remarks were a clear indication not to look for input mechanisms similar to those in the West.

Despite these statements concerning the lack of formal input mechanisms, some interviewees did mention recent new means of bottom-up travel of reform proposals. Following the political crisis in 1998, politicians were more inclined

to listen to the views of the people and there was some diffusion of public opinion to the government, but this does not happen publicly. If, for example, dissenting views appeared in a mainstream newspaper, they were noticed, but nobody knew what became of them. The 'black-box' remains black, so to speak. The possibility of catching a distinguished eye (or ear) was apparently better when it came to single issues, instead of complex themes like the quest for democracy. The success of women's groups in adding the term 'gender' through an amendment to an article of the Federal Constitution relating to discrimination is a case in point.[4] Several interviewees mentioned the success of the women's groups in getting their views adopted as policies; my informants mentioned this point independently of each other. When asked how they had made it, they replied that conventional avenues and instruments were used to foster the demand: delivering memoranda, attending dialogue sessions with ministry officials, advocacy work and seeking the support of members of parliament to raise the issue there. At the same time, everybody referred to women's issues as something 'non-controversial' and very opportune for the ruling parties to be seen supporting at that time. By the late 1990s, it was evident that the support of women was becoming important during federal and state elections. The timing of when an issue was brought up was thus an important factor for ensuring the success of a particular issue being adopted as a policy.

6) What impact do ideas of change and reform that are discussed and spread by intellectuals have on policy-making by the national government?

Intellectuals are a vague category when it comes to discourse. In my interviews, there seemed to be an unspoken common understanding that the term referred primarily to academics at universities and research institutions. An NGO activist voiced strongly that she did not know who the intellectuals were. 'They live in an ivory tower and do not start debates. Nobody understands their jargon!', my informant lamented. This view, that intellectuals did not precipitate debates on key issues, was not an isolated one, and hit home a point often mentioned by grassroots activists. It was a problem of code-switching, making it difficult for the two parties to communicate effectively.

   A member of a think tank linked to the opposition BA acknowledged the plight of intellectuals who, given their limited opportunities to disseminate their views, were quite discouraged from trying to participate in public debates; but he also expressed his disappointment over their silence. This led him to conclude that dissenting views could only be voiced through political parties – an attitude no doubt very much contingent upon his current position in the opposition and the institution he led. A member of a think tank linked to the government was not completely in agreement with this opinion, but emphasised that politicians in developing countries have to deal with problems of everyday life and that intellectuals cannot cope with that. He concluded that ideas have to come from the 'middle', by which he meant institutions like his think tank. On the whole, those interviewees who did not consider themselves intellectuals were quite critical

about the ability of intellectuals to communicate ideas in a non-abstract way. Most informants believed that the most important discussions took place in the parties.

Among academics, on the other hand, one group claimed that they were marginalised and that their knowledge and views were seldom sought as political input – at least not in the context of 'big topics' like democracy. They kept on writing books which they felt were read and noticed by the authorities, but little or no attention was drawn to their work. Another group was quite convinced that intellectuals had an input function, though a limited one. 'The government picks and chooses, and if an idea fits into the political programme, it is adopted'. I was told that intellectuals do have some influence 'but we do not know to what extent'. There was an obvious cleavage between those intellectuals who are known to be close to progressive NGOs, the opposition parties or the reform movement and those who are not known for any particular affiliation. The former sounded quite frustrated or bitter, whereas the latter sounded quite confident. 'If you want your voice to be heard, do not align yourself with any camp', was the advice given by an academic who is frequently invited by politicians to give his opinion and expertise. It meant that if an academic wanted to be heard, even with a non-conforming idea, they could make themselves heard as long as they did not link themselves too openly to a particular political camp.

This black-and-white distinction between pro- and anti-government intellectuals does not, in fact, exist in Malaysian society. Rather than such flat categories, it appeared to me that other criteria were responsible for either the travel of political ideas into the 'black box' or the isolation of an idea to a limited discussion arena. Except for informal methods of disseminating ideas and suggestions, there is hardly any avenue for intellectuals seen as government critics to have their political ideas discussed in relevant circles. In a formal manner, the opportunity structures seem to favour single issue-related demands rather than the so-called problems of 'big politics'.

Idea travel, the middle class and reform

The avenues through which the Malaysian government influences discourses and political ideas include the creation of new social groups, allocation of resources, sharing and distribution of information, engagement with certain individuals and the fostering of elites within the polity. This would be the positive side of the equation. The other side of the equation, however, needs further review. The Malaysian state, we learn from the answers given to the above questions, censors and limits issues that can be discussed, marginalises people seen to hold views critical of government policies, dislikes the creation of formal avenues to articulate dissent, and tries to win support for its policies by promoting them as being in the 'national interest' or as part of its endeavour to achieve national unity. As stated earlier, only the government is allowed to define what is in the national interest and what is not. If certain demands for change and ideas to reform the political system are considered by them to be detrimental to the nation, they have to be suppressed.

Sticking to the metaphor of idea travel, any view that presents the government in a poor light is virtually denied a travel licence. An example to corroborate this point was the case of Malaysia's Human Rights Commission's (Suhakam) criticism of the high-handed behaviour of the police during a mass demonstration, by supporters of the reform movement, on a public highway. The government, rather than responding to the criticism of unwarranted police aggression, reprimanded the human rights commission. When reporting the reaction of the government to Suhakam's criticism, the headline of the leading English daily, *New Straits Times*, read: 'Suhakam taken to task. Dr Mahathir: Commission not acting in the interest of nation'. The *New Straits Times*' article on this topic quoted the prime minister as saying: 'They (Suhakam) are very much influenced by Western thinking'. He advised members of the commission to think as Malaysians (*New Straits Times* 23 August 2001). The only interpretation of this public discourse one could make was that the beating of Malaysians by police officers was in the interest of the nation, whereas criticising such an act reflected anti-Malaysian behaviour and thinking. Therefore, state monopoly over the definition of what was in the interest of the nation and what was anti-national made it difficult for people, like the members of Suhakam, to let an idea for a reform of the police system reach the public for consideration. For this reason too, Malaysian citizens have had little influence over policy formulation.

For a neutral observer, the questions that arise are: Why is there no strong public support for the human rights commission? What is needed as a catalyst to expand alliances and broaden the scope of democratic discourse and reform beyond elites? The lack of a catalyst and the current pro-authoritarian leanings of the government suggest the need to think more carefully about the links between the reform movement and the masses and the limits of democratic discourse. The apparent pro-government climate suggests that the effect of discourses on democratic change has hardly generated widespread support, especially from the urban middle class. For an insight into the possible reasons for this phenomenon, there is a need to look at the cleavages that exist in Malaysian society and at the inter-ethnic framework of a reform alliance – such as the BA – which has obviously missed the opportunity to rally the masses as well as government critics to articulate the widespread discontent with BN politics.

At first glance, the opinions of the 20-odd people interviewed suggest that:

1   the existence of a public political discourse does not automatically mean that ideas emanating from this debate travel in a certain direction (bottom-up). Nor do these ideas precipitate discussion among the ruling elite. Public and elite discourses do not necessarily overlap, as is usually the case in Western democracies;

2   certain Malaysian institutions, such as the think tanks and media, function differently from those in liberal democracies, conditioned by their history and politico-cultural environment. The mainstream media, for example, are

very subservient to the ruling government and do not play the role of watchdog; and

3 seemingly important societal and political cleavages in Malaysia (ethnic, religious and government versus opposition) are not *a priori* labelled as the central cleavages. Rather than this simple explanation, the interplay of socio-economic and socio-structural cleavages has become important when it comes to the pursuit of political change.

Points (1) and (2) do not need much comment. When the political system of a state is one that is closed and political decision-making becomes an elite affair, the opportunity structures for dissent are limited and constrained. The mainstream media do not offer much in terms of investigative journalism, as one can tell from reading the national mainstream newspapers and watching the news programmes on television. Their reporting and editing function is stressed more than their interpreting, commenting and monitoring role. The think tanks are more often than not affiliated to an individual politician in the ruling coalition. As one interviewee explained, the establishment of think tanks by politicians had become important after Mahathir made known in the 1980s that the country needed leaders with ideas and a developmental vision for Malaysia. Accordingly, political leaders aspiring for the highest offices founded their own think tanks to generate ideas that could help provide government with policy ideas. Khoo (1998: 166) describes the national mission of these think tanks:

> The economic success of Malaysia and the Asia Pacific region has also furnished Malaysian think tanks with the challenge of building a new national and regional identity which looks towards a leading role in the future global order.

This suggests that the shaping of a national and regional identity is top of the agenda of these think tanks, a point that was confirmed by the interviewee from ISIS as well.

This, thus, leaves us with the need to analyse more closely point (3), the cleavages in Malaysian society. One key issue in this regard is the role of the middle class. To define the term 'middle class' in the Malaysian case, Abdul Rahman (1995, 1998) conducted research in urban areas of the peninsula. His results indicated that the plural expression 'middle classes' was more appropriate because the groups subsumed under 'middle class' are not homogeneous – they are not a monolithic, coherent aggregation. The term 'middle-class' does not reflect reality properly because it takes occupational categories as the centrepiece of class definition and is based on a class model of nineteenth century Europe (i.e. ownership of means of production as an indicator) (Abdul Rahman 1995: 34). In the Western model, the middle class is attributed with democratic proclivities and a universal idea of human rights. In the Malaysian case, class formation and historical trajectories differ significantly from the European model. The heterogeneity of occupations (petty traders, small proprietors, manual

workers, white-collar employees, managers, administration officials, etc.) and the blurred boundaries between segments of the middle class characterises this stratum.

Moreover, the 'developmentalist state' in Malaysia has promoted the formation of the middle class. This is why Abdul Rahman (1995: 335) argues that 'in Malaysia, both capitalist production relations as well as the modern state are structures responsible for the rise and expansion of the middle classes'. Policies such as the NEP have contributed considerably to the rise of the Malaysian middle class. Only since the mid-1980s has the role of the state in middle-class formation declined, a role that has been assumed by the private sector (Abdul Rahman 1998: 83). The UMNO-led developmentalist state wanted the Malay/Bumiputera 'bourgeoisie' – interpreted by them as a community of industrial and commercial entrepreneurs – to carry through the project of modernisation and social restructuring. From this engagement evolved what was coined 'economic nationalism' (see Torii 1997). Democratic proclivities were relegated to a second rank.

Given this perspective of development in Malaysia, it is evident that the middle-class Bumiputera community has benefited appreciably from the policies of the BN, specifically affirmative action endeavours promoted since the 1970s. This middle class, as some of the interviewees have argued, is quite comfortable with the status quo and is not actively seeking fundamental reforms or democratisation. Rather than hoping for change, they associate it with instability, disorder and potential losses – at least if change were to happen abruptly, as in neighbouring Indonesia. Among the middle classes, since 'too many people have too much at stake', as one interviewee put it, the extent of their support for the reform movement is rather weak. This point may also help explain the frustration of some of the academics in the interview sample. In contrast to the reform movements in Europe in the 1970s and 1980s, which were also called 'new middle class movements' (Rucht 1994), it seems that in Malaysia, intellectuals and economically well-to-do middle-class members do not combine forces and struggle collectively for reform. Discourses on reform and change do not influence middle-class members very much; they may read, discuss and have an opinion on key issues, but they do not serve as an avenue for the travel of reform ideas, although they sometimes could because of their connections to the political elite involved in policy-making (Fuller 2001).

Another aspect of the new middle classes in Malaysia is that they consist of a large number of Malays. In the business sector, the Bumiputera share of ownership of corporate equity rose to roughly 20 per cent during the two decades of the NEP (1971–90). Along with the privileges that the Constitution and affirmative action policies grant them, it can be argued that Malay-controlled business groups have greater access to the state and the ruling elite than the other ethnic groups. This issue of the composition of the middle classes has a bearing on the argument of the origin and influence of discourses in the public domain. A discussion on change initiated by a non-Malay group can be subject to allegations of numerous sorts; caution is required regarding the use of certain

words and the topic of discussion. The space for discourse is also limited. An example would be the appeal of the Malaysian Chinese Organisations' Election Appeal Committee (Suqiu) to the government that was released prior to the 1999 general elections which allegedly touched on sensitive topics like the special rights of the Bumiputeras (Zakiah 2000: 1).[5]

A heated debate on special rights occurred in August 2000, when the government claimed that two Chinese bodies were questioning the right of Bumiputeras to privileges, an allegation traced back to the Suqiu appeal. The allegations, however, did not lead to a united Malay front against Chinese 'attacks' on their privileges. Conversely (and fortunately), it triggered an ongoing debate on national unity, instead of racial unity. What became clear though was that many Malays acknowledged sensitivity about these privileges, especially when non-Malays touched on this topic. The BA temporarily jumped on the bandwagon of national unity and equitable distribution of rights, to demonstrate its commitment to human rights regardless of ethnic or racial considerations. In the 1999 general elections, the BA was able to draw support from the younger generation and from urban Malays (they also did very well in the rural Malay heartland). The urban, predominantly non-Malay middle class was probably reluctant to support BA because of PAS's presence in this opposition coalition. Although PAS made efforts to project an image of an integrative, national Malaysian party, it soon came up with the demand for an Islamic state, an issue that eventually tore apart the opposition coalition. The Democratic Action Party (DAP) dropped out of the BA because of PAS's Islamic state stance. With the departure of this important Chinese-based component party, the BA now comprises mainly Malay-based parties that do not question overtly the idea of an Islamic state. This makes the BA appear as an ensemble of parties primarily interested in serving Malay interests.

The BN, on the other hand, continues to present itself as a viable coalition of parties representing the interests of all major ethnic groups in Malaysia. Following the events of 11 September 2001 in the United States, the BN benefited from the discourse on 'political Islam'. The BN profited principally from the fear of Islamic fundamentalism that emerged among Malaysians, especially since the government had begun, prior to 11 September, to detain alleged Islamic extremists under the Internal Security Act (ISA), which allows for long-term detention without trial. Today, urban non-Malays and Malays alike appear reluctant to support the BA because of PAS's dominant presence in this coalition. Although the answers to the interview questions rarely referred to ethnic cleavages, we can argue that the ethnic factor cannot be overlooked in an analysis of the Malaysian state and society.

The information secured from the interviews is not sufficient to analyse the role of ethnicity in recent political developments, but we can argue that, analytically, the difference between 'ethnic affiliation' and 'ethnicity' is important. Briefly, my understanding of an ethnic group is a historically grown or rediscovered community of people who subscribe to a name, to a specific culture and language, to shared myths of descent or origin and to a collective

memory. Members of the community feel solidarity in the sense of a 'we'-identity. Ethnicity refers to a form of politicised ethnic identity (see Vivelo 1995: 331), whereas the term 'race' carries a biological meaning, but includes features of ethnicity as well. A politicised ethnic identity is something common in Malaysia, and already provided for in the definition of Malayness. The term 'Bumiputera' underscores the politicised identity, especially because of the political and economic notions the NEP gave it (Shamsul 1996). Although ethnic cleavages, arising from an individual's understanding of his ethnicity, are not a confirmation of ethnically-shaped political discourses, in the case of Malaysia, the ethnic component of political discourse is quite obvious. Recent examples are the topics of an Islamic state (*negara Islam*) and the imposition of *hudud* laws (Syariah Criminal Bill) in the state of Terengganu.[6]

The discourse around these topics varies according to the different value orientations and comprehension of the rights of each ethnic community. For a Malay, who is by definition a Muslim, the question is whether a modern state needs the *hudud* and, if yes, how to adjust this legislation to contemporary social realities. A non-Muslim, on the other hand, would ask if it is legitimate for a government to impose such laws in a multi-ethnic country like Malaysia. A political outcome of such differences was, as mentioned above, the disagreement between PAS and DAP concerning the establishment of an Islamic state at national level – a goal which PAS wanted to have acknowledged in the common programme of the BA coalition.[7]

In the answers to the interview questions, such differences based on ethnicity – and religion – were hardly mentioned. Still, these cleavages weaken Malaysia's civil society, because there is not much common ground and understanding or a 'catch-all idea' which could function as a rallying point for all Malaysians regardless of ethnicity, class and economic status. Presently, it is estimated that 80 per cent of the younger generation of Malaysians in tertiary institutions do not mix with members of a different ethnic group (for an illustration, see Farish 2000). The ethnic factor remains a real obstacle to the types of issue that can be raised in a public discourse. The 'ethnic divide', rather than the ideals of democracy or equality, continues to be the basis on which political parties continue to mobilise support.

There appears, however, to be a growing feeling of multi-racialism among members of the middle class, due to, among other things, the impact of modernisation, their education and their exposure abroad. This is probably the main reason why the ethnic issue was not often brought up during the interviews. The ethnic issue looms large in the picture though when we look at the class dimension in Malaysian society. Inter-ethnic as well as intra-ethnic class divisions do matter in terms of mass mobilisation. The problem is ultimately connected to urban–rural cleavages. Rural Malaysians, especially those from the Malay heartland, are poor and not as exposed to a multi-racial environment. Since they have not benefited much from the NEP or other developmental policies, like heavy industrialisation and privatisation, this is one key reason why PAS's support among rural Malays has increased. While these factors garner PAS

support among rural Malays, this is not the case among the predominantly non-Malay electorate in urban areas. This is not to suggest that PAS has little support among most urban Malays. As Farish (2002) notes, in many Muslim countries, 'the calls for the *sharia* and the Islamic state have been most vociferously articulated by the urban, educated Islamist elite who are themselves firmly entrenched in the cosmopolitan environment of the modern Muslim cityscape'. This appears to be the case because the judicial institutions created by the state do, in many a Muslim country, function in a trustworthy, neutral, reliable and accountable way.

Concluding remarks

The homogenising consequences of increasing affluence, universal value orientations and behavioural patterns are a matter of fact that no modern society can deny. These changes contribute also to political change, specifically the rise of democracy and participation. If the desired political system is not fully developed, the public will articulate ideas for reform and change (Derichs 2002b). A public discourse evolves, nurtured by ideas flowing out of the minds of intellectuals. Citizens of a country may share these ideas across political and ethnic affiliations. Whether they diffuse to the realm of policy-making and political decision-making, however, is contingent upon the prevalence of socio-structural (strata-based), socio-cultural (ethnic, racial, religious) and socio-economic (intra-ethnic and cross ethnic, status-related) cleavages in a society.

While the intellectuals working for think tanks, NGOs, universities or political parties in Malaysia all seem to share the wish for certain reforms – which was communicated in the interviews – the reform movement lacks support from the economically developed middle class. Well-to-do middle class entrepreneurs and business people in Malaysia often have better connections to politicians in decision-making circles – that is, UMNO leaders – than members of one of the BN parties. This was even admitted by party politicians during the interviews. Moreover, as Abdul Rahman (1998) has pointed out, since the fragmented and heterogeneous Malaysian middle class is not a coherent social stratum, this has impaired the development of public discourse on policy-making.

Within these middle classes, we find several layers of affiliations, the most important of which are:

1 stakeholders who have been policy beneficiaries and are content with the political status quo; and
2 ethnic Malays and Bumiputeras who are privileged over not just other Malaysians but also members of this ethnic community from a lower class background.

The opportunity structures for ideas of reform to travel from bottom to top are very much dependent on the willingness of these people (in Groups 1 and 2) to create avenues and to openly support proponents of reform like the parties in the

BA. As long as they do not see the necessity to develop these avenues and if the cleavages mentioned above determine the parameters of public discourse, ideas will not travel just because they are of public concern. Moreover, most public concerns are not a homogeneous concern, but very much steered by ethnic, class and generational cleavages. Alliances as well as antagonisms emerge within ethnic communities, between them and across the board, according to the issue of interest.

I am not claiming that the middle classes are the most important pillar to support ideas of reform and democratisation. The views of intellectuals in Malaysia suggest, however, that only with the support of the politically well-connected segment of the middle classes (the stakeholders) can the reform movement be galvanised effectively. Political theory refers to the current situation as a lack of alliance partners within the political (decision-making) elite (Tarrow 1994). Anwar Ibrahim had begun to function as an ally of NGOs and think tanks when he was in office; his absence from the ruling circles leaves a gap. In other words, when opportunity structures are shallow and influential alliance partners few, informal channels, proper timing and propitious connections are central to make an impact on discourses on policies. Change will thus proceed incrementally instead of being enhanced by a concerted collective action.

Notes

1 For the purpose of analytical conformity, I stick to the very simple but convincing definition of an 'intellectual' provided by Alatas (1977). An intellectual, says Alatas (1977: 8), is 'a person who is engaged in thinking about ideas and non-material problems using the faculty of reason'.

2 The term 'Bumiputera', literally translated, means 'sons of the soil'. It is used in reference to the Malay community. For an in-depth discussion on NEP implementation, see Chapter 6 of this volume.

3 See Section 3, Communications and Multimedia Act.

4 Article 8.2 of the Federal Constitution now reads: 'Except as expressly authorised by this Constitution, there shall be no discrimination against citizens on the ground only of religion, race, gender, descent or place of birth in any law relating to the acquisition, holding or disposition of property or the establishing or carrying on of any trade, business, profession, vocation or employment'.

5 The official English translation of the Chinese 17-point appeal is available at www.siqiu.org/Suqiu_english.htm. The appeal relates to the political, economic and social situation in Malaysia before and after the 1997 currency crisis and demands the following:

   i) promote national unity; ii) advance democracy; iii) uphold human rights and justice; iv) curb corruption; v) a fair and equitable economic policy; vi) review the privatisation policy; vii) an enlightened, liberal and progressive education policy; viii) let multi-ethnic cultures flourish; ix) protect the Malaysian environment; x) develop and modernise New Villages; xi) housing for all; xii) protect women's rights; xiii) fair media; xiv) restore confidence in the police force; xv) upgrade social services; xvi) respect the rights of workers; and xvii) provide for indigenous peoples.

   There is no expression in the text calling for the abolition of the special rights of Bumiputeras. The demands that can be interpreted to indicate the wish to abolish the special rights refer to, for example, economic equality: 'Businesses must be allowed

the opportunity to compete on a fair basis regardless of race, and contracts and shares must not be given out through nepotism, cronyism and corruption' (mentioned under Point 5).

6 In September 2001, Prime Minister Mahathir proclaimed that Malaysia was an Islamic state, though he did not define the term in detail. A booklet published to explain his understanding of an Islamic state was soon withdrawn, partly because academic analyses made clear that according to this explanation, non-Muslim Malaysians would officially become second-class citizens. Patricia Martinez provides an excellent analysis of this booklet. (See news archive of 15 and 16 November 2001 in www.malaysiakini.com, Malaysia as an Islamic state: An analysis, Parts 1 and 2.)

In mid-2002, the state government of PAS-run Terengganu enacted the Syriah Criminal Bill (generally referred to as *hudud*). This Bill frightened many Malaysians, Muslims and non-Muslims alike. Women's groups, for example, were concerned that a woman who had been raped and could prove it would be found guilty of slander or *zina* (adultery) and would be punished severely. Others were horrified by the thought of amputations of limbs as a form of punishment.

7 Islamic political discourse in Malaysia, which takes place in mosques and *surau* (public prayer rooms) as well as in open *ceremah* (rallies), forms an important facet of the general political discourse. It has not been examined specifically here, but this does not mean that it has been neglected. The Islamic political discourse does not necessarily use political expressions, but utilises a religious rhetoric to express political thoughts. Therefore, it is more often than not regarded as religious discourse by non-Muslims and ignored in the analysis of political discourses. In this chapter, the answers of informants of, for instance, the Islamic party PAS or representatives of Islamic think tanks and NGOs have been treated in the same way as all other answers of Muslims and non-Muslims. The Islamic political discourse has not been explicitly examined because it is seen as an integral part of the general discourse on reform and change, not as something which stands apart just because the rhetoric sounds different.

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Appendix 4.1

List of think-tanks and institutions

- Institute of Southeast Asian Studies (ISEAS), Singapore
- International Institute of Islamic Thought and Civilization (ISTAC), Kuala Lumpur
- Asian Strategy & Leadership Institute (ASLI)
- Sisters in Islam (SIS)
- Malaysian Human Rights Commission (SUHAKAM), Kuala Lumpur
- School of Social Sciences, Universiti Sains Malaysia (USM), Penang
- Coordinating Bureau: Research and Education for Peace (USM), Penang
- Regional Coordination Bureau: Southeast Asian Conflict Studies Network (USM), Penang
- Penang State Executive Council, Penang
- Socio-Economic and Environmental Research Institute (SERI), Penang
- Department of Administrative Studies and Politics, Universiti Malaya (UM), Kuala Lumpur
- Terengganu State Executive Council, Kuala Terengganu
- Malaysian Stretegic Research Centre (MSRC), Kuala Lumpur
- Institute for Policy Research (IPR/IKD), Kuala Lumpur
- Institute of Strategic and International Studies (ISIS), Kuala Lumpur
- Institute of Malay World and Civilization (ATMA), Universiti Kebangssan Malaysia (UKM), Bangi
- Institute of Malaysian and International Studies (IKMAS), Universiti Kebangssan Malaysia (UKM), Bangi
- Institute Sultan Iskandar (ISI), Universiti Teknologi Malaysia (UTM), Johor
- All Women's Action Society (AWAM), Petaling Jaya

5 Real change? Elections in the *reformasi* era[1]

Bridget Welsh

On 25 June 2002, Mahathir Mohamad offered to step from power after serving over 20 years as Malaysia's prime minister, the leader of the governing 14-party coalition, the *Barisan Nasional* (BN, or National Front), and president of his party, the United Malays' National Organisation (UMNO). The last years of Mahathir's rule, especially after the 1997 currency crisis and fissure with his third former deputy, Anwar Ibrahim, were rife with conflict. New actors, under the rubric of *reformasi*, or reform, challenged Mahathir's hegemony and questioned the dominance of ethnic-based political parties. These actors created a new multi-ethnic electoral alliance that emerged as a credible political opposition. The 1999 general elections and subsequent Sarawak state and national by-elections were hotly contested. During these election campaigns, allegations of sex scandals, charges of corruption, street demonstrations, vicious personal attacks and thuggery combined with louder calls for reform, broader human rights, increased transparency and moral governance. Mahathir, however, used his control over political institutions to maintain his position, and gradually reconsolidated his position. When he announced his resignation, Mahathir was the unquestionable dominant player in Malaysian politics.

Did the *reformasi* reflect real changes in Malaysian politics? Perhaps it is too soon to definitively answer this question. The leadership transition in UMNO, however, points to the need to evaluate political and electoral trends and to assess their significance. Using material collected in interviews and through an analysis of elections results since 1990, this study identifies changes that are evident from electoral behaviour.[2] The research reveals that many of the fundamentals of Malaysian politics have *not* changed significantly over the last 45 years. Ethnicity continues to be a major determinant of election strategies and outcomes. The focus of Malaysian politics remains centred on the Malay community, as has been the case in almost all of the ten general elections since 1955. In the 1999 general election held about a year after the emergence of *reformasi*, the BN lost the support of a large section of the Malay community. The non-Malay vote has become crucial because of the divisions among Malays that became manifestly clear during the prelude to the 1999 national elections. The middle class, although larger and more complex, appears fickle, vacillating between protest and pragmatic concerns. Electoral victories are not won with

manifestos or oratory, but determined by the capacity and efficiency of party organisation and volume of knowledge of the structure and concerns of local communities. The BN, with its extensive access to state resources, is better equipped to win votes, even in the face of a stronger opposition. In fundamental ways, elections in Malaysia have not changed.

There have been, however, important developments that suggest a different future for Malaysian politics in the post-Mahathir era. Regional electoral differences have deepened. The distinction between East and West Malaysia remains a serious divide, while in the peninsula, the differences among Malaysians in the rural northeast and the more urbanised west have become broader and more defined. Electoral outcomes are strongly influenced by these regional differences. Moreover, the differences between younger and older voters are sharper, as the former appear disillusioned with the contemporary political scene in general and the dominance of the BN in particular. Ironically, it is the Mahathir generation that is rejecting many of the features of his era. This trend, however, is only evident among Malays, who make up the majority of younger voters due to higher birth rates. As Malaysia underwent economic development and modernity during the Mahathir era, the country became more electorally fragmented. At the same time, the rise and decline of the *reformasi* movement, particularly the new multi-ethnic opposition, *Barisan Alternatif* (BA, or Alternative Front), fostered political learning. This cooperation and the awareness of the potential lost by a viable opposition has left its imprint, especially on the younger elite. Consequently, elections will become increasingly diverse in character. Personalities, regional differences and local issues will shape outcomes to a greater extent than ever before. Democratic change, when it does occur, will transpire at the local level and gradually.

Elections in the *reformasi* era: repairing the BN machine

The BA was the product of an elite conflict within UMNO, between Mahathir and his popular former deputy prime minister, Anwar Ibrahim. Unlike the elite party strife that had split UMNO in 1987 (see Shamsul 1988, Crouch 1996), Anwar's expulsion and arrest evoked an unparalleled mass response. Young Malaysians took to the streets, braving an unprecedented police intimidation, to express their outrage at Anwar's arrest, his subsequent beating and public humiliation through the application of charges of sodomy and corruption. NGO activists, from human rights groups to women's organisations, joined the fray to express their concern for the increasing closure of democratic space by the regime.[3] The arrest of Anwar and resulting political mobilisation provided an opportunity for these groups to articulate their concerns for human rights and political inclusion. The melding of NGO activists, outraged young voters and Anwar loyalists led to the creation of a new political party, *Parti Keadilan Nasional* (Keadilan, or Malaysian National Justice party) in the spring of 1999, led by Anwar's wife, Wan Azizah.

Not to be left out, opposition parties, namely the Democratic Action Party (DAP), the *Parti Islam SeMalaysia* (PAS, or Pan-Islamic Malaysian Party) and

Parti Rakyat Malaysia (PRM, or Malaysian People's Party) capitalised on the changing mood and joined forces with the nascent Keadilan under the BA rubric. The BA represented the first time that the DAP and PAS had formed a direct electoral alliance. In 1990, both the DAP and PAS separately allied themselves with *Semangat 46* (Spirit of '46 Party), a political organisation formed by UMNO leaders who had left the party after the 1987 rift, and made a pact not to compete against each other.[4] The 1990 opposition failed to woo voters, who opted for the BN over undefined opposition coalitions that appeared divided ideologically (Khong 1991). In contrast, in 1999, the opposition, unified by the Anwar arrest and the shared desire to increase awareness of the warts of the Mahathir administration, had an opportunity to deny the BN its customary two-thirds majority in parliament.

The BA comprised two key groups, both of which had become more important politically as a result of Mahathir's policies. Mahathir's pro-natalist policy, initiated in the 1980s, had increased the country's population, especially among the Malay community. The cohort of young voters had risen sharply with an average of a quarter million eligible new voters every year. Malays, who comprise over 50 per cent of the population, have consistently had a much higher birth rate than the ethnic minorities. Ethnic Chinese and Indians comprise 27 per cent and 10 per cent of the population respectively. The BA tapped into the activism of the youth, who constitute the 'Mahathir generation' in its pure form, since they had not known another prime minister.

The second cohort, middle-class voters, had grown in importance during the Mahathir years. The personalisation of his authority after 1987 allowed Mahathir to take credit for the country's impressive economic performance during the decade that followed. Between 1987 and when the currency crisis occurred, Malaysia's GDP registered an average growth rate of 7 per cent annually. The middle class, largely centred around the capital and tied to the state through government jobs and state privileges, expanded because of this impressive economic performance (see Abdul Rahman 2002, Loh 2002). This social transformation created a new pool of urban voters with extensive family networks to the rural areas, supported by a growing civil society, which facilitated political communication, organisation and, for the key years of the *reformasi* movement 1998–1999, mobilisation (see Weiss 2001a, 2001b). Mahathir ironically facilitated the growth of both the social forces – the youth and the middle class – that would pose a serious challenge to his rule.

The *reformasi* movement became increasingly focused on elections in 1999 and began the careful articulation of a common platform and the solidifying of personal alliances. The BA programme contained three major elements: instituting democratic reforms, promoting equality and improving governance, in the form of greater transparency and accountability. The BA addressed difficult issues, including the need to persist with the affirmative action-type New Economic Policy (NEP) that has benefited the Malays over ethnic minorities, although it represents an effort to reduce poverty among disadvantaged groups (Milne 1976, Stafford 1997). NEP implementation from 1971 to 1990 had

further enhanced the saliency of ethnicity in Malaysian politics. The BA, however, left key issues unresolved, notably the positions of Islamic law and religion in the polity. These issues would undermine the *reformasi* movement and lead to the DAP's exit from the BA after the 11 September tragedy in the USA further sensitised religious differences among Malaysia's ethnic groups and political parties. As the BA emerged as a political force in early 1999, the BN recognised the potential electoral challenge of the opposition.

Phase one: the BA challenge

The tenth national election held in November 1999 was a tough hard-fought contest (see Biro Analysis Politik 2000, Funston 2000a, 2000b, Hussin Mutalib 2000, Khoo, 2000, Nathan 2000, Singh 2000, Weiss 2000a, 2000b, Welsh 2001, Zakaria 2000). This election comprised the first phase of elections during the *reformasi* era. Unlike the 1995 elections, voters were faced with a clear choice. The cooperation of opposition parties limited the number of three-cornered contests, which almost always tipped in the incumbent government's favour. The BA contested 152 parliamentary seats (out of 193) and 367 (out of 394) state constituencies, 79 per cent and 93 per cent respectively. This was the strongest straight-out fight Mahathir faced during his tenure.

The key issue in the campaign was the fight for moral supremacy. This issue directly related to the leadership struggle between Mahathir and Anwar and was connected to the rising Islamisation in Malaysian society (Martinez 2001). Anwar was accused of corruption involving abuse of power, money politics, homosexuality and having had affairs with women. These allegations were an attempt to discredit Anwar's moral authority and reduce his support among Muslims, which he originally brought to UMNO in 1982 and continued to generate as finance minister through the implementation of his 'caring' policies. The BN consistently used character assassination material in their campaign, including the distribution of videotaped 'confessions' of his bisexual affairs, to portray Anwar as violating the spirit of Islam.

The BA responded with its own series of attacks. BA supporters widely distributed videotapes of the violent arrest of Anwar and his supporters. Reports circulated about the sexual affairs of prominent BN leaders. The BA exposed corruption in UMNO, with detailed information of share disbursements and nepotism. It drew up an inventory of scandals that had occurred since 1981 and used a long list of 'cronies', which including members of Mahathir's family, to fuel the sentiment that the prime minister had violated the public trust. The discourse at public meetings was peppered with chants of 'God is Great', as opposition leaders used Islam to support their cause. To vote for the opposition was to be a 'good Malay', a 'good person'. Mahathir was described as 'Satan' and *maha nimfoff* – the pharaoh who built cities but did not provide for the spiritual well-being of his people. Mahathir had started the mud slinging with his sacking of his deputy, and with the consequent centralisation of power, this accentuated the attacks on his persona, making this a very mucky campaign.

While both sides competed for moral authority, the BN clearly lost the most ground, especially among Malay voters. The BA gained the advantage when Mahathir was caught in a lie involving the handling of the Anwar arrest. Mahathir's denial of Anwar's brutal beating by the police was used effectively by the BA to cultivate support. The explicit sexual discourse and sharp character attacks represented a new level of negativity in campaigns, which affected voters, especially Malay voters.

The BN was more successful with the second dominant theme of the campaign, ethnic security, involving the protection of rights of ethnic communities and of their capacity to peacefully co-exist under a BA government. This issue is common during Malaysian elections, yet the parameters of the debate changed in the post-crisis period. The BN portrayed the opposition as lacking a viable partnership that could conceive and implement policies and prevent violent confrontation. PAS and DAP, both parties traditionally seen to represent polarised ethnic positions in previous campaigns, were made out to be incompatible. The caption of one BN newspaper advertisement picturing three children of different ethnicities read: 'The BN brought about racial harmony. Safeguard your security'. Another BN ad read: 'Don't gamble with your future'.[5] The BN characterised those participating in demonstrations against Mahathir as prone to violence. Advertisements in Chinese newspapers labelled these people as 'hooligans' who would threaten social harmony. The BN circulated rumours that the BA's young supporters would riot after the election and that only the ruling coalition had the capacity to keep this unruly mob in check. This issue had a clear impact on older voters. They were reminded of the May 1969 campaign when the youth were widely believed to have started the race riots in Kuala Lumpur. The implicit message for voters was that a vote for the BN was imperative in order to prevent a repeat of the 1969 riots. The BN even used images of the May 1998 riots in Indonesia to remind the Chinese of the consequences of ethnic violence. The Chinese were portrayed as the main targets in the event of ethnic strife.

The BN also raised the issue of religious freedom to discredit PAS, clearly the strongest party within the BA. PAS members, who were labelled as 'fundamentalist' and 'deviationist' by the BN, were taken to task for wanting to introduce an Islamic state which would undermine religious freedom in Malaysia. Advertisements on television and in the newspapers called on voters to 'protect their freedom'. The BN enhanced the fears of non-Muslims by outlining the potential consequences of PAS rule. Non-Malay voters were reminded of the *hudud* laws, which were portrayed as taking away their freedom to consume alcohol, eat certain foods and socialise with the other sex. In short, non-Malay rights would be undermined.

To muster support, the BN publicised its handling of the currency crisis. Mahathir was described as having saved the Malaysian economy from foreign domination through the introduction of capital control measures. The impressive economic growth registered during the Mahathir era was a repeated theme with slogans like 'Barisan Nasional Works!' One advertisement read:

Our country's phenomenal growth and development has caught the attention of the world, with Europe honouring us as a model nation, a fitting inspiration for others. People like you are quick to say that progress is all over the country – on the streets, in the buildings that made history, in infrastructure, education, economy, hi-tech industrialisation, and lately, in worldwide demand for our international bonds. The list is as long as the roster of people rallying behind the nation at this crucial time. The momentum is there – why stop it?[6]

The BN appealed to the pragmatism of the Malaysian voter, especially those of the middle class. The BA was criticised for not laying out a clear economic development agenda or even having the capacity to formulate one. Unflattering pictures of BA leaders, with captions like 'he has no vision' and 'he is short-sighted', were used to describe the opposition as ineffective.

In contrast, the BA focused their appeal on a demand for greater democracy. The opposition alleged abuse of the judiciary and police abuse of authority to protect the incumbent government. Laundry lists of incidents of police abuse were detailed in *ceramah* (public meetings), the Internet and the *Harakah*, PAS's newspaper. The BA called for greater transparency to stem corruption, primarily by denying the BN a two-thirds majority in parliament. Among the advertisements included: 'Let us be a check on Mahathir. Let us stop the tyranny' and 'Real freedom for all Malaysians'. The 1997 economic downturn and subsequent leadership crisis in UMNO increased the validity of these themes of accountability and democracy among voters, especially the Malays.

As the results poured in after polling, it became clear that neither side had achieved an outright victory. Although the BN had handily maintained its two-thirds majority in parliament and won an overwhelming majority of the state seats, these victories were not comparable to the results of the 1995 election (see Table 5.1). Popular support for the BN dropped from 65.1 per cent in 1995 to 56.5 per cent. Some BN leaders, including the rising star, then Education Minister Najib Razak, only scraped by with razor-thin majorities. Najib's majority collapsed from 10,793 to a mere 261. UMNO's share of seats in parliament fell from 94 to 72, of which only 61 were on the peninsula. Four ministers and five deputy ministers lost their seats. Most of the losses were in Malay-majority constituencies, UMNO's traditional electoral base. The post-election mood among UMNO elites was grim, even described by one party loyalist as a 'catastrophe', as it became obvious that Malays no longer supported UMNO to the same extent as before. This loss would reverberate through the party ranks, as UMNO entered a 'crisis' mode. Although the BA had not managed to break the BN's two-thirds hold on parliament, the opposition had managed to seriously undermine Mahathir's position.

The BA, similarly, had not fared well, winning only 42 parliament seats and 113 state seats, 22 per cent and 28 per cent of those contested respectively. Among the opposition, PAS had gained the most ground, securing control of the Terengganu state government and seats outside the rural Malay heartland

Table 5.1 Assessing the challenge: 1999 general election results.[7]

States	National parliament seats			State Assembly seats		
	Available	*BN*	*BA*	*Available*	*BN*	*BA*
Perlis	3	3	0	15	12	3
Kedah	15	7	8	36	24	12
Kelantan	14	1	13	43	2	41
Terengganu	8	0	8	32	4	28
Penang	11	6	5	33	30	3
Selangor	17	17	0	48	42	6
Perak	23	20	3	52	44	8
Kuala Lumpur	10	6	4	N/A	N/A	N/A
Pahang	11	11	0	38	30	8
Negri Sembilan	7	7	0	32	32	0
Johor	20	20	0	40	40	0
Labuan	1	1	0	N/A	N/A	N/A
Sabah	20	17	PBS (3)	N/A	N/A	N/A
Sarawak	28	28	0	N/A	N/A	N/A
Malacca	5	4	1	25	21	4
Total	193	148	BA 41 (Opposition total 45)		281	113

through the BA alliance. The DAP lost seats in Chinese and middle-class areas, although it picked up a seat in a multi-ethnic constituency thanks to the BA partnership and its overall share of the popular vote increased. The DAP was disappointed with the results since two of its leaders, Lim Kit Siang and Karpal Singh, lost in tight races.

Each coalition put on a positive face. The BN proclaimed a sound victory, while the BA highlighted its modest gains.

The perceived interpretations of the 1999 elections – as opposed to the substantive reality – would shape political contests in the second phase of elections during the *reformasi* era. Within the BN, the 1999 election was perceived as the most significant loss for UMNO since the 1969 elections. The BN lost seats largely in Malay-majority areas, rather than in constituencies comprising both Malay- and non-Malay-majority voters as was the case in 1969. The loss of seats and votes in Malay-majority constituencies deeply wounded UMNO's sense of political legitimacy (see Case 1995). For the next year and a half, UMNO would make enormous efforts to win by-elections as the party sought to re-legitimise itself.

The parties in the BA followed the BN's lead and focused on individual party results as opposed to the overall results. This tendency highlighted the fragility

of the alliance, as parties sought to maintain their own positions as opposed to the overall BA rubric. As the main winner, PAS asserted itself and in the process brought greater attention to the differences between itself and other BA members, particularly regarding its position on Islam. The DAP's focus on its losses, as opposed to its gains, allowed the MCA and Gerakan to highlight the critical importance of the Chinese vote. The image that stuck was that the Chinese remained loyal to the BN. This would subsequently translate into the new electoral delineation exercise, released in 2002, which created more mixed constituencies. For the opposition, the tensions arising from the desire to reach out to Chinese voters and a growing PAS dominance within the BA led to the fragmentation of the coalition. Keadilan faced internal problems as its handful of victories failed to provide enough outlets for the strong personalities that joined the party with keen ambitions to evoke political reforms. Keadilan also encountered more difficulties when its leaders took different positions over a proposed merger with PRM.

For the BA, the second phase of elections would be characterised by a tendency to strengthen individual party positions. Keadilan would openly take the lead in elections, but all the BA parties would engage in grassroots mobilisation. Ironically, the individual orientation of the BA parties and, in some cases, individuals within parties would set the groundwork for the splintering of the alliance in the third phase of elections, which began in the fall of 2001.

Phase two: party insecurity

The second phase of *reformasi* elections was characterised by BN insecurity, especially on the part of UMNO. This insecurity was evident in the four by-elections held between the spring of 2000 and the summer of 2001. By-elections are often interpreted as national barometers, since the national parties' machinery is focused on one geographic area. These events become critical public relations opportunities for opposition and governing parties alike. Consequently, residents can take advantage of their special electoral position to stake out claims for funds, which are distributed primarily from the federal government. Often, however, results are over-interpreted from a national perspective, as local factors play a pivotal role in the final tallies. During this second phase, the national lens was microscopically focused on each contest, and thus the national shadow often obscured local dynamics.

The first contest was in the state seat of Sanggang, in Pahang, where UMNO faced its traditional Malay foe PAS on 1 April 2000 (see Funston 2000c). Ironically, the BN fielded a local Islamic government official, while PAS placed an ex-UMNO businessman on its slate. This was traditionally a safe constituency for UMNO. In the 1995 election, UMNO's margin of victory was by 41.5 per cent of total votes cast. In 1999, however, the victory margin had been reduced to a mere 6.7 per cent (1,038 out of 15,064 votes cast), an indication of how the contest had tightened considerably in this rural Malay-majority area. This was the first election in which UMNO could repair its image and party members in

Pahang, notably Najib, could show their capacity to secure Malay support. The running of the campaign was entrusted to the deputy prime minister, Abdullah Ahmad Badawi, indicating the seriousness of the contest.

The campaign, customarily short and typically intense, revolved around themes similar to those in the 1999 contest – morality and economic development. The Sanggang campaign was bitter, filled with personal attacks and openly confrontational. The machinery on both sides was well-oiled and consisted of all members of the respective coalitions. PAS, with its greater local roots, led the BA campaign, particularly through house-to-house meetings. Yet, the BA was much weaker, as it lacked the same level experience of cooperation on the ground. UMNO's control of state resources worked in its favour, as the party promised the local community enormous funds for development.

UMNO was able to achieve a strong victory in this election, increasing its margin of victory from 1,038 votes to 1,736. Yet, this result obscured important changes in voting patterns. The victory came largely from an influx of new voters – over 1,500 – and greater voter turnout. PAS lost less than two hundred votes, from 4,970 to 4,780, indicating a persistent pattern of support. With questions raised about voter registration, the Sanggang victory did little to quell the unease among UMNO stalwarts.

The subsequent parliamentary by-election in Teluk Kemang, Negri Sembilan, on 10 June 2000 would only add to the 'crisis mentality' that was affecting the BN (see Funston 2000c). Here the MIC fielded S. Sothinathan, a close ally of party president S. Samy Vellu, against a relative newcomer, Ruslan Kassim of Keadilan. During this election campaign, national and local concerns figured equally prominently. The contest between Keadilan and the BN was a critical test for the new party, which pushed the issues of transparency and corruption to the fore. Abdullah Badawi again led the BN, indicating a continued concern to secure Malay votes in this mixed constituency. This by-election was also important for the non-Malay BN leaders who recognised the need to secure their respective constituencies to ease UMNO apprehensions. The MIC, which does not have an Indian majority in any electoral district, needed a victory to demonstrate its effectiveness within the BN and its strong local roots. Locally, this area was smarting from spread of the nipah virus which profoundly affected the livelihood of Chinese pig farmers. In the days before the election, the federal government paid out large sums of compensation to these farmers (Funston 2000c: 17).

The Teluk Kemang campaign was confrontational, with personal attacks levelled by both coalitions at national and local politicians. Calls for transparency and an end to corruption faced off against the need for competent governance and stability. The theme of sexual impropriety continued, as Mohd. Ezam of Keadilan was accused of being involved with Anwar's eldest daughter. The key issue during the campaign was the cohesiveness of the coalitions' party machinery and their depth of local knowledge. The BN worked through local organisations, including Indian women groups and Chinese business associations. Keadilan ran a campaign highlighting national issues, due to its poor knowledge of local

concerns. Keadilan was also hampered by internal divisions because of a rift between party leaders, namely Dr. Chandra Muzaffar and Mohd Anuar Tahir. The DAP, moreover, lacked their usual zeal on the ground, as they resented having to give up the seat to Keadilan. The campaign lacked vigour as old issues that had featured in elections since 1999 were rehashed along familiar lines.

The BN won the election by 5,972 votes, but a close analysis of the results indicated worrying trends for the coalition. The BN lost support as its majority was reduced from 27,122 to 24,500 votes. Funston (2000c) noted that the loss was concentrated in Chinese areas, because many of those affected by the nipah virus chose to boycott the polls. Voter turnout dropped precipitously, by 12 percentage points. The Malay vote for the BA had increased. With a continued disintegration of Malay support and if the Chinese swing to the opposition increased, the BN would be put in a difficult position in future. Inevitably, the BN's crisis mentality deepened, while the BA grew in confidence.

In the Lunas by-election in Kedah, the tide would turn even more decisively in BA's favour. On 29 November 2000, Keadilan scored a heady victory, defeating UMNO in a straight fight by a margin of 530 votes. Unlike the previous two contests, this result represented a change in control of a seat. The victory rested squarely on party cooperation, with the BA partners working well together on the ground. The lessons of Sanggang and Teluk Kemang were fresh in the minds of party elites who recognised that this mixed seat would not be won without a coordinated strategy. Keadilan tapped into its youth support and mobilised a record number of party workers that nearly matched the 30:1 worker to voter ratio that often characterised BN campaigns during by-elections.

This election was primarily seen as a contest between UMNO and Keadilan. Like the earlier campaigns, the issues of the 1999 elections shaped this contest. Since Kedah was Mahathir's home state, the election evolved into a strong critique of his administration, particularly of corruption and abuse of power. The BN, for its part, stressed the unruly nature of the BA campaign, harping on the theme of instability among ethnic communities. In Lunas, local concerns regarding specific development projects took a back seat to national issues.

The BA victory shocked and embarrassed UMNO as the BN lost its two-thirds majority in the Kedah state assembly. The government struck back outside of the electoral realm, arresting ten key Keadilan campaign organisers under the Internal Security Act (ISA), which allows for indefinite detention without trial. These arrests effectively neutered the organisational capacity of the nascent Keadilan. The timing of these arrests was not good for the opposition. Feuds among BA coalition members were increasing in intensity. The DAP and PAS had launched into a series of talks regarding the issue of Islamic law, notably PAS's definition of an Islamic state. These talks often broke down, though these fissures would not surface right away.

In the summer of 2001, the tide would begin to turn in favour of the BN. The change commenced in East Malaysia, which has increasingly become the BN's electoral safe haven. The BN had secured sizable majorities throughout East Malaysia in the 1999 national election. While Sabah historically has been a site

of opposition and remains unpredictable due to the high level of elite contestation, *reformasi* did not resonate to the same degree across the South China Sea. In Sabah, the key opposition party at that time, PBS, opted not to join the BA. PBS chose to remain independent because, during the 1990 election, its association with PAS through Semangat 46 had weakened its support among Sabahans.

In July 2001, the Chinese-dominated Sabah Progressive Party (SAPP), the leading Sabahan party in the BN at that time, squared off in a three-cornered fight with PBS and Keadilan in Likas. This by-election was the outcome of a court dispute over election irregularities involving the electoral rolls; the alleged presence of phantom voters had sparked a petition to challenge the Likas results. The BA decided to compete in this by-election, despite the fact that it lacked organisational capacity in the area and established local contacts. By opting to contest, Keadilan faced a battle on both sides, from PBS, the dominant local opposition party, and the BN.

The Likas election was determined largely by local factors. The BA made the mistake of focusing on national issues. Local development concerns, such as a new housing scheme, squatter removal and increased local subsidies for goods, were compared to the ISA arrests on the peninsula. The theme of 'developmentalism' emerged paramount (Loh 2002). Since Sabah had been experiencing an economic downturn for several years, Likas voters saw this election as an opportunity to snare federal funds. The invasion of yet another peninsula-based party, in this case Keadilan, also irked many Sabahans who resent the 'peninsularisation' of local politics. The ISA arrests did not resonate to the same degree in East Malaysia as they did in the peninsula. The BN's margin of victory increased to 7,541 votes, compared to 5,241 in 1999. The BN could not, however, motivate a larger pool of the electorate to vote, as voter turnout dropped by 14 percentage points.

The Likas victory signalled the beginning of the end of the BN's crisis mentality, as the trend of growing support for the opposition appeared to decline. With key activists in jail and growing division within the BA ranks, the BN grew more confident. The fragmentation of the BA was becoming evident with reports of growing tensions between the DAP and PAS on *Malaysiakini*, the popular news website. An opposite trend was taking place within the BN. UMNO was becoming more secure through better grassroots mobilisation. Throughout 2001, UMNO conducted regular party workshops and carried out extensive rebuilding efforts as rumours spread of a 'snap' general election. UMNO members were told to 'get ready', although the call did not come that year. By August, the intensity of the BN's 'crisis mentality' had somewhat dissipated.

Phase three: 'weakened BN redominance'

The trends in the second phase would extend into the third and most recent phase of elections during the *reformasi* era, *weakened BN redominance*. The BN would emerge comparatively stronger from the post-1999 electoral trials, while

conflicts within the BA would lead to the departure of the DAP. During the state elections in Sarawak in September 2001 and five other by-elections through October 2002, the BN would become stronger electorally. Mahathir, as he had done after the 1987 party crisis, systematically secured his position. With greater electoral security, UMNO gradually came out of crisis mode to find its loyal allies, specifically the MCA, awaiting direction. The MCA was encumbered by internal conflict, as the struggle for leadership had split the party into two camps.

Within the BA, the component parties worked to secure their own interests, often at the expense of the others, further splintering the opposition. The tendency was to consolidate into familiar positions that characterised their constituencies before the *reformasi* era. PAS focused on the rural Malay heartland and deepened its theocratic credentials through further implementation of Islamic law. This trend alienated the DAP and placed Keadilan in the difficult position of responding to PAS's insistence on a theocratic state. Keadilan has still not decided on its position, between choosing to maintain a secular position, which would appeal to multi-ethnic voters, or continue its alliance with PAS, because of the Islamic party's efficient electoral machinery and appeal among devout Muslims.

In this third phase of elections during the *reformasi* era, the campaign mood would change significantly, as the role of Islam in Malaysian politics would come into national focus. Attention moved from civil liberties linked to the Anwar case to religious freedom, as the promotion of democracy came to be tied with the issue of protecting a secular state. The DAP's 'No to 9/11, No to 9/29' campaign, initiated in the winter of 2002 in response to increasing politicisation of Islam, typifies this mood in one camp, while the widening imposition of religious law in Terengganu and Kelantan represents another tack.[8] The discourse on ethnic issues similarly took on a different form. Instead of focusing on potential violence by unruly ethnically-defined mobs attacking other ethnic communities, the new threat was Islamic 'fundamentalists', apparently also potential terrorists. Islamic extremism was portrayed by the government as a security threat and explicitly tied to PAS with the arrest of the son of Kelantan's chief minister, Nik Aziz, in October 2001. According to the BN, protecting Malaysians involved limiting extremism, which meant curbing PAS. On its part, PAS continuously opposed the BN's application of the 'terrorist' label to it, claiming that the taint was politically motivated. Ironically, all this attention on Islam heightened the notion of ethnic difference.

In 2002, the national language issue, a long-standing sensitive area in ethnic politics, would re-emerge as a point of contention as Mahathir pragmatically attempted to promote the use of English in schools. This policy alienated Malay voters, who tie the national language with their identity, and upset non-Malays who felt that this new directive interfered with the use of Tamil and Mandarin when teaching core subjects. At issue was not the use of English per se, but the rapid imposition of a policy without extensive consultation.

The shift in the political climate was initially caused by the rift between DAP and PAS over the scope of Islamic law in the summer of 2001. The 11 September

attack in the USA exacerbated this issue dramatically, drawing attention to Islamic extremism as a security threat. On 29 September 2001, Mahathir declared Malaysia an 'Islamic state' in an apparent effort to undermine PAS's electoral appeal among Malays who strongly tie Islam to their identity (Shamsul 1996). UMNO found itself in the difficult position of trying to portray itself as a moderate party as well as promote its Islamic credentials to secure Malay support. Mahathir's declaration of Malaysia as an Islamic state caused confusion and raised concerns among non-Muslims about the growing institutionalisation of religious law and potential intolerance. *Reformasi* issues – authoritarianism, corruption and abuse of power – diminished in importance as the focus moved to promoting stability and security in Malaysia. This placed all parties in a difficult position as they had to change their strategies in this new political environment.

In this climate, and in the wake of the 11 September attacks, the Sarawak state assembly was dissolved. On 27 September, 62 seats were contested. The BN was represented by its Sarawak partners while the BA parties contested individually. PAS and Keadilan still used the BA umbrella, but the DAP branch in Sarawak worked hard to distance itself from the Islamic party. The shrinking cooperation among the opposition and the presence of a large number of independent candidates meant that many contests were three-cornered fights. Despite the new national concerns like the imposition of *hudud* (Islamic) laws and the use of the ISA, these issues failed to connect with the voters beyond questions of development and ethnic unrest. Even circulated images of violence against Chinese, who comprise one third of the electorate in Sarawak, did not evoke a strong response.

The campaign was based primarily on local issues and personalities and state patronage (see Leigh 2002). In Sibu, for example, a popular DAP leader faced off against a candidate from the Sarawak United People's Party (SUPP), a BN member. Gambling syndicates in the city tried to influence the result of the polls by changing the odds to increase local support for a SUPP victory. Sibu voters were primarily concerned about a unified local BN slate that could bargain more effectively in the state government and possibly draw the attention of the federal government to their needs. Although the opposition candidate was well-liked in the community, his victory could possibly 'spoil the spoils'. Opposition parties lacked the funds to develop a broad campaign. At a fundraiser in Kuching three days before the election, the opposition failed to fill the restaurant, despite the wide publicity of the event. PAS and Keadilan were clearly the weakest parties on the ground, although the latter nominated many local people as candidates. Their poor party machinery and limited knowledge of local issues echoed throughout the state and translated into opposition losses. The opposition even lost the Kuching seat, a traditional DAP base, because it failed to secure the support of Chinese community organisations, particularly business and temple associations, which play a pivotal role in campaigns and bringing voters to the polls. Among the opposition, only the DAP emerged victorious, securing a seat in Bintulu. The BN won 60 seats. The results indicated a stronger commitment to the BN, as the average margins of victory increased by 7 percentage points

compared to the 1997 state poll and by 4 percentage points compared to the 1999 parliamentary elections. The national opposition parties clearly failed to connect adequately with issues in Sarawak and lacked the local ties to establish an effective grassroots campaign.

The BN was able to continue its electoral momentum in the five by-elections in 2002. In January, Keadilan and MCA faced off in Indera Kayangan in Perlis, where there was a blending of national and local concerns during the campaign. The close proximity of Indera Kayangan to PAS's political base and the fact that this was the first contest in the peninsula after the 11 September attacks made the election particularly competitive. In this mixed constituency, the main theme among non-Muslims was that of political Islam. Among Malays, the principal local issue was distribution of government funds. The rice harvest had been exceptionally bad the earlier year and the election was seen to be an opportunity to reap financial compensation.

The political machinery on both sides – BN and BA (without DAP) – was much stronger than had been the case in Sarawak. Busloads of workers and volunteers poured in and, at times, the ratio of outsiders to voters reached 100:1! The BN introduced a new group, UMNO Puteri – the young women's wing – in an effort to expand its reach. UMNO Puteri targeted young voters to help counteract the perceived lack of youth support in the 1999 election. Young women were placed with families who were paid for their upkeep. Like Lunas, conflicts between campaigners from the different political camps were rampant, as reports of violence on both sides circulated widely. Youth groups clashed. For Keadilan, this was a defining election. The party needed to prove its worth in the post-9/11 climate, to show that *reformasi* was electorally alive. For the MCA, victory in this state by-election was important as the dispute involving its top two leaders had severely factionalised the party. Meanwhile, UMNO relished another opportunity to weaken Anwar's supposed arm, Keadilan. The BN won easily, securing a 2,742 majority compared to 1,974 in 1999. Unlike earlier by-election victories, this was not just due to the presence of new voters. In the wake of 9/11, Chinese support for the BN had increased and the coalition recovered some Malay support.

The Ketari state by-election, held about two months later, yielded a similar result, wider support for the BN. Gerakan faced the DAP in this mixed constituency in Pahang. The race had been very close in 1999, and the BN had squeaked by with a 231 majority. In the 2002 campaign, there were a number of local political interests invested in a BN victory. Since Pahang was the base of the contenders for the MCA leadership, they joined forces with Gerakan to secure a victory in this by-election. This differed from previous elections, where Gerakan and MCA often undermined each other in such contests. Moreover, a victory was important for Najib within UMNO. By this time, as the DAP had departed from the BA, it could not depend on the other opposition parties for the same level of support. While Keadilan and PAS leaders did campaign, they did not show the enthusiasm of earlier contests. Consequently, the contrast between the DAP campaign and that of Gerakan was striking. Both parties lacked deep

roots, and the local Gerakan candidate – a former police officer – was not popular. The parties delivered completely different messages. While the DAP focused on the ISA arrests and the traditional *reformasi* themes, Gerakan promised economic development at the local level. Both parties discussed political Islam, but while the DAP emphasised religious freedom, Gerakan stressed its record of maintaining peace among ethnic communities. The key difference, however, was the way the coalitions' machineries were used to convey their message. The BN machinery was much more entrenched in the community, especially through local associations, supported extensively by party funds. The promise of development projects helped expand the BN's margin of victory ten-fold, to 2,204 votes. The BN managed to win over Malay support, although not nearly as well as in the pre-*reformasi* period.

In July, the BN faced a more difficult test. The unexpected death of PAS's president, Fadzil Noor, left two constituencies in Kedah vacant, the state seat of Anak Bukit and the Pendang parliamentary seat. This was the first contest between UMNO and PAS since April 2000 and with BN's growing confidence, government leaders sensed the possibility of gaining seats at the expense of the opposition. Once again, the machinery was oiled and buses of workers streamed into the semi-urban constituency near Alor Star, Anak Bukit, and the rural Malay-majority district of Pendang. Both parties had an efficient machinery and were fiercely competitive, while house-to-house campaigning was intensive. Yet, unlike Indera Kayangan, the level of open confrontation was muted. The campaign was conducted largely behind closed doors, through local networks, but the issues were national, since the competition for Malay legitimacy had taken on broader dimensions. This was after all Kedah, Mahathir's home state, and this point, along with the sympathy factor because of the death of parliamentary opposition leader Fadzil contributed to a campaign about national issues. Since this was the first election after Mahathir's announcement of his impending resignation, there was added incentive for rising UMNO elites, including Abdullah Badawi who was in charge of the election, to perform well. The main concerns were the raging debates over the use of English language and implementation of Islamic law. Personal attacks were largely targeted against national figures like Mahathir but Azalina Othman, the leader of UMNO Puteri, was also slandered over her alleged sexuality. When the final tallies rolled in, each party had won one seat. UMNO managed to win the Pendang parliamentary constituency by 282 votes but lost the Anak Bukit state seat by 508 votes. This was a victory for UMNO, but not a decisive one. UMNO retrieved some Malay votes and secured stronger Chinese support, but it failed to regain its two-thirds majority in the state legislature. PAS, moreover, remained popular among Malay voters.

In October, the BN added to its dominant position when it handily defeated both the DAP and Keadilan in Gaya in Sabah. This by-election took place after the PBS, the leading opposition party in Sabah in the 1999 general elections, had rejoined the BN in the fall of 2001. The PBS's decision to return to the BN fold was a reflection of the new political climate. The PBS, which represents the largely Christian Kadazans, felt a closer alliance with the ostensibly more

Islamic 'moderate' BN would better help it protect the interests of this community. This concern, along with the knowledge that the 2002 delineation exercise might potentially damage the Kadazans electorally, compelled the PBS to return to the BN. The Gaya by-election, in the heart of the state capital, was the first opportunity for the PBS to demonstrate its loyalty to the BN, and it used its local base to its advantage. The focus of this rather bland campaign, which lacked enthusiasm, was on local development issues and the interests of the Kadazan community. Only 44 per cent of the voters bothered to vote, the lowest turnout ever recorded during a by-election. The BN expanded its majority from 4,117 to 15,315 votes.

Each of the by-elections in this phase reflected the weakening position of the opposition. Only PAS scored a victory, while the BN emerged electorally dominant once again. Although Malay support for the BN had increased, strengthening UMNO's legitimacy, this support remained tepid, well below the pre-*reformasi* period. The BN's by-election victories raised questions about the electoral viability of the *reformasi* and its impact on the polity. After the 1999 election, analysts were predicting imminent changes in the political system – increased democracy, changes in ethnic voting patterns, middle-class realignments, shifts in youth and women voting patterns, etc. How valid were these claims in light of the results of the by-elections during the *reformasi* era?

Unchanged electoral fundamentals

The electoral results in the *reformasi* era suggest that three fundamentals in Malaysian elections have remained the same. First, ethnicity continues to shape outcomes. Parties organise their campaigns along ethnic lines and deliver messages to specific ethnic constituencies, often playing on the security of one community against the other for political gain. Voting along ethnic lines often proves decisive in elections, though now Chinese and Indian voters play a key role in providing the BN with the two-thirds buffer in parliament it needs to control legislation. Until the opposition effectively bridges the ethnic divide, they remain weak without a broad national base. The *reformasi* has failed to build effective long-term inter-ethnic electoral cooperation, as has been the case with other looser opposition alliances, notably in 1990.

Second, class-based voting continues to be a negligible factor in electoral outcomes. This is principally true for the middle class, which many believe was a critical component of the *reformasi* movement.[9] While an analysis of local polling station results revealed an overall tilt of middle class voters toward the opposition, this pattern was not consistent throughout Malaysia. In the by-elections, middle-class voting patterns were similarly inconsistent, although the results in Lunas, Indera Kayangan and Anak Bukit suggest a move toward the regime. The middle-class appears to be fickle, vacillating between protest and pragmatism.

Finally, and perhaps most significant, elections are won on the ground. Lacking funds, local ties and campaign machinery, the opposition cannot muster the same level of support as the BN. This trend is consistent in national, state and

by-elections. PAS's strength stems from its ability to overcome this obstacle, albeit primarily in northeast Malaysia, as it has developed strong roots in local communities that can be effectively mobilised during elections. The other opposition parties have not managed to develop such ties in any region nor do they have well-developed campaign machineries. BN's access to and abuse of state resources usually works to its advantage. The BN, moreover, remains unwilling to create a level playing field. The detention of Keadilan activists in 2000 indicates that the BN will resort to coercion to prevent the emergence of an effective campaign challenge.

A closer look at each of these factors – ethnicity, class and party machinery-local knowledge – during the *reformasi* years suggests that these fundamentals of Malaysian elections have *not* changed.

Ethnic-oriented campaigns and voting

In each phase of elections during the *reformasi* years, ethnicity played a major role during the campaigns. The BN consistently used the threat of ethnic strife as a campaign issue. In the 1999 election, for example, the pictures of children were used by the BN to evoke concerns about the impact of ethnic disharmony. The circulation of photos depicting violence – often of a Malay mob targeting another ethnic group – points to an intentional attempt to politicise ethnicity. Politicians harped on the differences among ethnic communities and fed on the insecurities of the non-Malays. Images of the 1969 racial riots have been driven into the national psyche through their persistent use during campaigns. Although Malaysian ethnic identity is much richer than the labels used politically and ethnic relations are multi-faceted, during election campaigns, politicians resort to old clichés to provoke fear and uncertainty. Election campaigns serve to remind Malaysians that ethnicity is *the* defining feature of politics. The opposition is consistently placed in the position of having to respond to this pattern of campaigning. The BA, on its part, raised the issue of the unequal status of non-Malays under the NEP in public meetings. This, ironically, only served to reinforce the image of an ethnic divide.

The debate over political Islam is similarly explicated in ethnic terms, although the distinction is made between Muslims and non-Muslims. In campaigns – particularly in non-Malay areas – Islamisation is tied to the curbing of rights of non-Muslims, most obvious in the third phase of *reformasi* elections. In the extreme, a particular form of Islam is associated with terrorism and used to taint the Islamic opposition which, the BN argues, will ultimately curb the rights of the non-Malays.

The discussion of ethnic violence took on a new form in the post-9/11 period. In the BN's attempt to present to the Malays its commitment to Islam during the 1980s, Malaysia's Islamisation policies unwittingly fostered conditions for religious extremism. During the course of elections, the link between potential religious violence on the part of a minority in one ethnic group against others outside of that ethnic group has now emerged as a key campaign theme. At the

same time, Islamic rhetoric, like that of ethnic nationalism, serves to legitimise Malay leadership of government. The theme of morality used in the 1999 general election and subsequent by-elections was explicitly shrouded in religious – implicitly ethnic – discourse.

Beyond campaign themes, ethnicity is explicitly used in the selection of speakers for *ceramah.* PAS, for example, is careful in its selection of speakers in non-Malay gatherings, often opting for a professional elite rather than a religious scholar, with the aim of reducing perceptions of a threat to religious freedom. This practice was obvious in the 1999 campaign when the PAS *ulama* were largely consigned to rural areas. The DAP is equally strategic, placing in mixed constituencies its Malay-friendly politicians, such as Lim Guan Eng, whose struggle to expose an UMNO leader for alleged statutory rape involving a Malay girl won him much support among Malays. The BN similarly insists that its Chinese-based component parties forge links with Chinese organisations, particularly local business groups and educational associations. Party organisation by ethnicity, as well as by the framing of electoral constituencies in ethnic terms rather than through geographical boundaries, contributes to this orientation.[10]

This pattern of party organisation and creation of electoral constituencies has persisted because election results are perceived to be determined by voting along ethnic lines. Most analysts have noted the importance of the Chinese vote in 1969 and 1995. In 1969, limited support in Chinese-majority districts in Penang, Perak, Malacca and Selangor contributed to a marked reduction in seats for the MCA. In 1999, a study of one hundred Chinese polling stations in close contests where the margin of victory was 10 per cent or less reveal that Chinese votes were pivotal. Not only did Chinese support for the BN increase by an average of 3 percentage points in these areas, the share of their votes contributed to the overall victory in these seats.[11] This pattern of critical support for the BN continued through the by-elections, principally in Lunas and Teluk Kemang. In Lunas, an estimated swing of 6 per cent by Chinese voters to the opposition contributed to the election of the Keadilan representative. In Teluk Kemang, a 3 per cent swing in Chinese support reduced the BN's majority.[12] In Anak Bukit, the estimated swing of 7 per cent by the Chinese worked in favour of the BN. In East Malaysia, the Chinese vote is critical as it consistently works in the BN's favour, especially in Sarawak where they comprise a large segment of the electorate. It is not a coincidence that after the 1969 election the government moved to increase the number of Malay-majority districts, while in the latest delineation exercise more mixed constituencies were created (see Lim 1997, Ong and Welsh 2003, Rachagan 1993).

While the Chinese vote continues to have an important impact in close contests, Malay support is seen as most important politically since it is tied to the legitimacy of UMNO. The 1999 contest and subsequent by-elections called into question UMNO's claim to represent the Malays. UMNO's loss of support in close contests in Malay-majority districts created the 'crisis mode' which characterised the condition of the party for almost two years after 1999. The dominance of ethnic politics in Malaysia was clearly manifested in the actions of UMNO leaders who openly called for the recapturing of the Malays after the disappointing results.

The intensity of UMNO's reaction begs the question: How much of the Malay vote left the UMNO fold? Using data from a sample of 150 Malay-majority, predominantly urban, polling stations, the 1999 results indicates a massive 47 per cent reduction of support compared to the 1995 election.[13] The by-elections results do not indicate a sizable return of Malay support to the BN. The largest gain was in the Anak Bukit by-election, where the BN's Malay support increased by 4 percentage points.[14]

Fickle middle class

Class-based voting had a minimal impact during the *reformasi* era, which appears to be consistent with earlier electoral behaviour. In the 1999 campaign, there appeared to be a shift among urban middle-class voters from the BN to the opposition (Welsh 2001). An analysis of polling station results confirmed this trend. In a study of fifty polling stations in middle-class areas in the Federal Territory and Selangor, the opposition gained support on average by 6 percentage points from the 1995 election.[15] In some areas, such as parts of Hulu Kelang in Selangor, the increase was by 12 percentage points. Yet, as Loh (2002) argues, this pattern was not consistent throughout Malaysia. My analysis indicates that middle-class voters left the opposition in places like PJ Selatan and Subang Jaya. Outside Kuala Lumpur, based on a study of ten polling stations in Perak and Johor, the gain for the opposition was larger in middle-class areas, closer to 8 percentage points.[16] Yet, in East Malaysia the pattern did not hold. In Kuching, middle-class communities voted for the BN, which gained an average of 5 percentage points of the vote. The data here suggest that regional factors were important as opposed to class identity.

In subsequent by-elections, middle-class voting patterns were similarly inconsistent. In Teluk Kemang, Lunas, Indera Kayangan and Anak Bukit – a total of six polling stations were classified as having a large pool of middle-class voters – the results were contradictory. In Teluk Kemang and Lunas, the mood tilted to the opposition, a gain of 2 and 3 percentage points respectively, while in Indera Kayangan and Anak Bukit, the BN gained middle-class support in the range of 4 and 3 percentage points respectively. The results suggest that middle-class voters do not have a clear electoral position, and call into question the support of this class for broader democratisation

Party machinery and local knowledge

Previous studies have highlighted the role that funds play in elections and the BN's capacity to mobilise campaign workers (see Gomez 1996a, 1996b). The focus of these studies has been on the national level, where analysts have also stressed the importance of state dominance of the media and their effect on the electorate (see Mustafa 1990). There has been little attention on the mechanisms to muster grassroots support at the local level (see Strauch 1981). Elections in the *reformasi* era suggest that local knowledge and social networks are factors

that need to be given greater importance. The BN's ability to mobilise voters through its ties to local elites and social organisations, and consequently to tap into their concerns, is much stronger than that of the opposition, who often bring in outsiders for elections. The BN does not hesitate to use information from government agencies to identify loyalists as well as shape campaign themes.

In the 1999 campaign, the focus was on national issues, specifically the contest between the BN and BA. Consequently, both coalitions did not maximise the use of local knowledge. Yet, in some cases, local factors decided results. Consider the example of Permaisuri in Terengganu, won by PAS in a close contest (451 votes), where there was a gain of 19 percentage points from the 1995 election. Interviews in this constituency highlighted the resentment of the electorate toward the former BN chief minister, as well as a disdain of his local representatives. The level of cynicism was striking, as voters pointed to the broken promises with regard to development projects and corruption. Many voters highlighted the extensive groundwork undertaken by PAS, including the gradual building of alliances in villages and the regular holding of meetings or small in-house discussions. In Bukit Bintang in Kuala Lumpur, those interviewed were concerned with the quality of constituency service by the local representative. In this case, this contributed to the DAP's hold on this seat.

During the Sarawak state elections, the importance of local knowledge and machinery was obvious. The local BN partners controlled the campaigns down to the individual household. The newcomers, Keadilan and PAS, lacked the capacity to wage a decent challenge. The DAP, with its long-standing presence in Sarawak, had local knowledge but lacked the funds available to the BN and the capacity to tap into social networks. The number of BN posters in Sibu, for example, pointed to the disparity in resources. In Kuching and Sibu, the DAP candidates did not have enough influence over social organisations, especially business and educational groups. This pattern of controlling elections through the distribution of funds for development is widely acknowledged (see Aeria 1997).

During by-elections, from Sanggang to Gaya, the opposition, with the exception of PAS, lacked the same level of local ties and party machinery to sustain a strong challenge. The BN overwhelmed opponents, with bus-loads of workers backed by a liquid supply of funds. It was not just the number of workers that was critical. The BN had the capacity to feel the pulse of local voters and work through existing local institutions – business organisations, social groups, village leaders, village cooperatives and more – that provided the knowledge and social networks for victory. In Ketari, Gerakan and MCA worked together through local social organisations to get out the vote. In Gaya, a similar dynamic operated. In Indera Kayangan, local village leaders were co-opted along with influential families, which often adopted one UMNO Puteri member. In at least two of these constituencies, the BN conducted extensive pre-election surveys to assess loyalties. The BN's knowledge of the electoral roll and its house-to-house campaigns were far superior and often – though not always – utilised effectively. By getting a better sense of the local concerns that mattered to voters, the BN was able to make the appropriate response through government

agencies. This said, the 1999 results suggest that even the BN has a long way to go to secure relevant information and improve party machinery at the local level.

New Malaysian politics?

If ethnicity, machinery and local knowledge remained consistently important in electoral behaviour through the *reformasi* era and class voting inconsistently significant, what then has changed? *Reformasi* has changed elections in three ways. First, by congealing a movement that comprised largely West Malaysians and by buttressing PAS, *reformasi* has ironically widened a long-standing regional divide in domestic politics. The rural north-eastern Malay heartland is more distant from the modernised west coast, and Sarawak and Sabah remain disengaged electoral backwaters used to garner critical support to maintain the BN's two-thirds majority in parliament. Second, since *reformasi* appears to continue to resonate among the youth, especially Malay voters, this suggests that future elections could be more contentious, in spite of BN's redominance. Third, cooperation among opposition elites has fostered political learning and communication channels that were not open previously. Although the DAP has split with PAS, the dialogue continues. It is uncertain, however, if the opposition will set aside individual interests, stop fielding candidates in three-cornered fights and opt for the most zcompetitive candidates in seats. The process of engagement has put these issues squarely on the agenda.

Regional divide: increased political fragmentation?

The impact of regionalism involving East Malaysia and the north-eastern Malay states in elections is not a new phenomenon. In the 1980s, there was minimal direct peninsula involvement in Sabah and Sarawak elections. Even with the direct involvement of peninsula-based parties, local BN partners controlled campaigns and East Malaysians minimally connected to national issues. Similarly, PAS had previously won control of Terengganu and Kelantan. The party has deep roots in the northeast, stretching into the 1950s. Yet, during the *reformasi* period, the divide between these areas and other parts of Malaysia, especially the urban centre around Kuala Lumpur, has widened (see Table 5.2). East Malaysia became more entrenched in the BN camp, with support for the coalition growing by 6 percentage points. Not only did the BN win more seats in these two states, the margin of victory was considerably higher than in the peninsula, even in Johor. In contrast, Terengganu and Kelantan were more decisively controlled by PAS. Together, the support for the opposition increased by 18 percentage points in these states compared to the 1995 campaign.

This growing divide relates to the *reformasi* in two key ways. The opposition failed to include East Malaysia political partners. As such, the BA failed to adequately incorporate East Malaysian concerns into the political agenda. This contributed to relatively stronger BN support. Without a political base and inadequate local knowledge, *reformasi* electorally stopped at the South China

Table 5.2 Regional voting patterns in the 1999 election/2001 Sarawak state elections.[17]

Area	Change in BN support between 1999 and 1995, %
West Malaysia	− 12
East Malaysia (Sabah & Sarawak)	+6
Northeast (Terengganu/Kelantan)	− 18
Urban Areas (Federal Territory/Selangor)	− 14
South (Johor)	− 3

Sea. Yet, the same umbrella structure contributed to a more penetrating PAS in the northeast. PAS was able to become more nationally based and raise funds to a greater extent than in earlier years. These funds were channelled strategically into consolidating its northeast base. Its national profile worked to make PAS a more credible governing party among undecided voters. The dominant theme of *reformasi* – abuse of power involving the treatment of Anwar – created a powerful momentum in these two Malay-majority states that unified voters in the opposition camp. Thus, the structure of *reformasi* and its message exacerbated regional differences in Malaysian electoral politics.

Generational differences: a Malay youth deficit?

A second important electoral change during *reformasi* appears to be consistent and greater political opposition among younger Malay voters. By analysing different streams of registered voters, or *saluran* results, in 100 Malay and Chinese polling stations in the 1999 campaign and 15 polling stations in the Lunas, Ketari, Teluk Kemang, Indera Kayangan and Anak Bukit by-elections, the results suggest a sharp generational difference among Malays towards the BN. A similar generational difference does not, however, exist among the Chinese.

Table 5.3 details the findings of a comparison of *saluran* results. The *saluran* indicates when voters were registered, which generally correspond to age distribution. The difference between Chinese and Malay voters is stark. Older and younger Chinese voters supported the BN in both the 1999 campaign and subsequent by-elections, although this support was marginally stronger among older voters. The respective difference of 2 and 1 percentage points suggests a consistent pattern, a minimal generational difference. For the Malays, the difference between generations was quite significant. In the 1999 elections, there was a difference of 21 percentage points between the younger and older generation in terms of support for the opposition. Even as the mood swung against the BA after the 1999 campaign and some voters returned to the BN fold, younger voters remained with the opposition. Over 7 per cent of new Malay voters in the by-elections analysed voted for the opposition. This trend suggests that *reformasi* has made an impression among younger Malay voters. UMNO will continue to face a 'Malay youth deficit' at the polls.

Table 5.3 Generational voting patterns in the *reformasi* period.[18]

	Pattern of voting behaviour	Generational differences
1999 Elections		
Chinese older voters	Increase of 5 percentage points for BN	Difference of 2 percentage points between generations. Both groups have increased support for BN
Chinese younger voters	Increase of 3 percentage points for BN	
Malay older voters	Increase of 6 percentage points for BA	Difference of 21 percentage points between generations. Both groups have reduced support for the BN
Malay younger voters	Increase of 27 percentage points for BA	
By-elections 2000–2002		
Chinese older voters	Increase of 3 percentage points for BN	No major difference among generations. Both support BN
Chinese younger voters	Increase of 2 percentage points for BN	
Malay older voters	Increase of 1 percentage point for BN	Difference of 8 percentage points among generations. Different voting pattern
Malay younger voters	Increase of 7 percentage points for opposition	

Political learning among opposition

The final indication of a changed electoral landscape involves the cooperation among elites in the opposition. Despite the BA–DAP divorce, communication links remain between party members, especially among younger leaders. Party elites have come to appreciate the potential of a broad-based opposition front to secure electoral support. When determining the distribution of seats, especially during by-elections, opposition members have worked to minimise direct confrontation. They have not always been successful, as the Gaya contest shows. Yet, the seeds of cooperation raise the possibility that future contests will not involve many three-cornered fights. Whether this commitment to cooperate can be sustained will depend on the extent of in-fighting within the opposition and the extent of political differences.

Each electoral change during the *reformasi* era will affect future elections and the polity. Growing regionalism will probably contribute to increasing localisation of elections. With the rise of the *ulama* to the PAS leadership after Fadzil Noor's death, the northeast will arguably remain in opposition hands (see Farish 2002). The *ulama* in Terengganu will probably deepen their hold on the state, pushing a religious agenda that will alienate the DAP and many non-Malays. The leadership transition in PAS can potentially reinforce regionalism, since the current party leaders do not have the same roots in the Western half of the peninsula. The obstacles to forming a representative national opposition are

increasing. Yet, the changes among the youth and the nascent political learning suggest a more promising future for the opposition, which will, in turn, potentially further democratise Malaysia by providing more options for voters.

Reflections: beyond Mahathir and *reformasi*

The electoral changes provoked by *reformasi* point to conflicting trends and suggest a limited and gradual democratisation, at best. BN's redominance and the strengthening of Mahathir's leadership four years after a viable challenge was initiated do not bode well for more robust electoral competition in the short term.

Interestingly, however, the leadership transition in UMNO potentially offers more options for democratisation in the longer term. Post-Mahathir Malaysia may become more competitive electorally due to the opening of political space within parties. Although Abdullah Badawi has Mahathir's public endorsement as the new UMNO leader, this transition will create a power vacuum, a weaker centre. Political uncertainty is a normal feature of transition, yet it has been accentuated by the gradual decay of political institutions during the Mahathir era (Crouch 1996, Gomez and Jomo 1998, Milne and Mauzy 1999, Hilley 2001). The judiciary, bureaucracy and political parties, including UMNO, became less independent and democratic during the Mahathir years. It is unlikely that Mahathir's appointed successor, as yet not elected within UMNO, will be able to quickly fill this power vacuum.

The weakening of the centre offers space for electoral challenges both within UMNO and from the opposition. With a weak centre, however, elections will probably become increasingly ethnicised as UMNO strives to retrieve Malay support. The changing climate will encourage party leaders to compete for power within UMNO by trying to consolidate their grassroots support. Personalities, regional differences and local issues will probably shape outcomes to a greater extent than ever before. This period of uncertainty for UMNO augurs well for the BA in the coming national election, if this coalition and other opposition parties can cooperate to reduce three-cornered contests. Politicians within as well as outside UMNO will have to turn to the local constituencies to garner support. The likely evolution of the Malaysian political system will be democracy from below, gradually.

Notes

1 The author would like to thank Edmund Terence Gomez, John Funston and Ong Kian Ming for comments on an earlier version of this chapter. The errors are my own.
2 This study is based on interviews conducted from 1999 through 2002, direct observation of the 1999 election and a series of by-elections, as well as a statistical analysis of the election results according to the national published results and polling station data. A more detailed analysis of these results will be available in the forthcoming book projects, *Crisis and Reaction?: Malaysian Electoral Trends under the Microscope* (with Ong Kian Ming, 2004) and *Streetwise Politics: Local Dynamics in Malaysian Elections*.

3 For background on the *reformasi* movement, see Farish (1999), Funston (1999), Khoo (2000), Sabri (2000) and Weiss (2001b).

4 Semangat 46, led by Tengku Razaleigh Hamzah, another senior UMNO leader who fell out with Mahathir, comprised largely of loyalists from middle or upper class Malay backgrounds.

5 Both these advertisements were run regularly in the *News Straits Times*, *The Star* and *The Sun* during the week of the election campaign.

6 This advertisement was featured at least twice during the campaign week in the *News Straits Times* and *The Star*.

7 The BA did not include the *Parti Bersatu Sabah* (PBS, or United Sabah Party) which was then in opposition.

8 The Terengganu state assembly passed the *Hudud* bill in July 2002. In Kelantan, there were growing reports of state officials implementing Islamic regulations involving consumption of alcohol and 'illicit interaction' among non-married couples.

9 The nature of the relationship between the middle class, *reformasi* and democratisation remains contested among analysts. See Saravanamuttu (1992), Crouch (1996), Khoo (1997), Loh (2002), Abdul Rahman (2002), Weiss (2001b) and Welsh (2001).

10 The pattern of redistricting has served primarily to carve out safer constituencies for the BN. See Ong and Welsh (2003).

11 These numbers should be seen as indicators of trends rather than definitive results due to the limited size of the sample, 100 polling stations, and the bias toward urban areas and available data. This figure was drawn from both parliamentary and state elections in the 1999 campaign and taken from detailed polling station data in Selangor, the Federal Territory, Perak, Negri Sembilan and Johor. The sample included: P56 Bukit Gantang, P57 Taiping, P64 Kuala Kangsar, N11 Changkat Jering, N36 Teja in Perak, P91 Gombak, P92 Ampang Jaya, P94 PJ Utara, P95 PJ Selatan, P96 Serdang, P98 Shah Alam, P99 Kapat, P100 Klang, N2 Sabak, N23 Kajang, N25 Damansara Utara, N26 Kampung Tunku, N27 Bukit Gasing, N31 Balakong and N41 Bandar Klang in Selangor, P103 Kepong, P104 Batu, P105 Wangsa Maju, P106 Segambut, P108 Bukit Bintang, P109 Lembah Pantai, P110 Seputeh and P111 Cheras in the Federal Territory, P116 Kuala Pilah, N16 Pilah and N17 Parit Bakar in Negri Sembilan and P125 Segamat in Johor. These results were compared to the 1995 election.

12 In Teluk Kemang, the majority was also reduced by a lower voter turnout.

13 This sample included all of the voting districts noted earlier as well as P117 Seremban in Negri Sembilan, N8 Kuala Kubu Bharu, N18 Hulu Kelang, N26 Kampung Tunku, N29 Puchong, N30 Sri Kembangan, N32 Bukit Lancang and N34 Subang Jaya in Selangor.

14 Based on an analysis of five Malay polling stations, comparing the results with those of 1999.

15 The fifty polling stations were selected from the following constituencies: P91 Gombak, P92 Ampang Jaya, P94 PJ Utara, P95 PJ Selatan, P96 Serdang, P98 Shah Alam, P99 Kapat, P100 Klang, N18 Hulu Kelang, N26 Kampung Tunku, N29 Puchong, N30 Sri Kembangan and N34 Subang Jaya in Selangor and P105 Wangsa Maju, P106 Segambut, P109 Lembah Pantai, P110 Seputeh and P111 Cheras in the Federal Territory. Middle class areas were classified based on house ownership, income levels and employment.

16 This sample is extremely small – P57 Taiping in Perak and P125 Segamat in Johor.

17 These figures include both parliamentary and state seats in the 1999 election and 2001 Sarawak election. It does not include state results from Sabah, which did not occur during this period, and the by-election results.

18 The polling stations were selected from the districts outlined earlier. The polling stations chosen for study were those that had more than four *saluran*, for greater age variation among the voters. This data is limited since it can only provide an indication of a trend rather than definitive numbers, since the *saluran* only captures registration rather than actual age.

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6 Governance, affirmative action and enterprise development

Ownership and control of corporate Malaysia

Edmund Terence Gomez

Introduction

In 1970, following the race riots of May 1969, the government introduced the New Economic Policy (NEP), an ambitious 20-year social engineering plan to achieve national unity. The government hoped to attain this goal by eradicating poverty, irrespective of race, and restructuring society so as to achieve inter-ethnic economic parity between ethnic communities in Malaysia. The primary focus of the NEP was to ensure more equitable distribution of corporate equity between the predominantly Malay *Bumiputera* (or 'sons of the soil') and the predominantly Chinese non-Bumiputera. The NEP entailed partial abandonment of the *laissez-faire* style of economic management in favour of greater state intervention, primarily for ethnic affirmative action, including the accelerated expansion of the Malay middle class, capital accumulation on behalf of the Malays and the creation of Malay capitalists. This was to be attained by increasing Bumiputera corporate equity ownership to 30 per cent and by reducing the poverty level to 15 per cent by 1990. The measures used to achieve these goals included improving the access of the poor to training, capital and land; changing education and employment patterns among Bumiputeras through the introduction of ethnic quotas favouring their entry into tertiary institutions; requiring companies to restructure their corporate holdings to ensure at least 30 per cent Bumiputera ownership; and by allotting publicly-listed shares at par value or with only nominal premiums to Bumiputeras.

This essay provides a broad assessment of the impact of the implementation of the NEP and National Development Policy (NDP, 1991–2000) on Malaysia's corporate sector. The methodology used here to assess the impact of the NEP and NDP is an analysis of the top 100 companies quoted on the Kuala Lumpur Stock Exchange (KLSE) in 2000. The development of the corporate sector is analysed through the use of the concepts of ownership and control, interlocking stock ownership and interlocking directorships. Since the government actively intervened in the economy to help attain the goals of the NEP and NDP, a brief history is provided of the evolving structure of the state, that is, of how the power that has increasingly come to be centred in the office of the executive has been used to influence the implementation of these policies.

The following questions will be dealt with: who owns and controls the top 100 KLSE companies? What is the extent of interlocking stock ownership and directorships among these 100 firms, and to what extent do these ties contribute to control over corporate activities? Is there much competition within the economy or are oligopolistic ownership patterns emerging in key economic sectors? How effective have been the government's endeavours to promote Bumiputera capital? These questions are raised to address one key issue: has affirmative action contributed to the development of a dynamic, entrepreneurial community in Malaysia.

The state of capital: corporate development, 1970–2000

In 1969, before the NEP was introduced, Bumiputera ownership and control over the economy was a meagre 1.5 per cent (see Table 6.1). By 1990, when the 20-year NEP came to an end, corporate wealth attributable to Bumiputera individuals and trust agencies had risen to 19.2 per cent. During the subsequent ten years of the NDP, Bumiputera equity ownership rose to 20.6 per cent in 1995, before falling marginally to 19.1 per cent in 1999.

Chinese equity ownership continued to rise during the NEP decades, from 27.2 per cent to 45.5 per cent, though the volume of their equity ownership declined to 40.9 per cent in 1995; by 1999, it had dipped by another 3 percentage points, to 37.9 per cent (see Table 6.1). The most significant change in corporate ownership patterns was the appreciable decline in foreign ownership of Malaysian corporate equity – from 63.4 per cent in 1970 to 25.4 per cent in 1990, though it increased to 27.7 per cent in 1995, before increasing a further five percentage points, to 32.7 per cent, in 1999. As impressive and profound these changes in equity ownership patterns may have been, these figures do not reveal the extent to which state control and influence over the corporate sector has increased over three short decades. This profound change in corporate ownership

Table 6.1 Malaysia: ownership of share capital (at par value) of limited companies, 1969–1999 (in percentages).

	1969	*1970*	*1975*	*1980*	*1985*	*1990*	*1995*	*1999*
Bumiputera individuals and trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1
Chinese	22.8	27.2	n.a	n.a	33.4	45.5	40.9	37.9
Indian	0.9	1.1	n.a	n.a	1.2	1.0	1.5	1.5
Others	—	—	—	—	—	—	—	0.9
Nominee companies	2.1	6.0	n.a	n.a	1.3	8.5	8.3	7.9
Locally-controlled firms	10.1	—	—	—	7.2	0.3	1.0	
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7

n.a.: Not available
Sources: *Seventh Malaysia Plan, 1996–2000*; *Eighth Malaysia Plan, 2001–2005*.

and control patterns was primarily attributable to the growing role of the state in the economy following NEP implementation.

In his pioneering study of ownership and control of major firms in pre-Independence Malaya, Puthucheary (1960) showed the overwhelming dominance that foreign, especially British, enterprises had over the Malayan economy in the early 1950s. From 1957, when Independence was attained, until the watershed events of May 1969, Lim Mah Hui (1981) noted that ownership and control of the Malaysian corporate sector, particularly of the largest publicly-listed companies, remained in the hands of foreign enterprises. Chinese capital had had a ubiquitous presence in the Malaysian economy in the pre- and post-Independence periods, but in terms of ownership and control of influential firms operating in the national economy, their strength paled in comparison to foreign capital.

Lim's (1981) analysis of the top 100 quoted firms in the late 1970s made a number of other important points. First, there was significant interlocking stock ownership among a number of prominent corporate groupings, indicating concentration of control over the economy; this control was primarily in the hands of a few large corporations. Lim's (1981: 114) study revealed that of the 100,000 shareholders in Malaysia's 62 large corporations, 797 of them – or a mere 0.8 per cent – owned 69 per cent of the RM1.4 billion worth of equity. Within this group of 797 shareholders, the top one per cent owned 29 per cent of this RM1.4 billion equity, while the top 50 per cent owned 97 per cent and the bottom 20 per cent only 0.4 per cent (Lim 1981: 114).

Second, Lim (1981: 52–70) noted extensive interlocking directorships, identifying three important types of directorate: owner directors, executive-professional directors and functional directors. Owner directors were equity owners who served as directors. Executive-professional directors were high-ranking employees who did not own a substantial stake in the firm. Functional directors were those usually appointed to perform 'extra-economic functions'; these directors were usually former senior bureaucrats who could perform 'advisory and brokerage functions' (Lim 1981: 69). Lim (1981: 115) suggests that directorate interlocks were used 'to strengthen control over corporations in which one has ownership interests'. Third, although the government had attempted to develop domestic Bumiputera capital, more than a decade after Independence, no ethnic Malay had emerged with a significant presence in the corporate sector.

During the colonial period, Malay involvement in the emerging capitalist economy was not encouraged by the British, who preferred that the Malays remained in food production, primarily of fish and rice. When Malay peasants tried to venture into modern commercial sectors of the economy, like rubber production, the British blocked their efforts by imposing restrictive cultivation conditions on land. These early discriminatory policies in favour of British plantation interests severely limited the potential development of indigenous capital and shackled Malays to low income economic activities. Since the British had hindered the development of Malay capital in the colonial period, this reason

was used to justify the post-1969 policies that positively discriminated in favour of Bumiputeras.

The continued dominance of foreign capital over the Malaysian economy after Independence was mainly due to political factors. The leaders of the United Malays' National Organisation (UMNO), the dominant party in the ruling tripartite coalition, the Alliance, did not want to limit the influence of foreign firms mainly because they felt that only these companies could stem the rise of Chinese capital. Chinese capitalists had managed to secure a strong presence in the post-colonial government through the Malayan Chinese Association (MCA). These capitalists had hoped that effective political representation in government would enable them to protect their economic interests. The MCA, along with UMNO, had formed the Alliance to help them gain control of the government; this coalition would later include the Malayan Indian Congress (MIC), another ethnically-based party led primarily by professionals.

The basis for the cooperation between the MCA and UMNO was an implicit agreement, often popularly referred to as the 'bargain'. The bargain involved an understanding among the multi-racial elite that Malays would dominate politics, leaving Chinese capital relatively unfettered by the state. This bargain was to prove unsustainable. As Malay frustration increased over insignificant changes in ethnic ownership patterns, the UMNO leadership came under severe criticism from within its own ranks for the government's non-interventionist policy. Growing Malay discontent with the inequitable distribution of wealth among ethnic communities partly contributed to the May 1969 race riots.

In response to the riots, UMNO enlarged its tripartite alliance into a multi-party coalition called the *Barisan Nasional* (BN, or National Front), comprising more than a dozen parties. Since a number of the new parties in the ruling coalition had much Chinese support, the MCA's influence in government was reduced appreciably. In the economic domain, the government introduced the NEP. To achieve the NEP goals, between 1971 and 1981, the number of government-owned enterprises that were incorporated grew phenomenally; inevitably, the presence of the state in the corporate sector increased appreciably during this decade. Chinese capital continued to grow during the NEP period, but there was an increasing need for them to come to accommodations with the state in order to continue to expand (see Gomez 1999).

An important moment for the development of Bumiputera capital occurred when Mahathir Mohamad was appointed prime minister in 1981. From the outset of his premiership, Mahathir voiced his intention to create an ensemble of dynamic, entrepreneurial Malay capitalists. Mahathir's argument for the need to hasten the development of Malay capital was that in 1981, after ten years of the NEP, although the government had managed to increase the amount of corporate holdings held in the name of Bumiputeras to 12.5 per cent, little progress had been made in developing Malay businessmen in control of large firms. In fact, as Lim's (1981) list of top 100 corporations in the mid-1970s indicates, not one firm was owned by the Malaysian government or Bumiputera individuals. It was this situation that Mahathir sought to rectify.

The Mahathir–Daim factor

To aid his vision of creating huge companies with international reputations led by Malay capitalists, Mahathir appointed his close ally, prominent businessman Daim Zainuddin, as finance minister in 1984. Both men appeared captivated with developing the stock market, making it one avenue to help create domestic capitalists. Within just over a decade of Mahathir's tenure as prime minister, Malaysia's stock market capitalisation relative to gross domestic product (GDP) had emerged as the highest in Southeast Asia. Between 1989 and 1993, for example, equity market capitalisation as a percentage of GDP increased from 105 per cent to 342 per cent. By 1997, the KLSE had emerged as the fifteenth largest in the world in terms of market capitalisation.[1]

By the mid-1990s, a number of huge quoted companies, controlled primarily by well-connected Malays, had emerged in the corporate sector. This elite group had managed to swiftly develop their corporate interests with the help of the prime minister. Given Mahathir's hegemony over the state, he was able to selectively distribute government-created concessions to this group of businessmen. Mahathir justified this patronage, via policies like the NEP – and since the mid-1980s, privatisation – by arguing that the best way to create Malay capitalists was to distribute concessions to those most capable of generating wealth.[2]

Fifteen years into Mahathir's tenure as prime minister, before the onset of the 1997 currency crisis, a number of well-connected capitalists had secured extensive ownership of firms involved in most key sectors of the economy (see Gomez and Jomo 1999). Some of these men, supposedly representative of the dynamic, entrepreneurial class that Mahathir was trying to create, had managed to develop huge well-diversified firms, or conglomerates, within a short time. These well-connected businessmen developed their corporate assets through the use of one or more quoted firms.

By the mid-1990s, Malaysia's leading corporations included a number of firms controlled by Bumiputeras, almost all of whom were linked to one of the then three most powerful politicians in Malaysia – Prime Minister Mahathir, then Deputy Prime Minister and Finance Minister Anwar Ibrahim and then Economic Adviser Daim Zainuddin. The Bumiputeras in control of major firms included Halim Saad, Tajudin Ramli, Wan Azmi Wan Hamzah, Rashid Hussain, Shamsuddin Abdul Kadir, Azman Hashim, Ahmad Sebi Abu Bakar, Ishak Ismail, Mirzan Mahathir, Mokhzani Mahathir, Amin Shah Omar Shah and the late Yahya Ahmad. A few Bumiputeras, like Tunku Abdullah and Azman Hashim, had emerged as businessmen of some repute prior to Mahathir's ascendancy to the premiership. A number of non-Malay businessmen who were also well-connected quickly developed huge enterprises with government patronage. These businessmen included Vincent Tan Chee Yioun, T.K. Lim, Ting Pik Khiing, Lee Kim Yew, Tong Kooi Ong and T. Ananda Krishnan. All these men had been privy to state patronage in some form, specifically the award of privatised contracts.[3]

State power, patronage and the rise of the conglomerates

The manner of implementation of privatisation, involving the selective distribution of concessions,[4] reflected an important aspect of Malaysia's political economy: the institutional and organisational structure of the government and ruling party had had a major bearing on the form of development of the corporate sector. An analysis of institutional control of government would indicate the enormous control that ruling politicians have come to have over the state. One party, UMNO, has hegemony over the BN, and by extension, the government. Through consistent amendments to the party constitution and because of factionalism at the lower echelons of the party, power has come to be concentrated in the office of the UMNO president. In government, through amendments to the Federal Constitution and through systematic undermining of the other arms of government – the judiciary, the legislature and the bureaucracy – power has come to be concentrated in the office of the executive.[5] The president of UMNO also serves as prime minister. This concentration of power in the office of the executive has enabled ruling politicians to distribute concessions at will to select businessmen.

With growing political hegemony over the state, Malaysian politics became more personalised. Factional politics and the need to develop a grassroots base in UMNO were other reasons contributing to the rising number of well-connected businessmen and politicians-cum-businessmen. In 1991, after Anwar was appointed finance minister, he began developing his power base in UMNO by expanding his own breed of politicians-cum-businessmen. The use of money in politics intensified and a corporate base became an important means to raise funds to finance political ascendance.

The politician with the most influence over the corporate sector was, however, former finance minister Daim who had little grassroots support and owed all his political appointments – as UMNO treasurer and government economic adviser and then again as finance minister – to Mahathir. Daim had come under heavy criticism from UMNO members for continuing to develop his corporate influence – and base – during his appointment as finance minister between 1984 and 1991. Following his appointment to the Treasury in 1984, Daim announced that he had divested his vast business interests, including shares in firms involved in virtually all key sectors of the economy – banking, plantations, manufacturing, wholesaling and retailing, property development and media. Despite this, in 1992, one year after he had stepped down as finance minister, the total value of Daim's assets was reportedly RM1 billion, including assets in Australia, Britain, Mauritius and the United States (see *The Star* 19 May 1992). While holding public office, although Daim claimed that he had no active interest in business, he was still widely regarded as the most powerful figure in the Malaysian corporate scene. This was because his closest business associates, Halim Saad, Wan Azmi Wan Hamzah and Tajudin Ramli, had quickly emerged as major corporate figures controlling enterprises ultimately owned or controlled by Daim or UMNO.[6] Halim, for example, who had publicly acknowledged his

role as trustee of UMNO's vast corporate assets, would eventually secure control of the party's most important firms through an ailing, small quoted company, Renong.

By the early 1990s, although Mahathir, Anwar and Daim had overwhelming influence over distribution of government contracts, there were different reasons why these political leaders channelled concessions to businessmen. These different reasons had a bearing on the pattern of development of the enterprises owned by the recipients of these concessions.

Anwar appeared to use his influence in government mainly to develop his political base in UMNO. This led to the rise of a large group of businessmen whose primary motive was to use their corporate base as a means to secure ascendancy in UMNO. Their style of business was rather unproductive, with many showing little capacity to build on the concessions they had secured from the state. None of the Malays linked to Anwar has yet to emerge as a major corporate figure.

Mahathir was much more selective in how he distributed concessions, especially during the 1990s, after he had strengthened his position in UMNO. The prime minister had a genuine belief in his ability to pick 'winners' who could help fulfil his vision of creating large Malay enterprises with the capacity to venture abroad and compete internationally. These capitalists would later include a number of non-Malays.

The role of the Daim-linked businessmen in the corporate sector is a complicated issue because it is difficult to distinguish between assets actually belonging to them and those held in trust for UMNO. It is also probable that a good portion of the wide range of corporate assets owned by Halim Saad, Wan Azmi and Tajudin Ramli may be held in trust for Daim. This situation revealed that corporate ownership and control patterns, involving well-connected companies, were rather complex.

Moreover, since the rise of well-connected businessmen was linked to the patronage of influential politicians, their presence in the corporate sector depended on whether their patrons remained in power. Most Malay and Chinese businessmen who emerged under Anwar's patronage no longer figure prominently in business or have had to struggle to protect their corporate interests. When Daim fell out of favour with Mahathir, corporate assets owned by his business allies and proxies were taken over by the government (see Gomez 2001).

Thus, in spite of the rise of huge enterprises and the development of capital in Malaysia by 2000, capitalists remained very subservient to the state. This subordination brings into question the sustainability of corporate enterprises. Although businessmen, particularly Chinese entrepreneurs, who had few or no links with politicians, appear to have been able to retain control over their companies, mainly by conforming to state policies, it is not difficult for the government to remove corporate assets at will.

Some evidence to substantiate this argument was provided during the 1997 currency crisis. This crisis had a profound impact on domestic, especially Bumiputera, capitalists, and prominent politicians. With the rapid fall in the

value of equity quoted on the KLSE, many well-connected companies fell off the list of the top 100 Malaysian firms, far more swiftly than they got there. Chinese capitalists appeared to have fared better in the crisis, as did government-owned listed companies. By the beginning of 2001, according to one study of the wealthiest business people in Malaysia, no Malay figured among the richest 10 businessmen, in terms of the total value of corporate assets they owned (see Table 6.2). This study indicated that, apart from one ethnic Indian, the remaining top 10 wealthiest corporate figures were all ethnic Chinese (see *Malaysian Business* 1 February 2001). Of the top 20, only three businessmen were Bumiputeras, while 16 were ethnic Chinese. An analysis of the top 100 quoted firms in 2000 provided further evidence of the failure of the government to develop Malay capitalists.

Ownership and control: top 100 firms

Appendix 6.1 provides a list of the leading 100 firms, in terms of market capitalisation, quoted on the KLSE at the beginning of 2000. The key fact about

Table 6.2 Malaysia's 20 richest business people, 2001.

Name	*Estimated value of wealth*
1 Robert Kuok	RM 15 billion
2 T Ananda Krishnan	RM 10.7 billion
3 Lim Goh Tong	RM 9.6 billion
4 Quek Leng Chan	RM 9.2 billion
5 Yeoh Tiong Lay	RM 5.5 billion
6 Tiong Hiew King	RM 3 billion
7 Teh Hong Piow	RM 2.8 billion
8 Loh Cheng Yean	RM 1.4 billion
9 Lee Oi Hian	RM 1.2 billion
10 Lee Shin Cheng	RM 1.01 billion
11 Abdul Rashid Hussain	RM 891 million
12 Tan Kim Hor	RM 890 million
13 Khoo Kay Peng	RM 700 million
14 Low Yow Chuan	RM 691 million
15 Yaw Teck Seng	RM 596 million
16 Azman Hashim	RM 542 million
17 Lau Hui Kang	RM 500 million
18 Tan Chin Nam	RM 485 million
19 Shamsuddin Abdul Kadir	RM 365.6 million
20 Tan Teong Hean	RM 337 million

Source: *Malaysian Business* 1 February 2001.

the top ten companies on this list is that the government has majority ownership of six of these public-listed firms, because of the partial nature of some privatisations. These firms include former public utilities like Telekom Malaysia Bhd (at number 1) and power supplier Tenaga Nasional Bhd (at number 3), the country's leading bank, Malayan Banking Bhd (at number 2), the national oil corporation Petronas' gas producer, Petronas Gas Bhd (at number 4), the national shipping line Malaysian International Shipping Corporation Bhd (MISC) (at number 6), and the well-diversified, but predominantly plantation-based Sime Darby Bhd (at number 7).[7] Government firms also have a stake in Commerce Asset-Holding Bhd (at number 8), which owns Malaysia's second largest bank, Bumiputra Commerce Bank Bhd, an enterprise that emerged out of the merger between government-owned Bank Bumiputra and Bank of Commerce, owned by UMNO.[8] Two well-connected companies, the Renong and New Straits Times Press Bhd (NSTP) groups, also own a huge interest in Commerce Asset-Holding. In July 2001, the government announced that it would be taking over Renong.

The other three firms in the top ten – Resorts World Bhd (at number 5), Genting Bhd (at number 9) and YTL Corporation Bhd (at number 10) – are owned by ethnic Chinese. Genting and Resorts World, involved in the casino and leisure industries, are part of the same group owned by Lim Goh Tong. The YTL group, involved in the construction, property development and power industries, is owned by Yeoh Tiong Lay and his family.[9] Two other conspicuous points about the top ten companies are that, first, none of them is owned by a foreign enterprise. Second, in spite of phenomenal state support for the development of Malay capital, no Bumiputera individual has emerged with a controlling interest in any of the top 10 companies.

An analysis of the companies ranked from 11 to 20 indicates that five of these firms are Chinese-owned: Public Bank Bhd (at number 11) owned by Teh Hong Piow, YTL Power International Bhd (at number 13) which is part of the YTL Group, the gaming firms, Berjaya Sports Toto Bhd (at number 17) controlled by Vincent Tan Chee Yioun and Magnum Corporation Bhd (at number 18) which is part of the Multi-Purpose Holdings Bhd (MPHB) group, and the plantation enterprise Kuala Lumpur Kepong Bhd (KLK) (at number 20) owned by the family of the late Lee Loy Seng. There is only one government-owned firm and one foreign-owned company figuring in the 11–20 bracket, that is the motor vehicle producer, Perusahaan Otomobil Nasional Bhd (Proton, at number 19) and the cigarette producer Rothmans of Pall Mall Bhd (at number 12) respectively. Proton had been part of the HICOM Holdings group that was privatised to the late Yahya Ahmad, but was bought over by the government's cash-rich oil agency, Petronas, after the 1997 crisis. Three Bumiputeras figure as owners of firms listed in the 11–20 bracket – RHB Capital Bhd (at number 14), part of the financial-based RHB Group and once controlled by Rashid Hussain, United Engineers (Malaysia) Bhd (UEM) (at number 15) and Renong (at number 16). Renong and UEM have cross-holdings, with the former functioning as the main holding company of this highly-diversified group. The companies that

constitute part of the Renong group were once directly owned by UMNO. Until July 2001, Halim Saad, Daim's protégé, had majority ownership of Renong, before being forced by the government to relinquish control of this group to the state, ostensibly because the government felt it imperative to resolve the group's huge debt burden. This meant that by mid-2001, of the top 20 KLSE companies, only one firm, RHB Capital, was owned by a Bumiputera. In 2002, however, Rashid divested control of RHB Bank following a merger of this enterprise with Bank Utama Bhd, an institution wholly-owned by the Utama Banking Group (listed at number 61 in the KLSE top 100). The Utama Banking Group is controlled by publicly-quoted Cahya Mata Sarawak Bhd, an enterprise in which family members of Taib Mahmud, the chief minister of the state of Sarawak, has a controlling interest. Cahya Mata Sarawak is listed at number 83 in this top 100 list.

A number of important features of the top 20 KLSE firms can be noted. First, the considerable decline of foreign ownership of corporate Malaysia between 1970 and 2000 – only one of the top 20 firms was owned by a foreign enterprise. Second, in spite of privatisation since the mid-1980s, the government still had majority ownership of half of the top 20 quoted firms. Of these ten companies, two were formerly part of the Renong group, a major recipient of privatised concessions, while Proton was renationalised. Third, only one company in the top 20, RHB Capital, is owned by a Bumiputera. Fourth, eight of the top 20 firms were Chinese-owned, indicating that members of this community had managed to maintain a strong presence in the stock market in spite of NEP implementation.

A comparison of the KLSE top 20 with the list of the wealthiest business people compiled by *Malaysian Business* (1 February 2001) – see Table 6.2 – highlights a number of important points. First, the companies owned by the top two wealthiest businessmen, Robert Kuok and T. Ananda Krishnan, do not appear in the KLSE's top 20 list, even though Kuok controls a number of quoted firms, including Perlis Plantations Bhd, PPB Oil Palm Bhd, Pelangi Bhd and Jerneh Asia Bhd. None of Kuok's listed enterprises even appear in the KLSE's top 50 list, while only two appear in the list of the next 50 – Perlis Plantations (at number 57) and PPB Oil (at number 100). Ananda Krishnan, on the other hand, controls two quoted enterprises, the gaming concern Tanjong Bhd (listed at number 26) and the power generator Powertek Bhd (listed at number 82). A number of Ananda's major enterprises, including his mobile telephone firm, Maxis Communications Sdn Bhd, and Measat Broadcast Network Systems Sdn Bhd, which owns Malaysia's only satellite television company, Astro, remained unlisted in 2001.[10]

Second, only one of the three Bumiputeras listed in the *Malaysian Business* top 20 – Rashid Hussain, Azman Hashim and Shamsuddin Kadir – figures in the KLSE top 20. Apart from RHB Capital (listed at number 14), Rashid also owns Rashid Hussain Bhd, his investment holding company (listed at number 66). Azman controls a number of listed enterprises involved in the financial, media and property sectors, with two of them listed in the KLSE top 50 – AMMB Holdings Bhd (at number 23) and Arab-Malaysian Finance Bhd (at number 49).

Shamsuddin's primary involvement is in the telecommunications industry, through Sapura Telecommunications Bhd and Uniphone Telecommunications Bhd, though he also ventured into the automotive industry through Sapura Motors Bhd (a motor vehicle component parts producer). Interestingly, although Shamsuddin was not adversely affected by the 1997 currency crisis, compared to Halim Saad, Rashid Hussain and Azman Hashim, none of his quoted enterprises appears in the KLSE's top 100 list.

In fact, the companies owned by 11 other businessmen listed in the *Malaysian Business* list do not appear in the KLSE top 20. These business people include Quek Leng Chan who controls the Hong Leong group. A number of companies in the Hong Leong group appear, however, in the KLSE top 100, that is Malaysian Pacific Industries Bhd (at number 21), Hong Leong Bank Bhd (at number 28), Hong Leong Credit Bhd (at number 38), OYL Industries Bhd (at number 78) and Hong Leong Industries Bhd (at number 86). The combined market capitalisation of all Hong Leong-controlled companies in the KLSE top 100 would mean that Quek has control of the largest volume of listed equity in Malaysia.

The remaining ten business people in the *Malaysian Business* list include the timber tycoon Tiong Hiew King who controls the Rimbunan Hijau group – this company owns a stake in publicly-listed Jaya Tiasa Bhd (listed at number 41) – Loh Cheng Yen, the daughter of Loh Boon Siew who developed the Oriental Holdings group (listed at number 32), Lee Shin Cheng who controls the listed plantation and property based companies, IOI Corp Bhd (listed at number 50), IOI Properties Bhd (listed at number 93) and Palmco Holdings Bhd, Tan Kim Hor who, with his family, controls the car distributor Tan Chong Motors Bhd (listed at number 58) – they control two other KLSE-listed companies, APM Automotive Holdings Bhd and Warisan TC Holdings Bhd – Khoo Kay Peng, who controls the Malayan United Industries (MUI) group (listed at number 47) and Pan Malaysia Cement Works Bhd (listed at number 92), Low Yow Chuan who controls the privately held Low Yat group and the publicly-listed Asia-Pacific Land group, Yaw Teck Seng who controls the Sarawak-based Samling group which controls publicly-listed Lingui Developments Bhd (listed at number 43) and Glenealy Plantations Bhd, Lau Hui King who owns the privately held Sarawak-based KTS group, Tan Chin Nam, the construction and property developer who controls IGB Corp Bhd, Tan & Tan Developments Bhd and IJM Corp Bhd (listed at number 90), and Tan Teong Hean who controls Southern Bank Bhd (listed at number 33) and another quoted firm, Killinghall Bhd (*Malaysian Business* 1 February 2001). The list compiled by *Malaysian Business* suggests that local businessmen still privately hold a number of major companies.[11]

Of the firms listed in the 21–30 bracket in the KLSE top 100, three are enterprises owned by the government, that is the plantations concern Golden Hope Bhd (at number 25), Sarawak Enterprise Corp Bhd, the holding company of the Sarawak state government (at number 29), and Malaysia Airlines (MAS) (at number 30). MAS, privatised in 1993 to the well-connected Tajudin Ramli, was renationalised in 2001. Two firms in the 21–30 list were owned by an ethnic

Chinese – Malaysian Pacific Industries (at number 21) and Hong Leong Bank (at number 28); both companies are part of the Hong Leong group controlled by Quek Leng Chan. Two companies are owned by Bumiputeras, that is the financial group AMMB Holdings (at number 23) owned by Azman Hashim and the car distributor Edaran Otomobil Nasional Bhd (EON) (at number 27), which had been privatised in 1993 to Yahya Ahmad. EON was part of the heavy industrialisation-based HICOM Holdings group, one of Malaysia's most important and largest privatisations, which eventually came under severe financial stress. Following a major restructuring exercise, EON came under the control of DRB-Hicom.[12] The children of Yahya Ahmad and his associates hold a controlling interest in DRB-Hicom. T. Ananda Krishnan, the only ethnic Indian who owns companies listed in the KLSE top 100, controls the gaming firm Tanjong, listed at number 26. Two companies in this bracket are foreign-owned – the food products manufacturer Nestlé Bhd, listed at number 22, and Malayan Cement Bhd (at number 24), which was bought over by the British-based Blue Circle group in 1999. Malayan Cement, originally owned by another foreign enterprise, Associated International Cement Ltd, was also involved in a merger with publicly-listed Kedah Cement Bhd, which was part of the privatised HICOM Holdings group.[13] In other words, two companies that had been privatised to Bumiputeras, Kedah Cement and MAS, have been taken over by a foreign enterprise and the government respectively.

In the 31–40 bracket, six firms are owned by ethnic Chinese – Oriental Holdings Bhd (at number 32), the motorcar assembler owned by the family of the late Loh Boon Siew, Southern Bank (at number 33) controlled by Tan Teong Hean,[14] the construction firm Gamuda Bhd (at number 36), the semiconductor devices manufacturer Unisem Bhd (at number 37), the financial enterprise Hong Leong Credit (at number 38), and securities brokerage TA Enterprise Bhd (at number 39). One company, Sime UEP Properties Bhd (at number 40), part of the Sime Darby group, is controlled by the government. HICOM Holdings (at number 34), which was incorporated to drive Malaysia's heavy industrialisation initiative, was privatised to the late Yahya Ahmad, but was subsequently de-listed in August 2001 (*Business Times* 9 August 2001). Malaysian Resources Corporation Bhd (MRCB), listed at number 31, was owned by Bumiputeras closely associated with Anwar Ibrahim. Following Anwar's dismissal, control of this company was passed on to Abdul Rahman Maidin, reputedly close to Daim. After Daim's departure from government, it was reported that the government would be taking over MRCB (see *Far Eastern Economic Review* 23 August 2001). Malakoff Bhd, listed at number 35, was part of the MRCB group, but the company would eventually come under the control of government-owned Malaysia Mining Corporation Bhd (MMC) (listed number 56).[15] Another major shareholder of MMC is Syed Mokhtar Al-Bukhary, who acquired a 19.9 per cent stake in the company from the government in 2000 (*The Edge* 27 August 2001).[16] No company in the 31–40 bracket is owned by a foreign enterprise.

In the 41–50 bracket, four firms are under Chinese ownership – the manufacturing concern Jaya Tiasa Bhd (at number 41), the timber-based

company Lingui Developments (at number 43), the well-diversified Malayan United Industries (MUI) Bhd (at number 47) and plantation-based IOI Corporation (at number 50). Four companies are controlled by the government, that is Kumpulan Guthrie Bhd (at number 42), petroleum trader Petronas Dagangan Bhd (at number 44), the motor vehicle distributor UMW Holdings Bhd (at number 45) and Affin Holdings Bhd which is involved in the financial sector (at number 48). Two companies are owned by Bumiputeras, Arab Malaysian Finance (at number 49), controlled by Azman Hashim's Arab Malaysian group, and the New Straits Times Press (at number 46), part of the MRCB group, which was taken over by the government (see *The Edge* 6 August 2001).

The most important point to emerge about the KLSE's top 50 firms is that the government owns 19 of these enterprises, while another 20 are Chinese-owned. Only three firms are foreign-owned, again indicating the impact of distributive policies in terms of changing ownership patterns. Only one firm, Tanjong, is Indian-owned. Of the top 50 companies, only seven are Bumiputera-owned, though even this statement has to be qualified. Apart from Rashid Hussain's RHB Capital, these seven enterprises include two that belong to Azman Hashim's Arab-Malaysian group – AMMB Holdings and Arab-Malaysian Finance. The other companies that remain under Bumiputera ownership like MRCB – and the firms in this group, New Straits Times Press and Commerce Assets-Holdings[17] – are being subject to a takeover by the government, as are Renong/UEM. The Renong and MRCB groups were controlled by allies of Daim and Anwar respectively before they fell out at different times with Mahathir. This means that by 2001, only two Bumiputeras, Azman Hashim and Rashid Hussain, figured as owners of enterprises in the KLSE's top 50. (As mentioned earlier, Rashid Hussain lost control RHB Capital in April 2002.)

In the 51–60 list of companies, five companies are Chinese-owned, that is the telecommunications company Digi Swisscom Bhd (at number 53, controlled by Vincent Tan, though in cooperation with the foreign enterprise Swisscom), garment manufacturer Ramatex Bhd (at number 55, though Malay ownership of this company is high), Perlis Plantations (at number 57, and controlled by Robert Kuok), the major motor vehicle distributor Tan Chong Motors (at number 58, controlled by the Tan family) and beer brewer and pharmaceutical products producer Hap Seng Consolidated Bhd (at number 59). Two companies, Malaysian National Insurance Bhd (at number 52) and Malaysia Mining Corporation (MMC, at number 56) are controlled by the government, while one other company, the highly-diversified KUB Malaysia Bhd (at number 60), is owned by a cooperative of the ruling party UMNO. Only one company in this bracket, Technology Resources Industries Bhd (TRI) (at number 53), is owned by a Bumiputera individual, Tajudin Ramli, a Daim protégé. One other company, Carlsberg Brewery Bhd (at number 51) is foreign-owned. Hap Seng Consolidated also holds a large equity interest in Carlsberg Brewery.

In the 61–70 bracket, five companies are Chinese-owned enterprises. One of these five firms, the diversified Multi-Purpose Holdings (MPHB, at number 62), was owned by T.K. Lim and his family, though control of this enterprise fell into

the hands of Daim's associates. Following the fall-out between Daim and Mahathir in mid-2001, it became unclear who would gain control of this company. The other four Chinese enterprises are the highway toll-operator Lingkaran Trans Kota Holdings Bhd (at number 64), which is controlled by Gamuda Bhd (listed at number 36 in this top 100 list); the leading newspaper publisher Star Publications Bhd (at number 65), which is controlled by the MCA; Public Finance Bhd (at number 67), which is part of the Public Bank group; and Berjaya Group Bhd (at number 70), controlled by Vincent Tan. Three companies are owned by Bumiputeras, the Utama Banking Group (at number 61), ultimately controlled by family members of the chief minister of the Sarawak state government, the shipping-based PSC Industries Bhd (listed at number 63) controlled by Amin Shah Omar Shah, and the finance-based holding company Rashid Hussain (at number 66), owned by Rashid Hussain. One company in this bracket is controlled by a government enterprise – Highlands & Lowlands Bhd (at number 69), a part of the plantation-based Kumpulan Guthrie group. One company is foreign-owned, petroleum-based Shell Refining Company Bhd (listed at number 68).

In the 71–80 list, a majority of the companies are Chinese-owned – Vincent Tan's Berjaya Land Bhd (at number 71), Pacific Bank Bhd (at number 72), Ban Hin Lee Bank Bhd (at number 76), timber-based manufacturer WTK Holdings Bhd (at number 77), Hong Leong group's air-conditioning products manufacturer OYL (at number 78), the diversified Batu Kawan Bhd (at number 79), controlled by the plantation-based KLK group, and the stockbroking enterprise OSK Bhd (at number 80). Following the bank consolidation exercise introduced by the government in 1999, Pacific Bank was merged with Malayan Banking, while the Ban Hin Lee Bank was merged with Southern Bank. One company each in this bracket is owned by a Bumiputera, the government and a foreign enterprise respectively. The government owns Bank Islam Malaysia Bhd (BIMB, at number 73), while Road Builders Holdings Bhd (at number 75) is under Bumiputera and Chinese ownership, though it is unclear who controls the company. One major shareholder of the company is Tengku Ahmad Rithauddeen, a former UMNO vice-president who has held a number of cabinet portfolios. The only foreign enterprise in this bracket is the brewer Guinness Anchor Bhd (listed at number 74).[18]

Half the companies in the 81–90 bracket are Chinese-owned – property developer Country Heights Holdings Bhd (at number 81), controlled by the well-connected Lee Kim Yew, tile manufacturer Hong Leong Industries (at number 86), a member of the Hong Leong group), Berjaya Capital Bhd (at number 87) controlled by Vincent Tan, the well-diversified Sungei Way Holdings Bhd (at number 89) controlled by Jeffrey Cheah and property developer IJM Corporation Bhd (at number 90) controlled by Tan Chin Nam. Of the remaining five firms, two are foreign-owned – the cigarette manufacturer RJ Reynolds Bhd (at number 84)[19] and industrial and medical gas producer Malaysian Oxygen Bhd (at number 88) – while one firm, cement manufacturer Kedah Cement (at number 85) has been taken over by a foreign enterprise; Kedah Cement was part

of the HICOM Holdings group. Only one firm in this list of ten companies is Bumiputera-owned, Cahya Mata Sarawak, listed at number 83, and under the control of family members of Taib Mahmud. Ananda Krishnan owns the power generator, Powertek, listed at number 82.

In the list of the last ten of the top 100 corporations, seven are owned by ethnic Chinese – Pan Malaysia Cement Works (at number 92), property developer IOI Properties (at number 93), construction-based Kamunting Corporation Bhd and property developer Bandar Raya Developments Bhd (at number 94 and 96 respectively, both of which are part of the MPHB group), steel producer Amsteel Corporation Bhd (at number 95) controlled by William Cheng's Lion group, Phileo Allied Bhd (at number 97), then the owner of the PhileoAllied Bank which was acquired Malayan Banking, and oil palm cultivator PPB Oil Palms (at number 100) controlled by Robert Kuok. Pan Malaysia Cement Works, controlled by Khoo Kay Peng's MUI group, changed its name to Pan Malaysia Corporation after it divested its interests in the cement industry.[20] Pan Malaysia Corp is now primarily involved in the food industry, with ownership of food-production companies based in Singapore, Australia and the USA. Only one firm in this bracket is foreign-owned – Amway Bhd (at number 91), distributor of Amway products. Two firms are owned by Bumiputeras, the fast-food operator KFC Holdings Bhd (at number 98) controlled by Ishak Ismail, a close associate of Anwar, and property developer Land & General (at number 99) controlled by Wan Azmi Wan Hamzah, Daim's protégé. By mid-2002, it was reported that both Ishak and Wan Azmi would lose control of their firms though it is still unclear who will secure hold of these firms (see *The Edge* 6 May 2002).

These figures on stock distribution of the top 100 companies suggest that there is little concentration of corporate power in the hands of an elite business class. No group of companies under the control of one family or individual seems to dominate the top 20 listed corporations. One reason for this is that some of the dominant listed conglomerates that had emerged by the mid-1990s, like the Renong/UEM, HICOM Holdings, TRI-MAS, Rashid Hussain and Arab-Malaysian groups, had been badly affected by the 1997 crisis. A number of companies in these groups have been taken over by the government, due either to the impact of this crisis or because of disputes among powerful politicians; all these Bumiputera groups are controlled by well-connected businessmen. The nexus of politics and business based on patronage and political loyalty has undermined the development of Bumiputera entrepreneurship.

This analysis of the owners of the top 100 quoted firms does not, however, indicate another aspect of the complexity of ownership and control patterns in Malaysia. In the presence of a strong state, it has been more important even for rather independent capitalists to link up with influential politicians. The Chinese firms in the top 20 KLSE list, for example, which include companies from the YTL Corp, Genting, MPHB and Berjaya groups, have been privy to state patronage. Two other companies in the top 20 list, Public Bank and KLK, are probably the only groups with some semblance of independence from ruling politicians, but both firms have been led by men with proven entrepreneurial

skills (see Gomez 1999). Public Bank has also, always conformed to government policies and has been very prudently managed.

Apart from ownership patterns, another important feature of the top 20 listed firms is that only two are involved in manufacturing – foreign-owned Rothmans, manufacturer of cigarettes, and government-owned Proton, producer of the national car. Four companies are involved in banking, while another four are gaming enterprises, while three are involved in construction, YTL Corp and Renong/UEM. Two companies are involved in the plantation sector, KLK and Sime Darby. Among the largest enterprises in the KLSE top 20 are the privatised utilities companies, Telekom and Tenaga Nasional, and the privatised shipping firm MISC, and the gas producer and trader Petronas Gas; all four companies are controlled by the government.

Among the top 100 KLSE companies, barely 20 firms list manufacturing as their primary activity. Most of these firms are foreign-owned – Rothmans, Nestlé, Malayan Cement, Carlsberg, Guiness Anchor, RJ Reynolds, Malaysian Oxygen, Kedah Cement and Shell Refining Company. Three of these 20-odd firms belong to the Hong Leong group – MPI, which is involved in the electronics sector; OYL, producer of air-conditioning products; and Hong Leong Industries, a tiles manufacturer. Ethnic Chinese own most of the domestic manufacturing firms in the top 100 list. A comparison of Lim's (1981) compilation of the top 100 KLSE companies in the late 1970s with that of the firms in Appendix 6.1 indicates that only one company has managed to retain its position as a leading manufacturer – foreign-owned Rothmans. Pan Malaysian Cement Works appears in both Lim's list and Appendix 6.1, but the company has divested its cement manufacturing business to a foreign enterprise. This suggests that manufacturing firms of old seem to have fallen behind in terms of investing in new plant and equipment, introducing new products or pursuing new markets.

There are no companies involved in the so-called 'new economy', that is firms that are active in the information technology industry, despite the government's efforts to promote this sector.[21] All the companies that were awarded licences to operate in the telecommunications sector do, however, appear in the top 50, that is Telekom Malaysia, TRI (owner of Celcom) and Digi Swisscom (owned by the Berjaya group). The largest telecommunications company, Maxis, owned by Ananda Krishnan, was listed in 2002, while Renong's Timedotcom was quoted on the KLSE in early 2001.

Interlocking stock ownership and directorships, patronage, corporate decline

An analysis of interlocking stock ownership patterns reveals no links between the top 100 firms that suggest monopolisation of economic sectors. A number of these quoted companies do, however, come under the umbrella of one holding company or are controlled by one businessman.[22] This form of grouping, involving the use of a holding company – and, in some cases, cross-holdings and pyramiding – reflects the most important form of corporate control. This

corporate grouping pattern also indicates the conglomerate style growth adopted by a number of Malaysian businessmen, a trend that began to gain prominence from the early 1980s.

Limited interlocking stock ownership among the top 100 quoted firms suggests a number of important developments between 1970 and 2000. There is much evidence that the political elite has attempted to accumulate wealth through business allies (see, for example, Gomez and Jomo 1999; Gomez 1999; Gomez 2001; Gomez 2002). Between the early 1980s and late 1990s, businessmen linked to influential politicians like Daim and Anwar, and the children of the prime minister and businessmen favoured by him began to secure a dominant presence in the corporate sector. These well-connected businessmen have not managed to secure control over key economic sectors partly because of conflicts among the political elite over control of lucrative corporate assets.

One factor contributing to the failure of wealth concentration was the collapse of well-connected conglomerates involved in cross-holdings. Among the most notable examples of corporate groups with cross-holdings were Renong (controlled by Halim Saad), Multi-Purpose Holdings (controlled by T.K. Lim), Tongkah/Pantai (controlled by Mokhzani Mahathir) and Lion Corp (controlled by William Cheng). Following the 1997 crisis, all four groups were burdened with a debt crisis and had been subject to takeover and/or were restructured by mid-2001. The Lion Corp group required massive restructuring to deal with its huge debts, the heavily indebted Renong was taken over by the government and restructured, Lim lost control of his debt-ridden but asset-rich Multi-Purpose Holdings to Daim's allies who then dismantled the group, while the prime minister's son, Mokhzani, relinquished control of the Tongkah/Pantai group to apparently friendly allies relieving him of his and the group's debt problems. The gearing problems of these very large corporate groups highlighted the importance of cross-holdings as a means for one person or party to secure control over a number of publicly-listed companies with little or no personal equity interest in these firms. Through this mechanism, the majority shareholders of the holding company could appoint directors to a number of other quoted firms, usually to help them ensure that vested corporate ventures were implemented even though these business deals were not in the interest of minority shareholders. Moreover, since this pattern of control allowed one person or family to have control over board appointments, minority shareholders had little recourse to removing errant or irresponsible company directors, even in the face of gross violations of fiduciary duties. Yet, in spite of the new regulations introduced to enhance corporate governance and transparency after the 1997 crisis, no attempt was made to curb the practice of cross-holdings and pyramiding.

While the cross-holding structure provides a lot of benefits to the majority shareholder of the holding company, it has no value for, and provides little protection to, the minority shareholders of the firm as well as to those under his control. The cross-holding structure is also useful for enhancing – or distorting – the value of the equity of the holding company if it has ownership of profitable listed subsidiaries or associate companies. This is of primary importance to the

holding company's majority owners as it allows them another means to gain access to bank loans, with the equity of profitable firms used as collateral. The main benefit of the cross-holding structure is that it allows the majority shareholder to protect his interests in profitable firms from hostile takeovers.

There is also no evidence of wealth concentration or much intra-ethnic business cooperation involving Chinese-owned firms, even though it is widely believed that ethnic Chinese cooperate in business to protect their common economic interests. Chinese capitalists have had a history of intra-ethnic business cooperation, evident notably during the colonial period among migrants.[23] The shareholding pattern among Chinese-owned firms in 2000, however, indicates that they tend to function rather independently of one another. In fact, an in-depth study of the largest quoted Chinese enterprises in Malaysia revealed that the owners of most of these firms had established inter-ethnic ties, especially with politically-influential Bumiputeras, to help them protect and expand their interests (see Gomez 1999).

Similarly, there is little evidence that Bumiputera capitalists who own large quoted enterprises cooperate in business ventures. Even Bumiputera firms owned by businessmen who share the same political patron, seldom, if ever, work together. There is no evidence that Daim's business protégés, Halim, Tajudin and Wan Azmi, have cooperated in any business venture. On the contrary, there is much competition among them in some sectors. Halim's Renong group has an important interest in the telecommunications sector through Timedotcom, where he is in competition with Tajudin's TRI group, which owns Celcom, one of Malaysia's largest telecommunications companies. In spite of their need to restructure their assets after the currency crisis, Renong and TRI did not attempt to merge these two telecommunications enterprises, even though link-ups with other firms in the industry were attempted. Other Malays, like Azman Hashim and Rashid Hussain, are in keen competition with one another in the financial sector, while Renong also has a huge interest in Malaysia's second largest bank, Bumiputra-Commerce Bank. When the government began to call for banks to consolidate, there were no attempts by Bumiputeras in the financial sector to cooperate to merge their enterprises. The bank consolidation exercise was characterised by competition among well-connected Bumiputeras to become one of the few anchor banks approved by the government.[24] There is as little intra-ethnic cooperation among Bumiputera businessmen as there is among Chinese capitalists.

Interlocking directorship is a concept of as little importance as interlocking stock ownership. Two major types of interlocking directorate ties characterise such links: ownership ties, in which two or more organisations are jointly controlled by a single board of directors; and direct interlock ties, in which two companies share one or more persons as members of their respective boards (Burt 1983: 3). The direct interlocking directorate tie is common in Malaysia. Theoretically, such ties should help reduce competition and enhance mono-polisation of economic sectors. The large voting rights of these common directors allow for greater internal corporate control, leading to greater inter-company

transactions which need not necessarily be beneficial to all the shareholders of a company, particularly minority shareholders.

Appendix 6.2 provides a list of interlocking directorships among the top 100 companies listed on the KLSE. Using the interlocking directorate typologies proposed by Lim (1981), that is owner directors, executive directors and functional directors, an analysis of the list in Appendix 6.2 suggests that none of these interlocking ties contributed to wealth concentration or reduction of competition. There is evidence of interlocking directorship involving the presence of one individual in a number of quoted companies. The men holding directorships in a number of unrelated companies are, however, primarily prominent former bureaucrats. Mohammed Hanif Omar, the former Inspector-General of Police, for example, is a director of companies in Lim Goh Tong's gaming group, Genting, and Azman Hashim's financial group, AMMB Holdings; he also holds directorships in a number of quoted companies outside the top 100 list. Alwi Jantan, another prominent ex-senior bureaucrat – he was Director of Public Service in the Public Services Department – sits on the boards of foreign-owned Guinness Anchor and Resorts World, of the Genting group. Mohd Ghazali Seth, a director of Chinese-owned Magnum and the foreign-owned firms, Carlsberg and Nestlé, was chief of the armed forces, as was Mohd Ghazali Che Mat who serves as a director of the politically well-connected Malakoff and the government-controlled Kumpulan Guthrie. Yahya Ismail, who holds directorships in the Chinese firms, YTL Corp and Southern Bank, foreign-controlled Shell, and the politically well-connected UEM, served in a number of key government posts, including Director General of the Livestock Authority and Chairman of the Totalisator Board. Wan Abdul Rahman Wan Yaacob, a director of a number of unrelated companies, Powertek, IJM, MMC and Lingkaran Trans Kota, served as Director-General of Public Works Department. Thong Yaw Hong, a director of the Chinese firms, Public Bank, Berjaya Land and KLK, and the government-owned MMC, retired as Secretary-General of the Ministry of Finance. Nasruddin Mohamed, who also served as Secretary-General of the same ministry, is a director of three unrelated Chinese-owned firms, William Cheng's Amsteel Corp, Lee Shin Cheng's IOI Properties and Quek Leng Chan's Hong Leong Industries. Md Khir Johari, who sits on the boards of MUI and Magnum, was a former UMNO cabinet minister. Former Vice-Chancellor of Universiti Putra Malaysia (UPM), Mohd Rashdan Baba, is a director of Azman Hashim's AMMB Holdings and Arab-Malaysian Finance and Chinese-owned Unisem.

These former senior bureaucrats probably serve as functional directors, that is to facilitate dealings with the government, specifically to help these firms bypass bureaucratic red-tape. Although many of these influential ex-bureaucrats sit on the boards of Chinese, Bumiputera and government-owned firms, there is little evidence of business cooperation among these companies. This indicates the limited importance of these interlocking directorships in terms of facilitating inter-ethnic business deals or public–private cooperation, part of Mahathir's much touted Malaysia Inc. policy. Similarly, even though some of these ex-bureaucrats

are directors of firms owned by different Bumiputeras, there is limited evidence of intra-ethnic cooperation between the owners of these enterprises.

The interlocking directorate ties of most importance involve owner directors. Owners hold directorships in a number of firms under the control of a holding company. This common tie can be used to facilitate transactions that benefit owner directors and not minority interests. One example of an owner director listed in Appendix 6.2 is T.K. Lim, a director of Kamunting Corp and its associated company, Bandar Raya Developments. Lim also sits on the board of Land & General, controlled by Wan Azmi, in which he also had an interest. Amin Shah Omar Shah is a director of Kedah Cement and PSC Industries, two companies in which he has interests. Quek Leng Chan and Vincent Tan, through holding companies, own controlling interests in all firms listed under their names in Appendix 6.2.

Examples of executive directors would include Mohd Hassan Marican who is a director of a number of government-owned corporations, including Petronas Gas and MISC, Chua Hua Eng, a director of foreign-owned Malayan Cement and Carlsberg Brewery as well as the Chinese firm Lingui Developments, and James Lin Cheng Poh who serves on the board of two companies in the Hong Leong group, Hong Leong Bank and Hong Leong Credit. Executive directors play a prominent role in quoted firms owned by the government. Interestingly, as the study of the top 100 KLSE companies has indicated, publicly-listed companies owned by the government appear to be relatively well-managed, in spite of possible intervention by influential politicians in the management of these companies. Ultimately, however, control of these quoted firms owned by the government lies with senior politicians who have the power to dictate certain corporate transactions, for example, the bailout or takeover of well-connected ailing companies. In 1998, one of the best managed quoted companies controlled by the government, MISC, was used to buy over assets of an ailing quoted company owned by Mirzan Mahathir, eldest son of the prime minister.

The studies by Lim (1981), Tan (1982) and Sieh (1982) revealed that interlocking ownership and directorships were important in the ownership and control patterns of the corporate sector during the 1970s. By the year 2000, there was less interlocking stock ownership and directorships among Malaysia's leading quoted firms. Interlocking stock ownership patterns that exist are those within one group of companies.

The rise of large, diversified corporate groups has come to characterise the pattern of growth adopted by some of Malaysia's most prominent businessmen. Historical examination of Chinese enterprise since the colonial period suggests that diversified growth had been a popular business strategy, mainly due to the desire to venture into any field that promised quick profits or had a strong potential for growth. From the early 1980s, a similar pattern of growth was adopted by a number of Bumiputera businessmen in control of the largest quoted enterprises. One significant difference in the conglomerate-style growth adopted by Chinese and Bumiputera businessmen was that a majority of the latter developed their diversified corporate base through acquisitions funded by bank

loans. A smaller number of Chinese businessmen in control of the top 100 firms also adopted this pattern of growth. Growth through acquisitions funded by loans were popular from the early 1980s through to the mid-1990s. The Malay and Chinese businessmen who adopted this style of growth when developing their corporate base included Halim Saad, Tajudin Ramli, Wan Azmi Wan Hamzah, Ishak Ismail, Mirzan Mahathir, Mokhzani Mahathir, Samsudin Abu Hassan, Yahya Ahmad, Vincent Tan and William Cheng.

Other corporate groups, though diversified, gained credibility by primarily focusing on one or two industries. YTL Corp developed a reputation for itself, first in construction and then in power production. Oriental and Tan Chong focused primarily on car assembly, while Public Bank was only involved in banking and financial services, and Tan & Tan on construction and property development. Others, like plantation-based Kuala Lumpur-Kepong (KLK) group, were forced by circumstance to diversify – because of the decline of the plantation sector – but remained well-focused in their new ventures.[25] The firms that did not depend considerably on bank loans to develop their corporate base tended to cope better with the crisis that occurred in 1997–98. More importantly, most companies taking bank loans to finance their conglomerate style growth appeared to have strong political ties.

A number of businessmen who adopted conglomerate style growth, through access to bank loans, encountered problems revamping their corporate groups, even four years after the currency crisis. In 2001, Tajudin sold the national airlines, MAS, back to the government. MAS had been privatised to him in 1993. The government took over the light rail transit system project privatised to Halim's very diversified Renong group. Vincent Tan's conglomerate, Berjaya Group, continues to face gearing problems. Despite divesting assets, William Cheng's highly-diversified Lion Group struggles to deal with the mountain of debts it has accumulated. Mirzan Mahathir was fortunate that the government-owned MISC bought out the debt-ridden firms owned by his listed company, Kumpulan Perkapalan (KPB), which had gone on an acquisition binge in 1996 (see Cheong 1997: 287–301).

The failure of the government's policy to develop Bumiputera entrepreneurs, in spite of the phenomenal amount of privileges accorded to a select number of businessmen, was also due to the manner of implementation of this policy. The government had selected these so-called 'winners' in a non-transparent manner and accorded them numerous concessions, particularly privatised projects, to facilitate their rapid expansion. The non-transparent manner of privatisation reflected the unaccountable form of public governance that had emerged under Mahathir. Moreover, since there was little clear focus in enterprise expansion by many well-connected Bumiputeras, and since political patronage also involved easy access to loans and government privileges, there appeared to be little caution in the manner they developed their companies. This style of growth contributed to their rapid collapse when the crisis occurred.

Another key reason for the decline of most leading Bumiputera businessmen is that since most of them were closely linked to – and dependent on – senior

politicians, their corporate activities were often influenced by politicians and affected by political crises. In 1993, for example, Daim ensured that Renong, controlled by Halim, divested ownership of the then highly profitable media companies, NSTP and TV3, to businessmen linked to Anwar. Anwar had then forged close ties with Daim to mount his bid for the post of deputy president of UMNO. When Anwar and Daim fell from power, so too did businessmen linked to these politicians. Malay capitalists that have remained relatively independent appear to have fared better. Shamsuddin Kadir, for example, who owns Sapura Telecommunications and Uniphone Telecommunications, remained unaffected by the 1998 political crisis in UMNO. Tunku Abdullah, who controls the Melewar group, has not been very dependent on any leading UMNO politician for continued business support and privileges. Malaysian Assurance Alliance (MAA), Abdullah's main listed enterprise, has remained focused on the insurance industry.

Another factor contributing to the rise of a limited number of Bumiputera businessmen by 2000 is that many of them are involved in sectors most affected by the currency crisis. This point also highlights another crucial fact: none of the Bumiputera businessmen listed in the KLSE top 100 have shown a capacity to venture successfully into manufacturing. Most of them have focused instead on telecommunications, property development, finance and construction. Shamsuddin's telecommunications enterprises are probably the only Bumiputera firms actively involved in manufacturing, though none of his companies appear in the KLSE top 100.

Conclusion

Although the development of the Malaysian corporate sector has been strongly influenced by Mahathir's policies, and he alone dominates the state, this study of the top 100 KLSE companies reveals some interesting paradoxes. The level of concentration of political power suggests concomitant concentration of corporate equity in the hands of an elite group. In 2001, there was evidence not of wealth concentration but of rather wide dispersal of ownership of corporate equity of the top 100 quoted companies. The list by *Malaysian Business* (1 February 2001) of the country's 20 wealthiest businessmen also reflected this rather wide dispersal of wealth ownership. The combined wealth of these 20 business people amounted to RM41.7 billion in 2001, about 10 per cent of the KLSE's market capitalisation (*Malaysian Business* 2 January 2001). None of these 20 wealthiest business people appears to hold corporate equity in trust for influential politicians.

This paradox, however, has emerged because of conflicts among political elites. Between the 1997 crisis and 2001, two influential politicians, Anwar and Daim, who had significant indirect control over important corporate enterprises, have been marginalised by Mahathir. The vast corporate assets owned by the business allies of these two leaders have been or are being re-allocated to government institutions or to other private individuals. While it is still unclear if Mahathir's closest allies will come to secure ownership of these corporate assets,

it is evident that the prime minister has the capacity to control how companies are developed.

In spite of the executive's dominance over the corporate sector, there is no evidence that Mahathir has personally corruptly benefited from the shuffling of corporate assets, though there is some evidence of nepotism. Mahathir's commitment to his – sometimes unviable – economic agenda and the need to respond to political crises have also adversely affected the development of these enterprises. One serious outcome of Mahathir's commitment to his economic visions has been the debt crisis in the private sector. In the process, the rights of shareholders have seldom been respected while company directors remain ultimately accountable to the prime minister and not to the investors in companies they lead. This argument is particularly true of firms controlled by well-connected businessmen. Institutions and individuals who have ownership of key corporations seem to have little control over these enterprises. Control appears ultimately to be in the hands of political elites to whom these businessmen are closely linked.

While the rise of politically-linked companies is indisputable, and there is conspicuous interference by politicians in the running of these firms, government leaders do not appear to interfere as much with the management of state-owned enterprises. A distinction thus needs to be made here between state-owned firms and companies owned by well-connected businessmen. Publicly-quoted state-controlled enterprises, apart from banks, have not been as poorly managed as private, but well-connected firms. While some state-owned corporations do carry the problems burdening politically-linked listed companies, like over-leveraging that can undermine future growth, most of them have not been as exposed to allegations of corruption and bailouts. There is, however, some evidence that the state might use quoted government-controlled enterprises, like Telekom, to acquire politically-linked companies. Other large state-owned enterprises, like Tenaga Nasional, may be forced to participate in economically unfeasible projects like the privatised multi-billion Bakun Dam project, which Mahathir appears intent on completing in spite of widespread protests over the viability of this project. Mahathir may be forced to turn to these institutions to deal with the problems of politically-linked companies and to fulfil some of his controversial developmental plans.

Another paradox is that businessmen who have been privy to government concessions have had to face competition; this is evident in the power, financial, telecommunications and construction and property development sectors. This suggests that there is some attempt by the government to get them to perform, but this does not appear to have encouraged independence or genuine entrepreneurship. It is unclear, however, if the promotion of large firms was an important avenue to create employment, promote research and development, enhance productivity and encourage innovation, as none of these objectives appears to have been achieved. There is little evidence of industrial concentration because very few businessmen who have benefited from state patronage have ventured into manufacturing, technology and heavy industrialisation.

Another paradox is that in spite of the political–business nexus, institutions established to ensure proper governance of the corporate sector have the capacity to perform effectively, and have, in fact, a good reputation in terms of regulating the equity and financial markets. But, in view of the hegemony of the executive over the state, the relevance and effectiveness of these institutions depends primarily on the government leaders. Simply put, regulatory institutions can – and usually do – act independently, but are also used as tools by powerful politicians for vested interests. These politicians can ensure that these regulatory institutions do not act against favoured businessmen, in spite of evidence of corrupt practices. This selective use of corporate regulatory powers is most obvious in the controversial bailouts of well-connected companies.

An argument could be made that with the departure of Daim, the business sector no longer holds the view that this is a state acting in its own interests. Moreover, with Mahathir's stated desire to put an end to the promotion of politically-linked companies, the domestic press has argued that corporate governance in Malaysia will improve appreciably. But structural reforms necessary to promote transparency and accountability in government are not being implemented. The concentration of power in the executive and the lack of autonomy of regulatory institutions to act against corruption and corporate activities not in the interests of shareholders do not serve to inspire confidence that genuine reforms are imminent in Malaysia.

Notes

1 Between 1995 and 1997, before the currency crisis, an appreciable increase in the number of companies listed on the KLSE was recorded, from 529 to 708. By the year 2000, the number of companies quoted on the KLSE amounted to 757 (Low 2000: 44–45).
2 For an extensive critique of the implementation of privatisation, see Jomo (1995).
3 For an in-depth study of the rise of these well-connected Bumiputera and non-Bumiputera businessmen, see Gomez and Jomo (1999) and Gomez (2002).
4 Most key ventures involving privatisation did not evolve through open public–private collaboration. The beneficiaries of privatised projects included some Chinese. Major privatisations, including the Bakun Dam, monorail and sewerage projects and the sale of Malaysia Airlines Bhd (MAS) and the Heavy Industries Corporation of Malaysia Bhd (HICOM), have been dismal failures. In all these cases, there was no transparency in the manner of their privatisation.
5 Following a political struggle in 1987, when he narrowly managed to retain power, Mahathir moved to concentrate power in the office of the prime minister and UMNO president. This concentration of political power significantly reduced the bureaucracy's influence in policy planning and implementation.
6 Between the early 1970s and late 1980s, UMNO managed to acquire huge interests in the corporate sector (see Gomez 1990). UMNO's prominent role in the economy led to allegations of conflicts of interest and corruption when the party's companies secured major government contracts. During the late 1980s, an UMNO faction formed a new party and began to make claims on the party's corporate assets. In 1990, because of these problems, Mahathir permitted the transfer of UMNO-owned firms to private individuals, all of whom were closely aligned to Daim.

7 The main government enterprises that own a stake in Telekom Malaysia and Tenaga Nasional include Khazanah Nasional Bhd and the Minister of Finance (Inc.) Bhd, while the controlling shareholder of Malayan Banking and Sime Darby is the national trust agency Permodalan Nasional Bhd (PNB). MISC is majority-owned by Petronas (which also owns Petronas Gas).

8 One government agency that owns a stake in Commerce Asset-Holding is the Employees' Provident Fund (EPF), which comes under the jurisdiction of the Minister of Finance. All employers and employees are required by law to contribute a percentage of the employee's monthly income to the EPF. These contributions are meant to serve as savings that the employee can draw on upon retirement. The EPF invests most of its funds in the equity market, and it is one of the country's major institutional investors. It has been alleged on numerous occasions that the EPF has been abused by government leaders to invest in well-connected companies and to prop up the stock market.

9 For case studies on the development of the Genting and YTL groups, see Gomez (1999).

10 Maxis Communications was listed on the KLSE in 2002.

11 The KTS group is reputed to be one of the top four timber companies in Sarawak, yet none of the firms in this group has been listed on the KLSE.

12 DRB-Hicom emerged out of a merger of the activities of HICOM Holdings and publicly-listed companies outside this group controlled by Yahya Ahmad, that is Diversified Resources (DRB), Gadek, Gadek Capital and an unlisted firm, Master-Carriage (Malaysia).

13 Blue Cement was subsequently involved in a merger with the French-based Lafarge, which would make the merged enterprise the world's largest cement group.

14 Tan Teong Hean is the son-in-law of Lim Goh Tong who owns the Genting group. There is, however, no indication of strong ties between Southern Bank and the companies in the Genting group.

15 The government agency that controls MMC is the national trust agency PNB, the same enterprise that owns Malayan Banking and Sime Darby.

16 Syed Mokhtar was the beneficiary of the privatisation of the Johor port. Under this privatisation, Syed Mokhtar's company, Seaport Terminal (Johor), secured the right to manage and operate the port for 30 years, with an option to extend for another 30 years (*The Edge* 27 August 2001).

17 Commerce Assets-Holdings is listed here as a government-controlled enterprise.

18 Guinness Anchor's main shareholder with a 51 per cent stake is GAPL Pte Ltd, in which Asia Pacific Breweries has a 50 per cent stake. Quek Leng Chan's main holding company, Hong Leong Co, has an indirect stake in Asia Pacific Breweries through an interest in the Singapore-based Fraser & Neave Ltd, a company in which he is trying to secure a controlling stake (see *The Edge* 27 August 2001). If Quek is successful in his bid to take over Fraser & Neave, this would mean that two Chinese-owned enterprises, Hong Leong group and Hap Seng Consolidated, would have acquired a large stake in the foreign-owned breweries, Guinness Anchor and Carlsberg respectively.

19 A Daim protégé, Wan Azmi Wan Hamzah, had secured a huge interest in RJ Reynolds when the company was restructured to conform with NEP ownership guidelines, but he subsequently divested his interests in this firm.

20 Pan Malaysia Cement Works' cement-based firms were sold to foreign-controlled Malayan Cement which was involved in a merger with Kedah Cement. Foreign ownership of the cement industry in Malaysia appears to have been consolidated under the British-based Blue Circle group. Blue Circle, as mentioned, is involved in a merger with the French-based Lafarge group.

21 A small number of companies listed on the KLSE are, however, involved in the information technology sector, including Dataprep, Heitech Padu, Lityan, Mesiniaga, Patimas and Transcap (*The Star* 27 August 2001).

22 The holding company structure exists whenever one parent or holding company controls the composition of the board of directors, or controls more than half the voting power or holds more than half of the issued share capital of another subsidiary company. This definition is extended to include a company which is a subsidiary of a subsidiary. The holding company uses the system of pyramiding, which allows the owner to maintain control over corporations with a relatively small investment. See Sieh (1982: 45) and Lim (1981: 6) for a more in-depth discussion of the merits and de-merits of the holding company structure.

23 Members of the Chinese sub-ethnic Hokkien community in Malaysia and Singapore were responsible for merging their enterprises or resources to establish some major banks, including the Oversea-Chinese Banking Corporation (OCBC) in Singapore and Malayan Banking in Malaysia.

24 For a discussion on the consolidation of the banking sector, see *Far Eastern Economic Review* (5 July 2001).

25 See Gomez (1999) for case studies on the YTL Corp, KLK and Oriental groups, which profile the growth of these enterprises from the time of their incorporation. These case studies indicate that these companies' standing as leading Malaysian firms is due to their adoption of a predominantly vertical or horizontal pattern of growth when developing their enterprises.

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Appendix 6.1

Top 100 KLSE companies, 2000

 1 Telekom Malaysia – telecommunications
 2 Malayan Banking – banking
 3 Tenaga Nasional – power generation and distribution
 4 Petronas Gas – gas processing
 5 Resorts World – gaming
 6 Malaysia International Shipping Corporation (MISC) – shipping services
 7 Sime Darby – diversified, but primarily in plantations
 8 Commerce Asset-Holding – banking
 9 Genting – gaming
10 YTL Corporation – construction, power generation, property development
11 Public Bank – banking
12 Rothmans of Pall Mall (M) – manufacture, import and sale of cigarettes
13 YTL Power International – operation of power stations
14 RHB Capital – banking
15 United Engineers (M) (UEM) – construction
16 Renong – diversified
17 Berjaya Sports Toto – gaming
18 Magnum Corporation – gaming
19 Perusahaan Otomobil Nasional (Proton) – manufacturing and assembling of motor
   vehicles
20 Kuala Lumpur Kepong – plantations, property development
21 Malaysian Pacific Industries – manufacturing
22 Nestle (M) – food production
23 AMMB Holdings – banking and financial services
24 Malayan Cement – manufacture and marketing of cement products
25 Golden Hope Plantations – plantations
26 Tanjong plc – gaming
27 Edaran Otomobil Nasional (EON) – marketing of Proton motor vehicles
28 Hong Leong Bank – banking
29 Sarawak Enterprise Corporation – diversified
30 Malaysian Airline System (MAS) – air transportation
31 Malaysian Resources Corporation (MRCB) – diversified
32 Oriental Holdings – motor assembly and distribution
33 Southern Bank – banking
34 HICOM Holdings – diversified
35 Malakoff – plantations
36 Gamuda – construction
37 Unisem (M) – manufacturing
38 Hong Leong Credit – financial services
39 TA Enterprise – share brokers
40 Sime UEP Properties – property development
41 Jaya Tiasa Holdings – manufacturing
42 Kumpulan Guthrie – plantations
43 Lingui Developments – timber logging, processing and marketing
44 Petronas Dagangan – marketing of petroleum products
45 UMW Holdings – trading of motor vehicles
46 New Straits Times Press (M) (NSTP) – publishing and sale of newspaper
47 Malayan United Industries (MUI) – property development

48 Affin Holdings – banking
49 Arab-Malaysian Finance – financial services
50 IOI Corporation – plantations
51 Carlsberg Brewery (M) – production and marketing of beer
52 Malaysian National Reinsurance – insurance
53 Technology Resources Industries – telecommunications
54 Digi Swisscom – telecommunications
55 Ramatex – textile manufacturing
56 Malaysia Mining Corporation (MMC) – mining and mineral exploration
57 Perlis Plantations – cultivation of sugar cane
58 Tan Chong Motor Holdings – assembly and distribution of motor vehicles
59 Hap Seng Consolidated – beer brewing and distribution
60 KUB – diversified
61 Utama Banking Group – banking and financial services
62 Multi-Purpose Holdings – diversified
63 PSC Industries – shipping services
64 Lingkaran Trans Kota Holdings – operation of toll highway
65 Star Publications – publication of newspaper
66 Rashid Hussain – financial and management services
67 Public Finance – finance
68 Shell Refining Company – refining and manufacturing of petroleum products
69 Highlands & Lowlands – plantations
70 Berjaya Group – diversified
71 Berjaya Land – property development
72 Pacific Bank – banking
73 BIMB Holdings – banking
74 Guinness Anchor – production and distribution of beer
75 Road Builder (M) Holdings – construction
76 Ban Hin Lee Bank – banking
77 WTK Holdings – manufacture and sale of timber products
78 OYL Industries – manufacturing of air-conditioning products
79 Batu Kawan – property development
80 OSK Holdings – stokbroking services
81 Country Heights Holdings – property development
82 Powertek – power generation
83 Cahya Mata Sarawak – diversified
84 RJ Reynolds – manufacture and sale of tobacco products
85 Kedah Cement Holdings – cement manufacturing
86 Hong Leong Industries – manufacture and distribution ceramic tiles
87 Berjaya Capital – financial services
88 Malaysian Oxygen – manufacture and distribution of industrial gases
89 Sungei Way Holdings – diversified
90 IJM Corporation – construction and property development
91 Amway (Malaysia) Holdings – distribution of consumer products
92 Pan Malaysia Cement Works – diversified
93 IOI Properties – property development
94 Kamunting Corporation – highway toll operator
95 Amsteel Corporation – diverisfied
96 Bandar Raya Developments – property developer
97 Phileo Allied – banking and financial services
98 KFC Holdings (M) – quick service restaurant
99 Land & General – property development
100 PPB Oil Palms – plantations

Sources: KLSE, *Annual Companies Handbook* 23 (1–4).

Appendix 6.2

Interlocking directorates in the top 100 KLSE companies

Name	Companies
Nuraizah bt Abu Hamid	Tenaga Nasional Telekom Malaysia
Md Yusof bin Hussin	UMW Holdings Malayan Banking
Mohd Hilmey bin Mohd Taib	Malayan Banking Kuala Lumpur Kepong (KLK)
Lau Yin Pin @ Lau Yen Beng	YTL Power International Tenaga Nasional
Kamariah bte Hussain	Edaran Otomobil Nasional (EON) Tenaga Nasional
Mohd Hassan bin Marican	Petronas Gas Petronas Dagangan Malaysia International Shipping Corporation (MISC)
Lim Goh Tong	Resorts World Genting
Lim Kok Thay	Resorts WorldGenting
Mohammed Hanif bin Omar	Resorts World Genting AMMB Holdings Arab-Malaysian Finance
Alwi Jantan	Guinness Anchor Resorts World
Siew Nim Chee	Malaysian Oxygen Resorts World
Mohd Ali bin Hj Yasin	MISC Petronas Dagangan
Wan Ali Tuanku Yubi	Sarawak Enterprise Corporation Malaysian Airline System (MAS) Cahya Mata Sarawak (CMS) MISC
Nik Mohamed bin Nik Yaacob	Sime Darby Sime UEP Properties
Mohd Desa bin Pachi	Commerce Asset-Holding Malaysia Mining Corporation (MMC)
Nik Hashim bin Nik Yusoff	Utama Banking Group Malayan United Industries (MUI) Genting
Yeoh Tiong Lay	YTL Corporation YTL Power International

Name	Companies
Francis Yeoh Sock Ping	YTL Corporation YTL Power International
Yeoh Seok Kian	YTL Corporation YTL Power International
Yeoh Seok Hong	YTL Corporation YTL Power International
Yeoh Seok Kah	YTL Corporation YTL Power International
Yeoh Soo Keng	YTL Corporation YTL Power International
Yeoh Soo Min	YTL Corporation YTL Power International
Michael Yeoh Sock Siong	YTL Corporation YTL Power International
Haron bin Mohd Taib	YTL Corporation YTL Power International
Yahya bin Ismail	YTL Corporation YTL Power International Shell Refining Company Southern Bank United Engineers (M) (UEM)
Raja Tun Mohar bin Raja Badiozaman	YTL Corporation YTL Power International
Thong Yaw Hong	Public Bank Berjaya Land Kuala Lumpur Kepong (KLK) MMC Public Finance Batu Kawan
Teh Hong Piow	Public Finance Public Bank
Tay Ah Lek	Public Finance Public Bank
Tengku Abdul Rahman ibni Sultan Hj Ahmad	Public Finance Public Bank
Yeoh Chin Kee	Public Finance Public Bank
Oh Chong Peng	Rothmans of Pall Mall (M) RHB Capital Star Publications (M) Rashid Hussain Powertek
Abdul Rashid Hussain	Rashid Hussain RHB Capital

Name	Companies
Seah Fook Chin	Rashid Hussain RHB Capital
Chong Kin Leong	Rashid Hussain RHB Capital
Clifford Francis Herbert	RHB Capital MAS
Halim Saad	UEM Renong
Syed Md Amin Syed Jan Aljeffri	KUB Malaysia UEM
Mohd Zakhir Siddiqy Sidek	Renong UEM
Chan Chin Cheung	Renong Multi-Purpose Holdings
Vincent Tan Chee Yioun	Berjaya Land Berjaya Group Berjaya Capital Berjaya Sports Toto Digi Swisscom
Tan Kok Ping	Berjaya Sports Toto Berjaya Group
Ng Foo Leong	Berjaya Land Berjaya Sports Toto
Robin Tan Yeong Ching	Berjaya Sports Toto Berjaya Group Digi Swisscom
Robert Yong Kuen Loke	Berjaya Capital Berjaya Land Berjaya Sports Toto Berjaya Group
Chan Kien Sing	Berjaya Capital Berjaya Land Berjaya Sports Toto Berjaya Group Digi Swisscom
Freddie Pang Hock Cheng	Berjaya Capital Berjaya Sports Toto
Md Khir Johari	MUI Magnum Corporation
Lim Sze Guan @ Lim Kim Wah	Magnum Corporation Bandar Raya Developments
Mohd Ghazali Seth	Magnum Corporation Nestle (M) Carlsberg Brewery Malaysia

Name	Companies
Pee Ban Hock	Magnum Corporation Multi-Purpose Holdings
Lim Chiew	Magnum Corporation Bandar Raya Developments
Mohd Saleh bin Sulong	HICOM Holdings Perusahaan Otomobil Nasional (Proton) Kedah Cement Holdings Edaran Otomobil Nasional (EON)
Tik bin Mustaffa	Proton HICOM Holdings
Maznah Abdul Jalil	EON HICOM Holdings Kedah Cement Holdings Proton
Mohd Nadzmi bin Mohd Salleh	Proton RJ Reynolds
Lee Oi Hian	Kuala Lumpur Kepong (KLK) Batu Kawan
Yeoh Chin Hin	Batu Kawan KLK
Charles Letts	Batu Kawan KLK
Tengku Robert Hamzah	KLK Batu Kawan
RM Alias	MMC KLK Batu Kawan
Lee Hau Hian	KLK Batu Kawan
Lee Soon Hian	KLK Batu Kawan
Yeoh Eng Khoon	KLK Batu Kawan
Quek Leng Chan	Hong Leong Bank
Hong Leong Credit	Hong Leong Industries Malaysian Pacific Industries (MPI) OYL Industries
David Edward Comley	MPI Hong Leong Industries
Kwek Leng San	MPI Hong Leong Industries
Mohd Shamsuddin bin Hj Mohd Yaacob	MPI Malaysian Oxygen
Tan Keok Yin	MPI Hong Leong Bank

Name	Companies
Azman Hashim	AMMB Holdings Arab-Malaysian Finance
Azlan Hashim	Arab-Malaysian Finance AMMB Holdings
Mohd Tahir Hj Abdul Rahim	Arab-Malaysian Finance AMMB Holdings
Mohd Rashdan Hj Baba	Arab-Malaysian Finance AMMB Holdings Unisem
Cheah Tek Kuang	Arab-Malaysian Finance AMMB Holdings
Azlan Mohd Zainol	AMMB Holdings Arab-Malaysian Finance
Chan Hua Eng	Malayan Cement Lingui Developments Carlsberg Brewery Malaysia
Zain Azahari bin Zainal Abidin	Golden Hope Plantations MMC
Mohammad bin Abdullah	Golden Hope Plantations Malaysian National Reinsurance
Leong Wai Hoong	Tanjong Public Limited Company RJ Reynolds
Faisal bin Siraj	Kedah Cement Holdings HICOM Holdings EON
James Lim Cheng Poh	Hong Leong Bank Hong Leong Credit
Seow Lun Hoo	Hong Leong Bank Hong Leong Credit Malaysian Resources Corporation (MRCB)
Kwek Leng Seng	Hong Leong Bank Hong Leong Credit
Yong Ming Sang	MUI Star Publications MAS
Khalid bin Hj Ahmad	Rashid Hussain New Straits Times Press (NSTP) MRCB Malakoff
Mohd Noor bin Mutalib	MRCB NSTP Malakoff
Ahmad Nazri bin Abdullah	MRCB NSTP

Name	Companies
Abdul Kadir bin Jasin	MRCB NSTP
Ahmad Jauhari bin Yahya	Malakoff MRCB
Mohd Osman bin Samsudin Cassim	Southern Bank Berjaya Land
Mohd Ghazali Hj Che Mat	Malakoff Kumpulan Guthrie NSTP
Lin Yun Ling	Gamuda Lingkaran Trans Kota Holdings
Ng Kee Leen	Gamuda Lingkaran Trans Kota Holdings
Saw Wah Theng	Gamuda Lingkaran Trans Kota Holdings
Tong Keng Tatt	TA Enterprise Pan Malaysia Cement Works
Mustafa bin Mohd Ali	Sime UEP Properties Batu Kawan
Syed Fahkri Barakbah	Sime Darby Sime UEP Properties
Abdul Khalid Ibrahim	Highlands & Lowlands Kumpulan Guthrie
Wong Chong Wah	Highlands & Lowlands Kumpulan Guthrie
Ghazali bin Awang	Highlands & Lowlands Kumpulan Guthrie
Geh Cheng Hooi	Star Publications Tan Chong Motor Holdings Lingui Developments Hap Seng Consolidated
Jamiah bt Abdul Hamid	UMW Holdings MMC
Azzat bin Kamaludin	NSTP Affin Holdings
Ang Guan Seng	MUI Perlis Plantations
Lodin bin Wok Kamaruddin	Affin Holdings Ramatex
Tsuneo Horita	AMMB Holdings Arab-Malaysian Finance
Lee Shin Cheng	IOI Properties IOI Corporation

Name	Companies
Lee Cheng Leang	IOI Corporation IOI Properties
Lee Yeow Chor	IOI Corporation IOI Properties
Yeo How	IOI Corporation IOI Properties
John Madsen	Hap Seng Consolidated Carlsberg Brewery Malaysia
Anuar bin Mohd Hassan	Malaysian National Reinsurance Malaysian Oxygen
Tajudin bin Ramli	MAS Technology Resources Industries (TRI)
Abdul Rahman Hj Ismail	HICOM Holdings TRI BIMB Holdings
Jeffrey Alan Hedberg	Digi Swisscom TRI
Abdul Rahim bin Hj Din	Berjaya Group Digi Swisscom
Wan Abdul Rahman bin Wan Yaacob	Powertek IJM Corporation MMC Lingkaran Trans Kota Holdings
Khor Chin Poey	Perlis Plantations PPB Oil Palms
Liang Kim Bang	Perlis Plantations PPB Oil Palms CMS
Ahmad bin Abdullah	Phileo Allied Tan Chong Motor Holdings
Mohd Noor Yusof	Commerce Asset-Holding KUB Malaysia
Anuar bin Hamdan	Multi-Purpose Holdings Kamunting Corporation Bandar Raya Developments
Abdul Khalid bin Sahan	MMC PSC Industries
Amin Shah bin Omar Shah	Kedah Cement Holdings PSC Industries
Saw Huat Lye	Shell Refining Company Guinness Anchor
Jaffar bin Ahmad Indot	Guinness Anchor Shell Refining Company
Siti Ramelah binti Yahya	Kumpulan Guthrie Highlands & Lowlands

Name	Companies
Danny Tan Chee Sing	Berjaya Capital Berjaya Land Berjaya Group
Mohammed Adnan bin Shuiab	Multi-Purpose Holdings Berjaya Land
Mansor bin Salleh @ Md Salleh	Ban Hin Lee Bank Berjaya Capital
Abdul Manap bin Ibrahim	WTK Holdings Amsteel Corporation
Omar Yoke Lin Ong	OYL Industries Malaysian Oxygen
Tik bin Mustaffa	Proton HICOM Holdings Kedah Cement Holdings
Nasruddin bin Mohamed	Amsteel Corporation IOI Properties Hong Leong Industries
Wan Azmi bin Wan Hamzah	Amway (Malaysia) Holdings Land & General
Lim Ah Tam @ Lim Bok Yeng	Kamunting Corporation Bandar Raya Developments
Lim Thian Kiat	Kamunting Corporation Bandar Raya Developments Land & General
Abdul Rahman bin Sulaiman	Pan Malaysian Cement Works MRCB

7 Privatisation, patronage and enterprise development

Liberalising telecommunications in Malaysia

Lorraine Carlos Salazar

Introduction

Among developing countries, Malaysia was one of the first to initiate reforms within its telecommunications sector. The Telecommunications Department, or the Jabatan Telekom Malaysia, was corporatised in 1987 and listed on the Kuala Lumpur Stock Exchange (KLSE) in 1990. In 1993, the government introduced competition to all segments of this sector – mobile, domestic and international services. Malaysia experienced a pendulum swing, so to speak, from a position of public monopoly to one of too many players. While some might attribute this to irrational exuberance about the merits of competition and the free market (amplified by technology change), it is better explained as the result of intensive lobbying by politically well-connected businessmen who sought entry into this potentially lucrative sector. The government ministry in charge of telecommunications, the then Ministry of Energy, Telecommunications and Post, had recognised from the outset the problems of an over-crowded market, with the issuance of so many licences. Yet, numerous new players were allowed market entry just the same.

When the 1997 currency crisis that badly affected the Malaysian economy exposed the weak financial position of the new players in the telecommunications sector, it provided a reason for pursing the consolidation of these firms. The Malaysian government's management of the consolidation exercise, however, illustrates the impact of the nexus between state and business, and the dynamics of this relationship in shaping enterprise development and promoting entrepreneurship. International players and regulatory and reform ideas by multilateral agencies also influenced the turn of events, but only to a minor extent. Despite liberalisation, senior government politicians heavily influenced the consolidation process and the corporate restructuring of telecommunications companies (telcos).

This chapter traces the development of the telecommunications industry in Malaysia by focusing on the pattern of distribution of licences and the subsequent consolidation of the telcos. Two key questions will be dealt with here. Why did the government allow the telecommunications market to become overcrowded in the first place? Why is consolidation of this sector difficult?

To answer these questions, the key beneficiaries of telecommunication licences will be identified and an assessment will be made of their impact on the sector. A political economy approach will be used to analyse the policy responses of the Malaysian state. This approach views policy not so much as a function of its intended economic effects, but as the outcome of interactions among the politicians, bureaucrats and interest groups operating within a given institutional context (Haggard and Webb 1994). The chapter concludes with a discussion of insights into the state and capital – and the interaction between the two – that can be gained from observing the liberalisation of the telecommunications sector in Malaysia.

Privatising Malaysia

When the Malaysian government introduced the New Economic Policy (NEP) in 1971, it sought to attain the twin goals of eradicating poverty and restructuring Malaysian society to achieve economic parity between ethnic communities, especially between the *Bumiputera*[1] and the Chinese, by the year 1990. While the NEP goals were two-pronged, in reality, wealth restructuring to create a Bumiputera business community received the most attention. Under the NEP, state intervention and public expenditure increased phenomenally. Public enterprises were soon involved in both core sectors (transport, communications, utilities, energy and finance) and in non-traditional sectors such as construction, manufacturing and services. There were only 54 government-owned enterprises in 1965, but by 1985, the number of such institutions totalled 1,010 (Gomez and Jomo 1999: 31).[2]

Adam and Cavendish (1995: 15) argue that although economic growth was impressive and the standard of living of the Malays improved during the NEP decades, its implementation impaired Malaysia's form of enterprise development. One major issue during the NEP period was the emergence of patronage networks in Prime Minister Mahathir Mohamad's party, the United Malays' National Organisation (UMNO), which has hegemony over the ruling multi-party coalition, the *Barisan Nasional* (BN, or National Front). Under the name of the NEP, UMNO leaders took advantage of their hegemony over the state to distribute government rents to select individuals. From the mid-1980s, the implementation of privatisation further augmented the practise of political patronage, leading to the concentration of corporate equity in the hands of a well-connected multi-ethnic elite (see Gomez and Jomo 1999).

During the early 1980s, in a period of economic slowdown and fiscal crisis, governments around the world, led by the United States and the United Kingdom, adopted privatisation to resolve the financial loses of state-owned enterprises (Ramamurti and Vernon 1991). Privatisation has been defined as the transfer of enterprise ownership from the public to the private sector. It refers to the changing status of a business, service or industry, from government to private ownership or control. This was seen as a solution to persistent fiscal deficits brought about by the inability of revenues to grow as fast as expenditures

(Yarrow 1999: 157). It was assumed that private ownership led to economic efficiency because private sector managers and owners were subject to different incentives and more demanding pressures from shareholders (Kay and Thompson 1986: 18). Otherwise stated, privatisation was 'a means of reducing the impact of political factors on economic incentives, behaviour and performance' (Yarrow 1999: 158).

Privatisation as a policy became a worldwide phenomenon in the last two decades of the twentieth century as it was adopted by both developed and developing countries for various reasons, including to raise revenue for the government, promote economic efficiency, reduce government interference in the economy, promote wider equity ownership, introduce competition, subject state-owned enterprises (SOEs) to market discipline and develop the national capital market (Megginson and Netter 2001: 324). To this list, Ramamurti and Vernon (1991) add three other reasons: to curb the power of labour unions; to redistribute incomes and rents within society; and to satisfy foreign donors who wanted to see government's role in the economy reduced. International financial institutions, notably the World Bank, played a key role in the promotion of privatisation by advocating it as *the* solution to dealing with inefficient state enterprises and to stem poor economic performance.[3] In most cases, loans and financial support packages were tied to the adoption of privatisation.

The principal emphasis of privatisation was ownership reform. Vickers and Yarrow (1991) argue, however, that the correlations between ownership, incentives and efficiency are numerous and complex. While privatisation could change the objectives of a firm's ultimate owners, curtail the possibility of government intervention and improve ways of monitoring performance, private ownership had efficiency advantages only in competitive market conditions. Thus, the question of ownership is not the only crucial issue, but also policies on competition and regulation (Vickers and Yarrow 1991: 113).

In Malaysia, the policy of privatisation was first mentioned in 1983, along with the concept of Malaysia Incorporated, which was part of a series of economic policies that were introduced by then new prime minister, Mahathir.[4] The Economic Planning Unit (EPU), the country's highest economic policy-making body, argued that the adoption of privatisation was in line with the international ideological shift following growing disillusionment with the poor performance of many state-owned enterprises (Radin and Zainal 1985: 215). The size of the Malaysian public sector had grown enormously with NEP implementation. However, the financial performance of state enterprises was very unsatisfactory and had become a big drain on public funds (see Radin and Zainal 1985; *Privatisation Masterplan* 1991; Jomo 1993, 1995). Privatisation was seen as a solution to this problem. In 1985, the government issued the *Guidelines on Privatisation*, outlining policy aims and models for its implementation. Six years later, in 1991, the government published its *Privatisation Masterplan* (PMP).

In Malaysia, privatisation has been defined in a very loose manner, covering various modes, including complete, partial or selective transfer of ownership to

the private sector through sale of assets; leasing; management buy-outs, contracts or purchasing of management expertise; the contracting out of existing services; and construction projects based on the build-operate-transfer (BOT), build-operate-own (BOO), build-operate (BO), and build-transfer (BT) models.[5] The licensing or allowing of private competition to enter an activity or industry that was previously monopolised by the public sector is technically called liberalisation but is considered part and parcel of privatisation (see Jomo, Adam and Cavendish 1995: 44, 83; Gomez and Jomo 1999: 75).

Five objectives were mentioned as the rationale for the introduction of privatisation in Malaysia: relieving the financial burden of government; reducing the size and presence of government in the economy; accelerating economic growth through private investment; promoting competition, raising efficiency and increasing productivity; and meeting the equity or distributional objectives of government.[6]

While both the *Guidelines on Privatisation* and the *Privatisation Masterplan* cite the standard neoliberal rationale for market-oriented reforms, Mahathir saw privatisation as another important strategy to help create a Malay business elite through state sponsorship. Mahathir had also long held the view that public enterprises should only function as temporary vehicles for creating a Bumiputera capitalist class (Jomo and Gomez 1997: 365–66). Consequently, even without the economic recession of the mid-1980s and international prompting, Mahathir would probably have actively pursued privatisation.

Privatising telecommunications

The reform of the Malaysian telecommunications sector took place in two stages: the corporatisation and privatisation of the Telecoms Department and the liberalisation of the industry through the introduction of competition.

The Telecoms Department, or Jabatan Telekom Malaysia (JTM), was the first government department marked for privatisation. During the early 1980s, when the government was crafting a general framework for privatisation, there was pressure from the private sector to privatise the department, particularly from Shamsuddin Kadir, the founder and owner of the Sapura group. Shamsuddin had commissioned a study on the feasibility of privatising JTM.[7] This study must have been effective in convincing the government to privatise JTM because on 12 October 1984 Syarikat Telekom Malaysia (STM) was incorporated as a wholly-owned government company.

On 1 January 1987, the government's telecommunications activities were transferred to STM, while JTM was vested with the responsibility of regulating the industry. A month earlier, an operating licence had been issued to STM for 20 years. The licence spelt out 37 conditions for STM to fulfil, including responsibility for universal rural service and limitations on rates. The power to increase rates was vested with the Minister of Energy, Telecommunications and Posts. An important provision in the licence given to STM was the 'Golden Share', similar to the provision in the privatisation of British Telecom (Lowe

1994: 121). The golden share allowed the government to veto STM's decisions, even if it ceased to be the majority shareholder.

On 7 November 1990, STM was listed on the KLSE when an initial public offering (IPO) was made of its equity, leading to its partial privatisation. This IPO was then the largest recorded in Malaysia, making it the biggest quoted company on the KLSE. After STM's listing, its name was changed to Telekom Malaysia (Telekom). The government retained 75 per cent ownership of Telekom's equity.[8] Over a decade after its debut on the KLSE, the government continues to own around 81 per cent of Telekom.[9]

Liberalising telecommunications

While the privatisation policy was well planned, and deliberations with various stakeholders were held,[10] the liberalisation of the telecommunications sector was largely unplanned. Decisions to allow competition to enter the market were made in an ad hoc and secretive manner.[11] The way licences were issued suggests that the government favoured well-connected businessmen. UMNO leaders in government presided over the distribution of the much sought after licence that was required to enter the market.

The liberalisation of the industry had commenced in the early 1980s, with the introduction of the turnkey system for the laying down of telephone cables. These contracts were exclusively awarded to Bumiputera-owned firms. Other methods used as part of the liberalisation process were the licensing of public pay-phone operations and radio-paging.[12] The most profitable sectors of this industry were, however, in basic network services, mobile telephony and international gateway facilities. The liberalisation of these segments marked the introduction of real competition in telecommunication services.

An examination of the introduction of competition in these three segments indicates the political nature of the award of licences. The Minister of Energy, Telecommunications and Posts had the sole authority to award a licence. Yet, S. Samy Vellu, the minister who held this portfolio from 1989 to 1995, and under whom the proliferation of the licences took place, declared in 1993 that it was the Cabinet that decided on the award of market entry licences (*New Straits Times* 25 May 1993). This statement only served to confirm the widely held belief that the power to decide on the allocation of licences or award of contracts lay not with the minister, but with someone higher than him.

From 1993 to 1995, the liberalisation of mobile telephony, international gateway facilities and basic network facilities was implemented at a rapid pace. While originally a monopoly market, by 1995 there were seven basic network facilities providers, seven cellular mobile phone systems and five international gateway facilities. The lack of planning and the absence of policy for liberalisation were obvious. A National Telecommunications Plan (NTP) was only released in 1994, after all but one of the licences had been awarded. The issuance of the NTP seemed an afterthought. One former senior official of Telekom described the release of the NTP as an 'act of trying to correct faults of

what has been done, rather than a policy statement of the way forward'.[13] The political nature of the award of licences became obvious as sections of the bureaucracy opposed the opening of the market while the JTM was still adjusting to its new regulatory role. Although JTM officials had advised the government to act with caution, and despite opposition from Telekom, many new players were allowed entry into this sector.

A study of ownership patterns of the firms, which had obtained the licences, indicates much about the liberalisation process. First, licences were given out to companies owned by businessmen linked to the top three government officials at that time – Prime Minister Mahathir, Deputy Prime Minister and Finance Minister Anwar Ibrahim and UMNO Treasurer and Government Advisor Daim Zainuddin.[14] Second, all these well-connected businessmen had risen fast in the corporate world, as they had also been privy to state rents in other industries. The presence of an established link between these rent recipients and government leaders, indicating a patron–client or a trustee–owner relationship, suggested that these businessmen did not need to spend extra resources in order to gain market entry. In fact, as Gomez and Jomo (1999: 7) have argued that access to state-created market opportunities, in the context of executive dominance and UMNO hegemony, is not a competitive process because how the rents are to be allocated is known beforehand. Third, apart from Shamsuddin Kadir of Sapura and Vijay Kumar of Syarikat Telefon Wireless, none of the other recipients of telecommunication licences had any experience in this sector. Fourth, licences were awarded in a surreptitious, non-transparent manner. No criteria were set for the award of licences, nor were any public announcements made that such awards were about to take place. The liberalisation of the sector apparently followed the 'first come, first served' principle, where a private individual is awarded a project that he has identified, without the need for an open tender system or a transparent selection process (Jomo et al. 1995: 85). Fifth, the political nature of the distribution of licences was evident in that multiple licences were awarded to provide mobile services using the same technology. This led to infrastructure duplication in the highly-populated Klang Valley. This situation earned Malaysia the dubious distinction of having the second highest number of telephone providers per head of population behind Hong Kong. While most of the new players in other countries had foreign joint-venture partners because telecommunications is a capital and technology intensive industry, only one of eight new Malaysian telcos had a foreign partner when they commenced business. The rest only took in partners to bolster their position when the government called for a rationalisation of the industry in 1995.

The corporate players

Table 7.1 provides a list of all the companies – and their major shareholders – that were involved in the telecommunications sector in 1996, following liberalisation in 1989. The table also provides a list of the services that these companies are authorised to provide and the dates when they were awarded the licence to do so.

Table 7.1 Telecommunications market after liberalisation, 1989–1996.

Telco	Majority owner	Licence and issue date	Foreign partner
Telekom Malaysia	Government (MOF and Khazanah)	1 basic network service – 1/1/1987 2 cellular – 1/1/ 1987 3 International Gateway Facility – 1/1/1987	None
Celcom (Cellular Communications)	Technology Resources Ind. – Tajudin Ramli	1 cellular – 1/9/1989 (ART 900) and 1/4/1994 (GSM) 2 basic network – 5/5/1994 3 IGF – 1/7/1993	Deutsche Telekom AG (21%), October 1996
Maxis Communications (formerly Binariang)	Usaha Tegas – T. Ananda Krishnan	1 cellular – 1/1/1993 2 basic network – 1/3/1993 3 IGF – 1/3/1993	US West (20%), 1994; then BT (33.3%) and Media One (12%), 1996
Mobikom	Telekom, EON, PNB, Sapura	cellular – 1/7/1993	None
Sapura Digital	Sapura Group – Shamsuddin Kadir	cellular – 24/12/1993	None
MRCB Telecommunications	MRCB Group	cellular – 1/6/1994	None
Time Telecom	Renong – Halim Saad	1 basic network – 1/6/1994 2 IGF – 1/12/1994	None
Syarikat Telefon Wireless (STW, now Prismanet)	Shubila Holdings – Vijay Kumar	basic network – 24/12/1994	International Wireless Communications
Digi.Com (formerly Mutiara Telecoms)	Berjaya Group – Vincent Tan	1 cellular – 8/8/1994 2 basic network – 18/1/1995	Swiss Telecoms, 1996

Celcom

Celcom, originally Syarikat Telekom Malaysia Cellular Communications, was incorporated in January 1988 and licensed to operate a mobile cellular system on the 900-megahertz spectrum using analogue technology (ART 900).[15] Celcom was 51 per cent owned by Telekom, while Fleet Group held the remaining equity. Fleet Group was then UMNO's main holding company (Gomez 1990, 1994).[16]

In early 1987, Fleet Group approached Telekom and proposed a joint venture, after noticing the success of Telekom's ATUR 450. ATUR is a cellular radiotelephony system introduced in 1985 intended for rural telephony. Telekom was taken by surprise by ATUR's popular uptake, not by rural residents, but by businessmen who wanted a mobile communications system. Realising the potential of the telecommunications business, Fleet Group wanted a 70 per cent stake in Celcom.

The person who had reputedly played a central role in setting up the ATUR system, Rosli Man, was at that time working with Fleet Group. Rosli had resigned from Telekom after ATUR's launch to join Fleet Group to help it set up TV3.[17] Rosli was said to have broached the idea of building a mobile phone network using a higher frequency. Telekom executives were then also working on a similar idea. Telekom refused to give Fleet Group majority control, thus finally settling on a 51–49 per cent share partnership. Yet, despite Telekom's majority stake in Celcom, Fleet Group secured management control. Fleet Group was reportedly the one making the decisions on technology, equipment and other management issues. At its official opening in August 1989, Tajudin Ramli, representing Fleet Group, gave the launching speech. Telekom staff boycotted this ceremony.

In December 1989, Telekom sold its 51 per cent stake in Celcom to an obscure private company, Alpine Resources, for a measly RM4 million. While observers were puzzled as to why Telekom took on Fleet Group as a partner when it already had the capital, capacity and experience to operate the cellular service on its own, they were more bewildered by the next turn of events. It increasingly became evident that 'there existed a hitherto unknown political facet to the entire issue'. As one industry analyst succinctly put it: 'someone out there wanted a piece of the action'.[18] Telekom officials 'resented and opposed the sale of Celcom for a song'.[19] Nevertheless, it seemed that it was forced to sell its stake to a foreordained buyer at a predetermined selling price, on the promise that if it agreed to do so, it would be awarded a new mobile telephony licence that it could operate on its own (see *Malaysian Business* 16–31 March 1990).

Yet, three months after the Celcom sale, in February 1990, Minister Samy Vellu announced that 'the Cabinet has decided to postpone the implementation of a third cellular network so as to give the second network (Celcom) sufficient lead time to get off the ground and eventually go nationwide' (quoted in *Malaysian Business* 16 March 1990). The cabinet resolved to give Celcom five years of lead-time (i.e. monopoly) before new players, including Telekom, would be allowed into the mobile market. Although Telekom had the requisite

expertise, it was effectively prevented from competing in a vital growth area. Telekom was also barred from offering paging services, another growth area during the early 1990s. Pagers were then very popular as cellular phones were still very expensive. From a regulatory point of view, it made sense to hold back the dominant company, Telekom, from providing cellular and paging services to give new players a chance to catch up and create a more competitive environment. Yet, it was evident that this policy was for the benefit of Celcom.

Alpine Resources, the buyer of Telekom's share in Celcom, is an investment holding company owned by Tajudin Ramli, a close associate of Daim. Tajudin, one of the few handpicked Malays nurtured by the state to become a major corporate player, benefited from other instances of government largesse, such as the privatisation of Malaysia Airlines (MAS), enabling him to quickly emerge as one of Malaysia's leading Bumiputera businessmen. Tajudin was once a director of property developer Peremba, the private arm of the government's Urban Development Authority (UDA), set up and headed by Daim in 1979. Peremba became the training ground for a group of young Malay professionals, most of whom were qualified accountants. These Malays, including Tajudin, Halim Saad, Wan Azmi Wan Hamzah and Samsuddin Abu Hassan, benefited from state patronage as part of Mahathir's strategy to create Malay billionaires. They became active in the management of Daim's firms and in the development of UMNO's business empire (see Gomez 1990).

Tajudin sat on the board of Daim's family companies, Seri Iras and Taman Maluri. When Seri Iras acquired a majority stake in publicly-listed bicycle manufacturer Raleigh in 1983, Tajudin was appointed its chairman and chief executive.[20] He was also once a director of the Fleet Group and one of its major private subsidiaries, Fleet Trading and Manufacturing. It was during Tajudin's tenure as director of the Fleet Group that he became involved in Celcom.

Alpine Resources was incorporated on 8 September 1987. Tajudin owned 99.2 per cent of the company, while his brother Bistamam held the remaining stake (*Business Times* 6 June 1992, 11 June 1992). Alpine Resources' first directors included UMNO-linked personalities like Abdul Rashid Abdul Manaff and Zaki Azmi (Gomez and Jomo 1999: 148). According to Tajudin's version of the story, his big break in telecommunications came when Telekom 'offered' to sell to Alpine Resources its stake in Celcom (*Business Times* 24 February 1993).

Following a complicated series of corporate callisthenics, Tajudin secured total ownership of Celcom (see Figure 7.1). Four months after Alpine Resources had bought Telekom's 51 per cent stake in Celcom for RM4 million in December 1989, Fleet Group sold its 49 per cent stake in the same firm to Time Engineering (a company that was controlled by Halim Saad, another Daim associate) for RM81.5 million, a whopping 20 times more than what Telekom got for its shares.

In November 1991, Alpine Resources offered to sell its 49 per cent stake in Celcom to Technology Resources Industries (TRI) for RM259.4 million. TRI was a company in which Tajudin had a beneficial interest.[21] Time Engineering, Celcom's other major shareholder, opposed the sale, insisting that it had the right
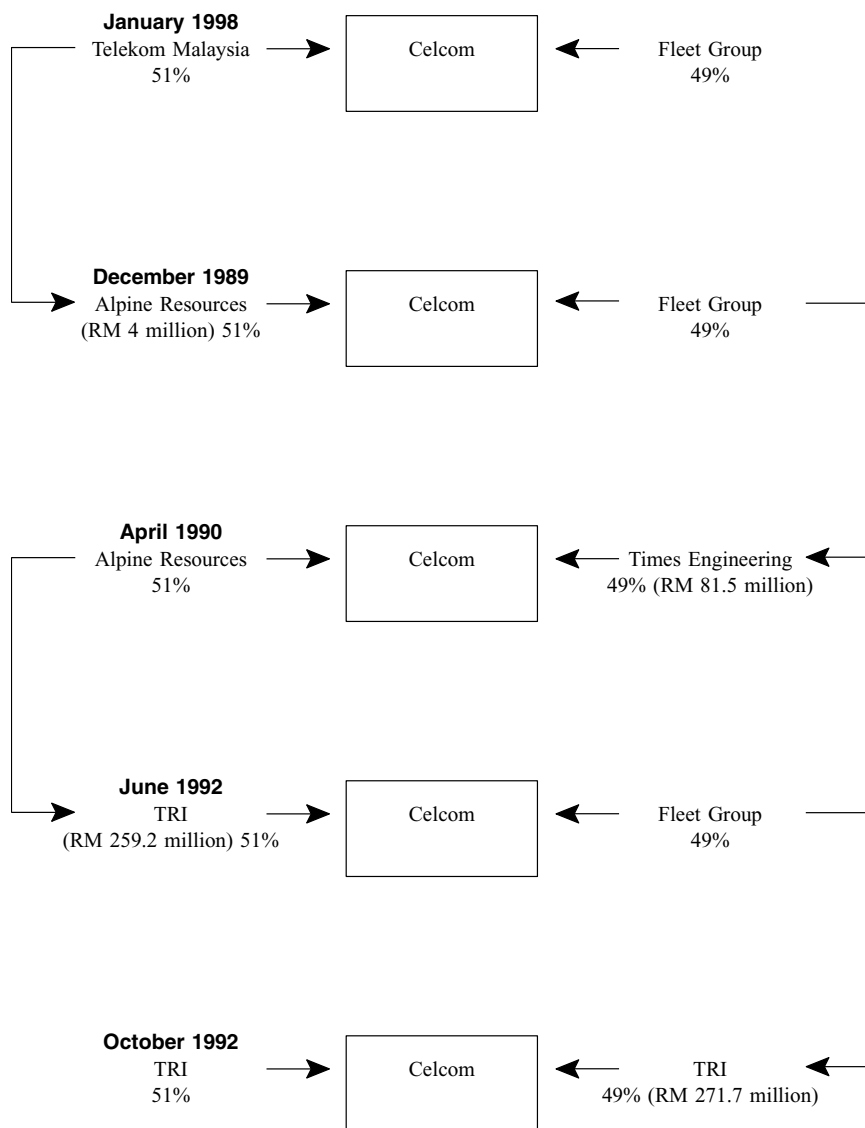
Figure 7.1 Celcom's takeover by TRI.

of first refusal to these shares if they were up for sale. In view of Time Engineering's objection, the deal did not materialise. As Time Engineering was under the control of Halim, this suggested that two of Daim's protégés were now in competition with each other.

In June 1992, to get around Time Engineering's opposition, Tajudin and his brother Bistamam reportedly offered to sell 100 per cent of Alpine Resources to

TRI for RM259.2 million. This time, Time Engineering's consent was not needed because what was being sold was the holding company itself (Alpine) rather than Alpine's stake in Celcom. Time Engineering, it seems, withdrew its earlier protest because it had been promised a new licence of its own.[22] This promised licence eventually became the award to operate the fibre-optic network that was laid along the North-South Highway, which had been built by Time Engineering's sister company, United Engineers Malaysia (UEM) (*New Straits Times* 28 October 1999). In October 1992, Time Engineering relinquished its 49 per cent stake in Celcom to TRI for RM271.7 million cash (*New Straits Times* 28 October 1999; *Computimes* 5 November 1992). With the sale of Alpine Resources' stake in Celcom to TRI through a share-swapping exercise, Tajudin's interests in TRI increased from 27.4 per cent to 48.5 per cent (*Business Times* 6 and 11 June 1992; *New Straits Times* 8 June 1992).

A few observations about the way Celcom became a part of Tajudin's stable of companies should be noted. First, in 1989, Telekom, then wholly-owned by the government through the Ministry of Finance, was 'persuaded' to sell its stake in Celcom to a firm owned by a close associate of then Finance Minister Daim. There was no public announcement of Telekom's divestment of its stake in Celcom, nor was there any public bidding. The sale was announced only after the deal was consummated. Telekom executives had opposed the sale of a profitable business that they had developed, but this resistance proved futile as allies of powerful politicians wanted entry into this potentially lucrative market. Second, in the next stage of the sale involving Celcom equity, both the seller (Alpine Resources) and the buyer (TRI) were companies controlled by the same person, Tajudin, giving him majority control of a quoted firm (TRI). Third, the final stage of the sale of Celcom shares involved firms that were controlled by two of Daim's closest associates, Tajudin and Halim. It appears that the issue of 'who gets what' was not decided in the market place but was negotiated covertly and decided by ruling politicians. In the case of two individuals competing for a controlling stake of the same company but who were clients of the same patron, public display of thorny conflicts was avoided through negotiated deals leading to each getting different sections of the telecommunications sector. This indicates that competition also existed among 'Daim's boys'.

As it had monopoly status for five years, Celcom rapidly gained a lot of subscribers, even though it offered poor service and was experiencing network congestion. Despite this, Celcom received an international gateway licence in July 1993 and a domestic network licence in May 1994, giving the company the right to operate a full telecommunications network, similar to what Telekom had to offer (*Business Times* 5 July 1996). In addition, TRI attempted to venture abroad to develop its business interests. In 1992, TRI held successful negotiations with the Cambodian government to build a national telephone system in Cambodia (*Business Times* 12 November 1992; *New Straits Times* 20 November 1992). One report ironically pointed out that Celcom ventured overseas but had not considered building a mobile network first in Sabah and Sarawak (*New Straits Times* 27 November 1992). Moreover, following its total acquisition of

Celcom, TRI spread its focus from telecommunications to the transportation, tourism and manufacturing sectors.[23]

Maxis Communications

The second company that was given a full suite of licences, including basic network and international gateway facilities, was Binariang Communications, presently known as Maxis Communications. Maxis is majority owned by T. Ananda Krishnan through his private holding company, Usaha Tegas. Maxis' entry into the telecommunications and cable TV business commenced in January 1993 when Ananda was handpicked by the prime minister and granted a licence to launch and operate Malaysia's first satellite. Along with this exclusive franchise, Maxis was awarded a cellular licence using GSM technology. Two months later, in March 1993, Maxis was awarded licences to operate a basic network and international gateway facility. Even though its licence was granted in 1993, Maxis did not offer mobile telephone services until 1995, because its main focus was then on the launching of its satellite, MEASAT (Malaysian East Asia Satellite). Maxis had apparently secured its licences by virtue of Ananda's access to Mahathir.[24] Feasibility studies and plans were only presented to the JTM after the licences had been awarded.

Ananda, a Sri Lankan Tamil born in Kuala Lumpur, graduated from the University of Melbourne and obtained an MBA from Harvard University. Ananda made his corporate mark abroad in oil dealing, before returning to Malaysia (see *Asian Wall Street Journal* 10 September 2001). From the profits he gained from his oil ventures, Ananda invested in a variety of other enterprises, including horse stud farms in Australia, a gas field in Oklahoma and a cartoon animation studio in California and Manila. His companies overseas include Pacific States Investment Ltd, Pexco Holdings, Worldwide Sports and Entertainment and Exoil Trading Ltd. In Malaysia, Ananda's main private holding companies are MAI Holdings and Usaha Tegas.

Ananda had served as a director of the central bank, Bank Negara (from 1982 to 1987), and the national oil corporation, Petronas. Described in media reports as a shrewd, reclusive businessman, he is reputed to have played a key role in the reconciliation between Mahathir and Razaleigh Hamzah.[25] Before his rise to fame in the telecommunications industry, Ananda gained recognition for his involvement in the construction of the Kuala Lumpur Twin Towers and when he secured the rights to a privatised lottery operation. UMNO members had openly voiced their objection to Ananda's involvement in both these projects (Gomez and Jomo 1999: 159–65).

Although Ananda, like other beneficiaries of state patronage, had 'built bridges with powerful politicians, who are the traditional sources of lucrative licences and contracts', he was said to possess entrepreneurial skills (*Asian Wall Street Journal* 10 September 2001). During the 1997 currency crisis, however, he ran into financial problems. Ananda reportedly abandoned his ambitious plan of providing a fully interactive satellite TV business service through Astro, his

cable TV network. Astro had planned to integrate Internet, home shopping and pay-per-view services, but when the crisis struck, was forced to retrench a third of its staff. While he was negotiating with British Telecoms (BT) to sell a 33.3 per cent stake in Maxis during the height of the crisis, BT reportedly wanted a clause in the contract that gave it the right to buy additional Maxis shares if Ananda sold more of his stock to raise cash. Ananda agreed but insisted that he too be given right of first refusal if BT sold its Maxis equity. Thus, in May 2001, when BT decided to unload its shares in Maxis as a means to reduce its US$40 billion debt incurred when it won a third generation (3G) licence in Europe, Ananda's Usaha Tegas acquired BT's Maxis equity for RM1.9 billion. This price had a premium of only RM100 million from the amount BT had paid when acquiring the Maxis equity in 1998. This transaction raised Ananda's stake in Maxis to 70 per cent (*Asiaweek* 18 May 2001; *Asian Wall Street Journal* 10 September 2001).

Maxis is presently the leader in cellular telephony, holding 35 per cent of the market, with an estimated 2.8 million subscribers as of September 2002. Maxis supplanted Celcom from the top position during the last quarter of 2000, despite the lead-time given to the latter to establish itself in this sector. Maxis' long-awaited listing on the KLSE took place on 8 July 2002 at an IPO price of RM4.36 per share (*The Star* 6 June 2002). The Maxis IPO was over-subscribed by 1.79 times, with the company valued more than twice that of TRI, an indication of how investors viewed the potential of this company (*The Edge* 16 June 2002).

Mobikom

Mobikom became the recipient of the third mobile network licence on 1 July 1993. The company was incorporated as early as 11 December 1989, when Telekom was preparing to launch a third network in exchange for selling its stake in Celcom to Alpine Resources (*Business Times* 1 July 1994). Yet, despite the government's promise, the issuance of the licence was delayed by four years. When the government was ready to issue this licence, many other parties were interested in securing it. Consequently, Telekom was 'persuaded' to form a consortium with Edaran Otomobil Nasional (EON), Permodalan Nasional Bhd (PNB) and Sapura (*New Straits Times* 16 October 1992, 28 November 1992). PNB is the government's leading trust agency, while EON, distributor of Malaysian-made Proton model cars, was then about to be privatised. Sapura, owned by Shamsuddin Kadir, had until then still not secured a telecommunications licence even though his company had first presented the proposal to the government to privatise Telekom. Telekom, EON and PNB each held 30 per cent of Mobikom's equity, while Sapura was given the remaining 10 per cent. EON and PNB rationalised their involvement in Mobikom as part of their diversification strategies (*Business Times* 27 January 1993). EON had become interested in mobile telephony because cellular phones were popularised as car phones. PNB's interest in telecommunications begun when it was awarded a

Public Services Network licence to operate and interconnect government data communications systems. PNB, however, had found it difficult to secure leased lines from Telekom. Since laying down its own cables was not an option because of the high cost involved, the idea of using cellular radio channels was raised, leading to its interest in cellular telephony.[26]

As demand for cellular telephony increased, many firms became interested in obtaining a stake in the Malaysian market. At least three international firms with local counterparts were vying for the AMPS 800 licence that was secured by Mobikom. They included Hutchinson of England, Bell South of the USA in a joint venture with the Berjaya Group, and GT&E of the USA in a joint venture with Mirzan Mahathir, the eldest son of the prime minister. Numerous discussions were held between the various interested parties and intensive lobbying transpired. Eventually, the government decided that the best solution was to award the licence to a consortium (*Business Times* 1 July 1994).

From the outset, the four shareholders squabbled over control of Mobikom's management because the three major shareholders had equal equity ownership. In addition, although the government, through PNB and Telekom, had a majority stake in Mobikom, this did not diminish boardroom tension. The boardroom disputes hindered Mobikom's development, and its official launch was delayed by around six months because of a disagreement surrounding the award of the tender to build Mobikom's network to Perwira Ericsson, a joint venture between Ericsson of Sweden (40 per cent) and another government-controlled trust agency, Lembaga Tabung Angkatan Tentara (60 per cent). While Perwira Ericsson was associated with Telekom in its capacity as long-time supplier, the other bidders were favoured by and associated with Mobikom's other shareholders.[27] The protests of the losing bidders were raised at Mobikom's board meetings. Subsequently, then Finance Minister Anwar was brought in to settle the matter. Anwar directed Mobikom to issue a new tender, but following a review by an 'independent' committee, the original tender was deemed legitimate (*New Straits Times* 24 January 1994).

In addition to the boardroom squabble, Mobikom could not commence operations because JTM had inadvertently given Celcom too broad a frequency spectrum to run its ART 900 service, leaving no room for other potential entrants. The need to allocate the spectrum rationally and divide it among competing companies was a scenario not foreseen by the regulators at the time when Celcom was awarded the licence (*New Straits Times* 24 January 1994). While this situation indicates the fast-changing pace of developments in the telecommunications sector, it also revealed how well-connected businessmen were being awarded licences by their patrons in government, while JTM was left to sort out the problems.

Sapura Digital

Sapura Digital, owned by Sapura Holdings, obtained a licence to operate a Personal Communication System (PCS) on 24 December 1993, the first of three

similar licences issued to operate such a network. Sapura launched Adam on 8 August 1995, a digital network that covers major cities in Peninsular Malaysia.

The Sapura group, owned by Shamsuddin Kadir, has been in the telecommunications equipment supply business since the mid-1970s. Shamsuddin is reputed to be one of the few Malay businessmen to properly utilise the rents allocated to him, building up productive capacity through investment in research and development (R&D) and eventually creating an enterprise producing goods that could compete internationally. Shamsuddin, a UK-trained engineer, had worked for the JTM from 1959 to 1971. His 12-year stint with JTM, before its privatisation, gave him useful knowledge of the telecommunications sector as well as valuable contacts. In 1971, he left JTM to join Eric Chia's United Motor Works (UMW) as its executive chairman. UMW was then involved in the leasing of payphones to businesses. In 1975, Shamsuddin bought the payphone business from UMW and set up Sapura Holdings. Shamsuddin also formed Uniphone, as a subsidiary of Sapura, to manage the payphone business. That same year, Shamsuddin won three major contracts from JTM: a 10-year contract to provide public payphones in urban areas; to provide the department with telephone sets; and turnkey projects to lay down cables for the department (Cheong 1997: 298). In 1983, Sapura was one of four Bumiputera firms that secured one of government's biggest turnkey contracts, then costing RM$2.5 billion, to lay down cables for JTM.[28]

Shamsuddin is said to be close to Mahathir. He once served as a director of UMNO's cooperative, Koperasi Usaha Bersatu (KUB). Sapura's vice chairman, Rameli Musa, is reportedly a confidant and schoolmate of former Deputy Prime Minister Anwar (Gomez and Jomo 1999: 73). Shamsuddin, unlike Tajudin and Halim, entered into joint ventures with foreign firms, like Sumimoto and Marubeni of Japan, and insisted on technology transfer, thus giving Sapura the capacity to manufacture cables and telephone sets and systems. Sapura's success in manufacturing was evident when it began exporting its telephones sets and other products overseas (Searle 1999: 169–74). Apart from the manufacture of telecommunications equipment, Sapura has expanded its business into the manufacture of IT products and vehicle component parts and the distribution of Apple computers (Searle 1999: 174–75).

Time Telekom

Time Telekom, a wholly-owned subsidiary of publicly-listed Time Engineering, is part of the Renong conglomerate,[29] and is the second major basic network provider in Malaysia. Time Telekom owns the fibre-optic network running the stretch of the North-South Highway that spans the entire peninsula, from Thailand to Singapore. In contrast to the other new telcos, Time Telekom was originally not involved in cellular telephony, but in providing the basic network facility. Time Engineering's licence to operate the fibre-optic network was transferred to Time Telekom on 1 June 1994. The award of this licence was apparently in connection with a promise given to Time Engineering in 1992 as

an incentive for it to sell its stake in Celcom to TRI. Through its 2,700 kilometre fibre-optic network, Time Telecom planned to offer broadband voice, data and interactive multimedia services to corporate and residential subscribers.

Halim Saad, then the chief executive officer of Renong, had admitted in a court affidavit that he held shares 'in trust for the ultimate beneficial owner, UMNO' (Gomez 1990: 110). A New Zealand-trained accountant, he served as Peremba's corporate services manager and was one of the original directors of Hatibudi, an UMNO investment holding company (Gomez 1990: 107). Halim also sat on the board of a few publicly-listed firms in which Daim had an interest, including Cold Storage, D&C Bank and TRI. Halim was later appointed chairman of Renong, executive vice chairman of UEM and chief executive of the controversial Projek Lebuhraya Utara-Selatan (PLUS), the UEM subsidiary formed to build and operate the privatised North-South highway project (*Business Times* 4 October 2001).

Like Tajudin, Halim quickly emerged as a leading Bumiputera businessman in the 1990s through the award of numerous privatisation contracts and licences. Renong's most lucrative privatised contract was the North-South Highway project. The revenue generated by this project helped Renong build a conglomerate that was involved in engineering, construction, telecommunications, power generation, financial services, hotels and properties, oil and gas prospecting and investments and trading. Halim lost ownership and control of the Renong group in October 2001, not long after Daim resigned as finance minister in June that year.

MRCB Telecommunications

MRCB Telecommunications, a subsidiary of Malaysian Resources Corporation (MRCB), was awarded the sixth mobile telephony licence and the second personal communications network (PCN) licence on 1 June 1994. This licence authorised MRCB Telecommunication to place, lay, carry or maintain any posts, cables or wires for the purpose of telecommunications (*New Straits Times* 14 June 1994).

At the time of the award, MRCB was being managed by businessmen linked to Finance Minister Anwar, namely Nazri Abdullah, Mohd Nor Mutalib and Khalid Ahmad. Publicly-listed MRCB gained prominence in 1993 when it was used as the vehicle for the management buy-out of the New Straits Times Press (NSTP) and Sistem Televisyen Malaysia, the operator of TV3, from Renong.[30] Subsequently, MRCB started to further diversify its interests, moving into construction, property development and power generation.[31] The PCN licence was just one concession in a long list of government awards and contracts that MRCB obtained. During Anwar's tenure as finance minister, MRCB gained the most envied contracts and licences, reminiscent of Renong's fortune under Daim as finance minister. The award of a PCN licence to MRCB, among other things, suggested that Anwar was in the process of building his own set of favoured businessmen while he was at the helm of the finance ministry. At its height,

MRCB owned four quoted firms, NSTP, TV3, power generator Malakoff and the banking group Commerce Asset Holdings.

Syarikat Telefon Wireless

Syarikat Telefon Wireless, established by Vijay Kumar, a telecommunications engineer, and Conny Dolonius, a Swedish banker, was probably the only company that obtained a licence because it offered a technological solution to the lack of telephones in rural areas. Vijay proposed the use of wireless local loop (WLL) technology to provide telephones to areas where Telekom did not provide fixed line services. According to Vijay, in December 1993, STW obtained the prime minister's approval for a one-year pilot project to serve Langkawi, which was then identified as a free port and tourist development area, where telephone services were poor.[32] Of all the companies that had been awarded a licence, only STW went through the process prescribed by the Privatisation Master Plan, i.e. providing a viable business plan and innovative private sector solution. The pilot test catering to 300 subscribers was so successful that STW immediately had a waiting list of 5,000 in Butterworth, Alor Setar, Perlis and Penang (*Business Times* 31 October 1994). STW was given a national network licence in November 1994. In contrast to the other new telcos, STW took in International Wireless Corporation (IWC), an American company, as a joint venture partner.

STW was not a competitor of Telekom, but rather a firm that could complement the latter's services. STW, for example, aimed to go into the areas unserviced by Telekom because of the high capital cost involved in putting up copper lines. The cost of using WLL technology, according to Vijay, was less than a third of the cost of using copper lines. News about STW's success was well received in other countries, and the firm was invited to invest in the Philippines, Thailand, India and Cambodia.

As Vijay and Dolonius, the first shareholders of STW, were non-Bumiputeras, Vijay brought in Shubila Holdings, owned by Shuaib Lazim, as his Bumiputera partner. Shuaib is reportedly a cousin and a close associate of Daim. The other shareholders of Shubila were Khalil Akasa, also a shareholder of Raleigh and Berjaya, and VXL Holdings, owned by Lim Chee Wah, the son of Genting's Lim Goh Tong, reputedly a close Daim ally.

In 1995, following the government's call for a rationalisation of the telecommunications sector, Telekom offered to buy STW for RM250 million, but the shareholders refused to sell out. Vijay argued that while too many mobile licences had been issued, STW was not into cellular telephony. When STW's shareholders decided not to relinquish control of their company, they found that their imported equipment for network build-up was not being released by the Customs Department, leading to construction delays. They eventually gave up the fight and sold their stake in STW to Rosli Man[33] and Shuaib Lazim in August 1996, ironically, just after the government called off the rationalisation exercise. STW was renamed Prismanet, and it is presently under receivership. STW's

shareholders were apparently not paid for the sale of the company, and they are now pursuing a court action to regain ownership.

Digi.Com

Formerly known as Punca Mutiara Communications, Digi was the last firm to obtain a licence. Digi was the seventh mobile telephone licencee and the third company licensed to build a PCN network. In fact, Digi's licence was issued after the government had announced that it would not issue any more licences. Digi is controlled by the well-connected Vincent Tan of the Berjaya Group.

Tan is reputedly closely associated with Daim and Mahathir. Tan's first claim to corporate fame was in 1982, when he secured the exclusive right to the McDonald's franchise in Malaysia. In 1984, he linked up with Azman Hashim of the Arab Malaysian group to acquire a 38 per cent stake in Berjaya Corporation, which was then involved in the manufacturing of steel wire products (Searle 1999: 192).

In 1985, Tan's private firm, B&B Enterprise, won the contract to buy 70 per cent of Sports Toto, a lottery operator that was owned by the Ministry of Finance Inc (MOF). This privatisation was strongly criticised because it was implemented in a non-transparent manner. In 1989, in another controversial deal, MOF's remaining 30 per cent interest in Sports Toto was sold to another company owned by Tan (Gomez and Jomo 1999: 152–58).

Tan's Berjaya Group has been described as one of Malaysia's most active corporate raiders having bought and sold stakes in numerous quoted companies, including Prudential Assurance, South Pacific Textiles Industries (renamed Berjaya Textiles), Far East Asset (renamed Berjaya Sports Toto), Singer Holdings (renamed Berjaya Singer), IGB Corporation, Magnum Corporation, Taiping Consolidated, Dunlop Estates, Malayan United Industries, SIG Holdings (renamed Berjaya South Island) and Tropical Vener Company (renamed Intiplus) (Gomez and Jomo 1999: 154). Tan also held a stake in the news media firm publishing Malaysia's leading tabloid, *The Star*, and owned the *Watan* and *The Sun* newspapers. Tan's business interests include cosmetics distribution, hotel and resort management, property development, telecommunications and media services. The rapid corporate expansion of Tan's Berjaya Group is a good example of a non-Bumiputera gaining access to state concessions through personal links with senior politicians. He was awarded major contracts and licences in business areas that he had no expertise in, including gaming, sewerage management and telecommunications.

Call for rationalisation

In 1989, Leo Moggie, then the Minister of Energy, Telecommunications and Posts, relinquished this portfolio following a cabinet reshuffle. Moggie asserts that at that time this ministry was keen on ensuring that Telekom maintain its monopoly status while regulatory policies and procedures were being developed.

When the regulatory procedures had been put in place, decisions would be made on the number of new licences to be issued to introduce competition in the telecommunications market. However, the new minister appointed to this portfolio, Samy Vellu, immediately reversed this policy. Moggie believes that Samy Vellu might have thought that by allowing other firms to enter the market, Telekom would be forced to perform better. Yet, Moggie acknowledges that in retrospect, 'we should probably not have given so many licences at that time'.[34] As the regulations were not laid down before competition was introduced, undoing the repercussions of the decisions made in the ministry under Samy Vellu was precisely what Moggie embarked upon when he was re-appointed to this portfolio in 1995.

In September 1995, Moggie announced that the government would encourage rationalisation of the industry to avoid wastage of resources and duplication of infrastructure (*Business Times* 29 September 1995). The media widely reported that since the government was convinced that the small Malaysian market could support only three full service telcos, it called on the existing players to consolidate their enterprises. This policy reversal took place just eight months after the last licence had been issued. Telekom, Celcom and Maxis were believed to be the three telcos chosen to remain in the industry as full service companies. Vincent Tan and Jaafar Ismail, then chief executive officer of Time Telekom, issued statements that they had already started work on their networks and would continue to do so (see *Business Times* 29 September 1995). Tan then sought out a foreign partner and sold 30 per cent of Mutiara to Swiss Communications, valuing the company at RM1 billion (*Business Times* 1 January 1997).

While the telco operators themselves never openly acknowledged it, negotiations for mergers and acquisitions took place. The possibility of mergers was scuttled because the telcos reportedly valued themselves based on future earnings, not according to their assets on the ground. STW, the only company without strong political backing, came out provocatively in the press and declared that the government's consolidation exercise amounted to expropriation. STW's foreign partner, IWC of the USA, had apparently sought President Bill Clinton's intervention to stop the consolidation exercise.[35]

In July 1996, Moggie retracted his call and stated that 'to avoid further uncertainties in the market, the government has decided that it will not get involved in trying to persuade the companies to merge . . . and let market forces decide' (*Business Times* 5 July 1996).[36] It is difficult to determine whether this decision was due to STW and IWC's denunciation of the exercise as an act of expropriation that threatened trade relations with the US or that the consolidation negotiations among companies owned by the politically influential was proving to be a Herculean task. It clearly meant, however, that the consolidation exercise was shelved.

Yet, the call for rationalisation was not totally unsuccessful as two mergers were implemented – the sale of MRCB's Emartel to Telekom and Sapura's Adam to Time Engineering, Time Telekom's parent company. In July 1996, barely a year into its operation, Sapura decided to sell Adam, its mobile telephone

business, and Uniphone, its public payphone business, for RM1.2 billion to Time Engineering. Time Engineering wanted the Sapura group's mobile and payphone licences to complement Time Telekom's fledging landline services. Time Engineering boasted that Time Telekom would become a full pledged telco operator with the capacity to provide a complete range of services after the acquisition of Adam and Uniphone. Analysts, however, saw these acquisitions as a last ditch effort by Time Telekom to stay in the business. There was much speculation as to where Time Engineering would get the funds to pay for these acquisitions as it was already highly geared due to the capital-intensive development of its fibre-optic network.[37] Meanwhile, a senior Sapura executive disclosed that the company had divested its interests in this sector because 'it was not worthwhile to be a telecoms service operator when your biggest customer, Telekom Malaysia, becomes your competitor and stops buying from you'.[38] The Sapura group was fortunate to have left the telco industry early enough to profit from its investments. Thus, when the currency crisis occurred the following year, Sapura was flush with funds.

The second consolidation, involving the purchase of MRCB's Emartel by Telekom for RM640 million was finalised in August 1996. Emartel had been in operation for just over a year when MRCB realised that it would need to invest at least another RM1 billion to complete its network. Moreover, Emartel would only be able to break even after at least three years, as was usually the case with mobile services. MRCB was then pressed for funds for its other major projects, notably the KL Sentral project and a rail link to the new KL International Airport in Sepang (*Malaysian Business* 1 February 1996). Telekom took over Emartel and renamed it TM Touch, which became its first wholly-owned digital mobile service.[39] Thus, seven years after it had sold Celcom, Telekom had finally secured its own digital mobile telephony service. This had come about only after one of the chosen licencees had not shown the capacity to operate and develop the service. The deal was apparently a bailout of MRCB, as the price paid by Telekom for an incomplete network with a low volume of subscribers and faltering service was believed to be too expensive. Telekom is controlled by the Ministry of Finance and at that time MRCB was owned by business associates of then Finance Minister Anwar.[40]

The 1997 currency crisis

When the currency crisis occurred in 1997, telcos that had incurred huge debts while developing their telecommunication networks were also affected by a slowdown in demand for their services.[41] Although the government had decided in 1996 not to insist on the consolidation of this sector, after the onset of this currency crisis, the over-crowding of this sector and the debt burden of the telcos were issues widely discussed in the media. The government did not force consolidation of the telcos, as it did in the banking and financial sector, because the telecommunications industry was not seen to be in a very problematic state. Since some prominent politicians were willing to allow for foreign participation

in this sector, though not in the banking industry, the government appeared divided over how to deal with the telcos. Despite protests within and outside UMNO, the government implemented controversial bailouts of some troubled telcos owned by well-connected businessmen instead of ensuring that these people relinquished their interest in telecommunications.

Two notable bailouts can be cited. In May 1998, Mobikom was taken over by Telekom (*New Straits Times* 15 May 1998). The acquisition of Mobikom was seen as a bailout, which market analysts politely termed as a 'national service', because it made no sense for Telekom to own three mobile phone systems using different technologies – Atur, Emartel and Mobikom.[42] Telekom has yet to rationalise and merge the operations of TM Touch (formerly Emartel) and Mobikom.

A second, more controversial bailout involved Time Telekom. When Time Telekom, a member of Renong's stable of companies, undertook public listing in the KLSE in March 2001, it changed its name to Timedotcom. Despite the hype and publicity that surrounded Timedotcom's listing, there was little market confidence that the company had the capacity to register profits. This was most evident when Timedotcom's equity was massively under-subscribed by 75 per cent. Public agencies, like the Employees' Provident Fund (EPF) and the pension fund, Kumpulan Wang Amanah Pencen (KWAP), were among the institutions that mopped up the unsubscribed shares at the initial offer price of RM3.30 per share. On the first day of trading, however, Timedotcom's share price fell to RM2.43. Some analysts argued that Timedotcom's offer price of RM3.30 per share was exorbitantly high and valued the share at only RM1 each (*The Edge* 13 March 2001; *Business Times* [Singapore] 13 March 2001). Criticisms and protests were raised over the use of EPF and KWAP funds to buy up the unsubscribed shares of this ailing but well-connected firm at an apparently inflated price.

Subsequently, the Malaysian government would take a very active role in the consolidation of the telco industry, an exercise that is still unfolding. The government also increased the allowable shareholdings of foreign companies in telcos from 30 per cent to 49 per cent, before increasing it further to 61 per cent, though this has to be brought down to 49 per cent within five years of the acquisition. The crisis led all players to seek foreign partners who could provide fresh capital and expertise. While the government had become more open to the entry of foreign partners in telcos, it was reluctant to allow Malaysian shareholders to give up control, and was particular in terms of which company came in as a joint partner.

Three cases can be cited demonstrating state intervention in the choice of foreign partners. First, during the height of the crisis in 1998, Maxis started negotiations with Singapore Telecommunications (SingTel) to allow the latter to acquire a stake in the company. Prior to this, US West, which had bought 20 per cent of Maxis' equity in 1995, sold its stake leaving the latter without a partner. Ananda Krishnan was reportedly about to close a deal with Singtel, but was 'prevailed upon' to sell 33.3 per cent of Maxis' equity to BT for RM1.8 billion

instead, even though the British company's bid was lower than that offered by the Singaporean firm (see *Business Times* 24 July 1998).

Second, in early 2000, Halim Saad initiated negotiations, again, with SingTel to inject capital and technology into Time Telecom. Sapura, one of Time Telecom's creditors, opposed this move and came up with a counter-bid to foil SingTel's entry (see *Business Times* 15 March 2000, 13 July 2000; *Malaysian Business* 16 March 2000). The government was reportedly not happy with SingTel entering the market to take control of Time Telecom's under-utilised fully-digital fibre-optic network, flaunted as the 'jewel' in the Renong stable of companies. After numerous negotiations, the SingTel-Time Telecom deal was scuppered without any explanation. In its place, Khazanah Nasional, the government's investment arm controlled by the Ministry of Finance, bought into Time Telecom (*New Straits Times* 23 July 2000; *The Star* 5 July 2000, 10–11 July 2000). This was not the best solution for Time Telekom's woes as Khazanah was not a telco and could add no value to its business, compared with telecommunications traffic and expertise that SingTel could have brought in. Evidently, political manoeuvrings and other considerations contributed to Khazanah's acquisition of Time Telekom.

Third, in early 2000, Japan's Nippon Telephone and Telegraph (NTT), the world's second largest telecoms company, was reportedly poised to buy Khazanah's share in Telekom, but an agreement could not be reached. Telekom claims that this was because NTT wanted more control than it was prepared to give (*Business Times* 17 June 2000, 19 July 2000; *New Straits Times* 16 August 2000).

Evidently, the government had been actively involved in or influenced the rationalisation of this industry. This has been justified on the grounds that the crisis had brought Malaysia into 'unusual times where the ailments of some telecoms companies are contributing, though indirectly and in a small way, to the financial problems of the country'.[43] While this observation contains a grain of truth, it nonetheless glosses over the fact that the telecoms sector required rationalisation because non-market factors had determined the allocation of market entry licences. The 'unusual times' that the 1997 crisis had brought about only highlighted the non-market root of the industry's problems. These events suggest that the political will to push through tough corporate reforms is missing. Instead, the restructuring is proceeding without tie-ups with foreign partners who have access to capital and the requisite expertise. The priority is rescuing firms, while little or nothing is being done about revamping management.

Impact of the Mahathir–Daim quarrel

In June 2001, Daim tendered his resignation as finance minister. There was much speculation as to why Daim resigned since neither he nor the prime minister offered an explanation. Political and business elites, particularly those in UMNO, were rumoured to be very displeased that Daim's allies were securing the assets taken over from Anwar's business associates. The bailout of Halim's

Time Telekom, the government buyback of MAS from Tajudin at an incredulously high price and Daim's attempt to secure overwhelming influence over the consolidated banking industry were seen as the factors that contributed to the rift between Daim and Mahathir (see Gomez 2001).

Since Daim's exit, the companies of businessmen linked to him have been targeted for takeover by the government, ostensibly in the name of improving transparency and corporate governance. Mahathir is apparently intent on restructuring (formerly) politically well-connected firms and dealing with their debt problems. The timing of these takeovers, however, suggest that the overriding factors determining these corporate activities are political rather then the desire to implement the restructuring properly.

Three examples are noteworthy. In June 2001, Halim Saad resigned without explanation as vice chairman of UEM, Renong's most profitable listed company, which controls PLUS, the owner of the North-South Highway concession. In July 2001, the government announced its takeover of UEM to help with the restructuring of the RM20 billion debt burdening Renong, the country's biggest and most indebted conglomerate (*Singapore Straits Times* 9 July 2001). While these, undoubtedly, were positive moves towards restructuring, some observers were surprised at the swift pace of the takeover, since Renong had previously not been subject to any government discipline.[44]

In August 2001, the government announced the appointment of two professionals to MRCB's board to oversee the conglomerate's debt restructuring. MRCB's chairman, Abdul Rahman Maidin, who had a large, indirect interest in the company, resigned quietly. Abdul Rahman, a close associate of Daim, secured control of MRCB from Anwar's associates after he was dismissed as deputy prime minister (*Far Eastern Economic Review* 9 August 2001, 23 August 2001).

In November 2001, the Securities Commission rejected Tajudin's attempt to rescue TRI from debt using the cash that he obtained from the sale of MAS to the government. On 29 April 2002, Tajudin lost control of his interests in TRI (which owns Celcom) and Naluri (which formerly controlled MAS) to Danaharta, the government's debt restructuring body.[45] Danaharta sold Tajudin's 13.2 per cent stake in Celcom to Telekom for RM717 million, the next working day after he had defaulted on payment of RM130 million to the government's debt restructuring agency. On 6 May 2002, Danaharta also called for an auction of Tajudin's shares in cash-rich Naluri. After Telekom's acquisition of Tajudin's stake in TRI, Mahathir gave his public approval of this takeover. Mahathir argued that the collapse of Tajudin's corporate empire was not a reflection of the failure of Malay businessmen because those who had managed their enterprise well and had borrowed little survived the economic slowdown. In Mahathir's view, people like Tajudin, who had borrowed heavily from banks, rightfully lost control of their business when they failed to pay up (*New Straits Times* 3 May 2002; *Business Times* [Singapore] 3 May 2002). After putting up a fight, Tajudin abruptly and quietly resigned from TRI on 3 July 2002, clearing the way for Telekom's takeover of Celcom (*The Edge* 2 September 2002).

The restructuring of UEM and the sale of TRI's shares to Telekom transpired with remarkable haste, and in the case of the former, without public bidding. This raised doubts about the legitimacy of the corporate restructuring taking place in Malaysia.

Reform results

The outcome of the reforms and consolidation of the telecommunications sector are indicated in Table 7.2. The industry at present is composed of five telcos – with Prismanet (formerly STW) under receivership. Of the five telcos in operation, the government controls three, while Maxis and Digi are privately owned. The government has majority control of Telekom and Timedotcom,[46] whereas Telekom has taken control of Celcom after buying a 32 per cent stake in TRI (*The Star* 9 September 2002). On 16 September 2002, after months of denying market speculation, Timedotcom announced that the company was negotiating to sell its cellular business to Maxis for RM1.5 billion (*The Edge Daily* 17 September 2002). Timedotcom's fibre-optic network was reportedly not for sale. Instead, Maxis and Timedotcom signed a joint-venture agreement to share the utilisation of the fixed line network (*The Edge* 23 September 2002; *The Star* 24 September 2002). When all these mergers and acquisitions finally take place, the government's dream of consolidation to three players in the telecoms sector will become a reality, with Telekom, Maxis and Digi left standing.

Presently, competition is only occurring in the mobile telephony sector. The presence of competition has led to lower prices and the introduction of a variety of services available to consumers. The fixed line telephony segment is still dominated by Telekom, which controls about 95.5 per cent of the market. The rest is distributed among the four other telcos (Time Telecom, Celcom, Maxis and Digi), with an estimated cumulative 50,000 total subscribers. Although these four telcos have licences to build fixed line networks, they have been slow in entering this market segment, preferring to concentrate on the more lucrative mobile phone services. Thus, Telekom, among all operators, has been given the responsibility to provide 'universal service'. This obligation is not required of the other telcos. Moggie argues that because Telekom fulfils this social responsibility, it continues to receive government support.

The government's majority ownership of Telekom has contributed to much contradiction in terms of its independence in policy planning and regulation of the telecommunications sector. Industry analysts observe that Telekom is rather slow in making decisions because it needs the authorisation of Ministry of Finance.[47] Yet, it appears that the government will not divest ownership of Telekom for a number of reasons. No local company is considered big enough to buy Telekom, and selling the firm to a foreign enterprise is unlikely, given the strategic role it plays in terms of the provision of rural telephony; the building of capital intensive projects, such as the RM1 billion backbone for the MSC; and its role as an investment arm of the government, 'carrying the flag' in Asian and African countries. Telekom is also said to perform other 'national service' duties,

Table 7.2 Telecommunications market after consolidation, 1996–2002.

Telco	Majority owner	Foreign partner	Acquisition/status
Telekom	Government (Khazanah and MOF)	None	1 MRCB's Emartel – 1996 2 Mobikom's Mobifon – 1998 3 Celcom – July 2002
Celcom (Cellular Communications)	Telekom	Deutsche Telekom (21%)	Telekom, as of July 2002, controls 31.25% of TRI; Telekom bought Tajudin's 13.2% stake in April 2002
Maxis Communications (formerly Binariang)	Usaha Tegas – T. Ananda Krishnan	US West (sold to BT), Media One (12%), British Telecom (33.3%, till 2001, sold to Usaha Tegas)	Publicly listed at the KLSE in July 2002
Time Telecom	Renong – Khazanah	None	1 Sapura's Adam and Uniphone – 1996 2 Khazanah bought 30% of Time Telekom – July 2000 3 Danasaham acquired UEM, parent company of Time Engineering – July 2001
Digi.Com (formerly Mutiara Telecoms)	Berjaya Group – Vincent Tan	Swiss Telecoms, then Telenor (61% as of 14 Aug 2001)	
Prismanet (formerly STW) under receivership	Shubila Holdings – Shuaib Lazim	International Wireless Communications	

such as bailing out ailing companies, as was the case with Emartel and Mobikom. However, a former top executive of Telekom pointed out that there is no record of the government categorically stating that it would divest its stake in Telekom when it was being prepared for privatisation. He further contended that all the decisions by Telekom to invest abroad, in Cambodia, Bangladesh, Thailand, Sri Lanka and India in Asia, and Ghana, South Africa and Malawi in Africa – in line with Mahathir's promotion of South–South relations, were made independently, and not at the request of the government.[48]

In February 2002, despite much public protest, the government granted Telekom's request for tariff rebalancing, giving it the authority to increase its rates. The revenue from fixed line services is Telekom's primary source of income. In 2002, 94.2 per cent of Telekom's revenue came from this service.[49] The government granted the request for tariff rebalancing before settling similar, if not more, crucial issues like competition or interconnection charges. This suggests that Telekom's interests are of greater importance than promoting competition or guarding consumer rights to the Ministry and the Communications and Multimedia Commission (the new regulatory body that replaced JTM).[50] In April 2001, the number of mobile phone subscribers totalled about 5.3 million, surpassing the number of fixed line subscribers of about 4.5 million.[51] Given this situation, Telekom will have to be more competitive beyond its core service area, which is probably why Telekom was so keen on taking over Celcom.

Conclusion

The form of development and rationalisation of the telecommunications industry demonstrates the nexus between politicians in power and well-connected businessmen as well as the dynamics and outcomes of policy planning and implementation. Privatisation and liberalisation did not remove the structures of patronage and rent-seeking, nor did it reduce state involvement in the industry. Market opening, by virtue of altering the existing property rights regime, created further venues for rent-seeking.

Although privatisation was introduced to promote growth, encourage efficiency and reduce state involvement in the economy, its main focus was to foster the rise of a Bumiputera business class through the patronage of a chosen few. Through the ostensible 'first come first served' policy, well-connected businessmen have been privy to potentially lucrative licences from the government. This situation is primarily due to the centralisation of power in the hands of the executive, which has hegemonic control over the allocation of government-created rents. State intervention in the private sector thus continues, in spite of supposed market-opening exercises. Since the recipients of these rents are well-connected businessmen, political ties inevitably have an impact on the operations of the industry.

The recipients of telecommunications licences, apart from the partially privatised Telekom, can broadly be categorised under three headings:

redistributive, patronage and entrepreneurial capacity (see Figures 7.2 and 7.3). Four politically well-connected Bumiputeras, one Chinese and two Indians have received telco licences. Two of these Bumiputeras, Tajudin and Halim, are Daim's protégés; Shamsuddin reputedly has close ties with Mahathir; and the MRCB group was controlled by associates of Anwar. Vincent Tan is said to be close to Daim and Mahathir, while Ananda is apparently a personal friend of Mahathir. Vijay Kumar was associated with Daim, only because he took in Shuaib Lazim as a partner.

However, the fall-out between political elites has affected ownership patterns of these telcos. Tajudin and Halim appear to have lost control of Celcom and Timedotcom following a dispute between Mahathir and Daim. Similarly, Anwar's associates lost control of MRCB after Mahathir removed him from all of his party and government posts.

This study of the liberalisation of the telecommunications sector indicates that privatisation has served to help strengthen rentiers rather than promote entrepreneurship, although these categories are not mutually exclusive. Some of the telco licences were relatively well managed, as was the case with Ananda, who is reputed to have shown entrepreneurial capacity. Others, like Halim and Tajudin, did not develop these licences prudently, even requiring bailouts after the onset of the currency crisis.[52] Tan, who had little experience in the
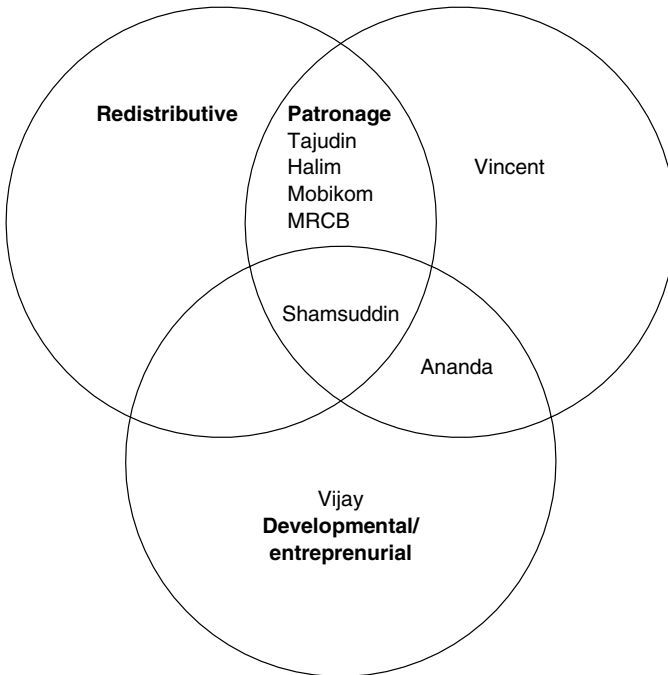
Figure 7.2 Types of rents and their recipients.

Mahathir
Shamsuddin
Ananda

Daim
Vincent
Halim

Tajudin

Vijay Kumar*

Anwar
Nazir Abdullah,
Khalid Ahmad,
et al.
*(*MRCB*)*

*Vijay had indirect links to Daim through Shuaib Lazim
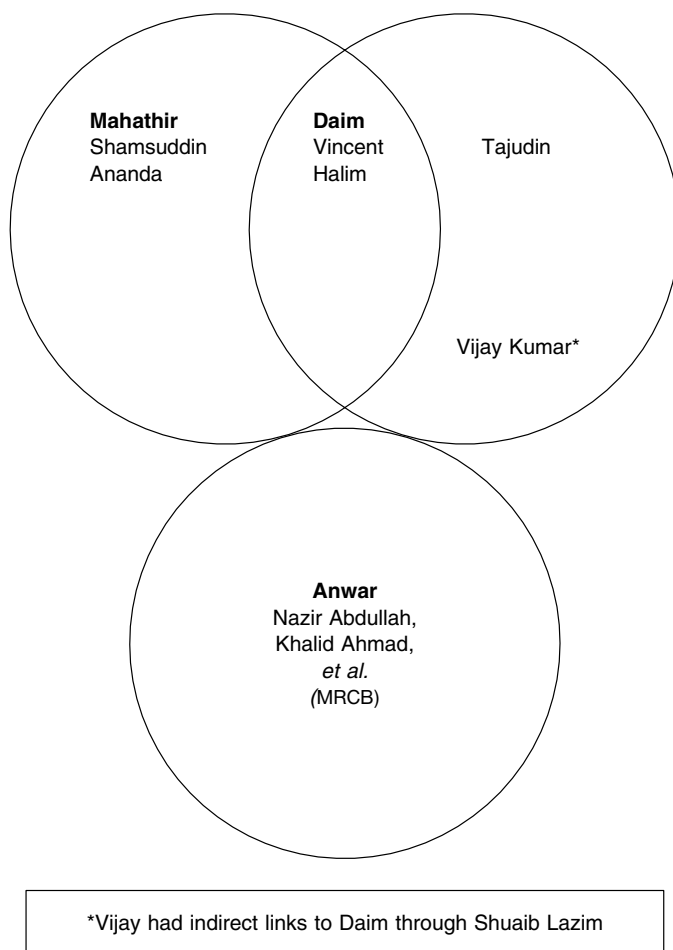
Figure 7.3 Patron–client ties.

telecommunications sector, was shrewd enough to allow his foreign partners to run his telco enterprise.

The construction of parallel mobile telephony networks concentrated in the Klang Valley by five telcos has led to a considerable waste of resources and duplication of networks. One market analyst estimates that these companies have collectively spent around RM20 billion.[53] These resources could have been better spent on establishing a national network. While the government has tried to undo the mistake of issuing too many telco licences through a rationalisation exercise, seven years after this call for consolidation and five years after the currency crisis there are still five companies in the market. This is primarily because the ruling politicians still determine the process of the consolidation exercise, as they did the liberalisation of the sector.

On the positive side, the presence of stiff competition in the mobile telephone sector has meant the availability of choice for consumers. The presence of competition has also meant lower prices, a variety of tailored choices for users – from simple to sophisticated phones – and the introduction of value-added services to suit varying consumer profiles.

The Malaysian government has moved to restructure highly-leveraged conglomerates, but it appears that the decisive impetus for restructuring has been factionalism among the political elites, in particular the fallout between Mahathir and Daim. Although dealing with the debts of Malaysia's huge conglomerates is a positive move, it is worrying that these reforms are being implemented in a manner that lacks transparency. Moreover, Mahathir apparently continues to believe in his dream of creating entrepreneurial and globally competitive Malaysian enterprises.[54] He persists in the belief that he has the capacity to select winners. With centralised decision-making in the hands of the prime minister, it is uncertain whether bureaucrats and officials of the new regulatory bodies will have the capacity to make independent decisions. Thus, it is unlikely that the reforms that Mahathir has introduced will break the nexus between politics and business that has characterised his administration.

Notes

1 Bumiputera literally means 'princes of the soil,' or the indigenous people. It is a term used to refer to the Malays. Bumiputera and Malay are used interchangeably here.
2 Although privatisation was formally introduced in 1983, the number of public enterprises continued to grow, and by 1992 reached 1,149.
3 Ironically, in the 1950s and 1960s, the World Bank was the major proponent of the establishment and growth of SOEs in developing countries (see Kuczynski 1999).
4 Malaysia Inc., a concept inspired by 'Japan Inc.', proposes cooperation between the government and business to nurture and promote the growth of the private sector (see Khoo 1995: 132–33).
5 Cited in *Privatisation Masterplan*.
6 See *Guidelines on Privatisation*.
7 Arthur D. Little, an American consultancy firm, did the study. The report, however, remained confidential, but it is said to have outlined the procedures for asset valuation during the transfer of assets and liabilities of JTM to the private sector. See Kennedy (1995: 224).
8 Telekom is currently the second largest quoted company, next to the power supplier, Tenaga Nasional, which is also partially privatised but government-controlled.
9 The government's control of Telekom is through the shares owned by Khazanah Nasional, the Ministry of Finance Inc., the Employees Provident Fund and Permodalan Nasional (PNB). These four government agencies own 81.42 per cent of Telekom. See Telekom Malaysia 2000 *Annual Report*.
10 Interview with Ismail Salleh, Kuala Lumpur, 3 August 2001. See also Means (1991: 98).
11 Email correspondence with a former senior official of Telekom Malaysia, Kuala Lumpur, 19 September 2001.
12 At its height, 38 companies were licensed to provide radio-paging services. Earlier studies by Hashim (1986) and Kennedy (1990) cover this period of liberalisation of this sector.
13 Email correspondence with former senior official of Telekom Malaysia, Kuala Lumpur, 19 September 2001.

14 Gomez makes a distinction between the rationale by Mahathir, Daim and Anwar to provide rents to businessmen. He argues that Anwar used his influence in government to develop his political base in UMNO. Mahathir was more selective in his distribution of rents, genuinely believing that he could 'pick winners'. Daim appeared to have used close associates as proxies for his own business interests. See Chapter 6 in this volume.

15 A former JTM executive disclosed that his department had to give Celcom a backdated licence because the latter was already launching its mobile service but had yet to receive official approval. The executive stated that JTM did this because Celcom was linked to Daim. Interview with a former JTM official, Kuala Lumpur, 17 August 2001.

16 The establishment of Fleet Holdings in 1972, the holding company of Fleet Group, marked the commencement of UMNO's involvement in the corporate sector. Originally established by Razaleigh Hamzah, Fleet Holdings came under the control of Daim when Mahathir appointed him UMNO Treasurer. UMNO's involvement in business boomed under Daim. The assets of Fleet Holdings were later consolidated under Renong, after UMNO was de-registered in 1987, when Razaleigh and former Deputy Prime Minister Musa Hitam challenged Mahathir's leadership. See Gomez (1994).

17 Interview with a former telecoms executive, Kuala Lumpur, 13 August 2001.

18 Both quotations were obtained from *Malaysian Business* (16–31 March 1990).

19 Interview with a senior executive of Telekom Malaysia, Makati City, 18 April 2001.

20 Raleigh is now known as Berjaya Group. In 1987, when Seri Iras divested its majority interest in Berjaya Group, the company came under the control of Vincent Tan (see Gomez 1990: 44; Searle 1999: 98–99).

21 TRI was originally known as Roxy Electric Industries, a quoted firm that manufactured Sharp-brand products locally. Roxy had been under the control of Alex Lee, a former deputy minister of government and a close Daim ally. In June 1990, Tajudin bought a 25 per cent interest in TRI from Lee (see Cheong 1997: 277; Gomez and Jomo 1999: 149). At the time of TRI's transaction with Alpine to acquire Celcom, Tajudin owned 27.4 per cent of TRI via his holding company, Arnah Murni (*Business Times* 6 June 1992; *New Straits Times* 8 June 1992).

22 Information obtained from a former senior executive of Time Engineering during an interview, Kuala Lumpur, 5 July 2001.

23 TRI had an interest in these sectors through a 62.12 per cent stake in the Malaysia Helicopter Services (MHS), a 54 per cent interest in Teluk Rubiah Country Club and ownership of KYM Industries, which is involved in the manufacturing of corrugated fibreboards and boxes. MHS held a 40 per cent stake in Perbadanan Nasional Shipping Line, the second largest shipping line in Malaysia after publicly-listed Malaysian International Shipping Corp (MISC) (*Business Times* 28 October 1992).

24 Information obtained during an interview with a former executive of Telekom Malaysia, Kuala Lumpur, 13 August 2001.

25 Razaleigh was a former finance minister who had seriously threatened Mahathir's position as prime minister, when he established a new Malay-based opposition party before the 1990 general elections (see Khoo 1992). Razaleigh returned to UMNO's fold in 1996.

26 Information obtained during an interview with a former Mobikom senior executive, Kuala Lumpur 13 August 2001.

27 Telekom, the project manager of the AMPS 800 system, invited five companies to bid for a contract to supply transmitters and radio base stations worth more than RM100 million. These companies were Hughes, Pernas-NEC Telecommunications, Motorola, Northern Telecom, Ericsson and AT&T. Ericsson, AT&T and Motorola were short-listed for the bid, though it was not then ascertained who had won the contract. Pernas NEC is 51 per cent owned by the government trust agency, Pernas, while Northern Telecom is associated with Sapura (see *Business Times* 29 March 1993).

28 Sapura, along with Binafon, Electroscon and Sri Communications – all Bumiputera companies established by former JTM employees described as having 'close rapport' with the government – were awarded contracts worth RM636 million each to upgrade and modernise the national telephone system before JTM was privatised. This was in line with the Fourth Malaysia Plan's target of increasing telephone lines from 400,000 to 1.2 million. By 1986, when the contract was supposed to end, only 29 per cent of the target number of lines was installed (see Hashim 1986; Kennedy 1990; Lowe 1994).

29 In its heyday, Renong embodied UMNO's corporate face, after the party's private holding firms, Fleet Group and Hatibudi, were injected into this listed company in 1990. Renong was said to be UMNO's corporate jewel, with its control of the North-South Highway toll concession – a guaranteed cash cow for 30 years (see Gomez 1990, 1994).

30 Four NSTP executives, led by Nazri Abdullah, set up a private company, Realmild, to acquire MRCB. Quek Leng Chan, head of the Hong Leong group, reportedly lent Realmild money to buy out his interests in MRCB, which was then used as the vehicle to take over NSTP and TV3 (see *Far Eastern Economic Review* 9 August 2001).

31 Under its property development activities, MRCB is involved in the re-development of the Brickfields Railway Yard into the Kuala Lumpur Sentral project. Other large projects are the development of the Seri Iskandar Township in Perak covering an area of over 5,000 acres and the privatisation of the Ipoh-Lumut Expressway.

32 The head of the Langkawi Development Authority was then Daim, who at that time had resigned as finance minister.

33 Rosli was reputedly responsible for the development of Telekom's Atur 450 and Celcom's ART 900 systems. He left Celcom in 1996, apparently after a fall-out with Tajudin.

34 Interview with Minister Leo Moggie, Kuala Lumpur, 5 October 2001.

35 Interview with Joseph Vijay Kumar, 6 and 13 August 2001. See also *Business Times* (1 January 1997).

36 In an interview, Moggie emphasised that his ministry did not retract or scrap the call for rationalisation, as was reported in the media. He maintained that his ministry's position had always been that the players negotiated the consolidation among themselves.

37 The deal, a result of two months of negotiations, involved an acquisition by Time Engineering of a 75 per cent stake in each of Sapura Digital and Uniphone, companies in the Sapura group (see *Business Times* 26 June 1996; *New Straits Times* 8 July 1996).

38 Interview with a Sapura executive, Kuala Lumpur, 6 July 2001.

39 This does not include its ATUR service, which was launched in 1985 but is based on first generation radio technology.

40 Interview with a Telekom senior executive, Kuala Lumpur, 6 September 1996.

41 All telcos, including Telekom, were burdened with financial problems. Between 1997 and 2000, Telekom's company's earnings, debt-equity ratio and return on shareholdings had been declining. See *Telekom Malaysia 2000 Annual Report*.

42 Atur uses radio technology, Emartel is a PCN network operating at 1800 megahertz and Mobikom uses AMPS 800. There are precedents in Telekom's past involving such odd and costly business decisions that appear politically motivated. In 1993, against the advice of the Telekom board of directors, the Ministry of Finance awarded a contract to five foreign suppliers, who had politically influential local partners, to supply Telekom with digital equipment. The Telekom board raised the issues of cost-effectiveness and the problem of incompatible technology, but these were overruled by the Ministry of Finance. See *Far Eastern Economic Review* (26 March 1992) and Kennedy (1995: 231).

43 Email correspondence with a former Telekom Malaysia senior executive, 19 September 2001.

44 In fact, the speed of restructuring seems to have breached the Securities Commission's rules and procedures on general offers. See *New Straits Times* (10 September 2001).
45 In March 2002, Tajudin filed a case at the High Court to stop Danaharta from selling his shares. The court, however, ruled in favour of Danaharta.
46 With the government's acquisition of UEM, through its holding company Khazanah, its equity ownership of Timedotcom has increased from 30 per cent to 75 per cent. See *The Edge* (17 July 2002).
47 Interview with industry source, Kuala Lumpur, 2 October 2001.
48 Email correspondence with a former top executive of Telekom Malaysia, 26 September 2001.
49 See *Telekom Malaysia Bhd 2000 Annual Report*.
50 The Ministry of Energy, Telecommunications and Post was renamed Ministry of Energy, Communications and Multimedia in April 1999, while JTM was abolished and replaced by a new regulatory body with more powers and functions, called the Communications and Multimedia Commission.
51 Nomura Asian Equity Research Report (2001)
52 Being in a favoured position, however, seems to be coupled with high trade-off costs. Although Telekom is given preference in terms of regulation and protection of its virtual monopoly of the fixed line segment of the market, the company lacks management independence to chart its development. Favoured businessmen also face a similar problem of lack of independence. A former CEO of Time Telekom argued that Malays are given preferential contracts and decisions, but are expected to undertake 'national service' duties. In effect, they cannot make independent decisions once they have committed to a special relationship with the state. They cannot sell shares or give up corporate control at will, and must wait for capable Bumiputeras to step in. Thus, the popular criticism that these people are mere rentiers without the capacity for productive investment sometimes becomes a self-fulfilling prophecy.
53 Interview with a telecommunications market analyst, Kuala Lumpur, 2 October 2001.
54 Currently, Ananda Krishnan and Syed Mokhtar Albuhary are the two businessmen most favoured by the Prime Minister because of their entrepreneurial capacities.

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8 Islamisation, patronage and political ascendancy

The politics and business of Islam in Malaysia

*Kikue Hamayotsu**

Introduction

The unprecedented resurgence of Islam since the 1970s has been an intriguing political trend in Malaysia, Indonesia and elsewhere. The response of state actors to this Islamic resurgence has been different across nations and across times. Some Muslim-led governments pursued a policy of 'Islamisation' to pre-empt capture of the state by conservative *ulama* (Islamic scholars), while others defended the essentially 'secular' character of the state at the risk of sacrificing some authority within increasingly self-conscious Muslim constituencies. The growing prominence of Islam in both state and society has led to major shifts in particular policy areas, generating a range of theoretical and empirical controversies.

In Malaysia, the *Barisan Nasional* (BN, or National Front) coalition government, under the hegemony of the Malay-Muslim party, United Malays' National Organisation (UMNO), officially launched an Islamisation campaign on its own terms, when the current prime minister, Mahathir Mohamad, came to power in 1981. On the ideological front, the government pledged the promotion of a 'modernist' Islam as the guiding principle of governance and material advancement. Against the backdrop of reduced emphasis on Malay-centric *bumiputeraism*, universalistic Islam assumed a more prominent place in the building of a new national vision – of a globally-oriented, modern and united Malaysia – espoused in Mahathir's 'Vision 2020'. On the institutional front, a wide range of Islamic institutions were established or re-invented under government supervision. Anwar Ibrahim, the charismatic leader of the prominent Islamic non-governmental organisation (NGO), *Angkatan Belia Islam Malaysia* (ABIM, or Malaysian Islamic Youth Movement), was inducted into UMNO to drive – and give credibility to – the government's Islamisation programmes.

Since the Islamisation policy was promoted on a grand-scale by the government, some analysts concluded that the Malaysian state was being 'Islamised'. But was this really the case? And, if so, how was this policy implemented? This chapter seeks to answer puzzles surrounding the process of Islamisation of the Malaysian state. It specifically asks the following questions: Why and how has the Malaysian state been Islamised? What have been the

consequences of this process of Islamisation? Who has benefited from this policy?

Islamisation of the state here corresponds to bureaucratic expansion of government agencies overseeing Islamic affairs. It also embraces Weber's concept of institutionalisation of rationalised, rule-bound and merit-based bureaucratic structures of state authority. According to conventional wisdom, the bureaucratisation of state authority structures arises out of growing external pressures at societal level. In the Islamic sphere more specifically, this view suggests that the process occurs as a result of pressure emanating from an increasingly self-conscious Muslim populace for a more systematic, competent and consistent system of religious administration. This chapter seeks to go beyond this society-centric argument by shedding more light on the incentives encouraging state actors to promote Islamisation. Through an analysis of the Islamic welfare-financial mechanisms, i.e. the administration of zakat, this chapter contends that societal pressures are not adequate in explaining the particular level – and the distinctive type – of institutionalisation of state agencies overseeing Islamic activities. A central argument advanced here is that 'patronage-maximising' incentives of UMNO politicians have a considerable bearing on the pattern of implementation of Islamic activities.

This chapter is structured as follows. The first section briefly overviews the fundamental mechanisms, as well as structural problems, of zakat management. This is followed by a review of the organisational development of zakat management since the late 1980s. The subsequent sections examine how 'patronage-maximising' objectives of individual UMNO politicians have shaped the institutionalisation of Islamic welfare-financial mechanisms within and outside the state. Here, the logic of intra-party political ascendancy is introduced as the key explanatory variable.

Zakat: underdevelopment of the national Islamic welfare–financial mechanism

Following Mahathir's appointment as prime minister in 1981 and his launching of an Islamisation campaign, a range of Islamic institutions were created or revamped. The jurisdiction of Islamic agencies was expanded – to various degrees and in a variety of ways – within the state. Moreover, a number of theologically-trained Islamic teachers, known as *ulama* and *ustaz*, had been produced at Islamic educational institutions that had begun to thrive since the 1980s. This group of theologically-qualified religious elites was swiftly incorporated into the civil service as Islamic courts officials, teachers and Islamic affairs officers in government institutions nationwide.

Given this conspicuous trend of institutionalisation of Islamic agencies, the comparatively poor endeavour to institutionalise zakat administration, one of the five pillars of the Muslim faith, was intriguing. In this charity-based welfare-financial sector, there were some organisational efforts by individual religious authorities at State[1]-level to incorporate new expertise and develop new

mechanisms and schemes. A primary objective of these efforts was to increase zakat revenue as well as diversify distribution of collected funds to a wider range of less-privileged Muslims. Efforts to make the management of zakat funds more efficient and reliable were also evident. Extremely limited official, and unofficial, coordination among various governmental agencies, however, left the system of zakat administration weakly organised and with little authority. Moreover, the concurrent development of an Islamic charity financial-welfare mechanism equivalent to the zakat *outside* the formal bureaucratic structure, personally sponsored by powerful UMNO politicians, further undermined the reputation and morale of the zakat institution and religious officials who ran it. UMNO politicians promoted the development of zakat-like Islamic charity financial-welfare mechanisms as a means to create their own avenues for the practice of patronage, to maximise opportunities to build up broad-based support to secure ascendancy in the party.

Outdated and incompetent zakat management

Zakat, theoretically, is an obligatory payment for all Muslims. Zakat funds are dispersed to the *asnaf* (those entitled to receive zakat payments) according to rules set by the *Syariah* (Islamic laws). In principle, zakat is a tool to help eradicate poverty, and it functions as a 'taxation' mechanism for social and welfare purposes and for the redistribution of wealth.

In Malaysia, unlike some other Muslim countries, the administration of zakat is authorised solely to the government. There are, however, cross-national variations in the administration of zakat payment, collection and dispersal. In view of this, in the late 1980s, the federal and State religious authorities initiated a reform campaign to improve the management of zakat.

Since Islamic affairs fall under the jurisdiction of the State governments, specifically the Heads of States or sultans, the State authorities handle administration of zakat. In all States except Kedah, the *Majlis Agama* (Religious Council), which is responsible to the sultan, runs a zakat office. In the administration of zakat, there was almost no coordination among the State governments or between the federal and State authorities. The limited coordination among the Religious Affairs Departments in the management of zakat was a major contributory factor to the inefficient and ineffective implementation of this payment nationwide (Aidit 1991: 85–87).

The most widespread problem faced by the zakat offices was the shortage of resources – physical, financial as well as technical expertise – to develop and enforce new programmes and mechanisms. The zakat departments were almost exclusively staffed by those trained in Islamic studies – *ulama* and *ustaz*. An expertise of the *Syariah* was, however, not adequate qualification to operate zakat funds. Zakat officials were also poorly equipped with key secular knowledge, such as accounting, finance and administration. The lack of financial resources, and limited political attention, had left the zakat offices ill-equipped to mobilise adequate resources and develop a better system of zakat

administration (Aidit 1991: 104-05; A. Manap Said and Ghani 1980).[2] Further, since only a small number of public campaigns were undertaken, due to inadequate manpower, many Muslims were uninformed of their religious duty. A problem arising from such public unawareness was that many Muslims misunderstood that their obligatory zakat payment was only the annual *fitrah* (zakat collected during the month of Ramadan), and were ignorant of other types of more expensive zakat.[3]

In addition, a public perception that the zakat is a royal matter and thus these funds cannot be touched has provided zakat offices with much insulation from both the government and society.[4] Therefore, allegations of corrupt practices, such as the misuse of zakat funds, were common. An outcome of such allegations, as well as the other shortcomings, was that some Muslims paid zakat directly to mosques or orphanages known personally to them. Since there was no administrative control over these unofficial zakat collections by third parties, this created an opportunity for illegal activities, such as bogus collectors. On the whole, public confidence was very low in the way the zakat offices were managed and these funds were distributed (see, for instance, Aidit 1991: 106).

Apart from these problems was the issue and impact of partisan politics, involving the long-standing rivalry between UMNO and the leading Malay-based opposition party, *Parti Islam SeMalaysia* (PAS, or Malaysian Islamic Party). Partisan politics had had a major influence on the pattern of zakat payment. PAS supporters, for instance, tended not to make contributions to zakat institutions in States ruled by UMNO. PAS leaders ostensibly had little faith in the impartiality of zakat managers, especially in the way they dispersed funds, in UMNO-led States (*Harakah* 16–30 August 2001). It was against this backdrop that the Religious Councils in some States launched a reform campaign in the late 1980s to restructure the outdated and inefficient system of zakat management.

Limited evolution of national zakat

During the early 1990s, all States recorded a dramatic increase in zakat revenue, primarily due to economic growth, a rise in personal income and a stronger religious consciousness and sense of obligation among the increasingly affluent Muslims. In some States, especially those in the more economically developed west coast of the peninsula, the zakat agencies developed new mechanisms to collect funds more efficiently or they revamped their administration to introduce more innovative revenue sources, for example, the business zakat (*zakat perniagaan*).

The most notable development in the 1990s was the establishment of a corporate body under the Religious Council solely to manage the collection of zakat in six States. The Federal Territory of Kuala Lumpur initiated this new experiment in 1991, followed by five other States – Selangor, Penang, Pahang, Malacca and Negeri Sembilan. These corporate bodies introduced a compu-terised management and accounting system, new programmes, document forms,

advertisements and PR activities and other services. These new instruments were introduced not only to increase revenue but also to transform a system traditionally seen as inefficient or corrupt into one that was transparent and efficient. In the late 1990s, Selangor and Penang went one step further by allowing these corporate bodies to take over the zakat collection and distribution operations.[5] This was a remarkable development because the Religious Councils were normally very hesitant to relinquish even a small amount of authority, let alone give up control over distribution of religious funds, as a means to exert influence over Muslims. Moreover, these corporate bodies employed a large number of non-*Syariah* educated officials – those trained in fields such as accounting, economics, business and public administration – to run the zakat offices.[6] Their emphasis on professionalism and efficiency was in sharp contrast to the attitude of the theologically-trained officials who had originally managed the zakat departments.

These improvements were, however, essentially administrative in nature, involving little reform of the implementation of zakat. Since the 1980s, when UMNO launched a variety of Islamisation programmes, there had been occasional calls from Islamic scholars and economists to develop and standardise zakat management nationwide. Against the backdrop of an Islamic resurgence in Malaysia, the Economics Departments in the public universities – in conjunction with Religious Departments – organised seminars and workshops aimed at exploring the development of the zakat system into a comprehensive welfare-financial programme.[7] It was not until the early 1990s, however, that the federal *Jabatan Kemajuan Islam Malaysia* (JAKIM, or Islamic Development Department) expressed particular interest in encroaching upon the management of zakat. The zakat was originally not high on the agenda within JAKIM.

In 2000, Abdul Hamid Othman, the minister in the Prime Minister's Department responsible for religious affairs, announced that the federal government would standardise nationally the system overseeing both the collection and distribution of zakat funds to ensure optimal collection in all States. To this end, a new national administrative agency, *Lembaga Urusan zakat Malaysia* (LUZAM, or Malaysian zakat Management Board), was proposed. Under the proposed system, a fixed-rate (2.5 per cent) of zakat would be deducted from the income of Muslim individuals. The Inland Revenue Board was to be responsible for collecting this tax (*New Straits Times* 21 June 2000; *Utusan Malaysia* 21 June 2000). However, no formal administrative coordination between the federal and State governments has emerged so far.[8]

Even prior to this new proposal from the federal government, zakat officials had viewed new developments in other States with envy, and competed with one another in terms of annual revenue targets.[9] Competition existed not only among zakat offices in the various States, but also among institutions within a State, making coordination even more difficult. Sultans, the constitutional heads of religious affairs in each State, and the Religious Councils were extremely suspicious of any attempt to check their fiscal authority. For example, they did not give their consent to a suggestion to license out to a corporate body the

function of dispersing zakat funds after notable success of the corporate mechanism, leaving the system organisationally less integrated.[10] Their resistance to change weakened attempts to enhance transparency, efficiency and accountability in the management of zakat funds.

The biggest obstacle to the reconstruction of zakat management was the weak enforcement powers conferred on its officials. No legislative measures were introduced to facilitate the administration of zakat. Put differently, the state religious authorities had little executive power to impose new types of zakat and enforce the obligatory payment (in a legal sense).[11] Even though some States were now equipped with a range of very innovative zakat programmes and new technologies to advance them, these payments – unlike ordinary taxes – were not legally authorised. Thus, payment of these new types of zakat was left solely to the goodwill of individual Muslims. Zakat officials acknowledged that the absence of legislation on this payment was the main hindrance to the enforcement of the zakat. It was not easy, they argued, to persuade Muslims, who were often unenthusiastic about being levied extra taxation, to see the payment as a religious obligation.[12]

Patronage-maximisation and minimal institutionalisation of zakat

The absence of intra-governmental coordination, specifically between the religious departments and the Ministry of Finance, was the most critical administrative barrier to the institutionalisation of a better-organised zakat system nationwide. The type of zakat collection mechanism that emerged in the Federal Territory of Kuala Lumpur is an illuminating case. The zakat levied on individual income earners evolved into a successful programme, bringing substantial funds into the coffers of this agency. On the other hand, the failure to expand this tax on business, possibly the most lucrative source of zakat revenue if enforced successfully, contrasted sharply with the success of the personal income zakat. Despite relatively large contributions from some prominent (often Muslim-led) firms, the business zakat did not take off. Even Islamic-based corporate contributors, such as the Tabung Haji (the Pilgrims Management and Fund Board) and Bank Islam, regularly contributed business zakat simply because this was required under the legislative provisions governing their operation (e.g. Akta Lembaga Urusan dan Tabung Haji 1969 and the Islamic Banking Act 1983).[13]

Zakat officials from the Federal Territory of Kuala Lumpur and Selangor (the States registering the highest collection of revenue and the most innovative in terms of management) acknowledged that the unwillingness of corporate bodies to pay zakat was disturbing.[14] Without the statutory power to compel company owners to pay business zakat, the only avenue left to zakat officers was to deploy *Syariah*-trained officers to patiently preach to them about the importance of fulfilling their religious duties.[15] The non-payment problem had arisen primarily because of the reluctance of the Ministry of Finance to grant corporate contributors a tax rebate incentive in return for zakat payment.

As for the individual income zakat, the revenue from this source increased dramatically after a salary-deduction scheme (*potongan gaji*) was put into effect. This scheme encouraged Muslims to contribute a part of their regular income for zakat without taking the trouble of going to a zakat office to make the payment. Potential zakat payers, especially those living in urban areas, apparently appreciated this service, as the old procedure of zakat payment could be very time-consuming. Even with this salary-deduction instrument, however, there was a loophole. For this scheme to be implemented properly, employers had to agree to send to the Taxation office the deductions made from their employees' income. In practice, a considerable number of private companies have yet to utilise this scheme to make the deductions.[16] This fact alone suggests that there was no adequate pressure from any one of the parties involved – employers, employees or the Ministry of Finance – to enforce this religious obligation. The inadequacy of the scheme, without legal compulsion, was painfully evident.

It appeared that the Ministry of Finance had little confidence in the capacity of the religious officials in either JAKIM or the State Religious Councils to competently manage a vast sum of public funds. This was evident when JAKIM, as well as zakat officials, approached the Ministry of Finance to seek the latter's assistance in their efforts to standardise the zakat operation. When asked to grant tax rebates for zakat (business zakat in particular), the ministry officials urged JAKIM to first standardise its operations to make it more professional. In other words, the Ministry of Finance put JAKIM in a difficult position: unless all the States consented to conceding jurisdiction over zakat to federal authorities, the idea of granting a tax rebate for a corporate zakat would not be considered. The Ministry of Finance's distrust of officials from religious agencies thus posed a great obstacle to the institutional advancement of the zakat.

The failure of the zakat officials to forge a wider intra-governmental pact was in stark contrast with similar well-coordinated arrangements on other issues. In the case of the judiciary, for instance, there was good coordination among various state actors, i.e. between the Syariah court officials and their civil counterparts, as well as among federal and State religious departments. This helped bringing about a high level of institutionalisation of the Syariah court. Even in education, where the institutionalisation of the national religious educational system was modest, some intra-governmental coordination to create a more comprehensive administrative mechanism overseeing these Islamic institutions emerged at the federal level as well as between the federal and State authorities.[17]

The importance of intra-state coordination among various government agencies was also seen in the 1980s with the establishment of the Islamic bank and Islamic insurance (*Takaful*). Malaysia's Bank Islam was the first Islamic bank to be established with direct government involvement (Zakariya 1988: 79). To successfully develop Bank Islam, the goodwill of various authorities including officials from the Ministry of Finance and Bank Negara, the central bank, was imperative. This was especially so because there were some concern, among Muslims and non-Muslims, that the establishment of Bank Islam was a first step to the Islamisation of the entire financial sector.

As for the zakat, the lack of intra-state coordination reflected – and was the result of – the reluctance of UMNO's top leadership to intervene to guarantee its proper implementation. UMNO's reluctance to intervene in this matter was odd given its stated commitment to its Islamisation process and the rising religious consciousness among Muslims and their economic affluence. The zakat system, in fact, could potentially be developed and utilised as a comprehensive social welfare mechanism. Since providing help to the under-privileged is important in Islam, building a better zakat system could have earned Muslim politicians extra political points. An especially attractive incentive for Muslim politicians was the Islamic rhetoric that they could articulate to advance charity welfare activities for their Malay electorate. Indeed, the initiatives of some UMNO politicians holding office at State level (for instance, as the Chief Minister) helped to develop the administration of zakat in some States, such as Malacca, Negeri Sembilan and the Federal Territory of Kuala Lumpur. These State leaders made use of their prerogatives to do service in the interests of Muslims – their chief electoral constituency. Nonetheless, only some relatively minor UMNO politicians carried out these efforts to promote zakat; the involvement of federal-level leaders was minimal. Zakat officials suggest that even Anwar Ibrahim, a most resourceful UMNO politician as far as Islamic matters were concerned, did not express particular interest in centralising the system despite, they believe, his capacity to do so, particularly after becoming Minister of Finance in 1991.

Anwar did not oppose entirely the proposal to standardise the implementation of zakat. He, in fact, fully acknowledged the need to and the benefit of revamping the management of zakat nationwide, and expressed a desire to do what he could to achieve this objective. For instance, he proposed that zakat should be collected just like the income tax and that all Muslims, including the Sultans, pay the zakat (*The Star* 29 January 1993). He also suggested that the Ministry of Finance was consulting various experts, including the *ulama* and legal experts, to develop efficient and systematic zakat programmes (*New Straits Times* 29 January 1993). In substance, however, his contribution to the promotion of zakat was minimal.

Anwar's reluctance to promote zakat was especially puzzling if one considers the potential effect of developing a sophisticated system to eradicate poverty, a personal agenda advocated by him since the beginning of his political career. Anwar openly acknowledged that 'the zakat system was based on compulsory assistance to the poor rather than voluntary charity, and an efficient modern method of disbursal was needed to ensure that it reached those most in need' (*New Straits Times*, 29 January 1993). Why, then, was Anwar unwilling – or unable – to get involved in zakat implementation?

UMNO's patronage-maximising incentive mechanisms provide an explanation for the reluctance of top party leaders to deal with zakat implementation, leading to its underdevelopment as a national administrative system. The patronage-maximising mechanisms had a significant effect on decision-making among top UMNO leaders. An important result of this was that UMNO leaders were very receptive to business interests, especially those owned by the Chinese.

UMNO hegemony, patronage and political ascendancy

A brief overview of how patronage-maximising incentives influenced decision-making among UMNO politicians would help us understand the impact of this mechanism on the institutional formation and development of the zakat. With UMNO's growing hegemony in the BN, politicians in government recognised that they could make use of their position to dispense resources for both vested political and business interests. In the political sphere, the highly centralised party structure allowed the UMNO president, along with a few top leaders, massive prerogatives over the distribution of public resources. Key positions in public office, at federal and State level, were allocated to individuals allied closely with UMNO top leadership. As a result, the support of these UMNO leaders, especially the president, became essential to rise within the party and the government. The same patronage-based distributional logic operated in the economic sphere. Business resources and opportunities – projects, contracts, licenses, loans, company shares. etc. – were distributed to individuals closely associated with influential UMNO politicians (Case 1997: 395–96; Gomez 1996b: 89–93).

UMNO hegemony and the massive expansion of the state in the 1970s – in the form of public enterprises – gave party leaders access to a range of opportunities for patronage-based dispensation.[18] The capacity to dispense patronage helped UMNO leaders expand their support base not only within the party rank-and-file but also their electoral constituencies (Gomez 1994: 35–44). Subsequently, as the costs incurred during UMNO elections rose enormously – 'money politics' became a serious problem in the party in the 1990s – access to government resources for the practice of patronage became imperative (see Case 1994; Case 1997: 396–97; Gomez 1991).

To ascend the highly-centralised party hierarchy and to finance the enormous expenses to contest party elections, UMNO politicians sought to build close ties with wealthy corporate figures – Muslim and non-Muslim alike. Businessmen were willing to associate with and fund influential UMNO politicians as a means to promote their personal business interests. These businessmen expected that, in return for financial contributions, influential politicians would make available to them lucrative government contracts and business opportunities. Competition escalated among big businesses for access to profitable government projects, further encouraging patronage-networking activities between UMNO politicians and corporate figures. As intra-UMNO rivalry involving various leaders – and factions centred on them – intensified, and financing party elections became more expensive, the political–business nexus became more common and important. This encouraged aspiring politicians to build their clientele links with leading capitalists (Gomez 1994).

The increasing dependence of UMNO politicians on funds from the corporate sector left politicians considerably amenable to the views and interests of businessmen. This influenced decision-making among UMNO leaders, including the Islamisation of the welfare-financial sector. Moreover, given their emphasis

on economic development, UMNO leaders had to take into account the increasingly obvious entrepreneurial capacity of Chinese businesses, in contrast to the rather embryonic Malay business community which was still heavily dependent on the government for their development (Gomez 1999: 135–37, 189–90). After the considerable loss of Malay votes to its arch rival PAS in the 1999 general election, UMNO's dependence on the Chinese grew – this time, not only in the economic sphere, but also during electoral contests.[19]

In this context, the political drawbacks of alienating businessmen through business zakat had to be weighed against the potential gains from promoting the zakat to assist poor Muslims. Another factor encouraging UMNO leaders to consider alternatives to zakat was that PAS or any other third party posed no immediate threat to them in terms of developing or promoting this financial-welfare system. Such a threat might have motivated UMNO politicians to reinforce federal control over zakat management. The lack of attempt by a third party to develop a 'private' zakat organisation allowed UMNO leaders to consider developing and institutionalising alternative patronage-maximising mechanisms, similar to the zakat, *outside* the formal bureaucratic sphere.

In the name of 'NGO': rise of Islamic welfare organisations

The reluctance of UMNO's top leaders to contribute to the expansion and centralisation of the zakat does not necessarily mean that they cared little about this religious duty or the need to upgrade the welfare of under-privileged Muslims. The value of the Islamic charity-cum-financial welfare mechanism and its impact on their political profile, in fact, were well recognised by UMNO politicians, and Anwar in particular.

Anwar committed himself – and provided ample political and financial patronage – to the expansion of a financial-cum-welfare organisation equivalent to the zakat, but under a different label. Most importantly, this institution was placed outside the ambit of the federal bureaucracy, taking the form of an NGO.[20]

One prominent financial-cum-welfare organisation was the *Yayasan Pembangunan Ekonomi Islam Malaysia* (YPEIM, or Malaysian Islamic Economic Development Foundation), previously an inactive quasi-government foundation established in 1974. Having noticed its potential for developing Islamic economic activities, the Islamic Consultative Council (*Badan Perunding Islam*) chaired then by Anwar took up the task of re-capitalising and revamping the foundation in 1984 (YPEIM 1998: 6). Prime Minister Mahathir lent his quiet backing to this endeavour as its founder, but his involvement in the foundation was minimal at best. That YPEIM was privy to preferential government treatment was evident when the Ministry of Finance announced that all corporate contributions to this foundation could be declared as a tax deduction, a privilege not granted to the government-run zakat office.

The list of corporate contributors to YPEIM (see Table 8.1) and the size of each contribution highlight three important points. These points help explain

Table 8.1 List of corporate donors to YPEIM.

Company	Size of donation
1 Talam Corporation Bhd.	RM 2,000,000
2 Lankhorst Pancabumi Sdn. Bhd.	RM 1,000,000
3 DRB-Hicom Bhd.	RM 750,000
4 Classic Horizons Sdn. Bhd.	RM 500,000
5 Hong Leong Foundation	RM 500,000
6 Darul Sasarn	RM 500,000
7 Philleo Allied Bank Bhd.	RM 500,000
8 Malaysian Resources Corp Bhd. (MRCB)	RM 500,000
9 Malaysia Alliance Assurance Bhd.	RM 200,000
10 MBF Group of Companies	RM 200,000
11 Affin Holdings Bhd.	RM 200,000
12 Gopeng Bhd.	RM 200,000
13 ABRAR Group International Sdn. Bhd.	RM 160,000
14 Koperasi Tunas Muda Sungai Ora	RM 100,000
15 Southern Bank Bhd.	RM 100,000
16 Bank of Commerce Bhd.	RM 100,000
17 Permodalan Nasional Bhd. (PNB)	RM 100,000
18 Supura Holdings Bhd.	RM 100,000
19 KFC Holding Bhd.	RM 100,000
20 Bank Bumiputra Malaysia Bhd.	RM 100,000
21 Syarikat Takaful (M) Bhd.	RM 100,000
22 Guthire Bhd.	RM 100,000
23 Scomi Sdn. Bhd.	RM 100,000
24 Syarikat KMZ Sdn. Bhd.	RM 60,000
25 Tegastia Sdn. Bhd.	RM 60,000
26 Kumpulan Syarikat Safa	RM 60,000
27 Tetuan Tarmili, Azhar & Co.	RM 30,000
28 IBSOL Holdings Sdn. Bhd.	RM 30,000
29 Hisyam, Sobri & Kadir	RM 30,000
30 Bank Islam Malaysia Bhd.	RM 25,000
31 Avon Cosmetics (M) Sdn. Bhd	RM 20,000
32 BBIM Securities Sdn. Bhd.	RM 10,000
33 Koperasi Kesatuan Guru-Guru Melayu	RM 10,000

why Anwar – or any other UMNO politician – was unwilling to take management control of the zakat, and instead sought an alternative channel to advance the welfare cause. First, some of the business contributors to YPEIM were Chinese-owned companies. In other words, this type of charity mechanism,

although Islamic in principle, could draw donations not only from Muslims but also from non-Muslims. The zakat, in contrast, is a charity system meant exclusively for Muslims, both the contributors as well as the beneficiaries. If non-Muslims are involved in a business, zakat is imposed solely on the Muslim shareholders. Thus, compared to the zakat agency, a *yayasan*, in theory, can expect a larger volume of donations from a wider source of contributors. Second, the amount of contribution by each individual or company can be exceptionally large. No company was willing to contribute a large amount as zakat, without legal compulsion, since this payment was not tax deductible. On the other hand, the size of the donations by corporations to YPEIM, led by an influential politician, was usually quite large. Third, a number of the contributors are politically well-connected companies, most of which have ties to Anwar or UMNO. They had a history of being granted lucrative government business concessions through these political ties.

The special favours granted to YPEIM included not just the tax rebate for corporate contributors. The federal government, through the Prime Minister's office, circulated an instruction to the public sector, at both federal and State level, that individual departments introduce a salary-deduction arrangement for its employees with YPEIM. This was to 'encourage' public servants to make 'voluntary' contributions to YPEIM's charity-welfare schemes (*Maklumat YPEIM*). This type of assistance from the highest echelon of the federal government was not offered to the zakat agencies, although some State governments provided a similar salary deduction facility for their employees.

The corporate contributions, along with other government support, brought in a significant amount of funds for YPEIM's operational expansion. YPEIM's dramatic organisational expansion and high profile occurred after Anwar took over the Ministry of Finance in 1991. The ministry made available to YPEIM a sizeable amount of funds and facilities through the ministry-linked banks, most notably the Bank Islam and Bank Rakyat, for developing new Islamic schemes and expanding branches nationwide. For instance, an Islamic pawn scheme (*Skim Ar-Rahnu/Pajak Gadai Islam*) was launched in 1993 through Bank Rakyat, in conjunction with Bank Negara. Bank Rakyat's branches and finance facilities were utilised to provide the service nationwide. What is particularly noteworthy is that individuals associated with Anwar through ABIM[21] were appointed as senior officials in YPEIM.

Although YPEIM had abundant funding, it lacked the mechanism, skills and information to reach out to the poor at the grassroots. To offset its weak institutional framework for welfare work, cooperative ties were developed by YPEIM with another prominent NGO, the *Amanah Ikhtiar Malaysia* (AIM). AIM was originally established by some academics based in the *Universiti Sains Malaysia* (USM, or Science University of Malaysia) in the State of Penang, as a micro-credit financial programme aimed at uplifting the livelihood of the hardcore poor.[22] The programme, based on the Grameen Bank micro-credit concept, did not have any particular Islamic consideration when it was introduced. Nor did AIM have any intention of customising its programme

exclusively for Muslims. AIM managed to secure attention of high-ranking Malay bureaucrats who were willing to offer assistance to further the NGO's welfare programme. AIM then drew substantial financial support and loans, as well as official backing from the government, at both federal and State level, enabling it to rapidly expand geographically and operationally.[23]

The potential of AIM's programme, in reaching out to under-privileged Muslims, caught the attention of YPEIM – and Anwar. Through YPIEM and other official and personal channels, Anwar offered lavish financial assistance and provided much publicity to AIM in exchange for access to its technical skills, expertise and grassroots networks. What made this pact more unique was that AIM was urged to adjust its operations to one clearly based on Islamic principles. The *riba* (interest) elements were eliminated from the loan scheme, and a fixed administration fee was introduced instead. This Islamisation effect, in fact, had a positive impact on AIM: the growth of Muslim membership. Muslim members, however, soon came to see the programme as their own, driving off non-Muslims members as a result.

In the mid-1990s, Anwar and individuals closely linked to him apparently plotted a takeover of AIM. The original AIM management staff was sidelined and replaced by ABIM members associated with Anwar. This takeover manoeuvre had a number of significant outcomes. On the political front, AIM's flirtation with one of UMNO's most prominent politicians undoubtedly earned the organisation extra mileage in terms of drawing it abundant financial assistance from and recognition by the government. The government's five-year Malaysia Plans made special reference to AIM, to acknowledge its contribution to poverty eradication among the hard-core poor (Malaysia 1993: 66). Following this management takeover by ABIM members, AIM's fundamental principle of a non-partisan approach – a prime source of its success – was abandoned, thereby locating the programme in Anwar's personal turf. This political manoeuvring seems to have had a considerably high cost on the operational front.[24] Under the new management, the orientation of AIM's programme was skewed more towards business. New programmes, such as entrepreneurship development, were emphasised, while the fundamental objective of the organisation – poverty eradication of the hard-core poor – was neglected. The organisation's new orientation then encouraged the less poor and even the non-poor to become members, thereby alienating the poorest – AIM's chief clients. These old members came to see that the programme was evolving into one similar to existing government development strategies, which aimed to distribute benefits to the poor, but the actual beneficiaries were the non-poor (Sukor 2000: 279). Consequently, the membership dropout rate rose dramatically (Sukor 2000: chapter 12).

The most important political consequence of the AIM takeover was the patronage-maximising benefit accruing to Anwar. With AIM under his control, Anwar managed to extend his personal patronage networks to the poorest Malay communities. Through AIM, he could utilise more flexible, redtape-free, non-bureaucratic channels to reach out to poor Malays. This was, indeed, a politically

astute move. Anwar's associates justified this takeover on the grounds that he had little confidence in the capacity of the Religious Affairs departments to implement an effective social welfare programme. He chose to launch his own programme in the non-government sphere rather than wasting time and resources by making use of the inefficient and incompetent state agency.[25] Anwar's association with a welfare charity-based NGO helped further enhance his profile as an exemplary Muslim leader willing to fight for his fellow under-privileged Muslims.

UMNO business–Chinese nexus

The development of two overlapping, and competing, systems based on a similar Islamic charity principle highlights the patronage-maximising mechanisms influencing UMNO politicians. The importance of contributions by business corporations – both Muslim and non-Muslim, especially the Chinese – to UMNO politicians to help them ascend the party hierarchy has shaped the institutional formation and development of these Islamic agencies.

UMNO leaders in federal government considered it politically imprudent to promote the zakat, controlled at State-level, and thus had little incentive to encourage Malay businessmen to contribute funds to this agency. Moreover, a majority of Malaysian businessmen appeared very anxious about the religious rhetoric advanced by the opposition PAS. They feared that PAS's growing influence would lead to an increasing Islamisation trend within UMNO, which would have a negative effect on investment patterns in Malaysia. The concerns of this business community were understandable given the increasing inroads made by PAS in the Malay heartland during electoral contests, diminishing UMNO's presence in parliament. These businessmen were more assured that their capital accumulation activities would not be altered or hindered in any significant way under UMNO, given the party's secular outlook and emphasis on economic development.

An increasingly obvious Islamisation trend had been emerging in UMNO, alarming the business community. A most clear indication of the Islamisation of UMNO was the co-optation of Anwar into the party and his meteoric rise within its ranks. The personal backing offered by party president Mahathir to Anwar was crucial for the latter's rapid ascendancy in UMNO. Anwar was appointed to key ministerial posts one after another following his induction into UMNO: as Minister of Youth and Sports, Agriculture, Education and finally Finance. Along the way up, Anwar fully utilised the prerogatives attached to these ministries to Islamise public policies and programmes. His aggressive approach and popularity among the younger generation of Malaysians stirred a measure of concern among some Muslims as well as non-Muslims, especially the Chinese.[26]

The Islamisation of the business sector was an extremely risky endeavour for UMNO leaders who depended on corporate figures for funding as well as to promote economic development. Even though the Islamic banking system in Malaysia eventually received international attention, it had been difficult for

UMNO leaders to promote the idea initially. They had to expend a considerable amount of effort and resources convincing the business community of the importance of this Islamic project. A lesson for UMNO leaders from the implementation of the Islamic banking project was that an Islamisation initiative in the modern corporate sector would necessitate substantial coordination and cooperation between the government and business to secure acceptance. These initiatives could also be politically costly, unless they were handled with care.

Anwar was aware of the need to handle the Islamisation of the business sector carefully, especially when the premiership came within his reach after he won the post of deputy president in the 1993 UMNO election. Anwar's reputation as a radical Islamic leader was still vivid in many people's minds. And this reputation was not one that was held in high regard by the business community. Anwar's 'un-UMNOish' traits stemmed from his youth days. Before joining UMNO, he led activist student groups and later the leading Islamic NGO, ABIM, in the struggle to promote social justice. Poverty, capitalist exploitation of the economy and the injustices resulting from socio-economic inequalities, for example, were ABIM's chief concern. ABIM utilised Islamic organisational networks to mobilise popular protests against the government. Given the relative scarcity of prominent Islamic NGOs and figures in Malaysia, Anwar emerged as an icon of progressive Islamic ideas, a reputation he retained even after his induction into UMNO.

As finance minister and deputy prime minister, however, Anwar needed to cultivate an image as more than a progressive Islamic leader, in order to be seen by businessmen, especially the Chinese and foreigners, as a moderate and reliable successor to Mahathir. These businessmen were not only a primary source of investment for the national economy, but also an important source of funds for political activities.[27] The promotion of an Islamic tax on businesses for welfare purposes was not a particularly wise policy strategy from a political point of view.

Moreover, since UMNO politicians, including Anwar, had little faith in the zakat management known for its inefficiency and corruption, the key question for them was whether a revamp of this agency would be rewarding politically. Even if the zakat was operationalised more efficiently, UMNO leaders could not use the agency as a means to dispense patronage as they had little control over the way these funds were distributed. The Syariah provides a set of inflexible rules over the way zakat funds should be distributed. Inter-State variation in the disbursement of this fund indicates that zakat officials are permitted some flexibility and inventiveness, but only within the limits set by Syariah. For example, disbursement for one of the eight *asnaf*, ar-riqab (those who need assistance to free themselves from slavery), can be interpreted more broadly as a means to eliminate illiteracy by offering library facilities.[28] Only in this way could zakat agencies enhance the scope of their operations. On the whole, however, Syariah regulations are tight, thus restricting the interpretation of its codes by zakat officials to make the system more effective.

One key issue within the zakat that made it especially unattractive to UMNO politicians was its strict rule on investment. A majority of zakat operators adhere

to the interpretation of Yusuf Qaradawi, a famous scholar of zakat laws. His ruling was essentially 'do not take any risks'; in other words, commercial investments were unacceptable. Moreover, zakat money collected during one particular year should be spent before the end of that year, since there is no shortage of people in need of immediate financial aid; long-term investments, therefore, were not recommended. On one occasion when Yusuf Qaradawi was invited to give a talk in Kuala Lumpur, Anwar, who was chairing the session, alluded to a government's plan to invest the zakat in low-risk shares. He emphasised that such funds would only be invested on a short-term basis and would not be utilised for investment purposes alone (*The Star* 24 January 1993). Anwar's cautious attitude, and the fact that no initiative was taken to implement this plan, illuminated the potentially high cost of altering the rules and norms dictating the zakat. If Anwar had been more forceful in his attempt to determine the use of zakat funds, he might have offended a corps of *ulama*, an act not politically prudent for a Muslim politician then aspiring to a higher office in an impending party election.

Moreover, the government's social welfare expenditure and programmes for the poor, either at federal or State level, were usually integrated into UMNO's patronage networks in the villages (Shamsul 1983). For UMNO leaders at State level, for example the chief ministers and State assemblymen, welfare funds from the zakat made available to them was one of a few alternative sources of patronage. They could use these non-federal funds to promote their political interests, expanding their individual patronage networks in their own areas. They could do so relatively independently of the federal leadership, albeit within UMNO's organisational boundaries. Control over the zakat funds arguably grew even more important for UMNO State leaders as intra-party rivalries intensified from the late 1980s. UMNO State leaders also had limited access to patronage-maximising opportunities compared to politicians holding office at federal level, such as the Minister of Finance.

The competition among UMNO leaders to secure control over patronage-maximising mechanisms at federal level was intense. Thus, the exceptional enthusiasm of the minister in charge of religious affairs, Abdul Hamid Othman, over the national zakat concept, LUZAN, introduced early in 2000 was perplexing; the Minister of Finance and other UMNO top leaders, on the other hand, were unenthusiastic about the concept. Hamid's educational background in Islam proved valuable for his rise within the party during UMNO's Islamisation drive. Like any other UMNO politician, Hamid needed to cultivate his own patronage networks to climb the party hierarchy. Islamic-related matters were the most important – and perhaps the sole – issue that he could exploit to promote himself. Since his value within the party almost exclusively depended on his contribution when dealing with contentious Islamic issues, he needed to constantly demonstrate that his Islamic credentials were important to UMNO.[29] In this regard, the UMNO's substantial loss of Muslim votes to its arch rival PAS in the general election in 1999 put politicians with Islamic credentials under tremendous pressure. PAS's rising influence was interpreted as evidence that

UMNO was not doing enough to promote Islam. Indeed, during the 1999 elections, Hamid lost his parliamentary seat to a PAS candidate. During the 2000 UMNO election, Hamid's ranking in the party's Supreme Council also declined. Hamid only managed to retain his ministerial post when Prime Minister Mahathir appointed him a Senator.[30] Hamid, however, was soon urged to resign from his ministerial post, although he was given a newly created position, as 'Special Religious Adviser' to the prime minister. It was in this context that Hamid almost single-handedly pushed for the centralisation of the management of zakat.

Because federal Islamic projects and funds under the supervision of JAKIM had increased appreciably since the early 1980s, Hamid had access to a patronage instrument that he could exploit to develop his support base in UMNO. For example, federal funds for private- or government-run religious schools and their teachers were allocated in an effort to exert federal influence over these educational institutions. JAKIM's control over the allocation of this relatively large volume of funds provided the agency and the minister in charge with an unprecedented amount of patronage-maximising resources.

Moreover, successful centralisation of Islamic affairs, including administration of the zakat, meant that through JAKIM, Hamid would secure control of a considerable amount of resources – funds, licences, offices, welfare programmes, to name a few. Given UMNO's hegemony over the bureaucracy, this transfer of jurisdiction would provide the minister with the power to distribute these resources to designated areas and individuals in a way that would benefit him and the party. If management of zakat was nationalised as proposed by JAKIM, this agency could determine how zakat funds collected nationwide could be re-allocated to individual States. Inevitably, JAKIM and the minister in charge of religious affairs were enthusiastic about nationalisation of the zakat.

The limited interaction between JAKIM and the Ministry of Finance over zakat administration, thus, was not simply a question of coordination problems. The key issue was politics, specifically intra-party rivalry for control over massive public resources. The logic of patronage-maximisation had influenced decision-making among UMNO politicians holding government posts.

In this context, the decisions made by Anwar during his tenure as finance minister can be understood. According to some officials, the rather frosty relations between Anwar and Yusof Noor, formerly the minister in charge of religious affairs as well as an UMNO Supreme Council member,[31] had a significant impact on Anwar's decision not to interfere in the zakat sector. Yusof was a key figure who first offered political backing to the idea of establishing a corporate body for zakat collection in the Federal Territory of Kuala Lumpur. A zakat official felt that the uneasy relations between Yusof and Anwar were a major reason why the latter showed little interest in the management of the zakat. Indeed, Anwar hardly ever showed any interest in invitations by the Federal Religious Department for ceremonies or workshops on zakat-related issues; nor did he offer support for the promotion of the zakat.[32] Both men apparently understood that the zakat was 'Yusof's personal turf'. For Anwar, interfering

overtly in a rival's territory and offending the latter would lead to unnecessary tensions with other high-ranking UMNO politicians.

By using the NGO formula, on the other hand, Anwar could bypass the politics within UMNO while also promoting himself as a champion of the poor. The NGO formula had positive political impact on at least three counts. First, it was far easier and more efficient for a politician to create or take over an agency and staff it with his own men than to intervene in an agency controlled by the bureaucracy. Being free from red-tape, rules and protocols, NGOs, unlike the bureaucracy, could be managed more efficiently and used more expediently for political purposes. Moreover, the government-run zakat management was renowned for its inefficiency and lack of professionalism. To replace this agency – with a long history and royal connections – with a new institution would have been a costly and time-consuming affair.

Second, poor Muslims viewed NGOs like AIM as politically neutral, thus freeing them from any obligation to a party during elections. Whether they supported UMNO or the opposition did not matter when they made a claim for benefits. This was not the case with government agencies, which were usually abused by the ruling party. AIM's organisational strength was a reason for the success of its poverty-eradication programmes (Gibbons and Sukor 1990: 94). In view of AIM's non-partisan character, when PAS took control of the Kelantan State government in 1990, this NGO was allowed to expand its operation in this State, provided its poverty eradication programme did not discriminate against any party supporters.[33]

Third, the support for such welfare-oriented NGOs like AIM put Muslim politicians in a very positive public light, that was also appealing to the middle-class electorate. On the whole, the use of the NGO formula served Anwar's patronage-maximising interests remarkably well.

As for the corporate sector, since a majority of businesses were non-Muslim, especially Chinese, enterprises, it was not practical for them to re-allocate a substantial amount of tax payment to Islamic institutions. Moreover, a good record of tax payments would have provided businessmen with some political leverage over government in dialogues over economic policies. On the other hand, it was important for corporate leaders to cultivate ties with Anwar through financial contributions to private institutions associated with him. Anwar was then not only in charge of the finance ministry, he was widely viewed as Mahathir's heir apparent.

Although the promotion of an NGO similar to the state-run zakat under the auspices of an UMNO politician earned the party some publicity, the chief beneficiary of this patronage-maximising mechanism was Anwar himself. The promotion of a more professional and politically well-connected alternative system helped further undermine the efforts and reputation of the government-run zakat, possibly damaging its authority too. Patronage-based political connections can, however, be an ingredient for disaster if the patron falls from grace. Anwar's dismissal as UMNO Deputy President and imprisonment in 1998 seems to have had a considerable impact on the organisations connected with him. AIM's

future, for example, appears uncertain. The organisation has been under investigation for allegedly misappropriating welfare funds (*Berita Harian* 6 April 2002; *New Straits Times* 8 April 2002).

It was evident that the patronage-maximising incentive structures influencing the behaviour of UMNO politicians impaired the level of institutionalisation and development of zakat management. As a result, the system was left organisationally fragmented and without much authority, and its enforcement capacity inevitably limited.

Conclusion

UMNO's choice of action during the planning and implementation of Islamisation policies tend to be interpreted exclusively in the light of partisan politics, that is the long-standing rivalry between the two Malay parties, UMNO and PAS. Notwithstanding the significance of this factor, opposition pressure from PAS is insufficient to account for the Islamisation of the Malaysian state. The importance of creating avenues to dispense patronage was a key factor influencing UMNO leaders during decision-making on the pattern of development and institutionalisation of state religious agencies in the welfare-financial sector. What has been the political outcome of the particular pattern of institutionalisation of state Islamic agencies, and who has benefited from the process?

Islamisation initiatives sponsored by the state have contributed to the institutionalisation of the bureaucratic apparatus overseeing Islamic organisations. This institutional transformation within the state has meant that an increasing number of *ulama* and *ustaz* were mobilised, trained and employed by the government as Islamic court officials, school teachers and department officials. This process had three very important political outcomes. First, these theologically-trained individuals were incorporated into the civil service, thereby making them heavily dependent on the state for their authority and their livelihood. Second, their cooptation increased their political influence within the public sector and their social standing within society. These religious officials, who could have largely been neglected under a highly modernist and liberal developmentalist regime, were instead given what they saw as their rightful place in the state. They may not have been particularly happy with UMNO politicians and their subordinate position in formal decision-making within the state, but the government's official recognition of the role of religious scholars and teachers, together with increased career opportunities and material benefits, meant that they benefited considerably from the promotion of Islamisation. Third, the incorporation within the state of an increasing number of experts in Islamic theology helped strengthen UMNO's power base. This group could have emerged as a major oppositional force, united under the opposition Islamic party, PAS.

Despite the increasing institutionalisation of Islamic organisations and activities by the government, this was not evenly implemented across all sectors. While the Islamisation of the judiciary and education received much

attention, the zakat was largely neglected within the state. Since the zakat departments were placed under the Religious Council, heavily influenced by the sultan in each State, they found themselves continually isolated from the other parts of the public sector. This administrative isolation undermined the 'check-and-balance' mechanism, thus making the zakat departments very vulnerable to corrupt practices, while also encouraging unprofessional and inefficient management. The relatively poor management – though not in the all States – of public (religious) funds fuelled further already weak public confidence in the government's administration of the zakat. Moreover, the limited support that zakat officials received from UMNO leaders – seen in Anwar's efforts to develop an alternative mechanism equivalent to the zakat institution outside the state – further undermined the reputation and morale of those managing this institution. Limited UMNO support, along with frequent criticisms openly expressed both within the government and by the public, put the corps of religious officials on the defensive, seeding a source of reactionary behaviour, or at least, a sense of discomfort among them. Despite the Islamisation trend within the government, they may have felt that they had not particularly benefited from this process. Further, it was in this financial-related sector that the religious authorities felt marginalised by the state. Official recognition of the *ulama* – and their expertise in theology – was largely limited to the appointment of a few Syariah-educated scholars to the office of Syariah Advisory Councils set up in newly-established Islamic financial institutions. A majority of Muslims educated in Islamic theology were seen as not competent enough to handle financial and business matters. Official neglect of their religious expertise and value in government, in an era of Islamisation, contributed to a sense of discontent and unease among these theologically-educated elites. The discriminatory and uneven institutiona-lisation of Islamic agencies within the state, exemplified by the underdevelopment of the national zakat administrative machinery, diluted the otherwise positive impact of the Islamisation drive undertaken by UMNO since the early 1980s. This provided PAS leaders with extra political capital to exploit during their electoral campaigns.

The particular type – and the particular level – of institutional development of Islamic agencies can be explained by the patronage-maximising incentives accruing to individual UMNO politicians. The puzzle of why Anwar, then the powerful minister of finance and deputy president of UMNO, was unwilling and unable to promote the zakat was answered by the logic of intra-party political competition that dictated the behaviour of UMNO politicians. Since UMNO politicians have continually cultivated close ties with prominent corporate figures, Muslims and non-Muslims alike, to fund their political activities, this has left the former rather dependent on the latter. This trend became even more conspicuous as intra-party rivalry intensified from the early 1990s, at a time when Anwar and his allies were consolidating their position within UMNO. This patronage-based political–business nexus kept UMNO leaders considerably receptive to the interests of the business elite. Coupled with the government's single-minded pursuit of economic development, this patronage-maximising

incentive had an important effect on UMNO's top leadership, specifically making them value the contribution of Chinese businesses, not only as a dynamic domestic entrepreneurial community but also as a source of funds for their campaigns in party elections. This meant that implementation of the government's Islamisation policies was largely left vulnerable to – and skewed in favour of – the private interests of UMNO politicians.

The value of this business class was well recognised by Anwar, greatly restraining his, and the government's, choices when formulating policies related to the Islamic welfare-financial system. Anwar rode the Islamic factor to power within UMNO, fully exploiting state prerogatives made available to him by the prime minister's strong personal backing, primarily to mobilise support from rural Malays as well as the ascendant, Islamic-conscious, middle-class urban Muslims. Yet, his Islamic rhetoric had to be tempered when he began to pursue the office of Deputy President of UMNO. This was due to his recognition of the need to maximise clientele networks with businessmen, including the Chinese, to ascend the UMNO hierarchy. The patronage-maximising factor dictated the behaviour of UMNO politicians, shaping the level of institutionalisation of Islamic-based welfare-financial bureaucratic structures within the state.

Notes

* I would like to thank Jennifer Amyx, Harold Crouch, Edmund Terence Gomez, Natasha Hamilton-Hart and Norani Othman for their comments on an early version of this chapter. I, however, remain responsible for any errors.
1 In this chapter, State (with capital 's') is used to refer to a state government in the Malaysian federal system (e.g. Kelantan and Sabah), while state (without capital 's') refers to the administrative authority structure.
2 The bookkeeping, for example, was not systematic. Survey or census data that could have facilitated the planning and administration of zakat was inadequately undertaken and analysed. As a result, the problem of non-payment was not tackled.
3 Since the *fitrah* was customarily a very small amount, ranging from between RM3–5, collection of this zakat alone did not contribute sufficient funds to the State offices. The rate of zakat *fitrah* was changed every year and varied from one State to another. (For the rates charged in the individual States in 2000, see *Berita Harian* 7 December 2000). In some small States, such as Perlis, the expenditure incurred by the collectors took up a major part of the zakat income, leaving little for welfare purposes (Aidit 1991: 100).
4 The level of administrative insulation of zakat management from the royal house varies from State to State depending on, for example, who is the Head of the Religious Council. If the Chief Minister or the Head of the Religious Department leads the zakat office, as is the case in Negeri Sembilan, the State government obviously possesses considerable influence over the way these funds are managed.
5 For the changes that occurred in the State of Penang, see Ismail (2000: 12).
6 In the Federal Territory's zakat collection agency, *Pusat Pungutan zakat* (PPZ), for example, only five out of the 33 staff were educated in Islamic theology, such as the *Syariah*. Twenty of these 33 staff were employed to perform administrative duties. The top management staff all had some business background – academic qualifications as well as career experience – while some were even educated abroad (and not in the Middle-East).

 7 The newly established Islamic think-tank sponsored by the federal governement, *Institut Kefahaman Islam Malaysia* (IKIM, or Institute of Islamic Understanding, Malaysia) also organised some seminars on zakat.

 8 When this mechanism is put into operation, the current zakat management offices in the States will become redundant. It is, therefore, not surprising that almost no State has responded positively to this proposal.

 9 Such inter-State rivalry was understandable since the State zakat agencies, especially the corporate ones, had to be self-sufficient with little or no external financial assistance.

10 This suggestion was only adopted in Selangor and Penang. The reluctance to adopt this suggestion was apparently because they had to compromise over discretionary power to determine how the funds were distributed.

11 Some States, such as Malacca and Johor, did attempt to introduce legislation involving the zakat (*Berita Harian* 24 October 2000).

12 Interviews with various zakat officials in Kuala Lumpur and Selangor in 2001 and 2002.

13 For an in-depth discussion on the Tabung Haji, see Radiah (1991: 154–55).

14 See, for instance, Pusat zakat Selangor, *Asnaf* (February 2001: 9).

15 Interview with a zakat official, Kuala Lumpur, 19 June 2000.

16 In 1999, in the Federal Territory of Kuala Lumpur, for instance, only 227 employers adopted this salary deduction arrangement. Despite various new facilities introduced by the zakat office, some people still preferred the over-the-counter payment method, reportedly to get a feeling of having performed a religious obligation (*Pusat Punguton zakat*, *Laporan zakat* 1999–2000: 27).

17 The Advisory Council for the Co-ordination of Islamic Education (*Lembaga Penasihat Penyelarasan Pelajaran dan Pendidikan Agama Islam*, or LEPAI) was formed in 1983 in an effort to coordinate the teaching of Islam in all religious schools not administered by the Ministry of Education (i.e. private as well as state-run religious schools). Its secretariat was placed under JAKIM, but a majority of the staff was seconded from the Ministry of Education, facilitating intra-governmental coordination at the federal level and to a lesser degree, between the federal and State governments.

18 In 1970, the government introduced the New Economic Policy (NEP), a 20-year social engineering plan, to achieve national unity by eradicating poverty and restructuring society so as to achieve inter-ethnic economic parity between the Malays and non-Malays. To achieve these objectives, state involvement in the economy through public enterprises, to acquire and develop assets on behalf of the Bumiputeras, grew appreciably.

19 This electoral trend, involving UMNO's declining rural Malay support and growing non-Bumiputera backing, had been evident even before the 1995 general election (Gomez 1996a: 31–45), but it accelerated after Anwar's controversial dismissal from government in 1998.

20 Other prominent UMNO politicians used this *yayasan* (welfare foundation) formula as a means to promote their political profile. One example was the former *Mentri Besar* (Chief Minister) of Selangor, Muhammad Taib, who established the *Yayasan Basmi Kemiskinan Selangor* (YBK, or Foundation for the Eradication of Poverty, Selangor). For a discussion on the formation of this organisation and the role it played in helping to promote Muhammad's political objectives, see Tuan Nooriani (2001: chap. 3).

21 Anwar had long led ABIM, the most prominent Islamic NGO in Malaysia, before his entry into UMNO.

22 For more detailed information on AIM, see Gibbons and Sukor (1990).

23 Interview with David Gibbons, Kuala Lumpur, 14 December 2000; Sukor Kasim, 9 February 2001; various issues of AIM annual reports.

24 The analysis in this section is drawn largely from the evaluation by Sukor Kasim, AIM's former director (see Sukor 2000), as well as my interview with Sukor, Penang, 9 February 2001.

25 Interviews with various close associates of Anwar, Kuala Lumpur, January 2001.

26 Interviews with Chinese association leaders, Kuala Lumpur and Selangor, July–August 2001.

27 For a study of Anwar's close ties with prominent businessmen and their role in his rise in UMNO, see Gomez (1993).

28 Interview with a zakat official, Kuala Lumpur, 8 November 2000.

29 Shamsul points out that the 'Islamic factor' was crucial when individuals like Anwar, Wan Mokhtar and Abdullar Badawi secured victories during UMNO election contests for the post of vice-president. Similarly, when Yusof Noor obtained the largest number of votes during the contest for a seat in UMNO's Supreme Council in 1987, his Islamic credentials stood him in good stead (Shamsul 1988: 184–85).

30 Members of the Upper House of Parliament, the *Dewan Negara* or Senate, are allowed to hold cabinet appointments.

31 Yusof Noor had also once held the post of vice president of UMNO. His influence in the party had been waning from the early 1990s, after Anwar became deputy president of UMNO in 1993.

32 Interview with zakat officials, Kuala Lumpur, 19 June 2000.

33 Interview with Sukor Kasim, 9 February 2001.

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