

Political Economy of Development in Malaysia

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**NASKHAH PEMELIHARAAN
PERPUSTAKAAN NEGARA MALAYSIA**

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PROLEGOMENA

AS far as we are aware, there is no book on the political economy of development in Malaysia. This is, therefore, supposed to be the first volume on the subject. The need for such a book is immense at the present juncture of Malaysian development. The basic purpose of editing the book is to reveal the fact that for reasons more than one, the neoclassical marketist approach is inadequate to deal with the dependent type of capitalist development in Malaysia and also to acquaint the readers with the political economy approach to the study of Malaysian drama of development.

Development is essentially an interactive phenomenon. And as such, it can best be explained by political economy approach which studies interaction, discursion and integration. The need for such approach can hardly be exaggerated. B.N. Ghosh's paper, "Political Economy and Malaysian Development" analyses the various dimensions of political economy approach and observes that simplified marginalist market-oriented unidimensional approach would be starkly inadequate and inefficient to capture the multidimensionality of the phenomenology of development in Malaysia.

Malaysian development process over time has been able to provide political and economic accommodation to various parties and policies. Wan Asna's paper, "Political and Economic Accommodation in Peninsular Malaysia" shows that Malaysian consociational model is characterised by asymmetric accommodation in which the non-Malay component parties have been able to elicit some real concessions from UMNO. Evidently, different interest and pressure groups are to work in unison towards a given desideratum, and a proper coordination and integration machinery becomes indeed essential. Malaysian political economy has allowed a fuller integration of various socio-econo-political forces and it is becoming increasingly more Keynesian in addressing its economic problems. Wan

Abdul Rahman's paper, "From Malacca to the New Economic Policy" delineates some very important dimensions of the evolution of Malaysian political economy. The political economy of development of Malaysia is characterised by a syndrome of cooperative competition. B.N. Ghosh's paper, "Class Relations and Malaysian Development" brings out the fact the high growth rate of the Malaysian economy has been made possible by a sort of calculative collusive class alignment among the three important production-centric classes in Malaysia, namely, the working class, bureaucratic class and the capitalist class. The role of each class is a positive sum game. A common class interest has been the basis of Malaysia's accelerated rate of growth. The genesis of the commonality of class interest is easy to be unfolded to the students of Malaysia's economic history. The historical pattern of Malaysia's development planning, observes Jomo K.S. in his paper, "Development Planning in Malaysia" has been primarily shaped by the nature of the ruling regimes and their respective visions or interpretations of national agendas for development. In fact, post-colonial economic planning in Malaysia has not provided much more than limited blueprints for economic development in the context of unequal and expanding private ownership and limited state activities and intervention.

From the vantage point of development planning one can clearly have an overview of development modelling. And in this context M.A. Choudhury's paper, "A Critique of Econometric Modelling for Development Studies" provides the necessary searchlight. Choudhury's paper reveals that econometric modelling is not able to incorporate inter-systemic perturbations caused by various linkages within the system. Hence, it is necessary to have alternative methods capable of constructing development planning in the midst of micro-macro interface and socio-econo-political institutions, and Malaysian economy as a demand-driven economy rests on and responds to various types of stimuli and an appropriate study of such stimuli is bound to take one far beyond the neoclassical, Keynesian and monetarist scaffoldings. And for the success of development planning, the responsibility of state has to be like that of a friend, philosopher and guide.

The pattern of state action in Malaysia has varied over the years. This has been particularly true in the case of Malaysia's financial provision. This has been clearly brought out in Rodney Wilson's paper, "The Political Economy of Financing Development in Malaysia". In the provision of finance, the role of state is becoming more and more subtle. However, the state has been encouraging the growth of Islamic financial system. Rashila Ramli's paper, "The Unsettling Partnership of Women in Development and

Islamic Ideology” shows that the introduction of Islamic ideology has given rise to many confounding problematics and baffling situations. The social construction of gender through development ideology has allowed the state to have control over the women labour power’s productive and reproductive capabilities essential for capital accumulation. In fact, the rural Malay women today find themselves at the intersection of a power configuration where Islamic fundamentalism seems to deny the role of women in the public sphere. There is, thus, visible in the horizon the sign of internal contradiction. Islamic development process is not, however, free from problematics in Malaysia. Muhammad Syukri Salleh’s paper, “Political Economy of Islamic Development: A Comparative Analysis of Kelantan and Terengganu” reveals development dualism and various constraints in the Islamic development process adopted by Kelantan vis-à-vis Terengganu.

Apart from the dichotomy of Islamic and non-Islamic development, the nation is confronted with many other macro problems. One such problem is the problem of foreign workers. Moha Asri in his paper, “The Inflow of Foreign Labour to Malaysia: Some Critical Analyses of Socio-Economic and Political Implications on the Locals” critically examines the impacts of the inflow of foreign workers on the Malaysian society, economy and politic. Needless to say, in the new testament of Malaysian development, foreign capital and technology considerably helped the absorption of surplus labour. And when subsequently the phenomenon of labour shortage started in the eighties, the country had to depend on foreign technology to remedy the labour shortage problem. Thus, technological dependency has remained ingrained in the Malaysian development process for various reasons and Malaysia has been clamouring for clean transfer of technology. But technology transfer (TT) has its own political economy which has been elaborated in Shankaran Nambiar’s paper, “Fostering Technology Transfer: The Case of the Electronics and Electrical Industry in Malaysia”. Both the state and multinational corporations interact in order to accomplish technology transfer. Malaysian government’s participation in technology transfer has typically been largely restricted to attracting foreign direct investment and the multinationals seek to maintain their monopoly over technology, although at first glance some of the recent trends in the electronics and electrical industry seem to suggest a more liberal attitude to technology transfer on the part of multinationals. However, the state cannot be unduly dependent upon multinational linkages for technology unless this can be complemented with state participation in supporting heavy investments in technology and in research and development.

Be that as it may, on the basis of its dependency on foreign labour, capital and technology, Malaysia wants to achieve the eldorado of Vision 2020. Vision 2020 is a projection of a competitive, market-driven philosophy. But it is more than a mere rhetorical slogan. It encompasses the holistic dream of a fully industrialised nation along with its characteristic values, culture and unity. The concept is more challenging than a mere attempt to optimise its GNP. It aims at maximising inter and intra racial harmony based on shared prosperity. But there are many lurking question. Is racial unity achievable? How can economic success be translated into racial harmony? There are indeed many limitations and constraints. Ozay Mehmet's paper, "Malaysia after Mahathir: The End of Vision 2020?" elaborates on these limitations and constraints and provides a futuristic perspective of the probable shape of things to come.

Editors

University Science Malaysia
1998

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1

POLITICAL ECONOMY AND MALAYSIAN DEVELOPMENT: SOME OBITER DICTA*

B.N. Ghosh

POLITICAL economy belongs to that borderland of economics which opens on political science. The term *political economy* has had a very long, intriguing and chequered history. It started its career in the seventeenth century as the science of state management and had its heyday during the hundred years of the classical era extending from the middle of the eighteenth century to the middle of the nineteenth century when political economy came to be used synonymously with economics. This ontological status of political economy continued till 1870s when the system of pure economics was introduced in a more rigorous way by the neoclassical school. The emergence of the neoclassical paradigm sounded the death knell for political economy and, there was the virtual downfall of the discipline. However, after a long period of hibernation, political economy once again emerged in the academic arena since the sixties of the present century for various compelling reasons, the most decisive of which is perhaps the need for a comprehensive interdisciplinary subject. Political economy this time appeared with broader epistemological base and was

* The article is based on a talk given to Heriot Watt University students at the Malaysian Institute of Training and Development (MITD), Georgetown.

used as an umbrella concept accommodating political, economic, sociological, historical and other related influences in the phenomenological explanation of the subject.

In this new role, political economy seems to have been identified as a kind of eclectic social theory by the neo-Marxists and the Chicago school of political economy which advocated the study of policy and power relations, among others, as the true subject-matter of political economy.

In terms of historicity, political economy over the centuries, has undergone two distinct phases of metamorphosis which form the subject matter of the present article. The first phase marks the rise and fall of political economy, and the second phase depicts its rise again.

The discussion of the article would be divided into four broad *sections*. Section One outlines the various meanings of political economy followed by a brief account of its rise and fall in Section Two, and then the analysis of its resurrection in Section Three and finally, Section Four discusses the political economy of Malaysian development.

I

MEANINGS OF POLITICAL ECONOMY

Over the ages, the meanings of political economy (PE) have undergone substantial evolutionary changes. PE has indeed remained an evolutionary subject. In what follows, I would like to enumerate a few conceptual senses in which the term PE has been and is being used. As Frey has identified, the following five distinct analytical approaches can be included within the jurisdiction of political economy (Frey, 1978).

- (i) Marxist and neo-Marxist approaches including radical groups, new leftists and Cambridge capital theorists.
- (i) Traditional approaches including description, empirical and historical approaches and the current economic research of Brookings Institute of Social and Economic Research and the like.
- (iii) System theoretical approaches which may include methodological, quantity-oriented and policy issues.
- (iv) Unorthodox approaches including critical sociological innovation and institutionalist approaches of Galbraith, Myrdal, Perroux, Hirschman, Komai, and others.

- (v) Economic theory of politics approach including the approaches followed by Schumpeter-Downs tradition of extending economic methodology to political analysis, and also by Black, Buchanan, Olson, Frey and others of the same tradition.

Although Frey's approaches give a fairly good idea about some of the denotations and connotations of political economy, these are by no means complete and exhaustive. Moreover, many a political economist would not be ready to accept his approach (ii) as the correct approach qualifying for political economy. Be that as it may, let me add a few more usual meanings and connotations of PE.

- (vi) PE is the study of inter-relations, interactions and discursions among the explanatory variables. It is essentially a study of integrative process.
- (vii) PE is the study of the economic impact of political actions and political impact of economic actions.
- (viii) PE analyses the genesis of social conflict and also the conflict resolution.
- (ix) PE studies social phenomena through their relational perspectives. It is a study of social relations.
- (x) Political economy can be conceptualised as the study of the process of dialectical change.
- (xi) PE is sometimes regarded as the study of civil administration and state craft à la Adam Smith.
- (xii) PE is the study of the laws/principles of distribution and interrelations among the distributive shares à la David Ricardo.
- (xiii) Any inter-disciplinary study is regarded as a study on political economy. The neo-Marxists consider PE equivalent to social theory that includes almost every subject of social science.
- (xiv) PE has to be based on non-neoclassical assumptions and premises. And it may be a study of tensions arising out of market failures and government failures.
- (xv) PE is based on the assumptions of policy and the outcome of the policy. This view is due to Lionel Robbins (1981, p. 8). The same view is expressed by J.A. Schumpeter (1954).

- (xvi) Thomas Hutchinson's definition of PE includes elements of professional introspection, normative statement on preference and risks and an interdisciplinary approach (Hutchinson, 1964).
- (xvii) Political economy is sometimes conceptualised as a theory of social evolution in which economic dynamics is systematically blended with social change including political change (Heilbroner, 1969).
- (xviii) A study of various types of economic and non-economic influences, the specific roles of state and power relations falls within the ambit of political economy.
- (xix) The term is at times used in a very broad sense. Thus, any writings on economics with occasional reference of socio-political and institutional influences are also regarded as political economy in nature.
- (xx) Lastly, political economy is what the political economist writes. In this sense, the writings of a Marxist or a neo-Ricardian or similar other labelled political economists are invariably regarded as the products of political economy.

It should be noted that the modern concept of PE is very much different from what it was in the eighteenth and nineteenth centuries. And there are indeed not one but different systems of political economy. This was true in the past, e.g., classical political economy, Marxian political economy and so on. Moreover, PE as a methodological construct can be applied to any subject. Thus, we can have subjects like political economy of caste, political economy of brain drain, political economy of music and the like. In modern times, the concept of PE is being used in variedly different ways some of which I have tried to enumerate in the preceding list. It also needs to be specifically made clear that it is now very strongly felt that the subject of economics is ontologically different from the subject of PE. Economics in its pure form is based on or refers to neoclassical paradigm. But PE has a new connotation which embraces one or more of the meanings as enumerated in the foregoing discussion. Rothschild, however, points out that at times there may not be any difference between economics and political economy at the analytical level. Similarly, his view, which is difficult to trade off is that while other types of political economy are following different paths, there are areas where we still find an affinity to the classical political economy (Rothschild, 1989, pp. 2-3). To my mind,

these are mere accidental coincidences, and cannot generally be taken to be the usual case. Looked at this way, I have provided answers to the following three posers of David Whynes which he has raised in his edited volume on political economy (Whynes, 1984):

- (i) Is there any genuine and clear difference between economics and political economy?
- (ii) Is the political economy today the same as the 19th century specimen or a different one?
- (iii) Are there several political economies?

II

RISE AND FALL OF POLITICAL ECONOMY

The rise of political economy was evident during the pre-classical period marked by the philosophies of mercantilism and physiocracy. And it further expanded in a very systematic way during the period of classical political economy. Marxian political economy (MPE) is essentially an extension of the system of classical political economy; but in many respects, it is also different from the CPE. Political economy was indeed given a new direction and dimension by Karl Marx. MPE is indeed a class by itself.

However, political economy experienced its downfall during the period of neoclassicism which aimed at making economics a pure and positive theoretical engine of equilibrium analysis on the basis of some heroic assumptions. Neoclassical economics emerged as an extremely orthodox and esoteric field of study devoid of interactions. Let me discuss the rise and fall of political economy in a bit more detail with reference to various schools of economic thought.

Pre-Classical Political Economy

Antonine Montchretien was the first person to have written a volume on political economy (1615) wherein he discussed the various possibilities of improvement of the economy through industrial development under the supervision of the state.

The term political economy (PE) became popular with the publication of Sir James Steuart's *Principles of Political Economy* in 1767. He maintained that just as economy is important to family, PE is in the same way important to the state (Steuart, 1767). PE, in other words, was regarded as the art and science of state management.

Mercantilism considered the enrichment of the state as the central focus of political economy. This was quite natural because in the early European society, one could find a fusion between the state and the economy. In fact, in the transitional epoch which produced mercantilist theory, there was a fundamental unity between economy and polity and the mercantilist literature fully reflected the temper of time (Anderson, 1974, p. 34). The mercantilists were interested in the expansion of national wealth through the regulatory and supervisory role of state. However, it should be noted that whereas English mercantilists emphasised agrarian capitalism, the French mercantilists did not do so (McNally, 1988, p. 24).

Between 1549 and 1622, some of the basic elements of the mercantilist political economy became clearly open particularly in the writings of Thomas Mun. This included a rudimentary concept of the circular flow mechanism implying interdependence among a variety of economic phenomena (e.g., quantity of money, price level and so on), the importance of favourable trade balance, and the crucial role of agriculture in the production of national wealth (McNally, 1988, p. 34). The English mercantilists considered that the strength of a state is dependent on the economic relation within a civil society; but the French mercantilists strongly believed that it was the state which could guarantee unity and harmony of civil society.

As a matter of fact, French mercantilism was the handmaid of royal officials and it was tantamount to state-making. The basic purpose of Montchretien's treatise was to emphasise the importance of improved administration of the national economy. French mercantilism identified the state as the central category of economic analysis (McNally, 1988, pp. 70-71).

The subject of PE took a step forward with the introduction of physiocracy in France in the third quarter of the eighteenth century. The physiocrats introduced for the first time a general model of economic interdependence organised around the circular flow of economic life including production, circulation and distribution. They produced a model of agrarian capitalism with its primary emphasis on simple reproduction through a triadic relations among the three social classes, namely, labourers, capitalist tenants and landlords. While advancing a model of agrarian capitalism, the physiocrats had to elaborate the concept of primitive accumulation process.

Quesnay argued that unity and stability of the social order require the precondition of a centralised political authority that can establish a

framework where private interests can further the general welfare. The physiocrats strongly recommended the process of state-directed social transformation towards agrarian capitalism. Schumpeter has rightly pointed out that in the actual situation of eighteenth century France, the reforms advocated by the physiocrats could have been carried successfully only by a strong state (Schumpeter, 1954, p. 229). The advocacy of agrarian capitalism really aimed at increasing the power of the state by making more surplus available through taxation.

Physiocratic political economy, apparently, was in favour of agrarian capitalist class, for this class was really important for rural transformation through the creation of social conditions necessary for capital accumulation. The physiocratic world view accurately reflected the social structure and the need of the time. The political economy of the physiocrats, considered in the proper historical perspective, is indeed a profoundly realistic analysis of the economy and society of the eighteenth century France. But as a model of social interdependence among classes, the physiocratic political economy contains many elements of a realistic workable paradigm of agrarian capitalism.

In the eighteenth century, the pioneering ideas of William Petty and P.D. Boisguilbert helped to lay the foundation of the classical political economy (CPE). They are respectively dubbed as the "fathers" of English and French PE. The physiocrats themselves were immensely influenced by the ideas of Boisguilbert. However, both these writers addressed the issue of taxation from the point of view of value and wealth. They analysed wealth as the product of human labour applied to nature, and both the writers thought that agriculture provides the basic foundation of national wealth, and both of them also analysed the mode of operation of agrarian capitalist relations of production. Be that as it may, in many important ways, they can be regarded as the true precursors of classical political economy.

Classical Political Economy

Classical political economy is the study of production, distribution, growth and policies. However, the basic classical question hovered around mainly two problems: production and distribution. To Adam Smith, political economy is the study of the nature and causes of the wealth of nations. It is a branch of the system of civil government and is essentially concerned with public policy (Smith, 1937). To Ricardo, the basic purpose of political economy is to analyse the distributive shares and their relations (Ricardo, 1951).

The CPE concentrated more on the question of removal of poverty. Therefore, it was necessary to initiate the process of economic growth so that the wealth of nations can be increased. Surplus is essential for economic growth. And CPE suggested ways and means for the accumulation and the proper use of surplus. In the process of analysis of surplus, the CPE had to rely on the question of relative price or exchange value. The search for an invariable measure of value led CPE to discover the labour theory of value, which considers labour as the originator of value. However, in the long run, value is equal to cost of production but is still labour theoretic in essence (Ghosh, 1988, p. 359). The labour theory of value was very rational for the analysis of CPE because:

- (i) labour could be used as an invariable measure of value and
- (ii) all means of production could be reduced to labour units.

Once the problem of valuation is, thus, satisfactorily tackled, the CPE concentrated on the problem of distribution. The CPE found the possibility of class conflicts in the matter of distribution. Ricardo in his fundamental theorem of distribution found an inverse relation between wages and profits and also a conflict between the land owning aristocrats and the landless proletariats.

The CPE laid down many policy-oriented nomological principles which are still being used in economic theories of our times. The CPE was indeed the first serious attempt to build up an engine of analysis. Its abstract methodology and *reductionism* did not stand in the way of formulating some universal theories of economic behaviour under competitive capitalist system. Capitalism was depicted as a natural and non-contradictory entity which ensures full employment through the operation of the automatic mechanism in the market system.

The CPE represents the idea of continuity in the analytical plane with the works of William Petty, Boisguilbert and the physiocrats. But it did make many ramifications and improvements which can qualify it to be a distinct school of political economy.

Marxian Political Economy (MPE)

The main thrust of political economy from the classicals to Marx *has* centred around the question of production. According to MPE, the process of production can be regarded as a contradictory unity of two relations:

- (i) the relation between man and nature and

(ii) the relations of production.

The latter relations constitute the true subject-matter of political economy (Ghosh, 1990, p. 2). MPE is precisely the study of production relations in terms of their interconnections with the contemporary development of productive forces as directed by history.

MPE, like its classical counterpart, analysed production, distribution and the question of *surplus*. Marx observed that while *surplus* originated, in production, it could be realised through circulation. He was concerned more with the forms and manner in which the surplus is generated, appropriated and distributed under different modes of production. MPE studies mainly the genesis of social conflict that arises between production relations and the forces of production, and also the consequences of such conflict in the analysis of capitalism. MPE analyses in detail the growth and decay of capitalism. It focuses more on the competitive capitalist mode of production and the class conflict between labour and capital, and comes to the conclusion that owing to inherent contradictions in capitalism, it will ultimately break down. Marx's methodology which is based on dialectical materialism suggest that contradictions ultimately arise in the system of capitalism, and his purpose was to bring out clearly the nature of production distribution relations that capitalism engenders.

Marx adopted labour theory of value from the CPE; but to him, exchange value is a type of social phenomenon. Marx observed that under capitalism, labour power is bought and sold as a commodity but a labourer is not paid the full value of its labour power. Wage is always less than the total productivity of labour, and the difference between the two, which may be called surplus value is appropriated by the capitalist. Year after year, the capitalist would make increasing amount of profit out of surplus value, and will increase the accumulation to gain supremacy and monopoly power in the market (Sweezy, 1942). However, in the long run, due to the rise of organic composition of capital, surplus value remaining constant, the rate of profit will fall.

How-be-it, in the course of time, increasing unemployment and low wages will lead to *under-consumption* and there would be the possibility of glut which creates *realisation problem*. Disproportional sectoral growth along with falling rate of profit and realisation problem will push the capitalist economy into the vortex of crisis (Sweezy, 1942; Ghosh, 1990, pp. 248-251). Ontologically, both CPE and MPE share almost the same views about capitalist crisis though they may have differences about the phenomenology of capitalism.

There is a definite line of analytical continuity between CPE and MPE. There are indeed many similarities and differences between these two schools of political economy. MPE has extensively used classical tools and concepts in its own way. In fact, a holistic evaluation of CPE and MPE gives an impression that Marxism is an extension of classicism and remains a special case of the more general classical system (Ghosh, 1992, p. 18).

The Neoclassical Paradigm

The emergence of neoclassicism in the 1870s heralded a remarkable paradigm shift. It wanted to introduce economics as a pure science. Marshall thought that the use of the term "political" would be misleading. The term political economy was replaced by the term economics as evident in A. Marshall's *Principles of Economics* (1890) and Marshall and Lady Marshall's joint publication, *Economics of Industry* (1879). It was thought that political economy is not scientific economics, for it cannot be made value-free (Robbins, 1976, p. 2).

Neoclassical economics (NE) is equilibrium economics. NE heavily relies on the fact that given the operation of free market mechanism and *laissez-faire* in the political matters, market will allocate resources in an optimum manner, and the deviations from equilibrium can also be corrected. Given perfect competition, Pigou demonstrated that wage-price flex can ultimately bring about full employment in the economy.

NE aims at maximising various objective functions for various groups of people (consumers, producers and so on) through the operation of market forces. According to NE, man always maximises pleasures and minimises pain (*homo economicus*). Everybody pursues his self-interest and maximises his objective function. The market allocates resources according to relative efficiency based on marginal equivalency conditions (e.g. marginal revenue is equal to marginal cost, marginal productivity is equal to acquisition cost, and so on). Marginal calculus was extensively used. Remuneration to a factor of production is determined by its marginal productivity, and the price of a commodity is equal to its marginal utility. Free competition is supposed to ensure not only just distribution of income but also optimal allocation of resources (Bhardwaj, 1986).

Since all factors of production are paid according to their respective marginal productivities, there is no question of exploitation. Neoclassical system is regarded, therefore, as a just system ensured by the operation of impersonal market forces. The roles of class, institutions, state, pressure

groups and the like are relegated to the background. The individuals are autocentric, selfish and free decision-making units.

III

RESURRECTION OF POLITICAL ECONOMY

Although political economy was fully resurrected in the sixties, the attempts to revive it started much earlier during the period of Keynesian revolution. The juxtaposition of involuntary unemployment and the volatile expectation dynamics created a disequilibrating force in the Keynesian system which prevented it from attaining stability. Keynesian disequilibrium macroeconomics clearly maintains that the market is never fully cleared. There is no Watrasian auctioneer to make the necessary adjustments and the *tatonnement* process completely fails (Ghosh, 1993, p. 653). The Keynesian disequilibrium macro system makes transactions possible at non-equilibrium prices. It also necessitates government intervention to attain the desideratum. All this is a clear departure from the neoclassical system.

In contradistinction to the neoclassical macro-based system, Keynes developed the aggregative economic system, like that of the classical political economy (Pilling, 1986, p. 16). By rejecting altogether the possibilities of automatic reconciliation of conflicting interest into a harmonious whole, the *General Theory* made open the problem of choice and judgement which the neoclassical economics had managed to smother. Economics once again opened the door to political economy (Robinson, 1962, p. 76).

Keynesian political economy stands also very close to the Marxian political economy in many respects. Both Keynes and Marx are opposed to orthodox equilibrium theory. Both agree that capitalism carries the seeds of its own decay and that unemployment is an inherent feature of a capitalist economy. In fact, the recognition of uncertainty in future expectations in the Keynesian economics is a clear break from the orthodox neoclassical static equilibrium system.

As a matter of fact, Keynesian policy prescriptions, and the increased involvement of state and institutions and, the increasing awareness of systemic interactions amongst economy, polity and society have been the main driving force responsible for the resurrection of political economy in later years. The post-Keynesian theories basically emphasised social relations and income distribution, as well as changes and growth over time, and these have been regarded as the important aspects of reconstruction of political economy (Kregel, 1973, p. xvi).

The resurrection of PE was effected for the first time by the Radical Left and is one of the main contributions of the neo-Marxist writers. Marxian political economy, it should be noted, was basically concerned with the study of the dynamics of capitalist development. Be that as it may, after resurrection, the term political economy was confined mainly to the study of three distinct areas, namely, distribution rather than productivity or growth, power relations and power structure, and advocacy and policy prescriptions (Arndt, 1984, p. 269).

Whereas orthodox economics tries to show that markets allocate resources according to relative efficiency, the political economist tries to show that market distributes income according to relative power. Orthodox economics, in fact, relegated to the background the importance of the study of laws of motion of society and the issues involving class and power. Instead, it concentrated more on market mechanism and on the study of the problem of allocation of resources. The neo-Marxist political economy focuses more on the study of class and power, and the laws of motion of society.

The neo-Marxist political economists (Herbert Gintis and others) observe that orthodox economics does not have any theory of class or power for the proper study of laws of motion of society. Moreover, orthodox economics does not have any satisfactory theory of income and wealth distribution. This is so because a satisfactory theory in this regard is not possible, if one is not paying any attention to the role played by pressure groups or power relations.

Neo-Marxist writers also chided the orthodox economists for their failure to make statements about the desirable income distribution regime and the policy parameter to achieve such a regime. The orthodox economists are too afraid of making value judgements and normative pronouncements. Another distinct departure made by the neo-Marxist political economy is the study of institutions and institutional changes. This was conspicuous by its absence in the orthodox economics.

A parallel development in the realm of political economy that has taken place in recent years is the Chicago political economy or what W.C. Mitchell calls, the New Political Economy. The Chicago political economy, as developed by Buchanan, Tullock and others, has many similarities and dissimilarities with the Marxist political economy (Arndt, 1984, p. 270). Both these schools emphasise:

- (i) the study of laws of motion of society,

- (ii) the importance of relative power in the distribution of income and wealth,
- (iii) the advocacy of policies which are invariably based on value judgements, and
- (iv) market failure as the source of inefficiency and inequity under capitalism.

However, there are many important differences between the analytical approaches of these two schools of political economy:

- (a) Whereas the Marxist political economy attributes the growth of capitalism to the technical changes in the production process, the Chicago school attributes it more to the emergence of a system of property rights giving rise to rewards for innovations.
- (b) Whereas the Marxist political economy believes that power depends on the concentration of ownership of the means of production, the Chicago school believes that power depends on the ability to control, including the control over the state machinery.
- (c) Whereas the Marxist political economy believes that inefficiency grows primarily out of market failure, the Chicago school believes that inefficiency may very well arise out of the operation of political market and that this grows as the role of state grows.

The Chicago school of political economy offers economic explanations to political facts and factors. Whereas Marx politicised economics, the Chicago school can be said to have economised politics (Arndt, 1984, p. 270). The Chicago school believes that economic approach has a wider power of explanation and prediction than any other simple approach. And it gives overwhelming importance to justice, efficiency, equity, and liberty as the subjects of study of political economy.

The revival of PE has created an important impact on a number of social science disciplines by giving them directions and focus. For instance, political science has become more and more policy-oriented, and the subject of public policy study has now become an integral part of it. In sociology, the study of world system approach as popularised by Immanuel Wallerstein and others has been influenced by the new political economy. In economics, it has played a major role in generating interest in the post-Keynesian economic analysis, market system and institutionalism, ethics-economics and so on. In a sense, the boundaries of all social sciences have now

expanded enormously as an aftermath. In fact, the artificial compartmentalisation of knowledge by different traditional social science disciplines is now going to be forsaken. Various social sciences now seem to be rejecting the fragmented and isolated world view that dominated the epistemic bases of their systems in the past. They are now more and more recognising the importance of mutual interactions and complementarity among these disciplines. This seems to be the natural outcome, for knowledge is essentially organic in nature, and therefore, a holistic approach is the only meaningful way to acquire it.

To sum up, political economy has engendered considerable controversy among its users and practitioners. This is partly because the term can be used in at least twenty different senses. However, the differences arise not only because of the varied meanings of political economy but also because of differences in orientation among the users. Moreover, political economy does not have as yet a unified systemic approach. While this is not fully possible, and perhaps not desirable, there is no indication of an emerging unificatory theoretical structure. It would then be necessary to have a commonality of interest, concern and urgency to develop the subject in a systematic manner. This is especially important when different sets of political economists are preaching different things in the name of political economy.

The pertinent question that obviously arises is: who is a political economist? It would be rather difficult to recognise the political economists by the positive attributes of their orientations alone, for these may be overwhelmingly different in different cases. It would be better to take into account the absence of certain negative attributes among the political economists. These are: absence of traces and traits of neoclassical-marginalist tradition, absence of harmonious equilibrium paradigm, absence of methodological individualism and absence of maximisation/minimisation postulates. The writings of political economists must conform to certain commonality of analytical techniques such as holistic, interactive and interdisciplinary approach, analysis of power relations and their impacts, analysis of the principles of public policy, and the study of the political impact of economic action and the economic impact of political action or policy.

Since the new political economy cannot wholly accept the classical political economy for many reasons, it would be essential to develop theoretical paradigm or structure that integrates analytical sophistication with empirical rigour and policy orientation. In analysing empirical issues,

a political economist should use quantitative tools of analysis, if necessary. Any softness in this regard may prove to be detrimental to the growth of scientificity in the discipline. A positivist political economy will indeed be healthy for the subject. Political economy does not necessarily have to be always normative: normative prescriptions can be based on positive analysis.

While analysing socio-econo-political problems, different political economists suggest for solutions, at times, widely divergent systems, such as capitalism, socialism, mixed economy and the like. While more often than not, owing to phenomenological differences, a commonly accepted solution may not be possible in such cases, the interactive-discursive process, which is the *sine qua non* of political economy, may give better introspection to formulate the time-bound objectives in terms of priorities, and it may be possible to suggest various trade-offs amongst the several available policy options. This may indeed be helpful to reduce the areas of possible conflicts.

IV

POLITICAL ECONOMY APPROACH TO MALAYSIAN DEVELOPMENT

The relevance of political economy approach to Malaysian development can now be briefly discussed in this section. Development is essentially an interactive phenomenon. And as such, it can be best explained by political economy approach which studies interaction, discursion and integration. The need for such an approach can hardly be exaggerated. Malaysian development has been made possible by cooperation, competition and coordination between business and government. Her philosophy of development is based on marketism. Market-orientation is an interactive process. The framework of a market economy has been taken as the basis of Malaysian growth strategy unlike the countries in the Indian sub-continent. The primacy of market has been accepted as the basic *terra firma* in the East Asian economies of tigers and cubs.

However, where there was no market, there has been the creation of market, like the bond and equity markets. In this connection, one should think of the neoclassical market philosophy in its most narrow perspective. Although to start with, Malaysia has adopted the neoclassical-marginalist approach, still in many respects the market has been modified. The state has been able to coordinate the laws of market and remove the baffling market failure problems by introducing competition through multinational capitalism, by giving guidance and proper fiscal-monetary directions.

In this connection, it is necessary to threadbare the role of state which brings into focus an important aspect of Keynesian political economy. In fact, Malaysian development approach is based on the philosophy of neoclassical synthesis. The role of state in the dynamics of development is highly significant in Malaysia.

The state in Malaysia is highly potent, powerful and effective. In fact in all the East Asian economies, the state remains very decisive and strong. The *Visible Hands* of state can virtually change anything into anything excepting changing a man into a woman, and a woman into a man.

Another aspect of the political economy approach to Malaysian development is the fact of dependency. Malaysia, for reasons more than one, has remained a dependent economy. It is dependent on multinational capitalism for technology, direct foreign investment, capital, market and so on. Since the eighties, when the phenomenon of labour-shortage made its appearance, Malaysia has also become dependent on foreign labour. Malaysia on the whole remains an economy where *dependencia approach* is fully applicable.

The political economy approach can also be applied to the study of growth of capitalism in Malaysia. In the seventies, when extended capital accumulation process started in Malaysia, a paradigm shift was necessary to suit the structural changes. Initially, the movement of labour force from the rural to the urban sector helped to reduce the wage rate, and this enabled the capitalist class to generate more derivative gains from labour, and gradually, capital intensity in production increased in sympathy with the principle of capitalist development. The labour force which was docile, disciplined and fully committed to the emerging industrial system was a great help to the capitalist in having absolute control over the working class. This was indeed a very strong factor in the growth of capitalist system in Malaysia in subsequent years. The public sector itself became capitalist and advocated profitability as the criterion of running the state enterprises.

However, in Malaysia, the MNCs increase profit not by directly exploiting local labour power but by increasing the derivative gains from labour through increase in labour productivity brought about by augmenting capital per worker. A high degree of correlation ($R = 0.97$) has been found to exist between labour productivity and capital intensity in Malaysia for the period 1970-85. A recent study by the present author (vide public lecture at University Science Malaysia. 26 September 1996) shows that 94 per cent variation in labour productivity in Malaysia can be explained by changes in capital intensity ($R^2 = 0.94$) and the result has been found to be

significant at one per cent level. Thus, the basic tenet of Marxian political economy of exploitation of labour by capital does not really seem to be correct for Malaysia.

In fact, the wage of industrial labour has gone up quite considerably in Malaysia since 1970. The real wage which was RM304 per month in 1970, went up to RM507 in 1985 and the share of wages for the same period went up from 27.4 per cent to 32.0 per cent in the value added. As a matter of fact, Malaysian labourers have been witnessing a period of *labour aristocracy* for their wage has gone up much higher than their productivity growth rate, and the greater part of their increased productivity is due to capitalists' efforts of increasing fixed assets per worker.

Political economy of development in Malaysia is also concerned with the role of class relations in development which I have elaborated in another article in this volume (See, "Class Relations and Malaysian Development"). Resource allocation and resource-use efficiency are influenced by the dynamics of various class interactions: In Malaysia, extremely high growth rate seems to have been made possible by a sort of calculative collusive class alignment among the three prominent production-centric classes: the state, the capitalist and the working class. Development has remained a positive sum game for all the participatory classes. However, the policy of the state in many ways helped the capitalist system to be gradually entrenched.

The study of the process of dialectical change, which forms a part of political economy of development, involves also the analysis of the impact of political actions on the economy, and the economic actions on the polity. All this can be explained with reference to many macro variables, sectors and classes. I should refer only to a few problems in this context.

The history of all the hitherto existing society is the history of exploitations of the rural sector. Malaysian industrialisation strategy rested on Preobrazhensky type of model of squeezing agriculture for generating surplus for rapid growth. Surplus from the rural sector can be extracted in many ways. One of the ways followed in Malaysia was through the introduction of price twist or what is commonly known as the unfavourable terms of trade, about which I shall discuss later. Be that as it may, resource mobilisation from the rural sector in Malaysia experienced considerable discrimination against small and marginal peasantry and the early days of industrialisation witnessed the development of underdevelopment of Malaysian peasantry.

As hinted at earlier, for Malaysia, the net barter sectoral terms of trade remained consistently unfavourable from 1970-85 to the rural sector. This

asymmetrical exchange compelled the rural sector to sell its products at prices below their values and purchase commodities from the urban sector at prices above their values. Thus, in the process of development, the rural sector became loser, and the rural-urban dichotomy became quite conspicuous. This resulted in rural-urban income differentials against the rural sector. Like in India and other LDCs, Malaysian development policy became increasingly urban biased.

The problem of inequality which started in the early days of industrialisation in Malaysia was not confined to the sectoral level; it pervaded the whole system in course of time. And the recent UNDP report (1996) on income inequality reveals that among the twelve developing nations of Asia, income inequality is the highest in Malaysia. This in fact shows that so far Malaysia has put more emphasis on the achievement of quantitative growth paradigm to the neglect of social justice and equality questions. Economic growth undeniably has benefitted all classes but the rich have been benefitted more than the poor. This at once becomes an issue in the political economy of development.

It must not be forgotten that in order to achieve a very high rate of quantitative growth, Malaysian economy has confronted with many serious problems such as labour shortage, lack of complementary factors, balance payments deficit in the current account and the like. Multinational capitalism in Malaysia is not without its deleterious effects. The remittances and expatriation of profits and dividends have put abnormal pressure on her balance of payments. And unless the situation is brought under control, Malaysia may experience the process of decapitalisation where capital outflow will swamp out capital inflow. For eliminating the extraversion, it would be necessary for Malaysia to replace the ethnocentric philosophy in trade by a more geocentric approach. Malaysian economy is more outward-looking and hence sensitive to exogenous forces. Therefore, the domestic policy of Malaysia is precariously balanced on international externalities and interactions. But globalisation is not the panacea. There are many reasons to believe that like the capitalist globalisation in the nineteenth century, the present globalisation will make the LDCs including Malaysia more dependent on the advanced capitalist countries. A study of the impact of all these crucial factors and forces will take one to the realm of political economy of development. Thus, a competent analysis of the dynamics of development in Malaysia whether esoteric or exoteric will call for interactive, discursive and integrative political economy approach, and simplified neoclassical-marginalist market-oriented unidimensional

approach would be starkly inadequate and inefficient to capture the multidimensionality of the phenomenology of development.

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2

POLITICAL AND ECONOMIC ACCOMMODATION IN PENINSULAR MALAYSIA

Wan Asna Wan Mohd. Nor

INTRODUCTION

SOME countries with ethnically divided societies have managed to maintain their political stability while some others have failed to do so. In the case of Malaysia, since 1970, the country has been successful in preventing any inter-ethnic violence occurring and has managed to maintain some form of political stability. Normally, when countries with ethnically divided societies face problems which are related to ethnic divisions and cultural cleavages, they have four fundamental options to solve their problems. The first one is the co-existence of separate ethnic groups in a single polity. The second option is ethnic cleansing and the third is assimilation or the 'melting pot' solution. The fourth is partition. But because the ethnic groups in Malaysia are generally dispersed throughout the country this last choice is not possible for Malaysia. The second one – ethnic cleansing – is neither desirable nor viable. The third solution is assimilation, but this has never occurred nor has it been implemented in the past, and thereby is not likely to be an acceptable solution for the main ethnic groups in the foreseeable future. Hence Malaysia has chosen the first option, which requires the ethnic groups in this country to learn to live together and tolerate each other's separate identities. In this paper, I will try to establish a linkage between the practices of consociationalism, conflict-regulation, economic development and the

problem of ethnicity in Peninsular Malaysia where the three major ethnic groups – Malay, Chinese and Indian – reside.

CONSOCIATIONAL MODEL AND CONFLICT-REGULATION

There are many approaches that can be used to analyse Malaysian political and economic development, which in turn, may give different interpretations of Malaysian politics, economy, culture and society. For the purpose of this paper, consociational model and conflict-regulation scheme will be discussed here.

Consociational democracy according to Lijphart means government by elite cartel designed to turn a democracy with a fragmented political culture into a stable democracy (Lijphart 1969). But because of many misunderstandings related to this concept of stability, in 1985, he has come to the conclusion that it is better to avoid this confusing concept altogether and to define the ultimate dependent variable in the consociational chain of proposition as the 'maintenance of peace and democracy' (Lijphart 1985, pp. 95-96). He defines consociationalism in terms of four characteristics:

- (i) "a grand coalition of the political leaders of all significant segments of the plural society",
- (ii) the mutual veto or "concurrent majority" rule,
- (iii) "proportionality as the principle standard of political representation, civil service appointments and allocation of public funds", and
- (iv) "a high degree of autonomy for each segment to run its own affairs" (Lijphart, 1977, p. 25).

The consociational model has two primary features:

- (i) overarching elite cooperation and
- (ii) stable non-elite support (*ibid.*, pp. 1 and 53-54).

In other words, the elite must be willing to cooperate and be committed to the maintenance of the system, recognise the need and importance of cooperation, have the ability to rise above the cleavages in the system, and develop arrangements and rules for such cooperation. At the same time they have to retain the support of their followers. Lijphart also identified some conditions that are helpful factors to cooperation and stable non-elite

support but are "neither necessary nor sufficient conditions". These are multiple balance of power among the segments; segmental parties; a small country; overarching loyalties; segmental isolation; prior tradition of elite accommodation; and the presence of cross-cutting cleavages (*ibid.*, pp. 55-103 and 165).

In 1977, in his analysis of consociational democracy in non-western plural societies, Lijphart testified that Malaysia is one of the "reasonable successful" examples of consociational democracy for the period of 1955-1969. Malaysian society is pluralistic in character and the segments are separated from each other by mutually reinforcing cleavages of language, religion, culture and race. According to Lijphart, the Alliance is the all-important consociation device of Malaysia in which the principal Malay, Chinese and Indian political parties formed a grand coalition. He views the Alliance:

... to have adhered to the rule of proportionality only if the political and economic spheres are considered together. The original agreement that created the Alliance regime was a trade-off: political and government superiority for the Malays and continued economic hegemony for the Chinese (Lijphart, 1977, p. 151).

On the other hand, he also noted that the political domination of the Malays in the Alliance and in Malaysian government "throws some doubt on the consociational character of the Malaysian regime". Then after 1971, "because of the limitation of the freedom of expression and the increasing political discrimination in favour of the Malays", he thought that it was doubtful that Malaysia would be regarded as either fully democratic or fully consociational (Lijphart, 1977, pp. 153-57). In his later works, he changes his mind on democracy in Malaysia after the inter-ethnic riots in 1969. He seems to be satisfied with Von Vorys' description of Malaysia as a successful "democracy without consensus" (Von Vorys, 1975, p. 12) and reinstates Malaysia as one of the examples of consociational democracy. He says that "Malaysia since 1955 - in spite of a temporary democratic breakdown in 1969" can be counted as one of the consociational cases that have maintained "peace and democracy for long periods" (Lijphart, 1985, p. 89). He, however, does not explain why he changes his opinion on the form of Malaysian government.

Another theory which complements the consociational model is Nordlinger's conflict-regulation scheme. Like Lijphart, who proposed that political stability depends on the deliberate action of elites, Nordlinger

testifies that the success of conflict regulation depends on the "purposeful behaviour of political elites". He observes that the Alliance adhered to one of the six effective conflict-regulating practices – the stable government coalition. Besides forming a common electoral slate for the elections, the Alliance was also an arrangement to work out a "common position on crucial racial and constitutional issues" (Nordlinger, 1972, pp. 21-22). Referring to Milton Esman's "avoidance model", in which sensitive communal issues are avoided in public discussion, Nordlinger notes that the Malaysian elite have been regulating communal conflict using the practice of "purposive depoliticisation". Public discussion of sensitive conflict-laden communal issues is avoided, including during election campaigns. This step is taken for fear that any discussion on communal sensitive issues may lead to uncontrollable passions among the members of conflict groups (*ibid.*, pp. 26-27).

The racial "bargain" arrived at by the Alliance leaders on the eve of Independence is what Nordlinger considers to be the type of compromise most conducive to conflict-regulation. It involved an extensive set of trade-offs between the Malays and non-Malays, particularly the Chinese, on issues dividing the conflict groups. Although the outcome of the "bargain" did not satisfy either group, neither is "sufficiently unhappy to render the outcome unacceptable" (Nordlinger, 1972, pp. 27-28). Nordlinger also points out that in Malaysia, economic motives played an important role in regulating the Chinese-Malay conflict. The pressing need of the Malays for the achievement of their economic goals and the concern of the Chinese for the maintenance of their economic predominance have partly caused them to yield to each other's demands and facilitate mutual adjustment (*ibid.*, p. 47).

The review of the literature here suggests that ethnic problems in Malaysia are largely resolved through a strategy based on accommodation, bargaining and conflict management. The subsequent section will look at the actual working of the system based on this consensus approach.

POLITICAL AND ECONOMIC DEVELOPMENT IN MALAYSIA

In recent Malaysian history there have been a number of occasions when discussion and consultation involving representatives from diverse ethnic groups and interests were held to solve different inter-ethnic problems and issues. The formation of the Communities Liaison Committee (CLC) in

1949 consisting of six Malays, six Chinese and one representative each from the Indian, Ceylonese, Eurasian and European was the first attempt at inter-ethnic bargaining.¹ Malay members were led by Dato' Onn and the Chinese by Tan Cheng Lock. Both men were the most prominent members in their respective communities. The CLC was an unofficial committee and its members had:

... no power to reach decisions binding on any organisation, council or authority. They offer the results of their deliberations as a sincere contribution to inter-communal harmony, and to the happiness and prosperity of the peoples of Malaya (CLC: CO 717 183, *Press Statement by the Communities Liaison Committee [Ipoh]*, 15 March 1949).

Although the initial objective of the formation of the CLC was to alleviate the immediate causes of inter-communal conflict, its purpose soon broadened to include all political matters. The issues which the CLC intended to discuss:

[First] the economic position of the Malays, with a view to seeing what help the Chinese might give towards (a) the greater employment of Malays in industry, etc. and (b) the assumption by Malays of positions of responsibility in business affairs ... [Second] political relations between the Malays and non-Malays, i.e. the introduction of non-Malays into Administration Services, the qualifications for Federal Citizenship, etc ... [Third] the problem of education, with a view to children in Malaya all being brought up as Malaysians with a sense of Malayan citizenship and patriotism, instead of a narrow, communal Malay, Chinese, Indian, etc. outlook on Malayan affairs (CLC: CO 717 183, MacDonald, 15 February 1949).

During the interwar period, society in 'British Malaya' was compartmentalised to the extent that there were clear cultural, economic and demographic divisions between the major ethnic groups. The majority of Malays remained as traditional farmers in rural areas while the majority of Chinese were found in urban areas, particularly mining areas, and the Indians dominated the estates. By the time the British returned to Malaya in September 1945, after the brief period of Japanese Occupation, there was already an awareness among the Malays of their economic condition vis-à-vis other immigrant communities. This awareness among the Malays that the immigrant groups were the ones who were controlling their economic

fate created fear among the Malays that one day, they would be swamped by the latter. The strong Malay rejection of the Malayan Union proposal was also partly due to this reason. The Malays' concern at their economic situation could be seen during the CLC discussions. Dato' Panglima Bukit Gantang, a Malay member, pointed out that the Chinese were no longer content with their dominance in the modern sector of the economy and now they were gaining control of the economic life of the rural areas. It was alleged that:

Rural transport was passing into their [Chinese] hands: they [the Chinese] were even pushing the Malays out of the fishing industry. By their "strangulation methods" they seized hold of retail trade in the kampungs; by illegal timber felling, they produced soil erosion and irrevocably injured the Malay farmer (Minutes of CLC meeting, February 9-10, 1949, as quoted from Von Vorys, 1975, p. 97).

Perhaps sensing the urgency of these matters, Malcolm MacDonald, who seemed to be facilitating the Committee discussions (although he had stated earlier that he was there as an "observer"), decided that they discuss economic matters first, before proceeding to political issues. In his letter to the Secretary of State for the colonies, he wrote that:

If the Malays feel assured, as a result of these discussions [on economic problems], that the Chinese and other communities are in earnest in their desire to improve the economic positions of the Malays, and that practical results are likely to follow from the Committee's deliberations in this field, then I think the Malays will be ready to be fairly forthcoming in the political discussions. They realise that it will then be for them to make some concessions to the non-Malay communities ... the non-Malay communities ... will also have to do some giving, e.g. on the question of "undivided loyalty to Malaya" (CLC: CO 717 183, MacDonald, 25 February 1949).

Thus the CLC began to examine the problem of "economic adjustment" between the ethnic groups in Malaya. During the talks, the Committee members engaged in a spirited debate and they "spoke quite frankly about the other communities, and no-one took offence at this" (CLC: CO 717 183, MacDonald, 25 February 1949). According to Malcolm MacDonald, the members:

... agreed unanimously on a resolution to the effect that it is of "paramount" importance that the non-Malays should, by cooperation amongst themselves and with the Malays, help in every possible way to improve the economic position of the Malays and enable them to take a full share in the economic life of the country (CLC: CO 717 183, MacDonald, 25 February 1949).

The committee later asked the Commissioner General to draft a statement on the purposes of the CLC for the public and the "agreed view" above was included in the statement.² He was so impressed by the cooperation shown by the CLC members that he wrote:

... I had expected that both the Malays and the Chinese would question various sentences in it [the Press Statement], and would ask for a postponement of the discussion so that they could consider amendments. Instead the Committee unanimously agreed to the draft with the alteration of only one word. *This is the first time in the history of Malaya that the principal leaders of all the communities have signed a joint statement on relations between the communities* (CLC: CO 717 183, MacDonald, 18 March 1949, emphasis is added).

Even though the CLC had no binding authority, it was an important body since it signified the first inter-ethnic cooperation between Malays and non-Malays in Malaya. It should also be noted that the Statement of the new proposals for Federal citizenship began with the proposals to take practical steps in improving the economic well-being of the Malays by establishing the necessary organisations for that purpose. This could be considered a concession to the Malay leaders for agreeing to the relaxation of the citizenship provisions as well as a promise to the Malays so as to allay their persistent fear of being swamped by the non-Malays when the citizenship door was opened wide. It was also to ensure the Malays that they would soon be competing with the non-Malays on an equal footing.

The establishment of the CLC caused the leaders of the ethnic groups to think seriously about nation-building and the problems associated with it. For this purpose, the Committee meetings were held behind closed-doors, beyond the view of the media, so as to give the members opportunities to voice their thoughts. This is important because the issues discussed by the members were very delicate and sensitive.

The committee's discussions helped to highlight issues which were considered to be important by the different communities. Among these CLC

discussions, there were some points which were crucial for the future of a Malayan multi-ethnic society, and which needed to be taken into serious consideration should Malaya gain its independence from the British. Firstly, since the Malays made it clear that Malaya was their homeland, any future policy regarding the citizenship of the country has to take into account the Malays' special position and privileges as the indigenous people of Malaya. This included their insistence on making the Malay Language as the national and commonly spoken language of the country. Secondly, it is also necessary to comply with the demands of the Malays that they should be given economic assistance to help them to compete with the Chinese on an equal footing. Thirdly, there was a very clear indication that any kind of assimilation would not be successful in Malaya because the Chinese declared that they wanted to retain their language, religion and culture and strongly resisted any kind of assimilation. Given this Chinese anxiety to retain their separate identity and culture – while giving their full loyalty to a united Malayan nation – it was clear that any future negotiations would have to take into account this distinction between *political* and *cultural* loyalty. This delicate balance between the aspiration for national unity on one side, and the desire to maintain cultural and communal diversity on the other, could command the support of the main ethnic group, both at the elite and grassroots level. This helps explain why Dato' Onn's attempt to create a mass multi-racial party in September 1951 – the Independence of Malaya Party (IMP) – failed so completely. It was the Alliance forged between the all-Malay party, UMNO, under the leadership of Tunku Abdul Rahman, and the Chinese MCA, under Tan Cheng Lock, that was able to command the loyalty of the respective community elites and ethnic populations. Between 1952 and 1955, the Alliance gained an undisputed dominance over the political system in Malaya, and led Malaya into independence in 1957. In the sense, the structure and methods of the CLC, with its emphasis on inter-elite ethnic bargaining and compromise, set the pattern for Malaya's future. Decisions which were made by the CLC members were brought to the Federal Legislative Council for further consideration. These policies which were made following consensus reached by the CLC were to have great impact in future, foreshadowing the New Economic Policy which will be mentioned again later in this paper.

The second occasion when the process of consultation and bargaining took place was during the drawing up of the 1957 constitution. The constitutional commission that was appointed to draw up a draft constitution consisted of Lord Reid, an English judge, as chairman, and one member

each from Britain, Australia, India, and Pakistan. It is generally known as the Reid commission.³ It began the first of a total of 118 sessions in late June. This preliminary work in Malaya involved travelling about the country, conferring with individuals, soliciting memoranda from organisations, holding hearings and conferences. By the end of October, the commission had compiled a large volume of evidence including 131 written memoranda from organisations and individuals. After that it left Malaya and reconvened in Rome to prepare its report which was represented in February 1957 (*Report of the Federation of Malaya Constitutional Commission*, 1957, pp. 5-10). It is worth noting that the memorandum submitted by the Alliance to the Commission had an "exceptional importance in view of its prospective role as the future government" compared with other organisations (Milne, 1967, p. 37).

The Report made recommendations on matters related to the legislative powers of the central government and the states; the position of the Malay Rulers; nationality for the whole of the Federation; and the special position of the Malays as well as the legitimate interests of other communities. The proposals in this Report, however, were not accepted in their entirety. Changes were made as a result of consultations between the British government, the Malay Rulers and the representatives of the Alliance. For instance, in the parts of special position of the Malays, the Article in the Constitution dealing with the reservation of quotas for certain appointments in the public services, permits, etc. was redrafted so that "Yang di-Pertuan Agong should have the responsibility of safeguarding the special position of the Malays and the legitimate interest of other communities" on the advice of the Cabinet (*Federation of Malaya Constitutional Proposals*, 1957, par. 54, p. 17). The Commission recommended that the Malay privileges should be reviewed after fifteen years. But the Constitution did not include this provision (*ibid.*, par. 55, p. 18). Modifications were also made in regard to Malay reservations. Firstly, amendments to the existing status of Malay reservations was made difficult by the requirement that an enactment shall only be passed by a two-third vote in the State Legislative Assembly and a similar two-thirds vote in each House of Parliament. Secondly, in order to protect the interest of other communities, it is required that land which has not been developed only be declared as a Malay reservation provided that an equal area of similar land is also made available for general alienation (*ibid.*, par. 56, p. 18). Furthermore, an additional provision was made in the Constitution which made Islam as the religion of the Federation and gave the right to everyone to profess and practise his religion and to propagate

it. But there are restrictions imposed on the propagation of any religious doctrine or belief among Muslims (*ibid.*, par. 57, p. 18). Besides that, three changes were also made regarding the national language. First, no person shall be prohibited or prevented from using, teaching or learning any language. Second, the federal and State Governments shall have the right to preserve and sustain the use and study of any language. Third, the Constitution did not accept the recommendation of the Commission that gave permission to use Chinese and Indian languages in a Legislature for a period of ten years (*ibid.*, par. 61, p. 19).

As a result of this procedure of subjecting it to review by amending and adapting, the Federal Constitution which came into force on Independence Day (31 August 1957) became an "indigenous" document despite the absence of any Malayan member on the Constitutional Commission (Groves, 1962, pp. 268-73). The carefully negotiated compromise that was reached by the Alliance political leaders became special features of the Constitution that are not found in other countries – the compromise on issues such as language, religion, citizenship, and ethnic rights. For instance, Article 153 deals with matters relating to the public service, the economic field and education. In each case, whenever something is given to the Malays, it is at once provided that the legitimate interests of the other ethnic groups should be protected; so that whenever something is given to Malays nothing is taken away from others. Clause (6) of Article 153 provides that:

where by existing federal law a permit or licence is required for the operation of any trade or business, the Yang di-Pertuan Agong may exercise his function under that law in such manner, or give such general directions to any authority charged under that law with the grant of such permits or licences, as may be required to ensure the reservation of such proportion of such permits or licences for Malays ... as the Yang di-Pertuan Agong may deem reasonable; and that authority must comply with those directions.

But at the same time, the legitimate interests of other ethnic groups must be safeguarded. Clause (9) states that: the Parliament has no power "to restrict business or trade solely for the purpose of reservations for Malays" and Clause (7) expressly protects the legitimate interests of other ethnic groups by stating that when the Yang di-Pertuan Agong exercises his responsibility under clause (6) to favour Malays and other natives, he cannot deprive "any person of any right, privilege, permit or licence accrued

to or enjoyed or held by him or to authorise a refusal to renew to any person any such permit or licence". In a case when the permit or licence holder dies or disposes of this permit or licence, His Majesty may not refuse to grant to his "heirs, successors or assigns of a person any permit or licence when the renewal or grant might reasonably be expected in the ordinary course of events". While it is lawful for Parliament to make, after Independence, federal law requiring permits or licences for the operation of any trade or business and providing for the reservation of a proportion of such permits and licences for Malays,⁴ Clause (8) explicitly safeguards the legitimate interests of other ethnic groups.

The protective provisions in the constitution for the Malays are not meant to hinder the advancement of the non-Malays but to secure the advancement of the Malays and other natives who have educationally, socially and economically lagged behind other ethnic groups. The non-Malay leaders consented to these provisions in return for the generous citizenship terms. The non-Malays, particularly the Chinese, had been granted citizenship rights by the relaxation of citizenship provisions and by virtue of *jus soli* for those born after Independence, which enabled a large number of them to become citizen. The idea of a common citizenship came from the British Malayan Union Plan which never actually came into effect because of Malay opposition to the plan itself. When the British finally gave up the idea of Malayan Union for the Federation of Malaya Agreement, the citizenship terms were stricter but they indicated a recognition of the legitimacy of the non-Malays presence in the country. The first federal citizenship law was contained in Part XII of the Federation of Malay Agreement. Then, in 1952, these provisions were amended, and at the same time state nationality enactments were introduced in the Malay states. The law became largely based on the concept of state nationality. On 31st August 1957, when Malaya gained its Independence, the Federation of Malaya Agreement was repealed but the citizenship terms were repeated with modifications in the present constitution.⁵

Although the Constitution itself does not indicate in any way that certain provision of it are the result of the compromise reached by the representatives of the major ethnic groups, the historical accounts show the provisions relating to the national language, religion, citizenship and ethnic rights are indeed the "bargain" that was arrived at during the talks leading to Independence. This "bargain", however, was left opened to criticism from the extremists at both ends of the political spectrum. There have been many interpretations and various causes suggested by different

sections of the society for the May 13 ethnic riots in 1969.⁶ But all of them generally point to the same source, that is, the basic problem of ethnicity in Peninsular Malaysia. The animosity was mainly between the Malays and the non-Malays, especially the Chinese. As a result, the "bargain" which was made between the previous leaders, representing the major ethnic groups was attacked from both sides. On one hand, the Alliance was accused of selling out the Malay birthright to the non-Malays, while on the other hand, it was accused of selling the non-Malays short.

Following the riots, the Parliament was suspended and the nation was ruled by the National Operations Council (NOC). Recognising the urgent need to discuss the problem of the riots and to have national guidelines in areas of politics and socio-economy for the future of the country, the top government officials decided to invite leaders of all communities to the National Consultative Council (NCC) for the discussion. All political parties except for the DAP (Democratic Action Party) agreed to participate.

Originally, there were sixty-five representatives named for the NCC with Tun Razak as its chairman. The membership included representatives from political parties, the federal and state governments, Sabah and Sarawak, religious groups, professional bodies, the Press, public services, trade unions and employers' associations, teacher and minority groups. Two more members, P.G. Lim and Aishah Ghani, were later added to the Council's membership as representatives from women. But one of the political parties, Parti Rakyat, then withdrew its representative (*FEER*, 5 February 1970, p. 5). The total number of the NCC representatives thus became sixty-seven including the Chairman, Tun Razak. The approximate ethnic breakdown of the Council membership was as follows: Malays 29, Chinese 17, Indians 8, and others 11 (*bumiputera* and non-*bumiputera*).

Since the NCC membership was broad-based, it became a widely representative body in terms of ethnicity, politics, occupation and territory. It included the leaders of the two states held by the opposition, Kelantan and Penang. All ethnic groups were fairly represented on the Council except for the section within the Chinese community that regarded the DAP as its spokesman. Being such a representative body, the Council, enabled the government to claim that it had established "a dialogue with people".

The purpose of the establishment of the NCC was stated by Tun Razak as:

The way ... for the people to make a positive contribution to finding permanent solutions to our racial problems to ensure that the May 13

tragedy does not recur and that there will be uninterrupted peace and stability in this country (Tun Razak, *Straits Times*, 13 January 1970).

Even though there were representatives from the Malay, Chinese and English language press on the Council, the deliberations were conducted behind closed-doors. This idea of getting people to talk and discuss behind closed-doors to reach an agreement is similar to that of the CLC. In a way, it seems that informal and secret discussions had become an important means to get the Malaysian elites to compromise on issues which otherwise would be difficult to resolve.

The NCC's private discussions involved subjects outlined by the NOC. They included issues related to the May 13 riots and how to avoid such incidents in the future as well as how to preserve and nurture nationality. The NCC was thus divided into sub-committees: the Political Committee and the Economic Committee. The Political Committee was entrusted with the task of deliberating a number of drafts on the *Rukunegara*, the drafting of which was based on the Constitution, which would reflect the whole 'national ethos' of Malaysia. The Economic Committee was responsible for discussing the relationship between the economic problems of the country and national unity. Because of the nature and the composition of Malaysian society as well as the identification of particular ethnic groups with certain economic vocations and geographical locations, the main problem which naturally arose during the council's discussions was that of economic imbalances among the ethnic groups. One of the former Council members has stated that they "were there to discuss how to bring back normal life to the country on the basis of economic progress".⁷ There was an agreement among the members on the poor economic condition of the Malays and the need to improve that situation for the harmony of the nation. This would be pursued by expanding the economic cake so that no other groups would feel deprived. They were also in agreement that in future, Malays and other indigenous peoples would own 30 per cent of the total commercial and industrial activities of the country, while non-Malay and foreigners would own 40 per cent respectively.

In sum, besides its representativeness and confidentiality, consensus was another feature of the NCC. This is not to say that there were no differences of opinion among the Council representatives, but these differences were frankly expressed during the discussions in order to "clarify thinking" on many issues. Agreements were reached during deliberations and discussions, not just because Tun Razak wanted an "undivided council",

but because there was a sense of seriousness among the representatives about the tasks entrusted to them, and also a genuine concern about the condition of the country at that time and the problems at hand, as well as the future of the nation. This in turn had made it possible for the NCC to finally base a new agreement on the New Economic Policy (NEP), the *Rukunegara*, and the amendments to the Constitution. Evaluation of the implementation of the NEP is beyond this paper but suffice to say here that even though the NEP was a "product of the thinking of the *Rukunegara*", it became more important than the *Rukunegara* itself since it became the foundation and the yardstick of all economic and social policy of the government up to 1990.

In the late 1980's there had been numerous public discussions on the successor to the NEP, which was due to end in 1990. Seminars and public talks were held throughout the country discussing the achievements of the NEP, the post-NEP period and the future of the nation. The government was aware of this interest and had been following all these developments from the beginning.⁸ Subsequently, in December 1988, the Prime Minister announced that there would be a consultative council for discussing post-NEP policy (*New Straits Times*, 20 December 1988).

Invitations were later sent to all political parties, chambers of commerce, voluntary associations and a number of *Bumiputera* and non-*Bumiputera* individuals to participate in the forum, called the National Economic Consultative Council (NECC). The Council met fifteen times during the period from 19 January 1989 to 6 February 1991 and finally produced a report which was subsequently submitted to the government. The purpose of the NECC was to provide an opportunity for people from different backgrounds and various interests to give their opinion on the performance of NEP implementation and to recommend a new policy after 1990 (*Laporan Majlis Perundingan Ekonomi Negara* [Report of the National Economic Consultative Council] 1991, p. 3). The NECC consisted of 150 members representing various organisations and individuals, including all political parties, businessmen, academicians, farmers, consumer associations, fishermen, hawkers, and minority groups. The political parties involved were representatives from the Barisan Nasional and the Opposition as well as individuals who were pro and anti-establishment. Although there were representatives from the ruling party, none of the Cabinet Ministers and their Deputies were included in the Council membership. The ethnic quota for these 150 members was fixed by the government in such a way that the Council became like a 'mini Malaysian society'.⁹

All of the Council's meetings were held behind closed-doors "because the glare of publicity may destroy all the good intentions of the council" (*The Star*, 21 January 1989). This was in order to enable the members to freely express themselves. However, a formal record was kept. Minutes of the meetings during plenary sessions were taken but they were summaries rather than a verbatim record. At its inaugural meeting, all 150 members of the Council, except for the five DAP representatives and the Malaysian Trade Union Congress (MTUC) secretary-general, V. David, were present. The DAP representatives, however, began to participate in the Council in April 1989 and remained in the Council until they withdrew on 21 August 1989. There were also fourteen other members who withdrew from the Council before its final meeting in February 1991. It is not clear why the individual members left the Council, but as for the PAS and DAP representatives, it is more likely than not that they left because they didn't want to be committed to any decisions agreed in the Council. But by that time, the draft of the NECC Report had been submitted to the council's 14th Meetings which was the result of the Council's deliberations. Their views and ideas, however, had been incorporated into the report which was unanimously approved by the Council and submitted to the government.¹⁰

The Council was divided into sub-committees which corresponded to the following issues:

- (i) implementation of poverty eradication,
- (ii) implementation of society restructuring,
- (iii) data collection and methodology,
- (iv) National Economy and International development,
- (v) human resource development, and
- (vi) national unity.

The tasks of the sub-committees were to study problems or issues assigned to them by the Steering Committee of the Council. Different sub-committee used different approaches to tackle the issues assigned to them. For instance, the sub-committee which dealt with the evaluation on the implementation of poverty eradication decided to study the roles of a number of government agencies involved in the effort of eradicating poverty under NEP. Each member was given the task to study certain agencies and then write a report on the performance of the agencies involved.¹¹ The reports prepared by the members were later discussed during sub-committee meetings. After a series of meetings, the members, then, made suggestions

and recommendations in the form of a unanimous report which was presented, debated and approved during the Council plenary meetings and later was incorporated into the final Report of the NECC. The government was not obliged to accept all recommendations made by the members of the Council but many of the Council's recommendations made by the members of the Council were later incorporated by the government into the country's future planning. The National Development Policy (NDP) which replaces the NEP is a product of the NECC recommendations, the Economic Planning Unit (bureaucracy) and the Barisan Nasional.

Apparently, there had been consultation between the Council members when working together in the sub-committees even though there had also been much fightings in the Council during plenary sessions. Consociationalism according to Lijphart:

... does not require that there be no conflicts or that these be kept secret. Disagreements are inevitable in a plural society; the crucial characteristic of consociational decision-making is that conflicts are normally resolved by compromise (Lijphart, 1985, p. 90).

It is important to bear in mind that consociationalism recognises the difficulties in resolving conflicting views. Thus bargaining between the representatives would be tough and the atmosphere during the negotiation process may not necessarily be free of disagreements. But what is more important for consociationalism is that the representatives are able to resolve their conflicts by compromise. Furthermore:

... in a successful consociation it is not all necessary – and not even very likely – that policy preferences will converge to a marked degree; what is required is that the segmental representatives be willing to accept compromises, although they may retain their original preferences (Lijphart, 1985, p. 9).

Following from this, it may perhaps, fair to say that, in a way, the final Report reflects the general consensus of the Council members since they had been involved in lengthy discussions and "compromises" in deciding what to be included and what was to be excluded in the Report. To put it in the words of one of the former members, "every paragraph [of the final Report] has got meaning to every people" and the final Report is "a document which everybody could live with".¹²

A Brief Glance Forward

The government finally came out with NDP in June 1991 to replace the NEP which had expired at the end of 1990. Besides retaining the basic strategies of the NEP, some new perspectives are included in the NDP. However, the ultimate goal or overriding aim of the NDP is still 'national unity', since a 'united society' was viewed as fundamental to social and political stability and development. Another important document for Malaysia was in the form of a working paper – Malaysia: the Way Forward (Vision 2020) – which was first delivered by Dr. Mahathir on 28 February 1991 during the first meeting of the Malaysian Business Council. The paper represented Dr. Mahathir's vision of Malaysia in the twenty-first century and his hope was that by the year 2020, Malaysia would be a developed and industrialised nation. In this paper he outlined nine "challenges" which the Malaysians had to face before they could achieve developed and industrialised status. He said:

There is no fully developed Malaysia until we have finally overcome the central strategic challenges that have confronted us from the moment of our birth as an independent nation. The *first* of these is the challenge of establishing a united Malaysian nation with a sense of common and shared destiny. This must be a nation at peace with itself territorially and ethnically integrated, living in harmony and full and fair partnership, made up of one "*Bangsa Malaysia*" with political loyalty and dedication to the nation (Malaysia 1991, Dr. Mahathir Mohamad, p. 5).

It is important to mention here that the term 'national unity' in the Malaysian case is not equal to 'racial unity'. Given the fact that there are several divisions within Malaysian society, 'racial unity' remains only part of a larger "totality or objective" that Malaysia hopes to achieve. Other aspects include economic, regional, political, educational, cultural, and social 'unity'. Despite these divisions, however, Malaysians accept the fact that they exist in an economic system which pull them together as an "integrated whole" which, in turn, is part of global economy. This "economic whole" was what the British wanted to regain when they returned to a war-torn Malaya after the Japanese Occupation. They realised that to re-create 'social unity' and maintain it they had to re-create 'social unity' which had disintegrated during the war. Thus 'national unity' was what the British tried to create after war, through "security measures, development planning

and the 'ethnic bargain' that they tried very hard to encourage". This was what the government of independent Malaya and later Malaysia "inherited from the British and tried to continue without much change at first but with some modifications later" (Shamsul, 1994, pp. 19-20).

Another challenge which Dr. Mahathir said that the Malaysians had to meet was in the promotion and development of a mature democratic society which practises a form of Malaysian democracy based on consensus and consultation (Malaysia 1991, Dr. Mahathir, p. 6). Hence, the continuous efforts by the government to establish the practices of bargaining, compromise and consensus in its political framework is, in fact, an 'ongoing historical process' in Malaysia.

Conclusion

Writings on the development of the East Asian countries generally convey a message that in these countries, the policy-making body concerned with formulating and implementing development policies is 'insulated' from social and political pressures. This political insulation has been derived largely from authoritarian rule. In Malaysia, the growing executive power under Dr. Mahathir's leadership is interpreted as an authoritarian tendency. But Crouch (1994) also argues that there are several factors which act as 'checks' on the degree of authoritarian rule. It is true that electoral arrangements in Malaysia ensured that the government would remain in the hands of the Malays but they did not guarantee victory for the UMNO-dominated Barisan coalition. The "unbroken success" of the Barisan, and the Alliance before it, has been partly due to the character of 'coalition politics', in Malaysia. Although the Barisan is Malay-dominated, it is a multi-ethnic coalition consisting of parties from different groups which, "while not necessarily moderate in their ethnic aspirations", are "committed to working together and to the compromises that cooperation entails". Here, Crouch (1994) helps to clarify the meaning of the "moderate" political leaders of the Barisan, which is an important factor in the consociational model. The leaders are not moderate in terms of their ethnic aspirations, but moderate in terms of their willingness to compromise their aspirations or 'original preferences' vis-à-vis one another. The opposition parties, on the other hand, were not able to form a multi-ethnic coalition before the "loose front" in 1990. Even then, it has been difficult for the opposition parties to cooperate with one another. As a result, while the Barisan has won both Malay and non-Malay support opposition votes were usually

split along racial lines even though in the 1990 general election, Semangat 46, PAS and the DAP were able to agree on common electoral candidates (Crouch, 1994, pp. 16-17). Other factors which provide "checks" on the authoritarian tendency of the government is first, the communal nature of Malaysia society, "the very presence of large ethnic groups, each with its own deep sense of cultural identity and common interests" which helps to prevent the government from establishing a fully-authoritarian Malay-dominated regime. The government had little choice but to take the interest of the non-Malays into account or risk civil disorder. In this respect, "the alternative to some sort of accommodation would seem to be continuous tension and the prospect of constant upheaval" (Crouch, 1994, p. 29). It is ironical that the very reason for communal tensions which led to some limitations on political competition provide a strong check on government power. Secondly, despite Malay dominance, the Malaysian government has been multi-communal in character since Independence. As mentioned earlier, the country has been governed by a multi-ethnic coalition. First, there was the Alliance with UMNO, MCA and MIC as its component parties. In the 1970's, it was extended to include other parties and known as the Barisan Nasional. There have always been representatives of the major ethnic groups in the coalition. Crouch (1994) says that the non-Malay component parties cannot be dismissed as mere token representatives of their groups since UMNO have always realised that it would be difficult for them to rule alone. In order to "preserve" the coalition, UMNO must be "significantly responsive to the interests of its non-Malay partners. Thus, despite quotas and other special privileges provided for Malay businessmen under the NEP, Chinese businessmen continued to win government contracts, gain licences and obtain other business opportunities. The non-Malay component parties have also succeeded in protecting some elements of Chinese culture which had been under threat. Furthermore, in education, despite the transition to Malay as the language of instruction in secondary and higher education institution, the MCA and other non-Malay parties in the Barisan "have successfully defended the continued existence of Chinese and Tamil primary schools, and university entrance quotas for non-Malays have been gradually relaxed (Crouch, 1994, p. 28). Similarly, the establishment of the University of Merdeka, which was to use the Chinese language as the medium of instruction, was obstructed by the Federal Court on the ground that it would contradict the provision in the Constitution which allows the Malay language to be used for an official purpose. However, MCA managed to get the support of the government in the

formation of Tunku Abdul Rahman College which uses English as the medium of instruction. Even though the leaders of the non-Malays in the Cabinet do not control the major policy-making portfolios, they still continue to exert considerable influence on decision-making, particularly in areas where non-Malay interests seemed threatened. Related to this factor is the existence of a pro-non-Malay opposition party. In some cases, it is the pressure from the DAP which allows the non-Malay component parties to extract concessions from UMNO. Thirdly, outside the Barisan, the opposition parties such as PAS and DAP also derive their strength from "communal identity" which, in turn, gives them "deep social roots". It is true that the government has restricted the scope and influence of these parties, but it cannot ignore them and it would be no easy matter to repress them altogether (Crouch, 1994, p. 28). Fourthly, the non-Malay middle class, despite frustration caused by the pro-Malay policies of the government, still largely support the non-Malay parties in the Barisan while the Malay middle class, a beneficiary of the changes since 1969, was on the whole prepared to accept authoritarian measures. But at the same time, the government could not afford to alienate the middle class and had to be responsive to its aspirations. In this sense, the expanding middle class, particularly its Malay component, represents an important "potential check" on government power. Fifth, a strong business class can also provide a "check" on government power. Despite the decline of the influence of the Chinese business class on the government as a result of the NEP, Chinese business continues to be important and the Chinese share in the corporate sector has been increasing since 1970's, and many were able to protect their interests by taking on Malay partners with political connections. The role of Chinese business, thus, was "still large enough to compel the government to take account of Chinese business interests". The growth of a Malay business class, on the other hand, did not produce a significant check on the government because of its dependency on "favours from political friends in the government" (*ibid.*, pp. 30-31).

It is true that there have been some restrictions on democratic freedoms and political competition, but at the same time there are also factors which act as "checks" on government power which do not allow the Malaysian political system to qualify as an authoritarian system. However, since the 1970's relations between the major component parties within the ruling coalition have developed in asymmetric way where UMNO has taken a more dominant role. In this respect, it may, then, be said that the Malaysian consociational model is characterised by 'asymmetric accommodation' in

which the non-Malay component parties have still been able to elicit real concessions from UMNO. These concessions are among the factors which are considered by Crouch (1994) as the "checks" on the authoritarian tendency of the government. Other instances include the modification of the provisions of the Industrial Co-ordination Act (ICA) to raise the ceiling of the shareholders' fund so that more Chinese businesses would be exempted from restructuring under the Act. The non-Malay component parties also managed to secure a rescue package from the government which provided depositors in Deposit Taking Co-operative (DTCs) a guarantee of some refunds. Under the NDP, there is further liberalisation on the establishment of private education institutions to provide more places for higher education. In other words, although the non-Malay partners are considered to be subordinate to UMNO, they have not been completely powerless.

While these points raised about the changing class structure and 'authoritarianism' weaken the explanatory character of the consociational model for Malaysian politics, they do not refute it. On the contrary, some of the views of the concept of authoritarianism help to supplant the consociational model when applying it to Malaysia. Even though the ideal concepts of Lijphart's consociationalism do not fully apply and cannot wholly describe the contemporary Malaysian political system, the core of the Malaysian political system continue to be provided by mechanisms of negotiation and compromise between the main ethnic groups. The merit of the consociational model is that it puts these concerns at the centre of this analysis.

As mentioned earlier, Lijphart also lists a number of favourable, though not necessary nor sufficient conditions, for the success of consociationalism. The Malaysian record has a mixture of favourable and unfavourable conditions for consociationalism. However, I found that the definition of consociationalism is easier to use when these conditions are not part of it. After all, these conditions are not prerequisite but helpful for a consociational model to work. Finally, based on Malaysian experience and the various definitions of the term 'democracy' itself, perhaps it can be suggested that the concept of 'consociationalism' and the accommodative attitudes and motivations it highlights be separated from the term 'democracy', so that the dependent variable in the consociational proposition which is "maintenance of peace and democracy" would be "maintenance of peace and some form of stability" for a divided society like Malaysia.

NOTES

- 1 The information used for the discussion of the CLC meetings is based on copies of letters which were sent by Malcolm MacDonald, the Commissioner General for Southeast Asia in Singapore, to the Secretary of State for the Colonies in London which are now kept in Public Record Office at Kew, U.K. They will be indicated in the text as CLC:CO 717 183, MacDonald, relevant dates.
- 2 See CLC: CO 717 183, Press Statement by the *Communities Liaison Committee (Ipoh)*, 15 March 1949, released by Office of the Commissioner General for the UK in South East Asia, Phoenix Park, Singapore.
- 3 They were Sir Ivor Jennings, a British expert on Commonwealth constitutional law; Sir W. McKell, a former Governor General of Australia; B. Malik a former Chief Justice of Allahabad Court; and Justice A. Hamid of the West Pakistan High Court.
- 4 After the formation of Malaysia in 1963, when the Borneo states of Sabah and Sarawak were incorporated into the federation, the provision also included natives of Sabah and Sarawak as the group of people who were entitled to these reservations of permits, services, scholarships etc.
- 5 Since 1957, when the citizenship laws were first incorporated into the Constitution, four amendments have been made to the provisions relating to citizenship: two of which dealt with the formation of Malaysia in September 1963 when Singapore and the Borneo states of Sabah and Sarawak were incorporated into the federation and, subsequently, with the separation of Singapore from the federation. The other two were made in 1962 and 1976 to take into account changes in policy or to eradicate certain anomalies which were present (Sinnadurai, 1978, pp. 69-100). It should be noted that the new citizenship provisions in the present constitution did not recast the law embodied under the 1957 constitution. In fact, the provision of the 1957 Constitution were re-enacted with the necessary amendments throughout the years.
- 6 See Goh Cheng Teik (1971), Von Vorys (1975) and Jomo (1985; 1988) for different perspectives.
- 7 Interview with a former Chinese member of the NCC (4 October 1993).
- 8 According to a former senior Economic Planning Unit (EPU) officer, representatives from the unit were sent to attend these seminars to report back to the department (Interview on 2 December 1993). This and subsequent interviews in this section were given on condition that the names of the informants should remain anonymous.
- 9 Interview with a former senior EPU officer who was involved in the NECC secretariat (2 December 1993).
- 10 Interview with a former NECC member (8 October 1993).
- 11 Interviews with two former members of the Poverty Eradication sub-committee (4 October and 24 November 1993).
- 12 Interview with a former member (14 October 1993).

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3

FROM MALACCA TO THE NEW ECONOMIC POLICY: SOME GENERAL OBSERVATIONS ON THE NATURE OF MALAYSIAN POLITICAL ECONOMY

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INTRODUCTORY REMARKS

While historical antecedents were to be accounted for much of the present features of the Malaysian society, it was the racial riots of 1969 that gave Malaysian leaders an opportunity to critically examine Malaysia's political and economic problems, the end product of which was the formulation of the New Economic Policy (NEP). Basic to the NEP are the 'two-pronged strategy' of eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians, regardless of race; and accelerating the process of restructuring Malay society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function. This Janus-faced nature of NEP were set to aim at the overriding objective of promoting national unity.

In general terms one could say that pre-NEP period, particularly in the 1950's and 1960s saw Malaysian economy very much externally-oriented, it being mainly concerned with primary production and hence a heavy reliance on foreign exchange earnings and reserves. Import-substitution

has not yet formed a significant feature of the economy. More specifically, earnings from rubber and tin productions figure prominently. The pre-NEP era was also an era that put more stress on a 'balanced' budget and less 'Keynesian' in approach to the economic problems of the day. To this effect one may want to argue that at this period political forces were used *en bloc* which reflected in the country's concern for security against Communist insurgents as top priority. In extension, a concern, more than anything else, to holding together a newly-born and somewhat fragile nation. Naturally enough, still fresh from the brunt of colonialism, inequality that then existed closely dovetailed ethnic configuration. In sum, the 'political economy' of Independent Malaya (as it was known then) did not allow a full 'integration' of the political and economic forces.

Starting from the formulation of the NEP till the present day, it can be said that the Malaysian economy is 'less international' in outlook and processes toward 'domestication' of the economy are at work, in the sense that there is an increased indigenous participation in the economy. Concomitant to this development, one may speak of the 'horizontal' movement of capital which favour local investment. The 'horizontalisation' of capital was not, however, pushed to the extent that its 'vertical' ('internationalisation') movements were totally curtailed. Despite the natural initial suspicion – which if viewed too hurriedly – that the NEP is a case of an old wine in a new bottle that will further reinforce the Malay – non-Malay stereotyping, the statistical (economics) pointers increasingly show that economic distributive mechanisms are in motion which served to erode the bases of racial inequality in favour for more general non-racial welfare. The 'political economy' of Independent Malaysia (as it is now known), particularly with reference to the NEP has allowed a fuller 'integration' of the political and economic forces and it is certainly more 'Keynesian' in solving its economic problems. The liberating nature of economic forces has made itself felt through a widening role given to market the mechanism, and was simultaneously ensured that its inequalitarian tendencies dampened through a more liberal and pragmatic use of political power.

(I) HISTORICAL ANTECEDENTS

If history were to repeat itself, certainly the Malaysian case came closest to the adage and what interest us most is the nature of the historical continuity and relations of some of her main forces of production. Such continuity undoubtedly has, to a certain degree, shaped and circumscribed her present production-possibility boundaries.

It was generally agreed by Malaysian historians that it was Medieval Malacca (fifteenth century) which reflected the main strands of pre-colonial Malaysian commercial and trading activities. Being the busiest port-of-call of its time, the meeting place of East and West commercial interests, Malacca played more the role of an exchange and service centre and handled mainly external trades since domestic production, if any, was minimal. Malacca also served to regularise trades and was thus responsible for much of the uninterrupted – despite the occasional piratical activities – flows of the goods and services that were exchanged and traded. In a sense, the burgeoning of the Malaccan trade was indeed a radical departure of somewhat from the nature of pre-Malaccan trade which was restricted to local participation, the activities of which mainly involved with the bartering of the local products which involved for the most part, jungle products.

If a term is to be coined, perhaps 'insular' or 'maritime' may suit the nature of Malaccan commercial activities. Undoubtedly the 'barter' nature of the trade was still important if only on a more systematic basis. A standardised system of weight and measures was introduced. Facilities such as warehouses were constructed for the storage of goods. Though the flow or 'fluidity' of goods was high, the economic system then in existence stressed stocktaking (in the sense of stockpiling of goods) rather than the production of new goods. The emphasis was on services and hence the importance of harbour administration under the charge of *Shahbandars* (Harbour Masters). The *service-oriented* nature of Malaccan economy left her little time to encourage local food production, even the most important of the staple food, rice. The absence of local initiatives toward achieving this end left Malacca, throughout her history, in constant need for them (cf. Winstedt, 1948, p. 35). The failure to initiate local food production was certainly offset by her bouyant service-oriented economy with the help of an efficient harbour administration. Winstedt (*ibid.*), a dedicated student of Malaysian history and culture, make it a special case in noting the fact that "though there was some corruption, Malay administration must have been competent and just to foreigners to have attracted so much commerce to the port" (Winstedt, *ibid.*, p. 37). To students of the Malaysian economy and politics, there are two familiar themes that seem to have threaded its way through the interstitial of Malaysian history till the present day that stood out from the above brief discussion of Medieval Malacca. They were, firstly, the 'service-oriented' nature of the Malaccan economy which hinged her economic health on external trade; and secondly, Malays were associated with administrative expertise. As to the first theme the 'service-oriented'

Malaccan trade was replaced by an 'export-oriented' economy of Independent Malaya (1957-63) and still to a large extent of Independent Malaysia (since 1963). Within the purview of present writings on Malaysian economics and politics, this theme is a straightforward one in the sense of it being less emotive and controversial. And the arguments were for a straightforward need for import-substitution, increasing domestic production through both private and public investments. As we shall see later on, the crux of the argument centres around the degrees with which private or public investment should be playing in raising domestic production. As to the second theme, much energy were thrown into search for a probable explanation. One plausible explanation may be offered here: it might be right to assert that Malays were predominantly administrators at the time of Malacca where non-Malay population were non-Malay traders, most of them Arabs or Indian Muslim, married local girls with an eye on royal favours. In the early and late 19th century it was the British administration with its 'indirect rule' technique – a kind of rule that aimed at efficiency and lower administrative costs – that propped up the Malays as administrators. The British administrators, however, had a good 'historical' explanation for doing so: the Chinese and Indian immigrants were still in the state of flux and those who managed a footing on the Malaysian soil had their focus of allegiance elsewhere. This was the very reason why the British administration at this time favoured apart from Malays as administrators, the more settled Straits-born Chinese (*Babas*). The concern for Chinese allegiance to Malaysia, for instance, culminated with a visit by the late Tun Abdul Razak in 1974 to the People's Republic of China, indirectly hinted the authorities in Mainland China that the 'Chinese Problem' in Malaysia is a Malaysian problem. Even a partially-settled Chinese population of Malaysia in the early twentieth century did not escape the British suspicion and fear – with Kuomintang nationalism running high – of a highly organised *imperium in imperio*.¹ Whatever the reason given for the lack of Chinese participation in administration, one thing for certain is that as early as late 1960's signs were showing that the Chinese were prepared to take a more active part in administration and politics. This new search for 'roots' – and the lack of it – probably explained the occurrence of the racial riots of 1969.² This is not the place to dwell in detail on the nature of Chinese participation in administration, but we will be making intermittent references to this issue as we go on.

A further historical note worth considering was the importance of royal trading in Medieval Malacca with its two important consequences for the

present Malay participation in industry. First, royal trading had halted the growth of a commercial middle-class Malays. Second, the coming of the Portuguese in 1511 and later the Dutch in 1642 and their unproductive monopoly over trade broke the link between the Malays (local chiefs) and Indian traders – the only chance that might have accustomed them (the Malays) with the art of trading (cf, Winstedt, *ibid.*, pp. 105-106). To note in passing, it is the creation of a commercial middle-class Malays, which is none of the main aims for the formulation of New Economic Policy (NEP). A related problem immediately emerged: the need to 'create' a commercial Malay middle-class is one thing and whether they have the skill and expertise to be one is another.

Another constant and important theme that frequently emerged in Winstedt's (*ibid.*) treatment of the history of Malaysia was the role of the Chinese middlemen, which was more often than not exploitive, and which thwarted the entrepreneurial spirit of the Malays and ultimately worsened the relationship between the two. This aspect was later taken up by Ungku A. Aziz (cf. 1957; 1962) who sees the existence of middlemen (of whatever racial origin) as a stumbling block to the economic progress of poor rural Malays who accounted for the majority of the poor. This is also a constant theme in the Malaysian economy since the Chinese were found to be the majority of the middlemen. Increased governmental intervention in the agricultural sector, of late, in buying and maintaining a standard price for rice, has accounted for the diminished role of middlemen in rice-growing areas. Politically, the 'middlemen' issue came to the fore in early 1960's when the then Minister of Agriculture, Aziz Ishak, was anxiously pushing forward the cooperative issue for rural peasants in his efforts to combat the negative implication of the role of middlemen; he was ultimately thrown out of the cabinet by the Tunku, the then Prime Minister. What came out of the incident was that the Tunku was left with a choice of either to oust an ambitious and rebellious friend or rocked the 'alliance' structure of the ruling political framework. It turned out to be that the middlemen, finding their freedom very much curtailed by cooperative movements, pressured MCA (Malaysian Chinese Association)³ who, in turn, influenced Tunku's decision.

Much of the material written on the roles of middlemen placed them as having unproductive or counterproductive roles in the economy but less attention is paid as to their origin. The supposedly authoritative treatment of the Chinese in Malaysia by Victor Purcell (1960) failed to shed light in this respect. One plausible explanation that could be advanced here is that

the British administration of colonial Malaysia, nourished by her "benevolent neutrality" (Emerson, 1937), encouraged the flow of Chinese immigrants into Malaya to fill labour shortages, principally in tin-mining areas. What is intriguing was the disappearance of Malay workers in the tin-mining areas. Written materials on Malaysian history did not offer any explanation; and one could only surmise that it was the influx of Chinese immigrants that led to Malay workers fading into the interior and being re-absorbed by the countryside as agriculturalists, an occupation to which they were very much accustomed.

Furthermore, the Malays were not the only one made 'special' and 'protected' by the colonial British administration, the Chinese too were similarly 'protected' (cf. Emerson, *ibid.*), appropriately under the custody of the Protectors of Chinese. This served to 'streamline' the more ambitious and diligent Chinese workers from acquiring wealth and hence strong competitive footings. From this perspective, it may be argued that it was the level of technology used by European (mainly British) that helped to halt Chinese to become an equal partner especially in extractive industries, particularly tin-mining. The Chinese were not allowed to participate in the competitive mainstreams (international) of the industry and hence leaving them to occupy the 'intermediate' position, sandwiched by on the one hand, the more well-endowed British commercial interests and on the other, the majority of the indigenous Malays. The emergence of middlemen may be a natural outcome of this situation. The reason for us to stretch a bit the discussion of the origin of middlemen is to pinpoint the fact that much of the problems inherited by Malaysian society presently are not simply one of racial; it has its own historical explanation.⁴

(II) THE PRESENT FEATURES

In the pages of the discussion to follow an attempt will be made to summarise the major features of the Malaysian economy as it had interwoven with the main historical strands that we have just briefly indicated above. This is not recourse to an historical explanation of economic phenomena but just to be aware of the fact that those main historical features have profiled Malaysian economy and apparently had been and still are responsible for much of the economic disparity between the main racial groups of the Malaysian society. It is perfectly harmless to explain, as most economists did, racial economic imbalance in terms of differential productive capacity, entrepreneurship, savings and consumption behaviour, etc. of the main racial groups concerned without recursing to an historical explanation. But the

crux of our argument here is to stress the fact that while historical antecedents invoked disparity it is the waves of economic development that simultaneously function as effective ethnic leveller. In other words, we are interested to see the extent of ethnic redistribution in Malaysian multi-ethnic setting as it has increasingly made itself felt through the passage of time. One such levelling mechanism that is at work is the increasingly important role played by what can be termed as inter-sectoral 'trade-offs' as opposed to mere 'flows'. In achieving this end, the following analysis broadly falls under two headings. First, an attempt will be made to describe the general contour of the Malaysian economy and pinpointing, in relevant place, her main economic determinants that may have thus far shaped her growth policies. Second, to see what growth has to offer in ways of distribution, in view of the much-quoted aim of the NEP – 'redistribution with growth'. In a sense, the analysis will endeavour to see how far the present governmental policies have its impacts on inter-sectoral 'trade-offs' while encouraging its 'flows'. It will be shown that much of the present controversies seem to lie in the seemingly contradictory expression of 'redistribution with growth' where forces to redistribute wealth are that of political and forces facilitating growth are economics which, in extension, perfectly fits the racial disposition, where Malays are seen as holding political power and Chinese economic power.

If Medieval Malacca was well-known for her 'service-oriented' economy, independent Malaysia was and still is noted for her 'export-oriented' economy, a typical feature of developing countries economy in general. The economy is usually kept in a state of buoyancy mainly due to high level of primary production which captures foreign rubber and tin which topped world production that kept her economy floating and its elasticities or otherwise closely associated with the falling or rising of the prices of these two main primary products.

Malaysia's present economic progress (which is far better than most of other developing countries) was attained largely with the help of foreign capital and immigrant labour. The typical dualistic pattern of development of export economy with foreign capital has in Malaysia's case been further emphasised by ethnic specialisation of the labour force. In the midst of economic progress, the indigenous population (the Malays), either for reasons of choice or lack of opportunity as we have briefly discussed, has largely stood idled. As will be observed later on, the position of the Malays is considered by some as having the closest link to the question of the political economy of Malaysia.

If one were to trace the evolution of the Malaysian economy, the immediate post-war years, (1946-49) were rather lean years as output of primary products for export fell far below normal prewar levels.⁵ The war itself had done considerable damage to rubber plantations, tin mines and the road and rail networks. The war also made possible the movement and dislocation of population with the consequence of remote areas of primary production experiencing shortage of labour. Those who moved found urban areas as their destination. It was due more to an economic windfall rather than productivity that Malaysia experienced her first big boom in the economy and this had literally saved her in her reconstruction efforts immediately following the war. The then booming economy served her another purpose: to finance a war against internal Communist subversion. The phenomenal price increase for Malaysia's exports, rubber and tin, was mainly due to the Korean War boom when the United States began its stockpiling efforts of strategic raw material. It was shown that Malaysia's Gross Domestic Product (at 1959 prices) in 1950 represented a 60.8 per cent increase over its previous year's figure (see Appendix I).

Malaysian economy, despite her heavy reliance on export-oriented primary product had no doubt withstood the grave consequences of the Depression Era of the 1930's. The fluctuating nature of her economy, however, found herself in difficulties in maintaining a steady rate of growth principally due to fluctuations in her Gross Export Proceeds. However, the picture was not as bleak as it should had been. Exports as the percentage of Gross Domestic Products increasingly fell from 55 per cent in 1960 to 49 per cent in 1966 (see Appendix II). A heavy weightage was obviously allocated to the agricultural sector vis-à-vis other sectors. Figures for Malaysian Gross Domestic products by industry of origin taken at a five year intervals (see Appendixes II & IV) confirmed the above view. The importance attached to the represented 33 per cent of the total Gross Domestic Product and the figure for 1970 remained more or less the same. Two observations could be derived from the above constancy of figures. First, the government while not denying the importance of agriculture to the economy is, at the same time, toying with the idea of diversifying agriculture and other avenues of import-substitution. It has to be borne in mind also that for Malaysia, 'agriculture' is more or less synonymous with rubber. The main import-substitution strategy employed by the Malaysian government at this stage was to upgrade the quality of rubber and much effort were spent in the area of rubber-replanting scheme. Given the rather low level of technology at her disposal this in perhaps the best she could

have done to rid herself the danger of her balance of payments being 'balanced' elsewhere. As shown in Appendix IV, rubber-replanting alone, in 1965 and 1970 represented 15 per cent of the total GDP. The need to upgrade rubber production was more pressing (even presently) in view of the competition offered by synthetic rubber. If one were to have a second look at Appendixes II and IV, construction efforts increased from 3 per cent in 1960 to 5 per cent in 1965 and started to decrease in 1970 to 3.8 per cent. This is an indication of the importance of the aftermath of the war construction efforts which up to a certain point had become of less importance, certainly in the face of diversifying economic strategy. Manufacturing, however, substantially gained ground. The increase in this sector has largely to do with the increasing production of 'intermediate' goods like spare-parts and semi-finished products for assembling.⁶

The stress on agricultural and diversification plus her rather 'conservative' non-Keynesian economic strategy, Malaysia has found herself in difficulty in paying similar attention to sectors like the industrial. In government's view, it is a question of priorities. As we shall see, an overgrown concern for the agricultural sector has led to a fall in public savings and hence investment. Alternatively, this situation, however, has led to an increase in private savings which financed much of the public development programmes. An argument may be mooted as to whether the changing Malaysian economic pattern since the Second World War till presently is one of structural change or not. What is certain is that some commitment was shown in altering trade flows through import-substitution strategy. This is quite obvious if one observes the changing structure of exports for West Malaysia for the period from 1950-1970. The export of rubber as a percentage of the total decreased from 69.3 per cent in 1950 to 39.6 per cent in 1970. It is important to observe that palm oil is increasingly becoming more important as a source of diversification, its production rising from a mere 1.2 per cent in 1950 to 6 per cent in 1970 (See Appendixes VI and VII).

As far as the structure of imports during the same period discussed above is concerned, it is rather significant, at a glance, to find that the policy of industrialisation through import-substitution has had significant impact in reducing the relative importance of items such as food, beverages, tobacco, and even of machinery and transport equipment in the total imports bill (cf. Appendix V). To some, these changes are not a reflection of major structural change in the economy since what has happened is that "importers and foreign manufacturers have been induced by Government incentives and

the imposition of tariffs to have their goods locally 'produced' (Arudsothy, 1975, p. 89).

In an economy like Malaysia which stressed primary production with strong export bias has the disadvantage of enlarging the domestic resource gaps and one of the consequences of which is the poor performance of the industrial sector. In broad terms the problem essentially seems to lie in making domestic market more competitive, the need to create and preserve local or domestic economic autonomy so that domestic producers and consumers have a secure local economic niche to operate from. It is certainly detrimental for local producers to be exposed too soon to the competitive mainstreams of the larger (international) economies. Whatever may be the case, domestic resource gaps, in the Malaysian example, reached its most acute state in 1962 (Lo Sum Yee, 1972). This was mainly due to an asymmetrical relationship of decreased export earnings and accelerated development efforts with implications, among other things, a declining rate of savings.

Within limits, growth in the economy as a whole, and the industrial sector in particular is encouraged by maintaining effective demand through government spending which ought to have increased consumption and investment. But in a society which is more 'supply-determined' as in the case of Malaysia, such *growth through demand* laid bare the constraints on development. Well-known of such constraints was the heavy reliance on external resources to such an extent that by 1962 it was clearly felt that there was a need for some sort of an internally-created assets to offset the constraints posed by foreign assets. Indeed, as some would argue (cf. Lo Sum Yee, 1972, *ibid.*) that the economy seems to have arrived at a stage where sophisticated economic and financial management is required to enable it to mitigate the rigour of the constraints. A strategy was thus devised, having the following elements (See, Lo Sum Yee, *ibid.*, p.1):

- (i) a controlled release of the accumulated reserves to finances the industrial programme,
- (ii) diversification of the industrial sector with a view to taking advantage of the resource endowments and the available supply of labour,
- (iii) to regulate the cost of import substitution and safeguard the integrity of the foreign exchange rate of the Malaysian dollar, and
- (iv) to give a fillip to private enterprise without letting it develop undue concentration of economic power.

The above four industrial strategies devised do contain some of the elements that we have discussed in the foregoing pages. While strategy three – the integrity of her foreign exchange rate – as yet proved to be Malaysia's strongest asset is certainly offset by the second strategy where, as we saw, the diversification of the agricultural sector took precedence over the industrial. Strategy one was already at the heart of the Malaysian economic planners, resulting mainly from a more conservative standpoint. And strategy four proved to be a more interesting strategy for students of Malaysian politics than one of fiscal strategy where the emphasis is on redistribution of wealth, an aspect deeply rooted in the NEP philosophy. A more detailed discussion of this last point will be attempted in the discussion of this last point will be attempted in the discussion later on. At this stage, my intention is to elaborate a bit on the nature of industrial growth – if there is at all a growth – which will provide us with contrasting reference to changes in the agricultural sector.

A brief mention was made before, that in the 1960's there existed an asymmetrical relationship between declining export earnings and accelerated development. This was so since in spite of increased quantities, export earnings were stagnant due to the secular decline in export prices particularly rubber and tin. On the other hand, domestic expenditure and imports had been increasing rapidly partly due to the strategy of placing more weight on expansion of primary products. The increase in the demand for imports can also be seen as a general consequence of the modernisation of life. It was thought that the above objective could be achieved by maintaining a high level of effective demand at home through the rapid expansion of public investment and current expenditure. This strategy had proved to be successful and a satisfactory growth rate ensued; fortunately, it was not accompanied by price inflation. In this case the Keynesian 'barometric' mechanism seemed to have worked very well, with a brush of luck.

However, the luck seemed to have run out of sight when the public sector-oriented investment strategy of the second Five Year Plan (1961-65) ran into difficulties. This was due to the fact that savings fell short of investment. Since then the country came depend on external financial inflows to supplement domestic savings in order to maintain a satisfactory rate of investment for achieving the development objectives. The relationship between domestic mobilisation of savings and development – in the sense domestic savings functioned as an *indicator* of development is very close indeed (cf. Appendix VII). We have briefly noted the fact that

the annual fluctuations in savings were mainly influenced by the changes in terms of trade. I would now like to pursue this line of argument further. In the Malaysian case, the changing nature of her terms of trade was clearly reflected in the fall of export prices, which led to the savings ratio to decline from its peak of 20.7 in 1960 to 14.3 in 1967. Luckily, in 1965, and to a lesser extent in 1966, the ephemeral boom in the export sector had interrupted the generally downward trend of savings (Lo Sum Yee, *ibid.*, p. 11). It has been said that the main determinant of savings lie in trade taxes which included export and import duties and also export earnings. As to the former, it constituted, for the period between 1958-62, more than a third of the total trade tax revenue (*ibid.*). The latter, export earnings, has, however, produced more interesting linkages in that changes in the export sector leads to changes in savings in the sense that export earnings is an important sources of income for the private sector and concomittantly private savings through the income distribution effect. In this sense, there is then an intimate linkage between export earnings and domestic savings; or in the words of Lo Sum Yee: "It is more than a sheer coincidence, and therefore of importance to note, that the growth rates of gross domestic savings are identical to those of export during the same period" (*ibid.*, p. 13). Much of the private savings are accumulated by private companies associated with the export sector; and in the face of a declining public savings this private savings has actually "saved" the national economy. To this effect, it has been shown that over 1960-1966 period, public savings have been declining at an average rate of 4.4 per cent a year and in terms of GNP, public savings fell continuously from 10 per cent in 1960 to 5 per cent in 1966 (*ibid.*, p. 13). On the other hand, it has been noted that privated savings had been rising at the rate of 6.3 per cent a year after 1961 and finally reaching a level of about 12 per cent of GNP in the 1965-1966 period (*ibid.*). As has been repeatedly said, it was the buoyancy of the export sector in 1965 that enabled private savings to rise to an extent not only significant enough to offset the deterioration of public savings but also to raise the total savings as a proportion of GNP remarkably.

It was the increase in public consumption and public investment that were responsible for the erosion of public savings making a gap between overall investment and savings inescapable; and for the 1960-66 period Malaysia's public consumption increased at a annual average of 7.2 percent and public investment at a rate of 14.3 per cent a year. The former increase accounted for more than one and a half times that of GNP and the latter increased three times the growth rate of GNP (*ibid.*, p. 14). As we have

noticed, this 'gap' was closed by the bouyancy of the private sector which increased at annual average rate of 4.1 per cent since 1960 (*ibid.*). The increase of this sector was very much helped by government's rubber replanting programmes which seemed to benefit the estates (largely in private holdings) more than smallholdings through the practice of fragmenting estates and hence making it eligible for the benefits of the schemes.⁷

Whatever role private savings might have played in the development of the Malaysian economy, the attention given to the industrial sector by the government in the period 1955-1967 was pretty slim. This was basically due to the fact that government's attention was focused elsewhere – the need to develop and upgrade the agricultural sector.⁸ The compensating flows of capital from public to private as in the case of rubber replanting programmes above has helped to boost private savings which in return bounced back to the public in the sense of it being able to close the domestic resource gap created by falling export earnings and accelerated development as we had discussed at some length above. This compensating and 'circular' flow of capital, voyaging from public to private and back to public is our main theme that augment our so-called 'inter-sectoral trade-offs'.

Given the fact that there was a lack of support for the industrial sector, naturally factors that inhibited its growth such as the lack of coordinated planning, focus and sense of direction easily came to the fore. The most crucial of the factors that had a pinch of politics was the inter-departmental rivalry that developed between FIDA (Federal Industrial Development Authority) – which is regarded as the spearhead of the country's industrialisation programme – and the Industries Division of the Ministry of Commerce and Industries which have tended to outstretch its authority beyond its traditional role of handling application of pioneer status.

In order to overcome the lack of coordination which seemed to arrest much of development efforts, the government established, in 1969 the Capital Investment Committee (CIC). The CIC has solved some of the problems. However, new problems surfaced as a result of the government's 'new' industrial policy so much so that the government found it necessary to establish a panel by the name of Private Sector Advisory Panel which worked closely with the CIC. The 'piecemeal' treatment of the problem may well be explained by the lack of an overall framework of an industrial development plan. It would not be too wide off the mark to suggest that Malaysia's inheritance of the Colonial Development and Welfare Fund structure initiated by Britain largely explained the nature of her 'piecemeal' treatment of the development problems. It has been recognised that the

structure of the Colonial Development and Welfare Fund that grew out of the Moyne Report to the West Indies in 1940 were clearly present in the first two Malayan Plan (1956-1965). These two plans seemed to have incorporated the 'departmental' nature of the approach in formulating 'national' development policies.⁹

In summing up the nature of development performance of Malaysia in the 1950's and 1960's, it can be safely said that whatever shortcomings 1962 had on the level of savings and hence investments that in the end affected national economic performance, 1960's, for some, had proven to be better off than the 1950's (cf. Lo Sum Yee, 1972). The transition from the 1950's which stressed on a tight and balanced budget – a reflection of commitment to colonial development heritage and the internal security threat and its financial obligation – to one of more 'Keynesian' in operation in the 1960's has proved, in the case of Malaysia, rather viable.¹⁰

(III) SOME MAJOR POLITICO – ECONOMIC POINTERS

The emphasis on agricultural sector vis-à-vis the industrial is in a sense an emphasis on public sector as opposed the private. In the Malaysian situation one can easily fall prey to sectoral ethnic identification whereby public-rural is the reserve of the Malays and private-urban that of Chinese. While this sectoral allocation based on race is generally true mainly for reasons of history, those who vehemently pursue this 'reality' will certainly lead to a stereotyped image of the society and easily ignore the fundamental economic forces at work, the liberating aspects of which transcend racial boundaries. One such aspects that we have already seen was the existence of a compensating flows of capital from public to private and back to public.

The stereotyping image of the Malaysian society broadly categorised into Malay versus non-Malay (principally Chinese) may perhaps be true at a very general sociological level of analysis. This broad-brush approach to the problem failed to observe the internal differentiation of the economic system funded by externalities such as 'economic nationalism' with its concomittant symbols and values. The more important aspect is the presence of inter-sectoral 'trade-offs' (as opposed to merely "flows") one example of which concerns the *progressivity* of taxation which falls relatively heavily on the Chinese (for the obvious reason that their percentage in the higher income bracket is larger) than the Malays; but the *incidence* of taxation in *general* is relatively heavily burdened by the poor in general (as opposed to the rich), the majority of whom are rural Malays (cf. Meerman, 1979). It

is indeed a simple calculation of the mind to come to term with the idea that ethnic identification to a particular socio-economic groups should lead one to close one's eyes and denounce the statistics as false.¹¹ The horizontal distributive effects of public expenditures should hold roots in favour of the poor even if distributive leakages in the form of vertical distributive effects are being allowed to persist (cf. Meerman, *ibid.*).

The importance of the larger rural sector and its associated problem of high incidence of poverty has prompted a few insightful studies done by people like Fisk (1963), Purcel (1975), Wharton (1962), Guyot (1969), Ness (1967) and last but not least Ungku A. Aziz (1957, 1962, 1964 and 1965). This is certainly not an exhaustive list and one should not see this group as 'sectorally' – and hence 'racially' – oriented. Their analyses certainly do have national projections for the obvious reason that whatever happens to this large and rather volatile sector will have national impact. To top it all, this is the very region that the dominant political party, UMNO, found most of its supports. The anomalous position of the Malaysian case in which wealth and political power are dissociated make it more pressing for us to examine the nature of rural sector's receptivity to a whole range of development efforts that had been put into it and whatever likely political impact that might come out from it.

Much of the work done by Ungku A. Aziz (*op.cit.*) in the area of rural economy are mainly concerned with the debilitating role played by middlemen who posed as an institutional obstruction for the advancement of the rural poor; and this phenomenon in itself will have long-term national consequences. Earlier on we saw how the middlemen (which happened, in the majority, to belong to one main racial group) used the influence of their component of the ruling political parties resulting with the expulsion of the then Minister of Agriculture. Ungku Aziz's insistence was for more governmental intervention through the use of statutory bodies replacing the roles of the traditional middlemen and more preferably through the resurgence of cooperative movements. The revival of cooperative movements may offset any tendencies on the part of public enterprises that were given the roles to provide agricultural inputs to the farmers, to replace the roles of traditional-exploitive middlemen albeit in a more 'institutionalized' manner. This will ensure the widest possible distributive impact benefitting the majority poor. As we shall see recent trends are moving toward this direction.

Works by Fisk (eg.1963) in analysing Malaysian rural development policy, to my mind, present one of the sharpest analysis yet to appear on

the rural economy of a developing society. Fisk's general concern is for the declining productivity of backward or peasant sector of the rural economy where despite the general prosperity of the Malaysian economy and the general rise in the level of the GNP, up to 1970 there is in fact evidence of general decline. Fisk has suggested that from the point of view of the maximisation of GNP and economies of scale generally, the estate-type cultivation of rubber and palm oil is much more preferred than the more cumbersome management of smallholdings which easily gave way to features of landlordism which ultimately led to the decline of peasant productivity generally. The dilemma is obvious in the sense that although it is economically feasible, it is less so politically. This is so since the majority of the non-Malays reside in the estate sector. Fisk found the resolution to the dilemma not in industrialisation or expansion of opportunities in estate labour, or anything else, but in the improvement of the lots of the Malay peasants. Four remedial measures were suggested by Fisk in efforts to uplift the per capita income of the rural Malays. They are: an increase in the value of production of the group; a reduction in the numbers of the group; an increase in the share of the proceeds of the product falling to the members of the group and directly or indirectly; a redistribution of income from other sectors of the economy. At the time of writing (1950's) Fisk argued the first and second measures could be proven to be a viable alternative while the third and fourth options still leave rooms for improvement.

As regards the first measure, Fisk argued that in terms of capital-output ratio, an increase in the value of production of rice is uneconomical since maximum rice production in relation to capital outlay is five to one. The FLDA-type scheme is more economically feasible. It aimed at giving a farmer an ownership of ten acres of land. Capital outlay per farm is about RM10,000 and its capital-output ratio is better than rice, it being three and a half to one. Fisk also noted the fact that 1960 Census of Agriculture shows that nearly 70 per cent of rural farms are less than five acres and 50 per cent less than three acres. In Fisk's judgement, it would require an addition of approximately 2,700,000 acres in order to push all farms up to the ten-acre level. The case of fishermen, however, left much to be done. Fishing has proven to be a more depressing area. The change from labour-intensive method of fishing to that of capital-intensive (for example, in the use of high powered boats for offshore fishing) worsen the position of the fishermen in general. Although Fisk left his third and fourth options open, he is more convinced that the problems inherent in the options may be solved by a more active state intervention. In his own words, he has this to

say: "It is not the purpose of this chapter to suggest solutions, but it is perhaps worth foreshadowing that when the time does come to suggest answers, they are liable to involve a degree of state intervention and communal action that may be closer to the socialist concepts than those of "laissez faire Capitalism" (*ibid.*, p. 171). The time did arrive by way of the 1969 incident and a more vigorous governmental intervention in rural development programmes through a more 'aggressive' public expenditure strategy did take place, as shown by studies carried out in the late 1970's (cf. Meerman, *op.cit.* and Snodgrass [1980]) which pointed to the fact the major beneficiaries of the programmes are the rural poor.

The two-sector model of the dual economy is usually featured by the disparity of wealth of one sector in comparison to the other. Financial equalisation is very much assisted by the federal structure of the political system where the centre is usually (and should be) in a stronger position. The case of the allocation of the federal grants to the poorer part to the country has the advantage and elasticity of being able to transcend some of the political (mainly constitutional) problems and also the centrifugal forces at work so as to bring about the process of financial equalisation and concomitantly sectoral parity with much ease and at a greater pace (Hick, U.K, 1961). Financial equalisation as one of the many forms of intersectoral flows, and in the case of developing countries like Malaysia where the 'poor' sector is relatively larger than the 'rich', it can lend itself to economic disunion. This disintegrative aspect may be offset, however, by forces of political union which has the will to see that "development will have to be very rapid, and as such to make an impression on the obstacles to mobility, if it is to bind the country together" (Hicks, J.R, 1961, p. 79). The present rate of growth of Malaysia which stands at 8 per cent *per annum*, augurs well for the above observation by John Hicks. As Hicks (*ibid.*) further observes that any wise government, looking at the long-run interests of the whole country, would surely decide that it is still untimely for the richer and smaller sector to embark actively in helping the poorer (and larger) sector and the first task of any such government "is to encourage expansion, wherever it can be persuaded to occur, not to set a drag upon it, in the interests of the majority, who cannot yet be significantly helped" (*ibid.* p. 79). As to a policy for the above suggestion, Hicks is less sure and although he himself favours political unification he is also convinced that (perhaps partially) federation is an attractive solution particularly from the point of view of the growing sector. Perhaps federalism of the Malaysian variety where there exists federal structures with strong unitary tendencies may

satisfy Hicks' conceptual framework.¹³ A recent observation still confirmed the elasticities of the working of Malaysian federalism.¹⁴

In the dualistic economy it is also important to take into account not only inter-sectoral 'flows' but also 'trade-offs'. The existence of the latter proved the fact that forces of economics which have tended to inter-ethnic redistribution are at work. Compensation flows of capitals between public and private and the progressivity of taxation vis-à-vis its general incidence were already briefly noted as two factors that may support our case for inter-sectoral trade-offs. At a deeper philosophical level John Hicks' principle of Derivation (*ibid.*, p. 78) perhaps lends support to our case. In this respect, the principle of Derivation holds the view that it is not 'natural' for the 'richer' sector of the country to claim for a higher benefit for social expenditure, in the sense of it contributing more in terms of taxation than the 'poorer' sector. This is so since, "the derivation principle is not at all easy to carry out in practice, since the taxes that are collected within an area do not necessarily fall upon the inhabitants of that area. Derivation can easily become enmeshed in tax metaphysics" (*ibid.*).

For the rest of the essay attention will be paid to features of the Malaysian economy that contribute to the eroding of factors borne out by historical circumstances that thus far obstruct the way for ethnic equalisation. The recent study by Meerman (*op.cit.*) will serve as the focal point for the analysis.

Studies on rural Malaysian society frequently stress features of landlordism as an exploitive and counter-productive force that is responsible for thwarting much of the rural development efforts (cf. Syed Husin Ali, 1974). A recent finding by Meerman who carried out the research in 1974 came to the conclusion that there is a high poverty incidence among the so-called landlords. Meerman found that out of 22 per cent of tenants as a total of agriculturalists in poverty, landlords-defined as all those who cultivate less than 72 per cent of what they own – accounted for 47 per cent of the total, 4 per cent higher than the percentage of the owner-cultivators. The reason given was the reduced amount of household labour applied to the landlord's holdings which averaged at 6.4 acres (Meerman, *ibid.*, p. 248). The decreasing importance of landlordism in the rural areas in a sense explains the increase in rural offtake mainly those participating in the federal backed FLDA-Schemes where by the end of 1973, some 29,000 families were settled (*Mid-Term Review of the Second Malaysia Plan*, 1973, p. 130). Much criticism was offered to the FLDA-type schemes regarding its high cost of operation in comparison to the "Fringe Alienation Schemes" of

state-backed land development (cf. Thillainathan, 1976). Critics of the FLDA-Schemes, however, did not mention productivity per acre cultivated. The criticism, however, served the political standpoint of the state in the sense that the argument that would flow from this is that even though states – mostly the ones that are controlled by opposition parties – were denied of federal aids in the process of development,¹⁵ they can still be proved to be self-sustaining; and no doubt, in the process, constraining its own resources for other development goals which are perhaps more immediate in nature. For all its worth, the innovative spirit and courage of pioneer settlers in states' land alienation schemes deserved to be congratulated if only it served more the political objectives and ambitions of the states. If income of the household per capita of the two schemes is compared and the comparison shows that the settlers of "Fringe Alienation Schemes" received more than their counterparts in the FLDA schemes (Meerman, *ibid.*, p. 257), it also made explicit the fact that those capable of joining the states' "Fringe Alienation Schemes" must have been established agriculturalists who can afford to amass that much capital to undertake the occupation in the first place since these schemes are not receiving federal assistance. It is the states who looked after them. The adage 'betting on the strong' certainly falls more heavily in cases of states' land alienation schemes (more so in the case of relatively poor states) than that of the federal-initiated. The menace of landlordism particularly in relation to the distributive effects of development made itself more apparent in the case of state-backed land development schemes than the case of the large-scale land settlement of the FLDA-type. This is so since the FLDA settlers started the venture from the same economic footings. When they first joined the scheme they were mostly poor families. With this group, with a sudden jump in earnings (some reportedly to have earned nearly RM1000 or more per month) – especially in the palm-oil schemes – the problem lies not in the impending rise of landlordism in their midst but group awareness, the discovery that they as a 'class' through the organisation of labour and articulating interests, found themselves more easily heeded to by their superiors as to their wishes and demands. This represents a new streak of political awareness at the disposal of the newly settled rural Malays exposed to the actual consumption of the goods is too fast that one can only hoped that the time allowed for the destruction of traditional values would sufficiently linger on to permit an amicable reconciliation process between the two opposite forces to have taken roots in the community. This trend has led one author to term it as a process of 'creeping urbanism' and the new political environment that has taken shape was labelled 'pastoral'.¹⁶

Mention was made earlier regarding the nature of rubber replanting scheme and the benefits of which went to private coiffers which was later used to fill the gap caused by the reduced export earnings and accelerated development at home largely in the form of public expenditures. The rubber-replanting scheme was and still is under the charge of RISDA (Rubber Industry Smallholders' Development Authority) which derived its sustenance from rubber cesses, that is, taxes on exports of rubber. It is the proceeds from these taxes that are used to finance the replanting of old and unproductive rubber trees. For some (Ungku A. Aziz and Arudsothy, *op.cit.*), the mechanism of rubber-replanting scheme was skewed very much in favour of the estate. Apart from fragmentation of estates the explanation lies in the fact that in effect both smallholders and estate workers pay the cess at point of export. Meerman (*op.cit.*, pp. 334-335) observes that throughout 1974, for example, the estates were reimbursed on presenting proof of production, export and replanting. Nevertheless, not all estates replant. Before 1973 estates were reimbursed automatically on proof of export. The smallholders receive reimbursement as grants if, and only if, they replant. Many do not. This also means that RISDA is experiencing a 'surplus' in the form of unused grants and the surpluses were re-channelled into the Treasury which uses it for further public expenditure programmes.

In contrast to other developing countries, Meerman (*ibid.*, p. 325) found that Malaysia's concern was for productive as opposed to merely welfare transfers in the sense that all Malaysia's publicly supported redistributive programmes – the allocated as well as the unallocated – have an investment facet with the view to covering future liabilities. Household welfare transfers funded out of the federal budget are comparatively minute and consist almost entirely of federal government pensions. The principal social security organisation of Malaysia, the Employees' Provident Fund, has developed actuarially with rapidly expanding membership, and its cash surplus has been the major source of funds for developing budget. The social security welfare programs which have caused serious problems of financing in modern welfare states are so far non-existent" (Meerman, *ibid.*, p. 326).

A study by Snodgrass (1980) seems to support much to the data presented by Meerman in the sense that the 1970's presented with a wider distributive base in comparison to that of the 1960's (*ibid.*, p. 276). The worldwide surge of inflation of 1972-4 hurt Malaysia as is anybody else by raising the prices of imports but luckily it was offset by sharp increases in export price. Rubber prices more than double from early 1972 to late 1973, while palm oil and timber prices also climbed sharply. Tin prices moved more slowly, but eventually joined the surge as well.

An important indicator of how Chinese and foreign business groups are reacting to government economic policies has always been the performance of private investment. Notwithstanding the fears that loom large over foreign and private investors with the passage of Petroleum Development Act and Industrial Coordination Act there was an upswing in fixed private investment in the 1973-4 period when export earnings surged. The same pattern was repeated for 1976. National income per capita in current prices more than doubled in 1970-7, rising from RM1,093 to RM2,297 and there was a significant reduction of poor households between 1970 and 1978 which totalled up to 768,300. Snodgrass summarises the overall economic performance of 1970's as "mixed" in the sense that "change has been in the prescribed direction and of substantial magnitude, but not always up to the quantitative targets defined" (*ibid.*, p. 279). He further adds that "while areas of uncertainty exist development under the NEP compares favourably to development before the NEP by virtually any criteria" (*ibid.*, p. 278; also compare Appendix VIII).

In seeing the issue in broader perspective Snodgrass, in his concluding analysis seems inevitably wedged into the perplexing problem of the stereotyped Malay versus non-Malay phenomenon in the sense that enveloped within the NEP philosophy of distribution with 'growth' is the idea that the distribution has something to do with political power (and hence Malay) and growth something to do with economic power (non-Malay). His analysis, at the same time, seems to espouse the idea that the above crude racial stereotyping is disintegrating especially along occupational lines and internal differentiation that is taking place within each main racial groups that the net result of which "is a multiplication of social identities in which communalism is *modified* but not *supplanted* – and very possibly is even strengthened" (p. 282 *emphases mine*). The modification and strengthening of the communal basis and the possible outcome from it all is seen by certain critics of NEP as alarming. The fingers seem to point to the spiralling rise into power (both political and economic) of the Malay middle class who certainly benefitted more than their poor counterparts in the countryside and the urban slums. The burgeoning Malay middle class has been 'pushed' forward so as they could fill the slot of Malay ownership of the 30 per cent of the corporate share of capital by 1990, one of the professed aims of the NEP. Under this circumstances the general conclusion and trend that is moving in the 1970's and beyond would be a trend that decreases the disparity inter-ethnically but increases intra-ethnically. The latter case is especially explicit within the Malay sector. The 'nightmarish'

scenario that one day Malaysia will be ruled by Malay middle class is to over-dramatise the issue, in the sense that the Malay middle class could easily be infiltrated with as they always have been, by liberal elements of the more pragmatic of the uppermost inter-ethnic political leadership which expresses inter-ethnic (hence 'national') policies rather than intra-ethnic (or 'racial'). There is in fact a move within the Malaysian society that the intense identification of ethnicity within the framework of pluralism of the Furnivallian kind to a pluralism as a concept which is more at home with political scientists, a concept that attaches itself more to the concept of liberal democracy.¹⁸ Even within the environment of extreme expression of communalism, one may still speak of the existence of a 'communal democracy' where in some respect more viable than the democratic way of life that is commonly known in the West in the sense that "By conceding the legitimacy of communal groups, democratic systems avoid imposing deprivations of non-material satisfaction and with it the necessity of a compensatory margin of material rewards" (Karl Von Vorzys, 1975, p. 431). The system further avoids accelerating the egalitarian trend of democracy at its own peril since it sought sources of traditional authority which helped to "soften the increasing demand made on the distributive capacity of the political system under the democratic framework. And more importantly, it may have a better prospect for maximising resources in the sense that it is less in danger that its legitimacy will become a captive of its capacity to produce consumer goods and to distribute them equally and this may offer a more favourable conditions for economic developments (*ibid.*, p. 432). At a glance the working of this so-called 'communal democracy' is not in contradiction with the Malaysian economy which is "capitalistic, conservative and open", to the extent that for some it is feasible to establish some kind of nationalisation that will not necessarily corrode the very basis of the democratic framework (cf. Silcock, 1963).

The closing of *inter-ethnic* and simultaneously the widening of intra-ethnic gap in the Malaysian context may be seen as a more viable alternative development where a *trade-off* rather than a *cruel choice* between *class* and *ethnicity* is allowed to function. A recent cross-cultural study has concluded that: "The evidence from Malaysia suggest that there may well be a trade-off between policies that are designed to reduce the class inequalities, as compared with policies implemented to reduce inter-ethnic differences" (Grove, 1979, p. 95).¹⁹ The same study also shows that in the Malaysian case there is an increased ethnic redistribution in areas of occupation and education but not income (*ibid.*, p. 93). However, in the

case of Malaysia there is a close link between the upward occupational and educational mobility to that of income. This change is particularly important in giving the Malays a more secure economic base in the sense that educational and hence occupational mobility is comparatively easy for the Malays to hurdle than the purely economic mobility where experience and capitals are its two important prerequisites. The compensating element is evidently present in this case.²⁰

To reiterate, Malaysia has been remarkably successful in using an active interventionist approach to the pursuit of equality that has undoubtedly permitted rapid growth; and the intervention on the part of the government is far from 'cruel' in the sense that the total budget allocation for redistributive activity for 1974, for instance, accounted for only 9 per cent of GNP and the direct intervention activities for the same year has used less than 2 per cent of GNP; and "since marginal ratios of capital to output range from 3:1 upwards, 2 per cent of GNP suggests that direct intervention has but a slight effect on basic economic structure, such as the distribution of income" (Meerman, *op.cit.*, p. 3). And although by 1990 the Malays were supposed to acquire 30 per cent of the corporate wealth, the projected fiscal policy is still very 'liberal' in that 29.8 per cent is still allotted to foreign investment (See Table IX).

Active public interventionist policies by a pragmatically-minded political leadership that made up the present ruling government, where the 'government' is the dominant 'sector' in a multi-sector bargaining model based on ethnicity, may prove to be more resilient in solving the so-called 'collective failures' resulting principally from the lack of 'a convergent process of mutual accommodation' common to Western liberal economy (cf. Peacock, 1979). While the production of 'a convergent process of mutual accommodation' in the West is perhaps only possible through public exhortation, in societies like Malaysia, it is her very lifeline.

NOTES

- 1 Cf. Victor Purcell (1967), *The Chinese in Malaya*, OUP, London, p. 291, "As a race they are quite prepared that the overseas administrative power shall be vested in others, indeed they seem to prefer it so. They do not want to be bothered with the legal and administrative machinery. But they want the maximum of freedom within the alien framework of government, the freedom to trade and to make money and to live their lives without interference. To the really ambitious Malayan Chinese, success

- means to be a great merchant or a captain of industry; he despises the drudgery, the responsibility and the poor rewards of the professional administrator".
- 2 In contrast, the same thing can also be said of the Malay community in that feeling was running high that they should be more actively involved in the economic activities of the nation.
 - 3 The 'Alliance' was made up of three component political parties – the UMNO (United Malay National Organization), the more dominant partner, the MCA (Malaysian Chinese Association) and MIC (Malaysian Indian Congress). This 'alliance' framework persists till the present day though the framework was enlarged to include other political parties. The present 'alliance' framework was named 'National Front'.
 - 4 Perhaps the paucity of statistical data on various relevant aspects of economic development which is not uncommon to countries such as Malaysia is that reference to historical factors is all the more important. Cf. Arudsothy, P., "Malaysia" in Ichimura, S. (ed.) (1975), *The Economic Development of East and South-east Asia*, Uni. of Hawaii Press, Honolulu, p. 81: "We are therefore forced by historical factors and the scarcity of data to confine our discussion to the economic development of the federation of Malaya". The difficulties are further complicated by the fact that there is no *uniformity* in the available data for the whole of Malaysia.
 - 5 Winstedt (*op.cit.*) mentioned that Malaya's trade in 1938 exceeded the total trade of New Zealand or more than half the trade of British India (p. 108).
 - 6 Cf. Appendix V. Notice the percentage allotted to Crude Materials (inedible) and also Manufactured Goods.
 - 7 A more comprehensive survey of the economic problems of sub-division undertaken by the University of Malaya in 1961 categorically described the growing subdivision of estates as an 'anti-development' process, against the national interest in its effect on farmers and rubber workers and on national land resources, sources of revenue, social security systems and the quality of future rubber exports. On this, see, Ungku A. Aziz (1962), *Subdivision of Estates in Malaya 1951-60*, University of Malaya.
 - 8 Out of the total public development expenditure, only small percentages were allocated to the industrial sector, for instance, under the First Malayan Plan (1956-65) 2.6 per cent and First Malaysian Plan (1966-70) 3.6 per cent (Lo Sum Yee, *op.cit.*, p. 96).
 - 9 For a good discussion on this issue see Arudsothy, P (*op.cit.*) pp. 94-103. See also, Douglas Dosser, "The Formulation of Development Plans in the British Colonies", *Economic Journal*, Vol. LXIX, 1959.
 - 10 Cf. Karl Von Vorys (1975), *Democracy Without Consensus*, Princeton Uni. Press, Princeton, p. 220, "And for some time after 1955, the men at the Treasury, the very men who made economic policy, had their own view of economic priorities. Senior officers and technical staff in the Treasury were trained in finance and their normative orientations were shaped accordingly. Expertise in economics were rare and Lord Keynes apparently had made little impression on them".

- 11 Jacob Meerman (1979), *Public Expenditure in Malaysia*, OUP, World Bank, noted that the distribution of federal outlays per capita for education, medical care, agriculture, and pension are highest in the rural areas. These distribution when examined by ethnic group rather than region, the Malays came out far ahead of both Chinese and Indians. The benefits per capita of the Malays exceed the mean by 22 per cent. The benefits to the Chinese are 30 per cent short of the mean. Meerman further notes that: "Not until we look at the distribution of these benefits by *income quintile* do the expected results appear: Benefits per capita to the lowest income quintile are 15 per cent below the mean, those in the highest quintile 10 per cent above the mean. The middle three-fifths are all very close to the mean" (p. 7 – emphases mine).
- 12 It can be safely said that the more committed rural strategy particularly in the 1950's and 1960's, was solely the result of the efforts of one man, the late Prime Minister Tun Abdul Razak who in the 1950's shouldered the responsibility as Minister of Rural Development. His 'operation room' strategy was a well-known feature in solving rural development problems. In fact he was the architect of the New Economic Policy and deservedly known as the 'father of development' (*Bapak Pembangunan*). On this see, Gayl D. Ness (1967), *Bureaucracy and Rural Development in Malaysia*, Uni. of California Press.
- 13 Cf. F.G. Carnell (1961), "Political Implications of Federalism in New States" in Hicks, U.K. et. al, *Federalism and Economic Growth*, George Allan & Unwin, London, p. 39, "Malaya, of all the federations, has the strongest centre both in theory and practice".
- 14 *Far Eastern Economic Review* (August 28-September 3, 1981) in its essay that focused on Malaysia notes that: "Experiments in federalism in post world War II years have had a dismal record of failure – as in Rhodesia and the Caribbean – but in Malaysia, with a far more complex mix of races, religious and contending regional elites in what used to be independent chiefdoms and sultanates, it has had a record of remarkable success. The reason for the centre holding together disparate forces with centrifugal tendencies was a capacity and a willingness to negotiate and compromise – to cajole and coerce – and perhaps, most importantly, because the centre inherited from the departing colonial power in 1957 security and defence powers that were near total, against a backdrop of very real threats of insurrection and invasion which no single state could handle on its own.... Federal-state relations in Malaysia were never static, and the shifting of federal power from a prime minister from one state to a new prime minister from another could have been followed by blatant favouritism and the consolidation of power in one state. But that has not happened. Prime Ministers have undoubtedly been influenced to see the needs of their own states as priorities, but national considerations have made sure that the government was composed of ministers from all states and development programmes and financial assistance has been spread evenly to make sure of state stability. Race politics, the worst feature of Malaysian politics, has played its part too in making certain that the state parties buttress their respective central parties in the ruling coalition, thus making sure that federation holds together" (pp. 37, 40).
- 15 Cf. Gordon P. Means (1970), *Malaysian Politics*, Hodder and Stoughton, London.

- "In Malaysia's federal system, the Federal Government provides that bulk of the funds spent by the states. It is no mere coincidence that when opposition parties have controlled state governments, the Federal Government has been less generous with its funds, arguing that cuts were necessary because of maladministration and waste by state authorities. The allocation of federal funds has been cleverly employed to secure state compliance with federal policies and to improve the political fortune of the state Alliance organisation. When federal authorities have intervened in state politics, a settlement according to a "federal formula" is usually accompanied by announcements of new federal expenditures for local development projects" (p. 444).
16. See, James F. Guyot, "Creeping Urbanism and Political Development in Malaysia", in Robert T. Daland (ed.) (1969), *Comparative Urban Research*, Beverley Hills, Sage.
 17. Gordon P. Means (op. cit.) one of the authorities on Malaysian politics although generally sceptical of the success of NEP has expressed his view in the following words: "The present regime has exhibited the ability to respond to political necessities, and since 1970 the ethnic bargaining processes and consensual accommodative ethos has improved the political position of the non-Malays" (p. 453). At the conclusion of his study, the "accommodative tone" is more obvious when he says that: "It is easy to be critical of Malaysia's partially paralyzed democratic institutions, her limitations on fundamental freedoms and individual liberties, and her reliance upon ascriptive special privileges based on ethnicity. It is much more difficult to devise alternative strategies which will produce a more unified and democratic society. The critic and analyst, unlike the politicians, does not have to face the consequences of failure" (p. 454).
 18. On this see, Paul Tennant (1975), "Pluralism in West Malaysian Politics", *Contributions to Asian Studies*, vol. VII, pp. 79-86.
 19. Cf. Meerman, *op. cit.*, "This emphasis has already contributed to a significant decrease in the average disparity in income between Malay and Chinese. But it probably has also brought about a substantial increase in inequality in income among the Malays. In the future, such trends will probably persist, perhaps even accelerate. This leads to a fundamental question. Assuming a fairly successful program of Malay industrial development, in part publicly fostered, there remains the question whether the *cost* to the community of the concentration of wealth, income and power among a small group likely to ensue from the program would be less than the expected *benefit* of a *radically altered society*" (p. 37 - emphases mine).
 20. Another compensating element in the Malaysian economic development process is the compensating flow of capital resulting from infrastructural investment. The case in point is the building of FELDA-settler schemes where roads (feeder), houses and the clearing of the jungle are usually done by non-Malay contractors.

APPENDIX 1

*Growth in the Gross Domestic Product, West Malaysia,
1950-1960*

Year	GDP RM (Current market prices)	GDP RM (at 1959 prices)	Annual % Changes
1950	4,137	4,867	+60.8
1951	5,550	5,000	+2.7
1952	4,693	4,153	-16.9
1953	4,271	3,883	-6.5
1954	4,208	3,949	+1.7
1955	4,931	5,032	+27.4
1956	4,999	5,049	+0.3
1957	5,046	4,852	-3.9
1958	4,841	4,700	-3.1
1959	5,411	5,411	+15.1
1960	5,921	5,921	+9.4

Sources: Various Government Year Books and other statistical publications.
(From Arudsothy, 1975, p. 83.)

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APPENDIX II

*Malaysia: Utilisation of Gross Domestic Product
(RM Million at constant 1960 market prices)*

	1960	1961	1962	1963	1964	1965	1966
Gross domestic product (GDP)	6,920	7,170	7,560	8,080	8,570	9,170	9,720
Exports of goods and non-factor services	3,820	3,890	3,980	4,160	4,200	4,520	4,730
EXPORTS AS % OF GDP	55	54	53	51	49	49	49
Gross domestic product for domestic use	3,100	3,280	3,580	3,920	3,470	4,650	4,990
DOMESTIC USE AS % OF GDP	45	47	47	49	51	51	51

* Preliminary

Source: Bank Negara (Central Bank) Annual Report 1968.
(From Arudsothy, *ibid.*, p. 84.)

APPENDIX III

Malaya: Gross Domestic Product by Industry of Origin, 1960 and 1965 (in 1960 prices)

	1960		1965 (preliminary)		
	RM millions	% of total	RM millions	% of total	Annual growth rate (%)
Agriculture, Forestry & Fishing	1,976	33	2,406	34	4.0
Rubber	1,233	24	1,501	21	4.0
Agriculture & Livestock	568	11	647	9	2.6
Forestry	85	2	125	2	8.0
Fishing	90	2	130	2	7.5
Mining & Quarrying	306	6	382	5	4.5
Manufacturing	453	9	766	11	11.1
Construction	158	3	360	5	17.9
Electricity, Water and Sanitary Services	70	1	123	2	11.9
Transport, Storage and Communications	189	4	247	3	5.5
Wholesale and Retail Trade	817	16	1,100	16	6.1
Banking, Insurance and Real Estate	71	1	116	2	10.3
Ownership of Dwellings	245	5	305	4	4.5
Public Administration and Defence	339	6	425	6	4.6
Other Services	596	11	853	12	7.4
Gross Domestic Product at Factor Cost	5,220	100	7,083	100	6.3

Source: First Malaysia Plan 1966-1979, p. 37.
(From Arudsothy, *ibid.*, p. 85.)

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APPENDIX IV

*Gross Domestic Product by Industry of Origin,
West Malaysia, 1965 and 1970
(RM million, in 1965 prices)*

	1965	% of total	1970	% of total	Average annual growth rate (%)
Agriculture, Forestry & Fishing	2,066	31.5	2,877	33.5	6.8
Agriculture & Livestock	856	13.1	1,140	13.3	5.9
Rubber Planting	988	15.1	1,323	15.4	6.0
Forestry	84	1.2	156	1.8	13.2
Fishing	138	2.1	258	3.0	13.3
Mining & Quarrying	587	8.9	619	7.2	1.1
Manufacturing	682	10.4	1,094	12.7	9.9
Construction	269	4.1	329	3.8	4.1
Electricity, Water and Sanitary Services					
Transport, Storage and Communications	284	4.3	329	3.8	3.0
Wholesale and Retail Trade	1,004	15.3	1,173	13.6	3.2
Banking, Insurance and Real Estate	104	1.5	169	1.9	10.2
Ownership of Dwellings	292	4.4	345	4.0	3.4
Public Administration and Defence	404	6.1	520	6.0	5.2
Other Services	710	10.8	893	10.4	4.7
Gross Domestic Product at Factor Cost	6,552	100.0	8,569	100.0	5.5

Source: Second Malaysia Plan 1971-1975, p. 31.
(From Arudsothy, *ibid.*, p. 86.)

APPENDIX V

*Changing Structure of Imports,
West Malaysia, 1950-70*

	1950	% of Total	1960	% of Total	1970	% of Total
Food	404	30.8	558	26.0	241	5.7
Beverage and Tobacco	76	5.8	82	3.8	51	1.2
Crude Materials (inedible)	-	-	339	15.7	2,095	50.0
Minerals, Fuels, Lubricants	54	4.1	149	6.9	56	1.3
Animal/Vegetable Oil, Fat	-	-	13	0.6	288	6.8
Chemicals	12	0.9	143	6.6	60	0.4
Manufactured Goods	165	12.5	366	17.0	1,193	28.4
Machinery & Transport Equipment	68	5.2	330	15.3	96	2.3
Miscellaneous Manufactured Articles	494	37.6	123	5.7	68	1.6
Miscellaneous Transactions & Commodities	-	-	45	2.0	43	1.0
Total	1273		2148		4191	

Source: Statistics Department Bulletins, Kuala Lumpur.
(From Arudsothy, *ibid.*, p. 89.)

APPENDIX VI

*Changing Structure of Export,
West Malaysia, 1950-70*

	1950	% of Total	1960	% of Total	1970	% of Total
Rubber	1,810	69.3	1,829	62.5	1,663	39.6
Tin	442	17.0	507	17.3	1,013	24.1
Iron Ore	9	0.3	140	4.8	104	2.4
Palm Oil, Kernel	32	1.2	61	2.1	253	6.0
Coconut Oil, Copra	56	2.1	24	0.8	39	0.9
Timber	18	0.7	55	1.8	249	5.9
Canned Pineapple	7	0.2	26	0.9	43	1.0
Others	236	9.0	285	9.7	828	19.7
Total	2,610		2,927		4,192	

Source: Statistics Department Bulletins, Kuala Lumpur.
(From Arudsothy, *ibid.*, p. 88.)

APPENDIX VII

RM Million, Current Prices

Annual Average Compound Growth Rates 1955-67														
	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	(per cent)
Private Savings (Gross)						629	451	519	176	691	949	964		6.3*
Per cent GNP						10.7	7.7	8.4	8.8	9.9	12.4	12.0		-
Public Savings (Gross)						585	532	516	483	463	453	426		-4.4*
Per cent (GNP)						10.0	9.0	8.3	7.3	6.7	6.0	5.3		-
Total Savings (Gross)	950	777	759	612	951	1214	983	1035	1059	1154	1402	1390	1173	1.6
Per cent GNP	20.0	16.1	15.3	12.9	17.9	20.7	16.7	16.7	16.1	16.6	18.4	17.3	14.3	-

*From 1960 to 1966 only.
(From Lo Sum Yee, *op. cit.*, 1972, p. 12.)

4

CLASS RELATIONS AND MALAYSIAN DEVELOPMENT: A HOLISTIC OVERVIEW

B.N. Ghosh

THE whopping rate of growth (around 8 per cent annum) which Malaysia has been experiencing now can best be explained away by the political economy of class relations in the country, an analysis of which would be pursued at some length in this short paper.

THE CLASS ALLIANCE

High growth rate of the Malaysian economy has been made possible by a sort of calculative collusive class alignment among the three present prominent classes in Malaysia. These classes are: bureaucratic class, capitalist class and the working class.¹ Such class alliances have been made possible because of the fact that as development takes place each of these classes stands to gain positively. The role of each class is a positive sum game. A common class interest has been the basis of Malaysia's accelerated rate of growth. The genesis of this commonality of class interest is easy to be unfolded to the students of Malaysia's economic history.

The class structure that Malaysia has now is in fact the modified version of the class structure that obtained in the colonial period. However, after the attainment of independence in 1957, the importance of the land-owning class gradually diminished in Malaysia. The reasons are not far to seek.

Firstly, the policy of the government was to rapidly develop the country, and it was through that an unbalanced strategy of development will do the trick because the productivity of the industrial sector, as experiences of developing countries suggest, far outstrips the productivity of the agricultural sector. The paradigm shift in the development strategy from agriculture-based development to industry-based development contributed to gradual but slow demise of the importance of agriculture.

However, for quite a long time till 1970, the primitive accumulation had to be based on agriculture, as the industrial development was still in its nascent stage. But since 1980 when capitalist development had already taken off, a marked trend for the movement of men and materials from agriculture to industry to become conspicuous. As a result, occupational structure changed in favour of the industrial sector. This was accompanied by the terms of trade which also went in favour of the secondary sector. This is something very natural as is expected in a developing economy. The transfer of resources including human resources from agriculture to industry takes place in consequence of the relatively higher productivity in the secondary sector and also because of lesser demand for labour for producing food and fibre in the primary sector in a developing country like Malaysia. All this contributed to the decreasing importance of agriculture in Malaysia's development. For instance, Malaysian agriculture which contributed 30.8% per cent in 1993. However, it must not be forgotten that this is the very natural corollary of the process of economic development.

Malaysia's strategy of economic development is based on Preobrazhensky type of model of squeezing agriculture for the extraction of surplus and not the Bukharin type of strategy of ameliorating agriculture. The land-owners in the 1980's experience unequal benefits favouring large and medium farms (Ismail 1982). This was evident from the Gini coefficient of concentration of land ownership.² For most of the farmers, agriculture was unremunerative, and the poor households were in perpetual debt. The World Bank report revealed that 70 per cent of the surplus generated by the poor farmers of Muda Scheme was siphoned off the region (World Bank, 1982). All these contributed to the negative interest in land and agriculture in Malaysia in the Eighties, and class interest, if at all any, was relegated to the background almost forever, and agriculture indeed became alienated. This is borne out by the fact that in the Post-Merdeka period, no significant land reform policy has been formulated in Malaysia.

Secondly, with the decline in the importance of agriculture in the national economy of Malaysia, the importance of landed aristocracy (land-

owning class) also declined in sympathy. This happened in mainly two ways. First, with the rapid growth of the non-agricultural sector vis-à-vis the decline of agriculture, a large part of the agrarian labour force sought employment, temporarily or permanently, in the industrial sector for higher wages, better prospects of lucky breaks, and better living/working conditions. Second, over the years, Malaysian agriculture experienced drastic structural changes. The growth of latifundist commercial farms owned by the government or by the private sector was indeed conspicuous. This type of agrarian structural change drastically reduced the number of land-owners which contributed negatively for the growth of the agricultural class. Some of the small land-owners had already sold out their small parcels of land and converted themselves to industrial proletariats having no stake for the promotion of agrarian class interests. Moreover, in course of time, a section of landed aristocrats joined the ruling bureaucracy. Thus, with the growth of capitalist system of development in Malaysia, the land-owning class almost became functionally a non-existent entity, and its contribution to the expanded capital accumulation process can be regarded as very marginal indeed, if at all anything significant.

As is adumbrated earlier, the renewed interest in industry and commerce created a new type of production relations. The movement of people from agriculture coupled with the existing labour force in the non-agricultural sector added to the generation of surplus labour in Malaysia in the Seventies when modern industries started operating. The increasing entry of rural labour force in the urban labour market resulted in wage reductions of the manufacturing workers after 1970 (Khoo, 1979). This helped the capitalist class to generate more of absolute and relative surplus value. Gradually, the organic composition of capital increased in sympathy with the laws of motion of capitalist production.³ The control of the capitalist over the workers in every respect became absolute in every sense of the term (Yun, 1984, p. 318). And all this was done under the impetus of the New Economic Policy (NEP) of 1970.

Since 1970, a new phase of industrialisation started in Malaysia. A new type of committed, disciplined, cheap and loyal labour force began to emerge in the modern urban sector. The Malay labour force was wholly loyal to the state and the authorities (Roff, 1974, p. 218). This was indeed a very strong factor in the growth of capitalist system in Malaysia in subsequent years. The state (bureaucratic) policy in many ways helped the capitalist system to be entrenched. In fact, both bureaucratic and capitalist classes found a common interest in the growth of the economy in general and in the growth of a committed labour force in particular.

The capitalist class in the past badly needed the help of the state for optimising their goals of running the business smoothly. This was true not only of the old native capitalists but also of the foreign capitalists, who became the front line players in the Malaysian drama of development after 1970. In the dependent type of capitalist development that Malaysia has been opportunities to run their houses in their own ways and remit huge amount of profit to their homes every year. These capitalist did not have to face competition from the domestic economy of Malaysia, their market was growing and was protected by the state and they could easily tap the supply of cheap and disciplined labour. The comprador elements in the Malaysia Bureaucracy who were exposed to foreign education and culture were ready at the first instance to extend all help to the foreign multi-national capitalists.

In turn, the local bourgeoisie and the state were helped by MNCs in various ways. MNCs built up the capital-based infrastructure, introduced new technologies, absorbed the surplus labour of the economy, increased the volume of production, helped in the process of export promotion and contributed positively to the generation of surplus in the balance of payments. With their help, Malaysia could successfully introduce an outward-looking development policy since 1970.

After 1969 racial riots, the Malaysian state policy was to acquire more strength and power.⁴ The state wanted to repress all sorts of mass mobilisation in future. It invited foreign capitalists to thwart the growth of Chinese domestic capitalism which was supposed to be one of the principal reasons for increasing rural poverty in Malaysia.⁵ However, the apparent conflict between the state and the domestic private capitalists was not essentially on the ethnic lines (Yun, op. cit, p. 312). In fact in the domestic economy, the rate growth of Chinese capital has really overtaken the rate of growth of MNCs capital in recent years. The main goal of the state was to carry out the NEP programme and to forge ahead with the process of capitalist types of control to *Bumiputera* and non-*Bumiputera* capitalists, and advocated profitability as the criterion of running state enterprises (NST, September 7, 1981).⁶ However, within the broad framework of the control mechanism, the MNCs were given comparatively free hand to expand capitalist production, for, to the state, MNCs did not pose any internal threat to the Government. Thus, there was a tacit understanding of mutual nexus between bureaucracy and foreign capitalists after 1970.

The state wanted a stable government, mass support and sympathy. Just as the MNCs needed the state, the state in turn required their help for

decreasing unemployment, for keeping the local labouring class happy and for contributing to reduce inflationary spiral. In the Sixties, Malays were very poor and sufficient opportunities were not given to them to make their economic positions. They remained always a potential threat to the stability of the state.

Since 1970, a number of ameliorative measures have been taken up by the state to appease the working class and the poor masses, particularly the *Bumiputeras*. Since then, the state has become enormously powerful in Malaysia and is able to coordinate the laws of market in such a manner that can placate the working class and the capitalist class. The industrial working class is happy, for its income has gone up quite considerably. The real wage which was RM303.75 per month in 1970, went up to RM506.67 in 1985 and the share of wages for the same period went up from 27.4 per cent to 32.0 per cent in the value added (vide EPU and SMI Reports). The capitalist class is contented because the value added per worker has gone up by more than three times. However, it does not imply that labour is being exploited. On the contrary, Malaysian labour has been witnessing a period of labour aristocracy, for the greater part of their increased productivity/income is due to capitalist efforts of increasing fixed assets per worker from RM7,156 in 1970 to RM466 in 1985 (vide Economic Planning Unit Reports: 1968-86). In this connection, however, one should not lose sight of the fact that a very large part of the surplus value for the foreign labour in Malaysia.⁷

The peculiar circularity of causation seems to suggest that all the three classes simultaneously gain through economic development in Malaysia: the state as a benevolent dictator à la Mill, is able to generate and earmark more and more surpluses for the poor and needy masses, and thereby becoming more powerful and stable. The capitalists are generating more value-added surplus from labour and the local market relations but also enjoying a higher standard of living. This perhaps the reason why the majority of the working class do not feel the need for trade unionism in Malaysia. Thus, all the three classes are deriving direct benefits from economic development, and Malaysia today seems to possess a system of partnership type of controlled capitalist development.

CONCLUDING OBSERVATIONS

From what has been discussed earlier, it becomes pretty apparent that in Malaysia, development has been the outcome of a triangular class alliance.

The class relations on the whole have finally emerged since 1970 as mutually beneficial and cooperative rather than contradictory and conflicting.

All the three classes, e.g., bureaucracy, working class and capitalists have been working in close collusion to contribute to development and to share its gain. However, in the process, the state has emerged as the most powerful partner able to formulate correct policies and apply proper control mechanism to maximise social welfare in terms of amelioration of poverty, maximisation of employment and raising the income and standard of living of all classes of people.

In fact, without the paternalistic role of the state, so much of politico-economic stability could not have been infused in Malaysia, and the economic position of the local industrial labour would have perhaps been proletarianised and immiserised, for this is the usual consequence of full boiled capitalism. The greatest role of Malaysian state has been to prevent the degeneration of capitalist development to one of pure capitalism. Malaysia today is indeed capitalist without having the ugly onslaughts of capitalism.

NOTES

- 1 In our formulation here, bureaucratic class and state (Government) have been used interchangeably, and the working class refers to industrial labour.
- 2 The Gini coefficient showed trend of unequal benefits favouring the rich and middle class. The coefficients increased from 0.354 to 0.383 to 0.4 for 1966, 1975 and 1976 respectively (vide, Ismail, *op. cit.* 1982).
- 3 Organic composition of capital refers to fixed capital-labour ratio. A high value of this ratio shows high capital intensity.
- 4 The state realised that stronger political and economic power was necessary to fully control the racial tensions. In fact, inter-racial tension was the manifestation of economic disequilibrium (vide, Ali S. Husin, *op. cit.*, 1984, p. 30).
- 5 The Malays perception of Chinese behaviour is summarised in the remark that "the only thing straight about Chinese is their hair" (vide, Yun, *op. cit.*, p. 3060).
- 6 The state itself became capitalist and wanted to subvert the growth of domestic capitalist enterprises both by means of internal control and through the introduction of foreign MNCs.
- 7 Foreign labourers, particularly from Bangladesh and Indonesia, are rampantly exploited by some foreign MNCs in Malaysia. The monthly wages of such labourers are around RM250 to RM300 whereas for the local labourers these are around RM600. Moreover, very often, the foreign labourers have to work overtime without extra

payment. They are treated like bonded labourers and they cannot leave the firm for their passports are impounded by the firms. Their living conditions are virtually not much different from those of domesticated animals.

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5

DEVELOPMENT PLANNING IN MALAYSIA: A CRITICAL APPRAISAL

Jomo K. S.

It can reasonably be argued that Malaysian economic development planning has been primarily shaped by the nature of the ruling regimes and their respective visions or interpretations of national agendas for development. It seems fair to distinguish four different regimes with different visions of developmental priorities namely:

- (i) Late Colonial Priorities, 1950-57.
- (ii) Alliance Laissez Fairism, 1957-69 (Tunku Abdul Rahman) generally laissez faire policies with 'mild' import substituting industrialisation, agricultural diversification, rural development and 'mild', but increasing ethnic affirmative action policies.
- (iii) Growing State Intervention (Abdul Razak, 1969-76; Hussein Onn, 1976-81; Mahathir Mohamad, 1981-85) increasing state intervention and public sector expansion, especially for inter-ethnic redistribution; export oriented industrialisation; Looking East; public expenditure cuts from 1982, but government joint ventures with Japanese to develop heavy industries in the face of declining foreign investments.
- (iv) Economic Liberalisation (Mahathir Mohamad, 1986-present) massive ringgit depreciation, economic liberalization, privatization,

improved official support for the private sector; increased investment incentives; regressive 'supply side oriented' tax reforms; Vision 2020.

While all four regimes have involved 'adjustments' from the previous status quos or policy priorities, only the latest may be said to involve a significant tendency towards economic liberalisation or the voluntary structural adjustments encouraged by the Bretton Woods institutions from the eighties.

While the interests of those with state power have influenced the nature of development strategy, such interests, coupled with the nature of the economic have also shaped the nature of the economic planning and policymaking which the post-colonial Malaysian government could undertake. Hence, post-colonial economic planning has not provided much more than limited blueprints for industrial, agricultural and other economic development in the context of private ownership of most of the economy and limited public sector activities and state intervention. Such limited state control of the economy also increasingly facilitated government planning of resource mobilisation and allocation in the public sector. Despite its rapid growth in the seventies, the contraction of the public sector since the early eighties meant that the state sector still accounted for a relatively small portion of the national economy.

In contrast, private sector activities cannot be planned or even regulated by the state as public sector activities can. Besides the paucity of reliable information from the private sector, which is necessary for plan preparation, privately owned resources, cannot be allocated in accordance with state planned economic growth targets.

Instead, the state can only suggest desiderata for the private sector to meet, e.g. the amount to be invested to attain a certain growth rate, assuming a certain capital-output ratio, and the sectors these investments should be channelled to. Such desiderata can, of course, be encouraged by the use of inducements, e.g. offering especially generous tax incentives, infrastructure and other facilities to industries that are labour-intensive, utilise local resources and are willing to locate in relatively less-developed regions. However, with the type of planning practised in Malaysia, there is no way the government can really assure the attainment of the desired targets and influence allocation of private sector investment beyond trying to regulate and to offer inducements. The private sector may or may not make the investments as desired by the state, whether in terms of sectoral distribution, capital invested, choice of technology, etc.

By and large, the political and economic interests of the dominant political interests have been reflected and furthered by the development policies contained in the various plan documents. Development policies, plan allocations as well as implementation reflect the nature, role and orientation of the state, the dominant politically influential business interests and their political and economic priorities.

The changing nature of the state has, of course, influenced economic planning, but certain features are common to all phases of planning, in Malaysia, especially after independence. Malaysia's development philosophy envisages the 'modernisation' of peasant agriculture through the 'diffusion' of capital, modern technology, values and institutions. It also advocates keeping the national economy open to international trade and capital, thus reinforcing the 'dependent' nature of the Malaysian economy (Khor 1983). Hence, planning in Malaysia is primarily a limited sectoral programmed for public sector resource allocation with corresponding indicative projection for private sector investment and growth.

During the colonial period, authority over plan formulation and implementation rested with senior British officials in the Treasury. After independence, and especially during the sixties, Malaya, and then, Malaysia achieved impressive growth rate, considerable infrastructure development, some economic diversification in both agriculture and industry, some improved social services, etc. Planning had also grown in sophistication since the fifties, in terms of information gathering, preparation and implementation, especially with the growth of the public sector and increasing state intervention under the NEP. The sixties were marked by greater participation of Alliance ministers, senior Malayan civil servants and American advisers in the increasingly complex planning process, involving more bureaucratic organs. This enlarged role of the post-colonial state, involving greater political and bureaucratic control over planning, was carried further in the seventies – with greater state intervention and a considerably enlarged public sector – particularly to promote the growth of the Malay capitalist and middle classes. Since 1982, and especially since the mid-eighties, however, under pressure from international agencies and the influence of the 'conservative' ideologies of privatization, deregulation and 'state failure', there have been efforts to limit and even reduce the role of the public sector and state intervention.

Perhaps more importantly, whereas earlier policy changes were announced in conjunction with an over-arching rubric or vision, the economic liberalisation from the mid-eighties was initially explained

officially to the public as temporary reversals of previous policies, especially the New Economic Policy (NEP), necessitated by the economic crises of the mid-1980s. It was only after the export-oriented industrialisation-led economic boom from the late eighties that the Mahathir regime legitimized the new policy orientation in terms of a new post-NEP National Development Policy (associated with the Second Outline Perspective Plan, 1991-2000) and a Vision 2020 to achieve developed country status by the year 2020.

THE LATE COLONIAL PERIOD

Planning in the fifties i.e. during the late colonial period, was circumscribed by the colonial government's overriding concern with Britain's welfare, as well as the predominantly British plantation and mining interests in Malaya. In the decade after the end of the Second World War, Britain faced serious foreign exchange shortages and balance of payments difficulties which weakened the sterling. Colonial Malaya contributed considerably towards alleviating these problems and strengthening the pound by increasing sterling reserves in two main ways. Firstly, imports from outside the sterling area and even British exports to Malaya were curtailed to improve Britain's payments balances. Secondly, the British Colonial government also sought to increase Malaya's sterling balances accumulated in London by increasing public sector saving through maintaining a fiscal surplus.

Public sector development expenditure appropriations under the Draft Development Plan (DDP, 1950-55) came from a British grant under the Colonial Development and Welfare Act passed in 1945. The original allocation of a mere RM215 million was subsequently increased to RM847 million because of rising costs (caused by the Korean War boom) and increased aid under the Colombo Plan programme. Actual public sector expenditure during the DDP period, however, was only RM681 million. While public development expenditure for the First Five Year Plan (FFYP, 1956-60) was targetted at RM1,149 million, actual expenditure was RM1,007 million, i.e. 8 per cent less than the plan allocation.

Bias towards business interest is also reflected in public development expenditure allocations. Under the DDP, 91 per cent of total public development expenditure was allocated to the economic sector, while 8 per cent was allocated to social services. Under the FFYP, the corresponding allocations were 69 per cent to the economic sector, and 14 per cent to

social services. Such allocations reflected the underlying commitment of the colonial state to British plantation and mining interests in Malaya. Hence, public development expenditure heavily favoured export and urban interests, with priority for providing economic infrastructure – such as telecommunications, electric power, roads, railways and port facilities – to service the primary commodity export economy. The allocations for such infrastructure were consistently high during the fifties. The colonial state also emphasised projects that would soon yield revenue, thus hoping to render such projects self-financing as far and as soon as possible. Conversely, the colonial government limited resources for social services which were considered consumption items incurring high recurrent costs that would reduce funds for economic investment projects.

Under the DDP, infrastructural development obtained the highest allocation (56 per cent) of development expenditure followed by agriculture (26 per cent), education (6 per cent) and health (3 per cent). Under the FFYP, the corresponding percentages were 54 per cent for infrastructure, 24 per cent for agriculture, 6 per cent for education and 1 per cent for health, with the balance of 7 per cent allocated to housing. These development policies reflected the interests and priorities of the colonial state, e.g. agricultural development expenditure under the DDP was mainly for development of the new villages set up to cut off supplies from Chinese rural residents to the communist-led insurgents. Under the FFYP, public agricultural sector investment mainly involved the government-sponsored rubber replanting scheme initiated in the early fifties, which primarily benefited estates, rather than smallholdings. While – estates – with their larger acreages – could replant in stages, smallholders usually had to replant their small farms all at once. Since smallholders had to forego their entire rubber income while waiting for their trees to be productive, again, their lukewarm response to replanting reflected the higher opportunity cost of smallholders replanting.

Sectoral targets and their attainment tend to reflect official priorities. Throughout the fifties, the overall rate of target fulfilment in the economic sector was higher than for social services, with the exception of health during the DDP period. During this period, the highest rates of target attainment were recorded for health (83 per cent) and agriculture (82 per cent), followed by infrastructure (68 per cent) and education (64 per cent). The highest rate of target fulfilment in health was due to the colonial government's effort to eradicate malaria and other diseases in the urban centres, plantations and mines, while the relatively low rate of plan

attainment in infrastructure were supposedly due to the shortage of trained technical staff.

This situation was reversed during the FFYP period, when infrastructure development targets were exceeded, while only 25 per cent of the health allocation was spent. Overfulfilment of infrastructure development targets reflected the emphasis on producing primary commodities for export or yielding revenue to the government. For example, though Malayan Railways operated at a loss between 1857 and 1960, it was given substantial funds for modernisation, thus effectively subsidising its users, mainly primary commodity exporters. Project implementation was also affected by competing interests, e.g. the development of Port Klang was delayed for several years because of opposition by British interests in Singapore.

Thus, planning during the fifties was a relatively simple unsophisticated process. In fact, the DDP and the FFYP were little more than programmes for public sector capital formation.

THE ALLIANCE 'LAISSEZ FAIRE' PHASE

With the attainment of formal independence in August 1957, the Alliance, a coalition of the political elite from the three major ethnic groups, formally took over state power and political jurisdiction over post-colonial Malaya. Not unlike other newly independent countries, the post-colonial government embarked upon a programme of economic development emphasising economic diversification and industrialisation. In preparing for this political transition, the British had ensured that the leftist forces who threatened their economic interests were curbed, while ethnic elites committed to protecting their interests were cultivated to eventually inherit state power in 1957. A basically laissez faire development path for newly independent Malaya was thus assured. The legal framework and other colonial institutions were not only maintained, but strengthened and developed. The post-colonial government continued to promote private enterprise, while the economic interests of the ex-colonial power were protected and greater foreign investment inflows encouraged.

The Alliance government's development strategy reflected the class interests and political compromise it represented. Consistent with this compromise, the state pursued a basically laissez faire development strategy with minimum state interference except in ensuring suitable conditions for rapid capital accumulation. The post-colonial government was committed to defending British interests in Malaya, which also enabled the

predominantly Chinese local businesses to consolidate and strengthen their position. Development planning during the Alliance phase was therefore circumscribed by such interests. Within this overall strategy, the government also made some highly publicised, but nonetheless feeble attempts to promote the interests of the nascent Malay business community, while also undertaking rural development programmes to consolidate rural Malay electoral support.

Actual public development expenditure under the Second Five Year Plan (SFYP) was RM2.7 billion, more than double the FFYP amount. Actual public development expenditure went up to RM4.6 billion under the First Malaysia Plan (1MP). Sectoral allocations under the SFYP were 67 per cent for the economic sector, 16 per cent for social services, and 18 per cent for administration and security; the corresponding percentages under the 1MP were 63 per cent, 18 per cent and 19 per cent respectively. The increased allocation for social services, particularly education, partly reflected the increased commitment to utilise educational expenditure to create a Malay middle class besides meeting the manpower requirements of the rapidly growing and modernising Malaysian economy. The government increasingly regarded educational expenditure as an investment that would yield returns in the form of increased output from a more productive labour force, rather than merely as a consumption item.

Under the SFYP, nearly 47 per cent of public development expenditure within the economic sector was devoted to infrastructural development, 18 per cent to agricultural development, and 2 per cent to industrial development. For social services, 9 per cent was for education, 4 per cent for health and 3 per cent for housing. Under the 1MP, infrastructure took 34 per cent, agriculture 26 per cent, industry 3 per cent, education 8 per cent, health 4 per cent, housing 5 per cent and other services 2 per cent.

Government agricultural development policies were essentially conservative. The main thrust of rural development efforts has involved new land development by the Federal Land Development Authority (Felda), other measures to increase agricultural productivity and rural incomes as well as the provision of rural facilities such as roads, schools, clinics, irrigation, etc. Rural development efforts were thus constrained by the government's reluctance to act against politically influential landed interests.

Economic diversification efforts to reduce Malaysia's over-reliance on tin and rubber were also carried out. Diversification was pursued on two main fronts. Plantations were encouraged to grow other crops, particularly oil palm, and an increasing number of Felda-sponsored schemes were also

planted with it. The state also encouraged manufacturing by offering incentives, providing infrastructure, and other supportive economic measures. The laissez faire development strategy of the sixties precluded direct government participation in profitable activities, such as commerce and industry, which were left exclusively to private business interests. Hence, a relatively low proportion of public development expenditure – never exceeding 3.3 per cent throughout the sixties – was allocated to commerce and industry.

Planning in the sixties saw two other major changes from the fifties. Firstly, the state was increasingly willing to incur budget deficits, especially for development expenditure. This resulted in increased borrowing, from both domestic and foreign sources, to finance rising public sector development expenditure. Secondly, more sophisticated planning techniques were adopted, e.g. the Harrod-Domar growth model was used to estimate the investment rate required to attain certain income and employment growth targets. Planning in the sixties generally emphasised growth, assuming that its benefits would trickle down.

GROWING STATE INTERVENTION

Announced in 1970 by the late Tun Abdul Razak, then Deputy Prime Minister and Director of the National Operations Council (NOC), set up during the State of Emergency after the events of May 1969, the NEP sought to create the socio-economic conditions for 'national unity' through massive economic redistribution programmes to achieve its twin prongs of 'poverty eradication' and 'the restructuring of society'.

The NEP's OPP envisaged the incidence of poverty declining from 49 per cent in Peninsular Malaysia in 1970 to 16 per cent in 1990. 'Restructuring society' basically refers to efforts to achieve so-called inter-ethnic parity in occupations and corporate wealth ownership. The NEP sought to eliminate the identifications and corporate wealth function, primarily through ethnically differentiated financing of, and controlled access to, tertiary level education. The OPP also expected to raise the *Bumiputera* share of corporate equity from 2.5 per cent in 1970 to 30 per cent in 1990.

Development policy in the seventies after the declaration of the NEP saw the partial abandonment of laissez faire policies in favour of greater state intervention in public resource allocation as well as public sector ownership and control of business enterprises. Since the sixties, and especially in the seventies, the state has established a large number of public

enterprises in all sectors, sometimes in collaboration with private capital. For example, the number of public enterprises rose from ten in 1957 to over 800 enterprises by the mid-1980s (Khalid Ibrahim, 1987). The two main types of public enterprises are statutory bodies established by special legislation, and those operating as private companies registered under the Companies Act. The major public enterprises owned by the federal, state and regional authorities in turn have many subsidiaries and joint-ventures.

With the increased role of the state under the NEP, public development expenditure allocated under the First Malaysia Plan (1MP, 1966-70) was RM4.6 billion, and under the Second Malaysia Plan (2MP, 1971-75) was allocated RM7.3 billion; this was subsequently revised upwards to RM10.3 billion. Under the Third Malaysian Plan (3MP, 1976-80), the public development allocation of RM31.1 billion was more than three times the revised 2MP allocation, and this was increased again to RM39.3 billion under the Fourth Malaysia Plan (4MP, 1981-85), later revised upwards to RM48.9 billion. Under the Fifth Malaysia Plan (5MP, 1986-90), public development allocation was RM74.0 billion. The Sixth Malaysia Plan (6MP, 1991-95) allocation was RM104 billion.

Sectoral allocations of public development expenditure under the 2MP were 72 per cent for the economic sector, 14 per cent for social services, and 14 per cent for security and administration. Under the 3MP, the corresponding allocations were 64 per cent, 17 per cent and 19 per cent respectively. For the 4MP, the sectoral allocations were 61 per cent for the economic sector, 22 per cent for social services, and 18 per cent for security and administration. For the 5MP, public expenditure allocation was 76 per cent for the economic sector, 13 per cent for social services, and 11 per cent for security and administration. Under the 6MP, the economic sector received 57 per cent of the total public expenditure allocation, social services 24 per cent, and administration/security 19 per cent.

Within the economic sector, the percentage of public development expenditure allocated to commerce and industry increased to 17 per cent under the 2MP, but dropped to 15 per cent under the 3MP, 14 per cent under the 4MP, and 19 per cent under the 5MP. Much of the allocation for commerce and industry has been for the restructuring prong of the NEP; this allocation increased from RM1.6 billion under the 2MP to RM4.3 billion under the 3MP, RM7.0 billion under the 4MP and RM9.8 billion under the 5MP, but dropped to RM5.8 billion in the 6MP.

With greater emphasis on restructuring under the NEP, this decline in the economic sector's share has been mainly at the expense of infrastructural

development, which saw its allocation drop from 34 per cent under the 2MP to 27 per cent under the 3MP, before rising to 30 per cent under the 4MP and 45 per cent under the 5MP.

Government investment in the private sector as a proportion of total private sector investment declined dramatically from 31 per cent during 1971-75 to 27 per cent during 1976-80, 16 per cent during 1981-85 and 3 per cent during 1986-90. Such public sector investments in the private sector – often involving government funds advanced to public enterprises – increased from RM4.5 billion in 1971-75 to RM8.4 billion in 1976-80 and RM10.1 billion in 1981-85, but were to be reduced to RM2 billion during 1986-90.

Thus, Malaysia entered the Fifth Malaysia Plan (5MP) (1976-80) period with much reduced fiscal flexibility. One consequence of the severe fiscal constraint was that for a good part of the 5MP period, most public development outlays were to be for financing projects originally included in the 4MP. About 80 per cent of total public sector development expenditure for the 5MP period involved projects carried over from the 4MP.

As the next section elaborates, the 5MP recognised that the government would not be able to sustain growth rates achieved during earlier plan periods. Even then, a number of key assumptions on which the plan was based were still unduly optimistic. The 5MP was therefore subject to several major downward revision as a result of the sharp drop in oil prices in early 1986 to below USRM10 per barrel, less than half the price level (USRM20 per barrel) assumed in the 5MP's growth projections. The poor outlook for petroleum forced a drastic downward revision of growth and public sector investment targets, which were later revised upwards with higher petroleum and rubber prices in 1987 and increased logging.

Public enterprises had been introduced for the purpose of ethnic affirmative action or positive discrimination from the early 1950s, grew modestly from the mid-1960s and very much faster in the 1970s. From 22 in 1960, public sector enterprises grew to 109 by 1970, 656 by 1980 and 1,014 by 1985, before almost ceasing to grow, except for a few privileged projects favoured by the executive.

Public enterprises have been accused of increasing the public debt and, more generally, of inefficiency; their accumulated losses have wasted investment resources, increased the government's financial burden and slowed down economic growth (Kamal and Zainal, 1989). Poor coordination and accountability have been evident. For instance, of the more than 900 known public enterprises in 1984, the Ministry of Public Enterprise could

only report annual returns for 269 enterprises, which recorded an accumulated loss of RM137.3 million (Supian, 1988).

Their rapid growth has also required and involved generally inefficient state intervention almost singularly committed to inter-ethnic wealth redistribution ostensibly favouring the politically dominant, but economically deprived indigenous community. In effect, however, such intervention has primarily advanced the interests of self-aggrandising, politically influential rentiers, rather than genuine entrepreneurs, thus preempting other possible objectives of industrial policy, for instance.

However, the rise of public enterprises came to an end in the mid-eighties, as the government withdrew support from these agencies, except for the then still politically favoured heavy industries. For Mahathir, public enterprises were only to serve as temporary vehicles for creating *Bumiputera* entrepreneurial community. As he consolidated his position in the late eighties, after fending off political challenges from ruling party colleagues following on the economic difficulties of the mid-eighties, privatisation increasingly became an important means for sponsoring, supporting and subsidising the emergence and consolidation of new politically well-connected, predominantly, but not exclusively Malay rentiers.

ECONOMIC LIBERALISATION

Under the leadership of Prime Minister Dr. Mahathir Mohamad since 1981, and especially since the mid-eighties, the government has been more explicit in emphasising growth, modernisation and industrialisation as national economic priorities. Perhaps because of the Malay political elite's preoccupation with constraining Chinese wealth accumulation and the limited entrepreneurial abilities of the nascent Malay rentiers who emerged under the NEP, Malaysia's industrialisation strategy imitates Singapore more than Taiwan or South Korea by relying on foreign rather than domestic-led manufacturing growth. At the same time, the private sector has been given renewed leeway at the expenses of the public sector with privatisation, and some economic liberalisation, including deregulation.

Very importantly, by the mid-eighties, there was growing dissatisfaction with the government among some of the more capable *Bumiputeras*, both in the public and private sectors. In a Gemaputra conference in 1987, both private and public sector *Bumiputera* groups criticised what they considered unfair government interference in the business world. By this point, large Malay-controlled business groups has already emerged in the corporate

scene, and were calling for a less regulated economy. Indeed, some of them viewed excessive intervention as slowing economic growth, and counter-productive to their interests (Khoo, 1992). With the benefit of hindsight, it appears that the turning point for government policy, in terms of economic liberalisation and structural adjustment, occurred around 1986.

Malaysia's economy has grown rapidly by international standards, with gross domestic product (GDP) averaging about seven per cent over the last three decades. After experiencing unprecedented negative growth in 1985, due to deflationary policies in response to fiscal and debt crises as well as the collapse of prices of several key Malaysian commodity exports, the Malaysian economy has maintained sustained rapid expansion since 1987. Meanwhile, inflation has been brought down below five per cent per annum.

Greater liberalisation of the economy from the late eighties has been a boon to the corporate sector, with most business benefiting, and hence supportive of further selective liberalisation. Politically influential corporate groups had developed various ways and means by which to advance their interests while appreciating the freedom of greater flexibility and the right to maximise and retain gains with minimal constraints as well as requirements and expectation of public accountability.

The policy changes of the mid-eighties have been successful. The coincidence of the policy changes with the economic turnaround has encouraged the attributions of the latter to the former. However, as the preceding account suggests, several different developments were occurring at the same time, and while all may well have contributed to the recovery, it is difficult to disaggregate their respective contributions. After all, almost all the economies of Southeast Asia seem to have accelerated at around the same time, i.e. from the late eighties, and though most also introduced economic liberalisation measures around the same time, there is no evidence that the most successful or fastest growing have been the most liberalised economies.

The recent economic liberalisation appears to have accelerated the structural transformation on the Malaysian economy, with the primary sector declining in relative significance compared to the much more rapid growth of the secondary and tertiary sectors. Agriculture's share of GDP has fallen from 30.8 per cent in 1970 to 15.8 per cent in 1993, while manufacturing's share has risen from 12.2 per cent in 1970 to 30.1 per cent in 1993.

Economic liberalisation and renewed export-led growth from the mid-eighties has also accentuated the openness of Malaysia's economy in re-

cent years. While the economy has long been open, the ratio of exports to GNP has risen from 42.5 per cent in 1970 to 60.3 per cent in 1985 and 83.7 per cent in 1992. Meanwhile, the export share of primary commodities has fallen from 78.4 per cent in 1970 to 22.1 per cent in 1992, with manufactures' share rising from 11.9 per cent to 68.8 per cent over the time period.

Malaysia experienced generally favourable external circumstances during the seventies. Overall balance of payments (for both capital and current accounts) was positive throughout the decade, despite an oil shock induced recession in 1973-4. During this period, the principal export commodities were rubber, tin, sawlogs, oil palm and petroleum. Primary commodities accounted for 78 per cent of total exports in 1970 and 71 per cent in 1980, before declining to 55 per cent in 1985 and 22 per cent in 1992. Since the 1980s, the ranking of primary commodities in terms of contribution to export earnings has been: petroleum and gas, timber (sawlogs and sawn timber), palm oil and rubber, except in exceptional years when the order may have been temporarily transposed, e.g. with the collapse of palm oil or petroleum prices.

Economic liberalisation and structural adjustment from the mid-eighties has already reversed the previously growing role of the public sector in the economy. The public sector's share of GNP rose from 29.2 per cent in 1970 to a peak of 58.4 per cent in 1981, before falling to 25.3 per cent in 1993. In 1982, public sector expenditure contributed 4.8 per cent to the GDP growth of nearly 6 per cent, but since 1984, its contribution to GDP growth has been negative (Ariff, 1993).

The growth of public enterprises from the seventies, especially heavy industries in the early eighties, has been accompanied by declining capital productivity in the economy. The average incremental capital-output ratio (ICOR) rose from 2-3 in the seventies to 5-6 in the early eighties. The public sector ICOR rose from 6-7 in the seventies to 15-16 in the first half of the eighties.

The confirmation of the change in policy direction came with the adoption of Vision 2020, seen to favour growth, modernisation and industrialisation over the NEP's emphasis on inter-ethnic redistribution. While foreign investors continued to be courted, the government has also started to allow local Chinese capital more room to move. Chinese capital has also been encouraged by various other reforms, e.g. easier access to listing on the stock market, greater official encouragement of small and medium industries (SMIs) as well as other government efforts mitigating the continued impact of the Industrial Coordination Act, 1975, besides the

overall emphasis on market rather than regulatory measures. More recently, the unstated official policy of encouraging local firms (especially large corporations) to invest overseas, where the scope for Malaysian government influence is even less, has been perceived as a sign of good faith that the government is committed to reducing intervention.

Average annual GDP growth hovered around 11-13 per cent in the period, 1988-92. Although foreign direct investment levelled off by 1992 and declined in 1993, the momentum from the preceding economic growth has sustained rapid growth. The 1991-93 period has seen the most rapid expansion and transformation in Malaysian history. Exports and imports have been at all-time highs. The overall balance of payments surplus hit a record high of RM16.7 billion in 1992, compared to RM5.3 billion in 1990. Capital inflows during 1991-2 were estimated at RM10-11 billion annually. By 1990, the twenty-year period of the Outline Perspective Plan (OPP) for Malaysia's New Economic Policy (NEP) came to an end. The ambitious NEP targets had been largely achieved by 1990, with most progress made before the mid-eighties. Despite some controversy over the reliability and comparability of official data, reduction in poverty incidence has been impressive, declining to 17 per cent in 1990 from 49 per cent in 1970.

Ethnic proportions in economic activities and occupations reflected demographic shares except in agriculture and government services which are predominantly *Bumiputera* and in the still Chinese-dominated wholesale and retail trade. For eight well-remunerated professional categories, the *Bumiputera* share rose from 6 per cent in 1970 to 25 per cent in 1990, with inertia ensuring continued increase in the *Bumiputera* share.

Through government regulation of business opportunities and investments as well as preferential policies for *Bumiputera* businesses, the *Bumiputera* share of equity in public listed companies rose to 18 per cent in 1983, 19 per cent in 1988 and 20 per cent in 1990. Various observers have advanced persuasive arguments suggesting considerable underestimation of the actual size of the *Bumiputera* share of corporate wealth.

Yet, despite considerable achievement of specific OPP targets, it is far from clear whether progress had been made in achieving 'national unity', the NEP's ostensible purpose. This is usually interpreted in terms of improved inter-ethnic relation. Relations between Malays and Chinese were arguably tense in 1987 due to political machinations of certain political leaders of government. However, with the boom in the economy by 1990, ethnic tensions have largely receded. Furthermore, regional grievances –

especially in Sabah, Sarawak and Kelantan – had become more pronounced, while ethnic minorities – both non-Malay *Bumiputeras* and non-Chinese non-*Bumiputeras* – were clearly more marginalised and alienated than ever before.

On 28 February 1991, two months after the end of the OPP period, Mahathir inaugurated the Malaysian Business Council (MBC) with a speech entitled 'Malaysia: The Way Forward' in which he set out the national objective of achieving 'full developed country' status by the year 2020. The MBC's secretariat is located in the government-sponsored, but nominally independent think-tank, the Institute of Strategic and International Studies (ISIS). ISIS is believed to have been responsible for drafting and promoting the speech – which has two almost distinct parts – and 'VISION 2020' as the new national purpose. In the first part of the speech, nine 'central strategic challenges' are identified, with a view to accelerating industrialisation, growth and modernisation.

In mid-1991, the Malaysian government announced its National Development Policy (NDP), with a ten-year Second Outline Perspective Plan (OPP2) for 1991-2000, followed – several weeks later – by the Sixth Malaysia Plan (6MP) for 1991-1995. Hence, while the OPP2 and 6MP are supposed to provide a medium-term economic policy perspective, VISION 2020 provides the long-term objectives. And while it is quite possible that VISION 2020, like so many other Mahathir policy innovations, may not outlast his premiership, and may recede in significance even before his tenure is over, in the first year after its enunciation, it has already established the economic development policy shift away from the narrow ethnic distributional objectives associated with the NEP. Arguably, it represents explicit official reiteration of the policy changes introduced by Mahathir during his tenure, especially since the voluntary structural adjustments undertaken since the mid-eighties.

VISION 2020

By the time the VISION 2020 statement appeared, Malaysia was well on the road to economic recovery, with growth rates of over 8 per cent per annum, compared to the negative growth for 1985. We now turn to considering the growth and industrialisation strategy contained in VISION 2020, its implications and feasibility.

Noting that the Malaysian economy grew by an average of 6.3 per cent in the last two decades and 6.9 per cent over the OPP period (1971-90),

VISION 2020 sets an average growth target rate of 7 per cent for the next three decades. If achieved, this would almost double the gross domestic product (GDP) every decade, i.e. it would be almost eight times larger in 2020 than it was in 1990. However, with a 2.5 per cent population growth rate, per capita GDP would only be four times as much in 2020 compared to 1990. The NDP document also envisages a 7 per cent growth rate for the OPP2 period (1991-2000), while the 6MP envisages 7.5 per cent growth annually during 1991-5.

Whether these ambitious growth targets are realistic – in light of Malaysia's admittedly impressive growth record – remains to be seen. The Malaysian economy has diversified considerably from the colonial economic pillars of rubber and tin. Within the primary sector, petroleum and gas have raised mining's contribution while palm oil, cocoa and pepper have made Malaysian agriculture more varied. With import substitution in the early sixties and early eighties (heavy industries) and export-oriented industrialisation booming in the seventies and since the late eighties, manufacturing has become the largest single sectoral activity in the Malaysian economy, with services growing correspondingly.

Yet Malaysia's economic reliance on non-renewable natural resources continues to be big. Throughout the eighties, for example, petroleum and timber contributed the highest export earnings. With agricultural production growing more modestly, manufacturing – and services will have to grow at very much higher rates to compensate for sluggish primary sector growth, especially as the timber industry goes into decline with the pending exhaustion of commercially accessible forest resources. The industrial sector's reliance on foreign investments, technology and market access and its limited success in moving into greater value-added manufacturing render industrialisation vulnerable and constrain its potential contribution. Also, the contribution of the growing public sector to growth, especially in the seventies and early eighties, has to be considered despite high growth averaging 9.0 per cent during 1988-90.

Undoubtedly, many of the policy changes introduced were favoured by private capital, including:

- (i) a more streamlined government bureaucracy, more responsive to investment and growth promotion,
- (ii) restraint of non-financial public enterprise (NFPE) expansion,
- (iii) lower interest rates,
- (iv) a depreciated ringgit for export promotion, and foreign investment,

- (v) new investment incentives, especially with the Promotion of Investment Act 1986,
- (vi) raising of Industrial Coordination Act (ICA) exemption levels,
- (vii) reduced real wage costs, greater labour flexibility and availability of cheap migrant labour,
- (viii) less emphasis on ethnic redistribution (in fact a suspension of NEP requirement with the Promotion of Investments Act, 1986),
- (ix) bureaucratic deregulation,
- (x) privatisation of government enterprises and public projects, and
- (xi) contracting out of municipal services to the private sector.

VISION 2020 also envisages a more competitive, market-disciplined, outward-looking, dynamic, robust, self-reliant, resilient, diversified, balanced, adaptive, technologically proficient and entrepreneurial economy with strong industrial linkages, productive and knowledgeable human resources, low inflation, exemplary work ethic and an emphasis on quality and excellence. However, such a list of desiderata is no substitute for a visionary industrial policy complemented by other appropriate policies, as well as a dynamic domestic community of industrial investors as any careful understanding of the recent experiences of Japan, Taiwan and South Korea would suggest. There is no reason to believe that economic liberalisation, deregulation, privatisation and a state role limited to physical infrastructure provision and an attractive investment environment (marked by pro-management labour laws and policies), particularly for foreign investors, will be enough to achieve VISION 2020's envisaged Accelerated Industrialisation Drive.

To its credit, the MBC speech recognises various problems plaguing Malaysian industrialisation, including manufacturing's narrow base, weak industrial linkages, insignificant local supply of intermediate products, inadequate development of indigenous technology, too little value-added, rising production (including labour) costs, infrastructure bottlenecks, serious shortages of skilled personnel, the need for product as well as market diversification, problems raised by protectionism, trade blocs, managed trade, domestic private sector performance and the need for agrarian reform as well as resource and environmental protection.

But it also includes fashionable, but largely vacuous rhetoric about the virtues of small and medium scale industries, export-led growth,

liberalisation, privatisation, foreign investment and state support for the private sector without drawing crucial historical, institutional and policy lessons from the experiences of successful late industrialisers. Stringing together the buzzwords of contemporary international development policy discussion is obviously no substitute for the more difficult challenge of coherent, viable and feasible industrial policy formulation and implementation for a developmentalist state to harness available resources, including private manufacturing potential, for late industrialisation.

In some important ways then, VISION 2020 represents a partial return of the pendulum to the relatively *laissez faire* policies of the first dozen years after Independence in 1957 from the state intervention and public sector expansion of the next decade and a half under the NEP. VISION 2020 therefore represents a reiteration and summary of the policy changes undertaken from the mid-eighties. While not representing new policy change in a real sense, it nonetheless has made more explicit, coherent and legitimate, economic policies already in place.

Whether VISION 2020 adequately addresses the main contemporary challenges faced by Malaysian society, however, is a different question. It has certainly shifted attention away from the previous narrow emphasis on inter-ethnic distributional concerns without abandoning them altogether. It has also prioritised the challenge of late industrialisation without seeming oblivious to human welfare consideration. Yet, despite a widespread desire for change and reform among Malaysians, it cannot be claimed that there is a shared vision of an alternative.

However, the marginalisation and downgrading of distributional considerations as well as other non-economic concerns in favour of a naive growth and industrialisation fetish are unlikely to resolve complex problems continuing to divide and destabilise Malaysian society. Without stability achieved through mutually acceptable compromise, it will be difficult to ensure the socio-political stability necessary for rapid industrialisation and growth. Also, as recent discussion of resource, environmental and moral issues suggests, human welfare in the future is unlikely to be secured by economic growth alone.

Needless to say, there is no universal formula for resolving such problems. Such challenges need to be addressed differently at different times, in different circumstances. Only approaches which recognise the inter-relatedness of different dimensions of national life as well as their increasingly global connections stand some chance of success. Unfor-

unately, despite eloquent rhetoric and perhaps good intention as well, VISION 2020's industrialisation priority has lost sight of the whole.

As the reforms were staggered over a number of years during the mid-eighties, it is difficult and potentially misleading to credit these reforms with the subsequent improved macroeconomic performance. Supporters of the reforms point to sustained economic boom since 1987 as evidence of their success. Critics, however, emphasise that the deflationary reforms exacerbated the 1985-6 recession, while the subsequent boom has primarily been due to massive increases in foreign investment from East Asia.

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6

A CRITIQUE OF ECONOMETRIC MODELLING FOR DEVELOPMENT STUDIES: A POLITICAL ECONOMY APPROACH WITH SPECIAL REFERENCE TO MALAYSIA

Masudul Alam Choudhury

OBJECTIVE

THE purpose of this paper is first to point out that the methodology of econometric modelling is at best a very locally applicable one. It is applicable over a small region of stability of macroeconomic variables and of the coefficients of the estimated model. In the long-run analysis, wherein socioeconomic development becomes relevant, econometric explanations, inferences and forecasts lose predictability, specially when a complex of societal-institutional economic interactions are taken into account. Thus, econometric analysis apart from being a scientific method, fails to grapple with such development issues.

The relevance of political economy is brought out in this paper by reference to the pervasive nature of institution-society-economy interactions and interlinkages that essentially define development as a *process* and not as a pre-conceived steady state world of scientific controllability and prediction. The critique of macro-econometric methodology is built around

its failure to explain and capture the nature of perturbations associated with the institution society-economy interface.

BACKGROUND OF THE LITERATURE: SOCIOECONOMIC COMPLEXITIES OF ECONOMIC GROWTH AND DEVELOPMENT PROCESS

It is well known from the literature that the concept of economic development is not the same as that of economic growth (Stiglitz, 1992). Likewise, the concept of structural change is not the same as structural adjustment (Helleiner, 1992).

Economic growth involves measurement of increase in real per capita GDP and efficient resource allocation. In the midst of such conditions, structural shifts are studied by sectors to examine trends in industrialisation and economic diversification. Contributions of human resource development and institutional change are examined via aggregate policy variables. They are not studied by means of an examination of the economic-institutional societal interlinkages causing social and economic transformation. This latter condition comprises the concept of structural change (Choudhury & Wahid, 1996; Choudhury, 1996).

Macroeconomic analysis is a study of interrelationships among output, the labour market, capital market, price stability and the monetary sector. From these interrelationships and to establish desired ones, policy measures that monitor the necessary fiscal and monetary variables, are prescribed. The resulting macroeconomic coordination is the essence of structural adjustment. Its principal goal is the attainment of economic growth, not necessarily structural change. Consequently, macroeconomic analysis ignores microeconomic issues, such as those relating to structural change.

In other words, microeconomic goals remain distinct from macroeconomic ones in terms of the politico-economic focus. For example, national development planning in developing countries have always focused on the need for attaining the dual goals of economic efficiency and distributive equity (Sen, 1992). Yet, development plans remain overly aggregate in nature and are governed by macroeconomic policies to determine the aggregate output and then to distribute the output and the underlying factor endowments by sectors. An example of such a method is the input-output model. Such an aggregate approach to resource allocation hides the social policy issues of distribution and equity.

The fact of the matter is that all mainstream economic models, be they neoclassical, Keynesian, institutionalist or monetarist in type, carry the same assumption of adjustment costs being eliminated by marginalist substitution among alternatives. Thereby, the goals of economic efficiency (economic growth) and distributive equity (human development) in these models, assume the perspective of a marginalist trade-off. Marginalism is the universal assumption of neoclassical substitution reflecting the concept of adjustment in the long run. Keynesians show the same type of marginalism to be embedded in the Phillips Curve hypothesis. Monetarists argue this out in terms of their notion of long-run natural rate of unemployment (Sawyer, 1982). Institutionalists see it in their public choice theory (Buchanan, 1971).

Even the world-system theorists and dependency theorists, accept the duality of the marginalist trade-off between the centre and periphery. They present the trade-off as the structural nature of global capitalism. Thus what ensues from the writings of world-system theorists and dependency theorists is a positivistic explanation of dual economic processes that these schools accept as part of the global capitalist order (Wallerstein, 1974; Frank, 1992).

Boland (1991) points out his conceptual differences between the idea of nested or 'combined simultaneous testing' and the idea of non-nested econometric models. In the former case there exist external factors that make equations of the econometric system interdependent through the error term. In the latter case, each equation of the system describes the empirical or instrumentalist version of a competing theory. Now no interdependence is possible. In this case, testing of econometric models shows nothing by way of the truth-statements of competing theories for establishing the acceptability of empirical results and then to base them upon a notion of economic reality. Scientific rigour, not credible realism, drives Boland to promote Samuelson type neoclassical methodology and criticise the relevance of rhetoric of economics, the sociology of economics and the Popperian kind of evolutionary dynamics in economic theory and their empirical validation.

Thus all of growth theory with its macroeconomic ramifications for the developing countries within which econometric modelling is pursued, becomes an exercise on testing a concept of reality in the midst of trade-offs. Such an exercise contradicts the very objective that development plans would otherwise like to attain, namely, economic efficiency and distributive equity simultaneously, and thus to minimise transactions costs (i. e. adjustment costs) over the development planning period. The end result of

this contradiction among planning goals, technical exercise, policy analysis and institutionalism, is left unattended in resolving the multiple objectives and conflicts that occur.

Development as a Process in Economic-Social-Institutional Linkages

Development is a pot-pourri of economic, social and political forces working interactively. The South Commission defines development as a process of attaining sustainability between the goals of economic growth and the social goals of human welfare (South Commission, 1990). But the Brundtland Report defines sustainable development as the process to sustain a balanced interrelationship between economic growth and the environment, for the preservation of present resources and satisfying intertemporal resource needs (World Commission on Environment & Development, 1987). The same factors defining economic growth, economic efficiency, price stability and resource allocation along with the gamut of economic policies, are now required to tie up the social goals of distributive equity with the goals of economic growth.

The methodological problem of modelling such objectives of development plans persists in the development paradigms as in the approach of economic growth theory. The problem ensues from the concept of 'balance' between the competing – not complementary – goals of economic growth and distribution. Government role in the economy, institutional controls on pricing, managed trade, infant industry protection, the social sector and distribution in favour of the poor, all these cause market distortions in the framework of a treatment of socioeconomic development within mainstream models. If such model is assumed to strictly underlie the development process, then the techniques of socioeconomic development cannot be based on the stable parameter model in the sense of their steady state. This is due to the pervasive existence of unstable or evolving institutional-social-economic perturbations. Now other approaches, probably simulation and incomplete information bargaining models, need to be tried (Stiglitz, 1992; Choudhury, 1995a).

THE ECONOMETRIC FOCUS OF STUDY

If the relationships among socioeconomic variables remain unstable, this is because the economic environment is inherently unstable. Such an

environment comprises the totality of institutions, markets and society at large. Instability in a broad spectrum of developmental relationships means instability in the institution-society-economy interrelationships.

The problems of instability caused by probability distributions of the coefficients are not effectively overcome in this case by a simple recourse to Bayesian and Markovian adaptive processes of the error terms. Besides, in the presence of perturbations, the problems of specification and identification of stochastic coefficients become severe. While the instabilities cannot be effectively captured by econometric models, so also they cannot be explained in the medium and long run. Even the notion of local stability in such cases is one of arbitrary smallness of the economic region. In such a small and localized region of action, development cannot be explained as a *process*. Alternative approaches to economic estimation have to be devised to bring to the forefront the real human question of institution-society-economy interlinkages that is the study of political economy.

THE MALAYSIAN CASE OF GROWTH AND DEVELOPMENT

Some of the issues of economic development and the problems associated with their econometric estimation can be seen in the case of Malaysia. The Malaysian New Development Plan 1990-2000 (Government of Malaysia, 1991) clearly puts distinct focus on the alleviation of poverty and transfer of wealth by means of ownership of asset shares to the *Bumiputeras*, who happen to be the most underprivileged in society at large. *Bumiputeras* are also linked to the rural sector. Gross inequality between the *Bumiputeras* and the non-Malays is to be reduced by means of transfer of asset ownership to the former. These social goals raise important issues of entitlement and empowerment. Institutional actions through resource development, resource usage and income distribution, are then taken up in the social framework by appropriate policies. On the other hand, the goal of economic growth remains paramount. Towards promoting economic growth, foreign direct investments are generously invited; international trade is promoted; industrialisation is stepped up; and a combination of monetary and fiscal policies is pursued at the macroeconomic level. These are reinforced by human resource development, privatisation, interest rate liberalisation and financial incentives to enhance capital markets and the manufacturing sector (Government of Malaysia, 1991).

Any dual perspectives of Malaysian development between growth and distribution would present a conflicting question of imbalance between complementary processes and marginalist trade-off.

We will refer to historical trends in some critical macroeconomic indicators for Malaysia to examine the nature of interrelationships that are unravelled. Yet we will show that this same type of macroeconomic interactions are not evident in the sub-model of a Malaysian financial sector econometric model. The reader may refer to the statistical appendix for the historical data on some critical macroeconomic indicators for the period 1971-1991.

Some Stability Questions Relating to the Malaysian Economy

One would expect that economic stability would demand low rates of inflation and low rates of interest. These together would suggest that interest rate policy is not the one that stabilises the economy. Rather, the economy moves dynamically by the force of factor productivities. On the one hand, increase in labour productivity would make wages grow at par with it. This in turn would keep inflation rate low. On the other hand, increasing capital productivity would reflect efficiency of capital, making the return on capital follow the trend of capital productivity. Now an equally capital-labour augmenting form of technological change would be forthcoming. This is a sign of growth in the midst of sectorial adaptation of skills/human resources to existing technology.

Decreasing saving gap as a ratio of GDP suggests that savings are being effectively mobilized into productive investment. This case should be particularly true of an economy that at the same time is showing stability, as mentioned above. In the external sector, domestic economic stability would be induced by a balance of resource use between foreign trade and domestic markets. Thus, values of net export as a ratio of GDP and the debt/GDP ratio, will suggest how debt is incorporated in export-led growth. The argument made here is that industrial merchandise production and export may be overly dependent upon imported equipments and factors. This increases the import bill, while variations in exchange rate and world interest rates cause the debt to remain volatile. Malaysia has experienced a high level of external debt for quite sometime now.

Distributive Equity and Economic Efficiency in Malaysian Development

The distributional goal of development must coexist with the economic efficiency goal. The two cannot exist independently of each other. Contrarily, the neoclassical gross substitution principle causes marginalist trade-off between these two goals of socioeconomic development. As an example taken from the process of industrialisation, the nature of complementarity between the two developmental goals, must lead to an integration of the output of the manufacturing sector with that of the agricultural sector and vice versa. This requires management of structural shifts as explained by changes in K/L ratio and $\text{Agric}(L)/\text{Manuf}(L)$ ratio. The precept of balance with sustainability arising from interactions between the agricultural and manufacturing sector, means that complementarity and diversification of products along with human resource skills, would result in market transformation that promotes joint productions with capital-labour augmented technological change.

One example of such joint production menus is the installing of farm-factories for semiprocessing the agricultural output. Such projects would then enhance on-the-job training of agricultural workers, their wages and retain them in the agricultural sector. Another example is to adapt technology to the available skills of agricultural labour in secondary cost-effective modes of production while skills are subsequently developed in these work places. The concept here is contrary to targetting skill formation on expected future technology. Contrarily, human resource is progressively developed by using and improving upon available technology. The progressive nature of the skill-technology adaptation on-the-job is a version of dynamically evolving basic needs approach to development now applied to appropriate technology (Goulet, 1994; Choudhury, 1989).

Let us now examine to what degree the Malaysian macroeconomic trends shown in Table 1 may support the above kinds of adaptive relationships. What we intend in analysing here is whether there is pronounced marginalist trade-off between economic growth/efficiency and distributive equity in the structure of macroeconomic evolution in Malaysia.

Capital Formation Relations

On the side of the real sector in Malaysia we note that real economic growth has remained consistently high. This trend is well supported by observations in the SG/GDP ratios, which indicate that savings were mobilised into

productive investments. Inflation too had remained fairly low on a trend. When the INF trend is compared with unemployment rates in Malaysia, here too we find no substantial trade-off as given by the Phillips Curve. Consequently, interest rate policy affecting savings and investment, appears to be passive in Malaysia. This point is further attested by a fairly constant trend in interest rates on savings over segments of time periods (step function).

We therefore have two opposite pulls on long-run stability of the Malaysian economy. One is the picture of stability shown by low inflation rates, interest rates and unemployment rates. This trend explains the passive nature of interest rate policy in Malaysia. On the other hand, we notice a fairly unchanging trend in capital productivity. When capital productivity trend is interpreted along with the trend in excess investment demand, it implies that capital was not optimally mobilised. Thus income multiplier of domestic capital formation could not have been optimal either.

Labour Market Relations

Next we turn to macroeconomic relations in the labour market to examine how these may be interpreted in regards to the goal of distributive equity. We note that agricultural employment as a percentage of manufacturing employment has declined and capital intensity in production has increased. Part of the reason for this trend is attributable to scarcity of indigenous labour in Malaysia and its rather low population growth. But declining L/K ratios and moderating Q/K ratios show that labour productivity has declined in Malaysia. Therefore, with both labour and capital as production factors not being fully mobilised, the efficiency of the economy owing to domestic resource use, remains low. With these slacks in the labour and capital markets domestically, it must then be that external trade and foreign direct investments would have been instrumental in carrying on the tempo of economic growth.

Increasing capital intensity, a marked shift away from agricultural labour market into manufacturing labour market, and declining productivity of labour, all taken together suggest that distributive equity was being realised in the economy not due to increased participation of the agricultural labour force in sufficiently productive work. Rather, fiscal expansion was treated as the background for government transfer income policy to marginalised entrepreneurs.

AN EXAMINATION OF FINANCIAL BLOCK EQUATIONS OF THE MALAYSIAN ECONOMETRIC MODEL (MALAYSIAN ECONOMETRIC MODEL 1994)

We turn next to the monetary and financial sectors, which are known to play major roles in the growth of the Malaysian economy because of the emphasis of the Government on monetary policy. We will note from this examination that significant differences arise in the macroeconomic equations of comparative statistics from our interpretations given in the previous sections.

The following equations are extracted from the detailed Malaysian Econometric Model system:

1. Total Deposit

$$\text{LnTDD} = -16.6943 + 0.4542\text{LnR}_s + 2.4384\text{LnGNP} \quad \text{..... (1)}$$

(-17.176) (3.914) (28.778)

$$R^2=0.9841, \text{DW}=1.297$$

2. Total Commercial Bank Loans and Advances

$$\text{LnL} = -1.8477 + 1.1792\text{LnTDD} - 0.0104\text{LnRL} \quad \text{..... (2)}$$

(-8.351) (79.37) (-0.119)

$$R^2=0.9971, \text{DW}=0.828$$

3. Loan Interest Rate

$$\text{LnRL} = -0.1829 + 0.4314\text{LnR}_n + 0.0275\text{LnL} + 0.5442\text{LnRL}_{-1} \quad \text{..... (3)}$$

(-0.360) (3.3441) (1.108) (3.464)

$$R^2=0.5830, \text{DW}=2.376$$

4. Inflow of Net Capital

$$\begin{aligned} \text{LnCFL} = & 8.7778 + 0.2270\text{Ln}(R/R_p) - 0.4546\text{LnEEX} \\ & (5.742) (2.026) (-1.486) \\ & + 8.0445(\text{CPI/P}_w) \quad \text{.....(4)} \\ & (17.42) \end{aligned}$$

$$R^2=0.9738, \text{DW}=0.959.$$

- CFL: net capital inflow (RM million),
 R/R_s : Malaysia 3 month treasury bill rate/Singapore 3 month treasury bill rate,
 EEX: effective exchange rate,
 CPI/P_w : consumer price index (1978=100)/industrial countries consumer price index (1978=100),
 TDD: demand deposits of private sector (RM million),
 R_s : Malaysia saving deposit rate,
 GNP: gross national product (RM million),
 INF: inflation rate,
 L: total commercial banks loans and advances (RM million),
 R_L : Malaysia base lending rate,
 R_p : Singapore prime lending rate,

In each of these equations the rates of interest of various types are shown to be significantly related to the dependent variables. Yet from Table 1 (Appendix) we find that for most cases over the period 1971-91, the rate has either remained constant or has changed by at most 1 percentage point. The question then is, whether the Malaysian economy responds so sensitively to such marginal variations in interest rates?

The picture of a pronouncedly speculative investment undertaking with random interest rate fluctuations, is ruled out. It is the policy of Bank Negara Malaysia not to intervene to set interest rates. Interest rates are determined through a competitive financial markets. Indeed, the high investment demand in Malaysia points to the fact that liquidity was being mobilised into real investment more than into savings.

Since investment demand is found to be high and hence the speculative component low, therefore, much of investment behaviour would be governed by an investment-accelerator dynamics (Samuelson *et al.*, 1988). We also note that the share of corporate supply of investible resources remains much lower than the stock market responses to household savings. This is affirmed by the very low saving ratio (share of national savings) held by the corporate sector and a high share held by households: an average of 56 per cent by households, 9 per cent by corporate sector and 35 per cent by the public sector, during 1980-90 (Ministry of Finance Malaysia, 1992).

Equation (1) does not explain these underlying interrelationships between the financial and real sectors. Besides, in a dynamic investment prone economy, TDD would be fairly close to L. Consequently, L in equation (2) would become a simple linear relation of TDD in equation (1). The estimate

for TDD is now fed into equation (2). Thereby, through this same relationship, the nature of movements in TDD with or without interest rate variables, will similarly affect L. The stability or instability of any one of these equations, with or without interest rate variable, respectively, will likewise characterize the other. It may be the near equality between TDD and L that may be showing up in the high R^2 value in equation (2). It may also be the instability surrounding the interest rate variables that may be causing problems of consistency in the estimates of the coefficients of the interest rate variables. The DW values thus remain low, indicating existence of positive autocorrelation in these equations (Johnston, 1984).

Equation (3) is a version of the money supply function arising from the financial sector. Since interest rates are competitively set by open market operations between banks in Malaysia, therefore, the use of interest rate as a monetary policy instrument, becomes neutral.

A difference ought to be made respecting the appearance of L either singly or together with Q. In a dynamic economy where investment behaviour is governed by investment accelerator hypothesis, we would expect L to be adaptively generated from the investment accelerator relation, and thus to be related with Q. In that case, the coefficient of L in equation (3) is expected to remain either unstable or there can be a causality problem from the side of L to RL (Granger & Newbold, 1977). Relationships among the other interest rate variables would then remain unstable. Consequently, it would be difficult to obtain long-run stable, consistent and unbiased estimates of all the coefficients in equation (3). I suspect this may be a reason for the low value of R^2 . The DW evidence on low level of autocorrelation in the model suggests, that the instability among the variables is a statistical fact that is not subsumed by autocorrelated errors.

From our earlier discussions on interest rate and exchange rate mechanisms, equation (4) would turn out to be highly unstable. One would also worry about the signs of the coefficients in this equation. Thus, given these two observations it is the CPI variable that explains much of the steady component of movements in CFL. But now inter-relationships among interest rate and exchange rate movements in an open economy would generate multicollinearity problem on the one hand, and instability will cause autocorrelation, biased and inconsistent estimates, on the other hand. These are reflected through the low DW value and a high R^2 value, which may be subsuming all the effects of CPI/P_w .

There is yet another problem with the econometric model system (1)-(4). If the system is mis-specified, as the above equations for the financial

sector appear to be, then the instability of coefficients and hence the inability to predict or forecast by means of such models, become permanent and compounded. Neither given theories nor inductive reasoning in the small as found to underlie econometric modelling, can explain the instabilities arising from inter-systemic perturbations found to be associated with the process of development. For Malaysia such an uncertainty enters from the doors of her price-taking situation and openness in the world economy.

ALTERNATIVE OUTLOOK IN THE MALAYSIAN ECONOMETRIC MODEL

Our point of contention here is that both on theoretical and empirical grounds of economic modelling, a growing economy showing narrowing savings gap and thus reflecting investment acceleration, cannot hold idle funds. The role of interest rate in resource mobilisation must then be minimal. The predominant factor generating multipliers in the economy would be caused by the transactions demand for money relating to investment acceleration and hence with the growth of the real sector. Spending then becomes predominantly important in such an economy both by cause and effect of economic renewal. The way to this is to interrelate investment with the quantity of money.

This is not to say that there is no relevance in studying the effect of interest rate variations on other economic variables. Rather, first, interest rate relationships are to be studied for their own sake, that is, to study instabilities caused by the presence of interest rate transactions and institutions. Secondly, let p denote an index of yields in stocks and i denote a geometric average of the structure of interest rates (saving rates, lending rate, treasury bills rate, foreign interest rate, long and short term rates). Now the conjoint study of (p/i) -variable on dependent variables would show the nature of two effects. These are namely, first, the real sector activity moved by transactions demand, when (p/i) is increasing and is governing the relationships, and secondly, the speculative activity, when i is predominating over p .

The following system of equations is suggested as an alternative one to explain a predominantly demand-driven and an interest-sensitive economy:

$$M = M(_TDD, p, i), \quad \partial M / \partial _TDD > 0, \quad \partial M / \partial p > 0, \quad \partial M / \partial i < 0, \quad \text{..(5)}$$

$$Q = f_2(M, I), \quad \partial f_2 / \partial M > 0, \quad \partial f_2 / \partial I > 0. \quad \text{..(6)}$$

$$I = f_3(_TDD, M, p, i), \quad \text{where } _TDD = TDD - L, \quad \partial f_3 / \partial _TDD < 0, \quad \text{..(7)}$$

$$\partial f_3 / \partial M > 0, \quad \partial f_3 / \partial P \sim 0, \quad \partial f_3 / \partial i < 0. \quad \text{..(8)}$$

$TDD = a + b.Q$, where a, b are constants, $\frac{\partial TDD}{\partial Q} = b < 0$, $\frac{\partial TDD}{\partial i} > 0$(9)

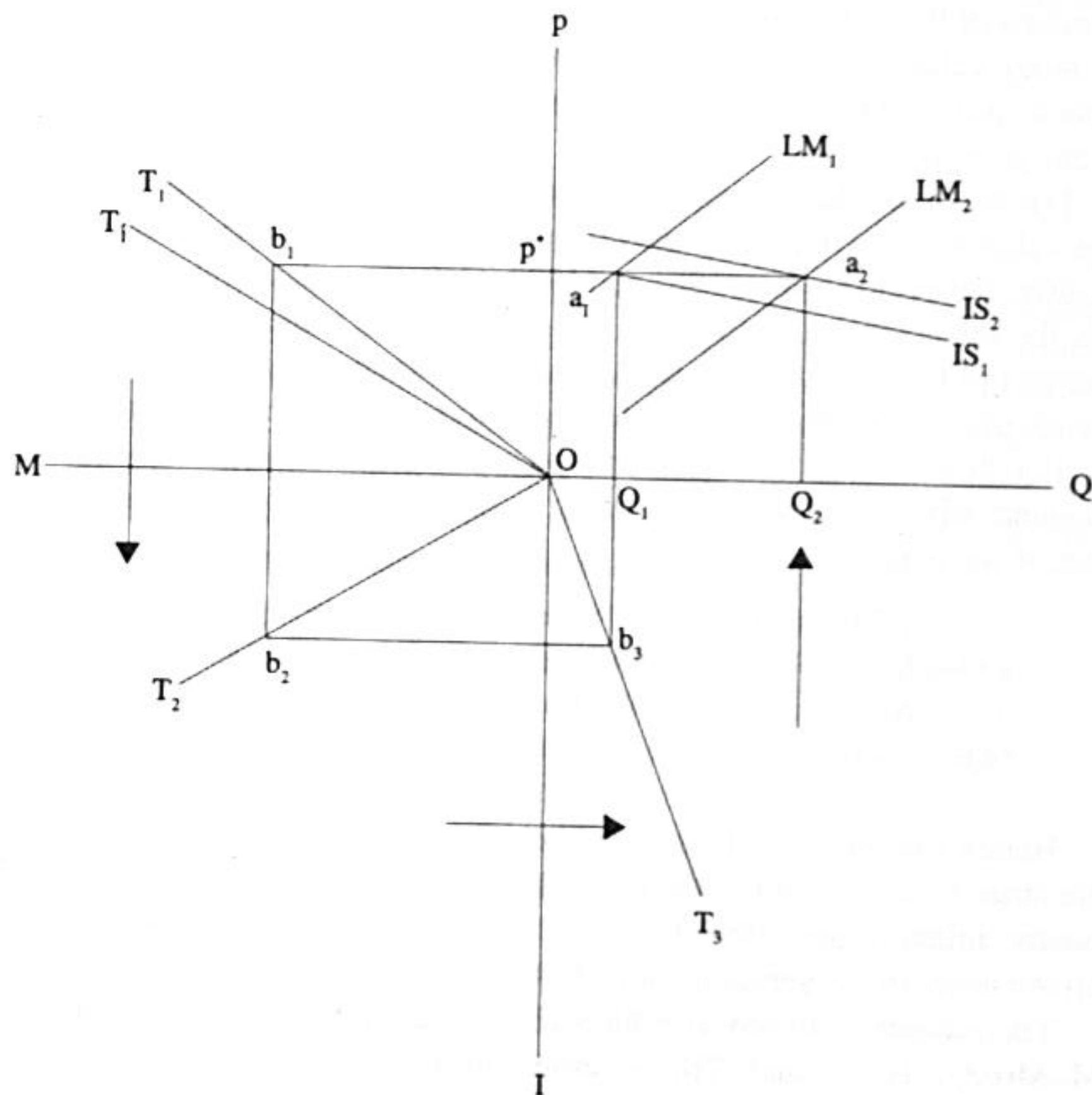
$p = f_4(p_{t-j})$ is an adaptive relation connecting movements in p(10)

$i = f_5(i_{t-j})$ is an adaptive relation connecting movements in i(11)

We now bring together these relations in Figure 1. Figure 1 relates to movements in p , which determine the positions of the various curves.

Figure 1: Shifts and Relations among Critical Variables in Demand-Driven Dynamics

The direction of arrows indicates economic evolution and thus complementarity among variables shown.



GENERAL EQUILIBRIUM IN THE PROPOSED ALTERNATIVE EQUATIONS RELATING THE FINANCIAL AND REAL SECTOR

We now bring together the general equilibrium relations in the demand-driven economy using a modified version of the IS-LM dynamics. The corresponding formalisation for an interest-driven economy is also shown.

Equation (5) along with equation (9) represent the LM curve of a demand-driven economy. Because of the productive nature of such an economy, the rate of inflation is expected to be low and steady – at the worst of a profit-push type. Thus, with real quantity of money, M/P , increasing, the force of the real sector relationships will show a gently upward rising LM curve of the demand-driven economy (say, LM_1). P here denotes the CPI. We also note that P is now predominantly a positive function of the index on yields, p . Hence, a steady value of P would yield a steady value of percentage change in p and vice versa. Thus for P^* we denote, $p=p^*$. In this sense, both P^* and p^* are treated as rates of change in P and p , respectively.

For the Malaysian economy a low and steady inflation rate is noted and the value of stock market turnover in cumulative terms has been a large positive between the years 1981 and 1992 (Government of Malaysia, 1992). On the other hand, interest rates on savings have remained fairly stable during this time period (with an increase of up to 1 percentage point). These trends thus fit the demand-driven perspectives of equations (5) and (9).

Equations (7) and (9) describe the equivalent of the IS curve in the demand-driven economy. This curve is negatively sloped for the reason that, if we write,

$$I = a_0 TDD(p) \text{ (as a measure of savings), then, } a_0 Q + a_1 M + a_2 p = TDD, \text{ with given proportion of TDD as savings, } a > 0, M > 0, \text{ and } \frac{\partial TDD(p)}{\partial p} = a_2 < 0, \text{ even though } \frac{\partial TDD}{\partial Q} = a_0 > 0$$

Hence, the above relation is a negatively sloped curve in p and Q , given the other variables. But in the real values, I/P is gently rising at a low and steady inflation rate calculated on P . Hence the IS curve of the demand-driven economy is gently negatively sloping.

The relation between M, p through the transactions demand function, $M=M(p, Q)$, is as usual. This is shown by OT_1 in Figure 1. The relation between M and I is as shown by OT_2 ; between Q and I it is shown by OT_3 .

For a point a_1 , the corresponding equilibrium points in the other sectorial relations are given by b_1, b_2, b_3 . Now as IS_1 shifts to IS_2 due to a spur in investment demand, this must be followed by a shift of LM_1 to LM_2 . But since p^* remains steady on a trend, therefore, points in the other quadrants would not change much.

The above analysis proves the productivity of financial (M) and real sector resources (I) towards generating growth (Q_1 advancing to Q_2).

The above formulation shows that the coefficients of the equations for the IS, LM, LLcurves as shown, cannot remain stable in the interest-driven economy. The coefficients are predictable in the case of a demand-driven economy. This is both a theoretical as well as an empirical observation. Its theoretical nature points to the need for studying the system of demand-driven economy-institution-society interactions. Its empirical nature points to the example of Malaysia that is found to be responding to the demand-driven case (Choudhury, 1994).

CONCLUSION

We have shown in this paper that developing economies show strong economy-institution-society complex of interactions. Such interactions make these economies rest upon and respond to stimuli that are very different from those that are formalised by standard economic theory in the absence of a systemic process-oriented outlook. Econometric modelling for developing economies cannot be adequate in studying the real issues by the sheer formalism of standard economic theory. The policies and instruments derived on the basis of such theories remain exogenous to the systems. Structural change of developing economies necessitate the study of all such factors as endogenous elements of the systems under study. This is how pervasive inter-systemic interactions are made possible.

In the absence of recognising such interactive distinctness of the developing economies, econometric modelling ends up being a mere scientific exercise without explanatory power. The models used then fail to reflect the inherently unstable and unpredictable agent-specific perturbations, as economic evolution and policy prescriptions depicted by these models continue to explain and guide policies in ways and directions that are polar to the realities of economy-institution-societal interactions.

Normatively therefore, there is a wealth of policy-theoretic power in re-conceptualising econometric methods. Empirically, the Malaysian economy serves as a good example of a demand-driven economy resting

upon and responding to stimuli within the economy-society-institutional nexus. The study of such stimuli takes us beyond the neoclassical, Keynesian or monetarist camps into new areas of economic formalism.

The re-conceptualisation of econometric modelling is best done by simulational perturbation models of various sectors of the economy incorporating an interface between micro- and macro-policy variables and state variables. Perturbations are caused by iterative procedures affecting coefficients of the model while simulations are the associated decision-making paths arising from the policy-state variable interactions. We then have a two-directional evolution of such a simulational perturbation system. One takes place across state and policy variables (simulational) and the other takes place by means of the effect of such simulations on the probability distributions of the parameters (perturbations). Thus general equilibrium results are generated from the background of extensive economy-institution-society interactions. This paper has been in the direction of suggesting alternative quantitative formalism for incorporating institution-society-economy interactions in the development process.

STATISTICAL APPENDIX

Table 1: Some Macroeconomic Indicators for Malaysia

Year	GDP (%)	INF (%)	SG/GDP (%)	K/L (RM)	A(L)/M(L) (%)	i Q/K (RM)
1971	10.08	1.78-9.91	1.31	5.53	3.50	4.86
1972	9.39	3.06-11.12	1.40	5.18	3.50	4.79
1973	11.69	10.62 - 6.78	1.74	4.86	5.25	4.15
1974	8.31	17.47 - 9.15	2.03	4.55	6.50	3.71
1975	0.80	4.41 -11.98	1.80	4.27	5.50	4.07
1976	11.59	2.66-0.11	1.73	3.06	5.50	4.35
1977	7.80	4.72-0.67	1.90	2.93	5.00	4.16
1978	6.60	4.95-2.57	2.07	2.96	5.88	4.04
1979	9.33	3.61-10.35	2.38	2.83	5.88	3.71
1980	7.46	6.69-3.74	2.89	2.54	5.70	3.20
1981	6.94	9.66-4.04	3.29	2.47	7.00	2.09
1982	5.94	5.84-5.62	3.44	2.48	6.50	2.84
1983	6.25	3.68-1.58	3.64	2.36	6.00	2.79
1984	7.76	3.97-5.23	3.66	2.29	7.50	2.92
1985	-1.02	0.30-3.07	3.27	2.30	6.00	3.19
1986	1.05	0.70-6.38	2.56	2.09	6.00	4.00
1987	5.39	0.30-18.30	2.33	2.00	3.50	4.36
1988	8.94	2.60-18.46	2.60	1.91	3.50	4.12
1989	9.21	2.80-12.13	3.32	1.57	3.50	3.41
1990	9.73	2.63-10.17	3.87	1.30	3.50	3.07
1991	8.66	4.39-5.81	4.53	1.12	3.25	2.75

Computations on the basis of data provided by various Economic Reports, Ministry of Finance Malaysia.

GDP: Gross Domestic Product, INF: rate of change of CPI as measure of rate of inflation; SG/GDP: saving gap as a percentage of GDP; K/L: capital (capital formation) to labour ratio as measure of capital intensity; Agric(L)/Manuf(L) agricultural employment to manufacturing employment ratio as a measure of structural shift; i: rate on saving deposit as rate of interest; Q/K: average productivity of capital, with Q as GDP value; TB/GDP: trade balance as a ratio of GDP as a measure of dependency of an economy on the external economy; D/GDP: debt to GDP ratio, indicating how much of GDP is owing to external loan capital.

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7

THE POLITICAL ECONOMY OF FINANCING DEVELOPMENT IN MALAYSIA

Rodney Wilson

MALAYSIA is regarded as perhaps the most successful economy in the Muslim World with a per capita GNP growth rate averaging 5.7% over the 1985-94 period in real terms and investment accounting for 39% of GDP in 1994.¹ This paper explores how this investment has been financed, in particular the extent of government involvement, the role of local private sector saving and the significance of foreign capital.

An examination of the recent economic history of Malaysia reveals just how substantial the government's role in financing development has been. The New Economic Policy introduced following the intercommunal riots in 1969 aimed at creating a viable commercial and industrial Malay business community to challenge the Chinese and Indian dominance of economic activity.² By the late 1970s Malaysia already had one of the largest public sectors amongst developing countries,³ financed largely from taxes on exports of primary products. Large state corporations such as MARA, PERNAS and thirteen State Economic Development Corporations were playing a major role in industrial investment. In 1980, Dr. Mahathir Mohamad, then Minister of Trade and Industry, set up the Heavy Industries Corporation of Malaysia which further increased state economic involvement.⁴

This policy imposed considerable burdens on government finances, especially the Heavy Industries Corporation which made heavy losses.⁵

By 1988 it was recognised that drastic reorganisation was needed in the state corporations. New management was brought in from the private sector, and local and foreign private capital was injected through joint venture arrangements.⁶ Privatisation policies were implemented and the regulatory regime was liberalised to encourage direct foreign investment. These "classic" liberalisation and privatisation policies appear to have brought positive results, but the government continues to play a major role in directing, if not financing development.

Private finance is likely to retain its now dominant role for the foreseeable future. Malaysia has one of the largest stock markets in the developing world, with a capitalisation of RM243 billion.⁷ The Malaysian commercial banking system is extremely well developed, and the ratio of bank saving to GDP exceeds 84%.⁸ Yet doubts remain about how far the country's financial institutions are serving the *Bumiputera*, and whether the aspirations of the New Economic Policy for a better ethnic balance in economic activity are being realised. There is an Islamic Bank, but it is far from being the largest financial institution.⁹ Islamists criticise the speculative nature of much stock exchange dealing.¹⁰ The paper will consider whether further policy measures are needed to ensure that there is greater participation by the majority of the *Bumiputera* in their country's financial development rather than simply the involvement of a wealthy minority.

CONSTRAINTS ON GOVERNMENT FUNDING

There is a conflict between the desire of Malaysia's government to fund economic development schemes itself in the interests of the *Bumiputera* and the underlying realities of its financial position. The rapid expansion of the Malaysian economy has not brought a corresponding increase in government revenue partly because of the historic tax base and the difficulties in changing the structures. As Malaysia has become predominantly an exporter of manufactured goods, the significance of taxes on the export of primary commodities has declined. Taxes on rubber and oil seed exports have long ceased to be significant, but the tax revenue from petroleum has declined from RM 1,910 million to RM 790 million over the 1990-96 period.¹¹ Income tax and other direct taxes have become the most significant sources of government revenue, accounting for almost 40 per cent of the total, direct tax revenue being RM 23,778 million by 1996.¹²

Although revenue has increased as the economy has grown, the government has felt obliged to reduce taxes for both political and economic reasons. The 2 per cent tax on incomes below RM 2,501 was abolished in 1995, which has benefited the poorer *Bumiputera*, especially in rural areas. At the same time the rate of corporation tax was reduced by a further 2 per cent to 30 per cent, not so much because domestic businessmen were complaining about the tax burden, but rather to provide even greater incentives for foreign investors. Malaysia has to compete with other Asian countries for inward investment, and clearly the investment climate and fiscal regime are crucial for success. Relying on private investment to propel development has its costs in terms of public finance, even though it arguably saves the state money when much of the investment is undertaken by foreign investors rather than the state itself.

From the balance between government revenue and expenditure shown in Table 1 it is apparent that public finances were basically sound during the 1992-1994 period reflecting the prudence with respect to government spending which has been exercised since the mid 1980s. Following a reduction in current expenditure in 1993 however, there was a substantial increase from 1994 onward, and a very rapid rise in development spending which is not sustainable. The consequence has been a widening fiscal deficit, which even the substantial revenue rise projected for 1996 is only expected to curtail marginally. Given this fiscal background, it is not surprising that the government is looking to the private sector to finance most future development, the only alternative being a substantial increase in both direct and indirect taxes, which would arguably only undermine economic performance.

Table 1: Consolidated Public Sector Finance, RM Million

	1992	1993	1994	1995	1996
Revenue	49,516	52,376	60,575	61,000	65,427
Public enterprise surplus	7,630	9,307	10,285	10,460	11,097
Current expenditure	39,938	38,553	42,019	46,305	47,769
Development expenditure	20,170	22,475	25,460	32,592	35,596
Surplus/Deficit	-1,962	655	3,381	-7,437	-6,841

Source: Ministry of Finance (1995), *Economic Report, 1995/96*, Kuala Lumpur, Table 4.1, p. 34.

THE ECONOMIC OUTLOOK

The economic indicators remain more favourable than the fiscal picture might suggest in any case with the high rate of GDP growth expected to be sustained during the 1996-2000 period of the Seventh Development Plan. The targets shown in Table 2 are probably over optimistic, as the upward revision for targeted growth from 7.5 to 8.0 per cent was a consequence of the better than anticipated growth during the period of the Sixth Plan. It is unlikely that this target will be met in view of the need for fiscal restraint, especially if the inflation target is of 3.0 per cent is to be met.¹³ The unemployment figure is not very meaningful in the case of Malaysia, a more crucial issue being labour force participation, but the Seventh Development Plan has little to say about this. Both the budget and trade balance projections are unlikely to be attained, but there is reason to be more optimistic about GNP per head even if growth is slightly lower than expected.

Table 2: Economic Targets of Malaysia's Five Year Plans

	1991-95 target	1991-95 outturn	1996-2000 target
GDP growth, %	7.5	8.7	8.0
Inflation, %	5.0	4.0	3.0
GNP per head, RM	9,947	9,786	14,788
Unemployment, %	2.8	2.8	2.8
Budget balance, %*	-3.2	0.4	0.2
Trade balance, %*	1.6	-8.8	0.5

Note: *% GNP

Source: The Seventh Malaysian Plan, 1996-2000.

THE ROLE OF THE PRIVATE SECTOR IN THE ECONOMIC DEVELOPMENT PLANS

In practice most government development expenditure is for infrastructure, road construction and improvement accounting for the largest share as Table 3 shows. Malaysia already has a good communications network, which ranks amongst the best in Asia, but the rapid industrialisation of the country has put heavy demands on existing facilities. As the Vision 2020 strategy of making Malaysia a major industrial power by that year is reiterated in the Seventh Development Plan, the need for a continuing high level of infrastructure spending will remain.

Table 3: Development Allocations, RM Million

	1991-95 target	1991-95 outturn	1996-2000 target
Transport	12,881.6	11,594.7	15,484.2
Roads	8,451.0	7,572.6	9,838.8
Rail	1,802.6	1,735.4	3,370.0
Ports	434.0	410.9	486.8
Airports	1,833.0	1,780.6	1,266.0
Urban	361.0	95.2	522.6
Utilities	2,876.3	2,796.7	3,687.3
Water	2,749.5	2,671.9	3,575.3
Sewerage	126.8	124.8	112.0
Communications	76.3	71.0	58.6
Telecoms & Post	45.0	39.9	25.5
Meteorology	31.3	31.1	33.1

Source: The Seventh Malaysian Plan, 1996-2000.

Given the likely continuing financial burden the government in Malaysia has tried to get the private sector involved, not only in infrastructure construction, but also in its funding. Over one hundred infrastructure projects have been privatised or part privatised including the 900 kilometre North-South highway, the container terminal at Port Klang, Telekom Malaysia and the National Electricity Board.¹⁴ The government's "Guidelines on Privatisation" were issued in 1985, and the "Privatisation Master Plan" was drawn up in 1989. This has made the telecommunications sector largely independent of government, hence the low state spending allocations necessary in the Sixth and Seventh Development Plans. Water is arguably one area where private provision could be increased substantially, but there is a reluctance to emulate the United Kingdom or the United States in privatising utilities providing such a basic service and in the state withdrawing from any role in provision.

Under the Seventh Malaysian Plan the private sector will spend over twice the amount which the state allocates to roads as a comparison of Tables 3 and 4 reveals. Much of the finance for the new international airport at Sepang is being raised through the private sector,¹⁵ which is reflected in

the figure of almost RM 6 billion cited in Table 4. This will be the largest airport project in South East Asia yet undertaken, and comparable in size to the new Hong Kong airport. By 1996 much of the financing had already been raised using Islamic funding methods, without the government having to rely on international borrowings.

Table 4: Private Investment, RM Million, 1996-2000

Roads	17,505.0
Ports	4,241.7
Airports	5,956.0
Telecom	25,400.0
Post	260.0
Water	2,571.7
Sewerage	1,759.4
Rail	10,600.0

Source: The Seventh Malaysian Plan, 1996-2000.

ISLAMIC FINANCING OF INFRASTRUCTURE DEVELOPMENTS

The international airport financing deal is the largest single project yet undertaken using Islamic funding methods, not only in Malaysia, but anywhere in the Muslim world. As it is likely to provide a model for future funding in Malaysia and elsewhere, it is appropriate to examine the details of this novel facility. The financing is based on syndicated guaranteed notes, with the notes themselves each valued at RM1 million. To make up the financing of a tranche of RM 2.2 billion in 1996, 2,200 notes were issued, which the participating banks can either hold until 2016, or sell in the secondary market. The advantage of such securitised notes is their divisibility, the banks being able to retain some and sell others as their liquidity needs change, rather than having their assets tied up in inflexible long term loans.

The lead manager and agent for the notes was Bank Islam Malaysia Berhad, which is the major Islamic bank in the country, although it is only a medium sized institution and does not rank amongst Malaysia's ten largest

banks. Nevertheless having it as lead manager made the loan more acceptable from the point of view of potential Muslim investors in the notes. This was important not so much for the initial issue, which was fully subscribed by Malaysia's leading banks, but for subsequent secondary market dealing where Muslim investors were likely to be significant purchasers. The major subscribers to the initial issue were the Allied Bank of Malaysia (RM 1.1 billion), DCB Sakura Merchant Bank Berhad (RM 500 million), Bank Bumiputra Malaysia Berhad (RM 300 million) and Lembaga Urusan dan Tabung Haji (RM 50 million).¹⁶ Bank Islam Malaysia Berhad took up RM 250 million of the issue itself.

The contract under the *Syariah* Islamic law is referred to as *Al-Bai Bithaman Ajil*, the sale of goods on a deferred payments basis. Under this type of contract the concession to run the airport was purchased with the money raised through the note issue at an agreed price from Kuala Lumpur International Airport Berhad, and subsequently sold by the banks to the airport authority, for a mark-up or profit margin, in this case 7.75 per cent per annum. The airport authority then has the cash to pay the building contractors, and the holders of the notes have the concession as their asset. As they have legal responsibility for this concession until it is resold to the airport authority, it is this that justifies their return under the Islamic *Syariah* law. This is different from an interest based transaction where obligations are not transferred, and there is no direct participation by the asset holders.

The notes issued on behalf of Kuala Lumpur International Airport are held in Bank Negara, the Malaysian central bank, which as authorised depository maintains the ownership record and arranges the profit payment through its trustee, PB Trustee Services Berhad. The profits are paid twice a year to the registered owners, on 1st January and the 31st July. The notes themselves were issued at par value, although the price they are subsequently bought and sold at will depend on market conditions, and in particular how attractive the fixed 7.75 per cent profit distribution is in relation to the returns on other financial instruments. For this reason the notes are regarded as comparable to bonds, or *Syahadah Al-Dayn*, Islamic certificates of debt. Conventional interest yielding bonds are not permissible, of course, under the *Syariah* law which prohibits *riba*, but the returns under *Al-Bai Bithaman Ajil* have a real economic justification because of the nature of the risk which the institutions holding the notes have taken on, and their obligations as participants in the financing.¹⁷

COMMERCIAL BANK FINANCE AND ECONOMIC DEVELOPMENT

As Malaysia is a multiethnic, multireligious society, Islamic banking and finance is never likely to be universal, but the introduction of Islamic financing for infrastructure projects gives both Muslims and non-Muslims the opportunity to get involved in this type of ethical funding. Islamic banks can harness funds that would not otherwise enter the banking system because of Muslim objections to *riba* or interest. When savings are channelled through financial intermediaries, whether Islamic or conventional, this arguably improves the allocation of resources for investment and facilitates faster economic growth.

The largest Malaysian banks all offer conventional financial services similar to western banks, Bank Islam Malaysia Berhad being the only specifically Islamic institution, although Lembaga Urusan dan Tabung Haji, the Pilgrims savings fund, provides a more limited range of Islamic retail financial services. A number of the conventional banks, including Bank Bumiputra, the second largest in Malaysia, now offer so-called Islamic counters, through which interest free deposit and financing facilities are provided. By 1996, three years after offering these services, Bank Bumiputra had already attracted RM 1 billion into its Islamic banking unit, which generated profits of almost RM 12 million.¹⁸

The most promising way of spreading Islamic banking services in Malaysia is arguably by conventional banks increasingly offering such services on a parallel basis to their existing products rather than establishing new Islamic banks. Malaysia's banking sector is already crowded, with relatively low profits in relation to bank assets as Table 5 shows, and in these circumstances the scope for yet more institutions seems limited. Indeed there is likely to be further consolidation in the banking sector, with more mergers and acquisitions as banks try to increase their asset bases to ensure they achieve the critical minimum size for reasonable profitability.¹⁹

The financial liberalisation measures of December 1994 undertaken by Bank Negara as Central Bank have strengthened the position of the larger banks at the expense of the smaller institutions. To be recognised as a tier one bank institutions must have a minimum of RM500 million of shareholder equity, a figure which is to be raised to RM 1 billion during the next five years. Only five of Malaysia's top ten banks will qualify for tier one status unless they increase their paid up capital by the end of this period. Under a ruling in July 1996 Bank Negara announced that only tier one banks would be allowed to issue negotiable instruments of deposits up to

Table 5: Leading 10 Malaysian Banks, (Capital, Assets and Profits in RM Million)

Bank	Capital	Assets	Profits	Employees	Branches
Maybank	5,044	81,779	1,475	11,900	228
Bank Bumiputra	2,751	45,572	547	8,563	182
Public Bank	1,889	33,150	595	8,889	152
AMMB Holdings	1,834	30,430	635	4,726	158
DCB Bank Berhad	1,347	18,835	320	3,125	62
United Malayan	984	17,021	235	3,979	74
Bank of Commerce	924	15,042	213	na	44
Perwira Affin Bank	735	9,259	205	1,826	60
Hong Leong Bank	625	10,379	267	na	55
Southern Berhad	605	5,618	111	na	na

Source: *The Banker*, London, September 1996, p. 83.

five times their capital funds. Such securitised deposits are a major advantage for any bank, as it means that major clients can raise cash by selling their instruments of deposit rather than withdrawing their funds from the bank.

Furthermore only tier-one banks can participate in equity derivatives and undertake securities borrowing and lending activities subject to the approval of the Securities Commission. This means that smaller institutions will be excluded from the market for government debt, and unable to provide the more sophisticated financial products which increasingly interest major corporate clients. The final restriction is that the smaller tier two banks will be unable to expand their regional operations through the establishment of new branch offices, representative offices, subsidiary companies or joint ventures.²⁰ As Malaysia is increasingly economically integrated with other ASEAN countries this prevents smaller institution from benefiting from intra regional trade and capital flows.

It is the need to maintain financial confidence that underlies measures. The concern is that the collapse of a minor bank through a run on deposits could cause significant damage to Malaysia's financial system given the growing dependence on the private sector and on foreign investor confidence. The government may be strong politically, but financially by relying on the markets

to underpin economic development, their are inevitably costs in terms of a loss of room for manoeuvre.²¹ Cautious financial and monetary management become imperative, including sound banking supervision.

Yet how far the commercial banks themselves promote development is a matter of debate, with many economic development specialists seeing the emergence and expansion of financial institutions as a consequence of development rather than being a prerequisite for it.²² In the case of Malaysia a significant amount of commercial bank financing is for manufacturing, accounting for over RM 32 million by 1994 as Table 6 shows, but this still represents less than one quarter of total bank funding.

Table 6: Commercial Bank Lending, RM Million

Sector	1989	1990	1991	1992	1993	1994
Agriculture	3,622	4,238	4,642	4,657	4,124	3,485
Mining	876	833	831	877	631	520
Manufactures	14,058	18,744	23,536	25,398	26,932	32,233
Commerce	10,546	11,642	12,864	12,920	13,662	15,055
Transport	1,265	1,342	2,045	1,452	2,001	2,433
Construction	4,763	5,515	6,730	8,614	9,309	10,377
Real estate	8,521	9,102	9,970	10,991	11,383	10,802
Housing	8,143	9,589	11,588	12,203	14,508	14,041
Insurance	7,418	9,115	11,533	13,650	16,983	16,960
Total	67,142	80,758	97,206	105,729	117,235	134,151

Source: Ministry of Finance (1995), *Economic Report, 1995/96*, Kuala Lumpur, Table 5.2, pp. 52-53.

It can be argued that in Malaysia, as in many newly industrialising countries, an excessive amount of bank finance goes into real estate and construction, resulting in high urban land prices which impede rather than help development. Furthermore much of the credit for commerce and even for manufacturing is simply short term stock finance, often to cover imported consumer items, rather than longer term project finance. Even Bank Islam Malaysia Berhad advances much of its funding short term, with *murabahah*

cost plus trade financing being much more common than longer term *mudharabah* trust funding or *musyarakah* partnership finance. There is an aversion to risk taking in Malaysia, and as table 6 shows almost RM 17 million was advanced by the commercial banks to cover insurance in 1994, hardly a priority from a development perspective.

DEVELOPING CAPITAL MARKETS AS SOURCES FOR FINANCE

As a consequence of governments playing a less significant role in the finance of development and most commercial bank credit being short term in nature, there has been an increasing interest in developing private financial markets, especially stock markets, so that risk capital can be harnessed. In order to have a diversified and balanced financial portfolio investors need a spread of assets, including not only bank deposits and other monetary assets, but real assets which offer the potential for capital growth in the long run, and which should be at least a better hedge against inflation than money or near money. Furthermore institutional investors such as pension funds and insurance companies are also likely to want to hold such assets given their long term liabilities and the need to generate sufficient capital gains to meet their clients' retirement income needs and claims.

Capital markets consist of both markets in government debt, bond markets, and markets in private listed company stock, equity markets.²³ Malaysia has both, but it is the equity market development that has attracted most attention over the last decade. The equity market is not only significant as a source of risk capital, but it also imposes a financial discipline on the companies quoted, and introduces pressures to ensure that their assets yield adequate returns to satisfy shareholders both through dividends and capital gains. It brings both visibility and competition, which ensures management performs as well as possible. Such markets are about ensuring that there is an efficient utilisation of capital and not simply about augmenting the supply of capital. The emphasis is as much qualitative as quantitative.

As a result of the rapid capital formation in Malaysia, the Government's privatisation programme and regulatory measures to deepen and broaden the market, the Kuala Lumpur stock exchange has become the largest in ASEAN, third in the Asia Pacific region after Tokyo and Hong Kong, and the fourteenth largest in the world in terms of market capitalisation.²⁴ Although the market history dates from the nineteenth century,²⁵ it is really only during the last decade that it has taken off. Now, however, it is an

emerging market which international fund managers cannot afford to ignore, and most South East Asian mutual funds and unit trusts marketed in the West have a significant proportion of exposure in the Kuala Lumpur market.²⁶ As the commercial legal system was derived from English law, and with international accounting standards on company disclosure strictly enforced, international portfolio investors have more confidence in Malaysia than in most rival emerging markets.

Table 7: Kuala Lumpur Stock Exchange Turnover

	Volume (million)	Value (RM million)
1984	1,844	5,703
1985	2,870	6,177
1986	2,289	3,368
1987	5,296	10,116
1988	4,005	6,760
1989	10,162	18,535
1990	13,138	29,522
1991	12,348	30,096
1992	19,265	51,468
1993	107,756	389,274
1994	60,143	328,057
1995	23,963	128,757

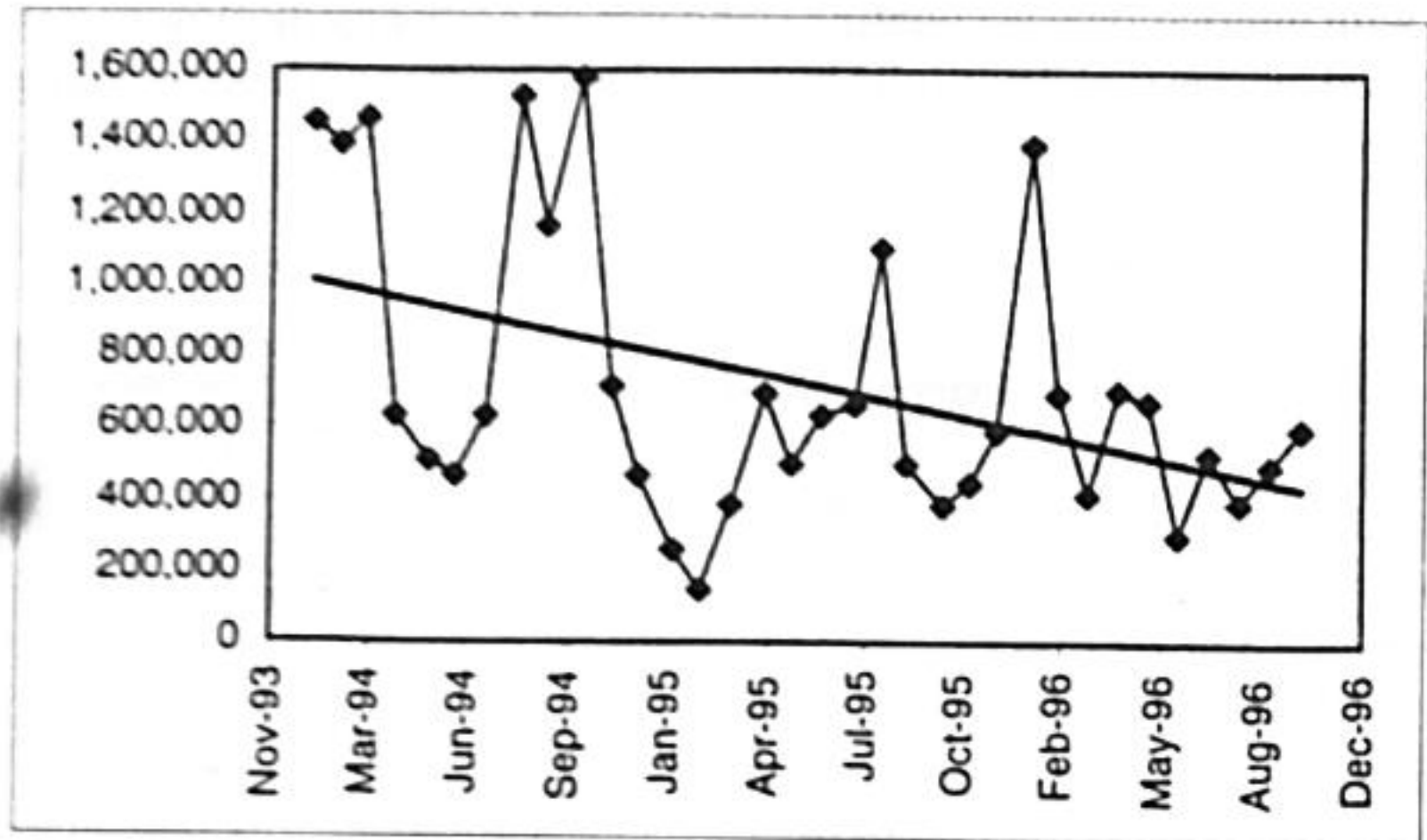
Source: Ministry of Finance (1995), *Economic Report, 1995/96*, Kuala Lumpur, Table 5.5, pp. 58-59.

The changes in both the volume of stock market turnover and the value of shares over the 1984-1995 period is shown in Table 7. There was a steady increase in volume throughout the 1980s and early 1990s, but an unsustainable increase in 1993 that was reversed during the following two years with the 1995 figure more indicative of the long term trend.

It is apparent that the Kuala Lumpur stock exchange, despite the size of the market, exhibits considerable volume and price volatility. Malaysian share prices performed extremely well in the early 1990s with substantial capital gains, but the trend for the last two years has been for more modest gains, as the chart shows. It is apparent that there is some relationship

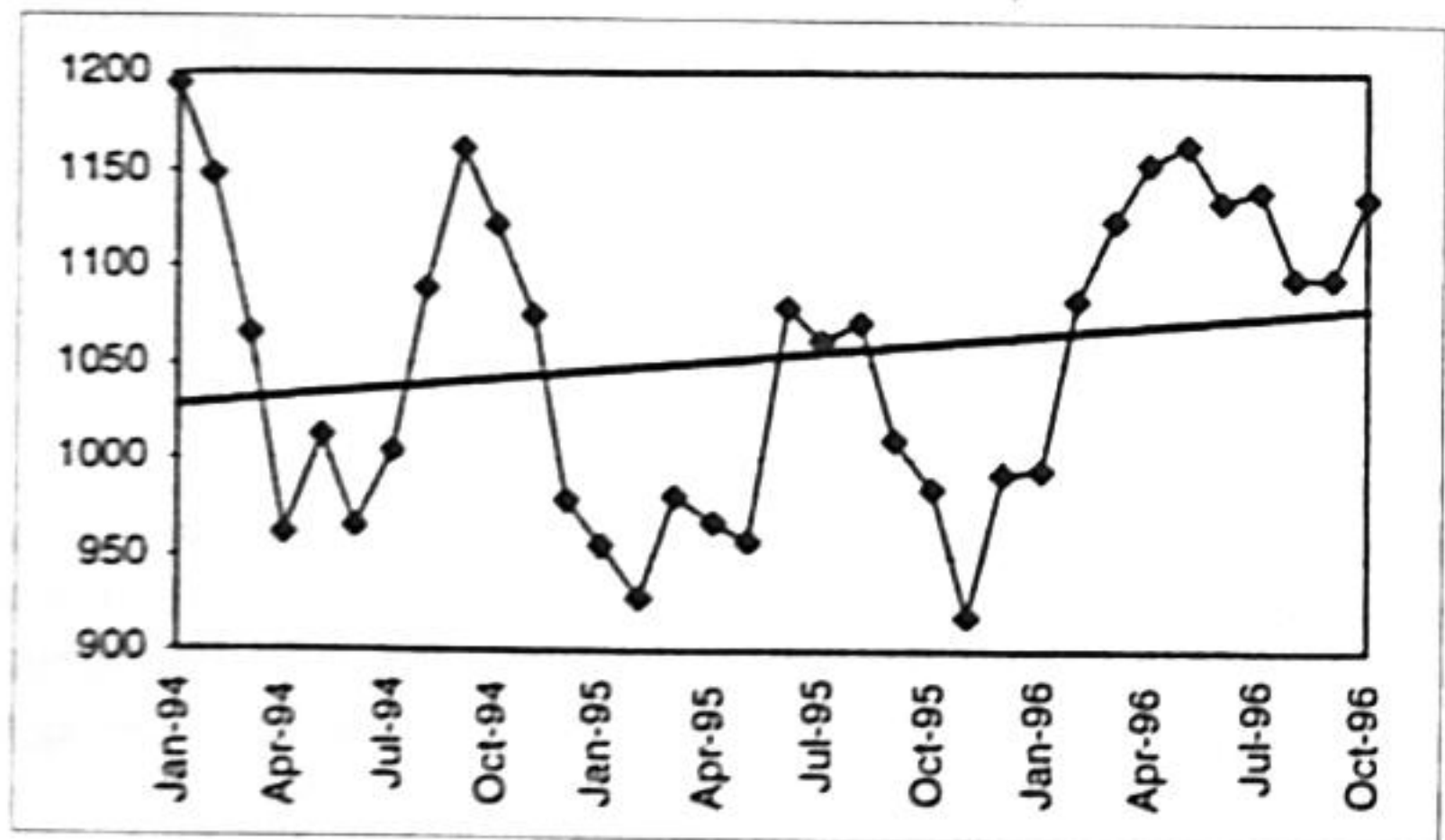
between turnover and prices, although the trends differ. Past price movements are, of course, no guide to future performance.

Kuala Lumpur Stockmarket Turnover



Source: Datastream International, October 1996.

Kuala Lumpur Composite Price Index



Source: Datastream International, October 1996.

In order to encourage even more participation in the Kuala Lumpur market a number of regulatory changes have been introduced aiming at

reducing transactions costs and opening up the market to small investors. From 1st July 1995 commissions were reduced to 1 per cent for the first RM500,000 of transacted value, 0.75 per cent for transactions of between RM500,000 and RM2 million, and 0.5 per cent for transactions worth over RM 2 million.²⁷ For foreign broking houses the charges are 0.4 per cent for transactions of less than RM2 million and 0.35 per cent for transactions of more than that amount. This makes them cheaper to deal through, but at the same time erodes their margins, so that they are more likely to let local brokers compete for the smaller transactions. Stamp duty was reduced from 0.15 per cent to 0.10 per cent, although this was extended to foreign brokers which had hitherto being exempted. Commercial banks were allowed to extend loans secured by shares to 15 per cent of the total in order to boost funds available for share purchase.

All these measures have done much to boost the Kuala Lumpur market and ensure that an adequate financial infrastructure is developed by encouraging local brokerage houses. Furthermore the regulations governing the fund management industry were also streamlined, with 100 per cent foreign ownership permitted for fund groups raising finance outside Malaysia and 70 per cent foreign management for groups raising funds within the country.²⁸ Work permit regulations governing the employment of specialised foreign staff in fund management have also been eased.

This role of government is increasingly confined to this type of institutional and regulatory fine tuning to create stable conditions for private finance rather than the state attempting to play the major role in funding itself. There is increasing sophistication needed in financial management, which is becoming more a question of agility and adaptability in a competitive regional and global environment rather than the exercise of sheer financial muscle. There is a sense in which the political economy of financial management has matured, and it is more important to have a grasp of detail for complex products where knowledge is crucial, rather than making crude generalisations about who is exploiting whom in a supposedly zero sum game.

Economic justice remains an issue however, especially in a society with a Muslim majority who are concerned that the *Syariah* Islamic law should be respected in financial transactions. There has been some debate over the merits of having specifically Islamic stock exchange in Malaysia in the context of securing greater access to the financial markets for the *Bumiputera*.²⁹ Kuala Lumpur has by far the largest stock market in the Islamic world, but much of the trading is dominated by Chinese brokers

dealing largely in the shares of companies with only a minority statutory *Bumiputera* stake. There is concern that the stock market is largely speculative in nature, and that rewards from such transactions are not permissible under *Syariah* law.³⁰ There is also the issue of dealing in highly leveraged companies, which have substantial exposure to *riba* based banks.

A parallel stock market to the existing exchange run on Islamic lines is probably an unrealistic proposition as if the Islamic exchange had less breadth and depth, which seems likely, prices would be more volatile than on the existing exchange, and the greater risks might result in investors expecting higher dividend returns. This would make it more expensive for companies to raise capital through the Islamic exchange. If cross listing on both exchanges was allowed, it is not clear how much capital would be sought from the Islamic exchange, and the position over rights issues would be complex. The possibility of arbitrage between the two markets would introduce further complications.

A more realistic way forward would be to have specifically Islamic investment companies and unit trusts. The managers of these Islamic funds could screen the companies to be included in the investment portfolio, seeking where necessary the advice of *Syariah* lawyers. They could assess the intrinsic values of the companies and compare these with market values, although dealings would occur at market values.³¹ There are a number of Islamic equity funds already operating along these lines in Europe, and there is no reason why similar funds should not be set up in Malaysia.³²

CONCLUSIONS

The role of the state in Malaysia's financial provision has changed considerably since the end of the colonial era. Initially following political independence the government tried to finance much development itself, as there was a desire to be self-reliant, and for economic independence to match the political achievements. This was the start of a period of economic nationalism, a process which was to be emphasised even more after 1969. A New Economic Policy was instigated with the government wanting to promote the economic interests of the *Bumiputera*. This policy worked to a considerable degree, but it was the governments' success that propelled Malaysia's political economy in a different direction.

The role which the government can play in financial provision for a small still underdeveloped economy exporting primary produce is very different to that which is appropriate for a rapidly newly industrialising

country. The 2020 vision was always about strategy, about enabling Malaysians to help themselves through vigorous private sector activity, rather than the government attempting to dispense largesse. That is not to say that the role of the state is of diminishing importance, but rather a matter of it becoming more subtle. Maintaining the monetary and fiscal stability necessary for the private sector to flourish is itself a demanding task. Providing an appropriate regulatory framework for the commercial banking system and the financial markets to function efficiently is far from easy. Much decision making has of necessity been handed over to technical specialists. Assessing risks in order to provide state financial guarantees is in some respects more problematic than the state providing direct finance itself, as there is responsibility without control.

One area where state intervention can have an impact is in the promotion of Islamic finance. Because of the religious pluralism in Malaysia which all governments must respect, the blanket application of the *Syariah* law to economic and financial dealings is not possible, but the state can provide the legislative and regulatory framework under which Islamic institutions can flourish. This has already happened to some extent, and major commercial banking institutions now have the confidence to open Islamic counters. Furthermore by encouraging the Islamic financing of infrastructure projects, this perhaps has done more than any other single measure to ensure Islamic finance has a higher profile and is seen as a viable alternative. The one area where more could be done is arguably in relation to stock market development. Detailed regulatory changes have been introduced, and measures to reduce transactions costs, but no specific provisions have been introduced to encourage Islamic commercial fund management.

The problem of the poorer *Bumiputera* however remains. Some have benefited considerably from the initiatives to encourage private sector activity, but for many the gains have been marginal. The changes in financial regulations have favoured the largest banks and major financial institutions, but many *Bumiputera* use smaller institutions, including Bank Islam Malaysia Berhad. Even the measures to promote Islamic finance of infrastructure tend to benefit business and richer investors, but not necessarily the poor.

Although income distribution remains a cause for concern, there can be no doubt that Malaysia has successfully faced most of its development challenges. The economy has entered its most rapid ever stage of development, with real self sustaining growth and very high domestic savings levels. The government deserves some of the credit for this, even

though it must be recognised that the main effort has come from the local financial and business community.

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8

THE UNSETTLING PARTNERSHIP OF WOMEN IN DEVELOPMENT AND ISLAMIC IDEOLOGY: ENGENDERING STATE-DIRECTED RURAL PROGRAMMES

Rashila Ramli

INTRODUCTION

OUR family has always worked the land. When great-great-grandfather migrated from the Arab Peninsula, he settled in Kedah. Both grandpa and grandma worked the land.

Mak Teh

If I do not get up in the morning, chances are my husband would not get up to go tapping.

Mak Zah

I did not want to wear the mini telekung (veil), but my kakak (older sister) made me put it on.... My husband did not insist on me wearing the veil. He said that it is a matter of choice. Now, it has become a habit.

Rozana

The school system has changed. Girls under twelve are strongly encouraged to put on the veil. I do not know whether that is good or not. Kids should have the time to be kids.

FELDA officer¹

These voices of women settlers in Pahang, Malaysia, reflect the political, social and historical aspects of their lives. These women are active participants in Malaysia's movement in becoming a fully developed country in the twentieth century. Since 1972, the women of Jengka Land Settlement Schemes (JLSS) represent the large population of unrecognised/reserve labour that have been involved with the production of rubber or palm oil. The narratives given by Mak Teh and Mak Zah exemplify women's involvement in Malaysia's economic development. They have worked, alongside their husband, in cash crop and subsistence crop production. Besides their work in the fields, these women also participated in programs to enhance their home management skills sponsored by the Malaysian state. These programs were designed under a policy influenced by the ideology of "Women-in-Development" (WID). However, WID focuses on women's roles as reproducers rather than producers. The lack of recognition of women's integrated roles as farmers and (m)others by the state is the first theme of this study.

The narratives of Rozana and the Federal Land Development Authority (FELDA) officer represent the second theme. While Islam has been accepted by Malays as their religion since the fourteenth century, Malaysians have witnessed the resurgence of Islam in the late 1970s. This resurgence impacted the governing body of Malaysia to a point where the state introduced its own Islamisation policies in order to accommodate the calls of Islamisation by political opposition. The emergence of the veil is an outward manifestation of this phenomenon. Rural women including Jengka women settlers, are impacted by Islamic resurgence.

The above background information indicates that there are two ideologies operating simultaneously in Malaysia:

- (i) The liberal ideology of development and on occasion its liberal feminist counterpart WID and
- (ii) the Islamic ideology.

It is these ideologies that have become the guiding principles for policy formulations and subsequently, policy implementation in a top-down authoritarian manner. At the intersection of these two ideologies, women's involvement is viewed in contradictory terms. On the one hand, in the public sphere, women's participation is perceived as labour in economic development. On the other hand, Islamic fundamentalist discourse deems women's participation as visible primarily in the private sphere and invisible in the public sphere. Thus, because of the power configuration in Malaysia,

while the state – National Front² = Mahathir – opens spaces for women participation through its emphasis on their labour, at the same time, it also restricts their movement to the private sphere. Rural Malay women are situated at the intersection of this power configuration. These tensions and their implications for rural women in Malaysia are the focal points of this study.

This study examines the political underpinnings of the Malaysian economic miracle by focusing on gender and the state, and the interplay between the ideologies of “development” and “religion” in rural Malaysia. The examination centres around the relationship between the gendered nature of state policies and Islamic revivalist activities. In this study, I suggest that the social construction of gender through development ideology and religion has allowed the state to have control over rural women’s productive and reproductive (biological and social) capacity essential to capital accumulation. The state is able to have human resources at its disposal in order to achieve a much larger goal which is to become a developed country by 2020.

Using FELDA as a case study, this gender-sensitive study examines the relationship between state policies and Islamic revivalism in rural Malaysia, and documents the activities of rural women in Jengka FELDA schemes and the politics of their marginalisation. While a universal claim is not made, I believe, however, that the voices of Jengka women settlers tell stories which represent partial realities.³

This study is accomplished through:

- (i) a participant-observer position for primary data collection at Jengka Land Settlement Scheme (JLSS) #8 (rubber) and #10 (oil palm) in Pahang, Malaysia and
- (ii) secondary data collection at the FELDA Research Centre, the Malaysian National Archive, and the libraries of higher educational institutions in Malaysia and in the United States.

LITERATURE REVIEW

Different evaluations of FELDA exist (Benjamin, 1978; Mehmet, 1986; IBRD, 1987). The main objective of FELDA is to settle predominantly Malay landless peasants on economically cultivatable land. From one point of view, FELDA has been proclaimed as the success story of rural development (Bahrin, 1988; IBRD, 1987). In 1985, the World Bank, which

co-financed the largest FELDA scheme called Jengka Land Settlement Scheme (JLSS) with the Malaysian government, conducted an impact evaluation on three sites within the JLSS.⁴ An evaluation was conducted to determine the agricultural, economic, social, financial, and institutional impacts on settlers. "The main findings of the Project Performance Audit Reports (PPARs) were that planting targets had been met or exceeded" (IBRD, 1987). The PPARs also indicated that there was significant improvement of settlers' incomes.

However, the report acknowledged that "although women play a major role in the agricultural activities, rubber in particular, overall women's rights have not been fully recognised" (IBRD, 1987). Furthermore, the report mentioned that "the most important factors accounting for project success and sustainability of benefits have been: project design, borrower support, adequate project organisation and a sound settlement system" (IBRD, 1987). There was no indication as to how these factors relate to women's participation. In essence, the World Bank study is a non-gendered account of Jengka. No information is provided about the varied roles played by women, the inclusion of women in project design, women's accessibility to credits and services on this cash crop production scheme. The success story of FELDA did not recognise women settlers contribution to Malaysia's economic development.

FELDA women settlers participation has only been documented in two studies (Rokiah Talib, 1986; Za'bah Mohamad, 1988). In both cases, the authors pointed that although FELDA does not have a written policy with regard to women settlers' roles in agriculture, both concluded that the type of crop determines the amount of women's participation. The two studies on the role of women in FELDA, while enlightening in many aspects, are also limiting especially because of their narrow definition of 'work', and the usage of household as unit of analysis. While these studies have similar concerns as this work, they do not consider the relationship of political crisis to societal reconstruction. In addition, they also do not consider the impact of Islamic revivalist activities on gender construction and FELDA women's participation.

FELDA has also been seen as an example of internal colonisation in which the state extracts resource from the rural sector to finance an industrial one (Mehmet, 1986; Halim, 1987, 1991). Since FELDA was targeted for expansion under the New Economic Policy, it assists the national government in capital accumulation. This is accomplished through the control of settler's income, FELDA has developed other strategies in order to accumulate more funds for investment in ventures other than the land

settlement scheme itself. The strategies include book-keeping methods such as the manipulation of compound and simple interest with regard to loan repayment, the timing of loan collection, and the setting up of a settler's funds where the funds were channelled toward outside investment. As a result, settlers are actually in perpetual debt because of the structure of the credit repayment plan (Halim, 1991). Halim's latest study on FELDA concerns the resistance of peasant to state policy documents. Several forms of settlers' resistance include assaults and attacks on Felda officials, independent sale of produce and strikes (1992).

While these studies problematise issues of extraction and resistance, they are essentially non-gendered accounts of the state. According to their accounts, rural farmers are "naturally" depicted as male farmers. Male symbolism and male references are hidden beneath the androgenous language. Women farmers are invisible. Several explanations exist to account for their invisibility. First, the prevalent patriarchal system perpetuates the invisibility of women especially with their relegation into the private sphere (Mies, 1986; Agarwal, 1988). The state uses simple dichotomous categories of public and private to facilitate policy design and implementation. In this dichotomy, men are in the primary location, i.e. the public sphere, as FELDA farmers, for instance. Women are relegated to the private sphere as wives and (m)others. The dichotomisation of public and private spheres tends to privilege the primary location – a practice known as logocentrism (Ashley, 1981). Second, empirical studies tend to be guilty of utilising aggregate data, assuming men to be the head of household for analysis. When such a practice occurs, situations where women share equal responsibility in a household, or when women are the heads of household are not taken into account (Roger, 1981; Kardam, 1991). Third, invisibility of women is also the result of the emphasis on "formal work" generally defined as income-generating work, where work takes place outside the household, excludes a substantial amount of women's activities. In other words, the tendency of development planners to view women as "reproducers" instead of "producers and reproducers" has led to women's invisibility and marginalisation (Boserup, 1970; Tinker and Bramse, 1976; Lewis, 1981; Buvinic et al., 1983).

WID AND THE LIBERAL-DEVELOPMENT DISCOURSE

Liberal-Development discourse has been critiqued by feminists for not providing any explanations for the marginalisation of women that occurs as a consequence of development (Boserup, 1970; Buvinic, 1983). As a

result of feminist activism and scholarship related to Third World women's marginalisation, Women in Development (WID)⁵ was created. Although proponents of WID critique development for excluding women, they do not challenge the epistemological assumptions of modernisation (Chowdhry, 1992). WID assumes that the norms of male experience can be generalised to all females and that women would benefit equally as societies increasingly become more modern. The WID approach begins from an acceptance of an existing social structure. Therefore, planners are only interested in the methods of integrating women into ongoing development projects (Roger, 1983; Subbarao et al., 1994). This approach avoids questioning the source and the nature of women's subordination and oppression. WID seems to assume that women are not subjugated or oppressed (Mbilinyi, 1984). Furthermore, WID also does not recognise other more critical perspectives such as the dependency theory or the neo-Marxist analysis on women (Rathgeber, 1990, p. 491). It does not take into account the production and reproduction of capital accumulation at the world scale (Mies, 1986). WID focuses primarily on production where income is the main goal to be achieved (Stamp, 1989). Since the theoretical framework has the above characteristics, projects under WID are designed to teach participants particular skills. The skills taught would allow for the integration of women into projects (Buvinic, 1986). Unfortunately, this has translated in Malaysia, as it often did elsewhere, into projects related to cooking, flower-arrangement, aspects of hygiene, literacy and childcare. In reality, WID offers a limited interpretation of women's realities since it does not challenge the basic social relations of gender. It assumes that gender relations will change by themselves as women become full economic partners in development.

THE ISLAMIC DISCOURSES

Islamic revivalism was manifested by the fundamentalist discourse propagated through political opposition parties specifically PAS and ABIM. UMNO felt strongly threatened by these parties. In order to diffuse the crisis, UMNO adopted the Islamic revivalist discourse.

Islamic revivalist discourse has played a dominant role in gender construction, and interpretation of women's role in Malaysia. At a theological level, Islam which stands for submission to God's will originated in 610 A.D. The literature on Islamic discourses has utilised the following distinctions:

- (i) fundamentalist,

- (ii) traditionalist and
- (iii) modernist (Leach, 1990).

Since these distinctions overlap, for my work, I use the following categories to discuss Islamic discourse in Malaysia:

- (i) fundamentalist/traditionalist discourses and
- (ii) modernist/secularist discourse.

Fundamentalist/traditionalist Islam takes the Quran (Holy Book) and the Sunnah (sayings of Prophet Muhammad) alone to determine Islam.

It attempts to free itself from the stranglehold of tradition ... it is more often the Islam of the educated, those who seek solutions to current social, political, economic and cultural problems through Islam alone ... it requires the interpretative or '*ijtihad*' approach to achieve this; extrapolating those sources in the light of today's requirements (Leach, 1990, p. 5).

Fundamentalism in Islam could also be defined as "a return to the purest sources of religion, a movement to cleanse Islam from all impurities, heresies and revisionism which may have influenced its body-intellect as well as its body-practice" (Said Eddin Ibrahim, 1988, p. 636). The perspective also suggests a historicity (Sherifa Zuhur, 1992). The perspective thus adheres strictly to the notion that there is no separation between religion and politics.

Traditionalists, who are more accommodating to social/historical circumstances, believe that one has to consider historical specificity. Traditional Islam was a system of minimal government where the tasks of government were very few. Specifically the tasks include the regulation defense, a few public works, some responsibility for criminal laws, and some regulation of economic activity (Yapp, 1980, p. 184). Fundamentalists tend to compartmentalise women in one area – the family. The family, which is synonymous to the private sphere or "*keluarga*", is the location of women's activities. When this approach is taken, women are relegated to the protection of men. In general, "neither the role of a woman, outside the family, nor the implications of this role in terms of women's economic, social and intellectual dependence on men are ever discussed" (Fouad Zakaria, 1988, p. 29).

The modernist/secularist discourses focus on reconciling Islam and modernisation.

In appearance, Islamic modernism consisted of the grafting of Western forms of law, legal procedure, education, etc, on to the Islamic base of the Sharia, by means of a variety of devices all sanctioned in some measure by traditional Islamic practice" (Yapp, 1980, p. 182).

This practice is marked by a great increase in the power of government (Yapp, 1980, p. 183). It also allows greater spaces for the interpretation of women's roles in society. The secularists who adhere to the rhetoric of the modernists tend to favour the separation between state and religion. Contemporary thinkers such as Rifa'a al-Tahtawi and Qassim Amin believed that Muslim women have a greater role to play in society. On the issue of liberation, Al-Tahtawi stated that "Women are equal to men. They each have a human body, the same needs, and the same external and internal senses" (Al-Tahtawi in Bakara, 1988, p. 48). Qasim Ali took the issue further because he saw a close link between politics and family.

ANALYSIS

Deconstruction: The Myths of Farmers, Wives and (M)others

The act of deconstruction implies breaking apart an entity which has been erected and accepted by society for a substantial amount of time. In this case, the deconstruction will centre around the artificial construction of oppositional dualistic categories of public/private, and producers/reproducers. The variables which intersect the categories are "work" and "assumed roles." Both ideologies (WID and Islam) identify with the said variables and the categories.

In the simple dichotomous categories of public/private and producer/reproducers, the dominant development paradigm men recognised as farmers are producers who are located within the public sphere. Due to the non-recognition of women by the liberal market discourse and social construction of women by the colonial discourse, women settlers + farmers + wives + (m)others are relegated to the private sphere of existence. Islamic revivalist discourse strengthens this dichotomisation by theological stating that women's primary duties and roles are as wives and (m)others. The exercise of deconstructing these dichotomies was accomplished by analysing the selection criteria of FELDA, the organisational structure at the scheme level, the gender-based WID programs including narratives reflective of the myths associated with women settlers.

The Selection Criteria

A study conducted by Rokiah Talib concluded that the success of FELDA scheme is partly dependent on the contributions of the wives. According to Rokiah, since each smallholding is envisioned to be a family-operated unit, only married men are allowed to become candidates for the schemes. In reality, FELDA "has never stated clearly its policy regarding women" (Rokiah Talib, 1986). Any interpretation regarding FELDA's position could only be inferred from rules and regulations enforced by the agency. The eligibility of a settler is determined through a point system. The eligibility factors are listed as follows:

- (i) Health
- (ii) Education
- (iii) Skill
- (iv) Background
- (v) Number of children

From the tabulation of points, a man can obtain a total of 27 points whereas his wife can obtain 13 points. The discrimination in the total number of points occurs because there are no points given to women with regard to their background and the number of children they contributed to the family. FELDA's assumption of women as non-farmers is reflected in the "Background": Farmers, Fishermen, Ex-servicemen, Mining workers, Lumbermen, Labourers, Office workers, and others. On this scale, women are not awarded points. Furthermore, under "Skill" while men are awarded points for having working skills in rubber and oil palm estates, points are not awarded to women. This is another assumption that women are not farmers or producers. Women are incorporated in the scheme as wives and (m)others.

The Organisational Structure

All thirty-two Jengka Land Settlement schemes are under the management of the Regional Office. This office is headed by a regional director who is in turn accountable to the General Director at the Headquarters in Kuala Lumpur. At the regional level, women settlers' interest are represented by the female Assistant Development Officer who gives directions to all Settler Development Officers (SDAs) also recognised as extension workers. It is

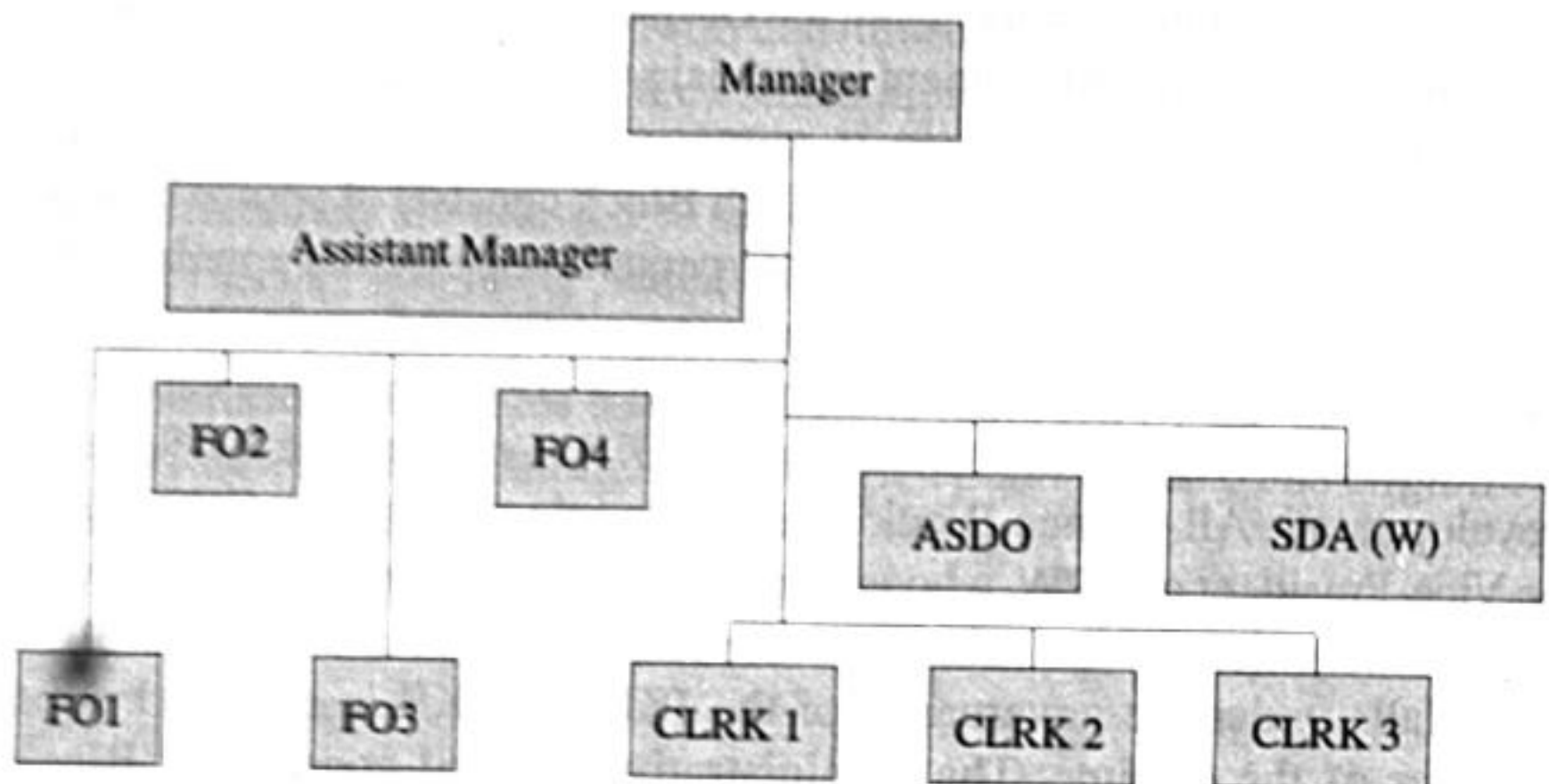
the responsibility of the SDAs to ensure that the interest of all women settlers are met. At the scheme level, the *Gerakan Persatuan Wanita* (GPW) or the Women Settlers' Movement is the main vehicle for the representation of women. Since each scheme is numerically large, the families are categorised into a number of *Blocks*. Each Block consists of approximately 22 households. In each Block, two chairpersons are elected, a male and a female, and election is conducted every three years. All male chairs will then become representatives of the settlers at a governing body called the *Jawatankuasa Kemajuan Rancangan* (JKKR – committee of Scheme Development). All women Block leaders are relegated to the GPW. Only the Vice-President of GPW, who is an elected person, represents the interest of women settlers in the scheme at the JKKR level. As an organisation GPW falls under the governance of the JKKR. JKKR is chaired by the manager of the scheme. The administrative council consists of Block representatives (men) and six other members of different interest. Out of the 12 members on the council, only two women are present, the Vice-President of GPW and the Scheme Midwife. Here, women representatives are in the minority, thus remaining at the bottom of the hierarchical structure.

Where is the SDA placed within the scheme organisation structure? Each scheme has its own administrative office where the manager acts as the chief executive officer. He (the manager is always a male) reports directly to the district manager who then reports to the general manager in Kuala Lumpur. At each scheme, the manager is assisted by an Assistant Manager, three administrative staffs, two Social Development Officers (male-ASDO and a female-SDA), and approximately four to five field officers depending on the size of the scheme. All these field officers are men. FELDA does not have women field officers, despite the fact that women settlers are expected to work in the field (Rokiah, 1986). Here, there is an assumption that any information pertaining to the field work would be shared by the husbands with their wives. Furthermore, we could also assume that FELDA does not consider it necessary for women settlers to have information on agricultural work since they only supplement the labour of their husbands.

As a group, the management team administers the day-to-day affairs of scheme which comprises of 4000-5000 acres of land and approximately 400 households. On the next page (Figure 1) is a chart of the managing staff at a scheme.

In the chart, clerical staff usually composed of women do not participate in policymaking within the scheme. Notice the position of the SDA in this

Figure 1: Scheme Organisation Chart



FO = Field Officer

ASDO = Assistant Settler Development Officer

SDA = Settler Development Assistant for Women

CLRK = Clerk

organisation chart. All officers participate in decision-making process. In a weekly staff meeting which I attended, the manager would ask each officer to voice his/ her problems. Thus, since the SDA is the only "officer", she remains the channel which would voice women settlers' concern. If the concern does not attract the attention of a majority of the male officers, then it may not be heard again.

WID at Work

It is important that you know how to decorate the house. Your husband comes back from work, he will be tired. When he comes back to a well-kept house, well decorated, he will feel happy. We need to make sure that the environment in the house is harmonious.

SDA

The above statement was made by an SDA at one of the floral arrangement classes which I attended. There were approximately 45 women settlers attending the class. A woman settler responded:

What about when I return from tapping... I get tired too.

Kak Nah

The above narratives juxtapose one another because they represent two opposite points of view. The SDA represents the voice of the Centre where the Islamic revivalist discourses are reflected; women should be subservient to their husbands. Furthermore, the discourse is not at odds with WID (viewing women as reproducers) because both discourses relegate women settlers to the private sphere. However, both discourses are at odds with women settlers realities. Kak Nah's statement indicates the fact that she considers herself as a farmer.

GPWs, under the guidance of SDAs, professed to ensure that women settlers have "kept pace with the development and progress of their male counterparts" (Bahrin and Lee, 1988, p. 106). In order to accomplish this objective, SDAs would visit individual homes. During these home visits (I accompanied SDAs to approximately 75 home visits), discussion centres around child development, nutrition, sanitation, family budgeting, and family planning. In order to support the activities of SDAs, the SDAs in turn receive instruction from the women staff of the Home Economic Division of FELDA. "Home management, family and community living become the core of FELDA's home economic programs carried out by a specialised division of the Settler Development Services Department" (Bahrin and Lee, 1988).

From the three areas discussed above, several observations can be made. First, women settlers are needed for their services as wives and (m)others. Second, women settlers occupy the lowest rank within the scheme organisational structure. Third, FELDA offers programs, focusing on home economics alone which it believes are needed by women settlers. The three observations clearly indicate FELDA's perception of women settlers. They (women settlers) play a significant role in schemes' success by supporting their husbands, the farmers through the provision of a clean house, good food and children. They occupy the private sphere, thus there is a need to ensure that they have the required skills to excel in that realm of existence.

While WID and Islamic discourses complement one another, the relationship between these ideologies and the realities of women settlers is an unsettling one. It is unsettling because women settlers do not see a clear cut distinction between the artificial constructs of simple dichotomous categories of producer/reproducers utilised by the discourses of farmers, wives and (m)others. The use of these oppositional categories has resulted in the marginalisation of women.

Consequences of Ideology

The above deconstruction effort clearly demonstrates that the state, represented by FELDA, has utilised the WID and Islamic revivalist discourses to define women's roles in the schemes. It would be a matter of minor significance if the discourses remain as mere language exercises. However, this is not the case. What appears to be semantics becomes a significant matter when such discourses, translated into state policies, leave grave consequences on women's lives.

The selection criteria of settlers accept women into the schemes on condition that they are classified as wives or daughters of men settlers. The criterion based on sex has serious repercussions. While prior to entering the scheme, women did have access and control over resources,⁶ at the schemes they actually lose control over resources (defined as capital, labour, land), although they may still have access to the said resources. They have access because they are allowed to work on the plots as well as the areas surrounding their houses (project and gardens). However, except for control over their own labour contribution, women lose control over capital (monetary) and land. The income from the plots is credited onto the paysheets (FELDA's accounting system) which are in their husbands' names. They can only pick up the cash-earning if they are authorised by their husbands. The required authorisation is dictated by the state and religion. The state requires authorisation because men are regarded as heads of households. Religion requires this authorisation because fundamentalist discourse also dictates that men are heads of households and that women should be subservient to men.

I attribute women's loss of control over land (inheritance) more to fundamentalist discourses than to the state. Islamic legislation does not give equal distribution of property to men and women. If a man dies, and he has sons to inherit his property, his wife would only receive one-eighth of his total property. The main reason cited being that the sons have more responsibility in maintaining their families. Furthermore, the widow could remarry or she could be supported by her children. In this case the state actually allows women settlers equal opportunity to inherit the plot. This is because all areas developed by FELDA are classified under the Group Settlement Act of 1963 where each plot cannot be subdivided into smaller parcels. As a result, if a man settler appoints his wife as the benefactor, and that is agreed upon by the children, a widow can inherit the entire ten acre plot. Here, while the state offers opportunity for women to inherit equal

amount of property, it still remains within the power of heads of households to decide on the immediate benefactor. In more cases than one, fathers would name their first-born sons as inheritors of the plots (FELDA officer).

With regard to programs designed for women settlers, WID supported programs constitute cooking, baking, floral arranging and health classes. These programs receive the support of Islamic revivalists because they complement fundamentalists discourses on women's roles as wives and (m)others. One may ask, what are the effects of these programs on the lives of women settlers? First, they do enhance the homemaking skills of women. Second, women settlers use the time to interact with other women because the classes are also seen as social events which act as points of departure from their almost regimented existence. However, for 74% of the women settlers interviewed, they stopped attending such classes for a number of reasons:

I already know how to cook and sew. I learn to do these things when I was kid. So most of the time, the classes are a waste of time.

Kak Leha

I rather work on my project than attend the class. At least I can make some money from the sale of my cucumber.

Mak Limah

The reasons cited by these women reflect their other identities not accommodated by the state. As a result, while extension services in home economics are provided, extension services on agricultural services are not provided. Women settlers who need assistance pertaining to their plot, projects or gardens will have to obtain it indirectly from their husbands or through Field officers if and when they are willing to assist on their own accord.

The consequences of WID directed ideology has actually marginalised women because of the non-recognition of their work as farmers. The non-recognition has led to their exclusion in agricultural training programs, especially those pertaining to improving their skills, and increasing their knowledge with respect to the management of their rubber and oil palm schemes. The exclusion has rendered them relatively dependent on their husbands for their daily existence, thus perpetuating the notion of inferiority and insecurity among rural women.

Islamic revivalist ideology assists in marginalisation because it places women within the locality of private=reproducers. Thus, WID gender-based

programs are not conflictual to religious leaders who believed that Muslim women should enhance their skills with regard to household management. Since the family is regarded as the building block of society, Islamic revivalists call for the maintenance of stability in the household by both men and women, with women as the backbones who would cater to the needs to the household's inhabitants.

Reconstruction: Of Farmers, Wives and (M)others

In order to reconstruct the realities of Jengka women settler, first of all the oppositional dualism of public/private and producers/reproducers has to be discarded. Second, the conceptualisation of 'work' for women settlers as espoused by the WID and Islamic revivalist ideologies is too limited since it only pertains to activities associated with income-generating capabilities conducted outside the household. Therefore, work has been redefined to include both productive and reproductive activities inside and outside the household. The recognition of reproduction as work (both household tasks, and procreation) will allow for more accurate representations of women's work (Mies, 1986). Furthermore, the realities of these women must be viewed in an integrated manner where all components of work are interrelated into one objective which is the survival and maintenance of the separation between the public and private. This section will reconstruct the realities of Jengka women settlers by looking at their overall contribution to work, their actual rate of participation in the agricultural work and, the amount of hours spent in both the public and private sphere, i.e., inside/outside the household.

The Rubber Scheme

In the daily life of a rubber tapper family, the wife is the first to get up in order to prepare for work. She then wakes the husband up. As the initiator of the daily activities, she prepares a meal for the couple to eat during their break at the field. Approximately at 7.00 am, the couple would hop on their motorcycle and head for the fields. Those who are lucky may have to travel only a mile. For those who are less fortunate, their allocated field may be situated two to three miles away. The couple take 2-3 containers which would be filled with latex at the end of their work day. Each container can hold about 45 kg of latex.

At each field there are approximately 1000 trees to each ten acre plot. Usually, the tappers would split the tapping area; each would tap about five acres of the land.

In more cases than one, the women tend to be better tappers than their husbands (FELDA officer, Interview, April 1993). The officer specifies that women have a better mastery of the act of tapping (not ruining the bark of the trees), and the speed of tapping. However, after the collection of latex, the act of carrying the two 30 kg containers are generally handled by the men.

At about 11.00am, the tappers have completed their plot. They take a morning rest. This is also the time which allows the latex to drip into a collecting cup which is tied to the tree. At this point, those women who have children attending school in the afternoon session,⁷ proceed home in order to prepare the afternoon meals and to send the children to school. It is noticed that more women (61%)⁸ than men have the responsibility of sending their children to school.

Depending on individual arrangements, sometimes only the husband collects the latex. In general, women settlers (13%)⁹ return to the field and jointly collect the latex. Both tappers would then head for the Rubber Collection Centre to get their latex weighed and graded. Once a sample is taken, treated and graded, the total weight is recorded in the settler's account, and the tappers are free to return to their household.

Upon arrival, they have their afternoon meal, and then take a rest. On every Wednesday, women settlers are encouraged to attend social activities (such as religious classes, floral arrangement, guest lectures) scheduled by the Settler Development Officers. It is noticed that only 50% of the women interviewed attended such social activities, citing reasons such as lack of interest, tiredness after working in the field, and lack of childcare. As discussed earlier, these activities are not central to the lives of these women.

Between 5.00-6.30pm most women are involved in some kind of agricultural projects for the purpose of obtaining subsistence crops or in other income-generating ventures (51% – refer to Table 1). These projects are sometimes jointly accomplished by both husband and wife, or they may be individual in nature. The evening hours are also used for visitation purposes, or for beautifying the surroundings of the house (56%). On more occasions than one, women settlers would plant crops or fruit trees which could generate additional subsistence food and income for the family. Night time is associated with the preparation of the evening meals and other miscellaneous activities such as watching television, sewing and spending time with the children.

The Oil Palm Scheme

The oil palm scheme under investigation encompasses an area of 5500 acres. This scheme is larger than the previously studied rubber scheme. It has a total of 415 households which translates into 2905 people. Unlike Jengka #8 where more than 50% of the families migrated from Kedah, the majority of people at Jengka #10 are from the state of Selangor. Most settlers entered the scheme in 1970, and at this point, settlers are in the position of obtaining the title to their land as most have completed the payments on their loans.

The basic amenities within the scheme are rather impressive. Beside the standard features such as a clinic and a primary school, the scheme also accommodates a Grade "A"¹⁰ secondary school and a gas station. The secondary school serves the northern part of Jengka where students come from a total of 5 schemes. The secondary school serves the northern part of Jengka where students come from a total of five schemes. The questionnaire was given to students at this school and at another school which is situated in the central part of Jengka.

The activities on an oil palm scheme is rather different compared to the activities which take place at the rubber scheme. The differences stem from the nature of the crop. In the production of palm oil, the initial step starts with harvesting the ripened oil palm fruits from the trees. The fruits are harvested on a fortnight (two weeks) basis. After harvesting, which means the act of cutting¹¹ the *tandan* from the tree which now has attained the height of 40-50 feet, the fruits are taken in a small wheelbarrow to a place at the edge of the plot called the platform. There, the fruits are collected by a transportation crew who is then responsible for taking the fruits to the factory which is situated 15 kilometres from the scheme.

Unlike rubber where a settler is responsible for the maintenance of his plot, the oil palm scheme has a different organisational system. At Jengka #10, settlers work as a team known as a "Block". The system calls for the combination of efforts by 20-22 settlers per Block to maintain and harvest a total area of 200 acres. Each settler obtains his earnings based on a proportional division of the total amount earned by the Block. Under this system, women's agricultural work is completely hidden.

According to the settlers, the system has its advantages and its drawbacks. The main advantage is the economy of scale due to the more efficient method of production. It also assists the management in planning transportation, fertilising and weeding schedules. The main disadvantage is of a human element, such as a "free rider" problem.

It is not far when there is a "pemalas" (slacker) in the Block. We who worked hard are not getting any better income than the slacker.

Pak Syed

Although there are different form of punishment for these slackers such as fines and warnings, these methods have been found to be not very effective in controlling the problem.

In an oil palm scheme, women play a lesser role in the agricultural field because of the inability to handle the harvesting of the oil palm fruits which generally weigh 40 kg per stem (*tandan*). Furthermore, since the trees have grown over 40 feet high, both older men and women have difficulty in handling the knife tied to a long heavy pole.

Within the fields though, women participate in other activities such as the collection of *buah relai* which are the fruits that had scattered on the ground when the stem fell from the trees from such a height. A conscientious collection of *buah relai* can increase the income of the settler by quite a significant amount (Manager J#10).

Another major activity partaken by women is the arrangement of the *pelepah* (palm leaves and branches) in between every other row in a plot. This act is important because it assists in preventing the erosion of the soil. In reality, women would go to the field approximately four to five days in every 15-day cycle. While women may not participate as much on the oil palm field, their participation is enhanced through other income-generating projects similar to their counterparts at the rubber scheme.

Contribution of Women Settlers

The survival and maintenance of a household depend upon close interaction and cooperation between family members (men and women). For the data collection, a total of 38 women and 33 were interviewed at the rubber scheme. At the oil palm scheme, I interviewed 41 women and 42 men. In order to have an overall view of work (agriculture + household + miscellaneous), the following two tables (Table 1 and 2) provide summaries for each type of scheme.

With regard to contribution to total work (agriculture + household + miscellaneous), both tables indicate that women settlers in the rubber scheme and in the oil palm scheme contribute 51% and 53% of total work respectively. The tables point to the glaring fact that household chores remain within the realm of women settlers primary responsibility – women settlers

Table 1
Summary of Work: Rubber Scheme

Work	Male	%	Female	%
Agriculture	290	66	157	34
Household	3	2	158	98
Misc.	68	58	50	42
Total Units	351	49	365	51

Table 2
Summary of Work: Oil Palm Scheme

Work	Male	%	Female	%
Agriculture	254	67	126	33
Household	7	4	199	96
Misc.	79	59	54	41
Total	340	47	380	53

at Jengka #8 and Jengka #10 contribute 98% and 96% respectively of the total effort of household maintenance. I argue that it is also a reality for a woman settler to be responsible for the household and the children.

Tables 1 and 2 indicate the holistic view of work. However, it does not provide us with a breakdown of women's contribution to agricultural work. This is one of the problems of aggregate data. Therefore, it is necessary to view agricultural work in detail. Tables 3 and 4 are generated for such a purpose.

Table 3 indicates the detailed breakdown of agricultural activities listed, women contribute 35% of the total effort. Out of the ten activities, women contributed 30% of total effort in seven of the activities. Out of the seven activities, women contribute the highest percentage of work in collecting latex (48%).

Data in Table 3 implies that women settlers generate at least 30% of the income from cash and subsistence crop production through their contribution as farmers since they contribute 35% of total work. Furthermore, when the data is further scrutinised, it is noticed that women settlers contributed 56% in subsistence crop production (look at line 9 and 10 in Table 3). Subsistence crop production is cultivated on vacant plots (called projects) exclusive of the individual rubber plot, and the 1/4 acre household plot

Table 3
Rubber Scheme
Breakdown: Agricultural Work

Activity	Female		Male	
	Unit	%	Unit	%
1. Tapping	20	33	31	67
2. Slashing	13	30	31	70
3. Collecting	24	48	32	52
4. Weeding				
Manual	18	37	31	63
5. Chemical	7	18	31	82
6. Transport	9	22	31	78
7. Fertilization	9	23	30	77
8. Hoeing	9	23	30	77
9. Projects	21	51	20	49
10. Garden	27	56	21	44
Ttl agr. Work	157	35	290	65

(garden). Projects constitute the cultivation of maize, husbandry and landscaping the surrounding of their homes. Some of the projects are income-generating ventures; for example, the cultivation of watermelon, cucumber, tapioca, corn, and fruit trees.

At the oil palm scheme, data collected (refer to Table 4 on the next page) exhibits comparable findings to those at the rubber scheme. Women do contribute at least 33% of the total effort toward income-generating activities. In cash crop production, while women settlers do not engage in harvesting the fruit (only 3%), they provide substantial effort in activities such as collection of fruits (43%), transportation of fruits (44%) and the arrangement of *pelepah* (dry oil palm leaves) (42%) for the purpose of erosion prevention and retention of fertilizers.

Furthermore, a substantial number (60%) participate in the upkeep of their gardens while contributing to subsistence production levels at 50%. This is because women settlers at the oil palm have relatively more time compared to women at the rubber scheme due to the seasonal nature of the growth of oil palm fruits.

Table 4
Oil Palm Scheme
Breakdown:
Agricultural Work

Activity	Female		Male	
	Unit	%	Unit	%
1. Harvesting	1	3	36	97
2. Collecting	21	43	27	57
3. Transport	22	44	28	56
4. Cut <i>Pelepah</i>	4	11	32	89
5. Arrange <i>Pelepah</i>	20	42	28	58
6. Fertilizing	13	27	35	73
7. Poison Weed	3	8	35	92
8. Project	14	50	14	50
9. Garden	28	60	19	40
Total	126	33	254	67

From conversation with women settlers, it appears that FELDA, despite not providing training or courses for crop maintenance to women, expects women to work in the field. Allocation of work is given to wives as well. In fact, after working in the field, and completing the household chores, women are further expected to engage in other agricultural activities namely projects and garden production. The study by Rokiah Talib substantiates the findings of this study. Rokiah selected four schemes of varying ages of existence, and different types of crops to see whether or not these variables affect the state of women's participation. While limiting 'work' to only agricultural work, she concludes that the type of crop rather than age of scheme has greater influence over participation of women in the field. This study went further to show that the time available is used for more production and reproduction where it is difficult to make the distinctions between these categories.

In/Out of Household Phenomenon

It is now appropriate to examine the amount of time women spent inside and outside the household. This data will further demystify the notion that

women settlers are located primarily in the boundary of the household. The data was obtained from the *Daily Schedule* where the objective was to acquire a pictorial representation of the division of time spent in the household (work and rest) and outside (work and rest).

On a normal working day most women would be awake by 6.00 am in order to complete the morning prayers.¹² Then, from morning till noon, more than 50% of the time will be spent outside the household. Another major time slot where a similar scene is observed is between 3.00 and 6.00 pm. During this time slot, 51% of the women are involved in agricultural projects such as the planting of maize, watermelon, and cucumber.¹³ For some women, these are income-generating projects, however, for others, these projects increase the amount of subsistence food, and they (the projects) could also be a form of recreational activity. Recreational activities also include visiting neighbours, going shopping at a neighbouring town, and taking an afternoon nap.

There are some irregularities which are interesting to point out. First, there are two cases, #13 and #19 where both women spent a substantial amount of the night outside the household. In these cases both women practice a method of tapping called *menyuluh* (to shine). The word originated from the fact that these tappers would wear a headlamp as part of their working outfit since they have to work in pure darkness, i.e., between 2.00 am and 9.00 am. The reason for tapping at night is because research has shown that the amount of latex obtained is substantially more during the night compared to the day. However, unless one has an older child to mind the house, most women would not participate in the *menyuluh* activity.

In case #H13, the woman remains in the household, although there is an altered sleeping pattern. The reason for this irregularity is based on the fact that the woman is involved in the making of morning delicacies (*kueh*) to be sold for breakfast at a nearby stall. As a result, she has to get up at 2.00 am in order to have adequate time to make the *kueh*.

Women at the oil palm scheme spent less time doing agricultural field work. However, that does not mean they are bound within the household. In fact, these women at times bring in more income than the husband because they are free to choose other kinds of employment within the scheme or other outside employment. Therefore, it is acceptable to say that women at the oil palm scheme participate in a different manner than the women at the rubber scheme.

When an overall comparison is made, at first glance Table 5 may actually contradict the findings highlighted through Table 3 and 4, i.e. women do

spend more than 50% of time inside the household. Bear in mind that Tables 3 and 4 concentrate on agricultural activities, while Tables 1 and 2 focus on overall work. This is the common mistake made by researchers because the documentation is based only on the hours spent in and out of the household, and the data is complemented with the Activity Profile. When the Daily Schedule is administered on its own, it shows that women at the rubber scheme spend 57% (289/510 hours) in the household, and that the women at the oil palm scheme spent 64% of their productive time in the household. The total 510 productive hours is obtained by subtracting 210 hours of sleeping and resting time of all thirty subjects (seven hours each) from a total of 720 available hours. It is only with the administration of the Activity Schedule that I was able to have a more accurate assessment of the situation. Women spent at 30% of their total time outside the household engaging in agricultural activities. The overall data indicate that women settlers play multiple roles. They are farmers, wives and mothers. Table 5 depicts the dimension of women's activities within the scheme.

Table 5: Summary of in/out household hours

Scheme	Household		Hours	
	In	%	Out	%
Rubber	289	57	221	43
Oil Palm	325	64	185	36

This study is localised to women settlers in the Jengka area. While the focus has been on Jengka scheme #8 and #10, it is reasonable to generalise it for the 32 schemes for the region of Jengka. There is another study which focused on women settlers, whom the author, Za'bah Mohamad called *penerokawati*. It involves 32 schemes; 9 rubber and 23 oil palm schemes. Za'bah Mohamad, who is the District Manager of Negeri Sembilan Timur,¹⁴ asserts that by 1988 there are 104,500 women settlers called *penerokawati* at 297 schemes. He believes that the present system has allowed for a fuller participation of women due to a number of factors:

- (i) The field work based on a 1:10¹⁵ has led to the problem of completion of all required task.
- (ii) The need to increase productivity cannot be fulfilled if only one person is assumed to work the land.

- (iii) At new settlements, lack of employees have led to a drop in production and maintenance of the field (Za'bah, 1988, p. 12).

FELDA management has also come to the realisation that a number of settler's wives have already acquired the skills of tapping or harvesting from prior working experiences at their villages or at private smallholdings or plantations. Thus, the management felt that their skills should be utilised to its maximum for better production in the fields.

In his work, Za'bah classifies two methods of work for women:

- (i) Work with husband.
- (ii) Work alone.

In the first category, he reaches a similar conclusion as Rokiah Talib, i.e. the nature of the crop determines the amount of participation on the fields. The second category shows a variety of jobs undertaken by women in order to supplement the family overall income.

In his calculation, Za'bah indicates that women bring in approximately RM138¹⁶ to be added to the monthly income of their husbands, thus increasing the socio-economic standard of the family. He ends by making a suggestion that whenever possible each scheme manager should identify the availability of women's workforce as a step to improve overall scheme productivity. Each scheme has a number of tasks which could be completed by women. Thus, he suggests that the SDA should also include a report on women's agricultural activities together with the rest of her reports to the District level, subsequently, to the Federal level.

METHODS OF EMPOWERMENT

In Malaysia, methods of empowerment could be associated with James Scott's (1985) documentation on peasants everyday resistance against state policies, Linda Lim's (1978) study of factory workers' resistance to regimented existence, and Aihwa Ong's (1987) examination of women's resistance to the changing conditions of production and reproduction commanded by state apparatus and by global capital.

Women settlers have found a number of ways to empower themselves. For this study I define empowerment as the ability to distance oneself from a regimented existence, to improve physically and spiritually, to be involved in income-generating activities, and to create a space where voices and opinions could be heard with regard to issues concerning their public and

private spheres. Three methods of empowerment have been identified. These methods are:

- (i) the loosely held dress code,
- (ii) social and political participation and
- (iii) petty businesses and handicraft activities.

In the case of Jengka women settlers, resistance may be too strong of word to describe these actions. Instead, their acts of self-empowerment could be seen as pushing the boundaries of allowable space, thus imploring the state to consider their views and their concerns. What follows is a detailed documentation through narratives collected during *Stage 3*¹⁷ of the field work. This qualitative aspect of the field work is important because it complements the descriptive quantitative analysis in the last section. Furthermore, it highlights the nuances of resistance/empowerment which are not readily visible through aggregate data. Through the narratives, women's voices are brought from the margin to the centre.

Strengths and Limitations of Empowerment Strategies

Jengka women settlers have engaged in at least three strategies of empowerment. All three strategies meet at least two of the four variables within the definition of empowerment used in this study: the opportunity and ability:

- (i) to distance oneself from a regimented existence,
- (ii) to improve physically and spiritually,
- (iii) to be involved in income generating activities, and
- (iv) to create a space where voices and opinions could be heard with regard to issues concerning their public and private spheres.

Figure 2 depicts the relationship between strategies and variables of empowerment:

Strategies Utilised by Women Settlers	Variables of Empowerment			
	1	2	3	4
Loosely Held Dress Code	x			x
Social/Political Participation	x	x		x
Petty Businesses	x	x	x	

Figure 2: The Relationship between Strategies and Variables of Empowerment.

Besides meeting the criteria of empowerment, each strategy is empowering for several other reasons. The loosely held dress code could be interpreted as a sign of silent resistance against the mixed messages sent by the state and Islamic revivalist movements. From the women's point of view, their partial realities dictate the fact that they have to work in the field, they have to contribute to household income by engaging in projects and other petty businesses, they have to send the children to school, etc. These partial realities do not recognise the simple dichotomous categories of public and private. They are farmers as well as (m)others. They are producers as well as reproducers. The loosely held dress code is one of the ways to indicate the versatility of their roles.

Their participation in social and political activities, and in petty businesses is empowering because it allows these women to gain or increase control over their physical well-being/economic independence. This is especially true in the case of divorce settlement, alimony payment, and inheritance of property financial management of a festivity. While women settlers have access to resources such as capital (land and their husbands' earning), usually, they have limited control over these resources. The ability to gain control of the accessible resources is a form of empowerment.

The different strategies utilised by Jengka women, while creating spaces for themselves, have certain limitations and boundaries of acceptability. Bearing in mind that each Jengka scheme is a small community or a small village, each person has rather close interaction with his/her neighbours. As a result, while the loosely held dress code could indicate general resistance to religious expectation of a modest Muslim woman, a constant abuse of the code would not be condoned by the community. A woman would be regarded as being not respectful of the religion, thus lowering her status in the eyes of the community.

With regard to social and local participation, one of the major limitations is the fact that women need the consent and perhaps encouragement from their husbands. This fact was expressed in many of the narratives. "*Dosa kalau tak ikut cakap suami...*" ("It is a sin to disobey your husband") (Field notes). Here, religious discourse could be heard loud and clear. Even if a consent is obtained, women still find it difficult to participate due to the lack of knowledge of political party management as well as possible physical from husbands.

In the final strategy which involves small business ventures, the main limitation is the lack of capital for further expansion of business though there may be a market for the products. Small business loans are almost

non-existent in the rural areas. These limitations are handicaps to women's empowerment of themselves within the almost regimented realm of their existence.

CONCLUSION

The unsettling relationship between the state, gender, development, and religion has been the crux of this study. If Malaysia is a stage, then Malaysian women are actresses on this stage. However, in this analogy, women are actresses in the backstage instead of being in the limelights. But, without these actors, the audience would be watching a very different play.

In the thirty-five years since Independence, Malaysian women have been involved in all aspects of development especially in the economic sector. Within this sector, we have seen the initial focus on developing the agricultural sector such as rubber and presently, palm oil. The realisation of the potential earning capability of these commodities coupled with the more pressing need to accommodate the needs of the Malays for land and economic well-being has led to the resettlement of 118,845 families in the rural areas under the auspices of FELDA (FELDA Annual Report 1991). FELDA becomes one of the major government agencies for the implementation of rural policies.

In the 323 schemes managed by FELDA, 64.3% of families on the oil palm schemes, 35.4% on rubber schemes, and 0.4% on sugar cane schemes obtained their means of existence or livelihood from the products on their plots. More than 50% of the people are women. These women have worked alongside their husbands and children to ensure that the family basic needs are met.

While the conception of FELDA's program has adhered to western development models where women are not recognised as head of households, the women settlers at the FELDA Jengka schemes, as well as women in other schemes, also have to subscribe to the religious decree as defined by the *Ulamak's* interpretation of the Quranic Verses. This is especially true after the resurgence of Islam and popularity of PAS and ABIM. In order to maintain its hegemony, the Malaysian state embraced the opposition's call for the institutions of Islamic values within the government and in state policies.

This partnership between the Malaysian state and Islamic revivalists has put women settlers in a position where they have to forge their own identity against the duel between these overpowering forces. In realising

this conflict, this study has focused on the actions undertaken by women settlers which on occasion concur with the ideologies, and at other times, defy the state completely.

This study highlights the daily activities of women settlers. On the one hand, the following contradictions are observed. Women settlers:

- (i) provide a substantial amount of work in agriculture,
- (ii) hold loosely to the dress code deemed appropriate by the Islamic religion,
- (iii) often obtain employment outside the schemes (meaning outside the household) to support their families, and
- (iv) engage in social and political participation in order to be heard by higher management.

On the other hand, the following complementarities are also observed. Women settlers:

- (i) are strongly encouraged to participate in gender-based programs and
- (ii) feel the need to obtain the consent of their husbands prior to participation.

Furthermore, the second generation FELDA children's strong identification with the simple dichotomous oppositional dualistic categories of producers/reproducers, head of household/homemaker implies that the state and religious discourses have been deeply ingrained in the minds of the offsprings, and that socialisation is successful.

At the grassroots level, women settlers have to cope with their daily realities. They know what they have to do to survive. They know that they have to play multiple roles as farmers, wives and (m)others despite different expectations from the *Ulamak* and the state.

NOTES

- 1 All citations of narratives can be asked from the author.
- 2 National Front is the coalition between three major parties which are UMNO, MCA and MIC.
- 3 Partial realities imply that a person performs many roles in society. The summation of all these roles create the existence of a human being. The notion of partial realities

were raised by Marxist deconstructionist critics such as Dipesh Chakrabarty (1993), and Gayatri Chakravorty Spivak (1988) who "raises complex questions about the ways in which scholar, writers, and historians from the Western elite aspire to give "voice" to the colonial subjects, the third world subalterns, of their first world societies" (Wald, 1992, p. 17). Chandra Mohanty carries the argument further by critiquing Western scholars' generalisation of "women" as a universal category (1991).

- 4 The World Bank co-financed 30% of the total required funding for the Jengka scheme. The capital was loaned at three different stages.
- 5 WID refers both to "the liberal feminist literature on development" and to departments within aid organisations. In 1972, at the insistence of H.S. Percy, a Percy Amendment was introduced in Congress to a USAID bill, that demanded a women's component to USAID projects. USAID has also created a WID division. Unfortunately, this has mostly translated into:
 - (i) providing a women's impact statement and
 - (ii) having separate projects for women.

Thus, the same time as they have provided some recognition of women's issues, they have also marginalised women. Other international development agencies also created WID offices. After the U.N. decade for women, many nation-states adopted some programs on women. Most of these have been influenced by WID.

At the theoretical level, the WID approach has evolved into two other approaches: Women and Development (WAD) and Gender and Development (GAD). WAD and GAD have received attentions from many scholars. WAD originates from the neo-Marxist approach which grew out of the recognition of the limitation of WID. WAD assumes that women have always been a part of the development process. Women did not appear suddenly as a result of insights or scholarly research (Pala, 1977). WAD focuses on the relationship between women and the development process rather than at strategies for the integration of women into development (Rathgeber, 1990, p. 492). It recognises that women have always been important economic actors in societies, that their work in and out of the household is central to the maintenance of those societies. It argues that the integration approach has served to primarily maintain and sustain the existing national and international structures (Pala, 1977).

Although WAD is more critical than WID, it still focuses on productive work and offer very little analytical attention to the social relations within a class. The strategies offered tend to be preoccupied with the productive sector at the expense of the reproductive side of women's works and lives (McSweeney and Freedman, 1982).

The 1980's approach to "women" and "development" is GAD. GAD has a theoretical root in socialist feminism. The approach bridges the gap left by modernist theories by linking the relations of production to the relations of reproduction thus taking all aspects of women's lives into consideration. For the first time, there exists an approach which considers the social construction of production and reproductions as the basis of women's subjugation and oppression. It focuses its attention on the social relations of gender by questioning the validity of roles that have been ascribed to both men and women (Rathgeber, 1990).

In its practical application, GAD advocates the analysis of the nature of women's contribution inside and outside the household including non-income-generating activities (Moser, 1989; 1993; Subbarao et al., 1994). Specifically, GAD emphasises on practical and strategic needs of women.

Practical needs refer to the demand for goods and services arising out of women's socially acceptable roles in society – such as the need for health care or drinking water supplies. Strategic needs refer to requirements, such as equal employment opportunities and equal access to education and to productive assets that would help women achieve greater equality relative to men by changing their position in society (Moser, 1993).

At the same time, GAD rejects the public/private dichotomy which has commonly been used as a mechanism to undervalue family and household maintenance work. GAD sees women as agents of change rather than passive recipients of development. GAD also stresses that women have to organise themselves in order to provide a more effective voice for their causes. It recognises the importance of class solidarity and class distinction, but argues that ideology of patriarchy operates within and across classes to oppress women.

6 This statement is implied from the fact that women have equal opportunity to own land in the villages of their origins.

7 Many schools in Malaysia have two sessions in order to accommodate all the students. Normally, a morning session would start at 7.45 am and end at 12.45 pm, and the afternoon session would begin at 1.30 pm and end at 6.30 pm.

8 On the rubber scheme N (female) = 38

N (male) = 36

Calculation for % of men and women sending kids to school:

Women : $23/38 = 0.61$

Men : $3/36 = 0.08$

9 By looking at the Daily Schedule five women leave the plots around 9:00 am. These are the women who return to collect latex in the afternoon. Therefore: $5/38 = 0.13$.

10 Schools in Malaysia are classified into several groups. Grade "A" school indicates that it serves over a thousand students, thus garnering a higher level of educational support from the Ministry of Education.

11 The settler uses a knife which is attached to a long pole in order to reach the fruits.

12 There are five prayer times in the Islamic religion. The first one is at the break of dawn and ends before sunrise.

13 The unit of work associated with these projects could be considered as agricultural work. The total units were accounted for in the overall work of both men and women settlers. While the units could be allocated to the agricultural work, upon close observation, the data would not affect the outcome of the study because the relative percentage of work will remain the same.

14 Negeri Sembilan Timur is a district located to the south-west of Jengka.

- 15 The ratio of 1:10 indicates that one person is required 10 acres of land.
- 16 RM stands for Ringgit Malaysia or Malaysian Dollar. In April 1994, the exchange rate was as follows: US\$ 1 = RM2.7. Thus RM138 is equivalent to US\$51.10.
- 17 Refer back to chapter 5 for the description of the three stages of this dissertation.

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9

POLITICAL ECONOMY OF ISLAMIC DEVELOPMENT: A COMPARATIVE ANALYSIS OF KELANTAN AND TERENGGANU

Muhammad Syukri Salleh

INTRODUCTION

IN Malaysia, endeavours in implementing Islamic development are increasing. At national level, there are Islamisation policies – from administration, education to financial systems. The Malaysian national development strategy itself, the *Wawasan 2020*, has a clear inclusion of and emphasis on commendable values (*nilai-nilai murni*), which are dominantly based on Islamic doctrines. At state level, there are at least two states, Kelantan and Terengganu, which attempt to realise their development programmes based on Islamic principles. Both states advocate Islamic development strategy, but of course with a blend of similar and different socio-economic and political environments.

Geographically, the states of Kelantan and Terengganu are situated in the East Coast of Peninsular Malaysia. Demographically, majority of their population are Malay-Muslims. Economically, for long both have been categorised into among the most poorest states in the country.¹ But politically, Kelantan is being ruled by the opposition Islamic party PAS while Terengganu by the Malaysian ruling party, the Barisan Nasional. The PAS-led government in Kelantan seems to have a 'more Islamic' vision

than that in Terengganu. But in realising Islamic development, Kelantan is not only facing more practical constraints but is also without a proper Islamic development guidelines. In this sense, Terengganu seems to have a rather smooth sailing and, clearer vision of Islamic development strategy with the availability of an official blueprint. This paper attempts to understand the phenomenon and analyses the problems and merits of both the states in realising Islamic development.

ISLAMIC DEVELOPMENT IN KELANTAN

Kelantan has been ruled by the Islamic Party PAS twice for a quite substantial period, first during 1959-1978 and second, from 1990 until now.² However, it is during its second rule that Islamic development has been attempted unequivocally. During its first rule in 1959 to 1978, attempts to realise Islamic socio-economic and political system could hardly been seen, even though from the outset of its establishment in 1959, PAS had always aimed at establishing an Islamic state with a full realisation of an Islamic socio-economic and political system.³ It has been said that this first rule was led by an 'unIslamic' Malay-Islamic nationalist leadership, which suffered from administrative inefficiency, mismanagement of resources, financial crisis and corruption.⁴ It ended with a chaotic situation,⁵ leading to its fall and Kelantan being taken over by the ruling UMNO-dominated Barisan Nasional on March 11, 1978 General Election.⁶

Having learnt the lesson, PAS reorganised itself under what it calls *ulama'* leadership⁷ and collaborated with the then opposition UMNO-splitting party Semangat 46, HAMIM and Berjasa under the banner of *Angkatan Perpaduan Ummah (APU)*. As a result of the revitalised efforts, the PAS-led coalition made a comeback to Kelantan in 1990 Malaysian General Election with a full victory, winning all the 39 State and 13 Parliamentary seats.⁸ The victory was reiterated, in spite of a decreasing majority, for the second term during the 1995 General Election.⁹ The APU coalition won 36 of the 43 State seats and 12 of the 14 Parliamentary seats.

It is immediately after regaining the political power in 1990 that the PAS-led government showed a more serious endeavour in the Islamisation of the state'.¹⁰ This includes endeavours in experimenting the establishment of an Islamic development system, through the realisation of various commendable elements of Islam. It began with the state leadership itself. The Chief Minister Datuk Nik Abdul Aziz Nik Mat decided to avoid the normally extravagant attitude of leadership by contributing a part of his

allowances to the state and deducting some irrelevant allowances of his and his state EXCO members. The Chief Minister donated 40% and 5% of his monthly allowance to PAS and State Treasury, respectively. Other PAS Assemblymen are also expected to contribute RM500 of their allowance to the party every month. The Chief Minister's RM30,000 traditional allocation for Eid celebration and RM15,000 for breaking fast (*iftar*) during Ramadhan were abolished. So was his RM3,000 monthly housing allowance as he lives in his own former simple house rather than the official Chief Minister's residence. A total of RM18,000 was saved from entertainment allowances of his two Deputies as a result of reduction in their entertainment, official residence, residence helpers, summer clothes and daily allowances as well as the coordination between these allowances with the allowances of the states' Executive Council (EXCO) members. The EXCO members and Assemblymen are strictly prohibited from using their position as wealth-seeking privilege and from accepting any sort of presents and souvenirs during their visits to their people. They are expected to be able to deliver Friday sermons and lead the prayers whenever and wherever necessary. The PAS-led government has also made a point that the *Sultan* (King), as the head of the Islamic religion in the state, visits traditional Islamic learning institutions (*pondok*) each year during his birthday celebration.

In the daily administration of the state, other Islamic elements have also been incorporated. They could be divided into at least three broad forms. The first is the revival of Islamic tradition (*adab*). Included in this endeavour is the collective recitation of *Al-Fatihah*, a Qur'anic chapter at the beginning of all meetings and collective recitation of another Qur'anic chapter *Al-'Asr* accompanied by *Tasbih Kifarah* and a short prayer at the end. Government servants are not only expected to hold congregational prayers (*sembahyang berjemaah*) and greet each other with *Assalamualaikum* but also encouraged to organise Qur'an reading (*tadarus*) and Islamic meetings (*usrah*) at all levels, led by respective District Officers and Department heads. The normal task of *Qadhi* (Islamic judge) reading prayers at official occasions has been stopped and all *Penghulu* (government officials at local lower level), are appointed based on their competence in the basic knowledge of Islam (*fardhu ain*), their ability to read the Qur'an and to lead the prayers (*imam*). Friday sermons are used as one of the channels in communicating with the people pertaining to current issues and state policies and actions. Islamic banners and signposts are also used to create Islamic atmosphere and as a source for *dakwah*.

Second is the establishment of units and committees. Among them were Islamic Development, Education and *Dakwah* Committee, Women Committee, Non-Muslims Affairs Committee (in which non-Muslims are also appointed to be the members), Investigation Committee (to investigate the past and future vice activities of the government servants), Special Enforcement Unit (to check dishonest activities related to timber industry) and Mukim Community Development Committee (*Jawatankuasa Pembangunan Ummah Mukim*) chaired by *Penghulu* as government's channel in identifying the problems of the people at grassroots level.

Third is the amendment in the daily administration of the state as follows. The District Officers (*Ketua Jajahan*) and not the Assemblymen (*Wakil Rakyat*) as practised by the previous Barisan Nasional government, are now appointed as the Chairman of the District Council (*Majlis Daerah*), in which the members, among others, include women and non-Muslims. The District Officers are also authorised to pass land ownership of not more than 10 acres. Mining Procedures 1939 (*Peraturan Melombong 1939*) has been amended and replaced with Mining Enactment 1991 (*Enakmen Melombong 1991*) while Gold Buyer and Royalty Enactment 1932 (*Enakmen Pembeli Emas dan Royalti 1932*) has been revised and replaced with The Management of Raw Gold Enactment 1991 (*Enakmen Urusan Emas Mentah 1991*). The existing state's official cars are to be retained and used while no new purchase should be made in order to save the state's expenditure. During the fasting month of Ramadhan, government servants are allowed to work half-day while their maternity leave has been lengthened from 42 to 60 days. The account for the revenues from *haram* sources such as the licences for dog, alcohol and pig rearing are separated from the *halal* ones and used for the needs of the non-Muslims only. Government's contributions are not allowed to be announced in the public and any government servants involved in corruption is punished severely. Government machinery is not allowed to be used in election campaign and the government (ruling politicians) is prohibited from oppressing government servants and involving themselves in the latter's administrative affairs.

In the domain of shari'ah, some important steps are also taken, especially through prohibitive forms. For example, since January 1, 1991, gambling has been banned and the sale of alcohol is dealt with more strictly. Rock concerts and other Islamically forbidden stage shows, such as *Mak Yong* and *Menora* are also not allowed. Prostitution centres and places have been clamped down upon and closed. Women are prohibited from participating in Qur'an reading contest and only girls below 15 are allowed to participate

in *nasyid* (Islamic songs) competition. Campaigns for Islamic dress for Muslim women and proper dress for non-Muslims were carried out and women in Kelantan are expected to cover their body (*aurat*) according to Islamic teachings during sports activities. No advertisements are permitted to use women's pictures, and hairdressing salons run by women must be operated in line with Islamic teachings. In all occasions, women should be segregated from men.

The PAS-led government too had forwarded and passed in by the State Assembly a proposal to implement *hudud* laws in the state. Although its implementation is yet to have taken place due to some legal and political complications, the state government until now has never given up in continuing to endeavour for its realisation." In other socio-political aspect, the PAS-led government also attempts to create a harmonious welfare society with an Islamic identity. Non Muslims are invited to Muslim celebrations; political enemies of the PAS-led government are not revenged (provided that they do not pose obstacles to the state's Islamisation programmes); and old folk homes are encouraged to be built near *pondok* (traditional Islamic learning institutions) or mosques. The functions of the mosque are seen to be diversified. The capital, Kota Bharu, is declared as a Cultural City (*Kota Budaya*) nurturing an Islamic cultural identity.

Besides all the above, the PAS-led government also puts an effort in incorporating Islamic elements in the state's development programmes. In the first place, as far as possible, financial dealings are undertaken in an Islamic manner. The state's fixed deposit previously deposited in conventional banks are moved to Bank Islam, a nationwide interest-free bank initiated and established by the federal Barisan Nasional government. As PAS in general and Kelantan in particular has yet to have its own Islamic bank, the move has been seen as acceptable, although in the beginning there were sentiments of disagreement among some members of the more radical PAS Youth wing. In addition, the state-owned State Economic Development Corporation (SEDC) and its subsidiaries are directed not only to pay the normal tax, but also the *zakat*. An Islamic housing and car loan scheme is created for government servants and an Islamic pawnshop system (*Ar-Rahn*) is introduced since March 12, 1992 under the auspices of the *Permodalan Kelantan Berhad*. In the later years, the *Permodalan Kelantan Berhad* has also established an Islamic hotel, named *Al-Ansar*, and an Islamic medical and maternity centre, called *An-Nisa'*. The PAS-led government also established a fund called *Tabung Amanah Serambi Mekah* (Serambi Mekah Trust Fund), which aims at providing an opportunity for all

Kelantanese and PAS' sympathisers to contribute to the independent fund for the development of the state.

In order to encourage investments, a special allocation of RM250,000 is created under the investors' incentive scheme. Timber tender previously given through negotiation by the Barisan Nasional government, is now abolished and replaced with open tender system. New office and government buildings are prohibited from being concentrated in urban centres anymore and a cooperative (*gotong-royong*) concept called *at-taawun* is introduced in all projects in view of saving development expenditures and bridging the people's relationship. A settlement scheme called *Desa Taqwa* which attempts to ensure a balanced spiritual-material development is also introduced.

In addition, for the benefit of the poor population, trishaw licences estimated to be about RM48,000 per year, are abolished, in order to lighten the burden of the 2,000 trishaw riders in the state. An allocation of RM1.2 million for fertiliser's subsidy is also approved. An Islamic learning institution, *Maahad Tahfiz*, is established under the administration of Kelantan Islamic Foundation. The welfare and security of women factory workers working at night are also given serious attention. In any development planning, the state promises to ensure that priority is given to the poor.

All in all, according to the record of the State Economic Planning Unit, from 1990 until about 1992 alone, a total of about 73 endeavours of the sorts above have taken place in Kelantan.¹² All these are done in a rather loose, fragmented and *ad hoc* manner, neither with any specific blueprint, master plan nor with clear guidelines. But it is perhaps not without a philosophical underpinning, though not stated in a clear form. A PAS' sympathiser interprets the philosophy of the Kelantan's Islamic development endeavours as follows:¹³

- (i) Promoting the concept of *tazkiyah*, that is self-purification based on Islamic teachings. It is combined with physical development efforts to become what a PAS intellectual called 'purification with growth.'¹⁴ Included in this endeavour also is the concentration on human development, that is labour, rather than capital, by having programmes to uplift human's piety (*taqwa*) on the basis of an *ubudiyah* model (*pengabdian*, submission to Allah). To PAS, people with high *taqwa* will also be proactive and productive.¹⁵

- (ii) Uplifting *zuhud*, that is the adoption of minimum consumption within individuals, consuming only goods and services that are really needed, rather than fulfilling one's wants. The prohibition from presenting gifts to government officials and politicians during their official visits, the use of the existing government cars and not new ones as long as they are still usable, and the cutting down of the allowances and other facilities of state leaders such as the Chief Minister himself and his colleagues regarded as extravagance, hence, avoiding corruption and abuse of power, are some of the endeavours in creating such a consumerist behaviour.
- (iii) Promoting a concept of development which "basically gives priority to a balanced human development in physical and mental aspects with the aim of creating a comprehensive unity in the society". This balanced human development involves two main characteristics, that is the normal physical development and a development towards "preparing a new boundary for ummah's thought based on Islam as *Ad-din* (a way of life)". This vision is in line with PAS' election manifesto *Membangun bersama Islam* (Developing with Islam). Its realisation must be generated by three main principles: *Itqaan* (skill), *ubudiyyah* (submission) and *mas'uliyah* (accountability).
- (iv) Advocating a participatory development and collective consciousness through the concept of *at-taawun* (*gotong-royong*), that is working together in a collective manner to achieve common goals. Through *at-taawun*, not only people's participation and a collective sense of belonging are created, and development from below is possible, it is also minimising the cost of development. For example, a bridge costing RM60,000 if constructed by a contractor chosen through the normal tender system, was constructed through the *at-taawun* concept for only RM40,000.¹⁶ These participatory development and collective consciousness are extended to the establishment of *Desa Taqwa* (literally, Pious Village), aimed at creating a model society based on Islamic teachings – a society free of vices (*maksiat*), diligent and hard working, progressive family, society and state, as well as¹ increasing cooperation and mutual help through an active and progressive culture.¹⁷

- (v) Fulfilling the basic needs (*dharuriah*) of the people by providing ownership of virgin lands, hence increasing the state's revenue through additional land tax, rather than raising taxes on the existing landlords. This is feasible as land matters, according to Federal Constitution, are under the auspices of the state government.
- (vi) Providing to population with necessities which are compatible with human instinct (*fitrah*) such as increasing maternity leaves for female government staff.
- (vii) Respecting the concept of and the need for 'neutrality of the civil service' by returning the post of Chairman of each District Councils to District Officers. During the Barisan Nasional rule, the post was given to politicians.

All the above endeavours do not really involve a radical, structural and constitutional change. But to PAS, they are nevertheless radical in themselves because they involve changes in world-view (*tasawur*) and lifestyles.¹⁸ A simple but important example of the change in world-view and lifestyles, to PAS, is the recitation of the Qur'anic chapters *Al-Fatihah* at the beginning and *Al-Asr* and the prayer verses *Tasbih Kifarah* at the end of any formal meeting. So is the reduction of the 45 per cent of the allowances received by the Chief Minister and other political leaders in an effort to avoid affluence and encourage moderation. In terms of development, there are *Tabung Serambi Mekah* (literally, Mecca's Verandah Fund) to encourage collective contribution to development, RM250,000 allocation for Investment Promotion Scheme (*Skim Galakan Pelaburan*), the shifting of fixed deposits of the government's fund from interest-bearing ones to interest-free Bank Islam, the provision of Islamic loans to staff of the state government, the introduction of Islamic Pawnshop (*Ar-Rahn*) and the replacement of timber tender through negotiation with open tender. In addition, activities not only contrary to Islamic teachings but also having implications upon economic development by generating underemployment and so on are prohibited. Examples are gambling, rock concert, video games and snooker. Such changes are regarded as the PAS-led government's consideration on the 'human capital' as an important factor in development process, taking the moral factor as one of the factors of production and other non-economic factors as integral to the economic development framework.

ISLAMIC DEVELOPMENT IN TERENGGANU

Unlike Kelantan, the neighbouring state of Terengganu is almost synonymous with UMNO dominated Barisan Nasional, the ruling party of Malaysia. With the exception of a brief period, that is from 1959 to 1962 when she was ruled by the Islamic Party PAS, Terengganu has been ruled by Barisan Nasional all along until now. Although so, Terengganu has also introduced some Islamic programmes, the main of which are the establishment of Islamic Foundation known as *Yayasan Islam*, *Al-Bai Bithaman Ajil* system, Islamic pawnshop system (*Ar-Rahn*) known as *Muassasah Gadaian Islam Terengganu* (MGIT) and Islamic Trust Fund Unit called *Amanah Saham Darul Iman* (ASDI). In fact, in both the Islamic pawnshop system and Islamic Trust Fund Unit, Terengganu is considered as the pioneer in Malaysia. These Islamic programmes recently have been followed with a clearer Islamic development vision, encompassed in the strategic plan of her Second Development Phase 1995-2010. In this plan, a clear blueprint of an Islamic development strategy called *Wawasan SIHAT* has been formulated.

Interestingly, amongst all the Barisan Nasional states, Terengganu is the only state of the ruling Malaysian *Barisan Nasional* that has formulated such a clear blueprint of an Islamic development.¹⁹ Her approach is also interesting indeed. Although attempting an Islamic development strategy, Terengganu leaves her conventional socioeconomic and political structure untransformed. Unlike Kelantan, Terengganu does not declare earnestly to transform Terengganu into an Islamic state in the normal way, namely through the changes of Constitutions and unequivocal declarations. She puts a rather substantial emphasis on the formulation of a development strategy that aims at the establishment of an Islamic society, the *madani* society (*mujtama' madani*). In other words, Terengganu concentrates on the creation of the Islamic contents rather than on the Islamic form. It is such an approach and objective that are to be operated and achieved respectively through the *Wawasan SIHAT*.²⁰

Literally, *Wawasan* means vision while *SIHAT* means HEALTHY, forming the literal meaning of *Wawasan SIHAT* as Vision HEALTHY. But in its real meaning, letters in *SIHAT* embody the very philosophical underpinning of the Terengganu Islamic development vision. S stands for *sihat* (healthy physical and mental), IH for *ilmu yang dihayati* (practised knowledge), A for *akhlak mulia* (commendable behaviour) and T for *taqwa* (piety).²¹ In short, *Wawasan SIHAT* carries a value-loaded model of development that aims at establishing the first *mujtama' madani* (*madani*

society) in Malaysia, and in fact, it claims, the first in the world. By *mujtama' madani* the state government of Terengganu means a society that possesses an Islamic lifestyle and cultural pattern, either at the level of individual, family, organisations and administration.

Individuals of *mujtama' madani*, according to the vision, would be Islamically religious, knowledgeable, educated, sharp, creative, independent, with integrity, convinced of his ability, respect others' view, dare to undertake responsibilities, and uphold their relationship with Allah (*hablum-minallah*) and with other human beings (*hablum-minannas*). Families of *mujtama' madani* are characterised by healthy, dynamic and active families which are able to give birth to human beings who are spiritually and physically clean, and which are religiously educated in all aspects of life. Such individuals and families will form the *mujtama' madani*, the society that is caring (mutual respects, considerate, friendly and harmonious irrespective of religions, tribes, races, and political ideology), thoughtful and knowledgeable, lifelong learning, strong and solid unity (practising real neighbourhood concept, sensitive to surrounding environment and committed to the concept of *amar maaruf nahi mungkar*, self-reliant and without begging culture. From such values will emerge a *madani* state which is, as mentioned in the *Qur'an*: "a territory fair and happy, and a Lord Oft-Forgiving!" (*baldatun tayyibatun warabbun ghafur* – *Surah Saba'*, Ayat 15).

On material and physical development, the state of the *mujtama' madani*, according to the vision, would be characterised by a rapid industrial development, sustainable economy, low rate of poverty, emergence of local entrepreneurs and high productivity.²² It goes in line with the Balanced Development Policy of the state's Second Development Phase (1995-2010) that consists of three aspects: a balance between human and physical development, a balance between sectors, and a balance of infrastructural development between areas. In general, this policy aims at raising income and standard of living of Terengganu population.²³ In particular the policy has the following three objectives: firstly, to maintain the rate of economic growth at 7.4% per annum during the period of Seventh Malaysia Plan 1995-2000 and at 8.0% by the year 2010;²⁴ secondly, to reduce the rate of poverty to 15.0% by the year 2000 (the end of Seventh Malaysia Plan) and 10% by the year 2010 (the end of Second Development Phase);²⁵ and thirdly, to reduce the rate of unemployment to 4.0% by similar time-frame.²⁶

These would be achieved through the following strategies: firstly, a moderate economic growth (around 7.4% to 8.0% per annum);²⁷ secondly,

shifting of traditional manpower concentration that is based on agricultural sector to manufacturing and trade sectors; thirdly, increasing the ability of agricultural sector; fourthly, improving basic infrastructures; fifthly, encouraging tourism activities; and sixthly, raising human resource quality.²⁸ The emphasis of the Second Development Phase (1995-2010) lies on five development bases: human development, rural/infrastructural development, urban development, industrial development and human resource development.²⁹

All in all, *Wawasan SIHAT* is viewed by the government of Terengganu as a reformist movement and an attempt of social engineering towards nation-building. It intends to change the existing form and goal of development based on her own mould, namely the *Qur'an* and *Hadith*. Its main objective is to create harmonious life (*kesejahteraan hidup*) for the *ummah* so that eventually the people of Terengganu will fulfil the characteristics of *ummatah wasata*, a moderate *ummah*, that practices *Qur'anic* doctrines in their life and career.³⁰ The operational philosophy of the *Wawasan SIHAT* lies in the *Qur'anic* verse contained in *Surah Al-Qasas*, ayat 77 which means: "But seek, with the (wealth) which Allah has bestowed on thee, the home of the Hereafter, nor forget thy portion in this world: but do thou good, as Allah has been good to thee, and seek not (occasion for) mischief in the land: for Allah loves not those who do mischief."

Through *Wawasan SIHAT*, the population of Terengganu regardless of race and religious belief is expected to be united with a sole line of thinking (*wahdatul fikr*), need, aim and struggle towards happiness in this world and the Hereafter (*hasanah fid duniya wa hasanah fil akhirah*). The *Wawasan SIHAT* advocates development with *tazkiyyah* (human purification), encompassing all dimensions that acknowledge and absorb the power and Oneness of Allah and the role of human beings as *khalifatullah* (representatives of Allah). These God-conscious human beings are expected to create and uphold justice to achieve *al-falah* (success) in this world and the Hereafter.³¹

The *Wawasan SIHAT* itself has its own rationales.³² Firstly, the *Wawasan SIHAT* is regarded as an effort towards an Islamic revivalism, reviving Islamic civilisation and glory that has once been established in Terengganu. The state is noted as one of the earliest state in Malaysia that was introduced to and has practised Islam. This was marked by the founding of an important Islamic trace, the *Batu Bersurat* (stone inscription), in 1303.³³ It reflects the existence of an Islamic civilisation and reformation of the Terengganu people through the sovereignty of the *Shari'ah*, strong economy and trade,

intellectual development and literary culture. All these were founded on *Tanohidic* paradigm and *Qur'anic* vision. The *Wawasan SIHAT* attempts to revive such an Islamic glorification and civilisation in the state that has long been destroyed by colonialism.

Secondly, the *Wawasan SIHAT* is regarded as an economic struggle based on the eradication of poverty, distribution of wealth, existence of social justice and enjoyment of development by all irrespective of race and religion. In this regard, Terengganu is viewed as fortunate to be a *late-starter* in development. She could learn from development successes and failures of other states and formulate her own development model based on her own strength, cultural and historical background.

Thirdly, a development model such as *Wawasan SIHAT* is deemed necessary in eliminating elements of dichotomies and dualism in development thinking, organisational administration and management, definition of knowledge, formal education and social life. Instead, all of these have to be seen in relation to *Qur'anic* and *Sunnatic* doctrines such as emphasised by the *Wawasan SIHAT*. Finally, *Wawasan SIHAT* is essential in complementing and strengthening the nation's *Wawasan 2020*. It refines the operational definition of the latter in a clearer and practical manner.

THE POLITICS OF ISLAMIC DEVELOPMENT IN KELANTAN AND TERENGGANU

The interest of Kelantan and Terengganu in realising Islamic development is very significant indeed. It indicates very clearly that, for whatever reasons it may be, interest in Islam has gone beyond political ideologies and all are increasingly aware of the need to project Islam in a more practical sense. Understandably, because of their different political and socio-economic realities, their form of the Islamisation process may also be different, and so are the constraints and challenges they are facing. This section deals with the politics and challenges of the Islamic development endeavours in both states, especially in relation to their respective political and socio-economic realities.

The Political Economy of Islamic Development in Kelantan

Especially for Kelantan, accomplishment in realising Islamic development has been associated very intimately with her political and socio-economic realities. The most prominent reality is the oppositional nature of the Kelantan government itself, followed by her inexperienced politicians and

civil servants in Islamic development. Emerging from these are the realities that could be divided into two categories. Firstly, those related to external factors, from outside the PAS Party, and secondly internal factors, from within the Party and the PAS-led government themselves.

The external factors very much relate to challenges posed by the federal ruling Barisan Nasional. Firstly, for example, the federal government has hindered the PAS-led government from establishing an Islamic state in Kelantan through the control of the Federal Constitution as in the case of the *hudud* laws. Secondly, it also created a coordinating office in Kelantan called *Jabatan Pembangunan Persekutuan* (JPP, Federal Development Department). It functions no less than the PAS-led government's State Secretary Office. While the latter coordinates state government agencies/offices and is accountable to the state government, the former coordinates federal government agencies/offices and is accountable to the Federal government. As both Offices are controlled by two contradicting political ideologies, inevitably there arises conflicting interest, objectives and methodologies, hence negative implications for the establishment of an Islamic development system in Kelantan.³⁴ There are many manifestations of these implications.

Firstly, as agencies under the Federal Development Department in Kelantan number 99 while under the State's Secretary Office only 49, Islamisation of development is quite difficult. Even if all the 49 state's agencies/offices adhere strictly to Islamic teachings, the other 99 controlled by the Federal would not necessarily be obliged to do the similar.

Secondly, the federal agencies are non-committed agencies as far as the Kelantan state is concerned. Although many of them are appointed by the state government to be in the coordinating committee of various state's projects and programmes, no ultimate decision and commitment could be made without reference to the Federal Development Department and subsequently to their superiors in Kuala Lumpur.

Thirdly, the enormous financial support from Kuala Lumpur that flowed in via the Federal Development Department has not only worsened federal-state conflict and disunited the Kelantanese, but it has also strengthened the persistence of the neo-classical development philosophy in the state as held by the Barisan Nasional. In one sense, the financial flow via the Federal Development Department is beneficial for the development of Kelantan as a whole as the financial assistance directly to the Kelantan state government is very limited. But these benefits, however, are more of a dichotomous form. The Federal Development Department's target groups are more

concentrated on UMNO supporters whereas the state's targets are PAS supporters.

Fourthly, the Federal Development Department could be considered as one of the avenues of Federal pressures on the PAS-led government in Kelantan. The pressures are reiterative. During the first PAS rule in Kelantan (1959-1978), pressures such as through the created issues on FELDA (Federal Land Development Agency), the Kelantan bridge and adult classes had become effective steps partly attributable to the fall of PAS in 1978.³⁵ Now, similar pressures meant to directly or indirectly undermine the state government's endeavours, hence, decreasing its supporters are normal phenomenon in Kelantan. Issues such as *hudud* laws and other endeavours mentioned earlier are good bases for the federal ruling Barisan Nasional to play around with.

Apart from the above external factors, admittedly, the realities related to internal factors also entail pertinent impact on the realisation of the Islamic development in Kelantan.

Firstly, the realities are prevailing within the PAS itself. Among others, there seems to exist an identity crisis within its leadership. Concentration given to the Kelantan Chief Minister Datuk Nik Abdul Aziz Nik Mat and Deputy President Haji Abdul Hadi Awang is much more as compared to its President Haji Fadhil Nor, even in PAS' own media. Apart from extensive media coverage, both the Kelantan Chief Minister and Deputy President have their own columns in the PAS bi-weekly newspaper *Harakah* while the President not only does not have any column, appearance of his news also has neither been as frequent as the other two leaders. In one sense, the overwhelming exposure of the Kelantan Chief Minister who is also the *Murshidul Am* (spiritual leader) of PAS is good for the Islamic endeavours in Kelantan. But on the other, the overshadowing of the President by his two subordinates has not only affected his charisma but also more important, reflects a lack of coordination and weak psychological warfare within the Party itself. Subsequently, one could even go to the extent of thinking about the probable existence of various camps in the Party, reducing people's confidence in the Party in general and in the PAS-led Kelantan government in particular.

Moreover, assistance from the central PAS in establishing an Islamic state in general and Islamic development in particular in Kelantan is also limited. At PAS central level there is a *syura* (committee) pertaining to Kelantan, but its task is restricted to merely offering only ideas and proposals. The ultimate decision has to be made at Kelantan state level in consultation with other members of the Angkatan Perpaduan Ummah

coalition, especially previously the Semangat 46, and has to be based on the suitability with local socio-economic and political atmosphere.

Let alone such an unfortunate procedure, neither the central PAS nor PAS members nationwide have seriously offered a systematic and strong financial support to the PAS-led Kelantan government. With only RM0.50 contribution from each of about 600,000 PAS members nationwide per month, to total RM300,000, Kelantan could be a financially strong, independent state, hence, a smooth construction of a role model Islamic state. But not only is this not happening, but to PAS leaders, this is also impossible. It was argued that let alone such a contribution, even membership fees have neither been paid fully nor consistently by the members because of their poverty or apathy, or perhaps, lack of effective *tarbiyyah* (education and training) and systematic method of collection. The PAS members, therefore, remain as people who are just proud of the PAS' victory in Kelantan but contribute inadequately to the establishment of an Islamic state in general and Islamic development system in particular. Their sacrifice leaves much to be desired.

Secondly, the realities prevailing in the PAS-led government in Kelantan itself. At least three realities are observed: firstly, lack of practical experience and expertise; secondly, the existence of unmotivated civil servants; and thirdly, refusal to welcome help from other sympathised Islamic movements.

In the first case, practical experience gained by PAS in Kelantan in realising an Islamic development system only began during the second administration. Prior to that, in spite of the eighteen-year rule during 1959-1978, PAS accumulated limited experience as its Malay-Islamic nationalist leadership did not seriously aim at establishing an Islamic development system. Moreover at the PAS organisational level itself there has not been any attempt to implement Islam in a comprehensive manner, however small it may be.

These are compounded by a lack of Islamic expertise in various professional fields in Kelantan. In Islamic development, not even a single Kelantan State Civil Servants graduated in the field. From about a quarter of the Kelantan State Civil Servants researched in 1994, only two majored in general Islamic studies while others were graduates in secular fields such as building management, business administration, planning, finance, economy, civil engineering, agricultural science, rural development, sociology and anthropology, social sciences, psychology, genetic and history. So are those seven who hold further degrees. Their fields only

include urban and regional development, public administration, business management and political science.³⁶

Undoubtedly, the above professional fields are pertinent to the development of the state as a whole. But without an Islamic understanding among the professional cadres, the PAS-led government's vision of Islam could not be realised. This is worsened by the lack of basic Islamic knowledge among the Civil Servants themselves. From those surveyed, 85.1% only had basic Qur'an reading knowledge learnt in their own villages, while only one used to learn at pondok (traditional Islamic learning centre) and three others at Islamic religious primary and secondary schools. It is understood that most of the Civil Servants graduated during a time when Islamic Studies were given less priority, and Islamic development courses were non-existent. But even when Islamic Studies were revived and Islamic economics and development related courses were introduced in and outside Malaysia during the PAS rule in the 1990's, none of them have been sent to pursue their studies in the fields. Indeed, according to our survey, 80.4% of them expressed their interest in pursuing their studies. But again, their interested fields, with the exception of four who chose Islamic administration, one who chose Islamic development, one who chose Islamic Studies and one who chose Arabic language, are still lingering around secular fields such as law, development, English, management, psychology, public administration, business administration, organisational leadership and economic studies. Even short courses they attended more or less reflect a similar pattern. Of the Civil Servants surveyed, 32 of them attended secular courses from one to seven times each during the PAS-led government since 1990 as opposed to only 10 who attended Islamic related courses from one to only three times each.

These Civil Servants previously for so many years during the Barisan Nasional government, were obliged to submit to the neo-classical philosophy of the national development policy. Now, in the Kelantan PAS-led government, they are expected to formulate an Islamic development programme to be forwarded to, and, if thought to be Islamically viable, approved by, the state Executive Councillors, majority of whom are politicians. The change to PAS-led government naturally necessitates a reorientation of their mind and system of working. There are few who put a great personal effort on this. But many others, without an interest in related Islamic fields and encouragement to pursue their studies, such a task is not easy.³⁷ In addition, neither a blueprint nor a guideline of Islamic development is available to help them cope with the changes. Hence, enthusiasts among

them have to formulate their own 'Islamic' development programmes within a very loose definition, each according to their own restricted abilities. Even so, there is hardly any Islamic development experts from outside Kelantan and PAS who have ever been seriously invited to help in the formulation, planning and implementation of a holistic and comprehensive Islamic development blueprint.

It is quite uncertain how much impact the above problems have on the motivation and creativity of the Kelantan Civil Service. But based on findings made through participant observation, it is a reality that many of them are relatively unmotivated. The exact reasons at the moment are uncertain unless a serious research is carried out. But reasons which could be observed and felt quite immediately, especially towards the end of 1995, relate very much to their concentration of work and their linkages with their superiors. In the first reason, too much time and energy seem to have been spent on protocols either pertaining to palace matters, VIP visits to overseas or receiving VIP visitors from outside Kelantan. In the second, there is a limited check and balance process from their superiors. During the Barisan Nasional rule, there was the Public Service Department (JPA, *Jabatan Perkhidmatan Awam*) in Kuala Lumpur which consistently checked and provided guidelines and directives, and if necessary even insisted on the given tasks to be completed within deadlines. But now, as Kelantan is ruled by an opposition, such an attention automatically ceases to be under the auspices of the Public Administration Department. The Kelantan civil servants are now accountable only to the PAS-led state government and they are therefore free from the federal-state administrative linkage.

However, especially beginning from late 1995, the relationship between the civil servants and the PAS-led government has also deteriorated. There was an open clash between the management of the civil servants led by the then new State Secretary Wan Hashim Wan Daud and the PAS-led government. Although not all the 134 Kelantan civil servants were behind the State Secretary, such a clash has certainly resulted in a significant impact on the realisation of Islamic development programmes. Moreover, the State Secretary was also said to have gained support from the state's palace which was also having a deteriorating relationship with the PAS-led government. Coupled together, both institutions (the civil servants and the palace) could slower down many Islamic development endeavours, if not totally paralyse them.

This is worsened by the third reality, that is the PAS-led government's refusal to accept help from other sympathetic Islamic movements, in spite

of the lack of practical experience, professional expertise and efficient personnels in Kelantan. At least two offers by Malaysian-based Islamic movements have been rejected either direct or indirectly. The first was from Jemaah Islah Malaysia (JIM) and the second was from the now banned Darul Arqam.

In the case of the former, the rejection of the offer for help in constructing an Islamic state in Kelantan in general and an Islamic development system in particular, was more outright, even though JIM is acknowledged to have many Islamically-inclined professionals in various fields. This may be due to PAS' suspicion on JIM's true intention. In 1986, a few JIM's (then known as IRC, Islamic Representative Council) members who joined PAS and were sympathetic especially to PAS Deputy President Haji Abdul Hadi Awang, were accused of trying to influence the PAS leadership and said to have an intention to eventually dominate the Party.³⁸

In the case of Darul Arqam, the rejection was more indirect but drastic and radical. Prior to the PAS' rejection in September 1991, Darul Arqam has been organising Islamic concerts and exhibition in almost all districts in Kelantan. Its aims were to help the PAS-led government to expedite an understanding of Islam among its population, provide a practical Islamic entertainment and consumer products, and enliven the Islamic atmosphere in the state.³⁹ But when Darul Arqam's activities in Kelantan came to its climax by organising a grand expo, Islamic Cultural Concert and Annual World Gathering scheduled to be held in the capital of Kelantan, Kota Bharu, from 11 to 13 September 1991, the PAS-led government suddenly cancelled its earlier permission and banned them. The banning was done at the last minute – a day before the scheduled programmes, when all physical preparations at the premise were nearly completed.⁴⁰

According to the then Kelantan State Islamic Development, Education and Dakwah Committee Chairman Haji Yahya Othman who was also a PAS Exco Member in the Kelantan state government, the banning was in accordance with directives from the Malaysian Barisan Nasional's Prime Minister's Department, Islamic Centre and the State Islamic Religious and Malay Culture Council (MAIK).⁴¹ To many observers, the reason was very ironical. The PAS-led government now appeared to have submitted to its traditional political opposition, and more ironical was the decision to ban not only an Islamic movement's activities on the latter's directive, but also the movement which attempted to help expedite the establishment of the Islamic state and development in Kelantan.

But looking from different perspective, the banning was anticipated.

Firstly, Darul Arqam has long been viewed by PAS as pro-UMNO dominant government. If Darul Arqam continues to be active, as argued by the PAS Information Chief Subky Latiff, it would help UMNO and the Federal government to place PAS in confusion.⁴² PAS did not view that it was the PAS-Darul Arqam unity that was feared by the UMNO-led Federal government. Secondly, the Darul Arqam founder-leader Ustaz Ashaari Muhammad, an ex-PAS leader, is viewed by PAS as critical of PAS' method of struggle and internal weaknesses prevailing in the Party.⁴³ Thirdly, Darul Arqam's grand programme in September 1991 in Kelantan was seen by the PAS-led government as a challenge, not a complement, with the aim to compete with, if not to undermine, the Islamic government in Kelantan.⁴⁴ Fourthly, the PAS President, Haji Fadhil Nor, himself unequivocally stated that PAS, has, for a length of time, not agreed with the spiritual practice of Darul Arqam.⁴⁵ When Darul Arqam was banned by the Federal government in 1994, not only was the action supported by the PAS President,⁴⁶ but also by the Kelantan Chief Minister Haji Nik Abdul Aziz Nik Mat who agreed and apparently gazetted the Darul Arqam banning in his state.⁴⁷ The Kelantan Deputy Chief Minister Datuk Halim Mohamed, acting as the Chairman of the State Local, Housing and Environment Committee, directed all local authorities in Kelantan to pull down all Darul Arqam's logos, advertisements and signboards. In a nutshell, according to a PAS writer, Darul Arqam is regarded by PAS as *musuh dalam selimut* (literally, enemy in our own blanket).⁴⁸

In a situation when the PAS-led government badly needs support in various aspects, especially from those who not only offer help but is also Islamically-inclined and possess expertise and experience, this third reality is obviously an unfortunate one. If otherwise these expertise and experience were to be accepted and operated in Kelantan, the present state of the realisation of an Islamic development system might be different.

The second form of challenges faced by the PAS-led government's endeavour in realising Islamic development, which is tougher and complicated, is through the change of the Constitution. As PAS-led Angkatan Perpaduan Ummah governs the Kelantan state, endeavours which involve changing of the State Constitution are not too difficult. But being in a federal country like Malaysia, Kelantan, like the other twelve states in the country, in some areas is also bound by certain Federal Constitution. Matters which fall into the domain of this Constitution could not be changed unless the sections related to them in the Constitution are themselves changed. They necessitate a deliberation and discussion in and approval by the Malaysian

Parliament. Since the Parliament is dominated by the ruling Barisan Nasional, it is self-explanatory that an approval is not easy if the proposal for changes come from an opposition party like PAS, hence the inability to realise the PAS-led government's vision.

The best example in such a case is the PAS-led government's effort to execute *hudud* laws in Kelantan. In spite of its high political will and commitment as well as approval by the State Assembly in 1993, *hudud* laws could not be implemented in the state because it was not allowed even to be discussed in the Parliament. The execution of the *hudud* laws means an execution of the laws of Allah, in this case through the changing of the Constitution. As execution of the laws of Allah to PAS is prerequisite towards the establishment of an Islamic state, so is the execution of the *hudud* laws. But political realities, however, overshadow its realisation and the PAS-led government, apart from endeavouring matters unrelated to the change of Constitution, could not escape from submitting to these realities.

The Political Economy of *Wawasan SIHAT* in Terengganu

Wawasan SIHAT is unique in at least three senses. Firstly, it is a clear blueprint of a comprehensive Islamic development of a state in Malaysia, even though Malaysia itself as a nation has yet to do so. Secondly, it is an attempt to realise a comprehensive Islamic development system, even though the state itself has yet to be transformed into an Islamic one. Thirdly, it is a development vision that is avowed to be based on *Qur'an* and *Hadith*, even though the state consists of a multi-religious and multi-racial society.

It is obvious in its philosophy that the foundations of the *Wawasan SIHAT* are no other than the most authoritative sources of Islamic knowledge, the *Qur'an* and *Hadith*. These philosophical underpinnings reflect clearly the root of its epistemological framework. However, two questions may arise from this characteristic. Firstly, how could *Wawasan SIHAT* be unequivocally founded on Islamic epistemological underpinnings while it is supposed to be under the nation's *Wawasan 2020* that holds vaguely on its *Islamicity*? Secondly, how could such a development strategy be executed in the midst of the state's plural society?

On the first question, the state government of Terengganu, as mentioned earlier, regards *Wawasan SIHAT* as emerging from within the *Wawasan 2020* itself, not from without. The arguments are as follows. *Wawasan 2020* has stated clearly that the development to be accomplished is based on "our own mould". However, there is a flexibility; it goes without specifying

the basis of the "mould." From, within that flexibility, the state government of Terengganu has taken up a step further. It refines the meaning and nature of the "mould" based on the state's cultural and historical background. To the government of Terengganu, the "mould" is Islam, based on the epistemological underpinnings arising from the *Qur'an* and *Hadith*. As such, *Wawasan SIHAT* is viewed as an extension and a clearer, operational interpretation of the *Wawasan 2020* itself. In the words of the state government of Terengganu, *Wawasan SIHAT* is "a pioneered effort in adding, complementing and strengthening the struggle of the *Wawasan 2020* as the main agenda in establishing Malaysia as a developed country based on her own mould."⁴⁹

In this argument, Terengganu has successfully shown its strong link with the nation's development philosophy. It justifies her continuous philosophical and political resemblance with the Centre as is needed of a state being ruled by the ruling Barisan Nasional. Terengganu has been under the rule of the ruling Barisan Nasional for already a very substantial period, excepting the brief period of 1959-1962 when she was ruled by the opposition Islamic party, PAS. So far, the state government of Terengganu has skilfully evaded conflict with the Centre and subscribes strongly to the nation's ideology in every aspect. *Wawasan SIHAT* is the best example. Not only that it is linked to the nation's development vision *Wawasan 2020*, but its introduction to the establishment of *mujtama' madani* is done at a right time. The latter is emphasised at a time when the issue of *mujtama' madani* becomes a focal discussion at national level initiated by the then Deputy Prime Minister Datuk Seri Anwar Ibrahim himself. The formulation of *Wawasan SIHAT* therefore has not only been the product of the political will of the state government, but also gaining political support from the Centre.

It is perhaps with the similar reason that, in spite of her endeavour in Islamic development, Terengganu is silencing on transforming herself into an Islamic state. For Terengganu to declare openly and endeavour for such a transformation would not be an easy task. It might engender a serious political implications not, only for Terengganu, but also for Malaysia as a whole. It will involve changing of the state Constitutions, which could only be done with the approval of the Malaysian Parliament. Such changes, if approved, would become precedence for other states as well, the first in particular would be the neighbouring state of Kelantan. The opposition PAS-led government in Kelantan that believes in the sequence of provisos (political power – Islamic state – Islamic system), has long been trying to

change her Constitutions towards the establishment of an Islamic state. But it was refused by the Centre and not even brought to the Parliament for deliberation.⁵⁰ Understandably, it is illogical for Terengganu to insist on the similar endeavour from within the political caucus that shares similar political ideology. Terengganu would certainly try to avoid from being seen as adding to the problems created by the opposition state. Much more, she certainly abhors to be seen as going against the tide of the nation from within. The time is just not right as yet.

In such a case, it is not the desire in transforming Terengganu into an Islamic state that is problematic. The problem here is more of a political rather than the introspective. The desire for and commitment of the state leadership to Islam is already proven. The formulation of the *Wawasan SIHAT*, itself the brainchild of the Terengganu Chief Minister Dato' Seri Amar Di Raja Tan Sri Haji Wan Mokhtar Wan Ahmad, is one. The other is the Chief Minister's commitment to Islamic ideas and confidence. Since the outset of his career as the Chief Minister in 1974, he has been advocating all along the *balanced development* concept, namely the importance of developing one's inner self together with physical and material development.⁵¹ Being an *Azharite*⁵² and the first Islamic scholar to lead a state in Malaysia, he is very confident of the future of Islam and the Malay-Muslims. At Terengganu UMNO⁵³ Convention in 1994, for instance, he stressed:

"It is impossible for the Malays to exist with their Malay identity without practising Islamic principles and values.... Regardless of what people are saying about Terengganu and her Malay population, I have trust and confidence, InshaAllah, that the Malays in Terengganu will paint a glorifying future not only for themselves but also for the whole ummah. We must struggle together for a new image of Terengganu, a state that develops rapidly but without sacrificing their Islamic values.... Therefore, the mission and vision of the Malays in Terengganu for the coming centuries should not be limited to efforts of raising the standard of living and liberating them from poverty per se. Our mission is to develop the people of Terengganu so that our existence would be benefitted by us, others and the whole world. These are the characteristics of '*Khaira Ummah*' as portrayed in the *Qur'an*, namely the best Islamic ummah that, with their existence, bring harmonious life and light to others. This is the idealism of our struggle. This is what we should struggle for..... Do not surprise if

one day, the Terengganu Malay society becomes the core of the new Malay-Islam civilisation in this world."⁵⁴

The Chief Minister's passion for Islam has resulted in the emergence of various Islamic development products in Terengganu. As mentioned earlier, beside *Wawasan SIHAT*, there are Islamic financial products and systems such as *Al-Bai Bithaman Ajil*, Islamic Pawnshop *Ar-Rahn* and Islamic Trust Fund Unit *Amanah Saham Darul Iman* (ASDI).⁵⁵ All these are pioneered by Terengganu and done in a patient and an evolutionary manner. The Chief Minister is patient enough to reserve his personal Islamic zeal until an appropriate time. *Wawasan SIHAT*, for instance, has been declared only when *Wawasan 2020* was launched, while *mujtama' madani* was introduced only when the then Deputy Prime Minister Datuk Seri Anwar Ibrahim started to highlight it in 1996.

Knowing the patience of the Terengganu's leadership, it is not surprising that an Islamic state would come into reality in Terengganu in a near future, at another appropriate time. The *Wawasan SIHAT* is indeed a foundation, an infrastructure and an avenue towards the realisation of that reality. The option taken by Terengganu at the moment, that is Islamising development but silencing on the establishment of Islamic state, is an appropriate step. The best approach to Islamic development in the present circumstances in Terengganu is certainly the accommodative approach that has been adopted by the state.

On the second question, Terengganu does not encounter much difficulties. Although the state is a plural society, Muslim Malays are the majority. In 1995, the Malays, all of whom are Muslims, comprised 94.6% of the total population of 884,319. The Chinese, Indians and others only comprised 4.7%, 0.4% and 0.3% respectively.⁵⁶ In such a population structure, Terengganu appears to be the most conducive state to experiment a comprehensive Islamic development. She is able to create a model to be seen, felt and experienced by the non-Muslims themselves.

This is relatively easier for Terengganu to do so. The non-Muslims in Terengganu, like those in the neighbouring state of Kelantan, have long been assimilated into the culture and lifestyle of the Muslims. In Terengganu and Kelantan, the non-Muslims and the Muslims mix together with neither much racial nor religious boundaries. If the beauty of Islam could be conveyed and felt by both the Muslims and the non-Muslims through the Islamic development model in Terengganu, and for the similar case also in Kelantan, it would be easier for Malaysia to extend the model at the national level.

But, in spite of her right political strategy in the realisation of Islamic development, Terengganu, like Kelantan, is also facing the similar problem of inexperienced politicians and civil servants in Islamic development. Apart from the Chief Minister himself, understanding of Islamic development amongst the Terengganu ruling politicians is much to be desired. So is the expertise in this field amongst her civil servants. However, as compared to Kelantan, Terengganu seems to be much more open and prepared to realign her human resource planning accordingly and systematically, in line with the objective of the *Wawasan SIHAT*. Moreover, Terengganu has almost no difficulty in financing her civil servants to pursue their studies in Islamic development. Administratively, there is no clear indications of dissenting gestures among her civil servants and the palace-state government relationship is also cordial and stable. With these socio-economic and political realities, coupled with the political support from Kuala Lumpur, Islamic development endeavours in Terengganu seem to have a bright future.

CONCLUSION

The experiences of both the Kelantan and Terengganu state governments in realising Islamic development in their respective states have provided us with several lessons. Firstly, political ideologies and strategies have clearly played an important role in easing or complicating the endeavours. An opposition like the PAS-led government in Kelantan would inevitably, and understandably, face more challenges and difficulties than the Malaysian ruling Barisan Nasional Terengganu government. However, for Terengganu government too, risk-free state is also non-existent. In spite of sharing similar political ideology with Kuala Lumpur, she also has to have a good political strategy in introducing the Islamic development system. Clashes with Kuala Lumpur is natural for an opposition government like Kelantan, but for Terengganu, this would be an unbearable situation. Without political support from Kuala Lumpur, as is being enjoyed by the Terengganu government at the moment, the realisation of Islamic development programmes would be much tougher and difficult, or even more destructive for the state and her ruling politicians.⁵⁷ For that reason, any move towards the Islamisation of development in the state has to be undertaken at a right time and within the framework of the national Islamisation programmes. In addition, it has to attract local political support, especially from the Terengganu people themselves, so that the spread of political influence from the PAS-led government in her neighbouring state of Kelantan could be minimised.

Such a reality leads to the second lesson, that political power, in spite of its importance, is not really an absolute determining factor for a comprehensive implementation of Islamic development. Both Kelantan and Terengganu governments have proved that many other factors have to be taken into consideration and adjustment to local political and socio-economic realities inevitably has to be made. While Kelantan is facing with constraints familiar to an opposition government, Terengganu has to be very cautious in its endeavours in realising Islamic development system, so that it is in compliance with the national political and development strategies. This naturally moulds their own respective ways of realising Islamic development.

But interestingly, however, the differences in ways do not result in the differences in approaches to Islamic development. Both Kelantan and Terengganu, even though operating under different political ideologies, use the same top-down, accommodative approach to Islamic development. In both cases, Islamic development programmes are being ensued from the top, initiated by the state, with accommodations of Islamic elements into the existing conventional development framework. Total dissociation from the national dominant conventional definition of development is rather vague, and the development philosophy, objectives, concepts, time scale and measurements are almost unchanged.⁵⁸ In fact, one could still easily sense, among others, a strong objective of the PAS-led Kelantan government and the UMNO-led Terengganu government to endeavour for a kind of development which advocates maximisation of production and consumption within the neo-classical assumptions of the limited resources and unlimited wants, plus some Islamic elements. Such a confusion points to a vague notion of Islamic development the states are attempting to accomplish.⁵⁹ In Kelantan, this becomes more vague, as there is an absence of even a proper Islamic development blueprint, leaving development implementators and target groups in an ineffectual and unguided situation. In Terengganu, such a confusion is lesser as there is a blueprint of an Islamic development vision, but many still view *Wawasan SIHAT* as confined only to human development rather than to the state's development as a whole.

In brief, the Islamic development endeavours in both Kelantan and Terengganu are more of a gradual Islamisation of the existing neo-classical development paradigm rather than a realisation of a comprehensive Islamic development at once. Similar to other top-down approach to Islamic development, they are more of an 'injective' nature, inserting and incorporating things thought to be Islamic, into the existing non or un-Islamic

socioeconomic and political structure. The approach is therefore quite superficial, accommodative and, in many cases, apologetic. Again, this has to be so, at least for quite sometime, due to their political and socio-economic realities and surroundings.

NOTES

- 1 The details of the socio-economic background of these states are dealt with separately in the later sections of this paper.
- 2 Largely populated by Muslims (93%), Kelantan is unique for it is the only state among the thirteen states in Malaysia which is ruled by an opposition coalition, in this case the Angkatan Perpaduan Ummah (APU) which comprises the dominant PAS, Parti Melayu Semangat 46, and the smaller HAMIM and Berjasa. Parti Melayu Semangat 46, previously known as Semangat 46, is an opposition party founded by a ruling United Malay National Organization's (UMNO) splinter group, led by Tengku Razaleigh Hamzah, a Kelantan prince and former Malaysian Finance Minister. As the later three parties are relatively marginal, and moreover when the Semangat 46 disbanded itself to rejoin UMNO in 1996, the APU government in Kelantan is always seen as a PAS-led government, hence its Islamisation policies.
- 3 Such an intention is clearly expressed in its Constitution and many of its writings. See for example Pejabat Agung PAS Pusat 1990:2 and Jabatan Penerangan PAS Pusat n.d. To PAS, the quest for an Islamic identity does not only relate to the revival of Islamic teaching per se, but also to the practical reconstruction and establishment of its all-embracing system. For this, it holds to the belief that political power is a great asset and, in fact, a prerequisite and determinant for the establishment of an Islamic system (Jabatan Penerangan PAS Pusat n.d.:6-7).
- 4 See Mohd Sayuti Omar (1991), *Kelantan Selepas Pantang*, Tinta Merah, Kuala Lumpur, pp. 49-51 and Alias Mohamed (1984), *Kelantan Di Bawah PAS - Masalah Tanah dan Rasuah*, Insular Publishing House Sdn Bhd, Kuala Lumpur.
- 5 A year prior to the 1978 General Election, Kelantan was declared to be under emergency rule following riots against the PAS government. According to PAS, the riot was planned by the ruling Barisan Nasional (see *Manifesto PAS Kelantan* 1982: 1). It was during that chaotic period, when the Kelantanese sentiments were anti-PAS government for its alleged corruption and other vices, that the General Election in 1978 was held.
- 6 During this time, Kelantan has been known as one of the poorest states, if not the poorest, in Malaysia. In 1970 and 1976, for example, 76.1% and 59.2% of its households lived in poverty, respectively. Despite an indication of a decrease in percentage, Kelantan's poverty rate was still the highest when compared to the national rate of poverty, which was 35.1% (Ishak Shari, 1992, pp. 14-15, and Table 1.1). Its

households average monthly income was RM269, RM729 and RM900 in 1976, 1990 and 1992, respectively (UPENK, 1993, p. 9). Its per capita gross domestic product was also among the lowest. In 1970, it was RM462.9 (47%) as compared to RM1,142 of the national average per capita gross domestic product, followed by RM588.8 (47%) as compared to RM1,412 in 1975, RM931.3 (45%) as compared to RM1,908.2 in 1980, and RM1,009.80 (45%) as compared to RM2,119.20 in 1983 (UPENK, 1984, p. 21). Kelantan's usage of technology is also low while its manpower is under-employed with low rate of productivity. The rate of unemployment in 1983 was 8%. Its agriculture, as the thrust of the state's economy, only manages to reach subsistence level, operating in the form of smallholdings with an average size of between 0.8 to 1.2 hectares with poor economy and underdevelopment (UPENK, 1984, p. 8 and UPENK 1993, pp. 1,3). For a little more detailed elaboration on the causes of these, see Muhammad Syukri Salleh, "The Top-down Approach to Islamic Development: The Experience of PAS-led Government in Kelantan, Malaysia, 1990-95", in Bernard Dahm and Naimah Talib, (eds.), *Religious Revival in South-East Asia*, Singapore: Institute of South-East Asian Studies (ISEAS), forthcoming.

- 7 The ulamak leadership refers to a leadership which identify itself as *pewaris al-anbiya'* (literally, inheritors of Prophets and the pious Muslims) with respected characters of the previous Prophets and pious Muslims such as high commitment to the Islamic cause, sincerity (*ikhlas*) and piety (*taqwa*) in leading the members, practising Islamic lifestyles and mode of thinking and having an image of self sacrifice (see Wan Abdul Rahman Wan Abdul Latiff (1991), *PAS 1951-1991: Cabaran Pemantapan dan Misi Jabatan Penerangan PAS*, Kuala Lumpur, p. 35).
- 8 Despite the victory, however, PAS still has to bear the inheritance of a poor and underdeveloped state of Kelantan. Like the first PAS rule, the twelve-year Barisan Nasional rule (1978-1990) was also found to have not improved the Kelantan economic performance very much. During 1980-1985, for example, the economic growth of the state was 6.3 per cent. This has decreased to 5.5 per cent during 1986-1988 as compared to 6.9 per cent of the national growth (UPENK 1991:3). The growth rate of Kelantan's household average income during 1976-1990 was the lowest (7.2 per cent) even if compared to two other poor states in the country, Terengganu (7.3 per cent) and Kedah (7.7 per cent) (UPENK, 1993, p. 9).
- 9 PAS was quite fortunate that within the first four years of its second rule, the poor economic situation has been reversed to some extent, thanks to, among other things, the overall national improved economic performance (UPENK, 1993, p.1). In 1994, economic growth in Kelantan increased to 7.4%, although agriculture is still its prominent sector. The most contributive and growing sector during this period was the service sector (UPENK, 1995). The contribution of the service sector to Gross Domestic Product increases from 58.9% in 1990 to 59.1% in 1991, 59.7% in 1992, 60.0% in 1993, and 60.2% in 1994. It expands at a rate of 7.7% per year and its contribution to manpower is 59.9%. This sector includes firstly, electricity, gas and water; secondly, transportation, storage and communication; thirdly, wholesale and grocery trading, hotels and restaurants; fourthly, financial, insurance and services businesses; and fifthly, government services and so forth (UPENK, 1995).

- 10 For a discussion on specifically the PAS' endeavours in the establishment of an Islamic state in Kelantan, see Muhammad Syukri Salleh, "Establishing an Islamic State: Ideals and Realities in Kelantan, Malaysia", a paper presented at *the Association of South-East Asian Studies United Kingdom (ASEASUK) 1996 Conference*, London, UK, 24-27 April 1996.
- 11 The implementation of such a proposal necessitates changes and amendments in various Sections of the Federal Constitution as they are not only incompatible but some are also contradicting with the proposed laws. For example, Section 23 of the Kelantan's hudud law is seen as contradicting Article II of the Federal Constitution pertaining to the free practise of religion and Article 13 relating to the rights of one's wealth. All in all, it was observed that at least ten changes and amendments in the Federal Constitution must be made if the proposed hudud laws are to be implemented (see Ahmad Ibrahim, "Penjelasan Kanun Jenayah Syari'ah", in Telda Corporation Sdn Bhd (1994), *Pelaksanaan Hukum Hudud di Kelantan*, Kota Bharu, Kelantan, pp 59-62). Such changes and amendments need to be tabled to and approved by the Malaysian Parliament. Since members of the Barisan Nasional dominates the Parliament, the approval of the changes and amendments literally have to be sought from the Barisan Nasional federal government. The realisation of the hudud laws in Kelantan, therefore, involves a complicated procedures and as expected, many dissenting arguments. For a brief idea of the dissenting reactions, see Telda Corporation Sdn Bhd, *ibid.*, pp 65-85. To date, the proposal has been rejected by the federal government and hence could not be implemented.
- 12 UPENK (Unit Perancang Ekonomi Negeri Kelantan), *Perubahan-Perubahan Yang Dilakukan Oleh Kerajaan Negeri Kelantan Sejak 21 Oktober 1990*, Kota Bharu, 9 May 1992.
- 13 See Wan Abdul Rahman Wan Abdul Latiff (1991), *PAS 1951-1991 – Cabaran Pemantapan dan Misi*, Jabatan Penerangan PAS Pusat, Kuala Lumpur dan "Perkembangan Pentadbiran Kerajaan Angkatan 1991-1995: Satu Analisa Sosio Politik", a paper presented at *Seminar Pentadbiran Kerajaan Angkatan Negeri Kelantan 1991-1995* organised by Pusat Kajian Strategik Negeri Kelantan at Kota Darulnaim, Kota Bharu, Kelantan, 28 January 1995.
- 14 Wan Abdul Rahman Wan Abdul Latiff, 1991, p. 40, *ibid.*
- 15 Wan Abdul Rahman Wan Abdul Latiff, 1995, p. 5, *op. cit.*
- 16 *Buletin*, Kota Bharu, Kelantan: Urusetia Penerangan Kerajaan Negeri Kelantan, July 1991, p. 5.
- 17 *Buletin*, Kota Bharu, Kelantan: Urusetia Penerangan Kerajaan Negeri Kelantan, November 1992, p. 2.
- 18 Wan Abdul Rahman Wan Abdul Latiff, 1995, p. 8, *op. cit.*
- 19 As explained earlier, the other state in Malaysia that attempts an Islamic development is Kelantan, the neighbour state of Terengganu. Nevertheless, Kelantan is being ruled by opposition Islamic party, PAS, and believes strongly in the political power – Islamic

state – Islamic systems sequence of provisos (see Muhammad Syukri Salleh, "Establishing an Islamic State: Ideals and Realities in Kelantan, Malaysia", a paper presented at the *Association of South-East Asian Studies United Kingdom (ASEASUK) 1996 Conference*, London, 24-27 April 1996). Even so, Kelantan has neither formulated an Islamic development blueprint nor Islamic development master plan as yet. Her Islamic development endeavours have been undertaken under a broad and rather vague guidelines (see Muhammad Syukri Salleh, "The Top-Down Approach to Islamic Development: The Experience of PAS-Led Government in Kelantan, Malaysia, 1990-95", in Bernard Dahm and Naimah Talib, (eds.), *Religious Revival in South-East Asia*, Singapore: Institute of South-East Asian Studies (ISEAS), forthcoming; and Safie bin Ibrahim, "The Impact of Political Ideology on Economic Development: The Experience of Kelantan Government", a paper presented at Second International Conference on Islamic Political Economy organised by International Project on Islamic Political Economy (IPIPE), Universiti Sains Malaysia at Universiti Sains Malaysia, 10-11 December 1996).

- 20 As *Wawasan SIHAT* has just been introduced, in particular in her Second Development Phase 1995-2010, this paper inevitably has to be an analysis only at the theoretical and philosophical planes. It is indeed too premature to analyse the result of the *Wawasan SIHAT* in terms of its implementation, accomplishment and success.
- 21 For an explanation of the definition, philosophy, rationale, objectives, indicators of achievement, implementation and programmes of the *Wawasan SIHAT*, see Pejabat Menteri Besar Terengganu, *Kertas Konsep Wawasan SIHAT Terengganu – Ke Arah Pembentukan Mujtama' Madani*, Kuala Terengganu, 14 September 1996; and *Panduan Operasi Bina Takwa Darul Iman (Penjanaan Wawasan SIHAT)*, Kuala Terengganu: Panel Mengemaskini Suku Panduan Bina Takwa Wawasan SIHAT Terengganu Darul Iman, 1 September 1996. For suggestions of its method of operation, see Dato' Abdul Rahim bin Tahir, *Gerakan Pembangunan Penghayatan Takwa – Ke Arah Pemajuan Masyarakat Qur'an (Mujtamak Madani) Menangani Wawasan 2020 Dengan Acuan Kita Sendiri*, Kuala Terengganu: Jabatan Pendidikan Terengganu, 28 Julai 1996.
- 22 Pejabat Menteri Besar Terengganu, 1996, *Ibid.*
- 23 According to 1991 Population Census, Terengganu has a total of 770,931 population. It is estimated that in 1995, there were 884,319 and by the year 2000, there will be 1,011,000. The annual rate of population growth during these years ranges from 3.46 to 3.49 (UPE, *Pembangunan Negeri Terengganu: Masa kini dan Akan Datang*, 5 May 1996).
- 24 During the First Development Phase (1974-1993), Terengganu's rates of economic growth are as follows: 1971-1975: 8.2%; 1976-1980: 44.2%; 1981-1985: 13.1%; 1986-1990: 9.4%; and 1991-1995: 8.0%. The state's per capita Gross Domestic Product improves from RM615.18 in 1970 to RM4,019.70 in 1980, RM7,124.18 in 1990 and RM7,789.80 in 1995. The main factor contributing to the drastic growth during 1976-1980 was petroleum activities that began in 1978 (UPENT 1996, *ibid.*).

- 25 Before the finding of petroleum, poverty rate in Terengganu was very high, viz. 68.9% (in 1970). It decreased to 60.3% in 1980, 28.9% in 1985, 31.2% in 1990, 25.2% in 1992, 19.0% in 1994, and 13.9% in 1995. The average monthly income of households increased from RM339 in 1980 to RM756 in 1985, RM905 in 1990, RM954 in 1992 and RM1,113 in 1995 (UPENT 1996, *ibid.*; see also Kerajaan Negeri Terengganu, n.d. *Gelombang Kedua Pembangunan Negeri Terengganu Darul Iman 1995-2010*, Kuala Terengganu, pp. 2-3 and 9).
- 26 Like the rate of poverty, unemployment rate in Terengganu prior to 1980 was quite high (13.0% in 1970). In 1980, however, it decreased to 10% and in 1985 to 8.2%. In 1990, the rate increased to 8.8%, but decreased again to 8.4% in 1992 and 5.1% in 1995 (UPENT 1996, *ibid.*; Kerajaan Negeri Terengganu, n.d. *ibid.*, p.9).
- 27 The moderate growth strategy is meant to accomplish growth-with-redistribution objective. So far, in spite of a rather relatively high growth, it has been admitted that such an objective has yet to be achieved.
- 28 One of the ways of realising these strategies is by developing seven districts in the state with specific sectors concentration: Besut with agricultural, fisheries and tourism; Dungun with tourism, manufacturing and agricultural; Hulu Terengganu with tourism, agricultural and manufacturing; Kemaman with petroleum, manufacturing and agricultural; Kuala Terengganu with service, manufacturing and tourism; Marang with tourism, manufacturing and fisheries; and Setiu with tourism, agricultural and manufacturing (UPENTa, *Rancangan Malaysia Ketujuh [RM7] – Dasar dan Strategi Pembangunan Negeri Terengganu Darul Iman [1996-2000]*, n.d., p.6).
- 29 For a detailed information on the physical and material development strategies and plan of actions, see UPENT b, *Rangka Rancangan Jangka Panjang Kedua (RRJP2) – Rancangan Malaysia Ketujuh (RM7): Kenyataan Dasar dan Pelan Tindakan Pembangunan Negeri Terengganu*, Kuala Terengganu, n.d.
- 30 See Kerajaan Negeri Terengganu, n.d. *op.cit.*, p. 5.
- 31 See Pejabat Menteri Besar, 1996. *op.cit.*; and Kerajaan Negeri Terengganu, n.d. *ibid.*, pp. 6-7.
- 32 See Pejabat Menteri Besar, 1996. *ibid.*
- 33 For a discussion on the *Batu Bersurat*, see Syed Muhammad Naguib Al-Attas (1984), *The Correct Date of the Terengganu Inscription: Friday, 4th Rejab, 702 A.H./Friday 22nd February, 1303*, Muzium Negara, Kuala Lumpur, second edition.
- 34 A PAS writer regards the establishment of the Federal Development Office in Kelantan as a creation of 'government within the government'. See Tarmizi Mohd Jam (1993), *Kelantan Digugat dan Digigit*, Pengeluaran Minda Siasah, Kuala Lumpur, pp. 83-90.
- 35 FELDA issue started when PAS government in Kelantan rejected FELDA's application to open its scheme in the state. As a reaction, FELDA changed its policy by having absolute decision on FELDA's settlers although according to Federal Constitution, land is a state's matter. On the Kelantan Bridge issue, the Federal government did not

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provide financial support for its construction costing RM 5 million, with reason that the state government did not submit its plan to Public Works Department (*Jabatan Kerja Raya*). The bridge therefore had to be borne by the state government which, nevertheless, eventually completed. In *Adult's Class (Kelas Dewasa)* issue, its Directorship was given to an UMNO candidate who lost in 1959 Election and all the teachers were UMNO members.

- 36 Muhammad Syukri Salleh, "The Top-Down Approach to Islamic Development: The Experience of PAS-Led Government in Kelantan, Malaysia", op.cit.
- 37 This is worse among those who has an opposing political ideology. In fact the opposing political ideology has been argued as one of the reasons for Kelantan's underdevelopment and low productivity. For example, Kelantan UMNO leader and the Malaysia's Rural Development Minister Datuk Anuar Musa alleged that the lack of development in the state, less productivity among its pro-UMNO Civil Servants and eventually the loss of interest in their jobs were the results of the PAS-led government's biased attitude and discrimination against them. He cited the case of at least five senior officers of the Kelantan State Economic Development Corporation (SEDC) who tendered their resignations recently and 18 who met him personally to express their grouses against Datuk Nik Aziz Nik Mat, the Kelantan Chief Minister (see *New Straits times*, 4 April 1995). Similar attitudes and discrimination against pro-PAS Civil Servants in Barisan Nasional states is also difficult to deny.
- 38 Interview with one of JIM's leaders in Perak in March 1996.
- 39 Darul Arqam has been known as a dynamic 'technological sufi' as it was self-reliant and has been able to blend human's spiritual development with new technologies. Using modern technology, it produced hundreds of consumer products (foods, toiletries, etc), published a total of nearly twenty weekly/monthly publications and more than 70 titles of book, established about 40 Islamic villages all over Malaysia and pioneered Islamic entertainment through Islamic songs and concerts. It was with all these practical experience and abilities that Darul Arqam, before it was banned by the Malaysian government in 1994, was offering help to the PAS-led government in Kelantan.
- 40 For a more detailed analysis of this incident, see Muhammad Syukri Salleh (1992), *An Islamic Approach to Rural Development - The Arqam Way*, Asoib International Limited, London, pp. 282-283.
- 41 See *Utusan Malaysia*, *New Straits Times* and *Berita Harian*, 12 September 1991.
- 42 Subky Latiff, "Arqam Yang Pernah Disanjung Oleh Dr M", *Harakah*, 28 October 1991, p.6.
- 43 See Tarmizi Mohd Jam (1993), op.cit., pp. 191-205.
- 44 This was unequivocally expressed during a meeting between representatives of the PAS-led government and leaders of Darul Arqam held immediately after the banning of the Darul Arqam activities in Kelantan.
- 45 See *Utusan Malaysia*, 7 October 1991.

- 46 See *Utusan Malaysia* and *The Star*, 9 August 1994.
- 47 See *Harakah*, 12 August 1994, *Utusan Malaysia* and *Berita Harian*, 16 August 1994, and *Utusan Malaysia*, 31 August 1994.
- 48 See Tarmizi Mohd Jam (1993), *op.cit.*, p. 191.
- 49 Pejabat Menteri Besar Terengganu (1996), *op.cit.*
- 50 For a discussion on this, see for instance, n.a., Telda Corporation Sdn Bhd (1994), *Pelaksanaan Hukum Hudud di Kelantan*, Kota Bharu, Kelantan.
- 51 See, for instance, the Chief Minister's speech on *State Budget 1974* on 9 December 1974 for his Islamic commitment in his earlier days.
- 52 A graduate of the noted Al-Azhar University in Cairo, Egypt.
- 53 UMNO or United Malay National Organisation is the dominant party of the ruling *Barisan Nasional*. As the Chief Minister of Terengganu, Dato' Seri Amar Di Raja Tan Sri Haji Wan Mokhtar bin Ahmad is the UMNO Chief in the state.
- 54 Y.A.B. Dato' Seri Amar Di Raja Tan Sri Haji Wan Mokhtar bin Ahmad, *Ucaputama di Konvensyen UMNO Terengganu 1994*, at Kolej Sultan Zainal Abidin (KUSZA), Kuala Terengganu, 12 November 1994, pp. 7-8. For his other thought on Islamic development and the vision of Terengganu, see also his book, *Sekali Penyusur Pantai* (1990), and his key address at the opening of, *Seminar Islam dan Pembangunan* at Dewan Konvensyen, Wisma Darul Iman, Kuala Terengganu, 9 April 1994.
- 55 For discussions on *Ar-Rahn* and *ASDI*, see B.N. Ghosh, Abdul Fatah Che Hamat and Muhammad Syukri Salleh, "Socio-Economic Development Institutions in Malaysia: An Evaluative Perspective", in *Humanomics*, Vol. 12, No. 2, 1996, pp.21-46; and Muhammad Syukri Salleh and Abdul Fatah Che Hamat, "Equity Versus Growth: The Achievement of Islamic Socio-Economic Objectives Under Dual Systems", a paper presented at the 8th *International Conference on Socio-Economics*, organised by The Society for the Advancement of Socio-Economics (SASE) at University of Geneva, Geneva, Switzerland, 12-14 July 1996.
- 56 UPENTc, *Negeri Terengganu Darul Iman - Data Asas 1994/95*, Kuala Terengganu, n.d., p. 11.
- 57 This reality seems to be felt even by the Chief Minister of Kelantan Datuk Nik Abdul Aziz Nik Mat himself. Especially beginning from 1996, the Chief Minister has opted to a milder attitude and established a more 'friendly' relationship with Kuala Lumpur. On 15-17 October 1996, for instance, the Kelantan state government together with the Malaysian Ministry of Technology and Environment jointly organised in Kota Bharu an Information Technology Exhibition. In early 1997, the Kelantan government even went to the extent of having economic collaboration with Kuala Lumpur, through the economic projects of a cooperative called KUB. The signing of the memorandum of understanding was witnessed by both the Malaysian Prime Minister Datuk Seri Dr. Mahathir Mohamad and the Kelantan Chief Minister Datuk Nik Abdul Aziz Nik Mat. Nik Abdul Aziz maintains that, even though there could not be a compromise in their political ideology, there could be cooperation and collaboration between PAS and the Barisan Nasional in economic activities for the sake of the Kelantan people.

- 58 For instance, Kelantan's recent Economic Report 1994-95 very much reiterates the conventional development policy which intends to ensure a "balanced improved socioeconomic and societal well-being through economic growth uplifting efforts and a just wealth distribution system" (see Unit Perancang Ekonomi Negeri Kelantan (1995), *Laporan Ekonomi Negeri Kelantan 1994/95*, Kota Bharu, Kelantan). What is new in this policy is just an added objective of achieving "a happiness in this world and the Hereafter". However, the seven development strategies outlined to accomplish such an Islamic objective do not clearly comprise an Islamic characteristic, neither philosophically nor methodologically. Except the first strategy which mentions Islam as the base of its socioeconomic development planning and implementation, the other six sound very much similar to those of the conventional strategies: firstly, the creation of a balanced human resource development which takes into consideration physical, mental and spiritual development; secondly, a balanced regional development; thirdly, infrastructural and public amenities development; fourthly, diversification of state's economic base and income sources; fifthly, exploitation of economic resources which could entail multiplication effects; and finally, environmental and ecological protection.
- 59 The concept of Islamic development is premised in a development that is based on its distinctive Islamic epistemology and practice. To Islam, development is not an end in itself but rather a means to another – to attain the pleasure of Allah (*mardatillah*), supposedly to be achieved and hence enjoyed within a time-scale which encompasses both this world and the Hereafter. With this world-view, Islamic development should emerge first, at the individual inner level, followed by societal level. This transformation must replace eventually the existing conventional development approach.

10

THE INFLOW OF FOREIGN LABOUR TO MALAYSIA: SOME CRITICAL ANALYSES OF SOCIO-ECONOMIC AND POLITICAL IMPLICATIONS ON THE LOCALS

Moha Asri Abdullah

INTRODUCTION

THE inflow of foreign labour to one country is rather different than inflow of foreign investment in the global-international trade. When a country has excessive imports in international trade, as illustrated by a deficit in its balance of payments, the market responds by forcing value of its currency to decline. In this simple analysis, import costs go up, export prices go down and a new equilibrium is established. Nonetheless, there has not been a simple 'market' or mechanism when a country's immigration is excessive, as there is no imbalance of emigration and immigration to be corrected. Although there is no clear indication as to what constitutes 'excessive' immigration, many governments and societies in the world do regard the effects of immigration as excessive in all terms: social, cultural, economic security and political. This is because, the inflow and the experience of crossing borders of foreign labour from one country to another is indeed not a new phenomenon, even though there is no uniform notion as to what is excessive.

This inflow can be traced back as far as some hundred years ago, when the focus, and analysis on foreign labour was largely concentrated on Europe and North America. It is calculated that since 1815 to World War I, approximately 40-50 million Europeans migrated to the USA. When a new immigration legislation was reopened in 1952, it is recorded that between 500,000 and one million migrants and refugees entered USA each year during mid-1960s to the mid-1980s. In the 1960s, Western Europe imported over twelve million foreign workers from North Africa, Yugoslavia, Greece, southern Italy and Turkey to cope with labour shortage that resulted from a combination of high economic growth, a low fertility rate in the 1930s, and a high mortality rate during World War II. In 1970s, several oil-rich countries of the Middle East imported three million foreign workers from the non-oil producing Arab countries, others from South Asia, some from as far as the Philippines, Thailand, South Korea, and Taiwan. The two other oil-producing states, Nigeria and Venezuela imported foreign labour with an estimation of more than two million (before being expelled in 1983). The countries like Taiwan, Hong Kong and Singapore, to some extent, imported foreign labour to meet their rapid economic growth and labour shortages. The proportion of foreign workers in the labour force of the receiving countries can often be quite large. This, for example, can be seen in several Gulf states: 85 per cent in United Arab Emirates, 81 per cent in Qatar, 71 per cent in Kuwait, 45 per cent in Oman, 39 per cent in Bahrain. In Western Europe, 24 per cent of the workforce in Switzerland consists of foreign labour, 9 per cent in Germany, 9 per cent in France, and 7 per cent in Austria and Belgium (see for instance in Weiyner, 1990).

It is widely acknowledged that a number of countries initially welcomed foreign labour in order to meet labour shortages resulted from a rapid economic growth. This has been the case in many countries illustrated above. Malaysia, in this connection, is not exceptional to it. Her rapid economic growth and industrialisation process over the decades, especially from late 1980s, has indeed resulted in a full employment level, increased in the demand for various skilled labour, brought about a chronic shortage of labour and consequently the inflow of foreign labour into the country. Nonetheless, the present influx of foreign workers in recent years, legal and illegal, have given a number of major implications on the locals: economic, social as well as political. Though undeniably the contribution of these workers on rapid economic growth and economic development of the country is significant: but continued arrivals of foreign labour simultaneously pose some negative implications on the locals socially and

economically, and it creates an immense pressure on security and political stability of the country. This paper forms an attempt to examine as to how rapid economic growth of the country has resulted in the demand for labour in Malaysia and the inflow of foreign labour from neighbouring countries, and to critically analyse the uncontrolled alien labour, legal and illegal, costs excessive implications on social, cultural, economic, security and political stability of the country. With this end, the following section of the paper will discuss briefly the overall performance of the Malaysian economy. The paper will also look at her growth rates and its consequences on changes in the country's economic structure as well as the demand for labour over the year. This is followed by the discussions on the current trend of inflow of foreign workers into the country with special emphasis on its implications on the locals before summing up some suggestions to face the challenge of ensuring the proper supply of labour for future national economic development.

GROWTH AND STRUCTURAL CHANGES IN THE MALAYSIAN ECONOMY

For the last three decades, Malaysia has been experiencing a phenomenal economic growth. It is noted that between 1971 and 1990, the Malaysian economy has been growing at a rapid rate of an average of 6.7 per cent per annum. During the same period, real GDP increased almost four-fold i.e. from RM21.5 billion to RM79.1 billion (in 1978 prices). Furthermore, since late 1980s, Malaysia becomes one of the most rapidly growing economies in the world. Specially, during the period of 1990-1995, the Malaysian economy has been growing at an average rate of 8.4 per cent per annum (see Malaysia 1996).

This growth rate is indeed well above the target of 7.0 per cent set by the Second Outline Perspective Plan (1991-2000). One of the most prominent characteristics in the high rates of overall economic growth is that, it is closely associated with the rapid growth of the manufacturing sector. This growth can be seen through the high increase in the output of manufacturing sector. For instance, 13.4 per cent in 1987, 17.6 per cent in 1988, 15.7 per cent in 1990 and at average of more than 12 per cent between 1991 and 1995. Continuing increase in the manufacturing outputs over the last two decades has consequently transformed the structure of Malaysian economy. This transformation can be observed from the declining role of agricultural sector (including forestry and fisheries sub-sectors) in

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Malaysian Gross Domestic Product (GDP) i.e. from 30.8 per cent in 1970 to about 14.9 per cent in 1994 and 16.4 per cent in 1995 (see in Table 1). In the reverse, the share of manufacturing sector to GDP has raised substantially from 13.4 per cent in 1970 to 31.4 per cent in 1994 and 39.8 per cent in 1995. It is further expected that the sector's share will reach 66.2 per cent by the year 2000 (Malaysia 1996).

The manufacturing sector has also the largest share of employment of 24.6 per cent and manufactured products represent 79.5 per cent of the Malaysia's total export which is expected to exceed 81 per cent by the year 2000. Electronic and electrical products increased significantly from 48 per cent in 1980 to 63 per cent of the total manufactured products exported in 1994. It is also pertinent to note that structural challenges in the Malaysian economy has been very rapid in term of output as compared to the similar change in terms of the structure of employment. It is estimated that about 53.2 per cent of the total employment was in agricultural sector (including livestock, forestry and fishery sub-sectors) in 1970 and reduced to 31.3 per cent in 1985 and 18.0 per cent in 1995. Although its share declined sharply, it has changed at a much slower pace than that of the share of agriculture in GDP.

Table 1: Malaysian GDP composition by economic sector 1970-2000

ECONOMIC SECTOR	1970	1980	1990	1995	2000
Agricultural, livestock, forestry and fishery	30.8	23.4	14.4	16.4	10.5
Mining and quarrying	6.5	5.0	7.7	8.9	5.7
Manufacturing	13.4	20.5	21.3	39.8	37.5
Construction	3.9	4.5	2.8	5.2	4.8
Electricity, gas and water	1.9	2.2	1.5	2.8	2.7
Transport, storage and communication	4.7	6.3	5.4	8.7	8.3
Wholesale and retail	13.3	12.4	8.8	14.5	11.7
Finance, insurance, real estate and business services	8.4	7.8	7.7	12.8	10.9
Government services	11.1	12.5	8.4	11.6	8.1
Other services	2.5	2.6	1.6	2.4	1.8
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Annual Economic Report (various issues), MALAYSIA 1993 and 1996.

One of the most striking features in rapid economic growth is high absorption of labour. This can be observed through the official rate of unemployment. Table 2 reveals that rate of unemployment is reduced significantly over the period 1985-1995, i.e. from 6.9 per cent to 2.8 per cent, (even though during short recession – 1985-1986 – experienced by the Malaysian economy had put unemployment level to 8.3 per cent in 1986). With the present rate, Malaysia has reached a full employment level and this rate is expected to be continued till the year 2000.

LABOUR FORCE NEEDS AND THE INFLUX OF FOREIGN WORKERS

The above scenario poses serious implications on the demand for labour. During the period 1991-1995, the labour force expanded at a rate of 2.9 per cent, while employment rate increased to 3.4 per cent per annum, giving rise to serious labour shortage in various economic sectors. Beside manufacturing sector, other sectors also show a substantial increase in the demand for labour (see also Table 2). The services sector, for instance,

Table 2: Employment by sector (in thousand), total labour force and unemployment between 1985 and 2000

SECTOR	1985	1990	1995	2000
Agricultural and forestry	1,759.6	1,738.0	1,428.7	1,187.7
Mining and quarrying	44.4	37.0	40.7	44.5
Manufacturing	855.4	1,333.0	2,051.6	2,616.3
Construction	429.4	424.0	659.4	845.8
Government services	819.5	850.0	872.2	894.2
Other services*	1,716.3	2,304.0	2,862.8	3,478.1
TOTAL EMPLOYMENT	5,624.6	6,686.0	7,915.4	9,066.6
Total labour force	6,039.1	7,042.2	8,140.0	9,237.1
Unemployment	414.5	356.0	224.6	260.9
Rate of Unemployment (%)	6.9	5.1	2.8	2.8

Note: *Include electricity, gas and water; transportation, storage and communication; wholesale and trade; hotel and restaurant; finance, insurance, real estate and business services and others.

Source: MALAYSIA 1991a, 1993, and 1996, and Bank Negara 1995.

accounted for about one half of the total employment i.e. 47 per cent of the total job creation, while construction grew at an average rate of 9.2 per cent per annum and accounted for about 19 per cent of the total job creation during 1991-1995. Employment in agricultural sector declined by 3.8 per cent per annum over the same period. The total number of Malaysian employment increased from 5.6 million in 1985 to almost 8 million in 1995. Meanwhile, the rate of employment has also declined from 6.9 per cent to 2.8 per cent during the same period. Furthermore, labour force in agricultural and mining sector contracted substantially from nearly 1.8 million in 1985 to 1.4 million in 1995 (see Table 3), while the number of labour force in manufacturing sector increased dramatically from 855,400 to more than 2 million. From sectoral point of view, the manufacturing sector generated almost 60 per cent of net employment creation and this sector recorded an employment growth rate of 9.0 per cent per annum.

The net result is labour shortage not only at the productivity level but also at the skilled and semi-skilled levels of workers. Moreover, with the expected continuing rapid economic growth and manufacturing expansion in the near future, the heavy demand for labour will continue to be a major challenge for the country. This phenomenon has indeed made Malaysia the most attractive destination for foreign workers. Employment opportunities especially in manufacturing and construction sectors have become the pull factor for them with relatively higher salary and other benefits as compared to the same jobs they performed in their country of origin.

Table 3: Expected and projected need for foreign workers in agricultural sector between 1995-2000 (in thousand)

Year	Foreign worker	Total workforce
1995	524.02	1497.2
1996	520.63	1487.5
1997	517.27	1477.9
1998	513.87	1468.2
1999	510.48	1458.5
2000	503.58	1438.8

Note: Projection is based on 35 per cent of the total workforce in agricultural sector is foreign worker.

Source: Ministry of Finance, Annual Economic Reports (various issues).

The estimated number of legal and illegal immigrant labour now stands to more than one million, they comprise more than 8 per cent of the Malaysian total population. Between June 1992 and June 1995, a total of 615,990 immigrants were given work permit, while 300,072 more were extended their work permit (see Table 4). With the continuing increase in the number of immigrants in the country, they are expected to reach more than two million by the year 2000. Table 5 reveals that more than 80 per cent of the total immigrant labour are Indonesians. Other nationalities, from Bangladesh (89,112), Philippines (30,128) and Thailand (22,814) also represent a sizable portion of the immigrant labour population, in addition to those from India, Pakistan, Sri Lanka, and Myanmar.

Table 4: The total number of legal immigrant labour by state in Malaysia between June 1992 and June 1995

State	Permit Approval	Extended Permit	Total
Kuala Lumpur	323,441	129,077	452,518
Johor	77,304	84,082	161,386
Selangor	34,259	24,775	59,034
Pahang	31,309	15,387	46,696
Sabah*	37,655	1,781	39,436
Sarawak*	24,407	-	24,407
Perak*	15,614	11,638	27,252
Negeri Sembilan	11,614	8,158	19,772
Penang	15,602	4,102	19,704
Terengganu	13,528	6,489	20,017
Melaka	11,790	8,166	19,956
Kedah	15,236	2,920	8,156
Kelantan	3,999	3,367	7,366
Perlis	232	130	362
TOTAL	615,990	300,072	916,062

Note: *Sabah up to June 1994; *Sarawak until December 1993; and *Perak until December 1994.

Source: Malaysian Immigration Department, Record and Information System Division, Kuala Lumpur.

Table 5: Registered foreign labour by sector dan nationality up to December 1995

SECTOR	Indonesia	Thailand	Philippines	Bangladesh	Others	TOTAL
Domestic Helper	62,342	3,818	26,871	56	88	93,175
Agriculture	101,521	10,841	54	16,417	643	129,476
Construction	92,805	6,344	1,160	26,484	3,339	130,132
Services	2,071	1,126	191	4,743	931	9,062
Manufacturing	16,187	166	1,298	40,996	1,331	59,978
Others	1,125	519	554	416	577	3,191
TOTAL	276,051	22,814	30,128	89,112	6,909	425,014

Source: Malaysian Immigration Department, Record and Information System Division, Kuala Lumpur.

IMPLICATIONS ON THE LOCALS

Observations reveal that economic growth and rapid expansion of several economic sectors as well as the low and unequal capability of the country to produce her workforce over the last decade have been the main factors that contributed to the existing shortage of labour. This reflects that Malaysia, to some extent and for some years, has had to depend on foreign labour to sustain its economic growth and remain competitive. Nonetheless, the influx of recent immigrant workers has raised many issues and implications. It is also pertinent to note that opposition to the use of foreign labour and immigrants is a major feature of contemporary Western European and Australian politics, especially during the periods of unemployment (see Rogers, 1985). It is indeed the similar feeling and anxieties of anti-foreign labour sentiment may have been growing up from time to time among the Malaysian, with some have already given clear tensions and implications on the locals. Other than its numerical problems, the inflow of foreign labour, legal and illegal have excessive implications on the local population in several areas, inter alia; social, cultural, economic and political.

The continued arrival of legal and illegal foreign labour cause a serious numerical problem to the country. The larger number of immigrants

involved, however, are those who have entered the country clandestinely; having no valid document; having holiday visa to work and stay; working and staying over the period given; and hence has been defined as "illegal foreign workers". Many people from various fields, agencies and departments, public and private sectors have questioned the exact number of their present and their types of skills and jobs in this country. For instance, Director General of Malaysian Immigration Department announced that the total number of immigrant workers in the country in 1991 were 104,794 (Star, 1 February 1991). In 1992, another announcement made by the then Malaysian Deputy Prime Minister, Ghafar Baba, that there were about 800,000 immigrant workers in the country (New Straits Times, 21 September 1992), hence suggesting that the problem of immigrant workers is not new, but only came to fore in the last five years. The problem of quantification of the total number of immigrants in the country has further added to the doubtful figure.

SOCIAL AND CULTURAL IMPLICATIONS

In most cases, concern over the foreign labour is linked to anxieties over what some have characterised as cultural pollution and over foreignisation (Weiner, 1990). In this context, there is a notion that foreigners may change the cultural and social orders of the normal practice of the locals. In addition, the fear of foreign labour is even more acute in some other countries of the possible high level of violence between immigrants and the local population, tensions between nativists, with their image of a homogeneous culture and pluralist is also often at the heart of much of the implications. To many Swiss, Germans, French, and other Western Europeans, the presence of Turks and North Africans raises questions about nationality and cultural pluralism (Freeman, 1979). France for instance, has historically been an immigrant country, but its immigrants have been assimilated into French culture. Though similar phenomenon has not yet been fully strutinised in Malaysia, legal and illegal immigrant workers pose many social implications on the locals. These among others, include; crime, displacement, health, standard, and quality of life, etc. The continued influx of foreign workers result in a serious threat to the locals especially in terms of *crime* and this crime committed range from burglaries, murder, assault, robberies, to smuggling, extortion, rape, etc. Table 6 reveals the involvement of Indonesian immigrants in criminal activities in Kuala Lumpur alone between 1988 and 1994. This figure does not include unreported crimes and

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misconducts involving all immigrants in Kuala Lumpur as well as throughout the country. Moreover, criminal activities committed by illegal immigrants create considerable problems to the local authority and internal security. Due to the nature of illegal immigration, data and other official details about them are non-existence, other than that, their "free movement" going out and coming into the country are almost unnoticeable.

Table 6: The criminal activities committed by Indonesian migrants in Kuala Lumpur between 1988 and 1994

Type of Crime	1988		1992		1993		1994	
	No.	%	No.	%	No.	%	No.	%
Attempted murder	-	-	1	0.1	3	0.4	-	-
Murder	1	3.6	31	3.2	38	4.8	23	3.8
Assault	1	3.6	41	4.2	60	7.7	37	6.2
Armed robbery	-	-	120	12.2	114	14.6	74	12.3
Other robberies	26	92.8	784	80.2	565	72.4	466	77.6
TOTAL	28	100.0	977	100.0	780	100.0	600	100.0

Source: The Royal Malaysian Police, Crime Investigation Unit, Bukit Aman, Kuala Lumpur.

Moreover, some illegal and legal female immigrants involve in *vice activities* which cause various social problems and raise serious concern on health. The increasing number of Acquired Immune Deficiency Syndrome (AIDS) disease has caused growing concern among the locals. Some illegal female immigrants who originally work as domestic maids and eventually move on to vice activities, working in massage parlours, brothels and bars in several big cities throughout the country have raised serious discussion among locals as widely highlighted in the mass media. It was reported that a "surprisingly high incidence" of HIV carriers was detected among foreign workers in several factories (The Star, November 1992). Other illegal activities such as *cult activities* among illegal foreign workers were also reported including incidents involving a small group of foreign workers who tried to convert Malay Muslims. In Sabah, 192

followers of a doomsday cult and their faith healer, self-proclaimed prophet Petrus Ratu Doren were arrested at a kongsi house in the Safima Cocoa Plantation. Those arrested included a Chinese and a Kadazan while the rest were Timorese illegal immigrants from Indonesia (New Straits Times, 29 September 1995).

The continuing arrival of migrants has also raised serious implications on health especially the standard of health among foreign workers (legal and most importantly illegal) and their utilisation of health centres such as government clinics and hospitals. To ensure their health standards, foreign workers should undergo two medical tests as stipulated by the Malaysian Medical Association (The Star, 17 August 1992). Prior to entering the country, the results of the first test must be submitted together with application for a limited one-year temporary work permit. Foreign workers have to undergo a second medical test with registered private Malaysian doctors and the results sent to the Immigration Department. The tests cover tuberculosis, malaria, leprosy, sexually transmitted diseases, and HIV positive. These tests are to ensure that foreign workers are free from transmittable or communicable diseases. As for the utilisation of public amenities and services, Consumer Association of Taiping suggested that overwhelming and overcrowding at health clinics and government hospitals are due to foreign workers not having health insurance scheme (The Star, 17 October 1991). The social implications is that tax money spent on hospitals and other public services meant for citizens are being utilised by the foreign workers.

The increasing inflow of foreign workers into the country has also caused considerable implications on *standard and quality of life among Malaysians*. This is especially so in the urban areas. This phenomenon is well cited by Azizah (1995) in the case of Kuala Lumpur. She recorded that in 1989 only 56 Indonesians squatter settlements from the total of 2,172 squatter houses but accommodating 4,518 families and comprising of 12,401 people. The figure very much indicates the high density of population in the area further affecting the living standard among the settlers. Moreover, recent arrivals of foreign workers from several countries have not only increased the population density in selected urban areas such as Kuala Lumpur, Johor Bharu and Penang, but also have greater implications on the prices of houses, rent, and other related necessities. The foreign labour are also prone to living in congestion. A study in three squatter villages in the Ampang area in mid-1980s found that an average Indonesian squatter household size varies between 3 and 31 people with average size of 6.6 as compared to 5.5

for Malay squatter households. Such congestion certainly causes many constraints especially on limited basic facilities such as water and electricity supply as well as garbage and waste disposal. This eroded the quality of life in the country of rapidly growing economy, thus infuriating the locals who are used to have a relatively better standard of living (see Azizah, 1987). Furthermore, the high cost of accommodation is also a cause of resentment among the locals that give additional pressure to the local authority, government and political parties.

In Penang, the inflow of legal and illegal immigrants has contributed to the increase in housing prices and housing rental. This, among others, due to many employers who prefer to employ foreign workers, and buying and/or renting houses in bulk and large units. This causes many and further difficulties for the locals' housing buyers who certainly are incapable to compete with those large firms and high-purchasing power of the employers. Moreover, they even have further difficulties in finding appropriate houses to rent. In some cases, when immigrants gain a foothold in an area, other family members, friends and workmates from time to time join in groups to cope with the relatively higher costs of living in Malaysia (as compared to their respective countries) and therefore were recruited to settle in the area. There have been cases where some areas particularly in urban areas where the original residents were gradually moving out as many immigrants moving in until the majority of the population in the area are immigrants (see Azizah 1993, 1995 and Sanmuga, 1994). This eventually leads to the formation of enclaves and squatter settlements in urban areas where the illegal immigrants live in congestion. This has inevitably eroded living standards and forced the locals to move out from certain locations.

ECONOMIC IMPLICATIONS

Some economists and sociologists have suggested deeper structural explanations for the use of temporary foreign labour (Weiner, 1990). One is that the use of foreign labour enables rapidly growing economies and societies to fill manpower needs in dead-end, low status, low-wage sectors of the economy known as "secondary labour market" (Piore, 1979). According to this view, economic policy should be directed at providing the national population with dignified jobs, good working conditions, reasonable wages and respectable social status. Through such pursuing, importing foreign workers would be an appropriate choice when it also would reduce inequities among one's citizens. Another explanation is that

foreign labour can be cushioned in economies with fluctuations in employment (Bohning, 1984). As unemployment increases, foreign labour can be forced to leave. Nonetheless, experience from many receiving countries proves not to be relevant and sometime otherwise. While in many occasions, it raise a number of questions such as; is it really applicable when certain jobs in "primary labour market" performed by the locals are being taken over by foreign labour?; is it workable when policies of the Gulf states, though are more consistent with the goal of preventing temporary immigrants from becoming permanent settlers have had no success, suggesting that foreign workers are prepared to stay in countries with higher wages even when severe political and social restrictions are imposed upon them? This is not to tell the reluctance of some migrant-receiving countries in Western Europe to expel foreign labour during recession and higher unemployment rate. It is also seen that there is no economic theory that specifies what would constitute an appropriate level of migration or what kind of immigration would be most desirable and acceptable. This situation may result in a number of problems. One of them is that what is economically desirable to employers may be socially and politically unacceptable to the rest of the local population.

This phenomenon is faced by many foreign labour-receiving countries economically. Specifically, experience from some foreign labour-receiving countries widely shows that foreign labour can be, in many way a mechanism for keeping wages down, discouraging unionisation and, especially when immigrants are illegal, for obtaining a more pliable, hard-working labour force at lower cost. Thus, the very elements that make certain categories of foreign labour desirable to employers make foreign labour undesirable to local labourers. In addition, the influx of foreign labour may be beneficial in short term (when acute shortage of labour) may be regarded as undesirable at a later time when there is high unemployment. The above scenario also raises serious concern among Malaysians as the implications of those workers on Malaysia's economy are immense. Though their contributions on sustainable economic growth especially since late 1980s are undeniably important, foreign workers have had an impact on the wage structure, labour market, competition with locals, and the outflows of funds and/or credits from the country.

Wage structure is one of the significant examples. One of the country's economic policies and strategies has been to maintain a low wage structure as to remain attractive for foreign investors and direct foreign investment, and enhancing further competitiveness in the international market arena.

The uncontrolled presence of foreign workers plays a significant role in maintaining lower wage levels. Although the real number of foreign workers and types of employment category which they are involved in various economic sectors are difficult to determine, their presence have at least reduced the chronic shortage of labour supply in the country. It is noted that the growth rate of employment creation for the three main economic sectors is relatively high, i.e. manufacturing (9.8 per cent), construction (9.1 per cent), and financial services (6.9 per cent). The above rates could not simply be matched with the growth rate of local labour supply at 2.8 per cent over the same period of 1985-1995 (see Moha Asri and Moshidi, 1996, p. 12). In this regard, foreign workers play a significant role in maintaining sustainable economic development. The overwhelming presence has indeed undermined the wage structure of the country since many of them are prepared to accept lower wages, hence, threatening the local labour market and reducing the bargaining power of the locals.

Many Malaysian employers tend to employ foreign workers simply because they are willing to accept relatively lower wages with flexible working hours as compared to Malaysian workers. In addition, hiring migrant workers relieve a number of legal requirements and other employees benefits on the employers such as Employees Provident Fund (EPF), Social Security Organization (SOCSO), medical and social benefits. During the 1980s, chronic shortage of labour in the plantation and construction sectors as well as domestic workers has become one of the reasons for the government ignoring their presence. However, bans on illegal foreign workers especially in the plantation sectors had been imposed by the Malaysian government as early as 1988 in light of the unemployment problem faced by graduates and school dropouts (New Straits Times, 20 July 1988). Part of the problems of labour shortage in the estates was due to the employers' attitude towards employing illegal workers which is cheaper than employing the locals. Labour shortage in the manufacturing sector is apparent, for example, the tight labour situation faced by Penang whereby 5.4 per cent or 10,369 of total employment figure of 191,365 in the manufacturing sector in Penang were foreign workers (Penang Annual Market Report, 1994).

Competition with the locals is another implication created by the present influx of foreign labour. Changes in jobs participation among immigrant workers are also a threat to the local livelihood. Until recently, a number of them began to participate in other sectors as restaurant helpers, petrol kiosk attendants and more importantly petty trading. This encroachment has not

been well received by the locals especially Malays since the petty trade sector in many urban areas are dominated by Malays. Illegal immigrants conduct trading in the open or night markets or on five-foot ways in direct competition with the locals. It was recorded that tensions have built up as early as 1993 and escalated between the locals and the immigrants (Nasir, 1993). This has been the case in a number of major cities across the country. In Kuala Lumpur and Petaling Jaya, for instance, foreign workers participate either in trade as ambulatory trader at such places as the open or night markets and on five-foot ways, or as stationary traders in places like Chow Kit wet market. Their presence has been protested by Malay petty traders since early 1980s.

The increased number of foreign workers has also resulted in the *outflow of money from the country*. The amount of money that goes out of the country is hard to estimate though it involves a large sum. This amount can be observed from a few reports. A study conducted in 1986 found out that an estimated 1.5 million illegal foreign workers in Malaysia sent back about RM2 billion a year to their respective home countries (The Star, 1 March 1986). It was suggested that they earn between RM400 to RM1,000 a month and send home as much as 80 per cent of their take home pay. Recently, the Minister of Human Resource (Datuk Lim Ah Lek) disclosed that about RM2.4 billion is sent home annually by an estimated one million foreign workers and the figure could be much higher with the increased number of illegal workers in recent years. The "conservative figure" is based on each worker sending home RM200 a month though some may send more (The Star, 18 July 1995). However, the Malaysian Institute of Economic Research (MIER) head of economic policy research division (Prof. Nasaruddin A.) said that the impact of the RM2.4 billion sent out was "very small" as compared to the positive contributions of foreign workers to Malaysia's economy (The Star, 19 July 1995). A recent study conducted by the author on 409 foreign workers in the manufacturing sector in Penang found that about 40 percent of them send home between RM200 to RM400 monthly, and some send home RM700 and up to more than RM1200 a month (Moha Asri, *et al.*, 1996).

POLITICAL IMPLICATIONS

The inflow of legal and illegal immigrants poses many implications on political issues. Tension is always highest especially within those countries where there has been foreign workers on such a large scale that local

population is fearful of being unable to control the country harmony's stability and security-wise and politically. Moreover, the recent influx of immigrants has worried many parties and is easily regarded as a big *threat to national security*. This is especially so as to the sensitivity of Malaysian multi-racial society and multi-racial politics which run along ethnic lines (see Dorall, 1989 and Darul Amin, 1990). This sensitivity has even been felt when many immigrants are said to be identical to the locals of multi-ethnics. Indonesian migrants are said to be similar to Malays in a number of aspects; cultural, ethnical as well as physical. In most cases they can be easily mistaken to be Malays. Meanwhile, migrants from Philippines to be similar to Chinese and Kadazan, and those migrants from India, Pakistan and Bangladesh are said to be similar to local Indian.

The presence of these foreign workers is seen with suspicion by certain political parties, especially the opposition parties as well as other parties in the ruling coalition government. A few members of the Democratic Action Party (DAP), for instance, perceived the period of inaction of the inflow of Indonesian workers during 1970s and early 1980 as a ploy by the Malay dominated government to bring in Indonesians in an attempt to increase Malay votes in the long run. This is based on the assumption that the present Indonesian immigrants will eventually assimilate with the Malays and become *Bumiputera*. This suspicion seemed sound especially after the race riot of May 13 which might make the Malays realise to strengthen their numerical and economic participation, other than political domination. It largely being suspicious that by allowing foreign labour from Indonesia, legal and illegal will automatically increase the size of the Malay population and consequently Malay political strength. This suspicion is, nonetheless, contradicted by the fact a large number of those were involved in bringing in legal and illegal Indonesian labour were mainly non-Malay businessmen, contractors and sub-contractors who were motivated by economic considerations (Azizah, 1995). This scenario poses a real danger to political stability and security since its can be manipulated in many interpretations and modes by different political parties which run along ethnic lines.

Moreover, instability and tension could be highest due to the influx of foreign workers on such a large scale that certain ethnics of the local population is fearful of becoming an even more minority and becoming increasingly unable to express view, unable to influence or control the country politically. A precarious balance between majority Malays and the Chinese and Indians, Kadazans, Ibans communities could be easily distorted with the continued arrivals of foreign labour in the country. There was also

an assumption that a move by the Chinese leader Lee Kuan Yew to become an independent Singapore from the country led the Malay political leadership quick approval so as to reduce the proportion of Chinese. As the government's inaction to illegal Indonesian immigrants in 1970s and early 1980s was also perceived to have another political dimension, as at the same time, the closure of its borders and harbours to Vietnamese refugees, many of whom are similar to Chinese physically and culturally had been made to avoid any fear that an influx would change the country's demographic and political complexion. Therefore, the inflow of illegal and legal foreign labour from Indonesia, Bangladesh, Philippines and, etc can be easily viewed as suspicious by opposition parties as a way of the Malay dominated government to establish the political system which must be controlled by the concept of the *Bumiputeras* (the "sons of soil", who arrived in the land first, and have their identity rooted in the territory of the Malay world or Malay archipelago).

The influx of migrant workers has also raised considerable consequences on *the issues of citizenship*. Under the Malaysian Constitution, detailed guidelines are stated in to explain the status of citizen, who qualifies to become citizens and procedures on how to apply. Having an identity card is one of the basic requirements for a citizen. Procedures in obtaining such a document can be tedious and time consuming, but the incidence of illegal immigrants having identity cards suggests otherwise, maybe through forged or faked documents to obtain identity cards or faked identity cards. The possession of identity cards among illegal immigrants raises serious discussion and attention from government officials and scholars and poses considerable threat to the Malaysian security. One could speculate that there are syndicates running falsification of documents or false identification cards hand-in-hand with smuggling of illegal-foreign workers.

Moreover, Islam is the official religion in Malaysia. Under Malaysian Constitution, nonetheless, other religions are guaranteed freedom of practice. The presence of illegal and legal foreign workers has, to some extent, *threatened the inter-religious understanding* that has largely been held in Malaysia. For instance, several Indonesians have been seen or accused of being involved in the Christianisation process of Malays in Malaysia posing some serious attention from the public, many government authorities and Islamic religious organisations (see Dorall, 1989). Furthermore, some other immigrants especially from Jawa who are Muslim but simultaneously practice mysticism. This has led to public outcry among local Muslim religious bodies and political parties especially with regard to specific case

involving alleged incidents of mosque burning by the Indonesian in Malaysia. This resulted in tensions even within the Muslim community. Looking at these as a possible threat to the official status of Islam as the national religion, the youth wing of United Malay National Organization (UMNO) urged the government to deport all illegal immigrants, on the basis of two reasons i.e. they are (illegal) spreading Christianity among Muslims, and trying to undermine the Malay leadership (The Star, 9 August 1987). Other socio-political threats also include the *incident of cult activities* among foreign workers. Recent report, for instance noted that 192 followers of a doomsday cult and their faith healer, self-proclaimed prophet Petrus Ratu Doren were arrested at a kongsi house at the Safina Cocoa Plantation in Sabah. A total of 190 Timorese illegal immigrants from Indonesia, a Chinese and a Kadazan were arrested (New Straits Times, 29 September, 1995).

ALTERNATIVE POLICY MEASURES

Though contributions of foreign labour to the national economic development are vital, implications of their influx on the locals prompt several strategies which can and have to be adopted by the Malaysian government to curb their overwhelming number in the country. It is pertinent to note that one of the significant factors contributing to the recent inflow of foreign labour is the shortage of workers in this country. In this relation, steps and strategies towards enhancing the development of local human resources is highly crucial. Efforts to increase number of student enrolment in the upper secondary level as well as higher studies which are still relatively low as compared to many developed nations, should be considered. The current evaluation system and promotional requirement for the above level of studies should be evaluated, so as to be relevant with current philosophy of modern educational system.

Furthermore, emphasis should be given towards science education which is more technology-oriented. This is highly relevant since knowledge, ability and skill in science and technology can be regarded as a catalyst towards achieving industrialised nation status in the year 2020. Therefore, trend which shows a reduction in emphasis and interest in the education system should be overcome comprehensively and consistently. The government has recently made a decision regarding the university student enrolment ratio of, arts:science, from 60:40 to 40:60 (Yussoff, 1995). This clearly shows that the current need, requires changes in the ratio of science-arts

student enrolment. However, the determination of such a ratio, should be followed up with a more comprehensive infrastructures such as providing facilities for trainee manpower, training institute, skill training centre and also more vocational school throughout the country. Encouraging student and youth pursuing vocational and technical education should also be stressed in line with the need and current industrial growth in the country.

Industrial development policy should also put emphasis and priority towards a more higher technology-based industry. A training program to produce a well-trained workforce to fulfil the need of high technology industries should be further upgraded. Therefore, time has come for Malaysia not to concentrate solely on industrial development which is basically labour intensive. The involvement of private sectors with human resource training program, on the job training and re-training of worker should also be given top priority.

The existing shortage of local labour should also be reduced through several other mechanisms. These include to allow and improve conditions to attract housewives and retired people to be brought into the labour market, and hence reducing dependence on foreign labour. It is estimated that more than 700,000 Malaysian women will be able to join the workforce if their participation is increased similar to that of women in developed countries. Retired people should also be encouraged to participate in labour market as a survey previously suggested that the elderly (people above 60) prefer to continue working beyond retirement age (Chen, 1986).

Apart from that, there are other strategies and steps which can be adopted in controlling the influx of foreign labour into the country. Double efforts and measures have to be made to prevent the influx of unskilled foreign labour. In this respect, observation posts along the coastline of the country and patrol station have to be added and increased, apart from the number of police force personnel. This preventive measure also has to be followed by the increase in the number of Get Rid Operation (the *Ops Nyah*) to register those who entered the country illegally, but comprise of skilled and semi-skilled workers, and they are needed in various economic sectors. The foreign labour who are unskilled and had entered the country illegally should be sent back to their respective countries. Moreover, a much stringent penalty has also to be introduced to foreign workers not just in terms of fines but also in terms of caning penalty. Besides that, errant employers who refuse to register their illegal foreign workers must also be fined and caned accordingly in order to get wider support and cooperation from them in controlling the recent influx of foreign labour into the country.

CONCLUSION

It is acknowledged that continuing rapid economic development in the country will certainly generate heavy demand for labour and this demand is expected to be a major challenge for Malaysia by the year 2000. Employment opportunities are expected to grow at 9.8 per cent per annum during 1996-2000, with additional job creation of about 1.2 million (Malaysia, 1996). The rate of unemployment which is expected to sustain at around 2.8 per cent by the year 2000 indicates continuing need for additional labour. The manufacturing sector alone, for instance, is projected to create a total of 564,700 new jobs or about 45 per cent of the total new jobs created by the year 2000. This scenario provides further indication that labour constraint and the demand for labour will build one of the strongest challenges to economic development of the country. It is clear that the high growth rates of the Malaysian economy have been essentially accompanied by high labour absorption which resulted in full employment labour, great demand for various skilled workers and the increasing inflow of foreign workers. The continuing arrivals of foreign workers have indeed given many implications on the locals, economically, socially, and politically.

Though their contributions to sustainable economic growth and physical development in the country are crucially significant, foreign workers have economically had many implications, such as, on the wage structure, labour market, competition for better employment opportunities with the locals, and the outflow of money from the economy. Socially, the presence of foreign workers raised a number of implications for the locals in the issues of health, standard and quality of life as well as the incidence of crime. Continued presence of illegal immigrants in the country will also result in the emergence of distinctive and new ethnic group and pose considerable consequences on the issue of citizenship. In this respect, the status of foreign workers has contributed to this phenomena. Some immigrants are technically permanent residents in Malaysia by virtue of holding a Malaysian red identity cards. The settlement of some immigrants in a number of locations throughout the country further encourage the formation of a distinctive and new ethnic group to join the country's already multi-ethnic society. The continued formation of a new ethnic group in time will raise serious implications on political stability and national security especially in the multi-ethnic politics which run along ethnic lines.

Looking at the trend of current inflow of legal and illegal foreign labour, it is pertinent to point out that the issues, problems and negative implications

of their overwhelming presence on the locals will not only continue to exist but also double up in the year to come, unless consistent and comprehensive strategies and policies, rules, regulations and effective measures are initiated and implemented to stop their arrivals, to detect overstay, to deport or to legalise them accordingly. It is also clear that in doing so, all parties including the government, employers, workers and employers union, employment agencies as well as the general public should coordinate and make a concerted effort in line with wider current national strategies on human resource development that give priority on expanding the domestic labour supply with respect to the capability of producing the supply of local labour that keep pace with technological developments arising from the transformation of the economy towards an industrial-based production structure.

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FOSTERING TECHNOLOGY TRANSFER: THE CASE OF THE ELECTRONICS AND ELECTRICAL INDUSTRY IN MALAYSIA

Shankaran Nambiar

INTRODUCTION

THE purpose of this essay is to examine the relationship between the state and multinational corporations (MNCs) in the context of some issues relating to technology transfer within the electronics and electrical industry in Malaysia. Undeniably, the Malaysian government has involved itself considerably in this industry. The direction of causality between state involvement and MNC response is not straightforward and definitely not proportionate. In other words, while the Malaysian government has been generous in attracting MNCs and while MNCs have responded by investing in Malaysia, the extent to which technology transfer has occurred is a question that requires discussion rather than a ready answer. Further, as with any two entities, all transactions demand negotiation and produce corresponding outcomes. The negotiations between the state and the MNCs in the Malaysian electronics and electrical industry may not be obvious, but the outcomes certainly are.

In the next section we argue for the necessity of state involvement and juxtapose the discussion the state is necessary, the third section traces the

development and nature of industrial policy since the post-independence period in Malaysia in an effort to demonstrate the state's interest in attracting foreign investment. The fourth section is a survey of the outcomes in terms of foreign direct investment (FDI) in Malaysia. The fifth section discusses the sources of technology transfer after which we examine some of the trends and issues relating to technology transfer. Finally, we offer a discussion and conclusion.

THE AGENCY OF THE STATE AND INTERNATIONAL FIRMS

The state is a crucial agent in fostering technology transfer. The economic rationality for state involvement can be revealed by investigating path-dependence theory (David, 1975, 1985, 1986; Arthur, 1989, 1990; Krugman, 1991; Matsuyama, 1991). The basic insight of path-dependence theory is founded on the proposition that small economic shifts can cause significant changes in the final outcome.

The initial economic shifts can be random or systemic. Nevertheless, one possible cause of path-dependence can lie in economies of scale. A firm which exhibits economies of scale will have a competitive advantage in the industry which will lower its prices, increase the production of the firm's product and improve efficiency in the production of that good even further. The second cause arises due to technical interrelatedness since technical inputs and processes are very often complementary in nature, one input in a production process, for example, requiring other related inputs. Hence inputs and processes need to be compatible and in being compatible become part of a network (see Milgrom, Qian and Roberts, 1991). The third cause is attributable to quasi-reversibility. Quasi-reversibility is witnessed, for example, when a decision to adopt a particular production process which gives a market advantage becomes extremely difficult to reverse because of high adjustment costs (Matsuyama, 1991; Krugman, 1991). Unless there is government involvement the initially selected production process will dominate, hindering any new innovation.

Path-dependence theory explains how an economy can get locked-in an originally disadvantaged position as much as it can get locked-in an advantaged position. Initially successful products in the video cassette recorder and television industries, although less efficient than available alternatives, have come to dominate the market (David, 1985, 1986; Arthur, 1990). They are good examples of how an economy can foster the

accumulation of disadvantage. It is precisely to break out of a disadvantaged position that government involvement is necessary. Path-dependence theory, therefore, provides a strong argument for state involvement in order to help semi-peripheral countries, like Malaysia, to progress out of a position that would otherwise be locked-in in a state of technological disadvantage.

However, the state in Malaysia must undertake action to initiate the path to technological improvement not unilaterally, but in consonance with MNCs. The relationship between the state and MNCs is a subject of some debate. Frank (1972), for example, argues that MNCs of developed countries keep less developed countries underdeveloped. Against that view is an opposing position (Warren, 1973) that MNCs have been the impetus for the tremendous expansion of the manufacturing sector of LDCs. Although it is undeniable that the growth of industrialisation has been rapid in the Newly Industrialised Countries that still does not discard the possibility that such industrialisation is dependent industrialisation (see Cowling and Sugden, 1987).

Hymer's assessment (see Cohen, *et al.*, 1979) of the relationship between MNCs and nation states is worthy of serious consideration. Hymer maintains that MNCs harbour the intention of increasing their bargaining power not only over labour but also over the nation-state. Murray (1971) has extended his claim to state that MNCs attempt to erode the power of the state, a process that is facilitated by the competition between states in order to attract MNCs. Hymer is careful to observe that while the MNCs try to increase their bargaining power over nation-states, the LDCs are more adversely affected than developed countries. Like Frank, Hymer holds that MNCs contribute to the development of LDCs but the development achieved is dependent and uneven since the LDCs do not benefit equally. Nevertheless it has been pointed out that unless there is a policy of self-sufficiency LDCs require MNCs for the employment that can be generated and for technology reasons (Pitelis, 1991). Having discussed the role of the state and its interaction with MNCs, the next section traces the development of industrial policy in Malaysia and the biases the state has extended in favour of MNCs.

INDUSTRIAL POLICY

Malaysia has largely employed several strategies since independence with a view to promoting industrialisation. Import-substitution can be cited as the first strategy that was used in the years following independence. During this period domestic industries were protected through moderate tariff rate

and not through quantitative restrictions or exchange restrictions. The promotion of import substitution with only tariff protection on simple final manufactured goods served to encourage foreign investment to substitute imports. Even in this phase of Malaysia's development it was noticed that Malaysia was more favourably biased to export producers than other countries within ASEAN (Myint, 1967).

Subsequent to the enactment of the Investment Incentives Act of 1968 there was a shift towards export orientation. The export orientation strategy experienced a marked impetus with the opening of Free Trade Zones (FTZs) and Licensed Manufacturing Warehouses from 1972. Notable incentives that attracted foreign investments during this phase were the pioneer status which offered tax exemptions and the Labour Utilisation Relief which also offered tax exemptions and the Labour Utilisation Relief which also offered tax exemptions based on employment size (Chee, 1986) rather than on investment size as was the case with pioneer status. A further incentive was the exclusion of unions in firms with pioneer status and in FTZs and the obligation to participate in collective bargaining. After the mid-1980s unions were permitted in several FTZ industries, but not without a great measure of restriction (Dror, 1984).

The export-oriented firms enjoyed a politically stable environment, good infrastructural facilities, a disciplined and fairly well-trained labour force, tax holidays and favourable state support. These factors led to the rapid growth of the export-oriented manufacturing sectors that were characterised by high labour intensity and low value addition in low skill intensive assembly operations. FTZ and LMW firms were almost entirely dependent on imported inputs for export processing, save for a limited extent of indirect inputs.

The Industrial Master Plan and the Promotion of Investment Act (PIA) in 1986 act as benchmarks that set the stage for technological improvement. In 1988 double tax exemptions were offered to firms for research and development (R&D) investment and training expenditure. Although firms in the export-oriented industries were largely motivated by state-offered incentives, in the late 1980s there was a movement towards capital intensive production resulting from increased global competitiveness and labour shortages.

As early as 1980 the Malaysian government established the Heavy Industry Corporation (HICOM). This, perhaps, marks the entry of Malaysia's heavy industry programme as a strategy for further industrialisation. The movement into the automotive industry (via Proton) and into the steel

industry (via Perwaja Steel) are striking instances of the heavy industry initiative.

The 1990s mark a more ambitious phase in Malaysia's quest for industrialisation with the government's announcement to pursue a knowledge intensive strategy. The importance of R&D is best exemplified by the founding of the Malaysian Technology Development Corporation (MTDC) in 1992 in order to promote the commercialisation of R&D and to aid technological advancement (Malaysia, 1994). While MTDC is intended to concern itself with the development of new products and processes, the Malaysia Industry Government Group of High Technology (MIGHT) was created in 1993, with the objective of identifying new markets and investment opportunities for R&D development and technology enhancement. Two technology parks, one in Bukit Jalil and the other in Kulim, have been envisioned, reflecting the perceived focus on high technology and R&D. The highly publicised Multimedia Super Corridor (MSC) is yet another instance of Malaysia's design to participate in knowledge intensive based industrialisation. Thus the knowledge based strategy broadly covers the interest in high technology and R&D as becoming Malaysia's new engines for growth and development.

FOREIGN DIRECT INVESTMENT

The purpose of Malaysia's industrial strategies has, since the 1960s and even up to this juncture in Malaysia's development, been targeted towards attracting FDI. Having discussed the types of strategies that have been instituted it then becomes necessary to trace the outcomes of Malaysia's industrial policies in terms of the resulting patterns in FDI.

One strand of information regarding the pattern of FDI in Malaysia relates to the countries from which investments originate. Until 1986 the biggest source of FDI for the manufacturing sector originated from Singapore (30 per cent of total foreign capital), followed by Japan (20 per cent), UK (16 per cent), US (6 per cent) and Hong Kong (6 per cent) (Ali and Wong, 1993). East Asian sources of FDI increased from 22 per cent in 1980 to 40 per cent in 1994. From 1989 to 1994 (Athukorala and Menon, 1995, Table 2) Japan has consistently been a larger contributor of FDI flows to Malaysia as compared to the US, with the earlier accounting for a volume that has varied from 15 per cent to 31 per cent. The US's share for the same period has varied from 4 per cent to a maximum of 28 per cent. The Asian NICs have accounted for about 40 per cent of FDI flows except in 1992

(12 per cent) and 1993 (26 per cent). Within the Asian NIC group, Taiwan has been the largest contributor.

The sectoral pattern of FDI reveals that the electronics and electrical goods sector occupies a predominant position among foreign firms engaged in export-oriented manufacturing (Athukorala and Menon, 1995). At the end of 1989, 19 per cent of foreign paid-up capital and 27.5 per cent of foreign-owned fixed assets in Malaysia were accounted for by the electronics industry. The importance of the electronics and electrical goods industry is particularly significant if we observe that 45 per cent of total exports in 1991 were due to this industry.

Employment creation is a crucial consequence of FDI. Employment in the Malaysian manufacturing sector has risen from 231,500 in 1972 to 920,600 in 1987 (Rasiah, 1993, Table 4.4.). Employment in the FTZs rose from 21,200 in 1973 to 68,900 in 1987, with a decline being registered in 1982 and a larger decline in 1985. The composition of employment in the FTZ for 1987 shows that the electronics and electrical industry accounts for 67.8 per cent of total employment, followed by the textiles industry (12.1 per cent) and the scientific and measurement industry (6.2 per cent) (Rasiah, 1993, Table 4.5).

While Malaysia's industrial policy has been structured with a view to attracting FDI, there is little doubt that FDI has succeeded in generating employment. More contentious is the usefulness of FDI in facilitating technology transfer. The view that foreign capital is welcome more for the technological improvement that it imparts to the host country (Hughes and You, 1969; Lim and Ali, 1990) can be questioned. It is realised that MNCs do not regard the transfer of technology as part of their functioning in Malaysia, and, indeed, it is noted that technology very often has to be purchased separately from the host firm that is already in partnership with the recipient firm (UNDP, 1994, p. 16). Before examining the nature and extent of technology transfer we shall turn to a discussion of the sources of technology transfer in the next section.

MODES OF TECHNOLOGY TRANSFER

A recent study (UNDP, 1994) provides a detailed treatment of the channels through which technology can be transferred, specifying three primary sources of technology transfer:

- (i) technology transfer agreements,

- (ii) subcontracting,
- (iii) contract manufacturing, and
- (iv) training.

Technology transfer agreements are further broken down into nine categories, which are identified as follows:

- (i) Joint venture agreements
- (ii) Technical assistance agreements
- (iii) Know-how agreements
- (iv) License agreements
- (v) Patent agreements
- (vi) Trademark agreements
- (vii) Management agreements
- (viii) Sales/purchase agreements
- (ix) Turnkey agreements

This UNDP (1994) study ascertains that technology transfer agreements constituted a relatively important vehicle for technology transfer since it has been observed that between the years 1986 and 1992 roughly a quarter of all technology transfer agreements that were committed in the manufacturing sector were undertaken in the electronics and electrical sector. With respect to the ownership of firms, it was found (UNDP, 1994, p. 96) that wholly foreign owned firms contracted the majority (21 out of 29) of the technology transfer agreements. Further, US owned firms concluded more agreements than Japanese owned firms. Another finding that was reported suggested that technical assistance agreements and know-how agreements accounted for 41 per cent of the agreements; licensing patent agreements and trademark agreements accounted for 20 per cent of the agreements; turnkey projects accounted for only 7 per cent of the agreements of the agreements conducted.

Generally, it has been found that contract manufacturing is a comparatively more important source of technology transfer than subcontracting in the electronics products subsector (UNDP, 1994, p. 104-105). While, quite understandably, MNCs are more successful in securing orders or contracts for their Malaysian subsidiaries, local firms have been able to

acquire knowledge relating to current technical progress through their subcontracting and contract manufacturing linkages.

Finally, it is widely acknowledged that training is pervasive and crucial in the electronics and electrical sector. A 1986 study of the electronics industry by the Ministry of Labour (see Alagandarm, 1989) showed that the majority of the workers who were involved in production and maintenance received training on the job, whereas professionals were sent for training at centres locally and abroad. The variety of training programmes has always been wide, ranging from management practices (such as just in time techniques and statistical process control) to production equipment maintenance and engineering courses and, from training on computers to instrumentation technology. It has been corroborated (Rasiah, 1989) that training in total quality management, total productive maintenance and quality control circles, among other techniques, has been extensive in the semiconductor firms in Malaysia. In fact, it has been observed that local firms have generously absorbed personnel who had previously been trained while in the employ of MNCs (Rasiah, 1995).

TRENDS AND ISSUES IN TECHNOLOGY TRANSFER

FDI in Malaysia has and continues to appear positive. Yet, one cannot directly assume that technology transfer accompanies FDI; and when technology transfer accompanies FDI it is not to the degree of extensiveness that might have been preferred. A study conducted in 1977 on technology transfer (Chee and Chan, 1982) indicated that when technology was transferred by MNCs from the parent to the affiliate company this was done so in an intact fashion. It was reported that no attempt was made to adapt technology to existing economic conditions and adaption was confined to auxilliary processes. Not only was the technology prevalent at MNC affiliates of a lower level of sophistication than that used in the parent company, but also little was done to sponsor or encourage R&D (also see Sim, 1978).

The situation with regard to technology transfer does not seem to have improved in the 1980s. Technology transfer was not seen as an important objective in the electronics industry, if Fong's (1988) study is anything to go by. Fong found little technology being transferred, a situation that was exacerbated with core processes being manned by expatriate staff and local staff being relegated to assembly processes and managerial or administrative activities.

Several reasons could be forwarded as to why technology transfer was restricted in the 70s and 80s. One possible reason is the oligopolistic nature of the market for technology supply (Contractor, 1985). The small number of technology suppliers leaves firms in developing countries in a subservient position because of their undue technology reliance. Ali (1993) suggests two broad reasons which could explain the poor state of technology transfer in the 1970s and up to the mid-1980s. These reasons include 'undercutting' among technology-eager developing countries and imperfect information at the disposal of developing countries. The absence of perfect information arises because the smaller firms suffer from inadequate expertise in key areas thereby affecting price negotiation in technology acquisition and the selection of competing options; and, domestic firms in developing countries do not possess the requisite technological background and skills that together create the necessary absorptive capacity, thus, arguably, making it difficult for technology suppliers to transfer technology.

The late 1980s have witnessed a more liberal attitude being taken by MNCs, particularly in the electronics and electrical industry, in regard to the transfer of technology. This time period confronted greater competition in the electronics and electrical industry, generating the impetus for a more conducive environment for technology transfer. The home countries of MNCs faced increased costs of production, the price competition in the industry was more intense, and decreasing market shares have been cited as possible causes that encouraged MNC location in Malaysia (Rasiah, 1989; Hill, 1989). Along with this set of phenomena the pressing need for cost reduction, better quality products and faster delivery periods prompted improved production processes and more automation (Salih and Young, 1989; Rasiah, 1989). Aside from competitive pressures, Malaysia was beginning to be perceived favourably in view of its demonstrated ability in assembly activities, hence encouraging an expansion of activities to include quality and failure analysis and even wafer fabrication (Salih and Young, 1989).

More recently subcontracting links have developed in the electronics and electrical industry, demonstrating a stronger relationship between multinational firms and local supporting firms. Subcontracting links, it is argued, are the consequence of automation and the introduction of flexible production systems. In examining subcontracting (see Rasiah, 1994) it has been pointed out that subcontracting is encouraged because MNCs need reliable machine tools facilities to meet their specific needs instead of depending on the standardised equipment employed by global suppliers.

Further, by fostering subcontracting, MNCs are relieved of the need to retrain and equip their workers with multi-skilling. MNCs, in addition, do not need to modify their machines on a frequent basis. All these responsibilities need now be shouldered by support firms, which have the added requirement of flexibility in facing the changing individual demands of MNCs.

Subcontracting, while it relegates firms to a subsidiary position, restricting them to the performance of certain functions, has, nevertheless benefitted the support firms that are involved. It has been found in a survey of fifty firms and their ancillaries in the electronics industry (Narayanan, *et al.*, 1994) that support firms have gained from technology transfer although they have not developed R&D functions. As a framework for their study Narayanan *et al.* presuppose four stages in the transfer of technology. The importing and adoption of foreign technology signifies the first stage. This is followed by the acquisition of operating, maintenance and repair skills, which together define what is established as the second stage. The next stage presupposes innovation. A subsequent and fourth stage involves the diffusion of technology to firms other than the recipient firm. The evidence that was gathered showed that support firms achieved a high degree of competence in operations and maintenance, with less encouraging achievements in the capacity to repair their own equipment. However, the firms under study demonstrated little ability to conduct R&D activities. The study also contends that the support firms realised improvements in their standards in relation to quality, delivery and reliability. Also, the support firms by entering into a subcontracting relationship ventured to make risky technological investments.

Ancillary firms have gained from their relationship with MNCs because, to be more specific, MNCs have established backward linkages, thereby encouraging the growth of ancillary firms. Thirty per cent of the firms surveyed in a UNDP (1994) study focusing on the electronics and electrical sector were found to purchase raw materials from local firms. However, a larger proportion of the firms surveyed (41 per cent) bought only between a quarter to a half of their necessary raw materials from local firms. A not too dissimilar trend was discerned between 1987 and 1989 when it was found (UNIDO, 1992) that 50 per cent of Japanese MNCs located in Malaysia purchased their inputs from local Malaysian firms and only 20 per cent of the required raw materials from Japanese firms based in Malaysia.

While local Malaysian firms seem to be a relied source of raw materials, the same directional flow does not apply to R&D. Abibullah *et al.* (1994)

report that very few firms have R&D departments of their own. Equally discouraging is their finding that of the 25 per cent firms that claimed to gain from R&D, 87 per cent obtained it from their parent plants overseas, and only 3 per cent obtained their R&D information from Malaysian research institutions.

DISCUSSION AND CONCLUSION

The nation-state has a very significant role to play in encouraging technology transfer. Yet the state, especially in the semi-periphery, as Malaysia is, must come to accept that it has to yield, to an extent, to the needs of MNCs. Malaysia stands in competition for FDI investment against competing states like Thailand, Indonesia, India, and China. The first task is to attract FDI, and once that has been achieved the next task is to encourage technology transfer.

It has been stated that "transnational capital may, under certain circumstances, prefer dealing with a 'stronger', more bureaucratically capable state apparatus," (Evans, 1985, p. 195); but, paradoxically, this 'strength' comes from making local conditions suitable for MNC investment. Malaysia, in this context, has geared its industrial policies since the post-independence years towards being attractive to transnational capital. However, Malaysia's bureaucratic strength cannot be extended to the realm of technology transfer with any reasonable hope of expecting MNCs to readily respond by generously transferring technology.

MNCs as rational profit-maximising entities are motivated by self-interest. An MNC's rationale for technology transfer would revolve around equating the marginal benefit obtained from a transfer of technology as against the marginal cost incurred by undertaking the transfer (Narayanan, 1992). The increase in expected returns resulting from the transfer and expected long-run profitability would influence the marginal benefit.

The cost of transfer would be influenced by factors such as the cost of technological development and the erosion of the MNCs monopoly power. This framework explains some of the phenomena relating to technology transfer in the Malaysian electronics and electrical industry.

Two instances stand out by virtue of their ability to illustrate how MNCs decide whether or not to transfer technology. The first instance pertains to subcontracting, where it seems that MNCs have been willing to transfer technology that has been to the advantage of ancillary firms. An over-optimistic observer might even be tempted to proclaim that Malaysia's

technological leap into the future lies with ancillary and support firms involved in subcontracting activities. We are compelled to resort to Narayanan's (1992) marginal cost-marginal benefit framework on realising that the growth of ancillary firms has been impelled by the high cost of importing raw materials, and the objective of keeping low inventory levels which can be supplied speedily to MNCs (Rasiah, 1989, 1994). Rather than sourcing raw materials and inputs from abroad MNCs find it more cost-effective to engage ancillary firms to supply their requirements. In terms of Narayanan's analysis, MNCs are revealed to prefer a subcontracting relationship, even if it implies transferring technology and encouraging local firms to make expensive investment decisions which they would not have made if they did not have the support of MNCs. Transferring technology and supporting a local firm would not result in any loss of dominance to an MNC because the local firms that are engaged would not have the requisite capital or expertise to set up the whole range of operations that an MNC would typically possess. Not only would local firms remain in a non-competitive position because of their extremely limited range of operations but also because of their limited scale of operations.

The second instance which provides a case for the examination of MNC behaviour in technology transfer can be derived from the rationality of R&D location. Various studies have bemoaned the absence of R&D facilities in the Malaysian electronics and electrical industry (Rasiah, 1989; Narayanan *et al.*, 1994; Abibullah *et al.*, 1994). MNCs are willing to assist local ancillary firms as far as specific subcontracting arrangements are concerned, but not with the establishment of R&D facilities. There are various reasons for this. First, there is no need for MNCs to set up R&D facilities in the host country when adequate facilities exist in the home country. The cost of duplicating such facilities would be tremendous and wasteful. Besides, equivalent knowledge networks (i.e. links with universities, specialised research centres, specialised researchers) would not be present locally. Second, MNCs when they do set up R&D facilities overseas, as they have done in India, Korea and Japan, have done so only in particular areas which cover the R&D requirements for a segment of their input production or production process. Once again, by segmenting the transfer or participation of technology MNCs are not under threat of losing their dominance in the industry. As a generalisation, MNCs would not set up R&D facilities overseas if they had no need to; but if they needed to, they would not be averse to setting up R&D functions which relate to a segment of their entire operations; neither would they be averse to setting

up R&D facilities overseas if, as a result, they would experience a net gain in knowledge. In any case, MNCs are never prepared to lose their dominance over technology.

All this is not to say that the state has no role to play in technology-led development, as it has proven to play a vital role (Gershenkron, 1962; Polyani, 1944). More to the point is that developing countries cannot expect or rely upon MNCs for the transfer of technology. As has been documented, even in recent times the state has demonstrated the crucial role it can play in industrial development (Wade, 1990; Okimoto, 1989; Johnson, 1982). The Malaysian government must play a more aggressive role in the electronics and electrical industry if it expects to penetrate the global market. Primarily, the Malaysian government will have to play the roles of provider of insurance (to cover the possibility of losses in heavy investments) and procurer and developer of technology (with limited assistance from MNCs, but possibly greater assistance from leading research institutions overseas). This, indeed, is the path that Malaysia appears to want to tread if the MSC project is a reliable indicator. The Malaysian University of Science and Technology (MUST) which is being conceived in collaboration with the Massachusetts Institute of Technology (MIT) points to similar strength of purpose.

It would be accurate to conclude that the state in Malaysia and MNCs in the electronics and electrical industry have a complex relationship, with both parties gaining in different respects. The MNCs have gained from the incentives provided by the Malaysian government through her attractive industrial policies. And while this may have led to a compromise as far as the rights of labour, for instance, is concerned, it has also helped with increasing employment. But if technological improvement via technology transfer is the main objective, then, judging from present trends, it appears as if one can expect no more than limited progress so long as it does not infringe on MNC technological dominance.

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12

MALAYSIA AFTER MAHATHIR: THE END OF VISION 2020?

Ozay Mehmet

I. INTRODUCTION

Prime Minister Dr. Mahathir's Vision 2020, designed to make Malaysia "a fully developed nation by the year 2020", is so closely identified with the personality and leadership style of the man that it is unlikely to survive his stewardship of Malaysian politics. For reasons of age, health or other causes, no doubt, Dr. Mahathir will step down sometime in the next 10 years. His successor, whoever it may be (a question which will not be pursued here), will certainly not be a carbon-copy in terms of ideology or personality, merely continuing to administer Dr. M's medicine originally prescribed in Dr. Mahathir's personal manifesto, *The Malay Dilemma*.

Nor will the country's development challenges and economic structure remain the same. When Dr. M assumed the leadership of Malaysia, the country was underdeveloped, predominantly rural. It suffered from severe problems of unemployment, especially among the youth and graduates, and almost half the population (two-thirds of rural Malays) lived in poverty. The country was still healing from the tragedy of inter-racial violence of May 1969. Subsidy mentality was the order of the day, enshrined in a NEP (New Economic Policy) framework. NEP, an Affirmative Action Program administered by self-serving trustees, was the product of philosophy of state handouts intended to uplift and modernise the Malays. It clashed with Mahathir's own philosophy of a more competitive, market-oriented world.

Dr. Mahathir's Vision of 2020 is a projection of this competitive, market-driven mindset. But it is more than an economic statement. It speaks of a *fully developed nation* (italics added), suggesting a national unity along the concept of *rukunegara*, something more daunting than maximising GNP growth rate. The Seventh Plan, replacing NEP with NDP (New Development Policy), is quite explicit on the nature of the challenge: "National Unity remains the ultimate goal of socio-economic development The Government envisions that by the year 2020, Malaysia will be a nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust, resilient and socially just."¹

Behind of all these lofty words lurks the hidden fear that national unity remains an elusive target. In a political sense, then, Vision 2020 is a wish for inter-racial harmony based on shared prosperity. How achievable is it? How can economic success be translated into national unity? This is where environmental limits, economic law of diminishing returns and political constraints and prospects come into the equation.

This paper is devoted to an examination of these limits, constraints and prospects. It is organised in five Parts. Following this Introduction, Part II will provide a brief survey of Dr. M's legacy. This will be followed in Part III with an examination of the major ecological constraints which in the next century will increasingly limit Malaysian economic growth. As a result, a more sustainable development (SD) scenario is likely to be adopted by a post-Mahathir leader. But, what will be the outlines and possibilities of such a Malaysian SD? This question will be analysed in Part IV in terms of domestic, regional and foreign policy agendas. Then, in the concluding Part V a political economy of post-Mahathir Malaysia is sketched.

PART II: DR. M'S LEGACY

Mahathir's legacy and achievements were shaped by a worldview originally stated in the Malay Dilemma.

This was an angry treatise written during his days of retreat and reflection in the political wilderness. It is the voice of a Malay rebel, an ultra-nationalist who teamed up with such other nationalists as Musa Hitam to oppose the aging and easy-going Prime Minister of the time, Tunku Abdul Rahman. Their extreme nationalism resulted in their ousting from the party.

Anwar Ibrahim was then a young student rebel in his own right. In the early 1970's, the nation still recovering from the ugly May 13, 1969 race riots, the Malays were perilously divided and Malaysia's prospects looked grim indeed.

Subsequently, after the Tunku was replaced by Tun Razak and Mahathir eased his way back into the UMNO fold. He rose to power quickly. In the 1980's the two M's (Mahathir & Musa) worked closely for a short time. Mahathir invented Malaysia Inc. and Look East to exhort a sleepy nation, used to state protection, into the modern world of privatisation, competition and materialism.

In the Malay Dilemma, Dr. M launched a scathing attack on Malay leadership and traditionalism fuelled by inbreeding and patronage politics in UMNO. He argued that "(the) party (i.e. UMNO) was held together not because the members had generally identical ideas on politics, but through a system of patronage and disguised coercion based on Government rather than party authority...."²

The book's distinctive originality lay in the fact that it provided the shock treatment that uniquely suited Malaysia's, as well as Malays' needs at the time. It put the Malays on the path of competitiveness in domestic terms relative to the Chinese as a prelude to thrusting Malaysia into a world-class trading nation. With total dedication to the Malaysia Inc. concept, Mahathir worked tirelessly to teach the Malays the rules of efficiency. In the process, the economy, burdened by high deficit, was restructured; the labour market, in a chronic state of unemployment, rapidly attained full employment, and carefully managed industrialisation brought down Malay poverty to minimal levels. At heart a nationalist, Mahathir's greatest legacy to the Malays was his vision of a Malay middle class, educated and confident and ultimately independent of government handouts.

Mahathir was a fortunate leader as well. He was greatly (maybe some might say providentially) assisted in his nation-building challenge by the discovery of offshore oil and gas. But, the major accomplishments of the Mahathir leadership style must be found in discipline, clarity of purpose and commitment to "the logic of the developmental state", heavily influenced by a silent policy of "Look South" (to Lee Kuan Yew's Singapore). But times change, leaders like Lee Kuan Yew and Mahathir grow old and get replaced. With their departure, their visions and wishes, however incomplete, are transformed to adjust to new challenges and national requirements. This, no doubt, will be the fate of Vision 2020.

What exactly is meant by Vision 2020? Like all slogans, it is full of ambiguity. At a minimum it has an economic as well as political dimension. In conventional economic development criteria, Malaysia is already a Tiger or NIC (Newly Industrialised Country). At the start of the Seventh Plan (1996-2000) the GNP per capita reached an impressive US\$3,908 (US\$9,470 in purchasing power parity terms), expected to rise to US\$5905 by the year 2000 or US\$14,000 in purchasing power parity terms.

All this prosperity is thanks to a high growth performance under Mahathir's administration averaging about 9.0% annually since 1988. During this time Malaysia has achieved full employment, a remarkable accomplishment. Indeed the country has managed to go from a labour-surplus into a labour-shortage economy, a labour-importing country. It enjoys macroeconomic stability, a strong currency, increasing volume of trade, rapidly rising inflow of foreign investment, all capped by political stability. On economic criteria, Mahathir's Vision 2020 looks like perfect foresight. It is little surprise that his power and popularity were convincingly demonstrated in the landslide victory he won in last year's general election when his ruling coalition captured 162 of 192 seats in parliament. But, success has transformed Mahathir, making him authoritarian and increasingly intolerant of dissent, quite unlike his early days as a Malay ultra.

PART III: STAYING THE COURSE?

In future, can Malaysia stay the course and keep growing at rates achieved under Mahathir? In the medium term, i.e. during the next five years, this may be feasible. Thus, the Seventh Plan assumes a growth rate of 8.0% p.a. as against 8.9% p.a. achieved under the Sixth Plan. Therefore, on the basis of numbers, the future economic prospects look achievable.

But beyond the medium term sustaining growth rates in excess of 8% look unlikely. Malaysia early in the new Millennium, say in year 2010 after Mahathir, and especially by the year 2020, will not be the same as the Malaysia of 1996. By then the country will be under a new leader, hopefully less authoritarian and more sensitive to critics, domestic and foreign, than Mahathir.

The country will no doubt be prosperous, for prosperity is the essential requirement for peace and harmony in Malaysia. Natural resources, especially in the under-populated East Malaysia, will safeguard Malaysia's future prosperity. But under the next leadership, the preservation of Malaysian social capital and quality of life will emerge as the top national

concern, necessitating a major revision of the NDP strategy designed under Mahathir.

The revision will stem from environmental factors. Early in the 21st century Malaysia will be increasingly under severe demographic and environmental constraints. Land and labour will become scarce in major sectors. Physical and financial capital will increase, but the law of diminishing returns and the limits of technological substitution (see below) will be encountered with an inflationary impact on the Malaysian growth performance.

Social capital and quality of life (including family values and ethnic relations) will experience the greatest transformation after Mahathir. In mid 1990's Malaysia has a population of 19 million. The majority are urbanites owning Proton Sagas, the product of Mahathir's pet car project. By the year 2020 the population is projected to increase to 31 million with commensurate pressure on urban land development, infrastructure, housing, telecommunications, and transportation systems.

Over the next two decades, can urbanisation proceed at rates witnessed in the past? During 1973-93, the urban share of Malaysian population rose dramatically from 33% to 52% thanks to cheap and plentiful availability of jungle land for economic and industrial exploitation.³ If this rate were to be replicated, peninsular Malaysia would become one huge mega-polis, a bigger version of Singapore, prosperous but dull and suffocating. Overcrowding and traffic congestion will worsen well before 2020, with minimal relief from new urban transit system or relocation of the national capital.

However, a more realistic scenario is more likely to happen. By nature more colourful, Malaysians, especially in Peninsular Malaysia, will opt for less growth and more quality of life and become a more conserving society. The political and economic priorities will change accordingly.

Labour market full employment has been a major accomplishment of the Mahathir administration. This happy state of affairs can be expected to continue in the years ahead. However, sustaining 8% growth will require increasing dependence on imported cheap labour. Already major sectors, in particular plantations and construction could not function without foreign workers, now conservatively estimated to be about 2 million (or 10% of the population) and rising. Foreign workers, whether legal or illegal, generally fill the low-wage "3D jobs: dirty, dangerous and difficult." While foreign workers sustain Malaysia's external competitiveness, this comes at an increasingly heavy social cost. This may spill into higher crime incidence,

drug problems and expanding poverty concentrated in the informal sector.⁴ Government's attempt to eradicate hardcore poverty will be frustrated and Malaysia's social capital may deteriorate.

This prospect stems from the fact that future rapid growth would necessitate even greater dependence on foreign workers from Indonesia and the Philippines and increasingly from low-income sources such as Bangladesh. Imported labour, strictly as an economic resource, may be fine; after all, during colonial times, tin mines and rubber plantations were developed by importing the labour of the Chinese and the Tamils.

In terms of political economy, however, how realistic an option is another huge wave of immigrants into a future Malaysia?

Not likely because it is doubtful if Malaysians can tolerate to replicate the 19th century labour imports without drastically changing the ethnic composition of the country. It took Malaysia more than half a century to overcome its ethnic problem, national unity is still an elusive target. If the country is going to be flooded by Indonesians, it runs the risk of losing its national independence; if it turns to other sources, it endangers the delicate ethnic mix with unpredictable consequences for ethnic politics in Malaysia. More realistically, the future generations of Malaysians are likely to opt for more controlled immigration, and somewhat less economic growth in Malaysia itself so as to enjoy a higher quality of life with greater personal freedom.

A more prosperous Malaysia will be able to invest offshore in order to overcome labour and land shortages. In this Malaysia would be following the experience of Japan and other Asian capital-surplus Tigers such as Singapore, HK and Taiwan. In fact, offshore investment is the Growth Triangle model. After the successful experience of Johore-Singapore-Riau Province of Indonesia, this model is being applied elsewhere in the region. As Malaysia joins the ranks of capital surplus economies in the dynamic Asia-Pacific, it will have to invest in neighbouring countries in ASEAN, especially those with surplus labour markets. In Cambodia, for example, Malaysia is a significant investor and this kind of investment can be expected to increase in future, spreading into such transition economies as Vietnam and Burma which offer Malaysian investors opportunities in low-wage, labour-intensive industries.

Offshore investment will make a compact country like Malaysia an increasingly service-cum-financial centre, similar to present-day Singapore but on a larger scale and with more freedom. More and more Malaysian incomes will be earned from investments abroad in neighbouring countries.

Indeed, with the present generation of political leaders gone in Malaysia and Singapore, some kind of political re-unification may emerge from greater forces of economic integration now slowly, but surely, occurring under the auspices of AFTA. Further afield, regime changes in Indonesia, the Philippines, Brunei and elsewhere, will intensify regional integration.

ASEAN Labour will become almost as mobile as capital. Labour mobility within AFTA will follow labour shortages in neighbouring countries in the early years of the next century. This will accelerate closer integration between Malaysia, Singapore, Indonesia, Brunei, and Thailand. In this context the position of Indonesia is quite special given its size and weight in the region. Present projections indicate that by 2020 the Indonesian population will be around 250 million.

At existing rates of economic growth, Indonesia will achieve labour market equilibrium sometime during 2010-2015.⁵ Consequently, Malaysia's major source of unskilled labour inflow will start to decelerate well before 2020. Moreover, even now, faced with increasing high-level manpower shortages in the region, ASEAN ministries of labour are designing mobility schemes to share professional, technical and scientific workers. These schemes will, doubtless, proliferate and multiply under the auspices of AFTA. In short, labour mobility, like capital, will become an ever expanding feature of an increasingly integrated regional economy by the year 2020.

Of course, technology offers capital-surplus countries increasing options for labour substitution. How far Malaysia can go along this path to emerge as a centre of hi-tech, knowledge-based economy depends, first and foremost, on investment in research and development. In mid-1990's Malaysia spent 1.6% of its GNP on R&D. This is about half of Japan's and USA's levels.

Even if these R&D levels and university education are significantly expanded as envisaged under Vision 2020, Malaysia will face stiff competition in creating new comparative advantages for its export industries. Other competitors, some as near as Indonesia but those such as Japan and in other parts of the world, can be expected to emerge in the hi-tech, knowledge-based industries. Closer home, there must be limits to labour substitution in such traditional labour-intensive sectors as plantations and natural resource industries where pollution problems will become more acute.

How much rubber tapping or palm oil harvesting and processing can be automated while keeping Malaysian costs competitive? It is difficult to answer this question with exactness. However, it can be hypothesised that

technological options in this direction are not great, especially in view of the existence of other labour-surplus economies such as India, which, in the year 2020 will still be cheap-labour economies. China too will be major competitor. A future Malaysia may be obliged to give up plantations in favour of an export-oriented service and hi-tech economy, but then where will the Malaysian exports go to? There will be increasing competitors as other Tigers graduate to intensify competition for export markets. A more likely scenario would be a more self-reliant Malaysia, with less trade and higher quality of life.

PART IV: SHIFTING TO LESS GROWTH AND MORE QUALITY OF LIFE

Within Malaysia, rising prosperity will significantly change the social and political agenda over the period 2000-2020. An affluent, urban society will demand higher quality life with stricter standards for environmental protection, greater welfare for workers, and, of course, more and better civil society rights. This is what is now happening in Japan where the "model of Japan Inc. is today in decay."⁶ After decades of rapid economic growth, with little concern for gender equality and other social dimensions of development, Japanese politics and corporatism are now in shambles as the country slowly and painfully attempts to adjust to saner quality of life. In the meantime, considerable transition costs must be endured.

It is to be hoped Malaysia, which under Mahathir looked East, will, once again, do the same. By so doing, it may avoid the painful transition unfolding in Japan toward a more sustainable development with better quality of life for the ordinary Japanese. How can Malaysia avoid such a painful transition? What will it require? It will require a two-pronged approach based on:

- (i) a domestic sustainability agenda and
- (ii) a new internationalist agenda.

The sustainability agenda would make the future Malaysians a nation of environmentally friendly citizens, respectful of biodiversity, caring about clean air, clean beaches and rainforests. The politics of sustainable development would be fundamentally different than the politics of the developmental state under Mahathir. It would aim at achieving and maintaining a more optimal balance between economy and ecology.

The economy-ecology balance would mean that Malaysian jungles would not, as in the past, be cleared indiscriminately to make room for plantations for a blind pursuit of foreign exchange earnings. Nor would the rainforests be similarly leased out under timber concessions as if they were unlimited in supply. Instead, these and other development projects would be carefully assessed on the basis of sustainability and inter-generational equity criteria. Thus, in future Malaysia would have to earmark an increasing share of its development budget for reforestation and anti-pollution technology for control of urban sewerage, clean air in the factories, for soil erosion and, of course, for automobile exhaust pollution.

A major (national) advantage of the sustainability agenda is that it would tend to enhance Malaysian national unity. This is because its environmentalism would bond all ethnic groups around a common objective: all Malaysians, regardless of ethnic origin, have an equal stake in the preservation and protection of the Malaysian environment. Similarly, all urban dwellers, irrespective of race, would have an equal interest in combating and regulating traffic congestion, pollution, overcrowding, and other urban problems. Future Malaysian politicians and leaders will have to change their political platforms in order to avoid the errors and fate of the decayed and corrupt LPD in Japan.

"Money politics" in future Malaysia will not be eliminated, but politics will be cleaner. Rent-seeking and gate-keeping, so much of part and parcel of the NEP mentality, will have to give way to cleaner and more responsible politics in tandem with a more educated, mature Malaysia civil society in the next century. Again, this is a common objective shared by all ethnic groups and may, therefore, truly mobilise and promote inter-ethnic harmony and national unity. Consequently, post-Mahathir leadership can be expected to lead the nation more on the basis of a Vision Clean Malaysia than Vision 2020.

In terms of foreign policy, a post-Mahathir Malaysia will be less confrontational administration with the West and more willing to cooperate with international bodies interested in promoting worker rights, environmental standards and generally more civil society freedoms. In this context, Mahathir's successor can be expected to abolish the Internal Security Act and give more powers to Unions in line with ILO conventions. Similarly, the post-Mahathir Malaysia may cooperate more closely with the WTO trade regime to promote greater linkage between trade and "social clauses" which under Mahathir generated so much tension. Mahathir's successor will also be a stronger regional leader, a better team player within

ASEAN and APEC, ready to cooperate with confidence with Indonesia, the dominant economy in the region, as well as with other trading partners further afield.

Islam will be a more significant aspect of the foreign policy of both Malaysia and Indonesia. Collectively, these two countries, accounting for over 280 million Muslims in the year 2020, will be the largest single concentration of the *umma*. As such, they will be at the forefront of a Muslim bloc of countries, playing a progressive role in the empowerment of the Muslim peoples of the world, as the world inches toward the global village. Such a progressive role in the Muslim world is a natural projection of the tolerant Islam characteristic of multi-ethnic Malaysia and Indonesia.

PART V: THE POLITICAL ECONOMY OF POST-MAHATHIR MALAYSIA

This final section shifts attention from policies and strategies to institutions. It offers a political economy appraisal of some major Malaysian institutions and how they might change during the next two decades.

Many of the familiar institutions are likely to be transformed as Malaysia matures and opts for a better quality of life at the expense of materialistic values. Political parties may be expected to become more mixed and inter-racial as common values of sustainability influence the behaviour of future generations of Malaysians regardless of ethnicity. The way to achieve true national unity is by eliminating identification of political parties by race, something missed by Mahathir.

One area where Mahathir has clearly failed, by his own standards, is in patronage politics. Neither UMNO nor Malaysia under his leadership are freed of this problem. Mahathir has succeeded in terminating identification of economic function with race; he has failed to terminate identification of politics with race.

Ending patronage and money politics may cost UMNO its monopoly position, while MCA and MIC may find themselves increasingly threatened by thematic (rather than race-based) political movements, such as the Malaysian Greens or a Workers' Malaysia. Unions, who in Mahathir's Malaysia, were relegated to the backseat, may, in future, enter the mainstream, and, bolstered by increasing labour shortages on the one hand, and rising labour incomes on the other, they can be expected to become more assertive in the political and economic arenas.

As well, Malays can expect to become increasingly confident in the next century, questioning political taboos and sacred cows including limits on parliamentary democracy and personal freedoms. Mahathir's own battles with the sultans may assume a new life and bring about reforms in the constitutional domain in accordance with civil society.

Affluence will also bring more secularism. In the process, even in Kelantan, Islam may become a decreasing political force. This does not mean that Malaysia runs the risk of losing its Muslim identity; secularism will simply enhance its tolerance and thus contribute toward greater national unity between the Malays, Chinese and Indians. More and more, these ethnic identities will blend into a more united and cohesive Malaysia.

Internationally, a more confident, prosperous and tolerant Malaysia will play a much-needed progressive role amongst Muslim nations through OIC and other groupings of Muslim states. These states will play increasingly important roles in international affairs. Of particular importance is the prospect that Malaysia in the 21st century will be at the forefront of an inter-cultural dialogue between Muslims and non-Muslims to reform the United Nations, international financial institutions and other development agencies as they undergo reform to deal with the challenges of globalisation.

All in all, by the time the year 2020 comes round, the legacy of Mahathir will be long since forgotten, in much the same way that Tunku Abdul Rahman's memory as the father of the nation, or of Tun Razak's as the architect of NEP are little remembered in 1996. Mahathir's legacy, great though it was at his time, will have passed into history, like other past leaders. The challenges facing Malaysia then will be quite different than those projected in Vision 2020. This, after all, was no more than a linear projection of wealth accumulation prescribed by an authoritarian "Dr. Feelgood"⁷ to hang on to power.

NOTES

1. *The Second Outline Perspective Plan, 1991-2000* (1991), Prime Minister's Office, KL, p. 4.
2. Mahathir, *Malay Dilemma*, p. 9.
3. These rates are taken from World Bank, *World Tables 1995*, Washington D.C., pp. 442-443.

- 4 See Patrick Pillai's article on Malaysia in the Special Issue of the *ASEAN Economic Bulletin*, vol. 12, no. 2, 1995 on Labour Migration in Asia.
- 5 Ozay Mehmet with Bas Bengo-Teku, *Productive Employment Creation during REPELITA VI and Beyond: A Two-Pronged Strategy*, ILO, Jakarta, June 1993, Appendix III.
- 6 Jun Nishihawa, "Global Economic Liberalization and Development, Their Implications for Asia Growing Economies which Face the Task of Sustainable Development" (Paper presented at the Conference on Globalization and Development, FEA/University of Malaya, August 1996), p. 12.
- 7 Far Eastern Economic Review, *Cover story on Malaysia*, October 24, 1996, p. 18.

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