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Modern Malaysia in the Global Economy

Political and Social Change into the 21st Century

Edited by

COLIN BARLOW

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This substantial new book examines key economic, political and social aspects of Malaysia at the turn of the new century. It covers the years of rapid growth and dramatic structural change leading up to the 1997 financial crisis and the subsequent adjustments which enabled the economy to resume its vigorous advance. The authors critically address affirmative action policies aiming to help Malays enter the modern economy and make income distribution more equitable while reducing poverty. They look at case studies of persisting poverty amidst economic progress and also scrutinize the development of East Malaysia with its special problems away from the centre of power in Kuala Lumpur.

The authors review the direction of politics after Prime Minister Mahathir, as well as exploring Malaysia's foreign, education and labour policies. They canvass the idea of a 'new Malay' better adapted to modern society, investigate the position of the Chinese, examine the struggle for women's rights within the religious framework of Islam and discuss the contributions of Malaysian NGOs to ongoing changes. They finally draw together crucial issues facing Malaysia in the 21st century.

The contributors, who are leading scholars in their spheres, have produced a wide ranging and comprehensive guide to the economy and society of Malaysia. This book will be of great value and interest to students and scholars of Asian economics, development and social studies.

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Colin Barlow

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Colin Barlow is a Visiting Fellow in the Research School of Pacific and Asian Studies at the Australian National University, Canberra. He has worked on rural economic and social development in many Southeast Asian countries, focusing on the production and marketing of cash crops and ways in which public and other interventions are best organized to secure the adoption of new techniques. He is the author (with Sisira Jayasuriya and C. Suan Tan) of *The World Rubber Industry* (Routledge 1994), co-editor (with Joan Hardjono) of *Indonesia Assessment, 1995. Development in Eastern Indonesia* (Institute of Southeast Asian Studies 1996), and editor of *Institutions and Economic Change in Southeast Asia: The Context of Development from 1960s to the 1990s* (Edward Elgar 1999). He is the President of the Nusatenggara Association, an Australian non-government organization working on village development in West and East Timor.

Khoo Boo Teik is an Associate Professor in the School of Social Sciences, Universiti Sains Malaysia, Penang, and is the author of *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Oxford University Press 1995). He is a Fellow of the Asia Research Centre, Murdoch University, Perth, and a member of the editorial boards of *The Australian Journal of Political Science, Kajian Malaysia* and *Aliran Monthly*. His other writings include academic essays in refereed journals and edited volumes, articles in the international press, and social and political commentaries.

Nasir Hashim secured his PhD in international nutrition at Cornell University, New York State. He is now the Chairperson of *Suara Warga Pertiwi* and a Founding Director of *Suara Rakyat Malaysia* (SUARAM). He was formerly Associate Professor and Head of the Department of Community Health, Universiti Kebangsaan Malaysia, Chairperson of the Institute for Social Analysis, and Deputy Chairperson of the Kuala Lumpur Branch of the People's Socialist Party of Malaysia (PSRM). He was detained for 15 months at the Kamunting Detention Centre under *Operasi Lalang* in October, 1987, and on several other occasions for obstructing developers and government officers from demolishing the homes of urban pioneers or 'squatters'. He has been been active in the struggles of squatters, and of workers on plantations, in factories, and in the public service.

Lee Kam Hing is the Research Editor of the Star newspaper in Kuala Lumpur. He was previously a Professor in the History Department of the University of Malaya, and received his PhD at Monash University, Melbourne in 1973. He is the author of *Politics in Perak, 1969-1974* (Institute of Developing Economics, Tokyo 1977); *Some Socio-Economic Aspects of Perak Society* (Department of History, University of Malaya, 1978) (with Lee Poh Ping); *The Politics of Education in Indonesia* (University of Malaya Press 1995); *The Sultanate of Aceh: Aceh's Relations with the British, 1760-1824* (University of Malaya Press 1995); *Biographical Dictionary of the Chinese in Malaysia* (Oxford University Press 1997) (with Chow Mun Seong). He also edited and contributed to *Malaysian Politics and the 1978 Elections* (Oxford University Press 1980); *Christianity in Malaysia: A Denominational History* (Pelanduk Publications 1991); and *Malaysia: Tokoh Dulu dan Kini* [Great People Past and Present] (University of Malaya Press 1997).

Michael Leigh has a PhD from Cornell University, New York State, and his thesis was published by Sydney University Press as *The Rising Moon; Political Change in Sarawak* (1974). He was Head of the Department of Government and Public Administration of the University of Sydney from 1989 to 1992, and from 1992 to 1996 was seconded as Academic Director responsible for establishing the Kolej Antarabangsa in Penang, which had an exclusive linkage with the University of Sydney. He was appointed the inaugural Director of the Institute of East Asian Studies, Universiti Malaysia Sarawak, from 1997. This Institute, the first of its kind to be established by an ASEAN University, focuses its analyses on social, political and economic change in the Southeast and Northeast Asian regions, as well as giving full attention to Sarawak and Borneo. Michael Leigh has published books, monographs, articles and papers on social, political and economic change in Malaysia, Indonesia, Brunei and Singapore.

Jayant Menon is a Senior Economist at the Asian Development Bank, Manila, and was previously a Senior Research Fellow at the Centre for Policy Studies at Monash University, Melbourne. His research interests include international trade and finance, development economics and economic modelling. He is the author of two books, six chapters in books and more than 30 articles in refereed journals.

Chandra Muzaffar obtained his PhD in Political Science from the University of Singapore in 1977, and taught for many years at the Universiti Sains Malaysia in Penang. A social activist, Chandra was the Founder President from 1977 to 1991 of *Aliran Kesedaran Negara* (ALIRAN), which was the first multi-ethnic social reform group in Malaysian history. Currently, he is Deputy President of the Parti Keadilan Nasional (National Justice Party), and President of the International Movement for a Just World (JUST). Chandra has written and edited many books, including *Protector* (Aliran 1979), *Islamic Resurgence in Malaysia* (Fajar Bakti 1987), *Human Rights and the New World Order* (Just

World Trust 1993), *Human Wrongs* (Just World Trust 1996), *Globalisation* (Just World Trust 1998), and *Alternative Politics for Asia* (International Movement for a Just World 1999). He has also contributed numerous articles in English and Malay to various academic journals and popular magazines at national, regional and international level. Chandra in 1989 received the Harry J Benda Prize for distinguished scholarship on Southeast Asia from the Association of Asian Studies, North America.

Pang Teck Wai is the Senior Associate Director and Head of the Centre for International Trade and Industrial Development Studies at the Institute for Development Studies, Kota Kinabalu, Sabah, and has been at the Institute since 1986. He was also Director of the Centre for Borneo Studies at the Sabah Foundation in 1992 - 1993, and Visiting Lecturer at the University of Brunei in 1995 - 1996. He taught economics at the University of New South Wales from 1979 to 1986. He is an Associate Research Fellow at the Malaysian Institute of Economic Research in Kuala Lumpur, and an economic advisor to the Sabah United Chinese Chambers of Commerce, the Associated Chinese Chamber of Commerce and Industry (Malaysia), and the Federation of Sabah Manufacturers. He is principal economic advisor to the Sabah State Government, and has led several key studies on its behalf. He has also conducted several Malaysia-wide studies of development.

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Zainal Aznam Yusof is the Deputy Director-General of the Institute of Strategic and International Studies (ISIS) in Kuala Lumpur, and was previously the Southeast Asia Regional Economist at Kleinwort Benson Research (Malaysia) Sdn. Bhd. From 1990 to 1994 he was the Adviser in Economics at the Bank Negara Malaysia, and before that Deputy Director of the Malaysian Institute of Economic Research (MIER) in Kuala Lumpur. The greater part of his career was spent in the Economic Planning Unit (EPU) of the Prime Minister's Department, which is responsible for formulating the Malaysian five-year and long-term development plans. He worked at the EPU on industry, the New Economic Policy, macroeconomics, foreign investment and infrastructure. He has also been a consultant to various international and Malaysian agencies. He holds a D Phil in Economics from the University of Oxford, England, and has occupied distinguished positions at Malaysian universities.

Zainah Anwar is a freelance writer. She is also the Executive Director and founder of Sisters in Islam, a non-government organization working for women's rights within a religious framework. She previously worked as a Chief Programme Officer in the Political Affairs Division of the Commonwealth Secretariat in London, as a Senior Analyst at the Institute of Strategic and International Studies in Kuala Lumpur, and as a Political and Diplomatic Writer for the *New Straits Times* in Kuala Lumpur.

Preface and Acknowledgements

This volume brings together contributions by a group of distinguished Malaysian and Australian scholars on the theme of economic, political and social change in modern Malaysia. The contents originally arose from the first Australia-Malaysia Conference, which I convened at the Australian National University in November, 1997. But many changes have taken place since that event, and all chapters have been adjusted while a chapter by Michael Yap Meow-Chung has been added. The book is now well placed to give important and critical insights into Malaysian conditions over the four decades up to the year 2000.

Subject to caveats below, each author is entirely responsible for his or her own opinions. This includes my introductory Chapter 1 and concluding Chapter 16, which were not written in consultation with other contributors.

I did the editing of the volume in two locations. One was the University of Oxford, England, where I was a Visiting Scholar, and the other was the Australian National University, Canberra, where I was a Visiting Fellow. I wish to thank respectively the President and Fellows of Wolfson College, Oxford, and the Head of the Department of Political and Social Change in the Research School of Pacific and Asian Studies, Australian National University, for providing facilities enabling me to complete the project. I particularly want to acknowledge the support at Oxford of Professors George Peters and Barbara Harriss, and at the Australian National University of Professor Ben Kerkvliet and Dr Harold Crouch.

I also wish to record and express my gratitude for generous financial help towards editing the manuscript and producing camera-ready copy from the Australian Department of Foreign Affairs and Trade, Canberra. I am indebted as well to the staff of Edward Elgar Publishing at Cheltenham and Aldershot, England, for their able and efficient assistance in the production of the book.

I should like to thank all participant authors for their work in writing chapters, for their subsequent efforts in making drafts suitable for inclusion in the volume, and for their patience with me during the latter process.

Several authors wish to add their special thanks to people and groups who assisted them with their chapters. Prema-chandra Athukorala is grateful to Mohamed Ariff, Mahani Zainal Abidin, and Raja Rasiah for stimulating discussions and institutional support during his field research in Malaysia, to Iman Sugema for excellent research assistance and to David Lim for useful comments. Jayant Menon is indebted to Prema-chandra Athukorala and Mohamed Ariff for valuable discussions, and to Wolfgang Kasper and other participants at the Australia-Malaysia Conference, 1997, for their helpful

comments. Zainal Aznam is grateful to Colin Barlow for completing his chapter and updating it to 2000, while Nasir Hashim is obliged to Colin Barlow for substantial editing. Both Michael Yap Meow-Chung and Pang Teck Wai wish to acknowledge Colin Barlow's comments and advice on improving their drafts.

Khoo Boo Teik wants to record that his chapter is part of a project, 'Discourses and Practices of Democracy in Southeast Asia', funded by Sida, Sweden, in which he participated as a member of the team from the Research and Education for Peace Unit, Universiti Sains Malaysia, Penang. Sida's support is gratefully acknowledged. His chapter was substantially rewritten while he was a Visiting Fellow at the Asia Research Centre, Murdoch University, Australia, and he thanks the Centre for its generous support. He also wishes to note that comments on the original version of the chapter by John C. Brown, Khoo Khay Jin, Francis Loh Kok Wah and Tan Liok Ee were immensely helpful.

I should finally like to express my great appreciation for the continued support and help throughout the editing process of my wife, Ria Gondowarsito, who capably undertook the final production of camera-ready copy according to the requirements of the Elgar house style.

I would note that the present book is only the first of what it is hoped will be a series of volumes on Malaysia. Indeed, the next book in the series is already underway, and derives from papers contributed to the Australia-Malaysia Conference which I convened at the Australian National University, Canberra, in May, 2000. This new book, 'Malaysian Economics and Politics in the New Century', discusses and explores recent events in Malaysia, and looks forward beyond the 1997 financial crisis towards the future conditions of Malaysian society.

Most values in the book are quoted in Malaysian ringgit (abbreviated as 'RM'), whose mean rates of exchange against the United States dollar were as follows:

1970 - 1979	2.57
1980 - 1989	2.44
1990 - 1996	2.60
First six months of 1997	2.50
Last six months of 1997	3.55
First nine months of 1998	3.91
September, 1998 - September, 2000	3.80

Some other values in the book are quoted in US dollars (abbreviated '$').

Where the sign '-' appears in the cells of tables, it means that relevant data are not available.

Some tables in the book contain abbreviations as follows: Agric. & For. = Agriculture and Forestry; bil. = billion; Bumi. = Bumiputera; Bus. = Business; cap. = capital; comm. = commercial; cons. = consumer; Fin. = Finance; Gas & Wat. = Gas and Water; Govt. = Government; I-Wted. = Import-weighted; ind. = industrial; Ins. = Insurance; Manufactur. = Manufacturing; Min. & Quar. = Mining and Quarrying; Non-perf. = Non - performing; Restaur. = Restaurants; Risk-wted. = Risk - Weighted; Unwted. = Unweighted; yr. = year.

PART I

General

1. Introduction

Colin Barlow

This book aims to address salient aspects of the economic, political and social circumstances of Malaysia, beginning after the country's founding four decades ago in the 1960s and coming forward from then to the start of this new century. It explores the progress of that nation as it moved from being a small traditional primary product economy to become, in 2000, a successful manufacturer and the sixth largest exporter of manufactured goods in the world. The story of the book is complex and many-sided, depicting ways in which this land of diverse ethnic groups has managed to overcome major difficulties to become, in a short time span, one of the most prosperous countries of Southeast Asia.

In 2000 Malaysia was a nation of some 23 million people. Its gross national product per head was approximately $3,400 (Bank Negara Malaysia 2000), which in Southeast Asia was second only to Singapore and considerably higher than that of other countries of the region. In common with its neighbours, Malaysia suffered severely from the financial crisis which swept across the region in 1997 and adversely affected the economy for several years. But thanks to its relative political stability and good economic management, it began its recovery after some serious reverses, and in 2000 recorded well over eight per cent economic growth as it resumed progress towards higher national income levels.

Malaysia as a whole is a federation of 13 states, divided by the Pacific Ocean into the two portions of 'West Malaysia' (11 states) and East Malaysia (the states of Sabah and Sarawak) (Figure 1.1), with West Malaysia also being variously referred to as 'Peninsular Malaysia' or the 'Peninsula'. Malaysia was formed in 1963 through the union of 11 Peninsula states with what up to then had been the British colonies of Borneo and Sarawak. Each state has substantial powers over land and religious matters, but is subject in most other aspects to the federal government in the capital, Kuala Lumpur. The latter is located within a special Federal Territory. The Peninsula of West Malaysia contains the bulk of the population, with most people being within a single day's car drive of Kuala Lumpur on a stretch of land some 750 kms long and 300 kms across at its widest point. The land mass of East Malaysia is far less densely populated, being 1,100 kms long and 270 kms across.

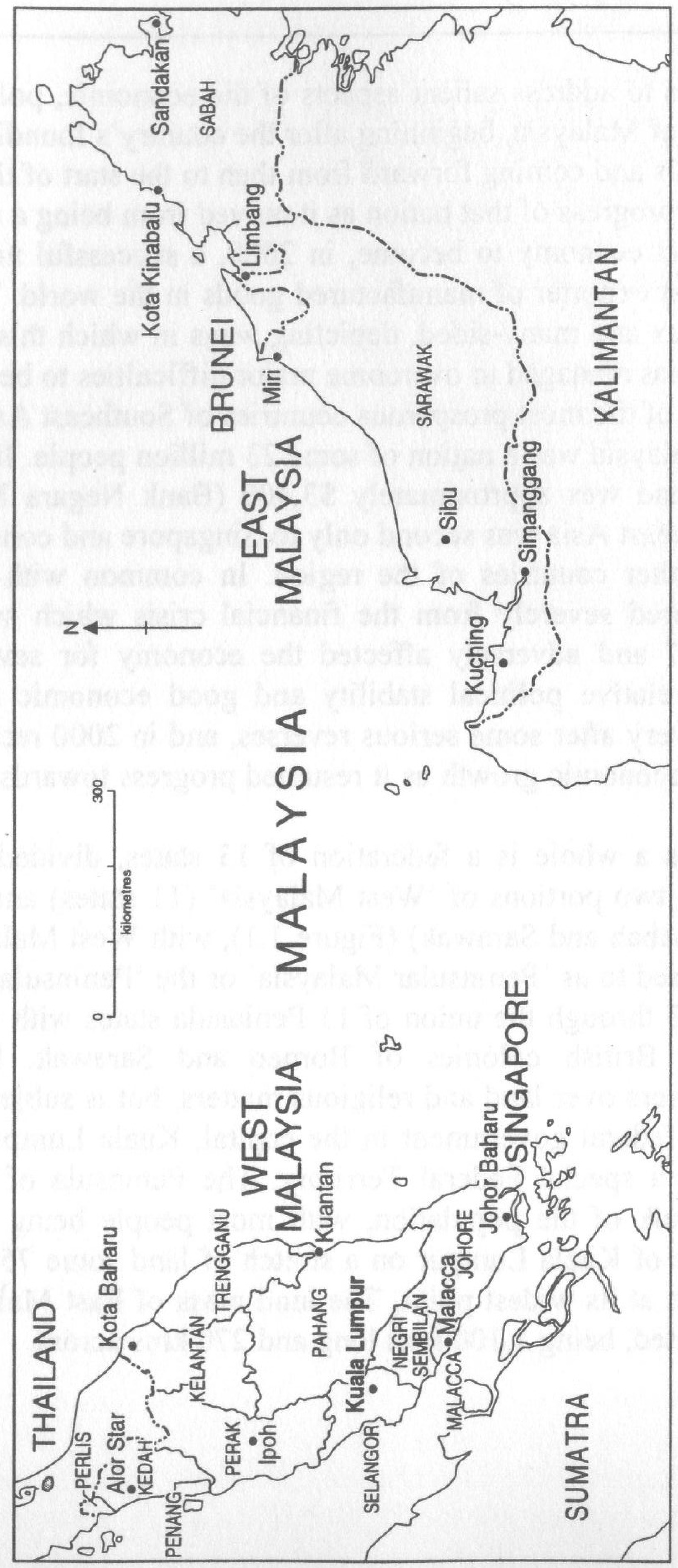

Figure 1.1 Malaysia in 2000

The Malaysian population comprises the three main ethnic groups of Malay, Chinese and Indian peoples, in a racial makeup deriving from immigration policies of the colonial past. Achieving integration of these groups in a unified Malaysian nation is a complicated balancing act, but the major affirmative actions undertaken through the path-breaking New Economic Policy (NEP) of the Malaysian government from the early 1970s to the early 1990s much advanced the unification goal. The Malaysian federal government has since Independence from Britain in 1957 been in the hands of a coalition of parties representing the three main ethnic groups, and been dominated through that period by the United Malays National Organization, the chief party of the majority group of Malays.

This *Barisan Nasional* government was led in 2000 by Dr Mahathir Mohamad, a brilliant and consummate politician and able economic manager with a remarkable personal vision and format for the future of the Malaysian nation. Dr Mahathir had been Prime Minister since 1981 and had despite several serious reverses been able to implement his vision in a wide range of spheres. But although the financial crisis of the late 1990s had been largely overcome, its political ramifications and those from other concurrent events seemed less easy to master. Thus the power balance in the Malaysian polity of 2000 appeared to be changing significantly, with serious questions over the makeup of future government.

This book and those planned to follow it have the goal of better informing people outside Malaysia about this very significant country of Southeast Asia. The chapters of the present volume look at aspects of Malaysia's economic, political and social circumstances over the last four decades, reviewing the altering contexts in which official policies were formulated. Thus the chapters of Part II mainly examine economic and distributional aspects accompanying and flowing from these policies, while the chapters of Part III consider important political and foreign policy developments and the effects of changes on key groups in society.

First, in Chapter 2 of Part II Prema-chandra Athukorala takes a broadly optimistic stance in comprehensively exploring developments in the Malaysian macroeconomy up to the time of the recent financial crisis. He traces its impressive high growth and periodic setbacks and its structural change from heavy emphasis on primary commodities in the 1960s to main reliance on export-oriented manufacturing in the 1990s. He also reviews the switch to a predominantly urbanized structure, with virtually full employment, an advance of real wages, relatively equitable distribution and consequently reduced poverty incidence. He looks at how official policies and good economic management have influenced these changes, and how maintaining price stability, flexible labour markets, and providing appropriate infrastructures and services have been crucial to advances made.

Next, in Chapter 3 Jayant Menon examines the degree to which the Malaysian economy over the years to 1997 may be described as 'open' to international trade, as well as to flows of capital and labour. He investigates ways in which these flows can be measured, and with this background reviews the extent to which government policies facilitated or restricted flows both into and out of Malaysia. He notes the progressive liberalization of trade in manufactures (although not in agriculture), and the relatively liberal controls on foreign direct investment despite constraints arising from requirements of the NEP. He also records variable policies towards migrant labour, which were nonetheless responsive to domestic shortages. He concludes that the openness of the Malaysian economy to trade and foreign investment was a key force behind its rapid economic growth.

In Chapter 4 Michael Yap Meow-Chung takes the story forward from 1997, examining circumstances attending the currency crisis and prior negative signs in the Malaysian economy despite the apparently healthy banking system. He traces the catastrophic slide in the Malaysian ringgit after the onset of crisis, recording the insufficiency of monetary and fiscal policies initially followed by government prior to its imposing capital controls, fixing the ringgit exchange, and implementing a more expansionary monetary stance. He discusses the good effects of the latter moves and the subsequent financial sector restructuring, all of which led to renewed confidence of foreign investors and helped a rapid recovery of the Malaysian economy. He suggests what he feels are desirable reforms to both domestic and international financial markets to make them less vulnerable to future crises.

In Chapter 5 Tan Eu Chye and Mohamed Ariff review Malaysian industrial strategies, which initially emphasized import substitution but then moved towards export orientation to generate more employment and achieve better socio-economic redistribution. They canvass measures taken to promote such changes, including those geared towards developing human resources, small industry and research on new technologies. They highlight the low tariffs promoting industrialization, but note exceptions in the automobiles and steel subsectors with high duties on rival imports and imported intermediate inputs. They emphasize the failure of manufacturing to exploit Malaysia's comparative advantage in resource-based products, noting what they judge to be the undue stress in this sector on non-resource-based items requiring costly imports of intermediate inputs. They register the need to move away from a capital and labour input-driven economy, and to develop appropriate technologies and skills in promoting further economic advance.

In Chapter 6 Zainal Aznam Yusof examines trends in Malaysian income distribution over the three decades leading up to 2000. He records its widening up to 1970, followed by a narrowing up to 1990 and subsequent re-widening. He also scrutinizes intra-ethnic and rural-urban income differences and incidences of poverty, all of which exhibited broadly parallel trends. He discusses the substantial effects of the NEP, with its focus on 'redistribution through growth' and its measures for improvement in the position of *Bumiputera* through quotas, pricing and the direct operation by government of productive enterprises. He observes that changes in official policies from the mid-1980s to less explicit emphasis on equity and more liberal market-oriented approaches are likely to have encouraged the more recent widened income distribution, but he also perceives that the worst effects of the financial crisis fell on foreign workers, thus largely relieving its adverse impact on Malaysians.

In Chapter 7 Nasir Hashim focuses on the poor in Malaysian society, seeing them as subject to exploitation from a system in which capitalists own technology and capital, while workers contribute their labour and use provided equipment and facilities. He also views this exploitation as entailing laws supporting the prevention of national unions, detention of persons without trial, acquisition of land without equitable compensation, demolition of squatter homes and other repressive measures. He outlines actual scenarios for a poor family engaged in factory work, and for squatter villagers threatened with eviction. He highlights the many and seemingly insoluble difficulties of the former, but shows how the latter can resist eviction through co-operating with a non-government organization helping them to argue their case. He presents a view of future social and economic improvement involving collaboration between the various parties involved.

In Chapter 8 Pang Teck Wai examines the role of development planning in bettering Sabah's economy, first considering the Sabah Action Blueprint. This was formulated in 1987, involving comprehensive strategies to alter the economic structure of the state with its dominant primary production, low investment ratio, and rapidly depleting timber and oil resources. He explores the technical and governance problems of the Blueprint, and its failure to involve the private sector, all of which caused its abandonment after only three years. He then examines the more flexible succeeding Outline Perspective Plan of 1990, which aimed 'to transform the State's economy to one that is knowledge-driven' and entailed creation of high value-added knowledge-intensive industries. This Plan set out to create growth clusters and develop indigenous technology capacity, providing appropriate infrastructure to support this and to 'catapult' Sabah into a developed economy in 20 years. Pang indicates progress towards this goal, as well as further development of the key timber, oil palm, cocoa, petroleum and gas, and tourism sectors.

In Chapter 9 Michael Leigh considers the new realities of Sarawak's economic situation in 2000, following a period since 1970 of rapid economic growth based on extracting finite timber resources. He discusses the strong net resource flow to the federal authorities in Kuala Lumpur, taking place largely through petroleum exported by Petronas but also through Sarawakian consumers purchasing goods from tariff-protected industry on the Peninsula. He outlines state government strategies supported by business to create new economic activities and postpone a slowdown of the Sarawak economy, including large projects such as the Bakun dam, encouraging semiconductor manufacture, utilizing migrant labour, promoting tourism and converting native customary rights to plantation agriculture. He canvasses the social difficulties of the latter, with its propensity to create a landless labour force at the mercy of global markets.

In Chapter 10 of Part III Khoo Boo Teik considers Malaysian politics after Mahathir through examining conditions before and after Mahathir assumed power in 1981, treating the situation up until 1997 only. He sketches the 1960s' background of *laissez faire* capitalism and ethnic division of labour, which collapsed in the face of social pressures. He discusses the consequent launching in 1970 of the NEP, which then preoccupied Malaysian politics for a decade. He analyses Mahathir's ambitious re-orientation of policy towards modernization, industrialization, privatization and bureaucratic reform. He describes Mahathir's vanquishing of opposition from 1987 and his subsequent successful use of economic solutions to cultural problems. He sees Mahathirism as espousing an incomplete corporatism entailing the state and capital but not labour, and matches this with his deputy Anwar Ibrahim's apparent empathy in the late 1990s to 'smaller' people and multiculturalism. He proposes that this contrast between the two leaders taken with restraints on policy flexibility springing from links to the global economy helps to suggest the direction of politics after Mahathir.

In Chapter 11 Chandra Muzaffar addresses Malaysia's foreign policy, scrutinizing the country's relations with international groupings. He notes that links with countries of the Association of Southeast Asian Nations (ASEAN) are especially important, seeing also that those with Northeast Asian and Muslim countries are given high priority. He observes that South-South co-operation is also emphasized, with the Prime Minister prominently articulating the position of the South. Relations with the United Nations are also important, with Malaysia often contributing to peacekeeping ventures. However, despite the personal links of many Malaysians who have studied there, Australia is not judged important in Malaysia's foreign relations, while successive quarrels and patronizing attitudes towards Malaysian human rights violations by Australian leaders, journalists and non-government organizations have aggravated ties. Muzaffar judges Mahathir as central to devising Malaysian foreign policy, and feels that given a smooth leadership succession the current policy strands including vigorous support of the South are likely to continue.

In Chapter 12 Abdul Rahman Embong considers the concept of *Melayu Baru,* involving the adjustment of Malays to modern society. He scrutinizes Mahathir's thinking on this, which stresses the need for competition and achievement in economic matters as demonstrated by new Malay entrepreneurs. He examines the views of those who regard the Prime Minister's ideas as a 'political construct' with no place for lower levels of Malay society, also discussing the thoughts of others about the nature of 'Malayness'. He indicates how thinking about *Melayu Baru* extends back to Abdullah Munshi, who criticized early 19th-century Malay society and the influence on it of feudal oppression. He promotes his own idea of *Melayu Baru* as a project of transformation and modernization of Malay society, seeing it as a movement with historical roots assuming different forms according to proponents and features of the time. He feels it necessary to look beyond the current political agenda and view *Melayu Baru* in this broader context.

In Chapter 13 Lee Kam Hing examines the influential political and economic role of the Chinese, reviewing the part taken by the Malaysian Chinese Association in coalition governments. He analyses the loss in Chinese political power and enhanced Malay primacy following the 1969 riots and introduction of new redistributive policies. He discusses the four major Chinese-based political parties, stressing the importance to the United Malays National Organization of the *Barisan Nasional* coalition and Chinese votes in the 1999 election. He canvasses the relative decline in Chinese economic position since the 1970s, but pinpoints dynamic Chinese businesses run by young Chinese often supported by influential Malays. He highlights the continuing significance of Chinese networking underpinned by traditional beliefs, and of Chinese educational institutions, media, and trade associations. He notes Chinese satisfaction with the cultural pluralism now promoted by government, and advantages to Malaysian national interests of a multiracial society.

In Chapter 14 Zainah Anwar discusses the struggle for women's rights within Islam, comparing enlightened attitudes to women in the Qur'an with circumstances in Malaysia. She records repressive trends for Islamic women in the 1990s, scrutinizing various codes and acts at state and federal levels. While some legislation could not be implemented or was modified following discussions, the Amendments to Islamic Family Laws which benefited the position of men, and the *Syariah* Criminal Offences Act which gave automatic force of law to *fatwas* of the *Mufti,* had serious consequences for women. Zainah Anwar also discusses the use of religion to justify subordination of women, the lack of women's social rights, the failure to recognize differences between revealed truths and those flowing from human interpretation, and the widespread belief in the *ulamas'* sole right to decide matters of religion. She describes how the Sisters in Islam challenge laws and policies discriminating against women in the name of Islam, opposing the forces of obscurantism out to perpetuate unjust patriarchal structures.

In Chapter 15 Chandra Muzaffar examines the role of 'cause-oriented' non-government organizations, discussing their progress since they began focusing on public policies and legislation in the 1970s. These NGOs had little support in a first phase to 1981, owing to elitist public decision-making and a small middle class. But they secured prominence in a second phase through their successful opposition to efforts to emasculate them through the Societies' Act, doing this in a campaign led by Anwar Ibrahim. This phase marked by enhanced activism ended with 'Operasi Lalang' in October, 1987, when many NGO leaders were arrested. A third phase saw accommodation by a powerful government, with NGOs being consulted on public issues. A final fourth phase, from Anwar's arrest in September, 1998, to 2000, featured greater prominence of NGOs, further arrests of their leaders, and some leaders joining political parties to contest the 1999 election. Muzaffar highlights the NGOs' transition to wide public support, stressing the crucial need for their continuing interrogation of power-wielders and power-seekers.

Finally, in Chapter 15 of Part IV Colin Barlow brings together the themes and discussions of each chapter, highlighting five major issues comprising the conditions of economic advance, the distribution of income and persistence of poverty, the challenges of regional planning and foreign policy, the nature of the political process, and social changes to various groups. He considers these issues in relation to the ideas of individual authors and one another, drawing from them some indications as to Malaysian political and social change into the 21st century.

It may be seen from these brief summaries that most authors take a long historical view of the economic, political and social developments that occurred, and this perspective is felt vital to understanding the varied factors influencing and continuing to affect the Malaysian scene. It will later be evident as readers peruse individual chapters that authors display considerable differences of interpretation and view as to what occurred, but this too is judged helpful in promoting a better insight into situations and into factors and their interactions.

The life span of the editor of this volume has coincided with the huge and impressive expansion of the Malaysian economy, and with the major social changes that have accompanied this and the government policies promoting it. He first began work in Malaysia in 1963, which was a time of commodity dependence when Malays were a largely rural group with little participation in other sectors. He has thus been able to view the dynamic and almost unbelievable progression to the circumstances of today, when, despite recent setbacks, the economy is far more broadly based and far larger, and also involves important participation by *Bumiputera* at every level of a multicultural society. This book sets out to catalogue a number of crucial and fascinating transformations that have occurred, with Malaysia at the start of the new century seeming well poised for further dynamic advances to the benefit of its diverse peoples.

PART II

Economics and Income Distribution

2. The Macroeconomy up to 1997

Prema-chandra Athukorala

Malaysia has been in the limelight as one of a handful of success stories in the developing world. While Malaysia's economic performance has been impressive by developing country standards throughout the post-independence period, it has been especially remarkable since policy shifted decisively towards greater outward orientation in the late 1980s. Sustained high growth during the latter period was accompanied by rising living standards with a relatively equal distribution of income, ameliorating the twin problems of poverty and racial imbalance.

This chapter reviews Malaysia's macroeconomic development up to the financial crisis of 1997, doing that in the light of current understanding of the East Asian experience and focusing on the challenges facing Malaysian policy makers in the late 1990s. It first reviews Malaysia's overall economic performance and structural changes, going on to offer explanations for Malaysia's economic success and emphasizing the role of policy. It finally makes observations on growth prospects and policy options following the financial crisis, stressing policy concerns in this context.

ECONOMIC PERFORMANCE

The growth performance of Malaysia is compared in Table 2.1 with that of other Asian economies, examined in terms of purchasing power parity-adjusted estimates of gross national product. At independence in 1957, Malaysia had the highest per capita income in the region, excepting Japan. During the next two decades Malaysia dropped in ranking owing to the dramatic economic expansion of the four East Asian newly industrializing countries or 'dragons' of Hong Kong, South Korea, Singapore and Taiwan. It continued its lead over other countries however.

But the gap between Malaysia and the newly industrializing countries narrowed considerably between 1987 and 1995. During that period Malaysia recorded almost the highest growth in gross national product in the Asian region, both per person and absolutely, being second only to China, which started its rapid development from a low base. Malaysia's performance looked particularly impressive in comparison with the Philippines and Sri Lanka, the two countries in Asia which had comparable initial income levels coupled with a significant lead over Malaysia in terms of human capital endowments and superior administrative mechanisms. Outside the Asian region the only country matching Malaysia's growth and surpassing it in some recent years was diamond-rich Botswana (Snodgrass 1995).

The annual growth of real gross domestic product from 1965 to 1986 averaged 6.6 per cent (Table 2.2), a very impressive figure by developing country standards. Yet performance was uneven over time, reflecting the impact of primary commodity cycles and changes in government expenditure. The growth rate averaged 7.8 per cent per annum during the 1970s, but then slowed to 6.9 per cent during 1980 - 1984 and fell to negative one per cent in 1985. With better domestic macroeconomic policies and market-based reforms, the Malaysian economy resumed rapid growth in 1987. The average annual growth of real gross domestic product accelerated to over 8 per cent over the nine years to 1997.

As in the four East Asian newly industrializing countries, rapid export orientation was central to Malaysian growth (Krueger 1995). The 'export coefficient' (total merchandise exports as a percentage of gross domestic product) of around 50 per cent in 1965 - 1980 increased modestly during the 1970s, slowed in the first half of the 1980s, and then rose sharply from about 1987. The ratio was 96 per cent in the mid-1990s. Malaysia's export coefficient was third highest in the developing world in the decade up to the late 1990s, coming after the 170 per cent of Singapore and 140 per cent of Hong Kong.

Structural Change

The economic growth of Malaysia from the late 1980s was accompanied by significant changes in its economic structure. The export structure of Malaysia as it evolved during the colonial era was characterized by heavy reliance on a few primary commodities, with the share of manufactures in total merchandize exports being about 10 per cent in the early 1970s. Economic growth in the 1970s and early 1980s was predominantly accounted for by the expansion of service industries emanating from public sector activities and increases in primary production (Tables 2.3 and 2.4).

In 1989 the manufacturing share in gross domestic product first overtook that of agriculture. The manufacturing sector grew at an average annual rate of 14 per cent between 1987 and 1997, and its share in gross domestic product increased from 20 to 30 per cent. Over 50 per cent of the growth in gross domestic product came directly from manufacturing in this period, and much associated expansion in services was closely related to this (Ariff 1991). The share of agriculture in domestic product declined from 33.6 per cent in 1970 to 9.1 per cent in 1997 (Table 2.3), while its growth lagged behind that of all other sectors (Table 2.4).

Table 2.1 Gross National Product (GNP) of Malaysia and Other Asian Economies

	Per Person Relative to The United States				Growth (%)		Growth in GNP per person (%)	
	1955	1960	1987	1995	1960 - 1995	1987 - 1995	1965 - 1995	1987 - 1995
East Asia	-	17.1	59.2	72.3	8.3	6.2	6.9	5.9
Hong Kong	n.a	21.0	73.0	98.5	7.0	5.4	6.1	4.7
South Korea	8.9	8.7	29.8	48.9	8.6	8.0	6.9	7.1
Singapore	n.a	16.6	53.3	85.4	8.4	8.1	6.8	6.1
Taiwan	n.a	13.8	46.7	56.2	7.9	7.5	6.5	6.2
China	-	3.1	5.2	10.8	6.8	9.4	8.6	11.3
Southeast Asia	-	9.7	15.9	21.3	6.2	7.2	3.9	5.4
Indonesia	-	5.8	9.6	13.2	6.6	7.0	4.5	5.3
Malaysia	14.2	15.0	21.7	37.2	7.1	10.2	4.6	7.8
Philippines	10.7	11.5	9.3	9.5	3.7	2.9	1.2	0.3
Thailand	7.4	9.6	15.6	25.6	6.8	8.4	4.4	7.2
South Asia	-	8.1	7.8	9.5	4.2	5.2	1.9	2.9
India	6.5	7.4	6.5	8.2	4.2	5.2	1.9	3.0
Pakistan	6.2	6.8	7.5	7.8	5.2	4.0	2.2	1.2
Sri Lanka	12.5	12.5	11.7	13.1	4.3	7.3	2.6	6.0

Note: *Author's computations based on Pen World Tables (ongoing). Data for 1993 - 1995 are extrapolations of 1992 values based on growth rates from the International Monetary Fund (1997).

Table 2.2 Growth and Export Orientation, Malaysia, 1965 - 1999

	*GDP**		*Per-capita GDP**		*Export-orientation*
	Value (millions of ringgit)	Growth (%)	Value (ringgit)	Growth (%)	X/GDP (%)
1965 - 1969**	30,149	7.08	2,902	3.97	46.09
1970 - 1974**	43,845	8.17	3,996	5.10	46.37
1975 - 1979**	51,703	7.22	4,734	4.17	50.44
1980 - 1984**	74,001	6.85	4,937	3.90	52.15
1985	83,305	-0.96	5,313	-3.55	54.85
1986	84,179	1.05	5,225	-1.65	56.31
1987	88,717	5.39	5,367	2.71	63.85
1988	96,647	8.94	5,705	6.30	67.61
1989	105,547	9.21	6,083	6.63	73.26
1990	115,828	9.74	6,522	7.21	76.28
1991	125,861	8.66	6,923	6.15	80.84
1992	135,667	7.79	7,290	5.30	77.65
1993	146,987	8.34	7,636	4.74	81.45
1994	159,848	8.75	7,972	4.41	89.82
1995	175,225	9.62	8,506	6.70	95.50
1996	189,595	8.23	8,943	5.70	92.01
1997	204,851	8.00	9,435	5.50	89.76
1998	182,331	-7.50	8,221	-8.70	-
1999	190,138	5.80	-	-	-

Sources: International Monetary Fund (1997); Malaysia. Ministry of Finance (1990 - 1997 and 1990 - 1999)

Notes: * At constant (1990) prices for 1965 - 1997, and at constant 1987 prices for 1998 and 1999; **Annual average.

The economy became increasingly urbanized as a result of rapid industrialization, with the proportion of population in urban areas increasing from 34 per cent in 1980 to 51 per cent in 1990 and 55 per cent in 1995 (Malaysia 1996). The manufacturing expansion was predominantly export-led, with the ratio of total export value to total value of manufacturing gross output increasing from around 10 per cent in the early 1970s to over 65 per cent in the mid-1990s. Manufactured exports emerged as the most dynamic element in exports, reaching 80 per cent of the total by the latter time. Malaysia was by then the developing world's sixth largest exporter of manufactures, coming after the four dragons of East Asia and China.

Foreign direct investment played a pivotal role in the expanding production of manufacturing and especially manufacturing exports. By the mid-1990s foreign firms accounted for over 45 per cent of total manufacturing value-added, and over three-quarters of total manufactured exports (Athukorala and Menon 1999).

Employment and Equity

In the early 1960s unemployment in Peninsular Malaysia was estimated at 6 per cent, increasing to 8 per cent by the early 1970s (Snodgrass 1980). After dropping to around 5 per cent in the early 1980s, the rate again increased, reaching a peak of 8.3 per cent in 1986. It then declined continuously, and from 1994 to 1997 the economy was at virtual full employment with unemployment below 3 per cent (Table 2.5). Interestingly, this impressive record was achieved in the context of increasing labour force participation by the population, with this rising from an average of 65 per cent in 1980 - 1985 to over 67 per cent by the mid-1990s. Most new employment came from the rapidly expanding manufacturing sector, whose share of total employment climbed from 14 per cent in the mid-1970s to 27 per cent in 1996. The direct contribution of manufacturing to the increment of total employment from 1987 to 1996 was as high as 63 per cent.

Real wages (measured by average manufacturing earnings) declined in the early 1970s, partly reflecting the shift in structure of production away from capital-intensive import substitution towards labour-intensive export production. Real wages were at the same time kept low by the vast pool of surplus labour, particularly in the rural sector. Yet they started to advance from the late 1970s with the gradual absorption of surplus labour in export-oriented industries, and the real wage index rose from an average of 74 in 1975 - 1979 to 105 in 1985. The index declined mildly during the macroeconomic adjustments of the mid-1980s, but increased again and reached 141 in 1995 (Athukorala 1998). It seems that without minimum wage legislation, employment levels rose first and were followed by market- and productivity-driven increases in real wages. The real wage advances from the late 1980s occurred in a context where the profitability of manufacturing measured by the price-cost margin remained virtually unchanged. Thus it appears that with the rapid depletion of surplus labour reserves, workers became the major beneficiaries of productivity growth in manufacturing (Athukorala and Menon 1999).

The 1990s' growth in real wages would have presumably been sharper, had it not been for the influx of migrant workers from neighbouring labour-surplus countries (Pillai 1995). Official records put the number of migrant workers in

Malaysia at 650,000 in 1995, but circumstantial evidence indicated the total number of legal and illegal workers to be as high as 2 million or 25 per cent of the local Malaysian labour force of 8 million. By the early 1990s foreign workers represented over 60 per cent of the workforce on plantations and 70 per cent of that in construction, and had also begun to enter manufacturing in large numbers.

The strong expansion of modern sector employment as well as the decline in unemployment and rapid wage growth were powerful agents for reducing poverty and promoting equity and social harmony. The incidence of poverty among all households, as measured by the proportion of total households below the poverty line, fell from 18.4 per cent in 1984 to 9.6 per cent in 1995, and was projected before the financial crisis to fall to 6 per cent by 2000.[1] Significant declines were observable for both urban and rural households, although rural poverty was still relatively high. All ethnic groups shared in the remarkable improvement in quality of life.

Malaysia has also been successful compared with similar developing countries in addressing inequality in the size distribution of income, although this achievement has been less impressive than its record in reducing absolute poverty. Thus the Gini coefficient measuring income inequality fell between 1970 and 1990, although it has since deteriorated slightly. Far more detail is given in the treatment of income distribution by Yusof in Chapter 6. The overall trend, however, suggests that the benefits of rapid growth have been distributed reasonably widely. In any case, and given the remarkable success in raising living standards across the board, there is little doubt that income inequality had become less of a politically sensitive issue than it once was.

The remarkable outcomes of growth, employment and equity up to the time of the financial crisis were achieved under conditions of low inflation by both regional and overall developing country standards (Corden 1996). The Malaysian annual rate of inflation as measured by the consumer price index averaged 3.5 per cent in 1987 - 1996, which was down from an average rate of 4.2 per cent in 1980 - 1987

Table 2.3 Gross Domestic Product by Sector, Malaysia, 1960 - 2000 (% of total at current market prices)

	1960	1965	1970	1975	1980	1985	1990	1995	1997	2000*
Agriculture, forestry & fishing	38	31.5	33.6	27.7	22.2	20.8	18.8	10.3	9.1	9.3
Mining & quarrying	6	9.0	7.2	4.6	4.6	10.4	9.7	8.2	7.3	7.3
Manufacturing	9	10.4	12.8	16.4	20.5	19.7	27.0	27.1	29.9	30.0
Construction	3	4.1	3.8	3.8	4.5	4.8	3.5	4.4	4.8	3.7
Electricity, water & sanitary services	1	2.3	2.6	2.1	2.4	1.7	1.9	3.5	3.1	3.4
Transport, storage & communications	4	4.3	3.8	6.2	6.5	6.4	6.9	7.4	7.5	8.2
Wholesale & retail trade	16	15.3	13.7	12.8	12.6	12.1	11	15.2	15.0	15.2
Banking, insurance & real estate	1	1.6	2.0	8.5	8.2	9.0	9.7	10.4	12.2	12.4
Other services**	22	21.5	20.5	17.9	23.2	15.1	11.5	14.8	14.1	16.1
Adjustments***	-	-	-	-	-	-	-	-1.3	-3.0	- 5.1
Total	100	100	100	100	100	100	100	100	100	100

Sources: Malaysia (1991); Malaysia (1996); Malaysia. Ministry of Finance (1999).

Notes: *Estimated, and (along with 1995 and 1997 figures) at 1987 constant prices;
**Other than Construction, Electricity, etc, Transport, etc; Banking, etc, and including government services;
***Less imputed bank service charges and plus import duties.

*Table 2.4 Sectoral Growth Performances, Malaysia, 1970 - 1997**

	1970 - 1975	1975 - 1980	1980 - 1985	1985 - 1990	1990 - 1997
Agriculture	9.5	5.1	3.1	4.6	2.5
Industry	6.7	10.7	5.7	9.8	12.7
Manufacturing	6.7	11.4	5.3	13.7	13.2
Services**	12.2	13.9	5.8	5.1	9.2
Total	10.6	8.5	5.2	6.8	8.4

Source: Malaysia. Ministry of Finance (1990 - 1997)
Notes: *Growth rates are based on constant (1978) prices and are annual averages between reported years;
** Including import duties net of bank service charges.

Table 2.5 Summary Statistics on Malaysian Employment and Unemployment, 1980 - 1999

	Labour Force ('000)	*Labour force Participation rate (%)*			*Unemployment rate*
		Total	Male	Female	
1980	5,122	65.3	87.6	43.1	5.6
1985	6,039	65.8	87.4	44.3	6.9
1986	6,222	65.8	87.5	44.2	8.3
1987	6,409	65.9	86.9	44.9	8.2
1988	6,622	66.1	85.8	46.5	8.1
1989	6,850	66.3	85.8	46.9	6.3
1990	7,042	66.5	85.7	47.3	5.1
1991	7,204	66.6	85.7	47.5	4.3
1992	7,370	66.7	85.7	47.6	3.7
1993	7,627	66.8	87.0	46.1	3.0
1994	7,834	66.8	87.1	46.5	2.9
1995	8,140	66.9	86.8	47.1	2.8
1996	8,372	66.8	86.6	46.9	2.5
1997	8,607	66.6	86.9	47.3	2.4
1998	8,881	64.3	83.4	44.2	3.2
1999	9,010	64.3	83.4	44.2	3.0

Source: Malaysia. Ministry of Finance (1990 - 1999)

Balance of Payments

Malaysia's external payments position has traditionally been characterized by surpluses in the merchandise account, but persistent deficits in the services account. In most years until the late 1980s, the trade surplus outweighed the services deficit to yield a current account surplus. This pattern changed during the rapid growth phase after 1989, however, as economic expansion led to a surge in imports of capital goods and intermediate inputs, and a consequent reduction of the merchandise account surplus. At the same time, the services account remained in deficit, reflecting the large net outflow of profits and dividends. Thus the current account balance shifted from surpluses in the late 1980s to growing deficits in the 1990s.

To a large extent, the widening current account deficit indicated Malaysia's success in attracting foreign direct investment, since it is an accounting impossibility for a nation to simultaneously to attract large inflows of such investment and run a current account surplus. In most years the inflow of long-term foreign direct investment was more than sufficient to finance the current account deficit. The basic balance has also always been in surplus. There was thus less need for the nation to resort to large external borrowings. External reserves at the end of 1996 provided over four months' of import cover, while Malaysia's foreign debt in 1989 - 1997 remained 25 - 30 per cent of gross domestic product. The debt-service ratio (the ratio of debt payments and interest payments to export earnings) varied in those years from 8 to 6 per cent. Both the ratio and the burden of foreign debt (the total debt in relation to gross domestic product) were remarkably low by developing country standards.

EXPLAINING ECONOMIC SUCCESS

What accounts for Malaysia's impressive economic performance over the years to 1997? Explanations include its rich resource endowment with a highly favourable ratio of land and other natural resources to total population; its colonial inheritance including a well-developed infrastructure; its efficient administrative mechanism; its thriving primary export sector with immense potential for expansion; its geography entailing location in a dynamic growth region; and its policies of national development.

Several of these explanations do not hold up to available empirical evidence. First, there is little sign from post-war development experience that countries' economic performance is importantly tied to their resource endowment. Regarding the colonial inheritance and especially human capital development and administrative infrastructure, other former British colonies including Sri Lanka and Ghana appear to have been better placed than

Malaysia for rapid growth. Yet the thriving exports of Malaysia ensured a strong balance of payments position which among other factors helped it avoid the 'stop-go' policy cycles experienced by many other primary product-exporting developing countries.

Malaysia undoubtedly benefited from its location in a dynamic growth region. The massive direct investment from newly industrialized countries and Japan in the late 1980s and early 1990s, as well as the continuous shift of relatively labour-intensive production processes from Singapore to Malaysia by multinational enterprises, were certainly aided by geography (Jomo et al 1997). But the fact that Malaysia benefited more from locational advantages than other countries in the region suggests that the sound policy of national development was the key to this. There is indeed clear evidence that the policy framework much assisted the expansion of export industries (Athukorala 1991).

Two further initial conditions explaining economic success according to the 'new wave' interpretation of East Asian, and notably Taiwanese and South Korean, experience, are a relatively equitable distribution of income and wealth and socio-cultural homogeneity (Rodrik 1995). Yet if these conditions were judged as prerequisites in Malaysia, its growth prospects would have been predicted as bleak, for its development potentials had to be mobilized under conflicting challenges posed by a plural society inherited from a colonial past (Snodgrass 1980). At independence native Malays accounted for 52 per cent of the population and dominated politics, but were relatively poor and involved mostly in low-productive agricultural activities. The ethnic Chinese comprising 37 per cent of the population enjoyed greater economic strength and dominated most modern-sector activities, but did not match the ethnic solidarity or political power of the Malays. Thus economic policy making in post-independence Malaysia was a continuing struggle to achieve development objectives while preserving communal harmony and political stability (Salleh and Meyanathan 1993).

Malaysia's Economic Policy

Malaysia's economic policy entailed significant interventions reflecting the socio-political challenges of a plural society. During 1970 - 1986, the New Economic Policy (NEP)[2] was implemented as a cornerstone of national development, being a sweeping affirmative action instrument under which long-term targets were established for native Malay ownership of share capital in limited companies and good proportions of Malay employment in manufacturing and management.

Although many strictures of the NEP were relaxed after 1986 and the policy was replaced by the National Development Policy in 1991, aspects favouring

Malays were still in force in the late 1990s. Malaysia also moved during its Fourth Five-Year Plan from 1981 to 1985 into promoting heavy industries through direct government involvement. But subsequent reforms after the mid-1980s involved a gradual privatization and restructuring of state-owned enterprises, while a number of racially-based strictures of the NEP on private sector performance were eased. State enterprises still played an important role in key areas such as automobile manufacturing, petrochemical, iron and steel, and cement industries, however. Malaysia had also the most highly regulated financial system among high-performing Asian economies, with significant controls on capital account transactions.

These direct government interventions notwithstanding, Malaysia was able by and large to maintain an outward-oriented overall policy stance. Despite the early emphasis on import substitution and later attempts to promote heavy industries via public sector participation, Malaysia stayed clear of quantitative import restrictions as a policy tool. By the mid-1990s only 3 per cent of all import tariff lines, accounting for 4.5 per cent of annual import value, were subject to licensing requirements.

Unlike many other developing countries, domestic price signals in Malaysia were not insulated from world markets. Direct government involvement through allocating import quotas was minimal, and tariff protection to domestic manufacturing was progressively reduced. By the mid-1990s the weighted average import tariff rate was 8.7 per cent, the lowest in Southeast and South Asia (Asian Development Bank 1997, p. 6). The average effective rate of manufacturing protection, which increased from 25 per cent in the early 1960s to 70 per cent in the early 1970s, declined continuously thereafter to below 30 per cent by the late 1980s (Alavi 1996). A comprehensive study of post-war trade policy reforms identified Malaysia as one of eight developing countries[3] whose trade regimes remained open throughout the period (Sachs and Warner 1995, Table 1).

Closely related to the open trade policy stance was a long-standing receptivity to a liberal investment policy regime (Rasiah 1995). Export-oriented foreign firms were exempted from the employment quotas and ownership restrictions of the NEP. From 1970 a comprehensive export processing zone scheme was implemented as part of an economy-wide liberal investment and trade package, rather than as an appendage to a highly controlled regime. This provided a conducive setting for export-oriented foreign firms. Although transferring foreign plantation companies to national ownership was a declared policy, government strictly adhered to the practice of acquiring ownership through formal share trading rather than arbitrary expropriation (Athukorala 1991).

Given a persisting commitment to outward orientation whilst the NEP was implemented, the private sector was never marginalized and always had room for expansion. This situation persisted under the state-led and Korean-style heavy industrialization programme of the early 1980s, when the government supported public sector manufacturing ventures in intermediate- and capital-goods production sectors with subsidized credit, official procurement provisions and heavy tariff protection. The 'picking winners' strategy of industrialization also did not have a backwash effect on the expansion of export-oriented industries, given the virtual free trade status they enjoyed in procuring inputs. At the same time, the resource cost of re-distributional policies under the NEP was not a major drag on growth owing to the key role played by foreign direct investment flows in augmenting the domestic resource base.

The open policy stance is explored further by Jayant Menon in Chapter 3, while official development strategy is addressed by Tan and Ariff in Chapter 5 and the distribution of income by Zainal Aznam in Chapter 6.

Macroeconomic Management and Labour Market Reforms

Malaysia has a track record in macroeconomic management of maintaining price stability, and this has always been an important adjunct to economic policies aimed at export-led industrialization. The Bank Negara Malaysia (the central bank) firmly managed domestic credit and monetary expansion so as to limit inflationary pressures. With the exception of the period 1981 - 1986 when a public investment boom triggered a major macroeconomic crisis, the Malaysian government established a reputation for maintaining sound fiscal policies and a substantial surplus of revenue over current expenditure.

Budgetary restraints on operating expenditure were important in fiscal policy, and the budget deficit was always kept within prudent limits while minimizing use of borrowed funds. Overall, deficits arising occasionally as development expenditure exceeded the current surplus were financed from non-inflationary domestic sources, particularly including private savings accumulated in the Employees' Provident Fund. Fiscal discipline reduced Malaysia's dependence on foreign financing, and budget deficits were not a source of inflation as in many other developing countries (Corden 1996). The success of macroeconomic management was reflected in a very low rate of domestic inflation by the standards of other economies at the same stage of development.

Government policy in labour market reforms emphasized job creation rather than protecting workers' rights through labour legislation. Towards this end, attempts were made to achieve labour market flexibility through industrial relations legislation providing compulsory arbitration of disputes and prohibition of the right to strike in 'essential services'. Furthermore, trade unions were banned in the most important export-oriented industry - electronics - until 1988, after which only 'in-house' unions were allowed at plant, rather than industry, level. This labour market policy has, despite criticisms, facilitated growth in foreign capital participation. Given the reliance on outward orientation and labour-intensive manufactured exports, growth could otherwise have been severely constrained by artificially high real wages or regulations raising labour costs.

Infrastructure and Human Capital Development

Emphasis on infrastructure development was a key characteristic of government policy following independence in 1957, when Malaysia had a satisfactory supply of electric power, transport and the means of communication to support growth. For two decades after independence, the government successfully made use of surpluses extracted from the booming plantation and mining sectors to build on this initial endowment. Every Malaysia Plan devoted some 20 per cent of its expenditure to building up the country's infrastructure, with such provision being kept in line with expansion of the economy. For instance, the share of population with access to electricity increased from 84 per cent in 1991 to 96 per cent[4] in 1995. The availability and quality of telecommunication services improved remarkably, especially after deregulation in 1994. As foreign direct investment accelerated in the late 1980s, the groundwork had already been done for expanding supporting services. The government also managed to alleviate bottlenecks resulting from urban congestion by setting up industrial estates and export processing zones at state level (Rasiah 1995).

With regard to human capital, heavy investment in education has been prominent in Malaysia's policy of national development since the early years after independence. Education was the third largest item after land development and transport in the development budgets of the 1960s, and this emphasis was reinforced under the NEP from 1970. The education allocation rose from 9.4 per cent of total development expenditure in the Second Malaysia Plan (1971 - 1975) to 15.1 per cent in the Sixth Malaysia Plan (1991 - 1995).

Malaysia in the late 1990s accordingly had almost universal primary education, with most students completing six years of schooling. Government statistics showed that 99 per cent of Malaysians finished primary school, while 82 per cent completed lower secondary school and 53 per cent upper secondary school. Yet the outcome was not so encouraging at the secondary and tertiary levels of education, which were crucial for acquiring workplace skills. Thus only 56 per cent of those in the secondary school-age group in Malaysia were enrolled in school, compared with 87 per cent in Korea and 75 per cent in

Hong Kong. The tertiary enrolment rate in Malaysia was only 7.7 per cent, compared to 38 per cent in Korea and 16 per cent in Thailand.

Malaysia thus faced a formidable challenge in improving the education of the labour force to levels which would enable a diversification of production into increasingly skill-intensive goods and services. The government took several initiatives from the mid-1990s to redress limitations faced, including partially reintroducing the use of English at tertiary level, encouraging growth of private schools and colleges using English, establishing campuses of leading foreign universities in Malaysia, setting up skill-training institutions entailing participation of foreign governments and private-sector enterprises, and giving the private sector attractive incentives to train its workers (Lee 1997).

CONCLUSION

Malaysia's economic success up to the late 1990s can be attributed to its effective positioning within a new world economic order characterized by increased internationalization of production. As a small open economy, Malaysia did not isolate itself from this trend, but responded to unfolding global developments. While policy excesses were triggered by conflicting objectives in a plural society, policy-makers were successful in swiftly rectifying these. Unlike many developing countries, Malaysia never resorted to stringent quantitative trade restrictions. Domestic price signals were not insulated from world market conditions, and resource costs arising from rent-seeking activities were minimal.

Malaysia with its outward-oriented policy stance, stable political climate, and firm long-term commitment to good governance particularly including infrastructure development and keeping its macroeconomic house in order, was well placed to take full advantage of opportunities arising from globalization of the world economy. Rapid economic growth and employment expansion contributed to significant improvements in living standards across all ethnic groups, also lubricating ethnic relations in a pluralistic society.

The impressive economic advance of Malaysia was shattered by the sudden emergence of the financial crisis in mid-1997, which raised concerns about future growth prospects (Athukorala 1998). The sources of Malaysia's vulnerability to this crisis, its policy responses and the subsequent recovery process are discussed by Michael Yap Meow-Chung in Chapter 4. Although the crisis badly disrupted growth, it did not negate years of human and physical capital accumulation and institutional development. More importantly, it did not counteract the long-standing outward-oriented policy thrust gearing the country towards prosperity through increased integration in the international economy.

NOTES

1. The cut-off income level used in defining the poverty line varied from year to year (see Malaysia (1996) and previous Malaysia plans listed therein).
2. Despite criticisms of unfairness, the New Economic Policy (NEP) (which was modified in 1991 under the new label of National Development Policy (NDP)) assured political stability in a country with considerable potential for bitter ethnic violence by making 'shared growth credible' (Campos and Root 1996, pp. 67 - 68). For details of these policies, see Crouch (1998).
3. The other seven developing countries whose trade regimes remained open throughout the period were Barbados, Cyprus, Hong Kong, Mauritius, Singapore, Thailand and the Yemen Arab Republic.
4. 100 per cent of the population had access to electricity in Peninsular Malaysia by the late 1990s.

3. Openness to Trade, Capital and Labour Flows up to the Currency Crisis: Degree and Impacts

Jayant Menon

Malaysia is often described as a 'small, open economy'. The word 'small' not only portrays its economic size, but also identifies the country as a price-taker with respect to imports and almost all exports. While this description is uncontroversial, use of the word 'open' is perhaps less so. An internationalized economy is usually thought of as being open to trade flows of goods and services, as well as to flows of capital and labour.[1] But how should 'openness' be measured, and what are its implications?

These latter questions are addressed in the present chapter, which deals with the period up to 1997. First, measures of openness respecting trade, capital and labour flows are examined.[2] Next, the extent to which the policy regime facilitated or restricted inward and outward movements of each flow is reviewed, and an assessment made of whether Malaysia fitted the description of an open economy. The consequences of openness (or lack thereof) for trade, capital and labour flows are then scrutinized, focusing on the macroeconomy and relating the discussion to the financial turmoil of the late 1990s. A final section acts as a conclusion.

MEASURING TRADE, CAPITAL AND LABOUR FLOWS

Openness to trade in goods and services can be measured in both quantity and price terms. The quantity component of openness is often determined as the 'trade-intensity ratio', which is the share of imports and/or exports in gross domestic or national product. If this share is high and growing over time, it is usually taken to imply that border and other restrictions to trade are low or falling, thus facilitating the international exchange of goods and services. Changes in tariff and non-tariff barriers are frequently used as indicators of openness at industry level.

The price component of openness is commonly discussed in the context of the law of one price. If prices of traded goods in a country are closely related to prices of the same goods in world markets (net of transport and other transfer costs, and measured in a common currency), the law is not violated. It is then

taken that border and other restrictions to trade do not interfere with equalization of prices across markets (through arbitrage), and that commodity taxes are harmonized across countries.

Price measures are sometimes employed to indicate the extent of non-tariff barriers, but the latter are difficult to identify, let alone quantify. They include red tape, health regulations, the threat of tariffs and so on, and price discrepancies do not incorporate the effect of non-tariff barriers if they are so restrictive as to deter trade. Estimates of the extent of barriers and their effect on openness to trade accordingly tend to rely on direct indicators of their presence, such as frequency incidence.

Measures of openness to capital flows require separate treatment of long-term flows in the form of foreign direct investment, and of short-term flows of a portfolio or speculative nature. Quantity calculations of inflows and outflows of foreign direct investment are taken as indicators of openness to long-term flows, but are less useful when assessing openness to short-term portfolio and speculative flows of capital. For the latter, price-based measures are more appropriate,[3] where tests of interest-rate differentials in the form of uncovered and covered interest-rate parity indicate the extent to which financial markets are integrated internationally.[4]

Measures of openness to labour flows must consider both policies and experiences, since policy intentions are frequently not achieved. Rules may be legally or illegally bypassed, or their implementation be lax by design. Thus with policy on migrants, inflows and outflows of labour are used as indicators of openness, with both legal and illegal components being taken into account.

TRADE POLICIES

Malaysia has a relatively long, and in some sense enviable, history of being open to trade. It also has an impressive record of trade liberalization by developing country standards. There have been ups and downs, however, particularly during early reforms.

The unweighted average nominal rate of protection was estimated at 13 per cent in 1965 (Power 1971). This increased to 18 per cent in 1970 (Ariff 1975) and to 22 per cent in 1978 (Lee 1986). The average effective rate of protection increased from 25 per cent in 1965 to 44 per cent in 1970 and 55 per cent in 1973. The economy-wide average import-weighted tariff rate in the primary and manufacturing sectors rose sharply from 9.7 per cent to 14.6 per cent between 1980-1983 and 1984-1987 (Table 3.1), but fell marginally from 11.5 per cent to 11.2 per cent between 1988-1990 and 1991-1993.

Tariff rates dropped considerably following successful conclusion of the Uruguay Round of the General Agreement on Trade and Tariffs (GATT) in

1994. The largest reductions occurred in primary products, although some food-related items including milk and milk products, grains, non-grain crops, processed rice and livestock continued to enjoy high unweighted tariffs (Table 3.2). Since tariffs in manufacturing were already low before conclusion of the Round, it is not surprising that most decreases in such items were small, although those in textiles and clothing dropped substantially. Malaysia cut tariffs on both a unilateral and preferential basis in trade within the Association of South East Asian Nations (ASEAN). Tariffs on such trade in manufactures were also scheduled to be reduced to 0.5 per cent by 2003, while those on trade in unprocessed and processed agriculture were supposed to drop to 0.5 per cent by 2010. The Free Trade Area of the Association was as part of its 'AFTA-Plus agenda' expected to address non-tariff barriers and other issues including services, customs, and investment (Menon 1996a; Menon et al. 1999).

Table 3.1 Mean Unweighted and Import-weighted Tariffs and Incidence of Non-tariff Barriers, Malaysia, 1980 - 1993

	Primary Product		*Manuf. Products*		*All Products*	
Item and Period	Unwted	I-Wted	Unwted	I-Wted	Unwted	I-Wted
Mean Tariffs (%)						
1980 - 1983	4.3	2.0	12.7	13.0	10.6	9.7
1984 - 1987	8.6	6.4	15.4	17.7	13.6	14.6
1988 - 1990	7.7	5.4	14.8	14.5	13.0	11.5
1991 - 1993	7.3	5.3	14.7	14.1	12.8	11.2
Incidence of Non-Tariff Barriers (%)						
1984 - 1987	4.5	6.3	3.2	9.1	3.7	8.2
1988 - 1990	1.6	1.6	3.0	8.0	2.8	6.0
1991 - 1993	1.2	1.6	2.4	7.0	2.1	5.1

Source: Pacific Economic Cooperation Council (1995)

But the generally low tariffs in manufacturing did not apply to motor vehicles, which continued with the highest rates protection.[5] The import duty on completely built-up cars of 1996 ranged from 140 per cent to 200 per cent, and the maximum rate was raised from 200 to 300 per cent in the 1998 budget. The import tariff on completely knocked-down cars[6] was increased in that budget from 42 per cent to a maximum of 80 per cent, while tariffs on some

machines and capital goods, construction materials and consumer durables were also augmented.[7]

Table 3.2 Unweighted Malaysian Average Tariff Rates Pre- and Post- 1994 Uruguay Round

	Tariffs		*Change in Tariffs*	
	Pre (%)	*Post (%)*	*In % level*	*In (%)*
Paddy rice	49.0	49.0	0.0	0.0
Grains	327.0	95.0	-232.0	-71.0
Non-grain crops	51.7	47.7	-4.0	-7.74
Livestock	118.0	83.0	-35.0	-29.7
Forestry	6.4	6.3	-0.1	-1.6
Fishing	7.5	4.8	-2.7	-36.0
Oil	0.9	0.9	0.0	0.0
Gas	1.5	1.5	0.0	0.0
Processed rice	78.0	41.0	-37.0	-47.4
Meat	272.0	13.0	-259.0	-95.2
Milk	111.0	111.0	0.0	0.0
Beverages and tobacco	29.5	20.8	-8.7	-29.5
Textiles	23.3	16.1	-7.2	-30.9
Clothing	24.3	17.6	-6.7	-27.6
Lumber	24.5	17.9	-6.6	-26.9
Pulp paper	5.9	5.3	-0.6	-10.2
Chemicals	7.7	6.7	-1.0	-13.0
Primary ferrous metals	4.9	4.9	0.0	0.0
Fabricated metals	16.7	13.6	-3.1	-18.6
Machinery	8.4	5.4	-3.0	-35.7
Other manufacturin	14.4	12.6	-1.8	-12.5

Source: Pacific Economic Cooperation Council (1995).

Unlike many other developing countries, Malaysia did not rely heavily on quantitative restrictions and other non-tariff barriers to protect domestic industry. The Pacific Economic Cooperation Council (1995) noted that the only industry with a high frequency ratio of over 95 per cent for core non-tariff barriers in 1993 was 'ISIC 12', or 'Forestry and logging'. Tariff and non-tariff restrictions were commonly high in environmentally sensitive areas, however, while the ratio of core non-tariff barriers was generally low in all other industries. Manufacturing industries with the greatest frequency ratios for core barriers were 'motorcycles and bicycles' and 'motor vehicles', while ratios were moderate for 'soft drinks and carbonated water', 'cement, lime and plaster', and 'glass and glass products'. The incidence of non-tariff barriers at the aggregate level fell between 1984-1987 and 1991-1993 (Table 3.1). Manufacturing showed a small reduction in import-weighted terms from 9.1 to 7.0 per cent, and the primary sector a marked fall from 6.3 to 1.6 per cent.

Price controls applied to rice, sugar, flour, and some meats including poultry consumed by all major ethnic groups. They also concerned fuel, tobacco and public utility goods. Many food items under price control likewise enjoyed quite high import tariffs.

CAPITAL POLICIES

Most exchange restrictions on the current account were abolished in Malaysia by 1997, and the capital account was progressively liberalized following the floating of the ringgit in 1973. Some restrictions remained, however, and were periodically increased to serve so-called 'national objectives'.

The Bank Negara had also imposed implicit or undeclared controls on capital outflows during periods of weakness in the ringgit. Temporary restrictions on exchange markets were instituted in 1986 during the economic downturn, and controls were placed on short-term capital inflows in 1993 - 1994 as the ringgit faced upward pressure when capital chased high-yielding money and share markets in Malaysia (de Brouwer 1997).[8] Following the regional currency turmoil in 1997, Malaysia sought assistance from the International Monetary Fund (IMF) over guidelines to guard against large inflows and outflows of a speculative nature, focusing on foreign currency trading. In 1998 Malaysia introduced 'temporary' capital controls, pegging the ringgit to the US dollar in measures explored in Chapter 4.

Foreign Direct Investment

Malaysia has long encouraged foreign direct investment inflows, and specific incentives for export-oriented foreign investors have been provided since the late 1960s (Ariff and Lim 1987). In 1968 the government enacted the Investment Incentives Act to promote manufacturing exports, offering rich incentives to export-oriented foreign direct investment; these included exemptions from company tax and duty on imported inputs, relief from payroll tax, investment tax credits, and accelerated depreciation allowances on investment. In 1970 the New Economic Policy (NEP) earmarked manufacturing as the growth sector, including

the key initiative of developing free trade zones to encourage foreign participation in export-oriented manufacturing.

Yet despite the relatively liberal policy regime, some guidelines directed to making foreign direct investment conform with national development priorities and socio-political objectives ran counter to the global profit maximisation goals of multinational enterprises (Ariff and Lim 1987). Thus the NEP attempted to increase the share of *bumiputera* (or indigenous people) in the corporate sector from 2 per cent in 1970 to 30 per cent by 1990, to reserve a certain share of employment in foreign ventures for these people, and to not exceed a 70:30 Malaysian to foreign equity ownership ratio. But the government then adopted a more lenient stance to ameliorate adverse impacts of such guidelines on export-oriented foreign direct investment. Stances were relaxed for *bumiputera* employment and also for the foreign equity ratio, which came to be seen as a national target not meant to be implemented on an individual company basis (Athukorala and Menon 1996). One hundred per cent foreign ownership was allowed in firms exporting 80 per cent or more of their output.

The Malaysian government's policy towards foreign direct investment was unambiguous and transparent. Although it followed specific objectives such as locating industries in 'development areas', increasing use of local inputs and diverting investment to 'priority' industries, it pursued these through *prescriptive* rather than *proscriptive* methods.[9] Its policies were less restrictive and distortionary than those of other countries with similar objectives.

The government also encouraged outflows of foreign direct investment, particularly to emerging market economies such as Cambodia, Vietnam, and Myanmar. Incomes repatriated from overseas investments in all sectors except banking, insurance, sea and air transport were made tax-exempt from 1995 onwards.

LABOUR POLICIES

Malaysia's foreign labour policy has been described variously as having 'many twists and turns' (Pillai 1995) and as possessing a 'stop-go' quality (World Bank 1995). Pillai suggested that fluid and unpredictable policy reacting primarily to short-term requirements stifled incentives to anticipate, plan and meet long-term labour needs. Complicated administrative arrangements involving at least two ministries also contributed to inordinate delays in processing applications for foreign workers up to the end of the 1980s. The policy at that time reflected concern over illegal immigrants, particularly from Indonesia.

In 1991, a more comprehensive policy requiring all foreign workers to have legal status as well as wages and benefits equal to nationals, and focusing on filling labour shortages in plantations and construction, was introduced. Employers requesting foreign labour in manufacturing and services were required to prove local labour was unavailable, with case-by-case consideration being used.

But the 1991 measures did not stem the flow of illegal immigrants, and the stop-go nature of earlier policy re-emerged in 1993 when the government suspended the entry of unskilled workers, only to lift that ban for the manufacturing sector two months later following employer protests. The government re-imposed freezes on unskilled and semi-skilled foreign workers in 1994, and in practice continued to consider applications for such workers on a case basis. Yet it again lifted the ban on importing skilled workers into manufacturing following continued employer protests.

A Task Force on Foreign Workers was established in 1994 as a 'one-stop' agency to process applications and co-ordinate policy implementation. This greatly reduced delays in processing applications, with employers and recruitment agents reporting a fall in time from two years to a maximum of six months (Pillai 1995).

There was no official policy on out-migration of Malaysians, with no controls on nationals working abroad.

TRADE, CAPITAL AND LABOUR FLOWS

Measures of trade intensity at the aggregate level, indicating imports and exports, and imports plus exports, as shares of gross domestic product, are shown in Table 3.3. Intensities declined between 1965 and the early 1970s, rose modestly for the rest of that decade, slowed in the early 1980s, and grew sharply from 1986 to 1995 when the ratio of trade to gross domestic product almost doubled. Trade intensities were closely associated with changes in nominal and effective rates of protection of manufacturing industries in particular (Tables 3.1 and 3.2).

The perceived lack of openness in Malaysia's agricultural sector is corroborated by evidence pertaining to tests of the law of one price. Barahumshah et al. (1993) found this law violated for several agricultural outputs and inputs, with exchange rate changes not being fully reflected in prices. One important reason could have been the presence of non-tariff barriers and other price-fixing arrangements (Menon 1996b).

Capital

While the foreign portfolio involvements of major Malaysian companies are shown in Table 3.4, price-based measures more usefully indicate openness to short-term speculative flows. Goldsborough and Teja (1991) looked at covered

interest parity from 1987 to 1990 and found significant financial integration of Malaysian and other East Asian markets. Chinn and Frankel (1992) found that high initial covered interest differentials from 1982 to 1992 later tended to narrow, consistent with the gradual loosening of capital controls in Malaysia. Although Montiel (1994) discovered that uncovered interest differentials were significantly different from zero in Malaysia from 1985 to 1990, de Brouwer (1997), adjusting for episodes of selective exchange controls in 1986 and 1994, again denoted uncovered differentials near zero.

*Table 3.3 Trade Intensity Measures, Malaysia, 1965 - 1995**

Year	*X/GDP*	*X1/GDP*	*M/GDP*	*(X+M)/GD*	*(X+M)/GN*
1965	42.81	47.55	35.96	78.77	81.11
1967	38.10	42.48	32.22	70.32	71.37
1969	43.47	47.34	28.84	72.31	74.45
1971	38.73	40.20	31.49	70.22	72.24
1973	39.37	41.33	29.20	68.57	71.08
1975	41.34	45.45	34.96	76.30	78.87
1977	46.26	50.14	31.16	77.42	80.60
1979	52.18	56.01	33.27	85.44	89.43
1981	47.05	52.34	41.68	88.74	91.95
1983	46.86	51.18	39.77	86.63	92.46
1985	49.02	54.85	35.59	84.61	91.08
1987	56.80	63.85	36.30	93.09	99.26
1989	66.11	73.26	53.69	119.80	127.11
1991	72.94	80.84	70.43	143.37	151.31
1993	74.36	81.45	65.18	139.54	146.98
1995	84.50	86.52	80.48	164.98	173.39

Sources: International Monetary Fund (various issues).
Notes: * X = exports of goods in current prices; GDP = gross domestic product in current prices; X1 = exports of goods and services in current prices; M = imports of goods in current prices; and GNP = gross national product in current prices.

Foreign direct investment inflows to Malaysia grew remarkably over the two decades up to the mid-1990s (Table 3.5) (Athukorala and Menon 1996), increasing almost ten-fold between 1987 and 1991. They particularly boomed from the mid-1980s, and the increase from 1991 was faster than that pertaining to other countries of the Association of South East Asian Nations. Malaysia thus appeared quite open to flows, and exemptions given to export-oriented manufacturing made restrictions porous or non-binding in most cases.

Table 3.4 Indicative Foreign Portfolio Investments in Major Malaysian Companies, 1995

Stocks/Blue Chips	Paid-up Capital (US$ billion)	Foreign Share (%)
1 Tenaga Malaysia* (national electricity corp.)	1.2	9.24
2 Telekom Malaysia* (telecommunications)	0.8	19.12
3 Maybank (leading local bank)	0.4	39.13
4 Malaysian International Shipping Corporation* (national carrier)	0.4	28.47
5 HICOM*(heavy industry)	0.4	1.64
6 Sime Darby (conglomerate)	0.4	29.54
7 Golden Hope (plantation)	0.4	10.51
8 Malaysian Airlines* (nat. carrier)	0.3	21.08
9 DCB Holdings (finance)	0.3	23.05
10 Asia Pacific Land (property)	0.3	24.13

Source: Kuala Lumpur Stock Exchange (1995)
Notes: *Privatized not-for-profit enterprises (NFPEs).

*Table 3.5 Source Country Composition of Foreign Direct Investment Inflows to Malaysia (% of total), 1980 - 1996**

Country	1980	1991	1992	1993	1994	1995	1996
US	14.44	10.54	18.56	27.96	11.17	19.70	16.96
UK	6.64	3.20	7.34	0.70	0.84	2.08	2.23
Japan	12.93	21.73	15.10	26.42	15.73	22.93	27.01
Hong Kong	2.40	3.52	0.44	1.49	7.79	1.92	0.08
Korea	0.00	10.66	0.56	1.77	3.64	6.61	3.78
Taiwan	3.27	21.15	8.44	14.22	25.61	15.77	4.55
Singapore	6.08	6.53	2.49	8.30	3.22	11.03	27.94
Australia	1.25	2.41	11.96	0.83	0.74	1.53	0.80
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(million $)	335.1	6,201.7	6,976.6	2,442.5	4,300.4	3,599.8	6,715.2

Source: Malaysian Industrial Development Authority (1989 and 1998)
Notes: * Data based on investment approvals.

Malaysian investments abroad also increased, particularly from 1993. Outward foreign direct investment more than doubled from 1992 to 1993, and

doubled again to reach 6.6 billion ringgit in 1996 (Table 3.6). Singapore was the largest recipient, followed by Hong Kong, the United States and the United Kingdom. Despite the government's efforts to encourage outflows of foreign direct investment to the emerging market economies of Cambodia, Vietnam and Myanmar, their share in the aggregate remained very small. It is interesting that whilst more than half outward investment in 1980 was directed towards property acquisition, by 1993 over three-quarters was in construction and other infrastructure development.

Table 3.6 Foreign Direct Investment Outflows (million RM) and Purposes (% of total), Malaysia, 1980 - 1996

Country	1980	1991	1992	1993	1994	1995	1996
Singapore	32.9	33.7	21.1	32.1	17.9	31.1	25.6
Hong Kong	25.3	22.0	26.7	21.3	26.6	10.6	8.8
United States	7.3	5.0	7.6	19.2	8.1	7.2	15.2
United Kingdom	10.6	9.6	5.7	8.7	7.9	6.6	9.0
Australia	13.8	5.0	7.8	3.7	1.6	4.7	6.4
China	0.0	1.1	1.3	3.2	3.9	8.2	6.8
Japan	3.0	9.2	9.5	3.2	0.7	0.6	1.6
Thailand	0.1	0.9	1.9	0.6	0.8	1.2	1.9
Others	7.0	13.4	18.3	7.8	32.5	29.9	24.6
Total (%)	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(million RM)	326.7	1,125.5	1,264.4	3,456.2	5,516.6	6,643.7	6,604.2
(million $)	201.5	409.3	496.3	1342.7	-	-	-
<u>Purposes</u> (% of total)							
Direct Investment	16.4	51.7	60.5	74.7	-	-	-
Property Acquisition	56.2	5.9	4.6	5.2	-	-	-
Loans	27.4	42.4	34.9	20.1	-	-	-
Total (%)	100.0	100.0	100.0	100.0	-	-	-

Source: Malaysia. Ministry of Finance (1990 - 1997)

Labour

Malaysia has both imported and exported labour for many years, unlike the other five original members of the Association of South East Asian Nations. Yet its labour inflows have always significantly outweighed outflows, and have included major legal and illegal components. Due mainly to the problem of illegal workers, data reported by government and non-government bodies has varied significantly, with scepticism about the quality of information being justified.

Thus the Ministry of Human Resources estimated 0.5 million foreign workers in 1984. But a Sabah Government survey found this state alone had close to 0.5 million foreign workers in 1988, while Pillai (1992) provided a 'conservative' assessment of 1.2 million foreign workers in Malaysia as a whole in 1991. The Government of Malaysia (1993) estimated 1 million migrant workers in Malaysia in 1993. Circumstantial evidence denotes at least 2 million foreign workers, or 16 per cent of the workforce, in that year, including those who were illegal.

*Table 3.7 Temporary Work Passes by Source, Country and Sector, cumulative to September, 1994**

Source Country	*Dom. Maids*	*Plant-ations*	*Const-ruction*	*Services*	*Manufact-uring*	*Others*	*Total*
Indonesia	39,905	92,309	82,892	1,624	6,592	856	224,178
Thailand	3,588	8,447	4,723	788	104	357	18,007
Philippines	18,235	49	1,146	188	1249	385	21,252
Bangladesh	54	15,560	20,469	3,928	28,835	264	69,110
Pakistan	1	120	906	53	436	1	1,517
India	54	271	1,235	393	113	10	2,076
Sri Lanka	5	4	36	38	28	0	111
Myanmar	17	125	661	282	108	16	1,209
Nepal	0	25	14	97	198	0	334
Nigeria	0	0	0	0	0	5	5
Others	1	0	137	11	54	526	729
Total (no.)	123,720	233,820	224,438	14,804	75,434	4,840	677,056
Share of grand tot. (all countries) (%)	18.3	34.5	33.2	2.2	11.1	0.7	100.00

Source: Pillai (1995)

Note: * There were also a further 224,655 workers with temporary passes, whose countries of origin were unknown.

Abella (1995) estimated that for legal foreign workers in 1990, 48 per cent were employed in agriculture, 28 per cent in construction, 20 per cent in trade and services (mainly house-maids from Indonesia and the Philippines) and 4 per cent in manufacturing. Table 3.7 provides data by source country for those

with temporary work passes in 1994, showing that one-third of such persons were in each of the plantation and construction sectors, 18 per cent domestic maids, and 11 per cent in the manufacturing sector. By the early 1990s more than half the workforce in plantations and construction were foreigners.

Pillai (1995) determined that professional and skilled persons constituted a small share of total migrant workers in Malaysia, with only 3,456 from 11 main source countries being granted employment passes in the period from January to June 1994.

There is no official data on out-migration, mainly because there was no official policy on this. Data compiled by Pillai (1992) from overseas statistics and information gathered from embassies in Malaysia suggests at least 40,000 Malaysians, averaging 5,000 a year, migrated to Australia, New Zealand, Canada and the United States between 1983 and 1990.

IMPLICATIONS OF OPENNESS

It is now almost conventional wisdom to attribute the rapid growth in Malaysia's gross domestic product to increases in manufactured exports driven by both trade and investment liberalization. The data indicate close association between growth acceleration and openness of the economy (Athukorala and Menon 1997), and econometric evidence supports this view (Ghatak et al 1996).

Malaysian experience also suggests that concern over increased income disparities following trade liberalization may be misplaced, given moderate success in addressing income inequality during liberalization. Between 1970 and 1990, the Gini coefficient fell sharply from 0.537 to 0.446 (Athukorala and Menon 1997, Table 5), although it has since deteriorated slightly. But the overall trend suggests the benefits of rapid growth were distributed reasonably widely, with improvements in both size distribution and disparities across racial groups.

Capital

An important macroeconomic consequence of financial openness relates to policy autonomy, which has been much discussed following the recent financial crisis. If events overseas importantly determine exchange rates and stock prices, or if national interest rates move closely with world levels, national authorities' ability to use instruments such as exchange rate or monetary policy is partly lost. The crisis that began in Thailand and spread to other markets in Southeast Asia would suggest Malaysia cannot insulate itself against developments elsewhere, or the perceptions and actions of international financial market participants.

The Bank Negara was previously successful in curtailing surges in short-term or speculative capital inflows and outflows with various controls, and selective exchange controls appeared effective in 1986 and 1994. But the events of 1997 suggested such controls may be ineffective if international market participants' response is immense and concerted. This aspect is addressed in Chapter 4.

Perhaps the most important impact of the relatively open policy towards foreign direct investment was the rapid growth in employment. Whilst the share of multinational enterprises in total manufacturing employment was 30 - 35 per cent in 1968 - 1980, it then increased consistently and reached over 45 per cent by 1992. This growth in employment was associated with improvements in overall living standards.

Foreign direct investment also drove the structural transformation from a commodity-dependent to a manufacturing-based export economy. The electronics industry alone, which is almost completely foreign-owned, contributed over 63 per cent of total exports in 1994.

But although foreign direct investment may also be expected to lead to technology transfer or productivity spillovers, Menon (1998) found that total factor productivity growth in domestic and foreign firms between 1988 and 1992 was small, averaging about 0.5 per cent per year. This could reflect the fact that most such investment flowed into low-skill labour-intensive assembly activities with a poor rate of technological change. Furthermore, it may be that the high share of contract and migrant workers reduced the incentive for firms to invest in training and development. Thus the situation could change in the future if foreign firms move from mere assembly into more sophisticated operations such as manufacturing.

Some analysts, and particularly those in the Bank Negara, have seen the rapid growth in foreign direct investment as partly responsible for increases in the current account deficit. This is attributed first to the greater propensity of foreign firms to import than domestic firms, although why this should matter is unclear. If market-seeking foreign investment supplies the domestic market with imports, it is the domestic preference for imports and not the firms that should be blamed. Even if efficiency-seeking or export-oriented foreign investment imports all inputs and raw materials, the net effect of such investment on the domestic economy is equal to the wage bill paid to domestic labour. The effect on the current-account is neutral, because imported inputs are re-exported.

The growth in deficit is also seen by some analysts as due to repatriation by foreign firms of dividends and other profits. But this view confuses 'stocks' and 'flows', for the profit repatriated in a given year is a function of many variables. One variable is the stock of foreign direct investment, which is related to the accumulation over many years of foreign direct investment flows. Balance of payments accounts, on the other hand, record flows occurring over a single year. Comparing stocks and flows or confusing them can produce erroneous conclusions.

It should be noted too that selective liberalization of the capital account to facilitate capital outflows reduced the real exchange rate appreciation associated with growing inflows of foreign direct investment in Malaysia. Whilst outflows tend to reduce the pool of funds for domestic investment, they generate net benefits to the domestic economy if invested in productive sectors according to relative efficiency or international comparative advantage. Here a unit of capital earns a higher risk-adjusted return overseas than it does at home. Since much Malaysian outward investment was in infrastructure-related projects however, the flow of profits to Malaysia occurred only gradually (Athukorala and Menon 1997).

Labour

The significant inflow of foreign workers has had key effects in mitigating growth in real wages, which would otherwise have been much sharper in the 1990s. The concentration of migrant workers in construction limited the increase in non-traded prices. Without migrant labour, the real exchange rate would have had to appreciate much more to facilitate transfer of labour from the traded to the non-traded sector and meet infrastructure development needs. Access to migrant labour has also enhanced Malaysia's reputation internationally as a competitive site for labour-intensive and export-oriented manufacturing activities.

On the other hand, it is regularly claimed that the recent inflow of migrant labour into the manufacturing sector may have delayed the shift from labour-intensive to human capital-intensive and technology-intensive manufacturing activities. But such change within manufacturing has less to do with the increase in the supply of low-skilled migrant labour than with the continuing shortage of skilled local labour. The solution to upgrading manufacturing really lies with improving the skill levels of domestic labour.

Pillai (1995) highlights the impact on the services account deficit in the balance of payments of foreign workers' remittances from Malaysia. The latter were 3.6 billion ringgit in 1994, or 22.9 per cent of the deficit in that year. Yet the economic impact of outward remittances should be judged on whether or not such workers were paid according to their marginal products, with the net impact on a labour-constrained economy being neutral if they are. Indeed, there is anecdotal evidence to suggest many illegal as well as legal migrants were paid below respective marginal products in the oft-cited 'exploitation' of foreign workers. This would generate a net benefit to the domestic economy, independent of the share of income remitted overseas.

Illegal migration posed social and security problems to Malaysia, and abrupt changes to policy on migrant workers often responded to these. But uncertainties from such changes may have exacerbated, rather than curtailed, these problems. The continued growth in illegal migrant workers was itself attributed to costly and cumbersome procedures in both sending countries and Malaysia, including restrictions preventing legal workers from changing occupations, employers or places of work after entering Malaysia.

The Malaysian experience suggests that problems of illegal migration cannot be resolved through greater regulation. These problems could perhaps be reduced by eliminating policy uncertainties and reducing incentives to evade legal channels. It thus appears that restrictions on migrant workers need to be relaxed.

SUMMARY AND CONCLUSIONS

This examination of the opening-up of the Malaysian economy has focused on trade, capital and labour flows up to the financial crisis of 1997. Malaysia liberalized its trade in manufactures rapidly over preceding years, although parts of agriculture remained heavily protected. Controls on inward and outward flows of foreign direct investment were relatively liberal, although those on short-term capital flows remained and were increased from time to time in response to 'international financial pressures'. Policies on migrant labour were variable, but responsive to domestic shortages of low-skilled labour.

The sharp increase in trade intensity ratios from 1986 in particular was consistent with trade reform leading to increased openness. The rapid growth in inflows and outflows of foreign direct investment corroborates the view that Malaysia was receptive to inflows and was increasing its importance as an exporter of capital. The increased legal and illegal migrant workers suggested that: (1) Malaysia was relatively open to international labour flows; and (2) controls and other restrictive policies were easily bypassed when market forces operated.

Openness to trade and foreign direct investment appear as driving forces behind Malaysia's rapid economic growth. Trade liberalization did not increase income disparities, nor did the growth in investment 'cause' deterioration in the trade balance or current-account deficit. Increases in migrant labour reduced the pressure on real wage growth and exchange rate appreciation, enhancing Malaysia's international reputation as a site for labour-intensive and export-oriented manufacturing. Migrant labour could not be blamed for the slow pace

of upgrading manufacturing, when the supply of skilled domestic labour remained insufficient.

This chapter has examined how openness affects readily measurable macroeconomic variables. But an important aspect of openness to trade and factor flows relates to its impact on moulding and disciplining political and economic institutions and policy-making. The power of national governments to act arbitrarily is curtailed by openness, and domestic economic institutions ranging from regulatory bodies to the central bank have to respond to accompanying challenges.

Whilst the recent financial turmoil initially invoked a questioning of openness to capital flows in particular, if not encouraging a sentiment of 'the effrontery of openness' for impinging on national autonomy, these reactions quickly waned. The decision by political powers in Malaysia to confront challenges posed by the turmoil, rather than treating them as transitory or unwarranted outcomes of an international conspiracy, indirectly accepted the virtues of remaining open. The late 1997 policies following this view included significant cuts in government expenditure and relaxed controls on migrant labour, including that entering labour-intensive manufacturing.

The 1998 decision to impose capital controls and thus allow a more expansionary fiscal and monetary policy without international repercussions would only contradict the proposition of support for openness if these measures proved more than temporary. Given that the latter does not apply, openness will appear as perhaps the most valuable feature of an economy governed by pragmatic and responsible economic policy.

NOTES

1. 'Internationalization', 'openness' and 'integration' are treated as synonyms in this chapter.
2. It should be noted that the rise in new growth theory has made it fashionable to treat technology as a factor of production, and thus to consider international flows in technology separately. While the international diffusion of technology is not considered in detail here, it is discussed in the context of openness to trade and capital flows.
3. Asset prices in open financial markets may adjust to new information without any transaction occurring, and price changes in open and integrated financial markets can eliminate the profit of arbitrage before any arbitrageurs have traded. A perfectly open and integrated capital market where expected returns are continuously equal is consistent with a zero capital flow (Riedel 1997).
4. Neutrality of policy is not explicitly addressed in considering openness to capital flows, although it might be significant. Thus policies encouraging inflows of capital in a discriminatory manner could show up in the measures used here as contributing to an increase in openness, but policies discouraging inflows of capital, discriminatorily or non-discriminatorily, could show up as causing less openness. Again, policies encouraging investments based on nationality, investment type or sector could have a significant impact on the composition of capital inflows.
5. High tariffs on completely built-up cars earlier supported domestic car assembly, providing the government with a large share of customs revenue. The primary role of tariffs in the late 1990s was to protect the local car industry and 'national' car.

6. 'Completely built-up cars' are cars imported in their assembled state, while 'completely knocked-down cars' are cars imported as separate components.
7. Krugman (1997) drew attention to the similarity between increases in import tariffs and other restrictions addressing the trade deficit in Malaysia and the 'kinds of things that ended Brazil's miracle in the 1960s'.
8. de Brouwer (1997), employing co-integration techniques, found that covered interest parity was rejected for Malaysia for the sample period of 1985 - 1994. But when two episodes of selective controls were removed from the sample, interest rate differentials and forward rates moved one-for-one with each other; the average covered interest differential from 1987 to 1993 was close to zero at 0.16 percentage points. In contrast, the covered differential in 1986 was 0.93, and from February to April, 1994, -1.46. This suggested that selective controls imposed by the Bank Negara effectively sheltered the domestic market and limited short-term flows.
9. This terminology is due to Bhagwati (1988, pp. 98 -100). Proscriptive regimes tend to prohibit activities not specifically permitted, while prescriptive approaches rely more on incentives to achieve desired objectives.

4. The 1997 Currency Crisis and Subsequent Policy Response

Michael Yap Meow-Chung

A number of the more favourable aspects of the Malaysian economy up to 1997 were addressed in Chapters 2 and 3. These aspects included excellent economic management which helped sustain large inflows of foreign direct investment, and here Malaysia was frequently cited as a model for other developing countries. The currency crisis of 1997 which sent the Malaysian ringgit tumbling thus took many by surprise.

This chapter examines the policy response of the Malaysian authorities to that crisis, looking particularly at the context in which the selective capital controls of September, 1998, were implemented. It also reviews the progress of the economy between 1998 and 2000.

BEFORE THE CRISIS, AND ITS ONSET

Signs of concern in the Malaysian economy before the speculative attacks of May, 1997, on the ringgit have been analysed by Ariff et al (1997) and Athukorala (1998). The main signs were (1) the high growth from 1991, which was deemed to be beyond the economy's potential, generating wage increases above productivity gains; (2) the loss of efficiency indicated by declining growth of total factor productivity; (3) the rapid bank credit expansion, leading to especially high loan exposure in non-tradable sectors such as property development and construction, consumption credit and purchases of stocks; (4) the persistent 1990s' current account deficits, caused by the investment boom and only partly financed by long-term capital inflows in 1994 - 1995; and (5) the appreciation from 1995 of the real exchange rate despite the current account deficit, indicating overvaluation of the currency when the crisis began in 1997.

Mention should also be made of the Kuala Lumpur Stock Exchange booms in 1993 and 1996, which occurred amidst investment frenzies on East Asian emerging markets. The Composite Index of the Exchange shot up by a phenomenal 198 per cent in 1993, and by 24 per cent in 1996. Market capitalization reached RM619.6 billion in 1993 and RM806.8 billion in 1996 (375 per cent and 323 per cent of gross domestic product respectively). The large portfolio inflows during these periods posed potential risks to stability in the event of sudden large withdrawals of funds.

Despite the high loans growth in the late 1990s, the health of the banking system appeared good. At the end of June, 1997, and just before the attack on the currency, the non-performing loan ratio of the system was 3.6 per cent. The risk-weighted capital ratio[1] was 12 per cent, significantly above the minimum requirement of 8 per cent. These and other indicators of Malaysian economic performance before, during and after the crisis are presented in Table 4.1.

Notwithstanding these positive manifestations in mid-1997, there was rapid credit expansion and increased exposure in the property sector. The ratio of banking sector loans to gross domestic product increased markedly from about 103 per cent in the period 1992 - 1994 to 145 per cent in 1997. The highly leveraged economy was more vulnerable to speculative attack on its currency, as it became difficult for the Bank Negara Malaysia (the central bank) to raise interest rates aggressively for a sustained period to defend the exchange rate. There also needed to be a recognition that given an economic downturn, declining asset prices posed high risks to banks with loans secured by collateral in property and shares. The Bank Negara responded slowly to this uneasy trend, only taking corrective action a few months before the crisis.

Unlike some other crisis-hit economies, Malaysia's external debt exposure was not high at the onset of the crisis. Total external debt outstanding amounted to RM101.2 billion at the end of March, 1997, with only 29 per cent being short-term debt. The latter comprised 11 per cent of gross national product and 40 per cent of net international reserves. However, there had been a steady build-up of external debt by the private sector in years preceding the crisis, with this being facilitated by a stable exchange rate of the ringgit against the United States dollar.[2] During this period, domestic interest rates were not high, but if they had been there would have been added incentive to borrow more from abroad.

The Onset of Crisis

The signs of vulnerability in the Malaysian economy following the Thai baht tumble caused serious concerns for portfolio investors in particular. These concerns were influenced by the fact that most in the international financial community had earlier failed to perceive what were turning out to be very real risks in some crisis-hit economies. Thus when the Thai crisis escalated, the prospects for self-fulfilling panic were rife.

The slide of the ringgit against most major currencies occurred when it moved from 2.48 against the United States dollar in March, 1997, to 2.57 in July. The Bank Negara unsuccessfully tried to defend the ringgit against speculative attacks, and it plunged to an astonishing 3.77 by the end of the year. But the worst had yet to come, and in early January, 1998, the ringgit sank to an all-time low of 4.88. It recovered to an average of 3.73 in April, 1998, only to retreat again to 4.20 by August. Thus there was continued volatility on currency markets.

Table 4.1 Malaysian Economic Indicators, 1996 - 2000

	Dec.96	*Mar.97*	*Jun.97*	*Sep.97*	*Dec.97*	*Mar.98*	*Jun.98*
Non-perf. loan ratio (3-months) %	-	-	-	-	-	-	-
Non-perf. loan ratio (6-months) %	3.7	3.4	3.6	3.7	4.1	7.0	8.9
Risk-wted cap. ratio banking sector %	10.7	-	12.0	-	10.5	11.1	11.2
Bank loan growth (yr on yr) %	-	29.6	30.3	28.4	26.5	16.9	10.3
Change in cons. Prices (yr on yr) %	3.5	3.2	2.2	2.3	2.9	5.1	6.2
RM/S$ exchange rate	2.53	2.48	2.52	3.20	3.89	3.64	4.18
KLSE* - Composite Index	1,238.0	1,203.1	1,077.3	814.6	594.4	719.5	455.6
3-month interbank rate %	7.34	7.36	7.71	7.65	8.60	10.91	11.07
7-day interbank rate %	7.28	7.01	7.84	6.68	10.57	10.55	10.71
Overnight interbank rate %	7.15	6.43	7.18	5.71	8.30	9.62	10.19
Base Lending Rate (comm. banks) %	10.65	10.67	10.85	11.28	12.22	14.23	14.49
Average lending rate (banks) %	10.12	10.14	10.68	11.51	13.33	13.51	11.09
Change in ind. output (year on year) %	13.0	11.4	12.9	7.4	9.1	-0.1	-5.7
Net international reserves ($ bil.)	27.7	29.1	28.0	19.4	15.2	15.7	13.9
Consumer Sentiments Index (points)**	129.5	127.2	133.4	122.1	104.7	88.5	79.1
Business Conditions Index (points)**	64.6	63.0	65.5	58.7	49.6	41.0	42.3
Periods to which indices apply**	(4Q:96)	(1Q:97)	(2Q:97)	(3Q:97)	(4Q:97)	(1Q:98)	(2Q:98)

Table 4.1 *continued*

	Sep.98	Dec.98	Mar.99	Jun.99	Sep.99	Dec.99	Mar.00	May00
Non-perf. loan ratio (3-months) %	12.8	13.4	13.0	12.4	12.0	11.1	10.9	-
Non-perf. loan ratio (6-months) %	8.1	7.5	7.9	7.9	7.8	6.6	6.5	-
Risk-wted cap. ratio banking sector %	10.1	11.8	12.3	12.7	12.7	12.5	12.8	13.0
Bank loan growth (yr on yr) %	4.5	-1.6	-4.3	-5.0	-5.6	-4.8	-2.5	-1.3
Change in cons. prices (yr on yr) %	5.5	5.3	3.0	2.1	2.1	2.5	1.5	1.3
RM/$ exchange rate	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.80
KLSE – Composite Index	373.5	586.1	502.8	811.1	675.5	812.3	974.4	911.5
3-month interbank rate %	7.75	6.48	6.19	3.27	3.14	3.15	3.14	3.13
7-day interbank rate %	7.08	5.85	5.49	2.83	2.66	2.62	2.63	2.59
Overnight interbank rate %	6.64	5.41	5.23	2.81	2.55	2.52	2.90	2.75
Base Lending Rate (comm. Banks) %	10.54	9.50	9.48	7.24	6.79	6.79	6.79	6.75
Average lending rate (banks) %	9.72	9.56	8.45	8.45	7.89	7.75	7.74	-
Change in ind. output (yr on yr) %	-10.9	-9.4	2.8	9.3	20.9	16.2	21.7	-
Net international reserves ($ billion)	21.4	26.2	27.7	31.1	31.4	30.9	33.9	34.1
Consumer Sentiments Index (points)**	80.0	80.5	84.0	101.6	111.3	117.7	120.7	121.0
Business Conditions Index (points)**	41.8	44.7	48.2	60.3	62.2	61.0	60.8	64.3
Periods to which indices apply**	(3Q:98)	(4Q:98)	(1Q:99)	(2Q:99)	(3Q:99)	(4Q:99)	(1Q:00)	(2Q:00)

Sources: Malaysian Institute of Economic Research (1996 - 2000); Malaysia. Bank Negara Malaysia (1963-2000); Malaysia. Department of Statistics (1996 - 2000).

Notes: * KLSE = the Kuala Lumpur Stock Exchange.
** Indices from the Malaysian Institute of Economic Research (2000), which are for entire quarters. The information in parentheses below the indices denote what quarter is involved, where '2Q98', for example, refers to the second quarter of 1998.

With confidence in the ringgit shattered, investors began a mass selling of stocks on the Kuala Lumpur Stock Exchange. The Composite Index fell from 1,216.7 points at the end of January, 1997, to 594.4 points at the end of the year, and was 302.9 points in August, 1998, immediately before the imposition of capital controls. Market capitalization on the Exchange shrank from RM826 billion in January, 1997, to RM200 billion in August, 1998.

The vulnerabilities in the Malaysian economy coupled with market players' lack of ability to differentiate between regional economies meant that these players highlighted similarities with the Thai and Korean cases. Whether these similarities were perceived or real, the result was a massive sell-down of stocks and dumping of domestic currencies. Both developments fed on one another in a typical demonstration of herd behaviour.

Business and consumer sentiments took a battering. Beginning from the third quarter of 1997, business confidence gauged by the Malaysian Institute of Economic Research's Business Conditions Index dipped sharply for three consecutive quarters (Table 4.1). The Institute's Consumer Sentiments Index plunged for four consecutive quarters from the third quarter of 1997, reaching an all-time low in the second quarter of 1998.

THE INITIAL POLICY RESPONSE

This response comprised stabilization measures to address the current account deficit, contain inflationary pressures from ringgit depreciation, steady the ringgit exchange rate, and prevent large outflows of short-term capital. The soundness of the banking system was also a key concern.

Monetary Policy

This policy was not as tight as recommended by the International Monetary Fund (IMF). The Bank Negara's stance was to maintain relatively high interest rates, both to curb inflation from ringgit depreciation and prevent capital outflow by ensuring an adequate return on ringgit-denominated assets. The Bank judged that given the strong external factors, raising interest rates *excessively* would not be effective in supporting the ringgit. It was mindful as well of the need to provide sufficient liquidity to finance economic activities.

However, when the ringgit continued to slide against major currencies, the Bank Negara raised interest rates further. At the height of the speculative attacks in May and July, 1997, overnight and 7-day interbank rates were raised to 35-50 per cent to defend the currency. The average 3-month interbank rate increased from 7.6 per cent in September, 1997, to 8.7 per cent at the end of that year. Yet the ringgit continued to fall, with negative sentiments following external happenings such as the depreciation of the Korean won in December, 1997. The collapse of the Indonesian rupiah in early 1998 further exerted powerful downward pressure. Following the shock decline of the ringgit to its all-time low in January, 1998, the 7-day rate was raised to a maximum of 16 per cent. The Bank Negara also imposed quantitative restrictions on loans for purchasing property, shares and non-commercial vehicles.

Fiscal Policy

When the crisis escalated, policy makers were concerned over upholding macroeconomic stability through containing inflationary pressures, as well as addressing the current account deficit and maintaining investor confidence. Thus the government budget for 1998 showed fiscal restraint, not unlike that prescribed by the IMF for other affected countries. Anticipating that government revenue would be influenced by an economic slowdown then viewed as slower growth rather than recession, public expenditures were scaled down. This was achieved through restraining consumption spending, deferring non-critical projects and privatizing government activities, while a fiscal surplus of 2 per cent of gross national product was proposed. Further fiscal tightening saw expenditures reduced by another 10 per cent across the board, with a cutback of 8 per cent on a selective basis.

By the end of the first quarter of 1998 it was evident that the economy was slowing faster than anticipated, with real gross domestic product contracting by an annual 3.1 per cent. The government reduced the fiscal surplus to 0.5 per cent of gross national product and allocated an additional RM1 billion for socio-economic projects to benefit more vulnerable groups.

The tight fiscal policy at the beginning of the crisis may have been dictated to a certain extent by financial market expectations. Jomo (1998, p. 190) pointed out that 'it is not as if the government did not respond at all, but rather that it did not respond in the manner desired by 'the market', i.e. mainly the Western financial community'.[3] Fiscal policy could have played a more stimulating role even at that early stage, especially in view of the government's strong past fiscal record which would have enabled it to finance a reasonable fiscal deficit.

The Impact

Despite the measures just described, the ringgit continued to lose value and be affected by exogenous factors. The tight monetary and fiscal policies contained the current account deficit and kept inflationary pressures at reasonable levels. But these policies taken with the effects of a massive exchange rate depreciation and stock market plunge meant the fall in aggregate demand was

exacerbated, with a deflationary impact on the economy. Had the fall in demand and deflationary impact been left unchecked, the recession would have become deeper and the banking sector saddled with higher bad debts, preventing it from playing its role as financial intermediary.

Although the current account recorded large surpluses in the first half of 1998, this was not well reflected in foreign reserves due to large outflows of short-term capital. The latter was linked mainly to liquidation by foreign investors in the Kuala Lumpur Stock Exchange as confidence declined amidst uncertainties. The ringgit outflow was also triggered by very high offshore rates of 20 - 40 per cent, which provided a hefty premium of at least 11 per cent over domestic rates.[4]

Due to the high domestic debt level, the increase in interest rates in response to the falling currency had adverse impacts. Firms which borrowed from banks had higher debt obligations. Rising costs of imported inputs following the ringgit's depreciation also contributed to the business sector's difficulties, and infrastructure projects with high import content were deferred. As the economy deteriorated and unemployment rose, consumers became more cautious and spent less, and this was augmented by the negative wealth effect of the stock exchange collapse. On top of all this the anticipated export sector-led recovery never really materialized, as external demand was hampered due to widespread crisis in East Asia.

Following weak demand for loans and the caution of banks in extending further credit, loans by the banking system declined by 1.8 per cent in 1998 compared to an increase of 26.5 per cent in 1997. As companies ran into difficulties, bad debts rose. The net non-performing loan ratio of the banking system rose from 4.1 per cent of total loans outstanding at end-1997 to 9 per cent at the end of 1998. This and the erosion of their capital base restricted the capacity of some banks to lend. Banks better positioned to lend were preoccupied with protecting balance sheets and adopted a cautious attitude. Thus even well-run companies experienced financial stress from the credit crunch.

The economic impact of these occurrences was telling, with real gross domestic product declining by 7.5 per cent in 1998 (Table 2.2).

POLICY REVERSAL

It was clear by mid-1998 that policy had to be urgently re-thought. Stability had not been restored in the domestic financial market, while the exchange rate remained volatile and the stock market depressed. Continued pursuit of the current policy would cause economic growth to decline even more steeply. Both monetary and fiscal policies needed to be more expansionary, so as to provide stability for consolidation and reform.

The Bank Negara had two difficult options in an environment of extremely volatile exchange rates with an open capital account. First, it could attempt to support the exchange rate by maintaining or raising interest rates, without any assurance of success and further choking prospects of halting the faltering economy. Second, it could aggressively ease monetary conditions to boost demand, but run the real risk of seeing the exchange rate plunge.

Had the authorities picked the first option, the economy would likely have contracted further and faster as debts rose and company closures caused more unemployment. Larger numbers of firms and individuals would have defaulted on bank loans, thus causing the banking system to deteriorate further. That would have made stabilizing the exchange rate almost impossible, even with higher interest rates.

Choosing the second policy option would have meant more capital outflow due to lower interest rates and expectations of further currency depreciation, while the value of the ringgit fell yet again. This would have added to costs through imported inflation, while external debt obligations rose further. The stock market would have taken more battering, adding downward pressure on the ringgit. Importers paying in foreign currency would have hedged their positions in anticipation of further ringgit depreciation, thereby contributing more to that pressure. There would have been a strong possibility of major capital flight, depleting much needed foreign reserves.

Capital Controls and Expansionary Monetary Policy

It was obvious in analysing the options that policy-makers had to break the link between domestic interest rates and the exchange rate before taking measures to stimulate aggregate demand (Krugman 1997; Athukorala 1998). The Malaysian authorities chose to do this on 1 September 1998, when capital controls were announced. The next day the ringgit was pegged at 3.80 to the US dollar. This option was chosen to insulate the economy from the continued adverse external situation and regain some monetary autonomy.

The control measures aimed at containing the disruptive short-term speculative capital flows. They did not affect trade and foreign direct investment flows, and the current account remained fully convertible. Foreign long-term investors were free to repatriate profits, interest and dividends. The government also reiterated that the measures were temporary and would be removed when policy objectives were achieved.

The first hint of change in monetary policy came on 1 July 1998, when the Bank Negara again reduced the statutory reserve requirement to 8 per cent. As inflationary pressures moderated, monetary policy was eased further. Then taking advantage of the capital controls, monetary policy was aggressively relaxed by progressive reductions of the reserve requirement and intervention rate of the Bank in the domestic money market. Other expansionary measures included relaxation of credit terms for purchasing property, shares and cars, as well as cheaper credit for smaller industries and lower-income groups.

Liquidity now improved and interest rates declined. The benchmark 3-month interbank rate, which peaked at an average of 11.3 per cent in May - July, 1998, dipped to an average of 3.27 per cent in July, 1999 (Table 4.1). The base lending rate of commercial banks dropped from 14.5 per cent in June, 1998, to 6.8 per cent in August, 1999. This aggressive lowering of rates to boost the economy would have been impossible without the selective capital controls.

Financial Sector Restructuring

The capital control measures gave the economy 'breathing space', and the government took advantage of this to comprehensively reform the banking sector.

Although the banking system appeared strong as it entered the crisis, it seemed increasingly vulnerable as problems continued. The enhanced cost of capital from rising interest rates and more expensive imports took its toll on companies, causing rises in the non-performing loan ratio (Table 4.1). Banks became concerned with their balance sheets and some with huge bad debts saw their capital base eroded, although the system as a whole had a sufficiently high capital adequacy ratio. These problems needed to be addressed quickly, for otherwise the deteriorating banking system and contracting economy would feed on each other.

A programme for restructuring the financial system was implemented in mid-1998 through establishing an asset management company, *Danaharta*; a special-purpose vehicle for recapitalizing ailing banks, *Danamodal*; and a Corporate Debt Restructuring Committee. A programme of bank mergers was also announced, aiming to create bigger and stronger entities better able to face shocks.

Danaharta purchased non-performing loans from banking institutions, freeing them to concentrate on lending activities. It also aimed to maximize the recovery value of loans. It gave priority in acquisitions to weaker financial entities. Institutions with a gross non-performing loan ratio exceeding 10 per cent, as well as those requiring recapitalization from *Danamodal*, had to sell all eligible non-performing loans to *Danaharta*.

Danaharta's financing requirement was estimated not to exceed RM15 billion. It purchased non-performing loans at fair market value, which often meant institutions selling eligible loans to it incurred losses. As at end-1999, *Danaharta* had acquired book value of RM34 billion worth of non-performing loans (42 per cent of those in the banking system), reducing the non-performing level (six months) of the banking system to 6.6 per cent compared to a peak of 9 per cent as at end-November 1998. This acquisition was made at a weighted average discount rate of 56 per cent.

Danamodal was established as a wholly-owned subsidiary of the Bank Negara. It set out, first, to recapitalize and strengthen the banking sector, and, second, to consolidate it. It pursued the first objective by becoming an interim funding vehicle for banking institutions to meet capital adequacy requirements, based on market-driven principles. It pursued the second objective by facilitating the restructuring of banking institutions through its role as a strategic shareholder in recapitalized banking institutions, acting as a catalyst in merger exercises. *Danamodal* only injected capital into institutions which had sold their non-performing loans to *Danaharta*, where existing shareholders bore losses from the sale. *Danamodal* also only recapitalized viable banking institutions, based on assessments by financial advisors of international repute.

Danamodal estimated its funding requirement would not exceed RM16 billion, the sum said to ensure that the risk-weighted capital ratio of banking institutions would be at least 9 per cent. *Danamodal* had by March, 1999, injected RM7.6 billion into ten banking institutions, increasing the risk-weighted ratio of the system from 10.1 per cent in September 1998 to 12.3 per cent. With the full repayment by five of the recapitalized banks to *Danamodal*, the remaining investment amounted to RM5.2 billion.

Although the operations of *Danaharta* and *Danamodal* raised the related issue of possible moral hazard,[5] *Danaharta* did not provide much detail of bad debts acquired beyond the names of banks selling the bad loans, the value of those loans and the discount rate. Transparency could be enhanced if the selection criteria of *Danaharta* in terms of bad loans acquired and banks from which they were secured were made public. The basis of deciding which banks should be given priority to receive capital injection by *Danamodal* should have been similarly announced.

The Corporate Debt Restructuring Committee had the function of providing a platform for borrowers and creditors to collectively work out amicable solutions to debt problems, without resorting to legal proceedings. It sought to ensure that viable businesses facing problems resulting from the currency crisis would continue to have access to financing. By June, 2000, the Committee had received 71 applications involving corporate debts of RM39.6 billion. Of this amount, 25 cases involving RM18.4 billion debt had been resolved.

Fiscal Spending Boost

It became clear by mid-1998 that fiscal policy needed to be more expansionary to compensate for the slack in private sector demand. The government responded in July with an additional fiscal stimulus package of RM7 billion, and an Infrastructure Fund worth an initial RM5 billion. Thus the fiscal position in 1998 registered a deficit of RM5 billion or 1.9 per cent of gross national product, reversing five consecutive years of fiscal surpluses. Net borrowing by the government to finance this deficit totalled RM12.9 billion, of which 85.9 per cent was from domestic sources.

The budget of October, 1998, targeted a fiscal deficit comprising 6.1 per cent of gross national product for 1999, building on the fiscal stimulus of the previous year. Non-essential spending was curbed to keep the fiscal deficit at sustainable levels, and priority accorded to socio-economic and infrastructure projects stimulating economic activities. Government debt was kept at sustainable levels and its ability to repay was never in doubt.

RECOVERY AND FUTURE PROSPECTS

The further easing of monetary policy following the capital control measures saw liquidity conditions improving and credit costs lowered. Consumer sentiments and business conditions indicated by surveys of the Malaysian Institute of Economic Research improved markedly in the first two quarters of 1999 (Table 4.1), while other indicators registered big advances. Private consumption indicators such as sales and production of passenger cars, sales taxes, and imports of consumption goods all showed general improvements at that time. Retrenchment numbers declined while job vacancies increased from late 1998. Gross domestic product turned around in the second quarter of 1999, after declining for five consecutive quarters, and for the whole of 1999 grew by 5.8 per cent (Table 2.2). Economic growth in the first half of 2000 was 10.3 per cent. Inflationary pressures also moderated significantly, with consumer prices rising by 2.8 per cent in 1999 and inflation for the first half of 2000 being 1.5 per cent.

Net international reserves rose from $20.2 billion in August, 1998, to $34.1 billion in May, 2000. Short-term capital flows stabilized in the fourth quarter of 1998, following implementation with the capital controls of the one-year holding period for portfolio investment. The foreign reserve position then better reflected the substantial current account surplus of RM47.4 billion in 1999.

The measures introduced following the capital controls brought back confidence among foreign investors and market analysts. Malaysia's credit rating improved, while stockbroking analysts swiftly revised upwards their 1999 economic forecasts for Malaysia. The issuance in May, 1999, of $1 billion worth of bonds by the government was oversubscribed three-fold, providing one gauge of foreign investor confidence in Malaysia's progress in handling the crisis.

One matter of concern, however, was the slow progress in bank mergers since the crisis started, with only one merger completed at June, 1999 (*Business Times* 1999). Recognizing the need to expedite matters, the governor of the Bank Negara then announced a programme to hasten the merger process by creating six 'mega' core banking groups (*Star* 1999). Merging banks to create bigger entities would enable them to better face foreign competition in preparation for the inevitable opening up of the financial sector.

But the issue of moral hazard had still to be dealt with through more commitment by the authorities. In the case of Bank Bumiputera, a government-owned bank, for example, it was the third time that huge public funds were used to keep it afloat. In addition, the Sime Bank required a fresh injection of funds to rescue it, following an enormous bad debt resulting from imprudent lending. In both cases there was no public disclosure of how or why the loans were made. The usual 'too big to fail' argument was often used, but surely the lesson had to be learned that such readiness to utilize public funds only entrenched bad management in the future.

The Malaysian government's involvement in the business sector was also related to the issue of moral hazard. It was associated with the concept of *Malaysia Inc.*, introduced by Prime Minister Mahathir to foster close co-operation between the public and private sectors and spur economic growth. But it had its roots in Malaysia's affirmative action programme under the New Economic Policy (NEP) outlined in Chapter 2 and explored further in Chapter 6. It is clear that some economic agents took advantage of this policy for 'rent-seeking' purposes, with political patronage becoming an important factor in business. Gomez and Jomo (1999, p. 25) noted that 'patronage networks ... grew under the NEP; it is through the NEP that rents have been created, captured and disbursed, ostensibly as part of the government's policy of 'restructuring' to attain greater inter-ethnic wealth parity and to develop *Bumiputera* entrepreneurs'.

CONCLUSIONS AND FINAL DISCUSSION

The selective Malaysian capital controls of late 1997 brought much-needed stability, despite early scepticism. In 1999 the economy recorded a reasonable growth of 5.8 per cent amidst much improved consumer and investor confidence, and strong export growth also provided a boost to the economy. In 2000, GDP growth was even higher.

It was evident from the East Asian crisis that notwithstanding the role of financial market contagion, problems from moral hazard, inadequate supervision and poor corporate governance could have undesirable consequences. But the events in Malaysian financial markets in 1997 - 1998 also showed that domestic vulnerabilities by themselves could not fully explain the extent and speed with which the ringgit crashed. There were defects in the international monetary system, especially with regard to its inability to adequately monitor and control short-term capital flows which had very destabilizing effects on financial markets. Internationally co-ordinated efforts were needed to design a framework ensuring more orderly global markets. Pressing issues included a surveillance mechanism for short-term capital flows, an internationally accepted standard and framework for prudential supervision of banking institutions, and proper tools and processes for assessing financial risks. More transparency was required too in the evaluation of country risks by international rating agencies, given the far-reaching consequences of their assessments.

The question of moral hazard as it affected international financial markets likewise had to be considered, for explicit or implicit government guarantees may have contributed to reckless corporate and banking sector behaviour by international as well as national participants. It did not seem appropriate for institutions such as the IMF to gear programmes towards raising money in affected countries to repay foreign banks which had extended large sums to such countries on their own accord. There should be no implicit guarantee by the Fund to such banks, which were responsible for their own behaviour.

Further reforms in Malaysia itself should be focused on creating a clear division between government and business, and at nurturing a vibrant entrepreneurial class through greater competition, not protection. The momentum of globalization and liberalization is unstoppable, bringing benefits as well as risks. As a member of the international community dedicated towards open markets, Malaysia has to learn how to maximize these benefits while limiting risks, using policies which balance domestic concerns with needs to further open up the economy and enhance competitiveness. It was encouraging that as economic recovery strengthened, capital controls were relaxed progressively from February, 1999. It is judged that as the economy gains a stronger footing, the exchange rate peg should be abandoned altogether. Controls should only be aimed at regulating volatile short-term capital flows, and not in preventing domestic money from moving out as the policy of 2000 still did.

Many economists now perceive capital controls as effective in achieving desired stability under certain extreme conditions, allowing recovery measures and reforms to be undertaken (Bhagwati 1998a, 1998b; Krugman 1998, 1999; Rodrik 1998; and Stiglitz 1998). Malaysia must build on its initial success with these measures, providing a strong longer-term foundation for returning to more sustainable economic growth. That growth should be founded on healthy competition, good private and public governance, and consistent and transparent public policies. Policy-makers will do well to remember

Krugman's words in his open letter to Prime Minister Mahathir on the day capital controls were announced: 'Remember, above all, that the point of this policy departure should be … to buy space for economic growth. It should not be used in an attempt to prove points about the soundness of the pre-crisis economy, … or anything else. If Malaysia truly does succeed in achieving a recovery, that will be lesson enough for the rest of us.'[6]

NOTES

1. The risk-weighted capital ratio is a measure of the capital adequacy of banks, based on the Basle capital framework which weights both on and off-balance sheet items according to their perceived level of risk. Compliance to the stipulated ratio (and its public disclosure) increases the risk sensitivity of banks in the structuring of their balance sheets.
2. The exchange rate was 2.44 in June, 1995, and remained fairly stable until March, 1997, when it was 2.48.
3. Garnaut (1998, p. 19) noted that there 'seemed to be discordance between good policy, on the one hand, and international market perceptions of good policy, on the other'.
4. It is unclear why such high offshore rates were offered for ringgit deposits at that time. One possibility is that speculators who had sold the ringgit short (and driven its exchange rate down) wanted to cover forward contract obligations. They thus bid high for the ringgit, but still made huge profits from the plunging exchange rate.
5. Moral hazard entails the actions of economic agents in maximizing their own utility to the detriment of others, under circumstances where they do not bear the full consequences due to uncertainty and incomplete or restricted contracts.
6. From *An Open Letter to Prime Minister Mahathir* by Paul Krugman on 1 September, 1998.

5. Structural Change in the Malaysian Manufacturing Industry

Tan Eu Chye and Mohamed Ariff

This chapter reviews industrial strategies adopted by Malaysia from the 1960s until the late 1990s, evaluating progress in developing a vibrant manufacturing sector. Following an initial overview, it looks at key government policies respecting investment, human resources, research and development, and protection, checking as well the key features of Malaysian manufacturing. It finally focuses on the basic weaknesses of that sector, looking at possibilities of future industrial deepening.

As already indicated Malaysia is an increasingly trade-oriented economy, with exports and imports of goods and services accounting for 92 per cent of gross domestic product in 1996 compared to 67 per cent in 1975. It was, however, transformed from a base on agricultural and other primary commodities into the industrial economy of the new century. It depended heavily during the early 1960s on rubber and tin as sources of economic growth, being then the leading world producer and exporter of these commodities. But the fact that rubber at that time accounted for 60 per cent and tin for 11 per cent of export earnings meant that the Malaysian economy was highly susceptible to the vagaries of international trade.

These circumstances prompted the government to embark on agricultural diversification and industrial promotion programmes, with oil palm, saw logs, sawn timber and petroleum becoming significant export items. The share of rubber and tin in total exports accordingly slackened to only 2 per cent by 1996. Developing a vibrant manufacturing sector was indeed the main ambition of government from the 1960s, with a series of industrialization programmes initially emphasizing import substitution. But this was later felt insufficient to serve national development needs, and export-oriented industrialization was promoted from the early 1970s, both for employment generation and for achieving socio-economic redistribution.

New sources of export growth were identified and developed in the 1980s, although import substitution efforts remained important. Boosting agricultural productivity, expanding and diversifying the industrial base, and modernizing the financial and services sectors became important policy concerns, while export promotion and import substitution strategies were coordinated to maximize inter- and intra-industry linkages. Thus import substitution policy was now aimed at meeting the input needs of export-oriented industries, where this entailed increasing production of selected intermediate and capital goods to both alleviate dependence on imports and assist expansion into export markets. It was also felt that Malaysia had reached a stage where its comparative advantage in labour-intensive industries with low labour costs was fast eroding, with more capital-intensive production modes being necessary. Moreover, the increased incomes and living standards of Malaysians were expected to enhance domestic demand for consumer durables.

Yet in the late 1980s it was perceived that the tariff structure applicable to manufacturing was more favourable towards import substitution than export orientation, and towards large-scale than small-scale enterprises. Although Malaysia had promoted export-oriented industries since the early 1970s, many of these still depended on the domestic market. The lacklustre performance of small enterprises was likewise due to the inability of Malaysian manufacturers to reap economies of scale, as well as to poor market intelligence, deficiencies in quality and design, problems with export credit financing, low returns from exporting, and an inability to compete in foreign markets. Investors preferred low value-added export-oriented activities, while the system of incentives was hardly successful in encouraging an efficient, competitive and broad-based industrial structure. Incentives were subsequently reviewed in annual national budgets, so as to achieve a better structure.

Foreign direct investors assumed a key role in the industrial success of Malaysia, and by the late 1990s their paid-up capital dominated beverages and tobacco, petroleum, electronic and electrical products, and industries producing professional, scientific and measuring equipment. They further had substantial interests in textiles and textile products, leather and leather products, and chemicals and chemical products. The top six investing countries were Taiwan, Japan, the United States, Singapore, Hong Kong and Germany, which together constituted about 75 per cent of total foreign direct investment (Table 3.5). Other major investments came from Korea, the United Kingdom and Australia. Since the financial crisis, investors have tended to emphasize information technology-related industries, and especially those making electronic products.

The Malaysian government grew increasingly concerned over environmental impacts of industrialization, and policies and programmes to protect and enhance the environment were first stressed in the early 1980s. The government had by then already introduced measures encouraging existing and new industries to install pollution-control facilities, with on- or off-site storage facilities for industrial wastes being seen as helping minimize haphazard releases of toxic and dangerous substances.

INDUSTRIAL STRATEGIES

Malaysia in the early 1960s was not only heavily dependent on rubber and tin, but had a high annual population growth of 3 per cent. Import-substituting industrialization was thus pursued over and above agricultural diversification, so as to boost the resilience of the domestic economy and generate ample employment. Such industrialization was feasible, since nearly half of Malaysia's goods and services were imported. Malaysia's relatively high income level also made it an attractive market for a broad range of manufactured goods, despite its small population.

Industrialization was perceived as necessary, given the progressive exhaustion of easily accessible natural resources such as tin. Labour-intensive production methods were favoured, with timber and agro-based industries utilizing raw materials being especially promoted. Significant market opportunities already existed in the early 1960s for domestic manufacturing of intermediate and capital goods, and demand for these goods expanded as development progressed and the country industrialized. Yet Malaysia did not have the technology and skills and economies of scale for such goods to be produced efficiently.

But as needs to absorb the growing labour force became more pressing towards the end of the 1960s, export-oriented industrialization co-ordinated with import substitution loomed as a promising strategy to both absorb labour and achieve more equitable socio-economic distribution. Malaysia has always aimed to secure such altered objectives in times of an expanding economy, for policy changes are then more politically feasible. The increased production for export included new industrial and agricultural items, and the government also participated directly in establishing and operating a wide range of productive undertakings, doing this through wholly-owned enterprises as well as joint ventures with the private sector. Such direct involvement departed significantly from earlier practice, with requirements for it arising particularly from the aims of establishing new industrial activities in selected new growth areas and creating a Malay commercial and industrial community.

The government measures to promote manufactured exports had the characteristics of (1) giving high priority to products in which Malaysia had a dynamic comparative advantage (such products included those based on the use of local raw materials and those which were labour-intensive); (2) especially considering the needs of industry for upgrading quality, product design and sales promotion, taking into account consumer preference in importing countries; (3) encouraging activities such as overseas market surveys and product research; (4) assigning priority to joint ventures between local and multinational companies in line with national interests; and (5) granting incentives to promote new industrial estates in selected parts of the country.

Investment and Market Friendliness

Although responsibility for manufacturing operations was left mainly to the private sector, the government, in line with its objective of industrialization, assumed responsibility for maintaining a favourable investment climate through providing industrial estates, transport, power and communication facilities, and fiscal incentives. Foreign direct investment was also welcomed along with domestic investment, not only as a contributor to the growth of national income and employment, but also as a catalyst for industrial modernization. Foreign entrepreneurs were accorded the same incentives as local industrialists, and investment guarantee and double taxation agreements were concluded with both developed and developing countries. Foreign investments were protected by Malaysia's accession to the World Bank-sponsored Convention of International Investment Disputes, though which foreign industrialists can resort to international arbitration in settling disputes.

The Federal Industrial Development Authority was established in 1964 to co-ordinate industrial promotion activities and provide advice to the government on administering industrial incentive programmes and industrial site development. It was subsequently renamed the Malaysian Industrial Development Authority. It was made a one-stop investment promotion and approval agency in 1987, with investment promotion centres being opened abroad. Incentives were also introduced to promote the new industrial estates, where these were provided with physical infrastructure and service facilities in housing, health, school education and other social aspects.

Private financial institutions were also encouraged to take part in stimulating industrial development. Commercial banks were urged to depart from traditional trade-oriented lending policies by playing greater roles in financing industrial investment. The Credit Guarantee Corporation was inaugurated in 1972 to guarantee provision of commercial credit to small scale enterprises, and its activities were expected to alleviate the banks' financing problems.

It was acknowledged in the late 1980s that manufacturing development had been predicated on imports of intermediate and capital goods. Although manufactured exports offered some stimulus to investment and employment in manufacturing, their high import content applying especially to electronic and electrical products and textiles made for low local value-added and low net foreign exchange earnings. New policies were formulated accordingly, while existing policies were amended in accordance with industrial master plans and administrative procedures were improved (Malaysia 1986). The fresh measures aimed at removing and reducing constraints and bottlenecks impeding growth of manufacturing activities. Overall protection for industry was reduced to a reasonable level to boost industrial efficiency, and existing incentives were restructured to make them more outward-looking in favouring competition and promoting entrepreneurial initiatives.

The consequent entry of the economy into a new phase of industrialization exerting demands on capital, technology, skills and global marketing capabilities meant more foreign management and expertise would be required. This called for more liberal treatment of foreign enterprises and removal of constraints on private investment. Foreign equity participation in export-oriented industries was now liberalized and encouragement given to joint ventures between the local private sector and international companies, as well as to trading houses and facilities for counter trade.

The government was mindful also of the need to develop transport and communications to cope with congestion and bottlenecks arising from the unprecedented growth in major industrial areas. It thus actively pursued various forms of infrastructure development.

Human Resource and Small-scale Industry Development

The rapid economic progress of Malaysia in the 1970s generated a need to ensure that shortages of skilled and semi-skilled manpower would not hamper industrial and agricultural development. The public sector thus tried to accelerate the training of such manpower. Technical and apprenticeship programmes were expanded to provide a broad range of qualified personnel for industrial organizations, and the private sector was encouraged to supply more on-the-job training to supplement and complement existing programmes. A Human Resources Development Fund was established in 1992 to promote private sector involvement in training and retraining.

Greater efficiency and productivity of labour and capital was expected to lead to increasing contributions from the same physical stock of capital. This compared with circumstances where most previous growth was attributed to additions in factor inputs and rents from natural resources. The contribution of a third factor in total factor productivity associated with technological improvement, entrepreneurship and the quality of labour and capital was perceived as low compared with similar countries.

Additional output was expected to arise from introducing new technology, upgrading existing technology, enhancing information, acquiring superior management techniques and know-how, improving organization, gaining from specialization, and advancing the education, skills and expertise of workers. Consequent total factor productivity improvements would mean the economy generated a larger output from the same available resources, and shifted to a higher growth path. Output growth would move from being investment-driven towards being productivity- and quality-driven. This entry of Malaysia into industrialization emphasizing capital-intensive, high technology and knowledge-based industries was a further element making skilled manpower supply a critical factor. It not only called for emphasis on training and retraining, but also on maintaining a flexible policy towards employing foreigners in professional and technical occupations.

Stress was placed at the same time on relating wage increases to productivity gains, so as to safeguard Malaysia's international competitiveness. Raising labour productivity was deemed necessary since wage increases had begun outstripping productivity gains, and education in skills, management, science and technology became favoured over purely academic education. Priority was given to expanding courses in applied arts, applied sciences and other technical fields to meet demand. Malaysia's ratio of engineers and technicians to production and process workers in the late 1990s was 1:35, which was low compared with a level of around 1:8 in some industrialized countries.

The government first mooted the development of small-scale industries in 1971 - 1975, and in the late 1990s was continuing to encourage their growth through providing training, financial and marketing facilities. Such industries support and complement larger counterparts, particularly in meeting intermediate input requirements. They also facilitate greater utilization of domestic raw materials and contribute significantly to employment growth. Owing to their lesser need for infrastructures they are established in rural areas, assisting modernization of these places through new growth centres and townships.

The government adopted a series of policies favouring technological upgrading, industrial restructuring, diversification and modernization amongst small- and medium-scale industries. It also tried to enhance linkages between such industries and larger operations including foreign-owned concerns.

Research and Development

Recognizing that only very large enterprises can undertake research and development, the government established the National Institute of Scientific and Industrial Research in the 1960s. In the quest for extending raw material end-uses, it also set up research agencies such as the Malaysian Agricultural Research and Development Institute and the Standards and Industrial Research Institute of Malaysia. The previously existing Forest Research and Rubber Research Institutes were further developed. A rubber technology centre to discover new end-uses of natural rubber was launched within the Rubber Institute.

Local firms and institutions were likewise encouraged to undertake research and development, while foreign firms were urged to share technological and management expertise with Malaysians. The establishment of the Heavy

Industries Corporation of Malaysia Ltd in 1980 supplied a platform for co-ordinating public and private research efforts in the realm of capital-intensive industries, with aluminium, cement, steel and cars being targeted.

The government made increasing funds available for research and development in all sectors in the 1990s, emphasizing industrial research as a means of enhancing the quality of manufactured products for domestic and export markets. It encouraged the private sector to pursue joint ventures with public research institutions, and also identified several new high-technology research and development spheres as having high priority for official support. These spheres included *inter alia* microelectronics, laser technology, electro-optics, biotechnology, and the technologies of materials, manufacturing and software. The latter included computer-aided design and manufacturing and engineering programmes.

Tariff Policy

The tariffs imposed in the late 1950s and early 1960s to protect infant import substitution industries were generally mild, and there were few quantitative restrictions. This mild policy made the later transition to export-oriented industrialization relatively smooth.

The government introduced a second round of import substitution in the early 1980s, focusing on heavy industries such as automobiles and steel. It gave very high protection to these industries by imposing punitive duties, quantitative restrictions, or both duties and restrictions, on rival imports, and by granting preferential tariffs to domestic producers on imported intermediate inputs. Imports of completely built-up cars were thus contained to a pre-determined number following the advent of the first national Proton car. In addition, the import duty on completely knocked-down parts for non-national cars was raised, while the national car industry enjoyed especially low tariffs for imported parts.

Malaysian tariffs have been generally moderate, however, as noted in Chapter 3, with effective protection for most products being low and declining and with quantitative restrictions being sparingly applied. Malaysia liberalized its trade regime after adopting export-oriented industrialization, and these moves intensified during the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT) in 1994 and subsequent planning for the Free Trade Area of the Association of South East Asian nations. A long list of tariff concessions was granted unilaterally by Malaysia on a Most Favoured Nation basis, and these significantly lowered the average Malaysian nominal tariff rate to about 9 per cent in the late 1990s.

FEATURES OF MANUFACTURING

Malaysia's success in industrialization is manifest in the changes in national economic structure already sketched by Athukorala and portrayed in Table 2.3. Agriculture fell from 55 per cent of employment in 1965 to 16 per cent in 2000, while manufacturing rose from 7 to 27 per cent (Table 5.1). The latter is projected to expand further as the economy recovers from financial crisis. More details of the Malaysian labour force are given in Table 2.5.

Malaysia's industrial policies influenced its external trade structure. Its imports up to the late 1960s largely comprised consumption goods, since domestic industry had yet to develop to adequately serve domestic needs. The import substitution programme initiated in the 1960s succeeded in scaling down the share of consumption goods in total imports from 51 per cent in 1961 to 32 per cent in 1970. The momentum of import substitution continued, and by 1996 the share of consumption goods had contracted to only 14 per cent.

Although manufactured exports were merely 12 per cent of Malaysia's total exports in 1970, they reached 22 per cent and 81 per cent respectively in 1980 and 1996. Electrical machinery, appliances and parts contributed most to this expansion, with their share of total exports increasing from 46 per cent in 1978 to 66 per cent in 1996. Malaysia also successfully diversified within this commodity grouping, changing from being overly dependent on electrical components to more reliance on appliances and machinery. Thus electrical components declined from 72 per cent of exports under this commodity grouping in 1978 to 34 per cent in 1996, while appliances and machinery experienced significant expansions in shares.

Other manufactured products witnessing moderate enlargements in shares in 1978 - 1996 were transport equipment, rubber products, optical and scientific equipment, toys and sporting goods and other manufactured goods. However, textiles, clothing and footwear, which constituted 13 per cent of total manufactured exports in 1978, declined to just over 4 per cent in 1996. Further items with reducing shares were food, beverages and tobacco, and wood and petroleum products. These trends reflect success in avoiding overall dependence on a few manufactured export items, in a situation akin to past dependence on rubber and tin.

Yet limitations still prevail in Malaysian manufacturing, which can be broadly divided into resource-based and non-resource-based sub-sectors. The former includes the processing of estate-type agricultural products in off-estate factories, and the making of food, beverages, tobacco products, wood products, furniture and fixtures, paper and paper products, rubber products, chemicals and chemical products, petroleum and coal products, and non-metallic mineral products. It also takes in printing, publishing and allied industries. The non-resource-based sub-sector includes textiles, footwear, leather and leather

products, basic metal industries, metal products, electrical machinery, non-electrical machinery and transport equipment.

Malaysia has a natural comparative advantage in resource-based industries based on its rich resource endowment, but the evolution of Malaysian manufacturing does not appear consistent with this. Thus the contribution of resource-based industries as a whole to total value-added by manufacturing industries fell from 80 per cent in 1963 to 39 per cent in 1996, while the contribution of non-resource-based industries surged from 14 per cent to 61 per cent over the same period (Table 5.2). In fact, no resource-based industry has become increasingly important as a value-added generator, while in the non-resource-based sector both electrical machinery and transport equipment have risen distinctly in significance.

Checking the contribution of sub-sectors to the total value of manufacturing output leads to broadly similar conclusions. While the contribution of the resource-based sub-sector to such output declined from 93 per cent in 1960 to 45 per cent in 1993, that of the non-resource-based sub-sector expanded from 7 per cent to 55 per cent during the same period (Malaysia. Department of Statistics 1969 - 2000).

The high import content of manufactured exports, given the lack of indigenous technology, meant that imports of intermediate inputs for local assembly and exports expanded from 35 per cent of total imports in 1970 to 45 per cent in 1996, while imports of investment goods surged from 25 per cent to 41 per cent over the same period. This exerted severe strain on the Malaysian external payments position, and the recent currency turmoil further highlighted this fundamental weakness of the manufacturing sector. Indeed, the current-account surplus which emerged during the financial crisis changed again to a deficit as the economy recovered, due to rising imports of intermediate goods.

These experiences reflected the lacklustre performance of Malaysian development programmes in science and technology, human resources, and small and medium industry, all of which were promulgated as early as the Second Malaysia Plan, 1971 - 1975. Malaysia's industrialization was thus not strongly founded on natural comparative advantage, but on some other comparative advantage it was struggling to develop. This aspect is further discussed by Ariff, Abidin and Tan (1997).

Table 5.1 Malaysian Employment by Sector, 1965 - 2000 (% of Total)

	1965	*1970*	*1975*	*1980*	*1985*	*1990*	*1995*	*2000**
Agriculture, forestry & fishing	55.1	52.6	45.3	40.6	35.7	27.8	18.0	16.0
Mining & quarrying	2.4	2.6	2.1	1.7	1.1	0.0	0.5	0.5
Manufacturing,	6.9	9.6	13.5	15.8	15.1	19.5	25.9	27.1
Construction, utilities & transport	8.3	7.3	9.1	10.0	12.5	11.5	9.2	14.3**
Other sectors***	27.3	27.9	30	31.9	35.5	40.7	46.4	0.0
Banking, Insurance & real estate	-	-	-	-	-	-	-	4.8
Government services	-	-	-	-	-	-	-	10.0
Other services	-	-	-	-	-	-	-	27.3
Total	100	100	100	100	100	100	100	100

Sources: Malaysia (1966); Malaysia (1973); Malaysia (1976); Malaysia (1991); Malaysia (1996); and Malaysia. Ministry of Finance (1999).

Notes: * Estimated; ** Including storage and communications; *** Banking, insurance and real estate, government services, and other services.

Table 5.2 Value-added by Malaysian Manufacturing Activities, 1963 - 1994 (% of Total)

Resource-based	*1963*	*1970*	*1975*	*1981*	*1985*	*1990*	*1996*
Processing of estate-type agricultural products in factories off estates	11.71	10.92	-	10.06	8.08	4.60	3.65
Food	15.37	16.04	20.98	8.84	8.01	6.07	4.09
Beverages	3.12	3.63	2.99	3.44	2.50	2.22	0.8
Tobacco products	6.71	7.16	3.26	2.96	4.20	1.4	1.13
Wood products	11.68	9.98	8.14	8.65	5.39	6.44	5.42
Furniture & fixtures	1.90	0.77	0.8	0.83	0.82	0.77	1.38
Printing, publishing & allied industries	6.97	6.19	4.19	3.97	4.04	2.93	2.60
Paper & paper products	0.74	0.80	1.06	0.98	1.13	1.71	1.70
Rubber products	5.47	4.34	10.98	4.13	3.44	4.69	3.20
Chemicals & chemical products	9.99	9.34	6.43	5.03	15.75	10.8	7.80
Products of petroleum & coal	-	3.55	2.87	6.24	3.23	2.55	2.85
Non-metallic mineral products	6.54	6.85	3.56	5.13	6.08	4.86	4.08
Sub-total*	80.20	79.57	65.26	60.26	62.67	49.04	38.65

Table 5.2 continued

Non-resource-based							
Footwear (except rubber footwear), other clothing and made-up textile goods	0.95	1.13	1.57	2.04	2.16	3.13	1.63
Leather & leather products	0.17	0.19	0.06	0.08	0.05	0.07	0.09
Basic metal industries	0.86	2.82	3.21	3.35	3.84	3.86	3.49
Metal products	5.4	3.74	3.69	3.56	3.01	3.49	4.14
Machinery except electrical machinery	3.5	2.56	3.12	3.20	2.04	3.85	5.57
Electrical machinery	1.12	2.77	11.05	13.99	15.13	21.45	30.46
Transport equipment	1.43	3.08	2.99	4.94	4.33	5.45	6.25
Miscellaneous	5.42	1.90	3.13	4.07	4.04	6.38	6.82
Sub-total*	14.38	18.53	31.61	35.67	33.29	44.58	61.35
Grand total (RM million)	420	1,182	3,024	8,731	12,115	24,530	71,538

Sources: Malaysia (1971); Malaysia (1973); Malaysia (1986); Malaysia (1991); Malaysia (1996); and Malaysia. Department of Statistics (1969 - 2000).

Notes: * The sub-totals of per cents are for activities specified in the table only, and do not amount to 100.

FUTURE OUTLOOK

Malaysian manufacturing in the period before the financial crisis was in for challenging times. The recent growth of the Malaysian economy had been largely input-driven, with more and more capital and labour being added to generate output expansion. The manufacturing sector was highly dependent on foreign capital and immigrant labour, with foreign direct investment playing an especially dominant role in export-oriented sub-sectors such as electrical goods and electronics. There were two million foreign workers, which was large in relation to the total population of twenty million, including nine million in the domestic labour force. Little seemed to alter as economic growth resumed following the crisis.

The presence of so many foreign workers adversely affected the long-term competitiveness of Malaysia's manufacturing, although short-term competitiveness was maintained by employing ‘cheap’ foreign workers in the presence of growing international competition. Although resorting to foreign labour was seen as buying time before major adjustments were undertaken, the actual effect was the opposite. The presence of foreign workers depressed wages and impeded important structural changes in the economy, with little pressure on firms to adopt labour-saving methods including automation. Firms were also reluctant to invest in foreign contract workers to develop skills, where these workers were likely to be repatriated. But companies found local workers frequently reluctant to undertake manufacturing and other jobs, being forced instead to employ foreigners.

The large numbers of guest workers manifested serious structural imbalances. First, domestic demand for labour exceeded domestic supply by a huge margin. Second, remittances of wages by such workers contributed significantly to the ballooning current-account deficits. Third, guest workers were not as cheap as they appeared, in that the social costs of employing such unskilled persons from abroad far exceeded the wage costs of firms hiring them.

There was too difficulty in the mismatch between productivity and wage growth. Labour productivity in manufacturing rose at an annualized 11 per cent over a period of two years up to July, 1997, while the real average wage advanced by 20 per cent. The real unit labour cost increased at an annualized 8 per cent during this period. The situation was less good in the electrical and electronics sub-sector, where real unit labour cost grew at 14 per cent per annum. Circumstances were much worse in the transport equipment sub-sector, where labour productivity growth was negative and unit labour cost rose at 18 per cent per annum. The only exception was in the chemicals, chemical and plastic products industry, where labour productivity outstripped real wage growth with reductions in real unit labour costs. While Malaysian wages fell in 1998 and 1999, in 2000 they were once more subject to pressures for increase.

In addition, it appeared that capital was being used inefficiently. Malaysia's investment over the years up to 1997 exceeded savings with a 5 per cent domestic resource gap, and total investments amounted to 45 per cent of gross national product. This proportion is large by any standards, underlying expectations that the economy should have been growing at double-digit rates rather than the 8 per cent achieved up to the financial crisis, and suggesting that capital was not effectively employed. The growth of total factor productivity was indeed declining, and was even negative in 1996 with capital and labour accounting for more than 100 per cent of the increase in gross domestic product. The sharp rise up to 1997 of the incremental capital-output ratio lent further credence to the view that capital productivity was decreasing, and there was little evidence of improvement during the recovery from the crisis. These aspects suggest resource misallocation, with underpricing of capital encouraging excessive use of this factor.

If Malaysia fails to undertake major structural changes reducing labour and capital inputs, its manufacturing sector may lose its comparative advantage to other countries. In 2000 the government was in fact taking correctional measures by de-emphasizing low value-added unskilled labour activities and promoting high value-added technology- and skill-intensive manufacturing, as outlined in the Second Industrial Master Plan, 1996 - 2005 (Malaysia 1996). It was also providing fiscal incentives for retraining workers and expanding research and development capabilities. There were, naturally, transitional problems such as acute shortages of skilled workers, and official approaches to overcome this were likely to take time to bear fruit. Dependence on foreign workers would have to continue in the interim, although their composition would progressively incorporate more skilled categories.

The Malaysian manufacturing sector was also poised to undergo dramatic changes in the wake of the Asean Free Trade Area process. Under this, tariffs would be reduced to 0-5 per cent by 2003, with Malaysia being likely to benefit most as the biggest exporter of most items in the inclusion list. However, some heavy industries and especially automobiles were expected to face severe competition, and Malaysia's car manufacturers, Proton and Perodua, were gearing for new challenges. Trade liberalization, even on a limited regional scale, would force such heavily protected industries to become more efficient.

The biggest challenge for Malaysia in the new century was how to remain attractive for foreign direct investment. Malaysia would continue to depend on foreign capital, since domestic capital was no substitute for the latter which also brought with it technology, marketing know-how and managerial expertise, all of which were in short supply. While the large drop in foreign direct investment caused concern during the financial crisis, the stabilization of the economy following imposition of capital controls and subsequent adjustments was leading to the renewed capital inflows described in Chapter 4.

Although there were indications that foreign investment was diverting to China at the expense of Southeast Asia, Malaysia still enjoyed advantages despite rising labour costs. Relative political stability and policy coherence, consistency, transparency and predictability were its strengths, in addition to strong infrastructural and institutional support facilities. There were in addition prospects of lowering labour costs through improvements in labour productivity, with increases in labour expenditures being more than offset by reductions in transportation, telecommunication and transaction charges. The depreciation of the ringgit since mid-1997 also strengthened the competitiveness of manufactured exports, rendering Malaysia an attractive offshore base for multinationals.

There were, however, understandable limits to the industrial deepening of the Malaysian economy. Manufacturing's share in gross domestic product would inevitably stop rising as the economy matured, reaching a plateau of around 38 per cent after which it ceased to be the engine of growth. The services sector would then have to serve as the locomotive, but faced daunting challenges since it remained highly inward-looking, over-protected and over-regulated. It would need to be exposed to foreign competition and reoriented towards the global market before it could effectively become the main growth source for the Malaysian economy.

6. Income Distribution in Malaysia

Zainal Aznam Yusof

In his 1996 presidential address to the Royal Economic Society, Atkinson (1997, p. 29) focused on 'bringing income distribution in from the cold', driving home the point that this topic had been 'marginalized'. Although Atkinson was referring to the countries of the Organization for Economic Cooperation and Development (OECD), his remarks applied to Asian economies as well. Raising the subject of income distribution and poverty is like a cat dragging a dead rat into a room full of house guests. The subject of income distribution has indeed been marginalized in Malaysia in recent years, and a serious revival of interest remains to be seen.

Why has income distribution failed to attract interest as a serious topic? It may be hazarded that both the increase in per capita income from 1,142 ringgit in 1970 to 12,102 ringgit in 1997 and high annual expansion of the Malaysian economy from the late 1980s (Malaysia. Ministry of Finance, 1990 - 1999) meant that growth euphoria was endemic, with concerns over equity and racial income imbalances being sidelined. Thus the National Development Policy which superseded the New Economic Policy (NEP) in 1991 was less aggressive in income distribution terms, and no time frame for achieving distributive targets was incorporated in associated five-year development plans. But although growth in Malaysia has probably opened up opportunities for further economic advancement, inequality appears to have widened in recent years.

This chapter examines the key questions of (1) what happened to income distribution in Malaysia in the period from 1970 up to the financial crisis of 1997, and then beyond that crisis up to the year 2000; (2) what policies targeted income distribution; and (3) what effects these policies had. Some information comes from five-year development plans (Malaysia 1976; 1981; 1986; 1989; 1991; and 1996), while income statistics are derived from the household income and expenditure surveys of the Department of Statistics (Malaysia. Department of Statistics, 1982 - 1996).[1]

INCOME DISTRIBUTION UP TO 1990

Traditional ways of measuring inequality show that the distribution of income in Malaysia narrowed over the 20 years to 1990. Thus the Gini coefficient for Malaysia as a whole declined from 0.501 in 1970 to 0.446 in 1990 (Table 6.1),

and the level of absolute poverty also dropped sharply. Inter-ethnic economic imbalances likewise improved, with a fall of the income disparity ratio between *Bumiputera* and non-*Bumiputera*. Rapid and sustained economic growth, educational advancements, affirmative action programmes and luck all helped contribute to a sunny story on Malaysian equity.

There is also consensus that the distribution of income widened and level of poverty increased in Peninsular Malaysia in the previous period between 1957 and 1970.[2] Indeed, some evidence suggests that inequality widened in Peninsular Malaysia during the first half of the 1970s, and then lessened up to 1987.[3] The latter is a useful terminal year, as it was the beginning of recovery and rapid economic growth after a three-year recession.[4] The distribution of income improved from the mid-1970s, with households in the bottom 40 per cent of the population in Peninsular Malaysia increasing their share of total income from 11.4 per cent in 1973 to 12.8 per cent in 1985 and 14.5 per cent in 1990 (Table 6.1).

Two important dimensions of inequality are those between urban and rural areas and between ethnic groups. Urban:rural inequality was much higher in Peninsular Malaysia at the beginning of the NEP in 1970, but the gap narrowed during the 1970s and, although rising again in the mid-1980s, dropped substantially by 1990 (Table 6.1). All ethnic groups were enabled by economic growth to raise their income levels, albeit differentially with *Bumiputera* average household income growing more rapidly than its non-*Bumiputera* equivalent in 1970 - 1987 (Table 6.2). In 1970, mean *Bumiputera* monthly household income at constant 1970 prices in Peninsular Malaysia was about 44 per cent of Chinese income and 56 per cent of Indian income, but by 1990 had increased to about 57 per cent of Chinese and 78 per cent of Indian income. This gives respective Chinese:*Bumiputera* and Indian:*Bumiputra* income disparity ratios of 2.29 and 1.77 for 1970 and 1.74 and 1.29 for 1990 (Table 6.1).

Although evidence on trends in *intra*-ethnic income inequality is hard to secure, available data suggest inequality increased amongst *Bumiputera* in 1970 - 1987 and was higher than for non-*Bumiputera* by the end of the 1980s. The disparity ratio in 1987 between the top 20 and bottom 40 per cent of households (at constant 1978 prices) was 7.1 for *Bumiputera* compared to 6.5 for Chinese and 5.6 for Indians (Yusof 1988a and b).

Some notions of inequality are not captured by average figures, however, and percentages and ratios can mean different things to different people. Thus quoting absolute income differences reveals another dimension of inter-ethnic income imbalances, where at constant 1978 prices the absolute *difference* in mean monthly household income between *Bumiputera* and non-*Bumiputera* households in Peninsular Malaysia was 337 ringgit in 1970 (Table 6.2). The household incomes of *Bumiputera* and non-*Bumiputera* then rose respectively to 614 and 969 ringgit in 1987, with a difference of 355 ringgit.

Table 6.1 Income Distribution and Poverty, Malaysia, 1970 - 1998

	1970	*1980*	*1985*	*1990*	*1995*	*1997*	*1998**
Income shares:							
Bottom 40% of households (%)							
Peninsular Malaysia	-	-	12.8	14.5	-	-	-
Sabah	-	-	12.8	13.6	-	-	-
Sarawak	-	-	12.0	14.4	-	-	-
Middle 40% of households (%)							
Peninsular Malaysia	-	-	32.6	34.1**	-	-	-
Sabah	-	-	33.2	34.2**	-	-	-
Gini coefficient							
Malaysia	0.501	0.493	-	0.446	0.462	0.470	-
Peninsular Malaysia	-	0.508	0.480	0.445	-	-	-
Sabah	-	-	0.491	0.459	-	-	-
Sarawak	-	-	0.498	0.448	-	-	-

Table 6.1 Continued

	1970	*1980*	*1985*	*1990*	*1995*	*1997*	*1998**
Incid. of poverty (%)***							
Malaysia	42.4****	-	-	17.1	9.6	6.8	6.8
Peninsular Malaysia	-	-	20.7	-	-	-	-
Sabah	-	-	33.1	34.3	26.2	22.1	-
Sarawak	-	-	31.9	21.0	10.0	7.5	-
Urban	-	-	-	-	7.5	4.1	2.4
Rural					21.8	16.1	11.8
Inc. disp. rat.(%)*****							
Chinese/Bumiputera	2.29	1.90	1.76	1.74	1.80	1.83	-
Indian/Chinese	-	-	1.37	1.32	-	-	-
Indian/Bumiputera	1.77	1.29	-	1.29	1.33	1.46	-
Urban/ Rural	2.14	1.77	1.87	1.70	1.98	2.04	-

Sources: Malaysia 1986 and 1989b; Malaysia. Department of Statistics, 1982 - 1996; Malaysia. Ministry of Finance (1990 - 1999)

Notes: * Estimated **Figure for 1987;***Percentage of all households living below the Poverty Line; **** For 1976; *****The Income Disparity Ratio is the income of the first group as a percentage of that of second group. Figures are for Peninsular Malaysia only.

Table 6.2 Mean Monthly Household Incomes of Bumiputera and Non-Bumiputera, Peninsular Malaysia, 1970 - 1987*

	1970 $	*1976* $	*1984* $	*1987* $	*Average Annual Growth Rate (%)* *1970 - 1984*	*1970 - 1987*
Bumiputera	276	379	616	614	6.2	4.9
Non-Bumiputera	613	811	1029	969	4.0	2.9
Total	423	565	792	760	4.6	3.8

Sources: Malaysia (1981, 1986 and 1989a).
Note: * In constant 1978 prices.

The overall and racial income imbalances are even more glaring when compared by deciles. For all ethnic groups in Peninsular Malaysia in 1987, the average income of the richest 20 per cent of households was about 7.4 times that of the bottom 40 per cent, giving an absolute income difference of 1,686 ringgit (Yusof 1988a and b). The average income of the middle 40 per cent of households was two and a half times that of the bottom 40 per cent. Again, the average absolute income difference in 1987 between the top 20 per cent of Chinese and *Bumiputera* households was about 936 ringgit, with comparable figures for the middle 40 per cent and bottom 40 per cent being 363 ringgit and 164 ringgit respectively. Absolute income differences between *Bumiputera* and Indian households were smaller, comprising 277 ringgit for the top 20 per cent, 145 ringgit for the middle 40 per cent and 108 ringgit for the bottom 40 per cent.

Income inequality appears to have continued narrowing in Malaysia during the late 1980s, when the economy was recovering from recession and household income was increasing. Beside the continuing decline in Gini coefficient, the incidence of poverty in Peninsular Malaysia dropped from 20.7 per cent in 1985 to 17.1 per cent in 1990 (Table 6.1). The income share of the bottom 40 per cent of all Peninsular Malaysian households increased from 12.8 in 1985 to 14.5 per cent in 1990, and the share of the middle 40 per cent also rose. The relative position of the top 20 per cent of households declined accordingly.

The distribution of income in Sabah and Sarawak in the 1970s remains uncertain owing to lack of data, but is unlikely to have improved much. Rural inequality in both East Malaysian states seemed higher than urban inequality in the 1970s, and appeared to increase further up to 1984. The overall distribution of income in East Malaysia improved between 1985 and 1990, however, as denoted by the gini coefficients of Table 6.1. The incidence of poverty was

much higher in both states than on the peninsula, although it had dropped substantially in Sarawak by 1990. Rural:urban differences remained high in both states, with greater differences than in Peninsular Malaysia.

The mean monthly household income of *Bumiputera* in Sabah in 1987 was about 38 per cent of Chinese income, giving the very high disparity ratio of 2.60. The mean income of *Bumiputera* in Sarawak was about 53 per cent of Chinese income, with a disparity ratio of 1.89. Both ethnic and rural-urban income imbalances have narrowed since the late 1980s, however, although absolute income differences in Sabah especially have remained larger than on the peninsula.

INCOME DISTRIBUTION POLICIES AND THEIR EFFECTS

It is useful to note the basic thrust of development strategy underlying the NEP, introduced in 1970 and described in Chapters 2 and 5. The thinking behind this strategy of 'redistribution through growth' was that growth and expansion should make the maximum contribution to achieving national unity. The strategy embodied the important element of an interventionist state, which was a major departure from the past official approach to development (Yusof 1989).

Thus the NEP provided that the government would participate more directly in establishing and operating a wide range of productive enterprises. This would be done through both wholly-owned enterprises and joint ventures with the private sector. The necessity for direct participation by government in commercial and industrial undertakings arose particularly from the aims of establishing new industrial activities in selected growth areas, and of creating a Malay commercial and industrial community.

Achieving racial economic balance would have to be on the basis of 'active participation' in an expanding economy, with the NEP strategy including a focus on modernizing the rural sector as well as on education, urbanization and regional balance. It was recognized that an indispensable part of making progress with Policy goals would be a willingness to forgo some growth for the sake of equity, with a consequent change in the 'welfare function'. There was in hindsight, however, too little discussion of new options at the launch of this new strategy discrediting the '*laisser faire*' and 'trickle down' development strategy of the pre-1970 period banking on market forces. It was indeed distrust of the previous market approach that provided the basic ideological push and underpinned the distributional policies and programmes that now became acceptable.

Actual Policies and Effects

It is helpful in reviewing distributional policies to distinguish broadly between two types: those directed towards broader economy - wide effects and those which are sectoral and tend to pertain to specific areas of the economy. For economy-wide policies, the two instruments widely used in Malaysia were quotas and prices.

Quotas essentially imposed quantitative conditions on economic activities before they were allowed to take place, with specifications that conditions should be met after reasonable lapses of time. Examples of this instrument were abundant: indicated percentages of share capital to be reserved for *Bumiputera*, other Malaysians and foreign interests (30, 40, and 30 per cent respectively); a certain quantitative profile for employment reflecting the racial composition of the population at all levels; a fixed proportion for *Bumiputera* and non-*Bumiputera* in university enrolment; and other quotas covering distributorships, business premises, shop-houses[5] and loans.

A particular desirable 'outcome' or target became an important guiding principle in allocating quotas, with the most famous being that of 'at least 30 per cent *Bumiputera* ownership of wealth'. This target was the basis for distributing resources in many instances, emphasizing attainment of the threshold of 30 per cent in every sphere of activity. Capital and assets accumulation occupied a disproportionate amount of attention, with policies having the simple and clear goal of encouraging and regulating the private sector to ensure *Bumiputera* held at least 30 per cent of the share capital of limited companies.

Quotas were by no means static, and sometimes further 'layers' were imposed. This was illustrated by cases where state governments added additional percentage points for the share capital of businesses to favour residents of a particular state. Again, 'intra-ethnic quotas' required that a proportion of settlers in schemes of the Federal Land Development Authority should come from the estate enterprise providing the land for development.

Quotas were to be imposed on both supply and demand sides, where university enrolment quotas and share capital allocation concerned the former, while employing persons on the basis of population shares or recruiting land settlers on the basis of local factors involved the latter. But these quotas were not applied symmetrically, in the sense that while enrolments at the tertiary educational level ignored proportional equality in not adopting criteria which used the ethnic share in the total population, employment quotas on the demand side actually did this.

Employment quotas used in hiring on the demand side became the key policy instrument for getting *Bumiputera* into non-agricultural jobs. They took it for granted that many employers had a 'taste for discrimination' and were

therefore not ethnically blind. The hiring quotas did in fact get more *Bumiputera* into the modern sector jobs, but had unintended effects. There was thus still substantial overcrowding of *Bumiputera* in unskilled occupational groups, since it was always easier and less painful to restructure lower-level occupations. It was the height of folly to expect non-*Bumiputera* employers to drastically alter higher-level occupational slots, although the superficial reason given for their not doing so was the 'shortage of *Bumiputera*'. The degree to which quotas were observed also depended on the extent of punitiveness for those who transgressed them.

One effect of quotas in cases where they were observed was on the lower 'quality' of items to which they were applied. Thus, in the rush to fill educational enrolment quotas on the supply side, criteria were adjusted to secure the required number of *Bumiputera* in tertiary educational institutions. Additional entry conditions were sometimes imposed to give a slight advantage to the preferred group, and this may or may not have always worked. Language criteria were likewise used to assist in filling quotas, although that was not the original intention.

With respect to capital on the supply side, some quality in investment was lost if less commercially able *Bumiputera* were allocated shares. Quality could also be lowered when front-persons or Ali Baba-type investors received reserved shares or were brought in by investment partners preferring relatively dormant *Bumiputera* counterparts. With respect to employment quotas on the demand side, quality was affected when less qualified *Bumiputera* were recruited. But this effect was countered to some extent by rational employers, who 'window dressed' by placing *Bumiputera* labour in less critical areas.

The programmes for human resources development through education and employment were strategic components of the distributional policies. Indeed, faith in educational advancement as a means of raising the income of *Bumiputera* has a long history, with concern existing in the early 1970s over the supply of educated and trained manpower to meet the needs both of restructuring employment and serving the growing economy *per se*.

Yet there is no doubt that the quota policy in educational enrolment as well as the expansion in higher education succeeded in tremendously increasing the supply of educated *Bumiputera* during the two decades to the late 1990s. By then far more *Bumiputera* were educated in the sciences, contrasted with the shortage in this respect at the start of the NEP. These successes bred new concerns, however, the most outstanding being over the quality of the educational system and the educated *Bumiputera* and non-*Bumiputera* it produced. The rapid expansion of the system and the need to incorporate a variety of exigencies stretched available resources and organization, and declining educational standards raised the spectre of an entrenched fall in the quality of persons in the workplace.

Prices

Price regulation was the other major economy-wide re-distributive instrument, viewed as useful in channelling resources to selected clienteles. Thus essential commodities were subject to price controls, and the guaranteed minimum price of padi was an important 'safety net' for lower income persons and padi farmers. This latter arrangement almost amounted to ensuring a minimum income for these groups.

The price of capital was also regulated to some extent, with the price of shares to be listed on the stock exchange not being freely determined by the capital market. The Capital Issues Committee had a say in the final pricing of shares, including those to be allocated to *Bumiputera* by companies undergoing restructuring. Arm's-length and negotiated prices between willing buyers and willing sellers were suspected of not really reflecting 'true' prices, and a second evaluation was usually conducted by government. As such, adjusted prices were commonly lower than those recommended by companies, with the tendency for oversubscription of share issues implying that they were underpriced.

The cost of loans to *Bumiputera* under a number of loan schemes was also subsidized, meaning the price of capital to this group was lower than to others. Some prices of houses and business premises for *Bumiputera* were slightly less, and *Bumiputera* contractors applying for government contracts were usually given a small 'price' advantage.

Incentives were used as a further redistributive instrument, albeit in a limited manner. Thus 'overlapping' occurred in granting investment incentives under the Industrial Co-ordination Act, whereby investors were influenced to comply with NEP employment and ownership targets. Specific fiscal incentives encouraged establishments to secure proportional equality in employment, as well as inducing investors to secure at least 30 per cent *Bumiputera* ownership. Such incentives were also given to prompt location of distributorships and manufacturing plants in less developed areas.

Many companies enjoyed fiscal incentives to help them transform employment and ownership structures. But while these measures originally aimed at encouraging non-*Bumiputera*-owned companies to restructure, some companies enjoyed their benefits without that aim being achieved. Such fiscal incentives have now been discontinued.

Sectoral Policies

Sectoral policies for specific areas of the economy embraced the five major approaches of government economic intervention, education and employment, capital and assets accumulation, agriculture and land development, and

industrial development. All again premised a mistrust of free enterprise and market forces, being applied in an optimism springing from seemingly unlimited revenues from oil.

State expansion in this vein took many forms, with public enterprises being set up in numerous sectors especially involving manufacturing, commerce and banking. The 1970s saw a strengthening of existing bodies and establishment of new public enterprises and trust agencies. Existing bodies included the Majlis Amanah Rakyat Rakyat (MARA, or the Council of Trust for the Indigenous People, which provided a range of financial, educational and training services to *bumiputera*), and the state-owned Bank Bumiputera (Bank for the Indigenous People). New bodies included investment agencies such as the Perbadanan Nasional Berhad (PERNAS, or National Corporation) and the Permodalan Nasional Berhad (PNB, or National Equity Corporation), which began to stake out '*bumiputera* ownership' in leading sectors. There were statutory bodies charged with implementing development projects in accordance with the NEP, such as the Urban Development Authority (UDA) and the State Economic Development Corporations (SEDCs). The UDA operated on a national level, seeking to develop a *bumiputera* presence in all major cities and in urban sectors ranging from property development to retailing and services. An SEDC was set up in each of the 13 states of Malaysia, serving as the respective state governments' 'implementation arm'.

The bodies listed, together with others in the same category, were collectively involved in every conceivable type of business. There was also rising public sector investment in private corporations, and regional authorities were likewise established to help improve the regional balance of activities in directions considered desirable (Searle 1999). All these concerns gave birth to some 900 companies involved in a number of economic undertakings. The total allocation of public sector development expenditure on these concerns was 10,255 million ringgit under the Second Malaysia Plan, 1971 - 1975, increasing to 36,722 million ringgit under the Third Plan, 1976 - 1980, and 80,331 million ringgit under the Fourth Plan, 1981 - 1985 (Malaysia 1976 and 1981). The allocation fell to 57,512 million ringgit under the Fifth Plan, 1986 - 1990, however (Malaysia 1986).

With rare exceptions, such public enterprises had dismal records. Shielded from competition and amply protected with preferential access to finance and other resources, they fulfilled the low expectations of critics of state economic intervention. Wastage was usually rampant, due to lack of clear accountability and control. Sustaining state intervention also demanded a supply of able and qualified manpower, and this proved a major constraint.

The phenomenal growth of state intervention during the 1970s was fostered both by ample financial resources and excessive optimism over government capabilities as an entrepreneur. It was likewise difficult to check, owing to vested interests and the role of public enterprises as sources of patronage and employment for bureaucrats. The expansion of enterprises at state level through the SEDC made it hard to co-ordinate and control government activities in industry and commerce, causing duplication and waste, and the long list of unprofitable subsidiaries of public enterprises was an ample demonstration of failure. The 'financial crunch' arising from the recession of the early 1980s forced a sharp cutback in public spending.

Capital Accumulation and Takeovers

Efforts to secure at least 30 per cent *Bumiputera* ownership of companies entailed two related worries involving (1) the low level of *Bumiputera* income and savings and consequently 'different' investment preferences of this group; and (2) the fear that shares would be regarded as a 'get rich quick windfall', with *Bumiputera* selling them as soon as they received their quotas.

It was believed that both worries could be solved by creating a trustee investment company that would acquire shares and allocate them to *Bumiputera,* incorporating the condition that recipients could not sell such shares on the open market. A 'parallel capital market' would be created, with the trustee company providing the link with its open market counterpart. The Pemodalan Nasional Bhd (PNB) was the agency that undertook these functions, and by the end of the 1980s more than two million *Bumiputera* had become shareholders of a unique unit trust scheme reserved only for them.

This effort in capital accumulation was complemented by the strategy for getting trust agencies to take over foreign-owned companies. Such acquisition of existing assets had advantages in being both faster and less politically sensitive than efforts to secure locally owned concerns. Taking over Chinese corporations would have been more difficult, and was rarely undertaken. The acquisition of foreign companies turned out to be a large and costly operation, however, with that of the plantation and processing company, the Guthrie Corporation, amounting to about 1.2 billion ringgit. A further 800 million ringgit was spent on securing another plantation concern, Harrisons and Crosfield, and eight related companies. All these operations nonethetheless culminated in substantial *Bumiputera* ownership of the share capital of Malaysian limited companies, and an ownership of some 20 per cent in the 1990s is detailed in Table 6.3.

Table 6.3 Ownership of Share Capital (at par value) of Limited Companies, Malaysia, 1990 and 1995*

Ownership Group	1990 (RM mill.)	%	1995 (RM million)	%	Av. Ann. Growth 1991 - 1995 (%)
Bumiputera					
Bumiputera Individuals & Institution	15,322	14.2	33,353**	18.6	16.8
Trust Agencies ***	5,556	5.1	3,628	2	-8.2
Sub-total	20,878	19.3	36,981	20.6	12.1
Non-Bumiputera					
Chinese	49,297	45.5	73,553	40.9	8.3
Indians	1,068	1.0	2,723	1.5	20.6
Others	390	0.3	1,751	1.0	35.1
Sub-total	50,754	46.8	78,027	43.4	9.0
Foreigners	27,526	25.4	49,793	27.7	12.6
Nominee Companies	9,220	8.5	14,991	8.3	10.2
Total	108,377	100	179,792	100	10.7

Source: Malaysia, 1996.

Notes: *Excludes shares held by federal, state and local governments; **Consists of RM25,100 million owned by Bumiputera as direct investors, and RM8,200 million as investment through institutions channelling Bumiputera funds such as the Amanah Saham Nasional and Amanah Saham Bumiputera Schemes, Lembaga Tabung Haji and Lembaga Tabung Angkatan Tentera; ***Refers to shares held through agencies such as Permodalan Nasional Berhad, Perbadanan Nasional Berhad and State Economic Development Corporations (SEDCs).

Agricultural and Industrial Aspects

Targeted agricultural and industrial policies and programmes played an important part in the sector-specific distributional package. Here the approach was to accelerate the growth of both sectors, as well as to encourage 'intersectoral shifts' whereby *Bumiputera* moved from traditional low income and low productivity agricultural activities into the modern, high income industrial sector. Urbanizing the *Bumiputera* was a further part of this development package.

There was little new or radical about the agricultural development programmes pushed hard in the first half of the 1970s, with the situation being essentially more of activities undertaken in the previous decade. The land development target of the main implementing agency, the Federal Land Development Authority (FELDA), was set at 0.5 million hectares.

Table 6.4 Employment by Sector and Ethnic Group, Labour Force and Unemployment, Malaysia, 1985 - 1998 (% of Total in each category).

Sector	1985				
	Bumi.	Chinese	Indian	Others	Total*
Agric..& For.	75.0	16.1	8.3	0.7	1,401
Min. & Quar.	51.9	33.1	12.8	2.2	42
Manufacturing	45.1	43.3	11	0.6	1,217
Construction	42.2	51.1	5.9	0.8	429
Electricity, Gas & Water	70.7	13.9	15.1	0.3	44
Transport & Storage	51.5	34.4	13.4	0.6	244
Trade, Hotels & Restaurants	36.1	56	7.1	0.8	917
Fin., Insur., Real Estate & Business Services	42.5	46.9	9.7	0.9	199
Govt Services	65.7	24.7	8.9	0.7	820
Other Services	65.7	24.7	8.9	0.7	312
Total	57.3	33.2	8.8	0.7	5,625
Total Labour Force**	57.6	32.9	8.8	0.7	6,039
Total Unemployment	61.3	29.6	8.6	0.5	415
Unemployment	7.3	6.2	6.7	4.8	6.9

Table 6.4 Continued

1990					1995	1997	1998
Bumi.	Chinese	Indian	Others	Total*	Total*	Total*	Total*
76.4	16.1	6.7	0.8	1,838	1,493	1,468	1,401
48.8	38.9	10.8	1.5	39	41	42	42
50.3	36.9	12.2	0.6	1,290	2,028	2,375	2,277
43.0	49.9	6.2	0.9	427	717	876	810
69.8	12.9	16.6	0.7	46	-	-	-
54.1	32.4	12.8	0.7	285	394	434	435
38.2	54.1	6.9	0.8	1,239	-	-	-
41.1	47.4	10.3	1.2	231	372	428	418
65.9	25.3	8.2	0.6	850	870	873	875
66.9	24.5	8	0.6	375	2,084***	2,321**	2,339***
57.8	32.9	8.5	0.8	6,621	7,999	8,817	8,597
58	32.7	8.5	0.8	7,047	8,257	9,038	8,881
62.9	28.7	7.8	0.6	426	258	221	184
6.5	5.3	5.6	4.9	6.0	3.1	2.4	3.2

Source: Malaysia, 1991; Malaysia. Ministry of Finance, 1990-1999; Malaysia. Department of Statistics 1969-2000.

Notes: *'000 persons of all ethnic groups;** Total Labour Force is total force in all occupations, including those not specified in the Table; ***Including Electricity, Gas and Water and Trade, Hotels and Restaurants.

There was relatively more land under oil palm, but rubber was also cultivated in constituent land schemes. In fact, the extremely large area of 886,000 hectares was developed by the Authority, and in the second half of the 1970s a further 31,000 hectares were established by the Rubber Industry Smallholders' Development Agency (RISDA). Additional schemes were established as joint ventures.

The apparently successful land development formula gradually revealed some later costs, however. Settler policy was prone to be too patronizing, with participants in subsequent years moving into quasi-turnkey projects where the hardships of initial establishment characterizing earlier schemes were largely eliminated. Costs of land development also rose, due mainly to shortages of accessible land as well as to the increasingly hefty administrative charges. The 'second-generation' problem, involving settlers' children with changed tastes and preferences not being keen to follow their parents in working the land, became increasingly worrisome. Growth and structural changes in the wider economy led also to emerging labour shortages in some land development areas.

Yet at the same time industrialization helped to both alleviate poverty and aid restructuring by absorbing low-income *Bumiputera* households into the modern sector. The rapid growth from the early 1970s of labour-intensive manufacturing industries, particularly electronics and textiles, created substantial employment opportunities. Thus 497,000 new jobs were generated by the manufacturing sector over the decade of the 1970s, with the further total of 402,000 new jobs in the 1980s (Malaysia. Bank Negara Malaysia, 1963-1996) and many more in the 1990s (Table 6.4). While employment in agriculture generally fell, that in manufacturing and service industries rose, with *Bumiputera* taking a major part in this development.

Earlier scepticism that industrial growth during the period to 1990 would bring disproportionately larger benefits to non-*Bumiputera* was dispelled, mainly owing to the need to accelerate the growth of new job opportunities and worries over a high rate of unemployment. Inequality in manufacturing and commerce was higher than in other sectors, although industrialization helped *Bumiputera* increase their incomes. The regional dispersal of industries was not a great success, however.

INCOME DISTRIBUTION, 1990 - 2000

What happened to income distribution in Malaysia during the first part of the 1990s? Table 6.5 shows that while real average household income for the whole country increased at 5.6 per cent a year from 1989 to 1995, distribution widened with already higher urban incomes increasing much faster than rural incomes. Chinese and Indian household incomes also rose somewhat more than those of *Bumiputera,* and incomes of non-citizens advanced very slowly indeed. The Gini coefficient for Malaysia advanced from 0.446 in 1990 to 0.470 in 1997, while the Chinese/*Bumiputera* and urban/rural disparity ratios also grew considerably (Table 6.1). The average monthly income for the bottom 40 per cent of households in 1997 was RM840, compared with RM2,202 for the middle 40 per cent and RM7,006 for the top 20 per cent (Samsudin Hitam 1999). Although the incidence of poverty is shown to have dropped dramatically from 1990, rural poverty remained very much higher than its urban equivalent (Table 6.1).

There is no doubt that the different income groups all shared in the ample opportunities springing from the rapid annual increase of over 8.6 per cent in gross domestic product in the eight years from 1990 to 1997 (Table 2.2). But they did not do this equally, and the top 20 per cent of households received a disproportionate share of income growth. Although absolute poverty continued to fall, that drop was probably not so sharp as previously, with the intractable problems of hard-core poor also needing to be tackled. It is further suspected that inequality remained the highest within the Malay community.

Certain factors can be pinpointed which help explain rising inequality up to 1997. First, the explicit emphasis on equity was reduced from the mid-1980s onwards, when growth was given prime emphasis as the means of reviving the economy. This was reflected in the National Development Policy, where equity was not completely put aside but no longer occupied centre stage (Malaysia 1991). There was no longer a time frame for achieving at least 30 per cent ownership of wealth for *Bumiputera,* with general emphasis only on accelerating the growth of the *Bumiputera* commercial and industrial community. Indeed, this led to a focus on developing more genuine *Bumiputera* businessmen and entrepreneurs.

The second factor explaining rising inequality up to 1997 was the central role given to liberalization in attempts at securing economic revival from the mid-1980s. Privatization became a main thrust, with the period seeing the beginning of reduced state involvement in the economy as public enterprises ceased to expand. This thrust led to the gradual lifting of the licensing threshold for manufacturing enterprises, so that only those with a shareholders' fund of 5 million ringgit now needed a licence to operate. Foreign direct investment policies were also liberalized, meaning 'export-oriented firms' (those exporting more than 50 per cent of their outputs) could be wholly foreign-owned with no stipulation for allocating at least 30 per cent of share capital to *Bumiputera.*

The third factor behind advancing inequality sprang from the increase in economic opportunities for non-*Bumiputera.* This arose from the combination of rapid growth, growing labour market tightness, and overall effects of liberalization. The Chinese, in particular, moved into the rapidly expanding and higher income sectors of the economy, benefiting more from widening differentials in wages between skilled and unskilled workers. Chinese capital also probably allied itself to foreign capital, gaining to a larger extent from the liberalization of foreign direct investment policies.

The Financial Crisis and its Aftermath

The crisis from 1997 caused the real economy to contract in 1998, especially affecting construction (Table 2.2) and causing employment declines in construction and manufacturing (Table 6.4). These setbacks particularly affected foreign workers, whose 'reverse migration' in 1998 meant that over

350,000 persons including dependants returned to Indonesia and other sending countries (Malaysia. Ministry of Human Resources, 1999). All workers in Malaysia were nevertheless influenced by the economic collapse, with pay rates being cut substantially and virtually no overtime being worked where this was often with workers' and trade union agreement. Numerous smaller businesses in particular became insolvent, with the result that a considerable number of people lost their jobs. Many families had to turn for help to public services, which even before the crisis had been under strain. All these changes caused drops in household incomes, whilst things were made more difficult by larger than normal rises in the price of key consumer goods.

But despite these problems, the impact of the crisis on Malaysian families appeared moderate, especially in comparison with much severer conditions in neighbouring countries and especially Indonesia. This was partly because the largest adverse impact was shouldered by foreign workers, and partly because of relatively well-developed public social services. It was also because government policy to counter the effects of the crisis deliberately set out to mitigate adverse implications for low-income groups. Thus, budget allocations for social services in 1998 were maintained at 1997 levels, despite problems outlined in Chapter 5, while public expenditures on major anti-poverty programmes were protected in real terms. These measures helped minimize the adverse effects of the crisis on the poor, meaning that increases which would otherwise have occurred in poverty incidence and income disparities were contained.

The beginnings of evident recovery and substantial drops in interest rates helping small businesses in late 1998 (Table 4.1) further improved circumstances, while the return to very positive economic growth in 1999 and 2000 assisted the conditions of all Malaysians even further. There seems little doubt that the real incomes of all income groups were rising again in 2000, although evidence on whether the trends for rising disparities before the crisis would resume again had to await statistical evidence.

Table 6.5 Mean Monthly Household Incomes by Ethnic Group in Urban and Rural Areas, Malaysia, 1989 and 1995

Location and Ethnic Group	In Current Prices RM	RM	Average Ann. Growth (%)	In 1990 Prices Average Ann. Growth (%)
**Urban*	1989	1995	1989 - 1995	1989 - 1995
Citizens	1,606	2,593	8.3	4.5
Bumiputera	1,332	2,162	8.4	4.5
Chinese	1,864	3,152	9.1	5.2
Indians	1518	2,438	8.2	4.3
Others	1,375	1,592	2.5	-1.3
Non-citizens	2,006	2,686	5.0	1.2
Sub-total	1,617	2,596	8.2	4.4
Rural				
Citizens	958	1,319	5.5	1.6
Bumiputera	828	1,180	6.1	2.2
Chinese	1,377	2,019	6.6	2.7
Indians	990	1,497	7.1	3.2
Others	843	1,064	4.0	0.2
Non-citizens	783	985	3.9	0.1
Sub-total	951	1,300	5.3	1.5
Malaysia				
Citizens	1,169	2,020	9.5	5.7
Bumiputera	940	1,600	9.3	5.4
Chinese	1,631	2,895	10.0	6.1
Indians	1,209	2,153	10.1	6.2
Others	955	1,274	4.9	1.2
Non-citizens	1105	1,719	7.6	3.8
Total	1,167	2,007	9.5	5.6

Source: Malaysia. Department of Statistics (1982 - 1996).
Notes: * For 1995, urban areas are defined as gazetted areas together with adjacent built-up areas with a combined population of 10,000 persons or more. For 1989, such built-up areas are classified as rural.

CONCLUSIONS

This review of Malaysian income distribution has highlighted the major influence of government affirmative action policies in securing a fairer sharing of wealth. While the rapid economic growth of the last three decades of the twentieth century had key trickle-down effects in helping raise national living standards and eliminate poverty, the targeted programmes of assistance to *Bumiputera* were even more crucial in improving their wealth and facilitating their entry into the mainstream of modern society. These programmes were importantly sustained by proceeds from economic growth, and especially in the first instance from the proceeds from oil. A major element of the trickle-down effect was the much enlarged employment offered through the vast expansion of manufacturing and services, with *Bumiputera* taking a large part in this along with other ethnic groups.

It is interesting to note the changes in policy thrust accompanying implementation of the National Economic and National Development Policies, with the heavy initial emphasis on state intervention through new institutions then giving way to less statist approaches entailing far more reliance on private enterprise and the market mechanism. While the statist approach was undoubtedly overdone and often produced results of low quality with large financial losses, its heavy intervention appropriately reversed the effects of previous, much more *laisser faire* policies. The latter had manifestly done little to improve the stake of *Bumiputera* in the economy. Although the policy thrusts from the mid-1980s certainly helped enhance economic growth through assisting establishment of a vigorous export-oriented manufacturing economy, it appears that this also caused re-widened income distribution and a deteriorated relative position of the *Bumiputera*.

The massive financial crisis which hit Malaysia along with other East Asian countries in 1997 temporarily stopped economic growth, causing hardship through lower wages accompanied by higher consumer prices. But this effect was dampened so far as Malaysian nationals were concerned by the chief impact of retrenchments falling on foreign guest workers, as well as by the social safety net established by the government during its affirmative action thrusts. It is not clear whether the pre-crisis trend for deteriorating income distribution will resume, and indeed that must depend on the extent of government intervention to prevent it. The continuation of some official affirmative action on behalf of lower income groups is still needed to secure a fair sharing of economic rewards by all Malaysians.

NOTES

1. For an assessment of the quality and comparability of earlier Malaysian sources of statistics on income, see Snodgrass (1980), Anand (1983) and Yusof (1988a).
2. See, for example, Snodgrass (1980), Lee (1975) and Tan (1982). Anand (1983) addresses the difficulties with income statistics and the question of whether anything definitive can be said about the 1957 - 1970 period.
3. For views on what was happening to income distribution at that time, see Sundaram and Shari (1986).
4. It appears on the basis of gross household income and the Gini coefficient that income distribution slightly widened in Peninsular Malaysia between 1970 and 1979 (Malaysia. Department of Statistics, 1982 - 1996). But if household size is considered and per capita income used in making this assessment, it seems likely that income inequality declined (Anand 1983 and Hollister 1979). Part of this reversal is due to the tendency for average household size to rise with household income. It is also attributed to the fact that the share of income of the top 20 per cent of households fell, while that of the bottom 40 per cent increased. The incomes of

larger households likewise advanced faster than the incomes of smaller households, while the number of earners rose more in the former.

5. These are small shops with living quarters behind and above them, usually in a long 'terrace' of adjoining premises. They are very common in Malaysia.

7. Poverty in Malaysia

Nasir Hashim

This chapter focuses on social and economic scenarios in Malaysia, seeking to identify factors that have caused increased contradictions in society. Given identification of such factors, it is possible to pinpoint entry points for creating within communities environments conducive to change.

Contradictions in society do not happen in isolation, being interrelated at micro- and macro-levels. A continuous pattern of exploitation may thus be seen at individual, family, regional, national and international levels, with cues for this springing from a common source, the capitalist system. If approaches to analysing the contradictions of society are sectarian or exclusive, there may be a tendency to ignore this continuity and regard symptoms as causes themselves as if nothing existed beyond the small sectarian world being studied. Thus, as the saying goes, 'We know the trees but not the jungle', and therefore miss out on underlying inter- and intra-relationships sustaining a whole viable ecosystem.

The Malaysia Plans tabled every five years in parliament (Malaysia, 1966, 1971, 1973, 1976, 1986, 1991, and 1996) have reflected prevailing social problems continuing to haunt Malaysian leaders. Although the general emphasis of the Plans and the policies derived from them have been social in nature, the stress has tended to be more economic than social, with the hope that the 'trickling down effect' would rectify social problems. It is good and wise to have targets formulated in the Plans, but concerted efforts are needed to ensure these targets are met. If not, there is an underlying feeling that the whole process of the Plans is whitewash to circumvent genuine dissatisfaction over social problems, giving the false notion that the aspirations have been met with good results in full swing.

PRESENT REALITIES

Despite the aura of rapid progress and development springing from the high economic growth up to 1997, Malaysia has been hit by currency and stock market crisis and a the ten year cycle of economic crisis and boom. There is continued use of repressive laws affecting freedom of speech, concerted efforts to prevent the formation of national unions, detention without trial under the Internal Security Act, land acquisition without equitable compensation, demolition of squatter homes, arrests, displacement of indigenous people of the hinterland, eviction of plantation workers, and hiring of foreign workers to

maximize profits followed by their ruthless deportation when their services are not required anymore.

These actions have all been taken in the name of industrialization and development, in a process wherein Malaysia also became a potential battleground for superpowers to monopolize the multimedia super corridor, cyberspace, and information technology as potential tools to control society. There was also an ever-growing saga of corruption, nepotism and power struggle, racial innuendoes to gain support and votes, religious bickering and threats, corporatization of critical services at the expense of the poor, and a sluggish response towards the problem of haze posing a serious health hazard to the entire nation. It is certainly pertinent to question whether Malaysia has done enough to create an environment conducive for achievement of the goals of Vision 2020 as propounded by the Prime Minister.[1]

The Daily Life Activity of a Poor Family

Recently, a group of non-government organizations and individuals involved in grassroots work decided to have a brainstorming session, recalling observed facts of daily life and attempting to identify problems affecting various sectors of Malaysian society. These seemingly unrelated problems were pieced together to create a scenario of the daily life activity of the poor, trapped by development and trying very hard to survive in a harsh environment. The scenario is as follows.

There is a family residing in a squatter community in a small ravine close to the hustle and bustle of urban surroundings. The husband and wife are unskilled workers and have to travel long distances to work for a living. The husband works in a paint factory, whilst the wife works in an American electronics factory. Their four children are still in primary school, with the youngest one being in the care of the neighbour when the parents are at work. If the grandparents come to visit the family they will take care of the children, but do not do so frequently since they live far away.

The family does not have much property, except for their cupboard, radio and TV, and the faithful, almost broken-down motorcycle which has become their main means of transport. They made a decision years ago to buy a second-hand motorbike, for they could not afford bus and taxi fares. Moreover, the fares for the new light rail train system transitting Kuala Lumpur are expensive, while almost all bus routes now lead to the train terminal. Imagine the added burden to the poor, who do not have their own means of transport. Complaints from such people are not heard in influential quarters, simply because the owners of transport systems are powerfully connected.

The parents are awake in the early hours of the morning, preparing food for breakfast and lunch packs for the children. The motorcycle needs to be oiled and its engine checked. School clothes must be ironed. The children are then sent to the bus stand, having been given pocket money for bus fares with spare change for emergencies. The youngest child is ushered in to the neighbour, who receives a monthly payment of RM70. This is expensive, but there is not really any choice. If the wife remained at home to take care of the child there would be insufficient food to go round the table, for the husband's income does not fully provide for the basic needs of the family.

After finishing these chores, the husband takes his wife to work on the motorbike, then having to rush off to his own employment. A minute's delay after the due time can mean a pay cut or possibly sacking. Things are worse when employers hire foreigners at lower pay rates, putting untold pressure on local workers. It is not fair to get angry at 'foreign workers', but when things get really bad these people bear the brunt of locals' frustration.

More General Observations on Workers' Conditions

Riding a motorbike on busy roads is no longer safe, for everybody is rushing to work and big vehicles have no respect for motorcyclists. Gaping potholes on the road are a constant danger, and many persons have landed in hospital due to accidents. In such circumstances employers do not care a damn, and the chances are high that victims with partial debilities will have a rough time at the workplace while bosses find a thousand and one reasons to sack them. Such workers do not have insurance, so what will happen to them?

Working in the factory is a real bore, and everybody has to follow a rigid schedule which burdens the individuals concerned. More often than not, supervisors who are vying for promotions and special benefits will push workers to the limit to impress their employers. Take home pay is low, for unskilled workers do not have the bargaining power of their skilled counterparts. Such unskilled persons could become skilled workers if given training, but that it is too expensive for management which instead can hire trained workers available on the market.

Accidents also happen in the workplace, being frequently related to the inadequacy or lack of safety equipment or clothing. Noise, air and chemical pollution are ever-present, and government authorities only act to control such things if there is a crisis or somebody dies and it is highlighted in the media. Where employers are pressured by authorities to remedy deficient situations, the lame excuse given for not having done so previously will be that safety items ordered some time ago did not reach them. But to rely on the Labour Department to investigate such circumstances and enforce generally adequate control is asking the impossible.

Women workers are subject to sexual harassment and are paid much less than men, despite doing equal work. Lunch breaks are very short and the price of cooked foods is expensive. Under such intimidating circumstances the workers feel trapped, and employers, recognizing this vulnerability, confidently do anything they like, knowing that their employees dare not run away. There are indeed labour laws to address problems of exploitation and unions to fight for workers' rights, but both official and union responses to problems are so slow and pathetic that workers have lost confidence in resorting to such options.

The new schedule altering work from two to three shifts in a day has aggravated workers' problems further. It has not only wreaked havoc on their daily home routine, sleeping times and quality time with their families, but has also had disruptive effects on health. Despite the increased profits drawn from this change, the workers have remained poor.

Workers do not dare to question inconsistencies in the workplace or running of the factory, for they then suffer the wrath of supervisors, perhaps being permanently blacklisted or sacked in situations where their job opportunities elsewhere are no better. This is especially so for unskilled workers. Under certain circumstances, when protest is imminent, employers and their officers defuse it by creating disunity amongst workers of different race, religion and region, through various forms of intimidation, victimization and special favours.

Other Impacts

These frustrations and pressures have resulted in workers' problems spilling over into other parts of their lives. Some try to find solace by submerging themselves in drugs, or alcohol, retreating into vice dens, or engaging in anti-social behaviour. Here parasitic individuals and groups in society profit from other peoples' peculiarities, misfortunes and vulnerabilities. Some workers vent their frustrations on their families, resulting in wife and child battering and other negative social and psychological tendencies. As a result there has been the emergence of a sick culture portrayed in the media as juicy isolated stories to entertain the public.

The fact that both parents have to work reduces the time they have to spend with their children. Although conscientious parents may overcome this problem by utilizing their available time effectively, such parents are rare. Normally parents are too tired and grumpy to interact with their children. House chores need to be done, and children become neglected. These children then find other ways to entertain themselves, and may be exposed and sucked into drug abuse, delinquency, hooliganism, abortion, abandonment of new-born infants, etc. Furthermore, parents lose their importance in the lives of such children, with their influence being replaced by their friends, media and branded products that glorify vanity and ego.

Workers not totally deterred by the pressures of work cannot wait to get home to be with their families. They will stop in the market place on their way home to buy food for the evening meal and the next day. Food stuffs have recently become considerably more expensive, and favourite food items may not be within their means. Where parents lack knowledge about a balanced diet, their family may suffer from malnutrition and become more vulnerable to infection and disease.

Workers who have a big family may well be forced to seek a second job to supplement their meagre income. They may become night watchmen, or preferably petty traders participating in the mobile night markets moving to different places every day of the week. Their children may in turn have to help with the business, thus depriving them of time for study. Certainly, the whole family will be totally exhausted by the time they get home. Parents realize that their families will gradually disintegrate if both of them work, but if one of them does not work disintegration will also occur. This is a real dilemma continuing to haunt the poor at every turn of their lives.

Insecurity is heightened for those living in 'squatter' areas, for their houses are subject to demolition at short notice while proper compensation and alternative housing are at the same time not provided. Poor workers on plantations and persons working as small traders may also be dispossessed of their means of livelihood at any time. The lives and culture of indigenous people living in the hinterland may likewise be shattered by logging and development projects.

In Defence of their Rights

A further scenario is one in which people have decided to stand up for their rights and face the challenges ahead. The case examined again concerns squatters, most of whom have been settled in whole villages in the city for over 20 years. These villagers migrated from the rural areas to Kuala Lumpur in response to the call in the early 1970's of the late Prime Minister, Tun Abdul Razak, to settle at the periphery of cities and participate in the national industrialization programme. They were provided with basic amenities and their settlements were recognized as *kampong*(s), but had yet to receive the titles to their land promised by the then ruling government.

As the years went by Kuala Lumpur continued to expand, and finally extended into the village boundaries. The value of the land had skyrocketed by that stage. At this juncture the villagers received eviction notices to evacuate the land within two weeks, and by dint of this notice they suddenly become squatters overnight. What had happened was that rich developers or politicians-cum-developers bought the land very cheaply from the government without informing the villagers.

The villagers resisted the orders to move, appealing to their political leaders, sending memoranda to various responsible authorities, and indeed approaching anyone thought likely to be able to assist them. Communication with non-government organizations usually occurred as a last resort when everything else had failed. This initial resistance sparked off chain reactions of systematic harassment, intimidation, arrests, buying off of village leaders, use of gangsters, starting of 'spontaneous fires', and support for splinter groups in the communities concerned.

The author and colleagues in non-government organizations became involved with various squatter villages throughout the State of Selangor and Kuala Lumpur. The approach of the non-government organizations trying to help villagers was to look for success through a united group of people, imposing as the precondition for their direct involvement the formation of a Village Action Committee.

This Committee was to represent the different constituent groupings, including those based on race, gender and youth. Decisions were to be made in a democratic manner, with participating non-government organizations functioning as advisors without veto power and abiding by Committee decisions, while at the same time exchanging ideas and updating the information available. Experience showed that the women and youth who actively participated in the resistance struggle were steadfast and key sources of inspiration, especially in times of crisis.

After several years of dealing with the squatter villages, the author and colleagues were able to work out the pattern of action of the various people and agencies which tried to evict the villagers. In this pattern the private housing developer is very powerful, having the capacity to influence the chief minister, local politicians, officers of the government, the district land office, other agencies, and the local police station. The housing developers in various situations directed their lawyers to intimidate villagers with threats of fines and detention, used gangsters to intimidate and destroy properties, bought off village leaders with promises of free houses and money, and bought off and negotiated with villagers' lawyers without their knowledge.

The police under the influence of housing developers detained village leaders without charging them in court, and even tried to influence them to leave their homes. The purpose of arresting such leaders was to get them out of the way so that the developers could demolish the houses with ease. Politicians who gave assurances that they would resolve the problems of the people often disappeared or became elusive during critical moments, but reappeared after everything was over and claimed they had not been informed about the situation. Officers from the Land Office took instructions from housing developers, and used the National Land Code or Emergency Ordinance 1969 to evict 'squatters' without having to go to court. The developers became arrogant on occasions when they were flanked by the police, but when the police remained neutral would be more prepared to negotiate with villagers

The approach used by non-government organizations and Village Committees against the housing developers was to gather documents indicating original promises made as well as the equity of villagers in lands which they had transformed from disused mining pools, swamps, jungles and dump sites into habitable places. A search was done on companies belonging to housing developers to study the legality of transactions for the land at issue and to review the political affiliations and other influences of the company directors.

Reports were made on abuses by the police, developers, politicians and government officers, and demonstrations were organized when all else failed.

The press continued to be informed of what was happening, although it was not always on the villagers' side. The non-government organizations held ongoing discussions with the Committee and villagers, analyzing the latest situations and seeking their mandate to embark on specific actions. When the developer finally wanted to negotiate, the finer points at issue were discussed at great length before the actual negotiation took place. There was role playing and strategizing to boost the confidence of the members of the Committee before they faced the developer and negotiated on the basis of the strength and unity of the people. The members of the Committee were also advised not to sign any document until the villagers and their lawyers had been consulted. Usually the non-government organizations were not involved directly in negotiations.

The negotiations were finalized when the signed documents were officially stamped, after which villagers received their compensation and permanent or temporary housing. Not all outcomes were straightforward, however. On some occasions certain villagers left much earlier than this final stage for fear of arrest, and quietly accepted token compensation without the knowledge of the Committee. Sometimes Committees broke down due to misunderstanding, and the non-government organization was called in to arbitrate and clear the air. In certain circumstances emotions flared up, but when the dust settled the whole group involved was together again, having been able to distinguish between primary and secondary problems confronting the people. The satisfaction in the end was to see the beautiful smiles on the faces of the villagers when everything was over. Some villagers indeed continued to work with the non-government organizations in helping villagers elsewhere.

The lesson derived from such struggle is that people are not docile. It is not that they lack the spirit to fight for their rights, but that they have lost the confidence to do so. Their spirits of inquiry and defiance have been muted or smashed throughout their lives in schools, organizations and political parties, and they have become victim to ruthless leaders afraid that they might be replaced. Under these conditions leaders wheel and deal to ensure they remain in power, with any sign of protest or dissatisfaction being systematically crushed. But once people understand that their strength comes from unity in diversity, with a correct analysis of the situation and an identification of the relationships that made them victims, they will act accordingly. After this, the threat of detention does not deter them anymore, for they have been able to subdue their fear in the belief that they are going on a crusade against injustice, dehumanization and violence.

Despite these cases of organized resistance and some success by squatters, it is possible to see in modern Malaysia a vicious cycle of life, entrenching the poor into circumstances of degradation where they become poorer while the rich live in utter pleasure, with all this being done in the name of development. Development for whom, it may be wondered? In this scenario, the suggested 'trickle down effects' of development policies constitute a cosmetic gesture made to appease the disgruntled majority.

It appears that the circumstances of poorer workers in Malaysia have systematically eroded social values and mind-sets, in a trend which political leaders and government agencies have not effectively combated despite the successful economic growth reported in other chapters. There appears to be no political will by these parties to address problems of workplace exploitation, while doubt also exists over their capability to genuinely resolve such problems.

THE FRAMEWORK OF EXPLOITATION

The sectors of productive enterprise require human labour to accomplish targeted objectives. There has thus emerged in Malaysia a relationship between capitalists who own technology and capital, and workers (constituting the majority of society) who contribute their labour power and use equipment and facilities provided by the employer. Powerful foreign capitalists also own factories and consultation firms, and possess controlling shares in publicly listed companies. They are thus much favoured by the Malaysian government, relative to the local capitalists who resent this.

By virtue of their relationship to production, those constituting the so-called 'middle class' in Malaysia, such as teachers, professionals, supervisors, nurses or anybody who receives wages and utilizes the hardware and software belonging to employers, can really be classified as members of the working class. The middle class is not a class on its own account, but rather an affiliated nebulous class having the characteristics of the working class but being at the same time psychologically aligned to the capitalists.

The capitalists in this framework exploit workers to the full to maximize profits. They use the profits to expand existing production or venture into new industries, while at the same time attempting to capture other markets through direct take-over or controlling shares. Their continued exploitation of workers and warped sense of competition have resulted in untold miseries to workers and fallen capitalists.

The dichotomized relationships of this framework extend beyond economic life and into the social, psychological, cultural and other facets of daily Malaysian living. In fact, the rich and powerful perpetuate the dichotomy with the help of their intellectual, political and professional lackeys, legitimizing their control over the helpless majority. They also engage in the subtle practice of glorifying individualism, which entails the pampering of individual charisma, arrogance, paternalism, elitism, and the making of unilateral decisions. They further follow the practices of corruptly buying loyalty, nepotism, supporting the concept of politicians having a dual role where they are also capitalists, forming personal armies including spies, and eliminating potential competitors. These tactics are not new, being similar to those used by capitalists throughout history in pursuit of higher profits.

It is interesting to note that for any newly elected Malaysian government, the main political and economic agenda has always been to change this blatant exploitative framework, so that the people who voted the government into power should not suffer from the hands of the privileged few. But after the necessary hard-hitting rhetoric and impressive gestures have cooled off and dust of discontent has settled, the government is seen as once more propping up the rich and powerful local and foreign capitalists, who then act to determine the development path pursued by the country. Political leaders realize their own survival depends on the support of these capitalists, so they are willing to accept large amounts of money as 'donations' for personal use and election campaigns.

The capitalists regard such donations as sound investments, ensuring their economic empires will continue to grow even after the elections. They can also call on political leaders for favours when the time comes for them to crush local unions and other capitalists competing with them. Under such circumstances the exploitation of workers is conveniently ignored, despite the existence of labour laws to protect workers' rights. In short, the political leaders of the government of the day cater to the needs of employers and capitalists, and at the same time allow the framework of exploitation to continue unabated.

But as indicated above, flashes of social consciousness and action have already occurred, and may well glow and grow permanently into a new era of relationships where exploitation will no longer exist. This will be a dynamic stage when a new social and political relationship emerges from the rubble of the old framework of exploitation.

TOWARDS IMPROVEMENT

When Malaysian workers realized they could not rely on government to defend their rights, they decided to unite and form bodies to defend these rights against exploitation. This saw the birth of local and national workers' unions. The emergence of such unions was a direct affront to the government, which was reminded it was incapable of defending the very people who voted it to power. The government in unison with the capitalists instinctively reacted against such workers' unions which dared to expose its true colours. Malaysian newspaper and television coverage of issues pertaining to national development indicated that the government would not hesitate in aggressively acting against workers and their unions when the latter went public to demand their rights. This was illustrated in the resistance to proposals for the establishment of minimum wages and monthly wages for the plantation workers.

The formation of Malaysian employers' unions was actually a reaction against workers' unions. It enabled the demands of workers unions' to be countered, and at the same time to consolidate employers' and capitalists' positions through subtle threats to close factories or re-invest capital elsewhere.

The government reacted by forming a consultative tripartite body comprising itself together with representatives of the employers and workers' unions. This had nothing to do with the struggle to be fair and just, but was more a means of asserting control. But as always the circumstances of the struggle between unions, government and employers was complex, and sometimes the problems of workers were compounded by their own labour leaders. These leaders essentially became labour dealers and received special perks for this, thus sacrificing the needs of the workers.

Non-government Organizations

Non-government organizations also emerged when the Malaysian government failed to effectively address problems of the poor. Their intent was to work with the people, acting as catalysts for change in the struggle for the rights of those exploited and displaced by development. The non-government organizations vary in objectives depending on the sectors with which they are concerned. But they are involved in the problems of human rights, the environment, consumers, indigenous people, plantation workers, squatters, women, and other disadvantaged groups. As with the formation of unions, the emergence of non-government organizations was another reminder to the government that all was not well.

The instinctive reaction of the government, capitalists and employers towards non-government organizations has been that they are 'trouble-makers', with the sole purpose of discrediting them. But despite this attitude and pressures from higher authorities who have tried to prevent the organizations from exposing abuses of powers, corrupt practices and exploitation, they have sometimes been successful in their attempts to redress the problems of the poor. They have been able to raise the consciousness of the people towards their rights, and to work with them when faced with new challenges.

Non-government organizations may have their drawbacks by being sectarian and overly concerned, for example, with addressing the symptoms of exploitation of the capitalist system without looking at other issues. They also tend to be apolitical, without sufficient regard to the formal political system. The principals of such organizations also vary in attitude, with some merely regarding their work as a career from which they can draw finance. Others, however, regard their activity as a form of benevolence, or as a principled struggle to work in unison to fight against exploitation and oppression. Again, some non-government organizations may unduly concentrate on advocacy, press releases and welfare work, without attending sufficiently to the need for communities to organize themselves. For many persons in non-government organizations, the fear of detention without trial under the Internal Security Act is very great, with the real possibility of being sacked from their jobs by management after they are detained.

Finally, non-government organizations will become redundant when the nation comes to truly practice genuine democracy, freedom and justice. The organizations must strive hard until this desirable goal has been met, but must then realize that this new condition dialectically negates their existence. The process involved is the essence of development, and the final dissolution is a sacrifice that must be made for the general good of the nation.

A Final Note

Currently, the inability to eradicate exploitation and ensuing contradictions have dichotomized workers and society into two camps, where one camp imposes its will on the other, weaker one. But a study of the dynamic relationships between individuals or groups of individuals provides information enabling the creation of scenarios which help the relevant situations to be understood, and steps towards a solution to be taken. It is then possible to identify and prioritize primary and secondary relationships, and to seek relevant entry points as the basis for organizing strategies of improvement. It is possible in this work of improvement to derive some lessons from the mistakes of advanced capitalist countries, for the development path that Malaysia is going through is similar to theirs in the past.

The important question is how to create an environment conducive to such change? If long-lasting change is to be secured, it is necessary to use a double-pronged approach that reduces and finally eliminates exploitation in the workplace and at the same time resolves associated social problems affecting individuals, the family and society. The search must be for transparency, tolerance, political will towards improvement, and a moral code of conduct beyond the rule of law. There must be an altered focus to the framework of exploitation described, with the wellbeing of all concerned in a relation of partnership being a worthy goal in further change.

The work of non-government organizations, especially as illustrated by the experience recounted with squatter villages, indicates one practical way in which a start to improvement can be sought. The activity of trade unions is another useful route towards ameliorating workers' conditions.

NOTE

1. Vision 2020 embodies a goal for the year 2020, when Malaysia is seen to have reached developed country status within the framework of a truly united nation. The goal entails nine aspirations which the country should work towards, all of which should facilitate the achievement of a progressive and developed Malaysian society (Mahathir 1991).

8. The Development Paradigm Shift in Sabah

Pang Teck Wai

Sabah's economy at the start of the new century was at a critical development crossroads. Going ahead on the wrong path through inappropriate policies and strategies would simply have slowed its rate of development. The aim of this chapter is to trace Sabah's development path, and to determine where it is heading. This backtracking approach serves to give a better appreciation of how and why the state government chose a particular strategic thrust to push the local economy forward. The approach also serves to demonstrate the complexities of development, and hence the challenges of the future. Details of Sabah's population, gross domestic product and manufactured output are given in Table 7.1.

The analysis starts with scrutinizing the Sabah Action Blueprint of 1987, the first comprehensive development model with a framework and strategies designed to alter the economic structure of Sabah (Sabah 1987). The inherent problems of this Blueprint led to the formulation of a new development framework, now popularly known as the Outline Perspective Plan for Sabah (Sabah 1995a). This new approach and its underlying philosophy are also discussed.

DEVELOPMENT AT THE CROSSROADS

The view of development in Sabah as being at a crossroads goes back to the 1970s. The crucial need to transform Sabah through expanding and diversifying its production base and adding value to its resources has long been recognized as necessary for sustainable growth (Pairin Kitingan 1986). The state's economy requires transformation because (1) its growth has been out of tandem with that of the national economy; (2) its growth has been erratic; (3) it is dominated by the primary sector; (4) it has persistently high unemployment; (5) its investment ratio is low by national standards and there is probably a massive outflow of funds; (6) it has rapidly depleting timber and petroleum resources; (7) it has limited sources of economic growth; and (8) it has few value-adding economic activities. This concern over transformation led the state government in 1985 to set up the Institute for Development Studies, both to carry out in-depth research and to advise on how best constraints could be overcome and growth accelerated.

Table 8.1 Population, Gross Domestic Product (GDP) and Manufactured Output Shares, Sabah, 1990 - 2010

	1990	*1998*	*2010**
Population ('000)	1,472	2,813	3,339
GDP (% of total)			
Agriculture and forestry	38	37	19
Manufacturing	9	14	33
Industry**	24	13	12
Services	31	44	39
Import duties and Imputed Bank service charge	-2	-4	- 3
Total (%)	100	100	100
(RM'000,000, 1978 prices)	6,484	8,371	28,187
GDP per capita (RM, 1978 prices)	4,403	2,976	8,442
Manufactured Output (% of total value)			
Wood	51	-	35
Processed palm oil and cocoa	17	-	20
Food	8	-	10
Petroleum and gas	5	-	8
Machinery	4	-	7
Non-metallic minerals	4	-	8
Electrical and electronics	0	-	4
Others	11	-	8
Total (%)	100	-	100
(RM'000,000, current prices)	3,957	-	-

Sources: Sabah (1995b); Malaysia (1971); Malaysia (1996).
Notes: * Estimated; ** Including mining and quarrying, electricity, water & gas, and construction.

The Sabah Action Blueprint

This was the most important of the many plans and studies on economic development involving the Institute in the late 1980s and early 1990s. It was used as the central reference for initiating programmes, containing the essence of the state government's development outlook and agenda and becoming the most quoted document of the time amongst politicians, businessmen and the administration. It also changed the structure of economic governance by influencing a reorganization of the administration.

Prior to the Blueprint there was no coherent development framework as a reference for solving problems of market failure and inefficient allocation of resources. The private sector had also not found it easy to gauge the government's development philosophy or priorities. The Malaysia Plans of the time related to the broad development of Malaysia as a whole and contained no specific chapter on Sabah. The state's Five-year Development Plans were basically 'recurrent' rather than strategic programmes for particular government bodies, and often not easily accessible.

State government policies and agendas in the 1970s and 1980s mainly revolved around the New Economic Policy (NEP) for the nation as a whole, introduced in the Second Malaysia Plan, 1971 - 1975 (Malaysia 1971) and focusing on restructuring the corporate sector and eradicating poverty. It was only in 1991 after 20 years of the Policy that the famous Vision 2020 plan (Mahathir 1991) was launched. This was a more wholesome document, in providing both a framework of development and a clear long-term national direction.

The Sabah Action Blueprint concentrated on economic growth, with the aim of diversifying the state's economy and effecting a transition towards high value-added products. Consistent with the goals of Vision 2020, it was essentially a plan to industrialize Sabah (Pang 1990) and had five major steps. The first step was a 'SWOT' analysis, entailing stock-taking and data-gathering to identify strengths (e.g. resources, scenic places) and opportunities to be capitalized on as well as weaknesses to be neutralized. The second step was to establish in light of the first step 'competitiveness' factors for successful economic growth. Here planners were seen as needing to focus on the seven factors of appropriate technology, effective human resources development, flexible and adequate access to land and capital, good physical infrastructure, high levels of entrepreneurship, effective and efficient institutional structures, and strong marketing. These factors were viewed in the Blueprint as necessary infrastructure for building a competitive economy.

The third step was to identify specific strategies needed to develop the nine key sectors of agriculture, forestry, fishing and aquaculture, mining, manufacturing, construction and real estate, tourism and services, using appropriate infrastructure. The fourth step involved listing criteria which would help planners in choosing the best available strategy, and the fifth step described the administrative machinery and delivery mechanisms needed to implement the Blueprint.

A key underlying approach of the Blueprint was to harness the political will to manage a successful development programme, where a strong urge to reform was considered critical to overcoming Sabah's economic ills. All cabinet ministers were included in the State Development Planning Committee, the highest policy implementing body in the state, where this was seen as a move to effect the concept of 'politicians for development'. Expanding the Committee to take in relevant senior government officials was furthermore regarded as introducing more comprehensive checks and balances in decision-making. The belief that in practice only a few politicians make important decisions was to be corrected.

The State Development Planning Committee was operationally supported by Ministerial Committees for each key sector, chaired by the minister concerned. This was seen as compelling the latter to be constantly aware of and involved directly in development, and was judged critical in that the person leading the Ministry and sanctioning all important decisions wielded the most power. The private sector was also included in the Ministerial Committees, illustrating the government's genuine intention to pursue development and growth, and enabling a check on government and political powers.

The greatest strength of the Blueprint approach lay in its simplicity. Its strategies relating to major sectors of the economy indicated actions and time frames necessary for managing the transition of the state into a diversified value-added economy. Given the major constraint to implementation posed by scarcities of manpower and financial resources, impact-oriented strategies were given priority for immediate action.

But despite its rich implementation framework the Blueprint was not successful. Although its schedule initially required the 12 Ministerial Committees to meet once a month to get programmes started, the majority had only convened a few times three years after its official launch. The Blueprint was at fault in the three aspects of technical soundness, the arrangement of governance, and the responsiveness of the private sector.

Technical faults

Development strategies must be technically sound and have real world relevance, for otherwise those who try to implement them (including the business sector) will find them difficult to carry out and will lose commitment to do so.

The Blueprint had the major technical fault of failing to recognize that the seven competitiveness factors listed above were only production inputs. It stressed these factors heavily, and also indicated that 'nations will succeed in creating wealth when they are endowed with the basic factors of production - land, labour and capital - and when they enjoy certain natural endowments and geographic trade advantages' (Sabah 1987, p. 14). Yet this statement was merely one of process, and what was critical was to identify the social, political and economic policies needed to create or increase the supply of these factors. But the Blueprint contained no discussion of such policies, including indications of why some countries were more successful than others in formulating and implementing them.

A further technical fault was the *ex post* rather than *ex ante* nature of discussion, where hundreds of sub-strategies were proposed for the seven main sectors of the economy. Although these would successfully transform the economy if functioning well, no hint was given of how they should come about or of priorities for programmes indicated. The Blueprint essentially proposed adoption of a broadly-based economic strategy, which was expected to succeed because it described all ingredients known *ex post* as needed for success. But it was evident too that the strategy would at the same time fail because the *ex ante* programme needed to implement it was clearly not possible, given limited available resources and budgets (Lim 1991). Balanced growth strategies of the nature proposed have long been discredited, because their implementation requires precisely those ingredients which are in short supply and prevents the rise of new comparative advantages.

Another technical difficulty was that the Blueprint said little about the type and form of market entry strategies for industrial products at global and product segment levels. It was silent also on what new export market segments could be explored and how this should be done. It did not again take account of important issues such as poverty, environment and culture, thus giving rise to the perception that it was incomplete as a development strategy. These omissions caused several ministries to question its relevance, and therefore their commitment to implementing it. Although an extended framework covering social and environmental variables was later proposed, this was not officially adopted by the government.

Governance faults and private sector responsiveness

The elements of governance skills, commitment, supporting resources and leadership are even more critical than technical aspects for effective implementation, especially in an economy heavily into planning like Sabah. Commonly perceived weaknesses of the state government included lack of commitment to and understanding of plans and goals, poor supporting skills and infrastructure, mismatches of major goals and government spending, weak and understaffed ministries and departments, high cost and inefficient administration, unmotivated staff, frequent changes of officers and ministers, conflicts between political and government-proper agendas, and lack of political will to push through harsh agendas and reforms.

Often just one weakness, such as a lack of dedication to a programme, is sufficient to make the latter ineffective. It is indeed difficult to eliminate or even identify many governance deficiencies, since they hinge on personality and intelligence. Thus an officer's inaction in effectively implementing a seemingly good plan could be due to lethargy, risk averseness, contradiction to personal self-interest or simply lack of understanding of issues at hand.

Effective governance becomes even more critical as the state's participation in economic affairs becomes more pervasive. The government of Sabah both then and now is not only already engaged in law and order, licensing, education and health care, but has direct interests in business as well as providing guidelines and policies setting the directions and ground rules for industrial development. The essential power of the government stems from its position as guardian of state timber and land resources, with it making the rules on awards of timber concessions. Development in Sabah has in fact been largely dependent on timber, and the rich in Sabah have traditionally derived their wealth from this source (Pang 1993). This remained true in the new century, as exemplified by the many Sabah-based publicly listed companies with timber as their major activity. Similarly, the government's wealth, and therefore its source of power to exert great influence through various categories of developmental works, originates in timber (Pang 1994).

The large revenue generated from timber has resulted in a wide array of socio-economic programmes designed to eradicate poverty, develop a *bumiputra* commercial and industrial class and provide basic physical infrastructure. These activities not only gave the state government great political powers, but also social and economic dominance. Ever since Independence in 1963 the bulk of government revenue has been from timber royalties, and politics in Sabah has long been associated with timber.

Such official influence is compounded by the governance structure of the Malaysian nation as a whole, embodying political dynamics whereby the government assumes the role of re-distributing wealth in pursuit of socio-economic stability. Thus the NEP gave the government wide-ranging powers to directly intervene in market forces and restructure the economy. During the 20 years of this Policy, state-owned enterprises were involved in all major forms of businesses in Sabah (Khalil 1992), paralleling the national thrust described in Chapter 6.

Finally, the problems with the Blueprint were compounded by the sceptical attitude of the private sector towards government's ability to transform the economy. This scepticism grew out of failures of many previous government-initiated programmes, which were characterized by a lack of carry-through momentum and commitment as a result of changes in key positions. Other major constraining factors for the sector included the high cost of doing business in Sabah, which was some 20 per cent higher than that in more developed regions of Malaysia, the difficulty in breaking out of dependency on timber, and the general lack of strong institutional and infrastructural support. The latter especially applied in getting pioneer industries started.

Assessment

Technical problems aside, the single largest difficulty with the Blueprint was that it tried to do too much, given the resources available. It also mistakenly assumed that all components of the government machinery were working efficiently and effectively. It further operated under the wrong belief that because the Chief Minister was totally committed to the plan, the government at large would share the same enthusiasm. The experience showed that given the socio-economic and political setting of Sabah, it may be best for government to focus on only a few key projects and get these moving.

What occurred with the Blueprint brings to mind 'Juran's Pareto principle' where 'a relatively small percentage of the factors in any situation will be responsible for a relatively large percentage of effect' (Butman 1996, p. 143). Very often, only a vital few persons, whether in government or the private sector, create the bulk of impact in their respective fields or sometimes throughout the entire social, economic and political system. Sabah's experiences, both past and present, illustrate this concept and denote the need for a more widely based development thrust.

The episode with the Blueprint highlighted the four aspects needed in future plans of technically sound careful focusing, a harmoniously tuned and well-geared implementation machine underpinned by capable personnel and adequate resources, and a responsive and entrepreneurial private sector. All aspects need to be present if economic progress is to be secured.

A NEW DEVELOPMENT PARADIGM

The shortfalls in the Blueprint led the state government to rethink its approach, with fresh strategies being embodied in the Outline Perspective Plan (hereafter referred to as 'the Plan') (Sabah 1995a) and plans subsidiary to it. These plans were derived from Malaysia's development framework, which in essence amounts to developing indigenous capability and moving towards higher levels of technological sophistication over time.

The requirement of the Blueprint for mobilizing the entire machinery under the Ministerial Committee system was abandoned. The new paradigm assumed a looser regime, where not all ministries were simultaneously galvanized under one large framework and government resources were also focused on a few major schemes. These included the Kota Kinabalu Industrial Park, timber, tourism, and the information technology sectors. Although the Plan remained the central framework, each ministry and government agency was allowed to find its own direction without needing to adhere to a grand design or reporting system.

Given the structural difficulties inherent in Sabah's economy, the government's new view was 'to transform the State's economy to one that is knowledge-driven. This paradigm shift entailed the creation of an optimum number of high value-added and knowledge-intensive industries. This would require the creation of new capacities supported by a set of modern industrial infrastructures' (Sabah 1995a, p. 13). Sabah's development as expressed in the Plan aimed to (1) shift industries which depended on low-cost feedstocks to industries created through knowledge-intensive clusters; (2) create new growth clusters; (3) develop indigenous capacity for sustained growth in the spheres of skills and technology; (4) develop basic and advanced industrial infrastructure; (5) raise private sector capacity for growth; (6) ensure reliable, adequate and sustainable raw material supplies; and (7) enhance procedures of implementation.

The Plan provided the broad framework to catapult Sabah into a high growth and developed economy. It ambitiously aimed at transforming Sabah into a 'developed economy' within 20 years. The operational essence of the Plan was taken up in the various subsidiary plans, with the gist being best expressed in the Sabah Industrial Master Plan (hereafter referred to as 'the Industrial Plan' (Sabah 1996).

Background Thinking

The Industrial Plan included the 'leapfrogging' concept of shifting from production driven by factors based on comparative advantage in endowments of land, labour and capital including water and electricity to creating a competitive edge in higher-value products based on factors including research and development, design and networking. The Industrial Plan assumed that natural resource advantages gave strategic benefit, but that having natural resources did not necessarily provide a headstart to those who owned them. Thus the 'Dutch Disease' has shown that large export incomes flowing from resource ownership can have adverse effects on the development of an economy.

Ownership of natural resources does not necessarily guarantee success in industries based on them, as in Sabah where timber remains notoriously shallow in value-adding despite repeated attempts to secure the latter. Resource-poor countries such as Japan, Taiwan and Singapore have shown that the key to developing competitive advantage in resource-based industries lies in 'access' to raw materials and adding value to them. Sabah, despite being a world-class supplier of tropical timber, has no clear advantage in making furniture and wooden products.

The set of conditions needed for successful industrialization is not normally in place in most developing economies, where even items like water and electricity are far from adequate. But every economy possesses certain factors of production that can be manipulated to become a source of competitive advantage in establishing internationally competitive industries. It has to be recognized, however, that whole economies, like individual firms, usually progress in stages through developing capabilities and through moving from low price, low cost segments of industry to higher price, higher value-added, and higher productivity segments.

But although linear progression from one stage to another is one path towards industrialization, Japan and the Asian tigers illustrate how new entrants leapfrog to new and more advanced market segments by using technology to change industry structure as well as to weaken existing and entrenched firms. It also seems that technology has the ability to 'create' factors that collectively reduce unit production costs or stimulate the innovation of products that can be differentiated from those of competitors and command premium prices. Industry competition in this scenario is dynamic and provides new opportunities for new entrants.

The approach proposed in the Industrial Plan searches for entry strategies in economies with limited factors favouring industrialization, and is embodied in a series of studies including the Kota Kinabalu Industrial Park Strategic Business Plan (Sabah 1995b). This perspective departs from traditional thinking, which generally recommends promoting industries that can exploit comparative advantages in basic and inherited factor endowments in land, labour and other natural resources. While such promotion may apply to labour or resource-intensive industrialization, it is not true of knowledge-intensive industrialization and particularly that targeted at forming the capital goods sector. Here knowledge-intensive factor conditions are 'created' (Porter 1990) and driven by specific actions, whether by public policy or private initiatives.

The Industrial Plan was devised to answer the central question of how developing economies with limited advantages in technology, human skills and markets can enter and successfully compete in high value-added industries. It provided a strategy-oriented analysis allowing one to analyse, monitor and predict competitive changes within an industry. It also focused along lines described below on how 'technology' and 'key factors' can affect the performance of firms.

Technology and Key Factors

Technological change often determines the competitive advantage of a firm (Porter 1990; Utterback 1994), where new technology may nullify old competitive advantages and create new ones. Fresh entrants may have an edge over established firms, especially if the latter are far along one technological tract and find it difficult or unprofitable to switch to the new technology. Such technology may also require new support factors not possessed by established competitors.

Radical innovations are difficult to conceive, and often new entrants in developing countries are not engaged in necessary basic research. But such entrants can take advantage of innovations made elsewhere, adopting them when they enter the commercialization stage and hence enjoying first mover advantages (Rogers 1995). Process innovation can also be significant to new entrants, with minor changes in products, processes, machines, plant lay-outs, management systems, etc. reducing costs of production and increasing product performance. Japan, and more recently South Korea, built their entry and subsequent competitive strategies on process innovation. Although not as glamorous as radical innovation, it still requires high capacity in firms' research and development activities.

There must further be recognition that in the broadest sense, an enterprise's 'technology' encompasses all its theoretical and practical knowledge, know-how, skills and artefacts used to develop, produce and deliver its products and services. Technology is hence embodied in people, machines, materials, facilities, procedures and physical processes. The aim of a technology strategy within an overall competitive strategy is to create innovations that enhance the rate of improvement in performing the tasks involved at each stage of the value chain of an enterprise. The key factors of land, labour and capital become less and less important as competition evolves into higher order levels of quality and performance. Other factors such as skilled human resources and research and development with a focus on advanced industry segments become more significant, determining how well an economy performs.

A Manufacturing 'Plus Plus' Strategy and Growth Prospects

The Industrial Plan embodying the philosophy just discussed proposed three 'trajectories' for industrial restructuring and transformation. Trajectory I of 'improving and expanding existing products within sectors' first identified the core products of sectors, as with sawn timber, plywood, veneer and paper in the timber industry. It then identified business clusters that could be developed around these products without substantial investment. It analysed existing products and pinpointed price, product quality and other competitive parameters required to make these products internationally competitive. It proposed the best sources of technology and skills acquisition, and finally suggested public and corporate strategies that would improve competitiveness of both existing products and those to be produced through process and product innovation. These strategies included government subsidies, industry rationalization and better infrastructural support.

Trajectory II of 'incremental product progression' first specified in each product segment the next value-added stage and price segment into which Sabah producers could progress. For example, if most Sabah furniture manufacturers were in the low price segments of below \$100 per dining set with moderate finishing, the question was how to move to the next stage where the product was valued over \$100 per set. This trajectory then analysed the competitive parameters required to enter this stage, suggesting appropriate business clusters, best sources of technology and skills, and relevant public and corporate strategies.

Trajectory III of 'leapfrogging into new products and industries' designated the possibilities of doing this within sectors or related sectors through (1) moving from current low-end and low-priced products to high-end, high-priced product segments within current products (e.g., furniture manufacturers producing products for others progress to develop their own brand names); (2) moving from this same base to very high-value-added products in new market segments outside their traditional business (e.g., sawmill operators diversifying into high-end fancy veneer or designer furniture); (3) new entrants skipping the low-end products of a particular product segment and entering straight into a high-knowledge intensive segment (e.g. entrants in furniture-making going straight into making educational toys, designer furniture, etc. without any step-by-step stage progression; and (4) old and new entrants leapfrogging into new industries not presently existing in Sabah and based on existing or new technologies. These new industries might be related to the existing industrial structure, as where creation of a wood machinery sector was encouraged by the growth of the existing wood products sector.

The strategic approach of the Industrial Plan was similar in content and theoretical underpinnings to the Second Industrial Master Plan 1996 - 2005, of Malaysia as a whole (Malaysia 1996). There 'a key objective of cluster-based industrial developments is to increase value-added generated as a result of turning intermediate inputs into final goods or services' (p. 25).

Cluster Development

This was an important aspect of both the Sabah and Malaysian Industrial Plans, with firms and industries having a high connectivity of activities being seen as best clustered in a geographic region. Some advantages of this close proximity of rivals, customers, suppliers, universities and research and development centres are transmission of vital information and intensified rivalry and co-operation, all of which encourage superior and demand-driven products (Porter 1990). There is a too vigorous induction of innovation with new ideas, high quality products, lower costs and, most importantly, new opportunities. It is well known that the competitiveness of world-class firms is often due to the presence of closely related innovative and efficient suppliers, and that stand-alone world-class firms are extremely rare. The further advantages of skills, basic physical infrastructures and a conducive investment environment are especially critical in early stages of industrial development, as in Sabah.

Another advantage of clusters where there is a fairly strong manufacturing base are the supplier-buyer relations. 'Buyers and suppliers work together efficiently, creating a system that offers the speed and flexibility required to address the changes in market conditions. Suppliers develop specialised skills, and their ties to a number of different customers permit them to also achieve economies of scale. Buyers have access to a pool of suppliers and can choose the most appropriate one for each project. Close collaboration and high connectivity also fosters the development of 'Just-in-Time' inventory management to meet production and delivery schedules' (Malaysia 1996, p. 28).

GROWTH PROSPECTS

The future sources of growth in Sabah were likely to come from its main sectors of timber, oil palm, cocoa, petroleum and gas, and tourism. The key factors underlying such growth were those outlined above, specifically involving in Sabah's case the large tracts of suitable agricultural land free of encumbrances such as customary rights as well as other natural resources, a low-cost and abundant workforce, high technological capability in oil palm and cocoa and capital generated from the rich resource endowment. All these factors were most significant to future advance, with it also being important to note that all were under government control.

The major challenge to development was to mobilize these factors under circumstances where governance and leadership were not easy either to change at will or to make according to design. It might be feasible under these circumstances to create management systems allowing implementation to proceed even though politicians objected, thus transferring powers from politicians to the administrative system. But this required a strong and efficient administrative system with two functions. One was to provide continuity in carrying out policies and implementing plans under conditions where politicians came and went, sometimes before they secured a fair grasp of their

ministerial portfolios. The other function was to provide effective advice to a minister, and perhaps more significantly to have the standing and canniness to object to politicians' demands which might not be best for people at large. While a weak bureaucracy was likely to play to the tune of politicians, a strong one would keep ministries on course in programmes and policies.

If Sabah succeeds in its economic transformation strategy, the structure of gross domestic product will move towards a larger role for manufacturing, while manufactured output will contain a greater share of processed food as well as machinery and manufactured products. These changes are portrayed in Table 8.1, which indicates the expected composition of gross domestic product and manufactured output in the year 2010.

Although the private sector response to the Industrial Plan and government initiative to industrialize was still lukewarm at the beginning of the new century, the industrial clustering approach had gained acceptance. This was shown by the many firm start-ups in the 3,360-hectare Kota Kinabalu Industrial Park. There were also rapid advances in physical infrastructure building, including seaport facilities, warehousing, major trunk roads, housing, advanced water and electricity supply systems. There were also, despite the Asian financial crisis, support institutions developing in and adjacent to the Park, including a university and major skills development centres. Other industrial clustering taking shape due to official policy included the oil palm downstream processing facilities in Sandakan, touristic infrastructure on the west coast, and seven integrated timber complexes in various parts of the state.

CONCLUSION

It is not possible at this stage to judge the success of the clustering strategy initiated under the Industrial Plan, although this was clearly an approach that both state and federal governments hoped would transform Sabah into a more developed economy. But it seemed clear in 2000 that Sabah was already witnessing significant structural transformation to a more market-oriented economy, compared to the period of the Sabah Action Blueprint in the 1980s. It appeared too that some of the new strategies were working and that the implementation machinery was more effective, with this being demonstrated by the rapid take-offs in the Industrial Park and other institutional systems being put in place.

Yet, although planners may have found better techniques and strategies to help accelerate development, the actual rate of development and change is likely to remain dependent on the commitment and capacity of government, and the private sector's response to policy initiatives and the new environment.

There is no doubt, however, that the government and its mode of governance hold the prime keys towards higher rates of development and progress. Even assuming strategies are technically correct, ineffective implementation due to governance-related matters can become a daunting constraint to progress. This constraint is unfortunately far more difficult and complex to change than the technical aspect.

9. The New Realities for Sarawak

Michael Leigh

Sarawak entered Malaysia in 1963 as an economically supplicant state, on the express understanding that there would be a net transfer of public funds to it in order to hasten much-needed economic development. Malaysia was founded on that promise, and in the late 1960s there was great unhappiness in the state at first indications that provisions of the Inter-Governmental Agreement on the formation of Malaysia would be unilaterally changed. Thus it appeared that the flow of funds from the federal to the state domain would be substantially reduced.[1] That issue was important in the political agenda of Sarawakians during the first 13 years of independence within Malaysia, 1963 - 1975.

SARAWAK WITHIN MALAYSIA: RESOURCE FLOWS

The direction of resource flows changed dramatically in the last quarter of the 20th century, when rapid macroeconomic growth in the state became based primarily on extraction of finite timber resource reserves that would soon be severely depleted. Thus the World Bank (1991, p. 97) estimated the virtual exhaustion of Sarawak virgin forest by the end of the century,[2] and a consequent dramatic reduction in exports of the rainforest logs that underpinned both state revenues and the rapid privatization of community wealth. The 1998 Sarawak state budget relied on the forestry sector for 51 per cent, and on oil and gas for another 17 per cent, of state revenue (*Sarawak Tribune* 1997c).[3]

Logging companies scaled back their operations during the period of low prices for sawlogs. Their rate of extraction fell from 16.5 million cu. metres in 1997 to 11.3 million in 1998 (*Sarawak Tribune* 1999a). There were indeed fears during the timber market depression that the globally-dominant Indonesian plywood industry would sell overseas at almost any price in United States dollars, and the average fob price of plywood dropped another 14 per cent below 1997 levels (*Borneo Post* 1998).

During the 25 years from 1976 there was a strong net flow of revenues to the federal authorities, largely derived from resource exports from the state. There were also major premia passing from Sarawakian consumers, who purchased a high proportion of their goods from tariff-protected secondary industry overwhelmingly located on the Peninsula (Wee 1995).[4]

Petroleum

Very substantial revenues from petroleum products were transferred to the federal domain through Petronas, the federal government's chosen instrument for this purpose. Thus Wee (1999, p. 19) states 'Federal Government revenue from petroleum royalty and dividend from Petronas for petroleum resources from Sarawak has exceeded federal grants since the 1980s. In fact, there is a net transfer of funds to the Federal Government since the 1980s, totaling some RM20,000 million'.

In return for surrendering its on-shore rights, since the early 1970s the state government has received 5 per cent of the gross value of on-shore and off-shore production of oil and natural gas, whilst the remainder has gone to the federal government, Petronas and companies licensed to exploit the substantial reserves. These companies are also subject to federal taxation, which is a substantial boost to federal revenues. By 1997 liquefied natural gas and crude petroleum made up more than half the total value of Sarawak's exports, an annual total exceeding RM10 billion.

The income from liquid natural gas and petroleum has been sufficiently high that any diminution of production will impact substantially upon state and even more upon national government revenues, where the latter receives a substantial net flow of wealth from Sarawak directly and much more importantly via Petronas. Petronas has twice been deployed to use its wealth in financially rescuing institutions as important to the prime constituency of the United Malay National Organization as the Bank Bumiputra, the largest Malaysia-based bank.

Later, Petronas bought the Malaysian International Shipping Corporation, and spent $220 million on purchasing 11 tankers from Konsortium Perkapalan, a company controlled by Mirzan, son of Dr Mahathir Mohamed. Petronas will inject RM1 billion to assist the beleaguered Heavy Industries Corporation of Malaysia (HICOM) in buying 27 per cent of the financially strained national automobile manufacturer, Proton (*Sarawak Tribune* 1999b). Petronas has also underwritten the company building the Prime Minister's vision of Malaysia's new $5 billion capital city, Putrajaya, and has invested $1 billion in the world's tallest building, the Petronas twin towers. Both the new city and twin towers are high prestige, expensive, state-of-the-art projects.

Purchases from Tariff-protected Industry

Sarawakian consumers also subsidized West Malaysia by paying a premium on manufactured products from there. This premium can be measured as the difference between the price paid for goods protected by national tariff levels and the price of the same goods sourced elsewhere. Examples include

automobiles and a wide range of consumer durables and processed foodstuffs. The balance of trade between Sarawak and Peninsular Malaysia is heavily in favour of the latter, where in the first half of 1997 Sarawak exported just under RM1 billion worth of goods to the Peninsula, and imported goods from there worth RM2.75 billion (*Star* 1997a). The key imports were machinery and transport equipment, manufactured goods and food items. By 1990 the primary industry sector of the Sarawak economy had expanded to 56 per cent of gross domestic product, with the tertiary sector being just 28 per cent (Sarawak 1997). By contrast, the primary sector of Peninsula Malaysia in that year had decreased to only 19 per cent of gross domestic product, as a consequence of the growth and concentration of secondary and tertiary industry on the western side of the nation (Table 2.1).

Sarawak's effective subsidy of the Peninsula through resource revenues and tariffs should also be viewed in the context of Sarawak recording far higher aggregate levels of poverty. The incidence of poverty in Sarawak in 1985 was 31.9 per cent compared to 20.7 per cent on the Peninsula (Table 6.1), while the figures for 1990 were 21 per cent and 15 per cent respectively (Wee 1999, p. 23). To ameliorate this situation and compensate the perceived lack of federal attention, the state of Sarawak heavily subsidized services such as health and higher education, even though these were the full responsibility of the federal government. The federal government contributed 60 per cent of total expenditure on services and infrastructure in the decade 1971 - 1980, dropping to 54 per cent in the decade 1981 - 1990, and to 43 per cent in 1991 - 1996 (Wee 1999, p. 24). Future payments by the state government will be more difficult to effect when its accessible resources have dramatically shrunk, even though political and economic needs will be far greater.

In the new century infrastructural expenditure will be a major problem throughout rural Sarawak, whose area is not significantly smaller than that of the whole Malayan Peninsula, but whose road network and rural amenities including boarding schools are markedly deficient. While federal expenditure per capita on infrastructure was already higher in Sarawak than on the Peninsula, massive injections of funds are required to bring these facilities to a comparable standard to West Malaysia and substantially reduce poverty. The per capita benefits of infrastructure spending in Sarawak are markedly lower, due to distance, population distribution, past neglect and much higher costs of implementing development activities. In 1999 there was still a surplus in state government coffers from massive timber exports, and the state government remained both willing and able to supplement federal expenditure. But this will become much more difficult with the erosion of principal sources of revenue.

POLITICAL LEADERSHIP AND ECONOMIC STRATEGIES FROM 2000

The challenge for political leadership in 2000 was to manage the transition from relative state governmental affluence to a poorer, more supplicant status within the Malaysian Federation, whilst also searching for ways to create wealth and new employment. The political consequences of such transition were likely to be difficult for Sarawak's leaders, since they had successfully resisted full incorporation into the national political system and maintained state-based multiracial political parties to represent the Muslim, Chinese and Dayak components of their population.[5]

Earlier efforts by components within both the United Malays National Organization and Malaysian Chinese Association to extend to Sarawak were clearly rebuffed by the two largest parties, the *Pesaka Bumiputra Bersatu* and Sarawak United People's Party. Ironically, the only nation-wide political party securing any electoral success in Sarawak was the opposition Democratic Action Party, and that was largely confined to winning several federal parliamentary seats in successive elections.

Access to economic resources allowed the parties in power at state level to eschew dependence upon federal counterparts, and indeed at times to be able to ensure that politically salient resources flowed in the opposite direction. But there was no discretionary aspect for Sarawak state authorities in the 5 per cent return described above, for that was settled in 1975 and enshrined in a formal agreement. Again, and even though Sarawak is likely to remain a net contributor to federal revenue, state authorities are unable to use income transferred via Petronas as a lever to gain influence. This is despite the fact that Petronas wealth, which also comes from the Sabah and Trengganu offshore petrochemical reserves, has, as indicated, been deployed for purposes regarded by some as discretionary.

Although the germ of regionalism remained, much stronger political incorporation of Sarawak within Malaysia may well come with greater economic dependence. In the post-Mahathir era, it is highly likely that the United Malays National Organization will no longer feel free to abdicate responsibility to state-level leaders for the future management of Sarawak, wanting more direct determination of who would be given contracts and implement projects with governmental involvement.

Growth and Employment Strategies in the 21st Century

The state government strategies in the late 1990s and 2000 to create new economic activity and postpone a slowdown of the Sarawak economy included strongly emphasizing large projects, encouraging the global semiconductor

industry, utilizing migrant labour, promoting tourism and especially converting native customary rights to plantation agriculture.

The most striking example of government support for large construction projects was the RM13.5 billion Bakun dam and associated 2,400 megawatt hydro-electric scheme. There were many other schemes, however, including a RM3 billion pulp and paper mill, port development, industrial estates, cement-making, and an expansion of liquid natural gas facilities. Such projects provide substantial spin-offs during the construction phase.

The Sarawak authorities strenuously resisted pressures to defer Bakun, although a scaled-down RM4-5 billion 500 megawatt scheme was finally announced by the Malaysian Prime Minister in mid-1999 (*Borneo Post* 1999a). The original cost was RM13.6 billion for a 2,400 megawatt output, half of which was to be spent on the world's longest undersea power cable. Peninsula consumers were alarmed that the contracted wholesale price of 16.5 - 17 Malaysian cents per kilowatt-hour was higher than existing retail tariffs charged to consumers (*Star* 1996a). Even after taking away all expenditure associated with the direct current undersea cable, however, the downscaled scheme would deliver power to Sarawak consumers at a prohibitively high price. It was estimated to provide far less than one-quarter of the total power of the original scheme at around one-third of the total cost, thus building in a drastic competitive disadvantage of high energy prices for Sarawak industrial development. That contrasts with the situation in 1996, when the Bakun indicative power rates for Sarawak were precisely half those agreed for the Peninsula (*Star* 1996a).

There was some hope in the late 1990s that some of the quite spectacular private profits from essentially extractive-logging activities in the state might be remitted and re-invested there. This happened to a very limited extent in spheres such as the expansion of plywood manufacturing facilities. But both the substantive owners of capital drawn from those profits and the capital itself were highly mobile, and likely to continue searching for the highest private returns. The owners would also probably be wary of the possibility of seizure by Malaysian authorities, were they to trace back for irregularities through past round log marketing and transfer pricing.

The global semiconductor industry and especially the electronics segment was actively courted, and the Sarawak state government enlisted the expertise of the former Penang Chief Minister, Tun Lim Chong Eu, who from the early 1970s successfully built the industry from virtually zero in his home state. Komag and Hadco from the United States and Taiyo Yuden from Japan established themselves near Kuching, attracted by ready access to a pool of semi-skilled Malaysian labour with a relatively good command of English. Such labour had become quite scarce on the Peninsula, and therefore more expensive. Substantial state government funds were spent in an effort to jumpstart the electronics industry, including inducements to help overcome costs due to the distance from other electronics plants.

Malaysia's first state-of-the-art wafer manufacturing facility, InterConnect Technologies, was established near Kuching in 1996, costing RM4 billion and being majority-owned by the Sarawak Economic Development Corporation. Yet this California-based company suffered major difficulties, and closed down after getting deeply into debt (*Business Journal Serving San Jose & Silicon Valley* 1997). Although that episode illustrated the high cost of failure, the following year the state government attracted new partners from Germany and Japan into its 1st Silicon (Malaysia) Sdn. Bhd., a company developing a RM3.6 billion wafer fabrication plant in the same location (*Sarawak Tribune* 1999c)

Migrant labour from Indonesia in particular kept the price of manual labour relatively low, and as indicated in Chapter 5 helped maintain the competitiveness of plantation agriculture *vis-a`-vis* similar Indonesian enterprises. The feasibility of tapping the adjacent pool of low-cost labour in the border zone with Indonesia without having to grant Sarawak residence permits was also being actively considered. Thus, according to the *Borneo Post* (1997a), 'the State has also recently proposed to set up a huge industrial zone bordering Kalimantan in order to take advantage of the supply of cheap imported labour from Indonesia. Indonesian workers will enter the industrial zone in the morning and return to their country in the evening'. However, the limiting factor to this proposal was the considerable transport cost for industrial products between the border areas and Kuching. To date it has proved much cheaper to move the labour than the products.

The Immigration Department's 1997 Report indicated 45,000 Indonesians and 5,000 Filipinos as registered foreign workers in Sarawak (*Borneo Post* 1999b), amongst a total population of 2 million (Table 9.1). Such labourers accordingly comprised a much lower share of the population than the 10 per cent in Peninsula Malaysia (Chapters 3 and 5) and the much higher proportion in Sabah. The Sarawak Government zealously and effectively maintained control over immigration from outside the state, through power that has considerable symbolic significance for Sarawakians. Whereas back in 1963 that authority was seen as a necessary safeguard against a feared flood of Singapore labour, local control has subsequently served to keep out professionals from the Peninsula, as well as those who could cause political trouble to local authority.[6]

Table 9.1 Background Information on Sarawak, 1980 - 1998

Population, 1998 ('000)	1,990.3
Population Growth, 1980 - 1991 (% per year)	2.5
Ethnic Composition, 1990 (% of total)	
Iban	29.5
Chinese	28.9
Malay	20.8
Bidayuh	8.4
Melanau	5.8
Other indigenous peoples	5.5
Others	1.1
Total	100
Literacy rate, 1995 (%)	80.6
Urbanization, 1991 (%)	37.0
Unemployment, 1996 (%)	7.0
Gross Domestic Product	
Per capita, 1997 (RM, current prices)	6,069
Growth, 1980 - 1990 (% per year)	6.4
Growth, 1996 - 1997 (% per year)	9.0

Source: Sarawak (1999).

Both regional and international tourism is seen as another major source of new employment, but in 1997 - 1998 was badly affected by unprecedented levels of air pollution, infant mortality scares, and the slowdown of the key regional economies.[7] The removal of virgin forest cover and siltation of rivers caused by intensive logging also reduced the pristine appeal for environmentally-oriented tourists.

The economic significance of the smoke haze for Sarawak was the decimation of the tourist industry at a time when the lower-valued ringgit should have attracted an increased number of visitors. In 1998 there were reductions of 25 - 40 per cent in numbers of tourists coming from Taiwan, Western Europe and Singapore, all of whose currencies had dramatically appreciated against the ringgit. The deleterious and largely unknown health consequences for the population living in such pollution were more significant. Perhaps the haze was also a harbinger of significant environmental change wrought by widespread clearance of rainforest for plantation agriculture.

The Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area (BIMP-EAGA) was foreshadowed as providing benefits for Sarawak (Yaakub, Kurus and Zaini 1997). The inclusion in the Area of Malaysia's Bornean states, all of eastern Indonesia, Brunei and the southern Philippines could mean an easier flow of both goods and labour to the benefit of each component part. It was not clear, however, how this would affect Sarawak, and who would push most strongly for implementation of reduced tariff barriers and other benefits. Indeed, the bulk of new activities in the late 1990s seemed to be on the conference circuit. The success of the southern growth triangle incorporating Singapore, Johore and Batam could be attributed to the former's driving need for a hinterland and to the economic complementarity. By contrast, neither the BIMP-EAGA nor the Indonesia-Malaysia-Thailand triangles had such a clear, dynamic and economically motivated hub. They also had comparable export orientations despite their different levels of economic development. The two newer triangles seemed unlikely to serve as significant mechanisms promoting growth.

Converting Customary Rights to Plantation Agriculture

Most agriculturally productive and accessible land in Sarawak is held under some form of native customary rights, and a principal thrust of state government policy was to transform the most potentially productive areas of rights land into plantation agriculture. The concept was to take the fragmented holdings of such land and organize them into land banks of 10,000 hectares and above. These banks were seen to form an area attracting private sector investment in joint venture companies, with an equity structure comprising 60 per cent from the investor, 30 per cent from the landowners, and 10 per cent from the management agency. The landowners' equity would be paid through the land value. The Chief Minister desired to establish a series of rural growth centres each able to support over 5,000 people, where government would have no difficulty providing amenities such as clinics, roads, power and water supplies to make that area self-reliant (*Sarawak Tribune* 1998).

In November 1996, the Sarawak Land Code was amended to streamline identification and acquisition of native customary rights land (*Star* 1996b). The way the process worked in the late 1990s was that the Minister of Resource Planning issued a directive made under the powers conferred by Section 5(3) and (4) of the Land Code (Cap. [sic] 81). This extinguished native rights over a particular area of land, with all rights reverting to the state government.[8] Any person wishing to file a claim in respect of rights over such land was able to do so within 60 days after the directive had been gazetted or displayed at the Sub-District Office. The claim, accompanied by supporting evidence, had to be submitted on a special form to the Superintendent of Lands and Surveys. That presented a huge problem for those who were working elsewhere or lived some distance from the Government Office. Obtaining supporting evidence in that time frame was another difficult issue for customary landholders. The state government was engaged in a major effort to convince, rather than coerce, participation in the transfer of all such rights to government and the subsequent

utilization of the land for estate development. However, there were repeated warnings that the people should not oppose any government development projects, especially on those utilizing native customary rights land which at the end of the day would 'benefit them greatly' (*Sarawak Tribune* 1997d).

The process of conversion from native customary rights to private plantation ownership has faced considerable resistance, which has been sparsely documented.[9] In December, 1997, several villagers were shot by police whilst defending their customary rights land against encroachment. One man subsequently died. On 1 September 1999, longhouse people took matters into their own hands and angrily killed four men, seriously wounding another. A large number of members of the affected community then surrendered to police. These people claimed to have been continually harassed and given death threats by gangsters working on behalf of the oil palm plantation that was taking over land they considered their own (*Borneo Post* 1999c, d and e).

To many who previously exercised those rights, what was at stake was at best the substitution of paper share ownership in lieu of their actual farming land and in lieu of recognized access to their fruit trees and forest produce. Considerable up-front debt would be accrued by the new companies in clearing and planting that land with commercial crops. Most farmers had little knowledge of or control over the process followed by the companies, even though they would be substantive owners of a joint venture concern responsible for repayment of all loans and up-front expenses.

The approach taken in Sarawak was quite different from that with government-subsidized settlers in the Federal Land Development Authority (FELDA) schemes established on the Peninsula in the 1960s and 1970s, where farmers were largely responsible for developing and then farming their own blocks. But the state government strongly discouraged this smallholder alternative. There was also considerable resentment from those landowners who chose not to participate, since they were not compensated either for encroachments on their land by the joint venture companies or for the destruction of crops and fruit trees as well as high pollution of river water on which they relied.

The primary and continuing emphasis of the state government's policy is for Sarawak to become the largest oil palm producer in the country, 'when all the 1.6 million hectares of Native Customary Rights lands in the State are successfully developed for such purpose'.[10] Oil Palm certainly commanded quite a high price for a lengthy period and returns from its production were not as volatile as those from rubber and pepper cultivation. That situation appears to have changed, however, with the price of crude palm oil having fluctuated from a high of RM2,499 per tonne in May 1998, to RM970 15 months later (*New Straits Times* 1999). Much of Malaysia's recent agricultural resilience has been attributable to the diversification of crops and reluctance to rely upon one single crop, the price of whose produce may suddenly drop to unacceptably low levels. The history of the rubber industry bears many salutary lessons in this respect (Drabble 1973 and 1991).

The state government also recommended planting vast areas with trees suitable as feedstock for the pulp and paper industry, estimating that if four mills were established by the year 2013, each would require 250 - 300,000 hectares planted with fast-growing *Acacia*. The Chief Minister announced in November, 1997, that 'about three million hectares of idle land in Sarawak, consisting of coastal peat land and Native Customary Rights land, will be developed into palm-oil and forest plantations to supply raw material for its growing pulp and paper industries'.[11]

Further Considerations

The business and political leadership of Sarawak became accustomed to unprecedented access to the wealth of the rural sector, coming primarily from timber extraction, but with the passing of the timber boom the letting of contracts for large projects became a substitute means to enrichment. Contractors astutely positioned themselves to benefit handsomely, and patron-client relationships assumed a reciprocal nature. Final project cost and quality considerations could be deferred - perhaps for someone else to worry about in the future. The switch to this strategy, however, raised a major potential for conflict with those who had established a similar pattern of operation with mega-projects at the national level. Thus, some have argued that the principal reason why certain United Malay National Organization cadres expressed enthusiasm to spread that party to Sarawak was to gain greater access to the range of contracts often falling between state and federal jurisdictions.

Given that land matters in Sarawak are solely the province of the state-level political authority, it is hardly surprising that, with the relative demise of forestry, attention should shift to restructuring the effective ownership of land. Considerable up-front benefits can be obtained from facilitating the entry of major plantation companies and letting contracts for land clearing and infrastructure development, utilizing capital raised by those companies. What makes those ventures possible in the first place is the contribution of the land, usually on a 60-year lease.

The state government insists there be only one land title for the whole area concerned, and that land rights documents should not be issued to individuals. The land title is accordingly registered under the name of the joint venture company for 60 years, after which native customary rights owners would be given the options of either renewing the title for the joint venture company, alienating the land to all land owners as registered co-proprietors, or transferring title to land owners individually (*New Straits Times* 1997a). If the latter route was chosen, the 'Managing Agent', which would be either the Land Custody and Development Authority or the Sarawak Land Development Board acting as trustee, would determine the manner of sub-division. Hence there is no guarantee that the land will ever be returned to the heirs of those who presently hold the native customary rights. The land becomes a tangible security for plantation companies involved, which can then obtain substantial bank loans to finance their activities, with the agreement of the Managing Agent.

The local populace has been persuaded to contribute their customary rights to the land in return for a collective 30 per cent shareholding in a newly-formed company. Yet as minority shareholders without the requisite commercial experience, they cannot control or effectively monitor the process of contract-granting during the potentially lucrative phases of clearing, infrastructure development and planting. That process is handled on their behalf by the Managing Agent. The native customary rights landowners also have no rights to membership of the joint venture company board, to become part of the company management, or to get access to the company's financial accounts. What local people can provide is a labour force at the disposal of the company.

But based on experience in the plantation economy, oil palm companies must pay quite low wages to their labour force if they are to effectively compete and declare good profits for their owners. The conundrum for local people is that if they wish to benefit substantially as share owners of the joint venture company, they cannot afford to employ their own people at wage rates significantly higher than those paid to the cheap foreign labour easily recruited from just across the international border.[12] Many thus question the benefit for the rural population of this new concept of 'development'. Will it lead to further impoverishment of the Dayak communities, whose wealth has been their land and what grew upon it?

The benefits of these activities for the state-level political and business leadership are clearer, since the tapping of rural wealth provides resources and commercial opportunities. Yet there is inevitably the danger that 'development' is taken from the rural people, and its fruits transferred to select urban dwellers.

CONCLUSION

If Sarawak is to avoid resuming its status as a supplicant state, it can only do so if a flow of funds into state and private coffers allows a measure of economic autonomy. One obvious avenue is to re-open the issue of the underwriting of Petronas by Sarawak's liquid natural gas and petroleum production. However, as mentioned, the massive wealth accumulated by Petronas has crucially supported the ability of the United Malays National Organization to undertake financial rescue operations critical to its Peninsula heartland. Sarawak's political leadership has seen the power of federal wrath when directed against the recalcitrant state government in neighbouring Sabah, with the consequent extension of the United Malays National Organization to that state in the effort to politically incorporate it once and for all.

The better part of valour on behalf of the present political and commercial elite appears to have been to sidestep the issue of re-negotiating the 5 per cent share of resource revenues allocated to the Sarawak Government, and to instead utilize native customary rights land as a marketable resource. Although promoted as highly beneficial for the rural people, that strategy embodies a fundamental danger of creating a landless labour force, which is then at the mercy of global market forces where previous landowners no longer have the option of returning to their traditional farming. A major process of government-initiated social engineering is underway, and its success will shape the future of Sarawak.

NOTES

1. More background is given in the Report of the Inter-Governmental Committee, reproduced in Wong (1995, pp. 121 - 179). The Malaysian Federal Government's 'escalating grant' was cut to less than half in 1969, with the then Sarawak Chief Minister stating that he believed that the state would in return gain all revenue from offshore and onshore petroleum extracted from it. No written record exists of such a 'bargain' (Leigh 1974, p. 133). The events of 1969 took place during the suspension of parliamentary rule throughout Malaysia.
2. The officially-recorded quantity of extracted sawlogs dropped from 18.8 million cu. metres in the year 1992 to an annual figure exceeding 16 million cu. metres in 1993 - 1996. However under-invoicing and under-recording of log exports has been endemic, and was earlier reviewed critically by the State Legislature's Public Accounts Committee. The production of plywood rose steadily in value, and was likely to exceed RM3 billion in 1997 (Malaysia. Department of Statistics (Sarawak Branch), 1997, p. 18). The Sarawak Forest Department argues that timber is managed as a sustainable resource. To make that argument, they postulate for Sarawak a regrowth rate per hectare that is almost four times the best rate achieved in East Kalimantan, where both soil and climatic conditions are comparable. Experts claim this is a myth, and that unless alternative scientific evidence can be set forth, the level of sustainable exploitation from forest reserves would not be 12 million cub. metres per annum but only 3 million, and any cutting over that figure would further constrict future supply.
3. Comprehensive socio-economic time-series data on Sarawak are not available, but certain key figures for the years 1980 - 1998 are presented in Table 9.1. Specific references to sources of economic data are cited in the text.
4. Wee (1999 p. 24) calculated the net transfer of government funds from Sarawak to the federal government to be RM7,166,858,000 in 1981 - 1990, and RM13,073,147,000 in 1991 - 1996.
5. The successful pattern of political organization in Sarawak has been quite distinct from that on the Peninsula. Each major political party has a core base of support in one of the ethically defined communities, but actively recruits in other communities. One consequence is that compromises frequently are resolved through discussions within, rather than between, parties. *Pesaka Bumiputera Bersatu* has the strongest representation in the state legislature,

with not many fewer than half the elected members. Its core support comes from muslim communities but it also has a significant Dayak wing. The Sarawak United People's Party is the second-most powerful party, its core following being from the Sarawak Chinese community but also having some Dayak representation. The *Parti Bangsa Dayak Sarawak* and Sarawak National Party come next, with both deriving their core support from the Dayak communities whilst having influential Chinese leaders in the top echelons.

This pattern of politics derives from the developments in the early 1960s, and responds to the fact that no ethnically-defined community can purport to be a majority in the state. Having at least three major ethnic 'blocks' has encouraged compromise both within and between political parties, and blunted racial politics. This Sarawak identity and distinct political format has caused the United Malays National Organization to delay its moves into the state. The calls for that nationally dominant party to reorganize state politics characteristically emanate from those in Sarawak whose own political power is on the wane. Dr Mahathir has an ally in the Chief Minister of Sarawak and has been reluctant to upset existing patterns for fear of attracting negative electoral consequences.

6. The Sarawak Statistics Department in its *Migration Investigation Report, 1997,* recorded 12,347 Sarawakians leaving the state for other parts of Malaysia, and 8,951 other Malaysians moving to Sarawak (*Borneo Post* 1999b).
7. The recorded pollution in Sarawak on 23 September, 1997, was more than twice the very worst rate measured anywhere else on the Peninsula, being categorized by the Malaysian government as far exceeding the 300 - 500 point 'very hazardous' threshold and heading well into the 'life threatening' level. Datuk Mohamed Rahmat, the Federal Minister of Information, stated that 'Sarawakians may be subjected to mass evacuation if the haze worsened'(*New Straits Times* 1997b). He then said, however, that there was no reason to panic. Some local wits suggested that, given the lack of logistical preparations for shifting nearly two million people to who knows where, the most realistic option was to 'beam up' all Sarawakians until the smog went away. The Prime Minister was quick to dismiss the mass evacuation option (*Borneo Post* 1997b). Even worse air pollution plagued Sarawak again in March and April, 1998, being most extreme in the Miri area (Figure 1.1) and resulted from Malaysian fires that remained unextinguished.

   Formerly, the blame for pollution was directed to Indonesia, but in 1998 the drought caused by, 'el niño' was seen as the culprit, with an occasional outburst against companies persisting with open burning to cheaply clear areas of land for cultivation. Concern was expressed that if Malaysia could not extinguish its own fires, there was little hope that fires burning throughout the poverty-stricken Indonesian province of East Kalimantan could be controlled. The initial fires in Sarawak spread from small and relatively accessible areas, giving a smoke pall that at times reduced visibility to 50 metres in Miri, badly affected Brunei and Bintulu, and spread quite densely from Kota Kinabalu in the north to as far south as Sibu.
8. This instance is taken directly from the notification regarding the extinguishment of native customary rights over land in Sungei Buri, Bakong, Miri Division (*Sarawak Tribune* 1997b).
9. Little information regarding opposition to extinction of native customary rights has appeared in local newspapers, by contrast with extensive coverage given to ministers extolling the advantages of farmers accepting this way of entering modern plantation agriculture and a plethora of announcements of the extinguishment of specific areas of customary rights, published in a Kuching English language newspaper. One series of incidents was, however, graphically reported in the international electronic media. According to the Borneo Resources Institute, Malaysia (27 June 1997), 42 Ibans were arrested on the afternoon of 25 June for protesting against the implementation of a Land Custody and Development Authority oil palm plantation within their native customary rights land at Sungei Bong in the Tinjar area. They were trying to negotiate with workers from the Land and Survey Department, who were surveying on behalf of the oil palm

company. Several of the men alleged brutal harassment and beatings during their arrest. Several more persons were subsequently arrested, including a *Tuai Rumah* (or longhouse head).

10. Statement by the Land Development Minister, Datuk Celestine Ujang (*Sarawak Tribune* 1997a).
11. Studies still need to be undertaken to determine the suitability of particular species, and whether they can produce the expected yields when grown to maturity, given local soil and climatic constraints (*Borneo Post* 1997c).
12. The wage rates paid by the Kanowit joint venture company in the late 1990s ranged from RM8 to RM12 per day. Foreign workers received considerably less.

PART III

Politics and Other Aspects

10. Politics after Mahathir

Khoo Boo Teik

In one of his delightful Father Brown stories, G. K. Chesterton observed that in crime, 'the criminal is the creative artist, the detective only the critic' (Chesterton 1981, p. 12). It may be said of politics, too, that the politician is more or less the artist while his observer hopes only to be a competent critic. If this is so, a non-practitioner of the art of the possible who speculates about the future politics of any nation should beware that his audience may choose not to take him seriously at all, or indeed, to take him too seriously.

When this chapter was originally written in late 1997, some speculation on 'politics after Mahathir' seemed necessary, even cathartic, given the Malaysian mood swing from euphoria to depression following the plunge after July of that year in the value of the ringgit and of capital on the Kuala Lumpur Stock Exchange. What follows is an interpretation of Malaysian politics up to November, 1997. It first surveys the position before and during Mahathir's premiership, before providing a thematic consideration of the major contours of the political terrain and areas of political contention which might obtain in the post-Mahathir period.

MALAYSIAN POLITICS BEFORE MAHATHIR: THE DEMOCRATIZATION OF EXPECTATIONS

Politics fundamentally involves clashes of expectations of different social groups, whether they are divided along class, ethnic or other lines. To that extent, politics under the Alliance government (1957 - 1969) may be characterized as conflicts pitting the political economy of *laissez faire* capitalism and the *Merdeka* (or Independence) constitutional compact against a rising democratization of expectations. The Alliance period witnessed the beginning of mass politics organized along party lines, conducted according to democratic precepts, institutions and procedures, and generalizing popular demands towards the end of British colonial rule. The departure of British colonialism - under the parallel pressures of the communist-led insurrection and Alliance-led push for *Merdeka* - unleashed waves of frequently conflicting expectations of what independence should mean after 1957 (Khoo 1997a). From 1957 to 1969, those mass expectations, at once economic, political and cultural, became progressively more explosive because the Alliance state failed to satisfy them.

Economically, the existing *laissez faire* capitalism, coupled with a stark ethnic division of labour, could not match the social pressures arrayed against it. The social pressures were exerted by a marginalized Malay peasantry (which sought release from rural poverty), a combination of Malay bureaucrats, intelligentsia and middle class (who wanted to end their relative backwardness *vis-à-vis* their Chinese counterparts and Chinese capital in particular), and non-Malay middle and working classes (which refused to accept that their opportunities for employment, education and upward mobility could be prejudiced by the constitutional safeguards of certain 'Malay special rights').

Politically, these expectations, despite being ethnically centrifugal, crystallized into a democratic revolt during the 1969 general election, against a political framework variously promoted as the *Merdeka* compromise or multi-ethnic, 'consociationalism'.[1] That political framework, thought to be eminently suitable to Malaysia's plural society, was predicated upon a separatist prescription of 'politics for the Malays' and 'economics for the non-Malays'. It was a prescription that Mahathir openly derided as being 'ridiculous' after the Alliance framework suffered its demise in May, 1969 (Mahathir 1970, p. 15). Culturally, Malaysia's latent, set and imagined fissures were continuously felt in the areas of language, culture and citizenship. These were areas susceptible to partisan emotion during the formative years of a Malaysian nationhood still haunted by the separate memories and complex demands of the different strands of pre-war and post-war Malay, Chinese and Indian nationalism (Muhammad Ikmal 1996; Tan 1997; and von Vorys 1975).

After the Alliance collapsed, the *Barisan Nasional* (National Front) - an expanded coalition of parties that replaced the Alliance - was forced to meet the expectations of 1957 - 1969 by fulfilling mass expectations in areas and on a scale unimagined by the Alliance leadership. In short, the *Barisan* launched the New Economic Policy (NEP) described in Chapters 2, 5 and 6, and embarked on transforming the Malaysian political economy by economic planning, social engineering and state interventionism. The NEP subsequently loomed so large in ideological importance, programmatic reach, national vision, and public imagination that much of Malaysian politics under successive *Barisan* governments in 1970 - 1981 was fought over issues of its underlying strategy and implementation.

The most obvious politics of the NEP featured pre-1970 inter-ethnic conflicts, except that these now involved state-determined ethnic quotas and targets in most social and economic sectors. There was little doubt that the NEP was meant to meet Malay expectations much more than those of non-Malays. That frequently meant curbing non-Malay expectations or, as Mahathir bluntly stated:

> The only thing to do is to admit that in giving the Malays their place in the sun, there must be denial for some non-Malays. Some non-Malays will have to be sacrificed in order to bring the Malays up. The thing to do is to be honest about it. The politics of fact is that the Chinese will have to pay, whether you say nice things to them or not. They will have to accept what the Malays want, otherwise they will have to pay the price of harmony (Yap 1976).

The architects of the NEP more tactfully said that its provision for high economic growth would achieve socio-economic restructuring without provoking a non-Malay sense of deprivation. But intense ethnic politics undermined the NEP's objective of fostering 'national unity', if that term implied inter-ethnic understanding and rapport (Khoo 1995).

In retrospect, the NEP's high growth projections were largely realized, as elaborated in earlier chapters. Malay grievances were considerably assuaged, while non-Malay expectations were partially met and partially curbed without igniting a repetition of the 1969 violence. Thus, the *Barisan* with the NEP resolved the basic challenges posed by the democratization of expectations of the Alliance period. Yet the NEP's momentous departures from the Alliance period spawned major socio-political developments with new and often intertwined ethnic, class and statist dimensions.

The parameters of Malaysian nationhood were redefined to establish 'Malay dominance' *vis-à-vis* other ethnic communities, most visibly by consolidating the Malay language as the national language, restructuring the education system to produce increasing numbers of Malay graduates, and proclaiming Malay and Islamic culture as the national culture. This redefinition involved issues of unequal access, certainly for different ethnic groups, but also for different social classes. Such access concerned employment and economic opportunities, social development programmes, and chances for upward mobility. The NEP's socio-economic restructuring with its official goal of 'abolishing the identification of occupation with race' recomposed the Malaysian class structure. The most publicized outcome of this recomposition was the state-engineered emergence of a Malay capitalist class, and of Malay middle and professional classes, as a '*Bumiputera* Commercial and Industrial Community'.

Yet a no less significant outcome was the proletarianization of a large section of the Malay peasantry,[2] a task directly undertaken by multinational companies which had relocated parts of their operations to Malaysia's export-processing zones. The consequent increasing integration with a globalizing system of industrial production helped transform Malaysia's commodity-based economy into an industrialized economy. The state-launched round of export-oriented industrialization based on the comparative advantages of lower wages, prohibition of unionization among a new industrial labour force, provision of physical infrastructure, and utilization of fiscal, tax and other incentives to attract foreign direct investment, has also been reviewed from a more political angle by Jomo (1993).

As state intervention in the economy replaced *laissez faire*, successive NEP regimes acted to provide opportunities (for the Malays), to regulate economic activity (principally to achieve the NEP's aims of poverty eradication, restructuring of wealth ownership, and economic growth), and to consolidate the role of the state as an entrepreneur (wresting control of the so-called commanding heights of the economy). One result of this state interventionism was bureaucratic expansion at all tiers of administration (Mehmet 1986). Another was a rupture of the pre-1969 alliance between the state and domestic capital, once the state employed economic planning, legislation and bureaucratic enforcement to impose its NEP agenda on all sections of Malaysian society and particularly non-Malay capital. Subsequently the rupture was popularly portrayed as coming between an incompetent Malay-dominated public sector and a rapacious Chinese-controlled private sector, each behaving antagonistically towards the other.

Finally during this period, Malaysian society saw the resurgence of Islam as an ideological rallying point for dissident Malays. Among these were young Malays, who were an important target group of NEP programmes in education, commerce, urbanization and industrialization. These people were subjected to social, economic, spatial and psychological dislocations, and moved by personal, ethnic and class impulses to turn to Islam as the fount of dissenting alternatives to the NEP's strategies, priorities and practices (Funston 1981; Mahathir 1986; Muzaffar 1987; and Zainah Anwar 1987).

MAHATHIR AND THE REORIENTATON OF EXPECTATIONS

Mahathir became Malaysia's fourth prime minister in July 1981, the mid-point of the two-decade span of the NEP. By then many tensions and apprehensions about the NEP's future had arisen, and Malaysian politics seemed captive to a contentious politically-motivated stocktaking of its achievements and shortfalls. Mahathir, however, cut through the hopes and dreads of that period by ambitiously reorienting national priorities. He could not replace the NEP's objective of restructuring Malaysian political economy, but sought to displace this Policy as the overriding concern of Malaysian society. He opted to steer Malaysia along a path of modernization, industrialization, privatization and bureaucratic reform.

In summary, Mahathir imposed a novel reorientation of expectations which informed much of the politics of the 'Mahathir era', and with which several social and political developments were closely associated. The developmentalism of the NEP, predicated on a high rate of economic growth, was extended to consolidate the achievement of that Policy's aims while lessening inter-ethnic acrimony. The state also sponsored a drive towards heavy industrialization, patterning this on the 'East Asian model of late industrialization'.[3] 'National aspirations' were restated as a quest for status as a Newly Industrializing Country in the mid-1980s, and as a developed country after 1990. In either case Mahathir hoped to steer Malaysian society from 'looking inwards with prejudice but rather outwards with pride' (Das 1982, p. 38).

Yet a recession in 1985 - 1986 compelled Mahathir and his Minister of Finance, Daim Zainuddin, to institute a programme of structural adjustment, capitalist rationalization, reduction of bureaucratic involvement in business, and suspension of NEP requirements (Khoo K. J. 1992, and Chapters 2 and 5). Part of this programme sought to re-establish, through privatization and 'Malaysia Incorporated', an alliance between the state and domestic capital. But now the Bumiputera Commercial and Industrial Community was assigned the leading role in this alliance (Khoo 1995, pp. 333-338). Mahathir also attempted another redefinition of nationhood to mean the eventual evolution of a *Bangsa Malaysia* (Malaysian Nation), following his promulgation of Vision 2020 (Mahathir 1991) and his claim that the Malay dilemma had at last ended. A further part of the Mahathirist project involved modernizing and moderating the Islamic resurgence, not just to foster acceptance of selected Islamic values among Muslims and non-Muslims, but to recast those values as an 'eastern work ethic' essential to the success of Malaysian capitalism (Khoo 1995, pp. 159 - 186). The component in this programme of 'market nationalism' for the 21st century meant Mahathirist diplomacy featured a complex blend of trade and foreign policy.

One man's vision is often another man's oppression, and in 1987 half the United Malays National Organization revolted against Mahathir's leadership over his structural adjustment policies, the suspension of the NEP, alleged economic mismanagement, cronyism, and the penchant for grandiose projects (Kershaw 1989; Khoo K. J. 1992; and Shamsul 1987). A police operation codenamed *Operasi Lalang* detained over 100 diverse opponents of Mahathir's administration, beginning on 27 October 1987 (Committee Against Repression in the Pacific and Asia 1988). Mahathir survived his political battles, and after the *Barisan* victory in the general election of 1995 his vision prevailed.

The high growth rates of the 1990s brought a generalized rise in income and living standards amongst almost all sections of Malaysian society, excepting a new underclass of unskilled and semi-skilled workers and legal and illegal migrant labour. Mahathir's economic management involving privatization, suspension of the NEP, and liberalization of foreign investment conditions to take advantage of yen appreciation worked well enough to be widely applauded, especially when taken with East Asian investors' need for partial industrial relocation. That was, at any rate, until the financial crisis of July, 1997.

After 1987, Mahathir triumphed over his foes. In the 1990 general election, the *Barisan* was challenged by a coalition of Parti Melayu Semangat 46 (S46, or Spirit of 46 Malay Party), the Democratic Action Party (DAP), the Parti Islam SeMalaysia (PAS, or Islamic Party), the Parti Bersatu Sabah (PBS, or Sabah United Party) and other minor parties. Tengku Razaleigh Hamzah of S46, Team B of the United Malays National Organization (a dissident faction of the Organization), and S46 were successively defeated. In 1996, Razaleigh dissolved S46 and led his former dissidents back into the United Malays National Organization. In Kelantan, the Islamic Party remained in power but was unable to expand beyond its traditional power base. In Sabah, the predominantly Kadazan defiance of Mahathir and the federal government ended in 1994 when the Parti Bersatu Sabah was toppled from power, albeit by defections to the United Malays National Organization rather than outright electoral defeat. The Democratic Action Party, traditionally the strongest opposition party, suffered its worst reverses in the 1995 general election when abandoned by a large section of the urban non-Malay electorate finally enthralled with Mahathir's leadership.

Likewise, the Malay rulers who held Mahathir to a stalemate during the 1983 constitutional crisis[4] were soundly beaten in 1992, when Parliament enacted legislation to partially remove royal immunity from prosecution or legal suits (Husin Ali 1993, Kershaw 1993). Again, the judiciary in 1986 - 1988 promised to be an independent terrain for political contention, but after the dismissal of the Lord President and two other Supreme Court judges accommodated itself to the executive (Khoo 1999). Many non-governmental organizations which had forged solidarity movements during the 1980s to protest the crises and scandals associated with Mahathir's administration remained active, but were bereft of the wider support they enjoyed before the 1990s.

In terms of inter-ethnic relations, the acrimony that almost erupted into violence in October, 1987, was mostly forgotten in the period up to 1997. The overt manipulation of ethnic sentiments and grievances became far less habitual among both *Barisan* and opposition politicians. In its place, it had become common to hear hopeful and not just propagandistic talk of the unifying national purposes promoted by Vision 2020 and the goal of *Bangsa Malaysia*. The prosperity of the mid-1990s appeared to have assuaged the apprehensions of the NEP period, while political stability and inter-ethnic tolerance took on new meaning and greater value when contrasted with inter-ethnic warfare in the Balkans and former Soviet bloc.

Ethnic differences and cultural grievances in Malaysia have always had an economic 'essence', and Mahathirism successfully supplied economic solutions to many cultural problems. For example, the privatization of tertiary education, corporatization of public universities, and Mahathir's insistence on reviving the use of English on pragmatic grounds combined to defuse inter-ethnic squabbles over language, tertiary educational quotas and Chinese independent schools. The situation became such that no non-Malay would dispute the status of Bahasa Malaysia, and only some Malay linguistic nationalists questioned Mahathir's renewed promotion of English. Again, over 30,000 non-Chinese children were attending Chinese schools without controversy. Malaysians, according to one strand of *Barisan* propaganda, had become one family. Some day, perhaps, a historian may more fully explain the irony of Malaysian history that it was under the premiership of a once adulated but equally detested Malay nationalist that Malaysians of different ethnicities discovered a pride in being Malaysian.

AFTER MAHATHIR: EXPECTATIONS OF DEMOCRACY?

Mahathirism has not been purchased without social and political costs, however. Mahathir's premiership, the longest in Malaysian history, had led by 1997 to unprecedented centralization, even personalization, of executive power. The checks and balances on the executive, which other institutions of government were constitutionally supposed to provide, had been progressively reduced. Even the influence which *Barisan* parties and the bureaucracy used to have over high-level decision-making had declined. There was an obvious relative weakness in a civil society hamstrung by harsh legislation and regulation (Jesudason 1995).

Public political memories are often short-lived, and many Malaysians in the first part of 1997 had probably forgotten that only ten years previously Mahathir nearly suffered the historical verdict of political and economic ineptitude. Indeed, Mahathir's ill-fated intervention in the forex and stockmarket debacles of early that year[5] resurrected the possibility that the final historical verdict on Mahathir might well be exactly that. It was one thing to be able to persuade enough Malaysians that foreign machinations and manipulations lay at the bottom of the debacles, but national pride and distrust of foreign powers could only assuage loss of prosperity to a certain extent. There was no telling at that time as to how the public mood would swing against the political leadership, should the economy in fact be in for a prolonged slowdown.

Privatization and the new state-capital alliance, officially promoted as Malaysia Incorporated, had exacerbated the politicization of business and commercialization of politics that began even before Mahathir's premiership. To the extent that it meant rolling back the frontiers of the state in business, privatization might have retarded those developments had it been scrupulously conducted. But the Malaysian forms of privatization - notably, the secretly negotiated contracts extolled as rewarding fresh ideas from the private sector, or picking winners - were well known for their lack of transparency and accountability. Those closest to such practices trumpeted the virtues of private sector initiative, public savings, efficiency, upgrading, and so on. Yet allegations of impropriety, corruption and cronyism constantly attended these deals, no doubt fed by frenzied competition among politically powerful distributional coalitions, and disgruntlement over the ability of certain corporations to repeatedly win prized projects.

The truth remains that such practices incurred financial, social and moral costs to Malaysian society which no one has yet accurately evaluated. When high economic growth creates ample opportunities for companies and individuals not coddled by the state, or for those too small to engage in influence peddling, such practices may be regarded with envy or cynicism, but are tolerated all the same. But completely different political reactions may be produced by an economic slowdown, as the protests against financial scandals and intra-United Malays National Organization battles showed in 1987. In the wake of the ongoing 1997 crises, local and foreign investors made demands for transparency and accountability which would produce the advantages outlined in Chapter 4. It seemed likely even then that if there were a prolonged recession, the middle classes would return to their 1980s' demands for accountability and an end to cronyism and corruption. The ethnic bases of those classes had been broadened by the middle and professional components of the Bumiputera Commercial and Industrial Community. But the prosperity of the classes was now threatened by the currency depreciation, share value decline, and prospect of slow future growth.

The end of communism and capitalist triumphalism of the 1990s had imparted to many Malaysians a faith in the market. Yet although Mahathir himself did not believe in a free market when it came to planning and economic direction, he spread in Malaysia an ethos of competitive capitalism based on the virtues of hard work and self-reliance under conditions of intensifying competition. This ethos justified in policy terms the partial dismantling of state social and welfare services, as in education, housing, and health care. The same ethos bred, among prosperous Malaysians at any rate, a denial of pity for the unsuccessful and the laggard. The ethos seemed, when aided by consumerism, atomization and individualism, to overlap with a diminished ethnic consciousness and communitarianism (Loh 1997).[6] It was now evident that the state was trying to force most of the cost of social reproduction upon entire subordinate classes, as illustrated by the spate of rising highway tolls and costs of housing and private health care. Whether the plan for fully privatizing social services could be forced through in times of economic hardship remained to be seen in 1997, and the need to maintain the social safety net during the subsequent financial crisis has been canvassed in Chapter 6. But one inescapable implication at that time was that Mahathirism now represented the harsh face of late industrialization in Malaysia.

The Mahathirist ethos at the level of national policies could be seen from the state's attitude towards labour. Sometimes Mahathir's nationalism appeared to be heading towards a corporatist framework. Yet if corporatism typically involves a tripartite compact between the state, capital and labour, then Mahathir's corporatist agenda was significantly incomplete (Jomo 1994). Mahathir at one point promoted in-house or enterprise unions (Wad 1997), partly imitating Japanese industrial relations management, partly conceding to demands for unionization in the multinational companies and new industries, and partly to undermine older trade unions. But if the incipient in-house unionization presaged a corporatist role for organized labour, it was at best half-heartedly implemented. The state-capital alliance of the late 1990s revelled in a novel amiability, institutionalized in high-level fora and exclusive consultative groupings.

Labour, under Mahathirism, had no more meaningful role than to supply the nation's comparative advantages of low wages and industrial peace. Most domestic and foreign employers in Malaysia had not introduced labour-saving technology in return for higher productivity, as detailed in Chapter 5. But as labour costs rose while other nations offered their reserve armies of unemployed at much lower wage rates, Malaysia was likely to lose that source of comparative advantage. When that happened, the labour situation would be complicated by the presence of over a million semi-skilled and unskilled, legal and illegal, migrant workers, pushed out of their own immiserated economies and pulled into Malaysia's tight labour market. These migrants had suffered the multiple indignities of being manipulated by recruitment agents, harassed by authorities, despised by locals, and frequently used by employers to discipline domestic labour. They had emerged as the new underclass of a Malaysian society at the peak of its prosperity. They had no prospect of permanent residence or citizenship, and any chance of repatriating them in times of a labour surplus had to be equally bleak.

Leading Issues of Malaysian Politics after Mahathir?

What these issues would be depended very much on the state of the economy that Mahathir's successor inherited. Under the conditions of uncertainty in late 1997, not just for Malaysia but all Southeast Asia, much depended on whether or how well the leadership could 'restore credibility' in the eyes of foreign investors and fund managers. For them 'Dr Mahathir's sharp reaction (to the recent crises) had served as a timely reminder that personalities rather than formal institutional mechanisms remained the key driving forces in both economic and political affairs' (Political and Economic Risk Consultancy Ltd 1997). If the Malaysian government could prevent the economy from descending into a deep and prolonged recession, then the inheritors of the Mahathirist legacy would have gained a powerful legitimating force.

Under those circumstances, politics after Mahathir would not be very different from what they had been previously. One of Mahathir's signal triumphs was to have persuaded Malaysian society that 'less politics' and 'more economics', 'less democracy' and 'greater stability', were the guarantees of continued prosperity. But if the economy failed, then the diminished expectations of prosperity could well yield to new expectations of democracy, which involved a heightened sense of politics as participation. This could be reminiscent of the intense political contention of the 1980s, albeit based on new class, ethnic and other political alignments.

Within Malaysian political history, the state-class alliance achieved under Mahathir's leadership was still an untested hybrid of Alliance elitism and NEP restructuring. The inter-ethnic unity presented may have been deceptive, because ethnic divisions remained a major social fault line. If, for example, recessionary conditions forced a reinstatement of NEP-type quota-fixing and distributive mechanisms, then the reduction of inter-ethnic tension might be only a short-lived exception to a historical rule. It might be tentatively noted, for example, that smaller Malay entrepreneurs not yet confident of competing with their non-Malay counterparts, habituated to receiving state support, and quick to detect cronyism in the ties between politicians and big business, could support potential challengers to the incumbent leaders - like those who supported Team B's dissent in 1987 - 1990. That battle within the United Malays National Organization battle, just to recall, intersected with real and imagined inter-ethnic quarrels to produce the most explosive political situation that had existed since May, 1969.

For some time up to 1997, Deputy Prime Minister Anwar Ibrahim had positioned himself to be Mahathir's successor. Observers had occasionally speculated on supposed policy differences and rifts between Anwar and Mahathir (Khoo 1997b). Some considered that Anwar's policies varied considerably from Mahathir's, while others regarded their differences as merely being those of personal or political style. The author would suggest that Anwar at that time represented political tendencies that were at once supportive of and contradictory to Mahathir's.

Anwar basically supported the Mahathirist agenda because he had no other socio-economic programme to offer, barring an extension of Mahathir's Vision 2020 project. As Minister of Finance, Anwar followed in Mahathir's footsteps. Anwar, of course, would have a full scope of options and decisions only when he became prime minister. But globalization reduces the options open to any nation state, and especially a nation state of Malaysia's limited economic and political power. The Malaysian economy could hardly proceed very differently from directions that Mahathir had laid out for it, even when Anwar as Prime Minister managed it. Politically, Anwar was also not opposed to the nationalism that underlay the Mahathirist project, not so much in its anti-Western dimensions but in its inter-ethnic ambitions.

But Anwar was potentially anti-Mahathirist, as a review of his favourite Caring Civil Society project reveals. In principle, this project offered a balance to Mahathir's predilection for big corporate figures and 'mega projects'. Anwar expressed empathy for the 'small and medium guys', the rural poor and, potentially, labour, by drawing attention to their more urgent needs such as low-cost housing and low-cost health care services. He was not opposed to maintaining some level of welfare services and a social safety net. Even if only rhetorically, Anwar supported ideas of sustainable development and environmentalism which Mahathir simply rejected in favour of limitless economic expansion and development.

Anwar's followers, not least those managing his 'think tanks', had commenced projects to handle what were called 'social ills' in Malaysian parlance - teenage sexual promiscuity, idleness among youth, and diverse forms of 'deviant behaviour'. These projects were ways to manage the social dislocations that had intensified, especially among Malay youth in urban centres who had not imbibed the ethos of competitive capitalism. But it was not clear what the Caring Civil Society project fully entailed. Many of Anwar's stances in this context were reminiscent of Musa Hitam's attempts to 'return to the grassroots' in the 1980s. At its core, Anwar's Caring Civil Society project may therefore be seen as putting a benign face to late industrialization in Malaysia.

Politically, Anwar seemed more responsive to calls for checks and balances on the state, and popular demands for executive accountability, an end to corruption, and broader scope for non-government organizations. Collectively, these demands were not at odds with his ideas of empowering civil society. If realized, they could broaden political participation beyond Mahathir's truncated notion of democracy as the periodic election of government. In limited ways, Anwar put some of his positions on view in May - June, 1997, when he was Acting Prime Minister. Anwar's Caring Civil Society project and his supposed political liberalism may have been ways for him to broaden his political base en route to the assumption of power. Even so, its latent populism could have completed Mahathir's unfinished corporatism by drawing in other classes and social groups into the alliance that had been cemented between state and capital. Some Malaysians thought that Anwar's exposure to non-government organization networking in pursuit of social goals during the days when he led the *Angkatan Belia Islam Malaysia* (Malaysian Islamic Youth Movement) (Chapter 15), and his own incarceration under the Internal Security Act, should mean his leadership would not be hostile to expectations of democracy. However, a politician's personal experience of suffering repression is no guarantee that the same politician in power will not be repressive.

Finally, Mahathirism supplied economic solutions to cultural questions, whereas Anwar often proffered cultural solutions to questions of political economy. Mahathir's nationalism had been severely economistic, it being an older strain of anti-colonialism re-expressing itself as economic competition with Western states in the post-Cold War period. Anwar's nationalism searched for common historical, philosophical and cultural roots among the Asian nations. The reality of the East Asian miracle with its material wealth excited Anwar's nationalist imagination less than the possibility of an 'Asian Renaissance' unique in cultural enrichment (Anwar 1996). Within Malaysia's plural society the corollary to that Asian Renaissance was a multiculturalism, which Anwar promoted although his philosophical inspiration came from Islam. This contrasted with Mahathir's view that inter-ethnic disputes could only be truly resolved by economic means. Anwar aspired to dissolve such disputes in a multiculturalist amalgam of Islam and Confucianism, to retrieve the commonalities found in a 'consortium of cultures' (Anwar 1996, p. 43),[7] to appreciate once again the contributions of various Asian thinkers, and, ultimately, to believe that thereby Malaysians of different cultural heritages 'are one family'.

Given that this speculation is roughly valid, then Anwar's agenda may itself have been a preparation for politics after Mahathir.

NOTES

1 'Consociationalism' is essentially a theory of rule by ethnic elites who co-operate with one another while they have a hold over their separate communities. Malaysia, under the Tunku, used to be held as a model of consociationalism, which in a stricter theoretical understanding involved consensus decision-making among those elites.

2 Sections of the Malay peasantry became settlers in large-scale land development schemes managed by the Federal Land Development Authority (FELDA). Some settlers became intriguingly positioned between landownership and proletarianization (Halim Salleh 1992).
3 This was the essence of Mahathir's 'Look East' policy.
4 The 1983 constitutional crisis arose when Mahathir's government attempted to amend the constitution to limit the powers of the King and other Malay Rulers. A stalemate ensued for many months (Khoo 1995, pp. 202 - 209).
5 The sharp depreciation of the Malaysian currency and of the stockmarket, following the East Asian financial crisis of 1977.
6 Communitarianism entails political-philosophical positions appealing to the welfare of the community, or placing such welfare above individual or specific group interests. It is sometimes taken to be opposed to individualism.
7 Anwar's usage of 'consortium of cultures' included an engagement with Western culture.

11. Malaysia's Foreign Policy

Chandra Muzaffar

This chapter attempts to address four questions. What are the primary considerations that shape Malaysia's foreign policy? How does Australia fit into Malaysia's foreign policy framework? What has been the role of Prime Minister, Dr Mahathir Mohamad, in determining the direction of Malaysian foreign policy? How will Malaysian foreign policy develop in the post-Mahathir era?

PRIMARY CONSIDERATIONS

The forces that shape a nation's foreign policy are often complex and sometimes confounding. Since Independence or *Merdeka,* Malaysian foreign policy-makers have been deeply cognisant of certain crucial considerations that weigh heavily upon foreign policy formulation.[1]

Malaysia's membership of the Association of Southeast Asian Nations (ASEAN) and its relationship to individual Association neighbours is, needless to say, a primary consideration in its foreign policy. This explains why the country has gone to great lengths since the formation of the Association in 1967 to ensure good relations are maintained with its fellow members (Pathmanathan 1979). Achieving that has not always been easy. Malaysia's dispute with the Philippines over Sabah which predates the Association, for instance, remains an undercurrent of sorts in relations between the two member states. But it is significant that both countries have now agreed to put the issue 'on the backburner', and to instead emphasize economic co-operation to bring the two neighbours closer together. This novel approach to resolving a thorny bilateral problem seems to be working well. The other state in the Association with which Malaysia has had a series of fall-outs over the last three decades is Singapore. Given the intimacy of an interwoven past and present, these differences are in a sense understandable. Nonetheless, what is important is that no quarrel, however big, has been allowed to develop into a major conflict. Quiet bilateral negotiations have in most cases permitted the resolution of outstanding disputes.

Bilateral negotiation is undoubtedly Malaysia's preferred mode of resolving problems with its Association colleagues, as evinced in its relations with other states in the regional organization such as Thailand, Indonesia and Brunei. Recurring disputes over fishing rights with Thailand, for instance, are often resolved amicably through discussions. Likewise, a misunderstanding with Brunei over a tiny strip of land some years ago was settled through negotiations. In the case of Indonesia, when bilateral negotiations failed to settle a dispute between the two countries over competing claims to certain islands in the Straits between Malaysia and Sumatra (Figure 1.1), both parties agreed to refer the dispute to the International Court of Justice in the Hague. Competing claims between Malaysia and Singapore over another island in the Straits have also been submitted to the Court.

Harmonious ties with fellow states of the Association are fundamental to Malaysian foreign policy, and are borne out by the country's readiness to set aside certain principles it holds dear in international relations when it comes to the interests of its neighbours. This was most obvious in the Malaysian government's refusal to offer even a mild public rebuke when the Indonesian army massacred unarmed protesters in Dili, East Timor, in November, 1991. Indeed, for almost 24 years the Malaysian government accepted Indonesia's illegal occupation of East Timor. This was a position which was devoid of any moral principle. What this implied was that, like Indonesia's other partners in the Association, Malaysia chose to endorse the former's continued suppression of the legitimate aspiration of the Timorese people for self-determination.[2]

Malaysian activists and analysts have often observed that this stand on Indonesia contrasted glaringly with their government's principled stance on Israeli occupation of Palestinian and Arab lands, or its opposition to Serbian aggression against the innocent peoples of Bosnia and Herzegovina. Contradictory attitudes of this sort to injustices in international politics, it should be noted, are not unusual. It is sometimes said that while it is possible to be ethical about an injustice 1,000 kilometres away, it is wiser to be pragmatic about a wrongdoing in your immediate neighbourhood. This is an approach to foreign relations which realists will applaud and idealists will condemn!

However, after the United Nations-sponsored referendum on the future of East Timor in August, 1999, the Malaysian government accepted the popular verdict that the people of East Timor wanted their own independent sovereign state. Both Xanana Gusmao, leader of the resistance against Indonesian rule and his compatriot, Jose Ramos-Horta, were guests of the Malaysian government in early 2000. The government made concrete offers of economic assistance to the East Timorese leaders, whose priority now was the reconstruction of their devastated nation. By recognizing the independence of East Timor and offering to help in its development, the Malaysian government is once again being pragmatic and realistic.

Realism is perhaps also part of the explanation for Malaysia's attempt to forge closer relations with Northeast Asia and specifically with Japan, South Korea and China. Since the end of the 1980s the volume of inter-state trade and investment with these countries increased manifold, and the economies of Southeast Asia and Northeast Asia became much more integrated during the 1990s. Even before this time, however, Malaysia had shown a keen interest in

absorbing the work ethics of Japanese society and also in emulating the South Korean drive, both with a view to achieving 'developed nation' status in the shortest time possible. This is why in the early 1980s and as soon as he became Prime Minister, Mahathir launched the 'Look East' policy. It was a policy designed to gradually change some basic underlying assumptions of Malaysian foreign policy: to persuade the Malaysian elite with its long-standing enchantment with the West, and with Britain in particular, to be less dependent on those sources of goods and ideas. Seen from this perspective, Mahathir's East Asia Economic Caucus (EAEC), which sought to provide a forum for mutual consultations on trade and economic matters within Northeast and Southeast Asia, was in some respects a logical extension of the Look East policy. Although the Caucus has not been formally established, there is growing evidence to suggest that the countries of East Asia are getting closer to one another. This has been achieved partly through Malaysia's efforts.[3]

If Malaysia values its ties with Northeast Asia, so does it cherish its relations with other countries in the South. Indeed, in the last ten years or so, Malaysia, more than perhaps any other country in the world, has been in the forefront of South-South co-operation. Apart from offering aid to poor countries in sub-Saharan Africa and the South Pacific, Malaysia has expanded trade ties with a large number of countries in Latin America, Africa, West Asia and Central Asia. Malaysian companies are also major investors today in far-flung places - from Ghana and Zimbabwe to Chile and Argentina, Kazakhstan and Uzbekistan. It is because of its commitment to South-South co-operation that Malaysia has tried its level best to ensure that the G-15, the grouping of developing countries from Asia, Africa and Latin America established in 1990, achieves at least a modicum of success despite the odds. It is important to observe in this regard that Malaysia itself was the prime mover behind the concept of the G-15. The issue of South-South co-operation and the role of Malaysia is explored in detail by Pathmanathan (1990).

But if Malaysia is respected and often admired in the South, it is not because of the G-15 or the trade and investment ties it has forged with its friends in Asia, Africa and Latin America. It is because Malaysia has chosen to champion a variety of causes vital to the dignity and integrity of the South. Whether it is the question of foreign debts that have crippled many a nation in the South, the trade policies of certain countries in the North which have hampered the development of the South, or the lopsided Multilateral Investment Agreement which some industrial powers have been trying to foist on the South through the World Trade Organisation, Malaysia has spoken out for the weak and disadvantaged with courage and conviction. On other issues too - the abandonment of Somalia by the United States and the West; the betrayal of Rwanda by France and certain other Western powers; the unwillingness of the powerful to give up their veto in the United Nations Security Council in spite of the talk about UN reform and democracy; and the way the United States throws its weight around in the international arena - Malaysia has been much more vocal than most other countries. This is remarkable, considering that in the present post-Cold War era, characterized by the dominance of a single superpower, very few nations have the guts or the gumption to defend what is right or just in international politics. This is especially so when it concerns the well-being of the South.

Certain aspects of Malaysia's foreign policy *vis-à-vis* the South overlap with its role as a member of the Organization of the Islamic Conference. Right from the inception of this Organization in 1971, Malaysia sought to contribute to its growth, and Malaysia's first Prime Minister, Tunku Abdul Rahman, was its first Secretary-General. As a matter of policy, Malaysia maintains friendly relations with all Muslim states, regardless of their political structure or ideological inclination. Like other Muslim states, it gives wholehearted support to the right of the Palestinians to establish their own independent, sovereign state. Malaysia was one of the Muslim countries involved in the Organization of the Islamic Conference's unsuccessful attempt to mediate in the eight-year Iran-Iraq conflict between 1980 and 1988. Malaysia was also among a handful of Muslim countries that not only espoused the cause of the beleaguered people of Bosnia and Herzegovina but also extended material assistance to them. However, on Bosnia and Herzegovina as in a number of other political, economic and developmental challenges confronting the Muslim *Ummah* or community, Malaysia has been disappointed with the lukewarm and lethargic response of the Organization. This is why the Malaysian government does not place much hope in the Organization, or in the much-vaunted 'Islamic brotherhood', to resolve the myriad problems weighing down the *Ummah*.

Compared to the Organization of Islamic Countries, the United Nations managed to gain a little more of the confidence of the Malaysian government - although the latter has been quite critical of the structure of the Security Council and the veto system. From the early years of its Independence, Malaysia played an active role within the United Nations, co-sponsoring numerous General Assembly resolutions and serving as an able and articulate member of the Security Council on a number of occasions. At the same time, Malaysia, more than perhaps any other country in the South, gave tangible support to United Nations peace-keeping missions by participating in almost every one of them, from the Congo operation of 1961 to the Bosnia and Herzegovina operation of 1995. The country's participation in these missions won accolades from the United Nations.

AUSTRALIA

In reflecting upon Malaysia's foreign policy considerations expressed through relations with the Association of Southeast Asian Nations, Northeast Asian

countries, the South, the Islamic countries and the United Nations, it is obvious that Australia figures only in the latter. As United Nations members, the two countries have adopted common positions on certain issues - the Vietnamese invasion of Cambodia being a notable example - while holding divergent views on other matters such as East Timor. Australia and Malaysia are also both members of the Commonwealth. Although Malaysia values its membership of this institution, it is not a major factor in shaping Malaysian foreign policy.[4]

The Asia Pacific Economic Cooperation (APEC) 'club' to which both countries belong is, by comparison, a far more important organization whose policies have a direct bearing on Malaysia's economic future. But from the outset Malaysia has viewed the club as a body pursuing an agenda sometimes inimical to its interests as a developing country. In this connection, it sees Australia as a nation not averse to pushing that agenda forward. The infamous remark of the former Australian Prime Minister, Paul Keating, calling Dr Mahathir Mohamad 'a recalcitrant' for not attending the first club summit in 1993, merely helped reinforce that impression.[5] Both Australia and Malaysia are also members of the Cairns Group lobbying for fairer trade, and take part in the Five Power Defence Arrangement, which further includes Britain, New Zealand and Singapore. But the Arrangement has very little significance in the maintenance of regional security.

What all this shows is that Australia and Malaysia are not held together by strong institutional or fraternal bonds in regional or international politics. They are of course friends, perhaps even good friends at times, but Australia is not an important actor in Malaysia's foreign relations just as Malaysia is not an important actor in Australia's foreign relations. Indeed, in the course of the last 25 years there have been serious quarrels between the two countries which have aggravated bilateral ties.

In the mid-1970s, for instance, there were a number of trade disputes, the most serious of which was one involving aviation rights on the Australia-Britain route. There was also an ugly demonstration organized by Chinese Malaysian students against the late Malaysian Prime Minister, Tun Abdul Razak, when he was on an official visit to Australia in 1975. In 1986, the then Australian Prime Minister, Bob Hawke, described the hanging of two Australians convicted of drug trafficking by the Malaysian authorities as 'barbaric'. This incensed Malaysian Prime Minister Mahathir and strained relations between the two countries for a while. Then in April, 1988, an Australian television station screened a documentary called 'Slow boat to Surabaya', which was critical of Mahathir and Malaysia. In October, 1990, there was another television programme entitled 'Embassy', which, although fictional, contained negative references to Malaysia. This irked the Malaysian leadership to such an extent that it decided to downgrade diplomatic relations with Australia. It even affected commercial ties between the two countries.

One main reason why the Embassy film had such far-reaching repercussions was because it came after a series of articles in the Australian press, compounded by an open letter to Dr Mahathir. That letter from 105 Australian parliamentarians condemned in harsh terms the October, 1987, mass arrests in Malaysia under the Internal Security Act, and violations of human rights in the country in general. Mahathir hit back by pointing out that Australia's past inhuman treatment of its aboriginal population stripped that nation of any moral authority to discuss the human rights records of countries such as Malaysia. Although relations returned to normal at the end of 1991, the Keating insult of 1993 created another storm which battered Australia-Malaysia ties for a few more months.[6]

However, in the last three or four years some calm has returned to ties between the two countries. Even the racist posturings of the notorious Pauline Hanson have not ruffled these ties, partly because both Malaysian leaders and the Malaysian public have been mature enough to distinguish what she represents from the more tolerant and accommodative attitudes of the overwhelming majority of Australians.[7] Nonetheless, one has to try to understand why relations between Australia and Malaysia have been so problematic for so long.

Australia's entry into Malaysian affairs during the colonial period via the colonizer itself, namely Britain, created in some Australians a supercilious, condescending attitude which provoked a certain degree of resentment within a segment of the Malaysian population. More specifically, Australian soldiers serving in the colonial armed forces fighting the underground communist movement in Malaysia in the 1950s came from a society where sentiments of white supremacy were still strong. There was hence a tendency among them, and among Australian administrators and elites, to adopt a patronizing stance in relations with 'coloured' communities.[8] This explains why, even as late as 1982, Dr Mahathir could observe in a dinner speech on the occasion of the visit to Malaysia of the Australian Prime Minister, Malcolm Fraser, 'But colonial sentiments and ideas die hard, and we still find some Australians and their institutions rather patronising' (Pathmanathan and Lazarus 1984, p. 131).

It is perhaps because of this patronizing attitude that when Australian leaders or their media or non-governmental organizations criticize human rights violations in Malaysia they appear to be hectoring some less civilized creatures in some underdeveloped part of the planet. What often aggravates matters are the differing perceptions of certain aspects of human rights between Australian and Malaysian elites.[9] Indeed, on a number of other issues pertaining to global economic, political and cultural structures and their impact, the two countries hold positions which are diametrically different. For Australia, as a Western society entrenched within a Western-dominant global system, the disparity in power between the West and the rest is not a major concern. For Malaysia, as an emerging non-Western society, on the other hand, the elimination of these iniquities is a vital prerequisite for its success.[10]

Besides, Malaysia, as has been seen, is more conscious than any of Australia's other Asian neighbours of the importance of overcoming prevailing injustices in the Western-dominant global system.

It would be wrong, however, to create the impression that the troubled relationship between the two countries is due mainly to Australian attitudes. It is an undeniable fact that there have been human rights violations in Malaysia that deserve to be criticized. The imprisonment without trial of dissidents, who are often labelled as threats to national security by the government, has invariably provoked negative reactions from Australian human rights activists and the Australian media. Other victims of a whole array of repressive laws have also earned the active sympathy and support of Australian groups. By taking up cudgels on their behalf, Australian groups are merely upholding a fundamental principle in the worldwide human rights struggle and demonstrating that there is a common humanity which transcends national boundaries. It is also true that the Malaysian Prime Minister, Mahathir Mohamad - as revealed by certain episodes in his relationship with Australian elites and the Australian media - tends to overreact to the slightest hint of criticism. Consequently, any adverse comment, however mild, becomes a challenge to his power and authority, to which he responds with characteristic vigour.

Be that as it may, there are enduring strengths in the relationship between Malaysia and Australia which will survive both personalities and the problems that crop up from time to time. The educational ties that provide a sense of attachment to Australia among tens of thousands of Malaysian students and graduates and their families are one of those enduring strengths. There was a time in the 1980s when the number of Malaysians studying in Australia exceeded the combined total of other foreign students studying in that country. Even in the mid-1990s there were 'some 11,000 Malaysian students in Australia' and the comment was also made that 'in recent years this relationship has expanded and diversified with Australia's tertiary institutions playing a strong role in providing twinning arrangements. These enable Malaysians to undertake the early years of courses in Malaysia, and then to complete their studies at Australian institutions' (Funston 1996, p. 93).

There are also Malaysian investments in Australia just as there are Australian investments in Malaysia. It was estimated that around 'three hundred Australian companies now have a presence in Malaysia, with particularly rapid expansion in areas such as engineering, advanced technology, construction, consulting, education and services' (Funston 1996, p. 94). Trade between the two countries has also been increasing significantly, and Malaysia is 'Australia's 11th largest export market, reaching A$1.7 billion in 1993/94 and including a rapid growth of elaborately transformed manufactures' (ibid).

Yet another area of co-operation between the two countries is regional security. Although the Five Power Defence Arrangement does not, as pointed out, carry much weight, Malaysia and Australia began in the late 1990s to work together in a new set-up: the Association of Southeast Nations Regional Forum, which serves as a conduit for discussions on regional security issues. In addition to Association members Australia and New Zealand, the United States and China are among other participants in this Forum.

THE MAHATHIR FACTOR

It should be apparent from this analysis that Dr Mahathir Mohamad, Prime Minister since July 1981, has been a dominant factor in shaping Malaysian foreign policy. So powerful has been his influence that one can state without fear of contradiction that Mahathir - and Mahathir alone - has provided the present thrust and direction to Malaysian foreign policy.

It is of course true that even without Mahathir, Malaysia would have continued to play its rightful role in the Association of Southeast Asian Nations, the Muslim world and the United Nations. But challenging Western, and specifically United States, dominance as it impinges upon the rights of small and weak states; strengthening Asian consciousness and solidarity; and mobilizing and galvanizing the South in the context of an unequal global system are all aspects of Malaysian foreign policy which bear the imprint of that particular man. And indeed, these foreign policy features are what have endowed Malaysia with a distinct and distinguished role in regional and international affairs.

The role of a defender of the rights of the South and an interlocutor of a resurgent Asia was not one Mahathir consciously sought. After the decline of the Organisation of Petroleum Exporting Countries (OPEC) following the war between Iran and Iraq, which were both important members, the South lost whatever little strength it had acquired in global politics due to the rise in oil prices in the early 1970s.[11] In fact, when Mahathir assumed stewardship of his country in the early 1980s the South was in disarray. There was no cohesion, sense of direction or leadership. By articulating the interests of the South through various regional and international fora, especially on issues pertaining to economic justice such as the debt problem and unfair trade practices, Mahathir helped fill a void. As the leader of a nation whose own economic performance was beginning to be noticed by both developing and developed countries, he commanded a certain degree of attention and respect. Because he belonged to that region in Asia that was registering phenomenal growth rates, what he had to say about global iniquities could not be ignored by the powerful. He had become, almost inadvertently, the spokesperson for the South and for Asia.

The Post-Mahathir Scenario

Given Mahathir's strong advocacy of the interests of the South, the question sometimes asked is whether this dimension of Malaysian foreign policy will continue after he has left the scene? Will Malaysia remain a champion of the South in a post-Mahathir era?

It is quite conceivable that Malaysia will continue to espouse the cause of the South in a post-Mahathir era. Mahathir's most likely successor is Dato' Abdullah Ahmad Badawi, the Deputy Prime Minister in 2000. Abdullah served for many years as Foreign Minister under Mahathir's leadership. Since Mahathir crafted foreign policy, Abdullah was in essence the faithful, unquestioning implementor. Although Abdullah never sought to give the impression he was shaping the nation's foreign policy, he nonetheless appeared genuinely committed to the Mahathirian causes of strengthening South-South co-operation; resisting Western economic cultural and political hegemony; forging an East Asian caucus through closer ties with China, Japan and South Korea; and reforming the United Nations Security Council.

It is hoped that while championing the causes of the South and fighting for a more just and equitable world order, Abdullah will also ensure that genuine democratic freedoms and civil and political liberties flourish at home. The lack of these aspects that he often crusades for in the global arena is one of most glaring weaknesses in Mahathir's foreign policy, and has eroded his credibility in Malaysia and elsewhere.

If Abdullah wants to forge a foreign policy which commands respect and inspires emulation then he must, at the very least, try to be consistent. He should try to make sure that his deeds at home do not make a mockery of his words abroad.

NOTES

1. For an early analysis of foreign policy-making in Malaysia, see Tilman (1967).
2. For an analysis of the East Timor case for self-determination, see Cabral (1997).
3. Malaysia initiated a number of moves to bring China, Japan and South Korea closer to the Association of Southeast Asian Nations, with one of these being the invitation to the three Northeast Asian states to attend the informal Association Summit held in Kuala Lumpur in December, 1997.
4. Soon after he became Prime Minister, Dr Mahathir questioned the wisdom of Malaysia remaining as a member of the Commonwealth, and ordered a study of the issue. In the end, the study recommended that Malaysia should retain its membership, and the Prime Minister accepted this recommendation.
5. The remark led to a diplomatic row (Pathmanathan 1990), which ended with Keating expressing regret for an unintended offence.
6. There is an excellent account of the troubled relationship between the two countries in Funston (1996).
7. This process of isolating Pauline Hanson from the rest of Australian society was helped by Malaysian newspaper reports, which showed how other Australian leaders had criticized Hanson. See, for instance, *Star* (1997b).
8. One should remember that in the 1950s and 1960s the 'White Australia' policy was still in force, and racist attitudes were widespread in the media, in the school system and in politics.

9. This is discussed by Evans and Grant (1992), especially pp. 191 - 193.
10. The problem of Western dominance is probed in a number of essays in Muzaffar (1996).
11. The manner in which price increases by the Organization of Petroleum Exporting Countries strengthened the South was studied by Adams (1993).

12. *Melayu Baru* and Modernization of Malay Society

Abdul Rahman Embong

The concept of *Melayu Baru* or the New Malay, advanced by Malaysia's Prime Minister, Dr Mahathir Mohamad, in his presidential address at the general assembly of the United Malays National Organization in November, 1991 (Mahathir 1991b), has sparked off a controversial debate among scholars and commentators. This chapter offers a critical review of the debate, followed by an elucidation of the author's approach to the subject. The author is proposing that although Mahathir's conceptualization of *Melayu Baru* provides a typological redefinition of the Malay character and is meant to enhance the growth of the Malay business and non-government professional classes, the whole issue is not just about creation of these classes.

One has to examine the issue beyond the Prime Minister's political agenda, and to view it as a historical project for the transformation and modernization of the Malay society. The project - already envisioned by early Malay nationalists and propelled by Malay nationalism - has assumed different forms and emphases during different historical epochs. It has taken on a distinctly pro-business character in the post-New Economic Policy era because of the ideological orientation of Mahathir, who considers that Malaysian capitalism can only be viable if a competitive *Bumiputera* business class, i.e., the *Melayu Baru*, is created.

MELAYU BARU: STATEMENT OF THE PROBLEM

The *Melayu Baru* concept was advanced at a critical juncture in Malaysian history, immediately after the official ending of the New Economic Policy (1971 - 1990), the launching of the National Development Plan (1991 - 2000), and Mahathir's announcement of his Vision 2020 (Mahathir 1991). These events demonstrated that the Malaysian government had embarked on a new phase in its development strategies. The policy changes involved - which had already been preceded by privatization and deregulation measures implemented since the mid-1980s - marked a strategic shift from state interventionism, characteristic of the New Economic Policy (NEP) era, to free market expansionism and economic liberalization.

Mahathir argued that in the new era it would be a terrible blow for the Malays and other *Bumiputera* if they were still backward and poor by the year 2020, when Malaysia was planned to have been transformed into a developed industrial society. According to him, such a society should not only enjoy high living standards, but should also posses a high level of knowledge, competencies and morality. He maintained that the Malays can succeed and play a vital role in developed society provided they acquire certain traits and competencies, i.e., they must transform themselves, overcome their backward culture and value system, undergo reformation, and become 'New Malays'.

By the latter, he meant Malays who 'possess a culture that is in keeping with the times, who are capable of meeting all challenges, able to compete without assistance, learned and knowledgeable, sophisticated, honest, disciplined, trustworthy and competent' (Mahathir 1991, p. 4). He saw *Melayu Baru* not only as the agenda for the complete rehabilitation of the Malays, but also for the Muslims. For, to him, the struggle to create new Malays and other *Bumiputera* was a *jihad* (crusade), a glorious struggle to save the faith and the Islamic religion of the Malays, and thus indirectly to save other Muslims too.

It should be recalled that Mahathir's advocation of *Melayu Baru* was made two decades after the May 13, 1969, communal riots, and after the publication in 1970 of his controversial book, *The Malay Dilemma* (Mahathir 1970), in which he attempted, among other things, to explain the cause of the May 13 incident. He posited in the book that the essence of the Malay dilemma was that although the Malays were the definitive people of Malaysia, they could become dispossessed in their own land. Arguing that the Malay dilemma was complex and multifaceted, he was pessimistic about the capacity of the Malays to compete with non-Malays, particularly Chinese.

Mahathir attributed the Malay lack of progress to a combination of hereditary and environmental factors, especially Malay character and their culture. He suggested a two-pronged strategy to overcome the dilemma. First, the Malay problem must be treated as part of the Malaysian problem that requires active state intervention. Second, among the Malays themselves, there must be a 'revolution' 'to break away from custom or *adat* and to acquire new ways of thinking and a new system of values' (Mahathir 1970, p. 113). These ideas, propagated 30 years before the beginning of the present century, constituted the ideological precursor to Mahathir's espousal of *Melayu Baru*.

When Mahathir became Malaysia's fourth Prime Minister in 1981, some quarters were apprehensive about whether he would pursue the lines of action he had charted out in *The Malay Dilemma*. He responded by acknowledging there had been important changes since the time the book was written, but admitted that he still maintained some of the views then expressed. However, in May, 1997, he reversed his stand, arguing that his views regarding the Malays' inability to succeed had been proven wrong: 'I no longer believe what I wrote in *The Malay Dilemma*... The Malays are not inferior to others... in fact, we are now a model to many other races' (*New Straits Times* 1997a).

Mahathir's speech at the United Malays National Organization's general assembly in November, 1993, summed up his pride in the successful Malays: 'Today we have Malays and *Bumiputera* as heads of departments, scientists, actuaries, nuclear physicists, surgeons, experts in the fields of medicine and aviation, bankers and corporate leaders. In fact, some are already managers of major conglomerates with assets worth billions of ringgit and able to acquire bigger companies in the open market or participate in mergers and acquisitions which are complex and sophisticated' (Mahathir 1993, p. 4). He was all the more impressed since, according to him, some of those who now occupied the highest ranks of the *Bumiputera* commercial and industrial community came from humble backgrounds, with their success in the economic field being 'extraordinary' and well beyond 'expectations' (*Utusan Malaysia* 1997).

Does this mean that those successful Malays imbued with the new culture and ethics were any less Malay and nationalist? Mahathir strongly rebuked such allegations put forward by those who doubted the Malay and nationalist credentials of his *Melayu Baru*. In a sharp rebuttal to his critics who argued that Mahathir's *Melayu Baru* had 'sacrificed' Malay language and culture in particular at the altar of market forces that gave prominence and pride of place to English, Mahathir maintained that *only* when Malays were successful economically would the Malay language be respected.

Mahathir argued that 'True nationalists are those who work so that their race can progress and will be capable of competing successfully with the advanced nations. True nationalists are people who are respected because they hail from a successful race ... True nationalists are those who ensure that their race gains respect and emulation of others due to their excellent achievements' (*Utusan Malaysia* 1997). The 'competitiveness', 'success', and 'achievements' that ran through Mahathir's thinking referred to the economic realm, but the route to achieving these goals was not merely economic or financial. Very importantly, the non-economic realm of culture played a crucial role, for 'culture is the determinant of achievement', a slogan Mahathir adopted for the 1996 National Day celebrations. He maintained that the new culture the Malays needed to achieve would not make them any less Malay. To him, the Malays would not lose their identity just because they spoke English, engaged in Malay cultural reforms and accepted certain aspects of foreign culture.

In short, Mahathir felt that those Malays who had already achieved success in his terms were significant symbols and testimony that the Malays 'had arrived', and could be as successful as anybody as long as they adhered not only to the ideology of '*Malaysia Boleh*' (Malaysia can do it) but more importantly to that of 'Melayu Boleh' (Malays can do it) (*Utusan Malaysia*

1997). Thus, to Mahathir, the Malay dilemma can be said to have ended with the emergence of *Melayu Baru.*

MELAYU BARU: A REVIEW OF THE DEBATE

However, there were sharp differences of views between scholars regarding Mahathir's *Melayu Baru* and the implied ending of the Malay dilemma. While some scholars viewed the concept positively, other critics were very sceptical and lambasted it as a 'political gimmick and not a people's movement' (Husin Ali 1993). The concept was seen merely as a political construct 'which has no basis for its existence', and as a 'phantom born from the imagination of a desperate and frustrated Malay leadership because of the latter's failure in bringing progress to the race (Malays)' (Zainal Kling 1993). Arguing that the current *Melayu Baru* campaign was actually aimed to benefit corporate Malays at the expense of the Malay masses, the critics condemned the 'new' Malays as a new breed of vulgar profit-seeking and Westernized corporate businessmen, who were divorced from their own cultural roots.

The critics further warned that the emergence of *Melayu Baru* would not only sharpen class and status divisions within Malay society, but could also engender new ethnic tensions. Those could be so since the campaign would divert the various ethnic groups from championing a common goal of forging *Bangsa Malaysia* to one that focused on ethnic differences by championing *Cina Baru* (New Chinese), *India Baru* (New Indian), *Iban Baru* (New Iban), *Kadazan Baru* (New Kadazan), and so on (Husin Ali 1993). Several critics also questioned the appropriateness of the term *Melayu Baru,* arguing that if there was *Melayu Baru,* by implication there must also be *Melayu Lama* (Old Malay). These critics rhetorically asked what was wrong with *Melayu Lama* to warrant them to change and become *Melayu Baru* (Abu Bakar Hamid 1992).

Other writers took a more analytical approach to the issue. Khoo (1995), in his intellectual biography of Mahathir, considered *Melayu Baru* as signifying the complete rehabilitation of the Malays and ending of the Malay dilemma. He argued that Mahathir's *Melayu Baru* referred to the new class of 'Malay entrepreneurs and the (non-government) Malay professionals who broadly make up the *Bumiputera* commercial and industrial community' (Khoo 1995, p. 337). Khoo drew attention to Mahathir's speech at the general assembly of the United Malays National Organization in November, 1993 (Mahathir 1993) in which he expressed a rare pride of the achievements of Malays who had climbed through hard work to become top players and corporate leaders in various fields they would not have dreamt of being able to penetrate a generation earlier.

However, Khoo (1995, pp. 336 - 337) also observed that while the Malay business and professional classes 'lie closest to Mahathir's *Melayu Baru* heart', there was no place in Mahathir's scheme of things for the Malay royalty, Malay peasants and agriculturalists, or the Malay working class - the latter being 'the unsung hero of the NEP'. Mahathir's *Melayu Baru* was all about the creation and expansion of Malay capitalism, and Mahathir 'knows no other class (than the business and professional classes) to whom the Malay future can be entrusted.' Khoo concluded that for Mahathir, whose identification with the Malay cause had always been characterized by a marked rejection of 'Malayness', the emergence of *Melayu Baru* signaled the ending of the 'pre-history' of the Malays which, in turn, marked the beginning of their (Malay) history and, by extension, the history of '*Bangsa Malaysia*'.

Sharing Khoo's view, Shamsul (1997, pp. 256 - 259) argued that Mahathir's *Melayu Baru* was a community of completely rehabilitated Malays who had gone through a mental revolution and cultural transformation, leaving behind feudalistic and fatalistic values. To him, the creation of *Melayu Baru* involved 'a reconstitution of the concept of Malayness', a move which 'interrogates' and compromises 'the pillars of Malayness' (viz. the Malay royalty, Malay culture and language). He was critical of the exclusivist nature of *Melayu Baru,* which to him referred only to the business and professional classes, whilst the new Malay proletariat was not included in it. By implication, Shamsul was arguing that the Malay proletarian class, which was a crucial component of the new Malay industrial society, had to be accorded a proper place in future society if *Melayu Baru* was to be meaningful at all. With this proletarian class included, the new Malay industrial society would definitely be a larger community than was presently envisaged.

Syed Hussein Alatas (1995) used a typology approach to analyse *Melayu Baru,* focusing on the personality traits of the individual. He argued that the problem of the 'New Man' such as *Melayu Baru,* had been found in many societies throughout the world during different historical epochs. When societies were confronted with new and different sets of problems, they would attempt to solve it through the creation of a New Man, just as Malay society was doing. History had seen this occur in Japan following the Meiji Restoration of the late 19th century, and in China where the idea of 'New Chinese' had been advanced since the beginning of the 20th century.

Alatas argued that Malays, who had faced their own sets of problems during different historical periods, had in the same way also tried to arrive at a redefinition of their personality and of what they wanted to preserve and consolidate. He maintained that the 'New Malay' 'is not a new or sudden creation, without continuity with the past ... (but) a new breed ... continuous with the past' (Alatas 1995, p. 6). Alatas put forward a typology of rational, moral and selective and, to a certain degree, universal, personality traits that the 'New Malay' should possess. As he expressed it, the 'New Malay' viewed the world in a more rational manner, using reason, calculation and plans. 'He does not subscribe to merely rationality, but it is rationality combined with certain universality. Malays are Muslims and being Muslims, they participate in certain universality by belonging to a world religion having a universal system of values' (Alatas 1995, pp. 8 - 9).

PROJECT OF TRANSFORMATION AND MODERNIZATION OF MALAY SOCIETY

The author does not necessarily disagree with the above viewpoints, but takes another approach in proposing that *Melayu Baru* should be seen as a project of transformation and modernization of Malay society. This approach attempts to locate the phenomenon of *Melayu Baru* in a broader historical perspective, seeing its present advocation in a trajectory of evolution and changes. He suggests that *Melayu Baru* is at once a concept, an idea and a movement of social transformation, and that although the terminology may be recent and associated with Mahathir, it has long historical roots. In this it has assumed different forms and emphases during different historical periods, depending on who the champion was. Nevertheless, *Melayu Baru* is an idea that historically set things in motion, and still has compelling power today.

The approach taken here by the author is not new, either. A similar approach was advanced by Rustam Sani, who suggested *Melayu Baru* was the latest expression of the idea of renewal or renaissance of Malay society at the present historical juncture, and that as a terminology it had the potential of becoming a social science concept (Rustam 1992; 1993; and 1997). Rustam criticized what he called the mainstream 'economistic and quantitative' approach adopted by the leadership of the United Malays National Organization, which emphasized the creation of a predetermined number of Malay entrepreneurs. He maintained that *Melayu Baru* should be treated as a movement of transformation entailing the socio-cultural modernization of Malay society, so as to complete the 'unfinished agenda of Malay nationalism'. Such a transformation would require an attack on two fronts, first by a thorough going reform of the educational system and second by a concerted effort at nation-building for the formation of *Bangsa Malaysia.* This was a move that was crucial to consolidating the nation-state in the era of globalization.

While the problem of the 'New Man' is not something peculiar to Malay history and society, the idea of *Melayu Baru* is not new either and has 'a long historical pedigree' beginning in the 19th century with Abdullah Munshi, a 'forefather of *Melayu Baru'* (Harper 1996, p. 242). The relationship between man and society needs to be more clearly extrapolated, however, since creating the 'New Man' cannot happen in a vacuum but in the context of society,

history and culture. The author of this chapter suggests that the idea of *Melayu Baru* as the 'New Man' should be located within a larger framework of Malay reformation and the emergence of a new kind of society. This society should be a modern one that would emancipate the Malays from the shackles of feudalism, servitude, blind religious faith and moral degradation. Such an idea has already been mooted in the writings of Abdullah Munshi, who in his critique of Malay feudalism was importantly propounding a vision of a new society. In his visit to the East Coast states of Peninsular Malaysia which he made in 1837 and 1838, he made critical observations of Malay society which he recorded in *Kisah Pelayaran Abdullah* (Travels of Abdullah) (Abdullah 1964). The poverty Abdullah observed among the Malays in those states was not attributed to indolence, but to feudal oppression which had killed peoples' incentives and wills to work.

Abdullah Munshi explained: 'To my mind, this is the cause of the poverty in Pahang. All the subjects live in constant fear of the injustice and greed of the ruling house and their nobles.' (ibid., pp. 44 & 123). Abdullah saw such injustice and the general weakness of the Malay states as being due to the lack of education of their rulers and members of the nobility, as well as to their deviation from the true teachings of Islam. He wanted a change in such a society, and believed this could be achieved only through education and reform in Malay beliefs, an appreciation by Malays of their own language and modern learning, as well as a shift in attitude towards Islam. Such social change advocated by Abdullah already contained the germ of the project of transformation and modernization of Malay society.

But Abdullah's modernization project was too futuristic and revolutionary for a society deeply entrenched in feudalism, and thus found no support for over half a century. Yet by the beginning of the 20th century with the awakening of Malay nationalism, the project gathered momentum, as manifested not only in the writings of nationalists such as Syed Sheikh Alhadi, Zainal Abidin Ahmad (Za'ba), Abdul Rahim Kajai, Ibrahim Yaacob, Ishak Haji Mohamad, and others, but more importantly in socio-cultural, political and economic movements urging reforms of Malay society and political independence. The birth of Malay-based political parties, such as Kesatuan Melayu Muda in 1937, Parti Kebangsaan Melayu Malaya in 1945, the United Malays National Organization in 1946, and the holding of various political, economic and cultural congresses during the pre-independence period were all part and parcel of this growing momentum to bring Malays to the fore in the modern world.

The pre-independence modernization project was not couched in class terms. It was more populist in nature, involving the whole Malay community and not merely particular class(es) or fractions of these as is the emphasis today. This was partly because Malay society at that time, although increasingly differentiated, could still maintain a certain degree of internal homogeneity, given the relatively low levels of urbanization and industrialization. There were no Malay business and professional classes to speak of, unlike modern Malaysia. At the same time, there were clear 'boundaries' between the Malays, non-Malays and British colonial masters, thanks to the existence of a Furnivallian plural society. Besides, the fact that political power was in the hands of the British, and not in the hands of the Malays, meant it was impossible to implement the Malay modernisation agenda. To achieve this the Malays had to remain as one to gain the country's independence through the mobilization of their people as a whole.

The situation changed dramatically with *Merdeka* or Independence, and even more so with the social engineering under the NEP. Economic development over 40 years through industrialization, urbanization and rural improvement, as well as the democratization of education which accelerated in the last two decades, transformed Malaysian and especially Malay society. This society moved as described in earlier chapters from being basically traditional, rural and agrarian to one which had achieved a high degree of modernization with rapid urban industrialization. This change brought about marked internal differentiation, especially within Malay society, which became characterized by the ascendance of new modern classes and status groups and the decline of traditional rural-based groupings.

With political power in the hands of Malay leaders who shared it with non-Malays, the post-Independence project of transformation and modernization of Malay society was state-sponsored and state-led and had to be so. Although the state played an important role in modernizing other Asian countries such as Japan, South Korea, Singapore and Indonesia, its part in Malaysia was more pronounced, particularly respecting Malay society. Through the New Economic Policy the state placed Malay modernization high on its agenda, not only to overcome the impact of centuries of colonialism and Malay feudalism, but also to achieve inter-ethnic parity and ensure social cohesion and national unity.

The earlier post-Independence phase of Malay modernization, and especially that under the second Malaysian Prime Minister, Tun Abdul Razak Hussein (1970 - 1976), was directed at the Malay masses. Its aim was to unlock these people from the shackles of poverty, illiteracy, rural backwardness and a generally low level of professionalism and limited participation in modern economic sectors. This phase over two decades produced new social classes and groups, and generally broke down the psychological impasse characterized by a lack of confidence previously found among Malays. The affirmative action by the state secured a partial achievement of the modernization agenda, meaning that the modern Malays of the new century - better educated, urbanized and located in improved positions and statuses in the social hierarchy - have broadly rid themselves of their inferiority complex and emerged with greater self-confidence, assertiveness and sense of security. The latter has been achieved not through growth and developmentalism *per se*, but through development with equity and social justice.

Despite these changes achieved during the earlier phase of modernization and under his predecessors' rule, Mahathir was still not satisfied. He continued, as already outlined, to urge the Malays to change themselves and become *Melayu Baru* in the mould defined by him. He accordingly put forth Vision 2020 for Malaysia to become a fully-developed industrial nation in approximately one generation and to respond to the ongoing global, regional and national changes. He warned in 1997 that although Malaysia and the Malays had achieved some successes, 'we cannot be satisfied with ordinary successes', because in order to catch up with advanced nations, 'we have to run faster than them, otherwise we run the danger of being re-colonised by a new form of colonialism' (*Utusan Malaysia* 1997). He again stressed the importance for Malays to learn from and adopt the work culture of advanced countries, especially their commitment to work quality and their critical attitude towards their own achievements. He called at the same time for a reform of Malay views and approaches towards Islam, emphasizing they should give greater prominence to its substance than its form.

What was being advocated by Mahathir from the late 1990s constituted the most articulate expression of the idea and movement of Malay modernization, with the idea having greater compelling power of action because of his leverage as Prime Minister and President of United Malays National Organization over two decades. The *Melayu Baru* project had become distinctively pro-business because it was stamped with his ideology and vision. This vision was that the salvation of the Malays lay not in their reliance on the state as routinized bureaucrats who felt secure in their posts, or as salaried middle-class employees with limited purchasing power, or even as traditional rural producers, but rather by their efforts at becoming successful entrepreneurs and corporate professionals. These were people who had proven or were proving their worth through their own efforts in building Malaysian capitalism.

Yet it is only fair to Mahathir to record that new social categories were also being included in *Melayu Baru*. Having initially focused on the creation of big corporate figures as part of a powerful Malay business class, from early 1997 Mahathir turned his attention to efforts at forming a 'Malay-*Bumiputera* entreprenurial middle class' comprising small- and medium-scale businesspeople whom he also wanted to be part and parcel of the *Bumiputera* commercial and industrial community. The Federal Ministry of Entrepreneur Development and specialized institutions such as the Perbadanan Usahawan Nasional Berhad (National Entrepreneurs' Corporation Limited) and relevant state agencies were entrusted with creating middle-class entrepreneurs. In the exercise, arrangements were made to have such people networked with banks and *Bumiputera*-based corporate giants which, as part of dispensing their social responsibility, were seen as 'umbrellas' helping to nurture entrepreneurial growth.

This programme was badly affected during the 1997 - 1998 financial and economic downturn, but has since been revived with greater tenacity as shown by the debate and resolutions adopted at the state-sanctioned fourth *Bumiputera* economic congress in September, 1999 (Kementerian Pembangunan Usahawan & Dewan Perniagaan Melayu 1999).

CONCLUSION

The issue of *Melayu Baru* is complex and has been approached from various angles. From the viewpoint of sociological inquiry, however, the issue needs to be addressed by examining both the ideology and agenda of its proponents as well as the broader historical forces underlying the phenomenon. While the arguments and rhetoric of its current champion are important, going beyond the champion's perspectives is extremely necessary.

Thus, the present chapter not only explains the issue of *Melayu Baru* as articulated by Mahathir, showing how this relates to his vision of building Malaysian capitalism, but also presents a critical review of the debate on the subject. The chapter contends that while Mahathir's conceptualization of *Melayu Baru* is meant to enhance the growth of the Malay business and non-government professional classes, one has to examine it beyond this political agenda and view it in a wider context. Looking at the issue mainly from Mahathir's perspective and dismissing it as his political agenda alone will limit understanding of a complicated phenomenon of social change and transformation.

The chapter demonstrates in this regard that *Melayu Baru* is a historically-constituted project of change in Malay society that has its genesis in the thoughts of the 19th-century Malay-Muslim modernist scholar, Abdullah Munshi. The project has been propelled by Malay nationalism and experienced alterations during different historical periods, with its content being largely determined by the ideological orientation and vision of Malay leaders in power. In the contemporary era, the project has assumed a distinctly pro-business character because of Mahathir's ideological orientation to the effect that Malaysian capitalism can only be viable if a competitive *Bumiputera* business class, i.e., the *Melayu Baru*, is created. In short, studying *Melayu Baru* as a phenomenon and a process is a serious exercise in analysing and understanding the social transformation and modernization of Malaysia, with particular reference to Malay society.

13. The Chinese in Malaysia

Lee Kam Hing

The Chinese in Malaysia continue to play an influential political and economic role as a community which few migrant groups elsewhere are able to do. This is because the Malaysian Chinese are plentiful enough that their essential concern cannot be ignored. But the Chinese are not, however, a large enough group to have all their demands met. Until 1974, no single ethnic group was the majority in Malaysia, and the Chinese in 2000 still constituted around 28 per cent of the population. Historically, the Chinese were part of the independence process. They joined Malay nationalists led by the United Malays National Organization in negotiating with the British for constitutional changes, and in working out a political arrangement whereby the legitimate interests of all communities were safeguarded.

POLITICAL DEVELOPMENTS

It was the conservative Chinese, mainly merchants and English-educated professionals, who formed the Malayan Chinese Association in 1949 to provide leadership to the Chinese. The role of the Malaysian Chinese Association was crucial at this juncture, because the loyalty of Chinese were under question following the outbreak of a communist-led rebellion which largely involved this ethnic group (Heng 1988). For the British authorities, broad Chinese support was needed to help end the rebellion. For the Malays, inter-ethnic political co-operation had become a condition upon which the British agreed to grant independence. For the Chinese, the Association allowed a legitimate role in the post-Independence political process.

The Malaysian Chinese Association joined the United Malays National Organization and the Malayan Indian Congress to form the Alliance, which subsequently gained independence and has since been the ruling coalition. There was an appearance of power parity in the Alliance. While the major portfolios were controlled by the United Malays National Organization, the Malaysian Chinese Association held ministries related to economic activities. The circumstances were those of consensus at the elite level, where the leaders of the different communities had with their shared educational and social background drawn closer while working together for independence. These leaders came also to share a political vision of a multiracial society.

However, the experiment in multi-ethnic coalition came under pressure from all sides. Many Malays were unhappy with the constitution, which they claimed had relaxed citizenship conditions. There was dissatisfaction that

Bahasa Melayu (the Malay language) was not accorded its proper role, that Islamic laws were not introduced, and that the economy was still dominated by non-Malays. The Chinese, on their side, contended that Malay special rights were discriminatory and were disappointed that the Chinese language and education were not recognized. Delineation of electoral boundaries which favoured the rural and Malay electorate had also reduced non-Malay representation in parliament. Such communal expressions led to disputes, and communal disappointments with the Alliance led to serious losses for it in the elections held after Independence.

Altering Power Equilibrium for Co-operation

In the 43 years since Independence, there have been significant adjustments in the balance of political power affecting the Chinese. A watershed in Malaysian politics came with the riots and inter-ethnic violence which broke out in May, 1969, in the aftermath of the general election which saw the ruling coalition lose two state governments and a significant number of seats (Gagliano 1970). The United Malays National Organization and Malaysian Chinese Association blamed each other for the defeats, which heightened ethnic tension.

The government immediately following this introduced two policies with far-reaching impact. The first was the implementation in 1971 of the New Economic Policy (NEP), which as already indicated aimed at creating a Malay commercial and industrial class, and projected that at the end of 20 years Malays should have a 30 per cent share of the country's corporate interests. Chinese businesses subsequently complained that they suffered under the Policy because licences and contracts were largely reserved for Malays or state-backed enterprises. By 1985, 73.5 per cent of licences in logging, and 63.9 per cent in road transport, were already taken up by Malays. Two regulatory bodies, the Capital Issues Committee set up in 1968 and Foreign Investments Committee established in 1974, accompanied the introduction of the Industrial Coordination Act of 1975 as vital instruments in corporate restructuring.

The second crucial introduction was the National Education Policy, which required the education system to use Malay. Quotas for admission into universities and allocation of scholarships for Malay students were also enforced. Chinese enrolment in local universities thereupon fell in percentage terms. The non-Malays protested, and their appeals for a more equitable share of places resulted in an agreement in 1978 between the non-Malay parties of the *Barisan Nasional* or National Front and the government. Under this agreement the ratio for university admission was to be 55 per cent for Malays and 45 per cent for non-Malays (Crouch 1996; Milne and Mauzy 1978).

In the aftermath of the 1969 riots, inter-ethnic co-operation remained a fundamental framework for Malaysian politics. But the return to such co-operation was possible only on condition there was Malay political primacy. In

politics, the three-party Alliance was replaced by the *Barisan*, where the United Malay National Organization dominated over a constellation of 14 members. The Malaysian Chinese Association was no longer the only Chinese-based party, and more significantly lost the portfolios of Finance and Commerce and Industry through which it previously safeguarded Chinese business interests. This change was accompanied by an acceptance of the symbols of Malay supremacy such as language, culture and religion. But once the change was clearly defined, the basic concern of non-Malays was given due attention.

Chinese Political Adjustments

Having weak political influence was not new to the Chinese in Malaysia. They had experienced this condition in the early Malay states and during the colonial period. But compared to the past, the Chinese in Malaysia are able to insist on some political input if there is to be stability and economic progress. The Chinese have organized their own political parties, and these are part of the ruling coalition at federal and state levels. Hence in 2000 there were six Chinese cabinet ministers, one state chief minister, one state deputy chief minister, and a significant number of representatives in state executive committees.

Three of the four major parties representing the Chinese are in Peninsular Malaysia. These are the Malaysian Chinese Association, the *Parti Gerakan Rakyat Malaysia*, and the Democratic Action Party. The fourth party is the Chinese-based Sarawak United People's Party in Sarawak. The Chinese in Sabah have backed multiracial parties, and in 1994 a number of Chinese left *Parti Bersatu Sabah* to form the Liberal Democratic Party, which is part of the state *Barisan Nasional* government.

The Malaysian Chinese Association is decidedly Chinese and is the most senior party after the United Malays National Organization. The majority of its members are Chinese-educated, while its top leaders have, over the years, come largely from the English-educated group. As leader of a Chinese party, the president of the Association officiates at functions of Chinese guilds and organizations. The leaders of the *Gerakan* and the Democratic Action Party cannot get involved in this way without having their non-racial claims questioned.

The Malaysian Chinese Association has the organization, resources, and sentimental support of the Chinese to start programmes to assist its own ethnic community. In the late 1970s the party started the Tunku Abdul Rahman College, Kojadi, the Malaysian Chinese Cultural Council, and the company Multi-Purpose Holdings (Gale 1985). The party bought the English-language newspaper, *The Star*, and a Chinese newspaper, *Tong Bao*. Tungku Abdul Rahman College offers alternative higher educational opportunities to the Chinese, while Kojadi is a savings scheme giving scholarships and loans for lower-income members of the Association. The Cultural Council allows the party to participate directly in the language and culture of the Chinese, and this partially placates educational pressure groups.

The Association has support amongst a significant proportion of Chinese in rural and semi-rural areas. In these places, voters are more confident about its ability to address basic needs such as tenure and amenities, and to help ensure development in their localities. For this reason, the Association performs far better in state than in parliamentary elections, since the states oversee most land and infrastructure development. Some support for the Association in urban areas comes from hawkers and small businesspersons, who rely on party help when applying for business approvals.

The *Gerakan* strives for a non-communal approach to Malaysian politics, but is unable to shake off the image of being Chinese-based and invariably competes with the Association for Chinese support. The *Gerakan* has difficulties in expanding beyond its Chinese base, because to do so would be to encroach on the ethnic constituencies of other *Barisan Nasional* members. The *Gerakan* has survived because it has a regional base in Penang, which is a Chinese-majority state where it holds the Chief Minister's post.

The Sarawak United People's Party in Sarawak, like the *Gerakan*, is also regional. It is able to play a very influential role because *the Partai Pesaka Bumiputera Bersatu*, which leads the ruling coalition in Sarawak, is essentially based on the small community of the Melanau. It therefore relies on Chinese backing. One of three deputy chief ministers of the state, and one of the two mayors of Kuching, is from the United People's Party. Given such influence, the Sarawak Chinese and particularly the Foochow group, enjoy considerable access to economic opportunities.

The Democratic Action Party may be said to be one of the longest surviving opposition parties in Asia. Other non-Malay opposition parties in Malaysia, such as the People's Progressive Party, the United Democratic Party, and the Labour Party have either joined the *Barisan* or become defunct. The Democratic Action Party can also claim to be the only truly pan-Malaysian party, having participated in elections in Sabah and Sarawak. The Party being in opposition finds less restraint in strongly articulating issues that affect the Chinese. It has also taken up national issues, and in recent years increasingly spoken up for specific Malay individuals or groups. This has taken some of the sharp communal edges off the Party and given it a more acceptable standing among the Malays. Attracting younger members has always been a major problem faced by the Party, however.

The differences between the four Chinese-based parties are more apparent than real, and on the Peninsula members crossed over easily from one of the three parties to the other. All four parties believe in the integration of the Chinese in Malaysia, but are nevertheless anxious that the Chinese maintain their distinctiveness. They support Chinese education and the Chinese language, while Chinese educationalist groups have been willing to work through them.

The Chinese-based parties are increasingly seeking a less communal approach, and even the Malaysian Chinese Association is striving for a more multiracial stance. The latter has, for instance, liberalized its membership to allow those with only one Chinese parent to join up. Its Tungku Abdul Rahman college enrols a significant proportion of non-Chinese students. The Association has also recently launched the Langkawi Project, which provides educational assistance to all ethnic groups in rural areas.

All Chinese-based parties including the Democratic Action Party accept that effective and meaningful political participation requires political co-operation with the Malays. The Democratic Action Party entered into an electoral pact in 1990 with Semangat 46, a party formed by dissidents from the United Malays National Organization (Means 1991). It collaborated in 1999 with *Parti Keadilan*, a reformist party of largely Anwar supporters, and with the religious-based *Parti Islam SeMalaysia* (PAS or Islamic Party). For the first time since the Socialist Front, there was an opposition coalition of ethnic-based parties in a format resembling the *Barisan Nasional* and offering a credible alternative. In the 1999 general election, the Democratic Action Party joined the *Parti Keadilan*, *Parti Islam SeMalaysia*, and *Parti Rakyat* in an electoral pact.

The United Malays National Organization finds its own coalition arrangement a political advantage. Non-Malay votes are crucial in keenly contested Malay constituencies against the more Islamic *Parti Islam SeMalaysia*. In the past, disciplined Malay voters consistently helped Chinese-based coalition parties to win in mixed areas. Then in the 1999 election, Chinese votes were vital to the United Malay National Organization candidates against the *Parti Islam* in areas with strong Malay disaffection against the government. Furthermore, while the Organization is still the largest party in parliament, it does not have a two-thirds majority. This majority is required to amend the constitution, and in such an eventuality the support of Chinese-based parties is crucial. Finally, Organization leaders use the plea of inter-ethnic co-operation as a way of turning down what they themselves consider extreme demands from members within their own constituency.

Those young and able Chinese fired with idealism but reluctant to join what they consider parties with narrow communal concerns find they are increasingly drawn to the voluntary, non-government organizations and social movements. They are anxious to help alleviate depressed social conditions and to raise awareness of global concerns such as the environment, nuclear non-proliferation and human rights. The NGOs have generally transcended narrow ethnic preoccupations in approaching such problems, and in expressing a more Malaysian perspective help promote some integration. There are now more Chinese participating in NGOs such as consumer organizations, environmental protection movements, legal aid associations and drug rehabilitation bodies. Recently, and as discussed in Chapter 15, some members of NGOs have taken more political stances in response to the call for reforms.

THE ECONOMIC POSITION

Figures released by the government in 1995 indicate that the Chinese still owned 40.9 per cent of the total share capital of Malaysian companies. This was a decline from 45.5 per cent in 1990. Estimates suggest that the Chinese hold 50 per cent of the construction sector, 82 per cent of wholesale trade, 58 per cent of retail trade, about 40 per cent of the manufacturing sector, and almost 70 per cent of small-scale enterprises. Clearly, economic opportunities for the Chinese have been greatly reduced since implementation of the NEP (Phang Hooi Eng 2000).

The older and larger Chinese businesses which started in the pre-Policy period maintained their position. They adjusted themselves to the Policy environment by working with powerful Malays, and through them protected their business interests. In the early 1970s there were still very few Malay corporate and entrepreneur figures. Chinese corporations thereupon appointed prominent Malay politicians and bureaucrats to their boards, and through them gained access to the power-holders.

The NEP and subsequent developments in the 1990s created successful and wealthy Malay businesspeople. These Malays benefited from the recent government privatization policy, which transferred many state enterprises to the private sector. This new Malay corporate group is more confident than its predecessors, and its members are fast replacing former Malay bureaucrats as the dominant group. The corporate Malays also rely less on the Chinese. The new Malay entrepreneurs had already reached the commanding heights of the banking, plantation and mining sectors by the mid-1980s (Mehmet 1986).

Even with the NEP a number of new Chinese companies have succeeded. Some major corporations largely owned by young Chinese have emerged more recently, at a time when there have been spectacular Malay gains in the corporate sector. The rapid diversification and expansion of a few of these companies have been credited to powerful Malay backing. These new Chinese businesses have brought management and trading skills with them, and have gained a reputation for corporate daring as they took over old companies and turned them into widely-diversified, although sometimes highly-geared, enterprises. Some of the companies have gone into ship-building, steel mills, high-technology industries, and even defence projects. There appears also to be a generation factor in these Sino-Malay enterprises, with many newer companies being headed by young Chinese of almost the same age as emerging Malay political and economic leaders. Chinese businesspeople in the coming years will increasingly depend on connections with powerful Malays.

The pressure of the NEP is most felt at the middle level, where the Chinese face an expanding group of Malay entrepreneurs and contractors. There are more bureaucratic guidelines and these are better enforced. Many Chinese therefore take on Malay partners, or accept work from Malays who have won major government contracts. Overall, the Chinese have held on to the retailing

business because they have developed the essential networking, while other Chinese businesspeople have ventured into new types of trade. Manufacturing and high-tech industries have especially attracted the Chinese, given the thrust of Malaysia's economic development and the fact there are less NEP encumbrances in those sectors. The figures show that in the mid-1990s an estimated 70 per cent of small and medium-size industries were Chinese-owned (Cheong 1992 and 1995).

The Chinese make a vital economic contribution through the management and technological skills they provide, and are also important for the capital they mobilize. A major feature of all this is the networking on which Chinese rely to give them a competitive edge. This can be traced to the 19th century, when Penang and Singapore were used as key centres linking major ports of the region. That link is retained today to facilitate business engagements and help open opportunities in new regions, with the connections extending to Hong Kong and Taiwan. Such networking based on cultural solidarity is regarded as facilitating Chinese business in Southeast Asia (Sia 1993; Backman 1995), and could some day spread to Chinese in places such as Australia and Canada.

THE SOCIAL POSITION

Business networking among the Chinese in Malaysia relies on the maintenance of distinctives that are Chinese. Traditional beliefs and religions of the Chinese remain important. Thus many Chinese are Buddhists, and in recent years there has been a revival of the faith. There is also a significant group of Chinese who are Christians, and the number is growing within the Protestant charismatic movement especially. Chinese conversion to Islam remains low in Malaysia, however, for this is regarded as abandoning the Chinese identity, although such a view is not held of Chinese Christians. According to the 1991 census there were 15,000 Chinese Muslims in the country, or 0.4 per cent of the Chinese population.

The persistence of the Chinese distinctives must also be viewed in the light of continuing Malay nationalism and, more recently, of Islamic resurgence. The assertive pushing of the Malaysian identity to a more Malay and Islamic definition has shifted the line beyond what non-Malays are willing to concede.

As such, Chinese education remains important to the Chinese, constituting an integral part of the national school system with 27 per cent of total educational enrolments in 1995 being in state-supported Chinese primary schools. Nowhere else can there be found a Chinese-language education stream that is part of the public system. About 80 per cent of Chinese send their children to Chinese primary schools (Kua 1985) where, interestingly, there are some 50,000 Malays. The appeal of Chinese education is also economic, in that Mandarin is widely used by a majority of local Chinese businesspeople as well as in the East Asian region. Furthermore, the results of the Chinese senior middle three examinations are accepted for entry by many overseas universities. The educational and employment prospects for those coming out of Chinese schools are thus no longer so bleak.

The government allows some 60 Chinese private schools to operate, with some of these receiving occasional grants from the state governments of Sabah and Sarawak. The Chinese educationalist group *Dong Jiao Zhong* started the New Era College in Kajang, Selangor, to train teachers for independent Chinese secondary schools and provide higher education opportunities for the Chinese-educated. There are for the Chinese, and in particular the Chinese-educated, nearly half a dozen widely-circulated Chinese newspapers, while Chinese TV and radio programmes are aired on state and private stations. Thus, although Chinese is not recognized as an official language, it is widely used.

Chinese associations and trade organizations are still vibrant institutions, both in cultural and business affairs. The Associated Chinese Chambers of Commerce and Industry represent all corporations and business groups, with concerns and problems affecting Chinese business being raised by it. The Federation of Chinese Assembly Halls is the umbrella body at national level for all guilds and associations representing different clan and dialect groups. The Associated Chinese Chambers and the Assembly Halls together take an interest in the social, cultural and economic affairs affecting the Chinese.

There have been significant social changes within the Chinese community since Independence. Most Chinese are now local-born, and an entire generation has gone through the national education system which is in the Malay language and Malaysia-oriented. Nevertheless, Chinese- and English-educated Malaysian Chinese will still remain influential, because many persons will continue to study overseas. The economic growth of China, Taiwan, and Singapore has enhanced the value of Chinese as a regional business language, and English remains useful for international communication.

The Chinese in Malaysia have a lower birth rate than other groups, and it is estimated that by the year 2020 they will form no more than 18 per cent of the total population. And with increasing urbanization among the Malays, Kuala Lumpur and other cities will no longer be predominantly Chinese. These population trends have already affected the electoral pattern and had political impact, and in the 1995 elections there were fewer urban constituencies which were predominantly Chinese.

MAINTENANCE OF A MULTIRACIAL SOCIETY

There are those who hope that a larger economic and political role by Malaysia on the international scene will help Malaysians transcend domestic concerns defined by ethnic identification. Nevertheless, the existing format of inter-ethnic co-operation will continue in the present realities of domestic politics. The ruling coalition of the *Barisan Nasional* is seen as the only mechanism

capable of mediating differences among the races, and it is through this that the Chinese have a role in government. Many Chinese believe that their interests are safeguarded only through supporting moderate United Malays National Organization leaders in the government.

The maintenance of this multiracial mechanism rests on three conditions. The first is Malay political pre-eminence. The second is acceptance of the basic rights of non-Malays, including citizenship, language and freedom of religion. The first two conditions serve to restrain extreme demands from all sides. The third condition is a commitment to creation of a Malaysian identity.

The Chinese accept the United Malays National Organization as the dominant party within the coalition, but look towards its leadership to check more extreme demands within the party. They, and especially their business groups, are comfortable with the present Malay leadership under Dr Mahathir Mohamad (Gomez 1994 and 1999). His government is seen not only as consistent and fair, but also as friendly to business. Thus, trade procedures have been liberalized, the government is actively promoting international business, and some space is opened up for Chinese business as the economy grows. This is even as the state continues to promote Malay corporate interests. The inflow of foreign investments such as those from Taiwan has created new business and employment opportunities, which have benefited previously peripheralized groups such as the Chinese-educated (Toh 1994). Not surprisingly, therefore, non-Malay political leaders rallied around Dr Mahathir in the recent currency and stock-market crisis. Dato' Seri Dr Ling Liong Sik, the leader of the Malaysian Chinese Association, arranged a gathering of prominent Chinese businesspeople to declare support for the Prime Minister.

Malay self-confidence, in turn, allows members of that community to deal boldly with anxieties that colour their perception of the Chinese. Relations with China provide an example. Malaysia did not open relations with China until 1974, largely because Beijing was accused of previously supporting the Malaysian jungle insurgency of the 1950s and of being an alternative centre of loyalty. It was only under Dr Mahathir that trade and investment with China were expanded (Leong 1987 and 1995). It was reported in 1994 that 36 large corporations listed on the Kuala Lumpur Stock Exchange had signed Memoranda of Understanding or joint venture agreements with China, with an estimated value of RM8 billion. Many of these contracts were entered into by corporations such as Petronas, Renong, Hicom and EON, which have predominantly Malay or government equity. There have also been several joint ventures involving Malay and Malaysian Chinese companies.

A conference on Islam and Confucianism held at the University of Malaya, Kuala Lumpur, in March, 1995, was seen by many to have political significance, particularly as it received the patronage of the then Deputy Prime Minister, Dato' Seri Anwar Ibrahim. Aspects of Chinese culture had in the past been unacceptable in officially sponsored public forums, but on this occasion Confucianism was allowed to share a platform with Islam.

Dato' Seri Anwar made an official visit to China in September, 1994. He visited the birth place of Confucius and the tomb of Cheng Ho, the famous Chinese admiral. Cheng Ho, a Muslim, had called at Melaka in the early years of the sultanate. The Chinese took Anwar's visit as a Malay acknowledgement of the community's heritage, and of China's past friendly links with the region.

Many Chinese have been surprised by the new display of tolerance in cultural and language matters. The acceptance of cultural pluralism is in evidence during public functions and in the largely state-controlled radio and television media. Chinese-costumed drama, once banned, is now shown on prime-time TV. The continuing practice of Open House, when members of different ethnic groups visit one another on festive occasions and the use of the term *Kongxi Raya* (made up of Malay and Chinese greetings when the two communities' celebrations coincide), illustrate the relaxed inter-ethnic relationship that now usually prevails.

Dr Mahathir more than any other leader has addressed the hope of reaching a truly Malaysian *bangsa* or nation. In his Vision 2020 statement (Mahathir 1991), he gave his vision in 1991 of a new and united society by the year 2020, and expressed his confidence that a people entirely Malaysian in outlook would emerge. Subsequent government decisions and statements have given reason to the Chinese to be optimistic about the commitment of senior leaders towards such a goal. Thus, Dr Mahathir, in declaring open the second World Hokkien Conference in August, 1996, declared that Malaysia accepts multiculturalism and that while 'the Malay language is the national and official language, the languages and cultures of the other races will be preserved' (*Star* 1996b). He stated that having different roots does not affect loyalty to the nation.

The launching in August, 1996, of a RM3 billion government investment fund open to all young Malaysians was of equal significance. All past government-managed investment funds such as the *Amanah Saham Bumiputra* had been reserved for Malays, and the launching of *Amanah Saham* 2020 was an affirmation that young Malaysians of all races had a stake in the future of the country (*New Straits Times* 1996).

The Chinese are hopeful that a strong and confident Malay leadership will implement policies that are fair. Evidence of this lies in the encouragement given to private business, which has recently been extended to the field of education. Regulations have been relaxed allowing the expansion of private colleges, and permitting twinning arrangements between these institutions and foreign universities. That has increased opportunities in higher education while cutting costs to affordable levels. It is not only the increase in places but also the broader access to professional courses such as economics and business, accountancy, engineering and information technology that are popular with non-Malays.

The resurgence in Islam and declared Islamization programme in Malaysia continue to worry the Chinese. Some Chinese hope that the universalism taught by Islam will be a moderating influence on Malay nationalism. Some Chinese indeed respond to Muslim groups, and in 1986, for example, they formed the Chinese Consultative Committee to support the *Parti Islam SeMalaysia* in the elections. This was because some leaders of that party were willing to accept multilingualism and to review the status of Malay special privileges within the teaching of Islamic justice.

For other Chinese, however, the more tolerant and relaxed policies have not extended to addressing more serious grievances. They are unhappy with reduced Chinese representation in the Federal cabinet, restricted entry to the civil service, poor promotion prospects in that service, limited scholarships and places in universities, and fewer business opportunities. They complain that business benefits through the privatization of state utilities and services have been chiefly to Malays. They also note that approval for new Chinese primary schools to cope with increasing enrolment is difficult to obtain.

At the same time, the liberalized policies cause concern to some Malays. Malay intellectuals are worried that the expansion of private colleges will frustrate efforts at redressing the ethnic balance in educational opportunities. There are also fears that the use of English as the medium of instruction undermines the status of Malay as the country's official language.

CONCLUSION

The political influence and economic role of the Chinese may have been reduced, but their presence and participation are still important for continued stability and development in Malaysia. This importance has been demonstrated over the last two years following the Asian financial crisis and the sacking of the then deputy Prime Minister, Anwar Ibrahim. These events led to an erosion of Malay political support for the United Malays National Organization, and in the 1999 general election it was Chinese backing that ensured the ruling *Barisan Nasional* was returned with a two-thirds majority. Chinese business has also been officially acknowledged as helping the country's economic recovery.

The participation of the Chinese is important to maintain a multiracial image and the stability necessary to attract foreign investors in Malaysia. Certainly, the present Malay political leadership values the continuance of a multiracial society, and considers this an achievement of Malay nationalism. This multiracial society remains a valuable asset in the expansion of Malaysia's regional and international interests.

14. The Struggle for Women's Rights Within the Religious Framework: The Experience of Sisters in Islam

Zainah Anwar

The biggest challenge facing Muslim societies today is the challenge of change. How does one reconcile the tenets of one's faith to the challenge of modernity, plurality, and changing times and circumstances?

The reassertion of Islam that has gripped almost all Muslim countries has brought forth different levels of tension and competing ideologies within these societies: what Islam and whose Islam is the right Islam? In this conflict, the status of women has always been the first battleground.

The turn towards Islam is often marked not by the liberating message of the religion that granted women rights considered revolutionary 1,400 years ago, but instead is dominated by growing intolerance and repressive teachings and practices.

And yet there is consensus from obscurantist to modernist scholars of Islam, at least at the rhetorical level, that Islam is a religion that liberated women: the Qur'an[1] granted women the right to contract marriage, to divorce, to own and to inherit property, and to dispose of it as they please. The Qur'an outlawed the practice of female infanticide and enforced the payment of dowry to the bride herself, and not to the bride's father or guardian. In granting women all these unprecedented rights and in disallowing unjust practices of the past, the Qur'an recognized women as individuals and endowed them with rights and with a legal competence they did not possess before.

What has happened to this founding spirit of equality and justice for women so insistently enjoined in the Qur'an? Malaysia is often considered as a model Muslim state, where Islam, modernization and pluralism have cohabited comfortably and peacefully. This is true in many ways. However, much as women in Malaysia enjoy many rights and benefits that are often denied to their sisters in other Muslim countries, there is growing concern that the reassertion of conservative Islam, and of traditional beliefs justified in the name of religion, increasingly undermine women's ability to access those rights granted to them under the law. In the past few years, several new Islamic laws and amendments were introduced that not only further repress women and deny them their right to equality and justice as enjoined by the Qur'an, but represent a rollback of the rights that Malaysian women have enjoyed.

The situation in Malaysia is further complicated by the constitutional provision that religion is a state matter. This means that there is no uniform

Islamic law in Malaysia, as the 13 states and the Federal Territories have a right to legislate on Islamic matters. At the federal level, the Islamic Affairs Department under the Prime Minister's Office is responsible for co-ordinating the administration of Islam throughout the country. A federal-level Technical Committee, in consultation with state authorities, takes charge of drafting model Islamic laws to ensure uniformity and avoid conflicts and contradictions among the laws of the different states. However, states habitually make their own amendments to the model laws when they are subsequently adopted by the state legislative assemblies.

REPRESSIVE TRENDS

Several new Islamic laws and policies, and amendments to existing laws introduced in the 1990s, increasingly reflected a trend towards repression of women's rights and the fundamental liberties of citizens living in a democratic country. In all these instances, women's groups led the way in protesting against these efforts to reverse the gains women had made in Malaysia and to curb the fundamental liberties of citizens in the name of religion.

1. The Syariah Criminal Code (II), 1993, of the State of Kelantan. The code, which contains contentious provisions for *hudud* punishments (penalties fixed by the Qur'an and Sunnah) - such as flogging, amputation of limbs, stoning to death and crucifixion also discriminates against women in several ways: the presumption of *zina* (adultery/illicit sex) by an unmarried woman if she is pregnant or has delivered a baby, even though she might have been raped; the inadmissibility of women as eye-witnesses; the termination of a marriage by a husband's accusation (*al-li'an*), whether proved or not, of *zina* against his wife; the implied endorsement of the view that *diyat* or compensation for death or injury to a woman should be half that of a man (Sisters in Islam 1993). However, without an amendment to the federal Constitution which lists crime as a federal matter, the Kelantan state government, which is controlled by the Islamic opposition party, *Parti Islam SeMalaysia* or PAS, is unable to implement this criminal legislation.

2. The Domestic Violence Act, 1994. When consultations first began between NGOs and various government agencies for such an Act, there were attempts to exclude Muslims from its jurisdiction because of the belief that Muslim men have a right to beat their wives. After five long years of negotiation,[2] consensus was reached, albeit an unsatisfactory one as far as the women's groups were concerned, and the Bill was finally passed by Parliament in 1994. In spite of this, it took two long years and a public campaign by women's groups to finally see the law gazetted and implemented. This was because certain religious authorities objected to its implementation to include Muslims.

The objections to the law were two-fold. First, it was argued by its religious opponents that 'a few things under *syarak* (Islamic law) are not considered violent, but under the Domestic Violence Act are considered violent', implying that domestic violence may constitute a crime if committed by non-Muslims, but not by Muslims. Second there was a question of jurisdiction: that domestic violence is a family matter and not a crime, and therefore should come under the *syariah* (Islamic law) jurisdiction of each state which governs the personal status of Muslims.[3]

Women's groups campaigning for an all-inclusive Act to cover Muslims and non-Muslims objected to these arguments. In a letter to the editor, the Sisters in Islam (SIS) pointed out that domestic violence is a crime under the Act and that the Act as a criminal law therefore came under federal jurisdiction (*Star* 1996a). They also argued that all persons who committed an act of violence must be subjected to the same criminal law in Malaysia, and that survivors of domestic violence must be provided with equal protection under one law and not 14 different state religious laws. In June, 1996, women's groups finally succeeded in getting the Domestic Violence Act gazetted and implemented to include Muslims.

3. Amendments to the Islamic Family Laws. After the late 1980s, several states in Malaysia amended the Islamic Family Laws to the disadvantage of women. The amendments included:

- *Allowing a polygamous marriage contracted without the permission of the Court to be registered.* Even though the law states that no polygamous marriage can be contracted without the prior written permission of the Court, this provision was later amended to allow the above concession. This led to a proliferation of illegal polygamous marriages, contracted in southern Thailand or by illegal marriage syndicates operating in Malaysia. In some states the number of polygamous marriages contracted without the permission of the Court was more than three times the officially sanctioned ones. With the loophole in the law, these marriages could now be registered, upon payment of a minimum fine for breaking the law.
- *Deleting the fifth condition before permission for polygamy can be granted.* This involved removing the condition that the proposed polygamous marriage should not directly or indirectly lower the standard of living enjoyed by the existing wife and dependants, thus making it easier for a man to be given permission to take a second wife.
- *Registration of divorces pronounced outside court.* The original intention of the law reform committee was to prevent unilateral declarations of divorce by irresponsible husbands. Thus the provision of the law was that a divorce could only be pronounced in Court. But this provision, as with the polygamy provision, was amended to provide for the Court to approve divorces pronounced by a man without permission of the Court, if it was satisfied that the *talaq* (repudiation) was valid. Research showed that as a result of this amendment, the number of men who unilaterally divorced their wives outside the Court was more than three times those who applied for divorce through the Court (Women's Crisis Centre, Penang 1996). This amendment was a serious setback, because divorce is often granted to men without any ancillary claims being settled. More perniciously, women often found they had been divorced merely through a bureaucratic letter from the *syariah* Court informing them of their husbands' unilateral act. The original intention of the reforms in the family law to grant women more justice in the event of divorce was violated by this amendment.

Other rights, including the termination of a woman's right to *iddah* maintenance (during the three-month waiting period) and to accommodation have also been further restricted. The maintenance of an illegitimate child also now falls solely on the mother.

Where is the justice for women in all these amendments that violate the spirit of reform and justice for women informing the original Islamic Family Laws introduced in the early 1980s?

4. The *Syariah* Criminal Offences Act. Since 1994, most states in Malaysia have adopted the *Syariah* Criminal Offences Act/Enactment which contains provisions that have no basis in the textual sources or historical practices of Islam, and furthermore violate fundamental principles of democracy and the civil liberties of Malaysians as guaranteed by the federal constitution. These laws were passed without any substantive debate in Parliament and the State Legislative Assemblies, thus leaving the public ignorant of the draconian direction that Islam in Malaysia had taken.

Under these laws, *fatwas* issued by the state *Mufti* (the top religious official at the state level) are given the automatic force of law without going through the legislative process. Any violation of the *fatwa,* and any effort to dispute or give an opinion contrary to the *fatwa,* constitutes a criminal offence. To even possess books on religion that are contrary to a *fatwa* currently in force is also an offence. Only the *Mufti* has the sole power to revoke or amend a *fatwa.* These provisions are tantamount to rule by decree of a theocratic dictatorship, and yet the laws sailed smoothly first through the drafting and official approval stages, and then through the legislative process.

In Muslim societies, *fatwas* never had and still do not have the automatic force of law. *Fatwas* are theological and legal reasonings given by the *Mufti* to enlighten and educate the public about Islam, and to assist them in arranging their affairs in accordance with the *syariah.* They are regarded as advisory opinion and are not binding and enforceable on the people. They act merely as a guidance, not an order for the government to enforce by law.

One reason why the doctrine of binding precedent did not evolve in Islam is due to the belief that the opinion of one *mujtahid* (a religious learned person who practices independent reasoning or *ijtihad*) can never be regarded as the final wisdom in understanding the infinite message of the Qur'an. Another *mujtahid* can give an equally valid opinion based on his learned understanding of the Text. In the context of law-making in a modern democratic state, these differences of opinion should be debated fully in public. The legislative body, taking into consideration public opinion and the best interest of the community, will then decide which opinion it wants to turn into law.

What is of most concern here is how such laws could have been passed by all relevant arms of the state and federal governments without so much as a discussion on the wisdom of casting such undemocratic, unconstitutional, and some would say un-Islamic, provisions into law.

ISSUES OF CONCERN

If one were to examine the above examples of decision-making and law-making on Islamic matters in the 1990s, they all seem bent on curbing the civil liberties of Malaysia's Muslim citizens and, in particular, the rights of women. Where is that remarkable spirit of equality and justice which informed the efforts at law reform in the mid-1970s and early 1980s, and which resulted in the one of the most enlightened Islamic family laws in the Muslim world? Why is there such a huge gap between the ideals of justice and equality insistently enjoined in the Qur'an and the realities of many Muslim societies today?

In this context, four main issues that conditioned these disturbing trends need to be discussed:

1. The use of religion to justify the subordination of women. As with many other developing Muslim countries affected by the global Islamic revivalism, Malaysia is caught between the repressive tendencies of Islamic fervour towards the roles and rights of women and realities of modernization and economic growth which demand the education and employment of women. At a time when Malaysian women are increasingly better educated, well-travelled, joining the workforce in record numbers and being promoted into senior positions in government and private sectors, many in religious authority bombard women and the general public with messages contrary to their changing roles and realities.

On radio and television and in newspaper columns, schools, public lectures and religious classes, teachings of Islam that go against its fundamental principles of justice and equality are continually heard and read about (Norani Othman 1998). It is said that in Islam the man is superior to the woman, that men have authority over women, that the evidence of two women equals that of one man, that a man has a God-given right to marry four wives, that a woman would burn in hell if she leaves her head uncovered, and that hell is full of women who have been disobedient to their husbands.

On the one hand, the Malaysian government encourages women to pursue further education, to join the workforce and to actively participate in the economic growth of the country. But on the other hand, an important arm of the government, the religious authority at both federal and state levels, is sending conflicting signals about the proper role of women in the family and society which have little bearing to the changing realities of women's lives today. The degree of independence enjoyed by religious officials in the country, operating in an environment of public ignorance and fear on matters of religion, has enabled them to push their obscurantist vision of women's rights and responsibilities into the public sphere, dominating and setting the agenda of what is Islamic and what is not, and of what is right and what is wrong.

2. Women's continuing failure to enjoy social rights that will enable them to access the legal rights granted to them under the law. In the late 1970s, Malaysia embarked on a remarkable programme of reformation of Islamic family laws by adopting the juristic principle of *al-siyasa al-syariyya*. This recognizes the right of a state to enact legislation by choosing from among the four Islamic schools of jurisprudence the opinion best serving the Islamic community. Thus on matters where there is no specific text in the Qur'an or Hadith, the traditions of the Prophet, the state can choose from among variant juristic opinion that which is in the best interest of the community.

Malaysia's Islamic family laws are among the most enlightened. They grant a woman the right to divorce on 12 grounds. She is entitled to a division of the matrimonial property, whether she has financially contributed to its acquisition or not, and she is entitled to a compensatory gift if she has been divorced without just cause. But often these rights remain on paper only, or it takes years of struggle and frustration to obtain them because of prejudices and weaknesses in the implementation of the law and in the *syariah* system itself.

There is blatant gender bias displayed by many *syariah* Court judges in their handling of matrimonial cases initiated by women. Women wishing to obtain a divorce endure endless delays that can last for years, while their husbands contemptuously ignore court orders to attend counselling sessions, be present at court hearings, or attend arbitration proceedings. Even though the law provides for the Court to assume the authority to divorce on behalf of the husband if the parties fail to effect reconciliation, the Court is most reluctant to use this provision.

A major problem lies in the conflict between the personal beliefs of the religious officials and the codified laws of the state. Many of the traditional religious officials in the *syariah* system do not agree with what they consider as the too liberal provisions in Islamic family law. In most states in Malaysia, for example, a man has to fulfil four conditions before he can be granted the permission to marry a second wife. However, in practice, only the financial ability to support a second family is considered, if at all. The other conditions comprising just and necessary reason, the ability to treat his wives equally, and the prospect that the proposed marriage would not cause harm, physical, mental or spiritual, to the existing wife, are often ignored.

Moreover, many religious officials believe that polygamy is a God-given right in Islam and that there should not be any conditions placed in its practice. Thus, even though the law looks enlightened on paper, in practice it has failed to protect women's rights and interests.

The conflict between the federal government and state religious authorities extend from differences of view in the role of women in public life to differences in the development of Islam in Malaysia. The federal government believes in a progressive vision of Islam that recognizes women's rights, while the religious authorities at the state level are fundamentally opposed to this progressive vision. Efforts at securing law reform and uniformity of Islamic laws, initiated by the federal government, are often resisted by state officials who guard their independence jealously and often hold obscurantist values on women's rights and fundamental liberties.

Frequently, where there has been legal reform, this first step towards change has not been accompanied by any change in the mindset of officials responsible for implementing those laws. While the officials undergo training in the new provisions of the Islamic family laws, no training is provided to help them understand the perspectives and rationales for such reform. What is fatally missing is a gender perspective in the legal training of *syariah* court and religious department officials. This would enable them to apply the principles of justice and equality, guided by a more enlightened understanding of the teachings of the Qur'an.

3. The failure to recognize the difference between what is revealed, and therefore divine and infallible, and what is the result of human intellectual effort and social customs, and therefore fallible and changeable. Out of a total of over 6,200 verses in the Qur'an, only about 80 deal with legal prescriptions. The bulk of what is considered *syariah* today is made up of an enormous body of juristic efforts in interpreting the limitless message of the Qur'an. This is a human effort, an achievement by a particular group of people dealing with particular problems within a particular socio-historical context.

And yet traditional Islamic scholars have elevated the interpretations and commentaries of the earliest jurists in the earliest centuries of Islam to the same level as the word of God. For them to question those laws and those interpretations of the Qur'an that inform the law is to question the word of God, and thus to doubt the infallibility of God and the perfection of the message.

This belief of the traditional Islamic scholars is then used to silence any dissent, any questioning of the interpretation of the religion as propagated by the religious authorities, and any calls for reform. Yes, the Qur'anic message is universal and is a guidance to humankind for all times. The interpretation, however, of this limitless message of the Qur'an is a human effort, limited by the human capacity to comprehend that message, and limited by context and experience. For that universal message to be relevant for all times, interpretations of it must evolve with changing times and circumstances (Fathi Osman 1994).

4. The belief that only the *ulama* (Islamic scholars) have the right to talk and decide on matters of religion. Very few Muslims not traditionally educated in religion have the courage to question, or even discuss, Islam in public. They have been socialized to accept that those in religious authority know best what is Islamic and what is not. Many fear that if they were to express an opinion that differs from the mainstream orthodox view, they would be accused of being an apostate, of being against Islam, or of having deviated from their faith. This is the common experience of individuals and groups pushing for reform in many parts of the Muslim world.

Because of such fears, policy-making on matters of religion has largely become the exclusive preserve of the *ulama*. This has led to alarming and undemocratic developments in countries where religion is a part of public life. It is how legislation in Malaysia such as the *Syariah* Criminal Offences laws and amendments to the Islamic Family Act were passed in the 1990s without public knowledge or any public discussion. Government officials dare not even dot an 'i' nor cross a 't', let alone touch issues of substantive law, in handling legal drafts submitted by the religious authorities. Neither do politicians have the courage to disagree, question or challenge any Islamic bills before them.

This implicit trust in, and fear of, the religious authorities raises two subsidiary but critical issues. First, fear and ignorance on matters of religion among government officials and politicians led to a serious dereliction of duty by all other arms of government responsible for law-making, thus allowing the adoption of laws that not only violate the constitution, but have no historical precedent in Islam. The government had in effect delegated total responsibility in the interpretation and implementation of Islam to a tiny minority whose views and values are often contrary to the vision of Islam held by federal leaders and the silent majority of Malaysians.

Second, in a democratic society like Malaysia, can Islamic laws be made without going through the whole democratic process of law-making? There is a belief among those in religious authority that matters of religion should not be debated in the legislative assemblies by elected representatives not traditionally educated in Islam and by those who lead less than pious lives; and definitely not by non-Muslims. Neither should such matters be open to public discussion, since they genuinely believe that they in all their wisdom and knowledge know best what is Islamic and what is not. It is this belief that led them to promulgate a law that provides for *fatwas* to have automatic force of law, and to make it a crime to challenge or violate the *fatwas*.

But in a democratic country, the law-making process cannot be delegated to an exclusive group of people who are not democratically elected, who sit in a closed body, and who do not believe that others have a right to discuss, debate and question matters of religion. Worse still, those who dare to exercise their democratic right to participate are accused of having deviated from their faith, at best, or to be apostates at worst. In a democracy, the government and the religious authorities cannot remove law-making and policy-making on Islamic matters from the public domain just because it is religion. Doing this violates fundamental democratic principles.

WOMEN AT THE FOREFRONT

In many Muslim countries today, women's groups are at the forefront in challenging traditional religious authorities and their use of religion to justify women's oppression and subordination and silence any dissent. For most Muslim women, rejecting religion is not an option. Neither is living in exile. As Muslims and as believers, women want to find liberation from within their own faith. They feel strongly that they have a right to reclaim their religion, to redefine it, to participate and contribute to an understanding of Islam in respect of how it is codified and implemented. This must be done in ways that take into consideration the realities and experiences of women's lives today.

In Malaysia, the Sisters in Islam, a non-governmental organization committed to a struggle for women's rights from within the religious framework, has been at the forefront in challenging laws and policies that discriminate against women in the name of Islam. Through memoranda submitted to the government and letters to the editor on issues such as equality between men and women in Islam, polygamy, domestic violence, dress and modesty, equal rights to guardianship, and women's right to work, Sisters in Islam have offered alternative interpretations of the Qur'an and alternative juristic positions within the Islamic tradition that upholds the principles of equality and justice for women (Sisters in Islam 2000).

The group first came together in 1988 because of growing concern over the numerous complaints from Muslim women about injustices in the *syariah* court system and administration of Islamic Family Law. However, the author and other members of the group soon realized that dealing with the laws and the system was not enough without addressing the root of the injustices that women suffer. The women told the group that they very often suffered in silence, and accepted the violence, the injustice and humiliation because the religion said so. When they turned to religious officials for redress or counselling on marital problems, they were often advised to be patient and to go home and be obedient wives, because that was their role prescribed by the religion.

It was hard for the Sisters in Islam as believers to accept that their religion could be so oppressive and unjust to half the human race. How could God in all his infinite wisdom and compassion be so unfair to women? This questioning and, above all, the conviction that God could never be unjust, eventually led the group to go back to the primary source of their religion, the Qur'an. They felt the urgent need to read the Qur'an for themselves, and to find out if the Text actually supported the oppression and ill-treatment of women.

It was the most liberating, empowering and spiritually uplifting experience for the author and all the Sisters. They took the path of '*Iqraq*' (read, the first word revealed to Prophet Muhammad), and it opened a world of Islam that they could recognize, a world for women that was filled with love and mercy, and with equality and justice. All those values they believed in, the rights they wanted for women, the right to a life of dignity, equality, and justice, were enjoined in the Qur'an, not once, not twice, but repeatedly. They did not need to look any further to validate their struggle. Women's rights were rooted in their tradition and in their faith. It dawned on them then that it was not Islam that oppressed women, but interpretations of the Qur'an that had been influenced by the cultural practices and values of a patriarchal society which regarded women as inferior and subordinate to men.

For much of the 1,400 years since the death of the Prophet Muhammad, men have exclusively interpreted the Qur'an. The woman's voice, the woman's experience, and the woman's realities have been silent and silenced in the reading and interpretation of the text. Thus, when the Sisters in Islam began to read the text, they were shocked to find words, messages and meanings that they had never heard before in all the teachings of the religion they were exposed to in their lives.[5]

Since going public in 1990, Sisters in Islam has embarked on a wide range of activities that have been ground-breaking in many ways, and critical to the development of a progressive Islam in Malaysia. Its position recognizes women's rights and role as equal citizens and partners in all matters.

The public response to Sisters in Islam's work has been mixed. The group is encouraged by the support received from the various women's groups with whom it works closely on issues of women's rights in Malaysia, and from numerous individual men and women, young and old, who feel heartened that someone is speaking out on Islam from the perspective of rights and fundamental liberties. Both the English and Malay language newspapers have also been generous in giving the group space to print their long letters to the editor on various contentious issues.

Of course, as with any movement for change, there is much opposition. Because Sisters in Islam works with religion and the positions it takes often challenge the conservative mainstream view, its members have been called heretics and deviants, and their faith has been questioned. The common line of attack adopted by Islamist bodies and individuals against those who challenge the mainstream orthodox views are two-fold: first, they undermine the legitimacy of women's groups, such as Sisters in Islam, to speak on Islam by accusing them of having deviated from their faith. They accuse them of locating their arguments on an incorrect and unsystematic methodology of interpretation of the Qur'an. They also blame the groups for using their brains and logic and reason (*akal*), instead of referring to classical exegetical and jurisprudential texts.

The second line of attack is to contend that it is dangerous to offer alternative opinions and interpretations of religion, as this could confuse the *ummah*. It is asserted that alternative views that differ from the mainstream views are an insult to the Qur'an, inculcate hatred against *syariah*, and degrade women.

Such views really constitute an ahistorical disregard for the historical context within which the *syariah* was constructed, and of the consequently historical character of the *syariah* itself as it was developed and applied within early and classical Islamic civilisation. What needs to be challenged here is the claim by such Islamist forces that only their perspective and interpretation of Islam, of its values and its view of human rights and women's rights are the 'universal' and legitimate view for all Muslims at all times (Norani Othman 1997). In the face of general ignorance, fear and indifference by the public at large, the obscurantist views of the Islamists on issues such as women's rights and fundamental liberties have dominated the Islamic agenda.

But it is the unshakeable faith and conviction of the Sisters in an Islam that is just and liberating that gives them the courage to continue to stand up and speak out. To be cowed into silence is to give in to the forces of obscurantism, determined to perpetuate unjust patriarchal structures, values and practices in the name of religion.

NOTES

1. A popular English translation of the Qur'an including a commentary on it is that by Abdullah Yusuf Ali (1996). This volume is available in eight editions, and is printed widely in different countries.
2. The Domestic Violence Act is one of the few pieces of Malaysian legislation which involved extensive consultation and negotiation between the state and victims of violence and their support groups. A joint national committee was formed in 1989 to work on a draft domestic violence bill. The committee included women's groups, the police, the Bar Council, the Social Welfare Department, the Health Ministry, the Islamic Affairs Department and the Women's Affairs Department.
3. Malaysia, alone in the Muslim world, grants each state control over religious matters, an independence that each state guards jealously. This has led to contradictions and differences in the provisions of the law, as well as in interpretation and enforcement. These differences and the absence of reciprocal enforcement arrangements mean that errant husbands are able to cross state boundaries to circumvent the law to their own advantage.
4. For a further discussion of this argument, see Fathi Osman (1994).
5. Informed and enlightened discussion of Islam as a religion that recognizes and promotes women's rights and gender equality may be found in the works by Amina Wadud (1999), Ashgar Ali Engineer (1992), Fathi Osman (1996), Fatima Mernissi (1991), Leila Ahmed (1992), Sisters in Islam (1991a and b), and Stowasser (1994).

15. Non-government Organizations (NGOs) as a Vehicle of Social Change

Chandra Muzaffar

There are NGOs and NGOs. The concern in this chapter is with a certain type of NGO - that which is 'cause-oriented', to use a term popularized by the Philippine NGO movement. By cause-oriented NGOs are meant those which are committed to social change, and for that reason take up positions not always acceptable to the ruling elite of the day. Cause-oriented NGOs make it a point to interrogate the powers-that-be.

CAUSE-ORIENTED NGOs

NGOs concerned about consumer affairs, the environment, the impact of economic and social development upon the poor and powerless, human rights, women's rights, the role of youth in society, religion and social transformation, national unity, ethnic relations, and North-South relations in international politics would be among the more prominent cause-oriented types in Malaysia.[1] There were perhaps 50 - 70 NGOs fitting this category in the country in 2000. It should be mentioned that student movements are not being included in this discussion. Even though they are committed to various social causes, they are transient in nature and do not figure in most analyses of NGOs.

Cause-oriented NGOs first appeared in Malaysia in the late 1960s, and the Selangor Consumers' Association, set up in 1968, was the pioneer. Other consumer bodies emerged soon afterwards, to be followed by environmental organizations and further groups. Of course, women's organizations and youth movements (not connected to political parties) had existed for a long while, and even before Independence in 1957. But it was only in the 1970s that NGOs began to focus on public policies and legislation.

Four separate phases can be distinguished in the history of cause-oriented NGOs, and these are now addressed in turn.

First Phase

The first phase from the late 1960s to the late 1970s was not particularly outstanding. The NGOs were very much on the periphery of society, although they articulated issues of some significance to the public weal. ALIRAN

Kesedaran Negara (ALIRAN), an NGO founded by the author in 1977,[2] was, for instance, involved in the highly controversial Merdeka University issue. In the midst of all the communal posturing by leading political parties, ALIRAN sought to present through rational intellectual arguments a balanced perspective on the question of university education and national integration (ALIRAN Penang 1979). However, because of the seductive appeal of communalism in an ethnically divided society like Malaysia, the ALIRAN perspective had little public support. Be that as it may, the print media provided some coverage for NGO concerns on this and other issues, including those involving the environmental issue of Endau Rompin in the 1970s.

If NGOs commanded little support or influence in this first phase, it was partly because they were new in a society where public decision-making was largely elitist. The practice of non-governmental organizations providing inputs from outside the establishment was still uncommon. Besides, the middle class, which is traditionally the reservoir from which the NGO movement draws its sustenance, was relatively small in the 1970s. There were also other deeply entrenched attitudes and structures, which are discussed below and militated against the growth of independent, autonomous organizations seeking to shape the contours of society.

Second Phase

NGOs were thrust into the national limelight in early 1981, however. That was when the Malaysian government introduced amendments to the Societies Act, a move marking the beginning of the second phase in the life of cause-oriented NGOs. The amendments to the Act sought to classify societies registered under it which commented and acted upon political and social issues as 'political societies'. Certain categories of people - civil servants, academics, school teachers, etc. - were barred from holding office or participating actively in these societies unless they obtained prior permission from the relevant authorities. This promised to exclude from the nascent NGO movement those individuals and groups who were at its very vortex. Political societies were also prohibited from receiving funds from abroad, or from forging links with foreign organizations. It was obvious that the real motive behind the classification of cause-oriented NGOs as political societies was not only to emasculate them, but also to tarnish their image. These NGOs derived their credibility from the fact that they were not perceived by the general public as political organizations with partisan agendas. The issue was explored further by Muzaffar (1982 and 1986).

Why did the government amend the Societies Act in such a draconian manner when, as has been observed, cause-oriented NGOs wielded little influence on the overall political system? With the knowledge of hindsight, it appears that the government was trying to pre-empt NGOs with a critical outlook on public policies from developing political muscle, and perhaps even

a political constituency. It was apparent from pronouncements of government leaders that they were not comfortable with the response that ALIRAN, for instance, was getting from a segment of the growing Malaysian middle class. This explains why the Ministry of Home Affairs sent a 'show cause' letter to ALIRAN in October, 1980, threatening to de-register the organization because of a press statement it had made criticizing a new government salary revision that widened disparities between the upper and lower echelons of the public services. It was in fact the show cause letter to ALIRAN that triggered the Societies Act saga.

For a number of government leaders, an even greater threat to their position and power was the rapidly expanding popular base of the energetic and dynamic Islamic Youth Movement, the Angkatan Belia Islam Malaysia (ABIM).[3] Although ABIM was formally non-partisan, some of these leaders saw the youth body with its commitment to an Islamic social order as a closet ally of the opposition Islamic Party of Malaysia. If ABIM's influence among Muslim or Malay youths was not nipped in the bud, it would erode the political support for the United Malays National Organization. This, as already indicated in several previous chapters, was the mainstay of the ruling coalition at the helm of Malaysia since Independence. It was to forestall such adverse developments that the government chose to circumscribe cause-oriented groups through amendments to the Societies Act.

It is hardly surprising in light of this that the NGO opposition to the Societies Act amendments was led by the President of ABIM himself, Anwar Ibrahim, a 34-year-old activist teaching in a private school in Kuala Lumpur. One hundred and eighteen NGOs came together under his able leadership, and launched what became the most effective public campaign in Malaysian history against an undemocratic law. There was widespread support and sympathy for the anti-amendments campaign from significant sectors of society, including a section of the media and, more importantly, crucial figures within the ruling coalition itself. As a result, the government withdrew the controversial amendment on the classification of cause-oriented NGOs as political societies.

The upshot of the Societies Act dispute was that many people who previously had no inkling of NGOs or of the type of work they did began to realize that there were groups outside party politics prepared to speak up for the rights of ordinary men and women. The general public came to accept NGOs as part of the landscape. NGO activities, whether in publishing a journal, organizing a forum, presenting a petition to the authorities, or holding a protest meeting, acquired a certain legitimacy within a segment of the English-educated middle class in particular.

Certain other developments in the 1980s also worked to the advantage of the NGO movement. The middle class was expanding dramatically, at the same time as becoming more multi-ethnic. Important issues also cropped up during this period which engaged and agitated the public mind. The most notable of these were the Bank Bumiputra Finance scandal in 1983[4] and the amendments to the Official Secrets Act in 1986.[5] In both these issues - the first challenging the integrity of Malaysia's financial system and the second exposing the government's lack of commitment to public accountability - NGOs played a significant role in articulating and mobilizing mass sentiments. Although the NGOs failed to persuade the ruling elite to demonstrate its fidelity to certain ethical principles, it was apparent in both instances that this elite could not totally ignore their moral position.

But the economic recession from 1985 to 1987 helped more than the Bank Bumiputra or Official Secrets Act scandals to raise public awareness about the role of the state and the direction of Malaysia's development, indirectly strengthening the role of cause-oriented NGOs. These found that with less wealth around it was a little easier to convince the middle class that human rights and social justice were worthy of their attention! As was to be expected, the increasing importance and impact of NGOs generated uneasiness within government circles. While there was some space and scope for work by these groups, there was no doubt they were merely tolerated by a political establishment which often regarded their dissenting views as a unfortunate nuisance. Indeed, some cause-oriented NGOs were once described by a government leader as 'thorns in the flesh'.

It is because of this perception of NGOs that the government has, since the early 1980s, used both the carrot and the stick to weaken the movement. One could argue in this regard that the co-option of Anwar Ibrahim into the United Malays National Organization and the government in 1982 reflected this approach.[6] With this, the chances of a Malay-led but multi-ethnic mass political and social movement evolving out of the Societies Act protest faded into oblivion. It was indeed of more immediate concern that for many bright, educated Malay youths who would have otherwise expressed their idealism through NGO work, Anwar's joining the government amounted to a vote of no-confidence in the efficacy of channels outside the establishment as vehicles of social change. It is not a coincidence that with the departure of the charismatic Anwar from the NGO scene, ABIM for a while lost its lustre. His co-option was in this sense a serious setback for the NGO movement, which was just beginning to make inroads into the Malay community. It is one reason why for most of the 1980s the NGO movement taken as a whole had a non-Malay aura not quite matching the multi-ethnic concerns it espoused.

Yet the government's infamous 'Operasi Lalang' of October 1987 crippled the NGO movement more than Anwar's co-option. Using 'threats to national security' as the justification, the government detained without trial 118 individuals, many of whom were from leading Malaysian NGOs.[7] It is true that ethnic tensions were rising prior to Operasi Lalang, but as has been emphasized repeatedly, the majority of NGO activists arrested had nothing to do with ethnic issues then being championed. It has been rightly argued that the Internal Security Act was deliberately directed at NGO activists for another cleverly concealed reason, which was to stifle the growth of democratic

dissent. The government, it appears, wanted to send a clear, unambiguous message to the NGO community: that they were not exempt from the much-feared Internal Security Act if the causes they championed challenged the interests of the ruling elite.

The Act and Operasi Lalang changed the character of NGO activism in the second phase. That phase had begun with an attempt to curb cause-oriented NGOs, but the attempt produced the opposite effect. NGOs became known and grew in strength, although they lacked a multi-ethnic character. Then Operasi Lalang sent a chill down the spine, not only of the NGO movement but also of the Malaysian middle class.

Third Phase

This phase of NGO activism stretched from 1988 - after Operasi Lalang - to September, 1998, when Anwar Ibrahim was sacked from the government and the United Malays National Organization. In this phase, NGOs were not able to organize, mobilize and articulate public sentiments using the methods they employed in addressing the Societies Act, Bank Bumiputra Finance, Official Secrets Act and other issues in the second phase. One reason for this was that the state in the 1990s was much more dominant and much more powerful than it had been for most of the 1980s. A second reason was that Malaysia had for a decade experienced unprecedented economic growth, resulting in the unparalleled prosperity of the middle and upper classes. This prosperity lulled the middle class - the NGO reservoir - into a complacency expressed as a lack of interest in larger challenges related to social justice and human dignity. Was it any wonder then that NGOs were no longer in a position to enthuse the middle class to support them as they fought various social causes? This situation applied as well to the lower middle class, which had also benefited to some extent from economic development,

But although NGOs found themselves in somewhat different circumstances in the third phase, they were ironically more effective in some respects than they had been in the 1980s. Prominent NGO leaders were invited by the government to sit on the National Economic Consultative Council, which deliberated on and drafted the new National Development Policy which replaced the New Economic Policy (Muzaffar 1989) and has already been explained in earlier chapters. Indeed, these leaders' ideas constituted important inputs in the National Development Policy. NGO representatives were also consulted in the formulation of other policies and laws pertaining to the position of women and youths, to consumer rights or to the environment. There was also NGO representation on a government committee examining the causes of and remedies to social ills, and NGO leaders participated in a high level ministerial committee on world trade and the World Trade Organisation. At the same time, well known NGO personalities appeared regularly on television programmes, expressing their views without much inhibition on the economy, development, politics and international relations. This was certainly an improvement over circumstances in the 1970s and 1980s. Finally, NGOs were given specific allocations in the 1996 and 1997 national budgets, though one must add that the recipients were mainly welfare-oriented groups.

What was the explanation for this accommodative attitude towards NGOs and their leaders on the part of the government? It was partly because the latter had become so dominant and powerful that it felt strong and secure enough to grant some latitude to the NGO movement. It knew that NGO participation in certain specific areas within the public policy making realm was not going to affect its power in any way.

It is instructive in coming to appreciate the situation behind this change in outlook on NGOs to compare the control exercised by the ruling elite over the entire political and social system in the third phase to the position in the 1980s. Late in that decade the ruling elite, and specifically the Prime Minister, Dr. Mahathir Mohamad, was confronted by a serious split within the United Malays National Organization which threatened his own position. In the 1990 General Election an inter-ethnic coalition of sorts led by a splinter group from the Organization challenged Mahathir's ruling *Barisan Nasional*. For most of the 1990s, in contrast, he lorded it over a party which was very much at his beck and call. Thus, the 1995 general election saw the *Barisan* winning five-sixths of all parliamentary seats, its biggest victory since Independence.

Until October, 1987, a section of the mainstream print media was prepared to question certain state policies if it was in the public interest to do so, but after the licences of four of these newspapers were suspended in the aftermath of Operasi Lalang, dailies in all languages became much more subdued. The Malaysian judiciary, conscious of its role as a defender of justice, had not previously hesitated to make decisions which were not to the liking of the ruling elite. Yet that was only until its head was removed by the ruling elite in 1988, in a shameful episode which remains an ugly stain on the nation's honour.[8] Since then the judiciary as a whole has been subservient to executive power.

The dominance of the ruling elite in the 1990s was undergirded by a gamut of laws which have always served its interests. Apart from the Internal Security and Official Secrets Act, there was the Sedition Act, the Publications Act and the Police Act, all of which had been around for some time and were used now and then against NGO activists. But it was not through laws alone that the ruling elite was so dominant during this period. NGOs have sometimes tended to forget that the elite's strength was also derived from genuine mass popularity, which in turn was a product of effective public policies and public programmes serving the basic needs and aspirations of the people. The prosperity of the 1990s also made it easier for the ruling elite to maintain its dominance.

To all these factors one should perhaps add the readiness with which a significant segment of the populace accepted the authority of the ruling elite.

This is a crucial element in Malaysian political culture which has always worked to the advantage of the latter. Elite dominance, in other words, is supported by a certain notion of leader-led relationship, which the author has described elsewhere as 'neo-feudal' (Muzaffar 1979). This attitude, although declining, was still alive in the 1990s.

It should be emphasized that showing how the ruling elite had become even more dominant in the 1990s, and indicating this dominance as a reason for its accommodative attitude towards NGOs, by no means promotes the view that such dominance is a good thing or should be accepted. On the contrary, cause-oriented NGOs continued in the 1990s, as in earlier decades, to criticize elite dominance in all its manifestations These NGOs remained as cognisant as ever of the danger of elite dominance to the emergence of a healthy democratic polity.

Fourth Phase

The danger of elite dominance presented itself in a dramatic form in the wake of the Anwar episode in early September, 1998. This marked the beginning of the fourth phase in NGO activism, with that phase still continuing in 2000. The relationship between the state and cause-oriented NGOs underwent yet another change in this latest phase.

Anwar's removal from the Cabinet as Deputy Prime Minister and Minister of Finance, and his expulsion from the United Malays National Organization of which he was Deputy President, sparked mass protests. A significant segment of the Malay community, and especially Malay urban working-class and middle-class elements, saw the action against Anwar as unjust and unfair. They refused to accept Mahathir's allegation against Anwar that he was a homosexual and had indulged in immoral sexual activities. For many of them, the allegation was nothing more than a fabrication designed to eliminate a potential challenger to Mahathir's 17-year authoritarian rule. Besides, Anwar was perceived as a leader who was close to the people, who had championed the cause of the poor, and who had fought hard to ensure that the government and housing developers built low-cost houses for the marginalized.

A number of cause-oriented NGOs joined the protest movement against the Mahathir regime because of the injustice done to Anwar and his pro-people image. They were disgusted at the manner in which Anwar was humiliated through the government-controlled mass media, incensing the Malay community in particular because what was involved were allegations of sexual misdemeanour. The court trial which followed further angered that community, since it appeared to be a total farce in which truth and justice were the earliest casualties.

But the involvement of leading NGOs such as ABIM, the Jemaah Islah Malaysia (JIM), ALIRAN, and the Suara Rakyat Malaysia (SUARAM)[9] in the Anwar episode was not simply because of Anwar the person. For these cause-oriented NGOs, two interrelated dimensions of the Anwar episode were especially important. One dimension was that the masses were standing up for human rights and democratic freedoms. The Internal Security Act, freedom of expression and assembly, and the rule of law had become the foci of hotel waiters and taxi drivers and of young accountants and lawyers, who had hitherto been largely apolitical. This sea-change in popular attitudes was a major turning-point for the NGOs, which had for years articulated issues linked to human rights and democratic freedoms. But it took the Anwar episode to transform what were the intellectual ideals of a charmed circle in the cities into popular concerns shared by Malaysians across the length and breadth of the land.

The second dimension important to NGOs related to the fact that as Mahathir attempted to curb and control popular sentiments against his regime, he began to misuse and abuse the most fundamental institutions of governance - the police, the legal system, the judiciary, the media, the Anti-Corruption Agency, and indeed each and every institution that could be manipulated to enable him to consolidate and perpetuate his power. NGOs which have always been cognisant of the importance of these institutions to not only the democratic process but also the very system of civilized living, were deeply distressed by the destruction being wrought as a result of one man's obsession with his power and his authority.[10] They felt they had to respond to the challenge of defending the fundamental institutions of governance by speaking out against the Mahathir regime.

A number of leading NGO personalities had to pay the price for this. Some were arrested under the Internal Security Act between September and November, 1998, and later released. A much larger number of NGO activists were jailed under the Police Act for participating in so-called 'illegal assemblies'. A few of them lost their jobs and others were transferred out. The NGOs connected to some of these individuals, and notably ABIM and SUARAM, were under the constant surveillance of intelligence units within the government. For certain NGO personalities and NGOs, the weight of state suppression had become a routine reality.

As the line dividing the Mahathir regime from the dissidents became more pronounced, a handful of prominent NGO leaders decided to join opposition parties in which they came to hold important positions. Almost all these people contested the tenth Malaysian general election in November, 1999, and although no major NGO leader won, NGO activists had become part and parcel of the rough terrain of partisan politics.[11]

The NGOs associated with these personalities formally chose to remain outside the electoral arena, although some of their leaders and members campaigned indirectly for these 'NGO' candidates. A number of cause-oriented NGOs also established an election monitoring network to ensure that the general election would be free and fair.[12]

The direct and indirect involvement of NGO activists and NGOs in the 1999 General Election provoked the government, as might have been expected, into intensifying its attack upon them as tools of the opposition. Government leaders accused these NGOs of betraying the interests of their members by going 'political'. Yet in spite of its shrill rhetoric, the government had up to mid-2000 made no attempt to impose new restrictions on the activities of cause-oriented NGOs or emasculate them further by targeting their leaders.

CONCLUSION

Cause-oriented NGOs in Malaysia have gone through four phases: establishing their presence; articulating their rights and defending their interests *vis-à-vis* the powers-that-be; embracing the adverse consequences of state repression while coming to terms with an overwhelmingly powerful ruling elite; and challenging the political power of that elite without surrendering their independence or integrity as NGOs. These NGOs have evolved from entities whose role was a puzzle to many to bodies whose commitment and contribution are highly valued by political actors to whom they are allied.

The ruling elite continued in 2000 to look askance at cause-oriented NGOs. Its attitude towards NGOs as legitimate advocates of dissent in a democratic society had not changed much since the second phase, when it sought to deny them the right to articulate social and political concerns. There was a crucial difference, however, in the fourth phase of NGO development. This is that the government realized it could not prevent cause-oriented NGOs from playing roles as champions of political and social change. The government accordingly refrained from moving against the NGOs, despite its anger against the activists for joining the ranks of the opposition in the 1999 election.

Part of the reason for the lack of official action against the NGOs was that they now enjoyed much broader support within the general populace than they did in the early 1980s. Their role in espousing the cause of human rights and democratic freedoms was appreciated within a wide spectrum of the middle class and the intelligentsia. The NGOs as integral elements of civil society were also now regarded internationally as indispensable to the democratic process. They hence commanded a degree of legitimacy in the international system which they lacked in the 1970s and 1980s. The Malaysian government could not afford to ignore these facts.

The real challenge for cause-oriented NGOs at this time was to protect a role which, while acknowledged by a segment of society, was still regarded with suspicion by the ruling elite. Since the elite remained dominant, the NGOs had to take into account the reality of that situation. It is nonetheless of no small significance that within a short span of time, cause-oriented NGOs in Malaysia have been able to play an important, though oblique, role in electoral politics - a role which their counterparts in many countries elsewhere took a longer while to come to fulfil.

In a sense, NGOs in Malaysia had by trying to influence the electoral process and by fielding election candidates reached the acme of their role as agents of political change. It is worth noting in this regard that in other countries, too, it is often a political crisis of mammoth proportions which forces NGOs and NGO activists into the political-cum-electoral arena. Thus, it was in the aftermath of Indira Gandhi's emergency rule in India that a number of NGO leaders entered the political fray. A host of NGOs and NGO activists took the political plunge in the Philippines following the assassination of Ninoy Aquino and the dramatic growth of a mass people's movement centred around his widow. Again, the phenomenon was witnessed in Indonesia in 1998 of leading NGO personalities lending their weight to the political struggle in the final stages of the Suharto regime. The direct and indirect involvement of NGO activists and NGOs in the Malaysian political process was in fact part of an established pattern which has occurred elsewhere.

While political involvement on the part of NGO activists is laudable whether it is in Malaysia or other countries, it is important to be aware of the other side of the coin. This is that too close an association with the opposition could lead to a situation where one ceases to be evaluative towards one's political allies, even if it is driven by a noble desire to achieve political change. If criticizing and interrogating those in power is the role of a cause-oriented NGO, it cannot refuse to scrutinize the words and deeds of those who seek power. The questioning of power, in other words, must include both power-wielders and power-seekers.

How cause-oriented NGOs should perform this dual role of interrogating the wielders of power and evaluating the seekers of power is one of the challenges facing them in the new century.

NOTES

1. For an analysis of the work of some of these NGOs see Lim (1988).
2. ALIRAN is a multi-ethnic reform movement focusing upon human rights, democracy, the equitable distribution of wealth and national unity as its central concerns. Although its membership is small - about 250 members in 2000 - its ideas have some impact on the Malaysian middle-class through its monthly magazine, the *ALIRAN Monthly*.
3. The Angkatan Belia Islam Malaysia was founded in 1971 by a small group of young Malay professionals. Its goal was the creation of an Islamic social ethos, and education was the main avenue it would employ to raise the appreciation of this on the part of the Muslim community. By 2000 and after 29 years, ABIM was one of the largest NGOs in the country in terms of membership. It was estimated that in that year Angkatan Belia Islam Malaysia had a total membership of 50,000 spread throughout the country.
4. The Bank Bumiputra Finance scandal involved a loss of 2.5 billion ringgit on the part of this subsidiary of the Bank Bumiputera, one of the country's largest commercial banks. The loss was the consequence of speculation in the Hong Kong property market, bad management and corruption. Further details are provided by ALIRAN Penang (1989).
5. The Official Secrets Act controversy arose out of an amendment that the government proposed to existing legislation, which would have widened the powers of the state to classify documents as 'secret'. It would have restricted the flow of information and, as the NGOs and

opposition parties feared, concealed corruption and abuse of power on the part of officialdom. For an analysis of the issues involved see Singh (1989).

6. After he joined the United Malays National Organization and the government in March 1982, Anwar, mainly through Dr. Mahathir Mohamad's patronage, rose rapidly within the party and government hierarchy. Within 11 years, he became Deputy Prime Minister. However, in 1998, he was sacked from the party and government for alleged 'low morals'. For many concerned Malaysians, however, it was Mahathir's fear that Anwar would challenge him which was the root cause of the fall-out between the two men.
7. 'Operasi Lalang' or 'Operation Wild Grass' was the code name of a police swoop which resulted in the detention of politicians and activists under the infamous Internal Security Act. The Act allows the government to detain people without trial for an indefinite period of time. The operation is further addressed by Muzaffar (1987).
8. Fearing that a decision of the Supreme Court would go against his interests, Dr Mahathir, it is alleged, sought the removal of the Lord President (the Head of the Judiciary) in 1988. Spurious allegations of misconduct were concocted against the Lord President, Tun Salleh Abas, to ensure he would be removed from office. For an analysis see Raja Aziz Addruse (1990) and Tun Salleh Abas and K. Das (1990).
9. JIM is an Islamic reform group which enjoys a degree of support within the Muslim middle class. Many of its leaders are professionals, and a number of them were educated overseas. SUARAM is a largely non-Malay human rights group, which not only operates as an advocacy group but also undertakes grass roots work. It was one of the most active human rights groups in Malaysia in 2000.
10. Mahathir's obsession with power is discussed by Muzaffar (1999).
11. NGO Leaders who contested in the general election included Dr Dzulkifli Ahmad and Dr Hatta Ramli (Islamic party, PAS); Ms Zaitun Kassim, Mr Abdul Rahman Ali and Dr Kumar Devaraj (Democratic Action Party, DAP); Mr Tian Chua, Dr Md. Nor Nawawi, Dr Md. Nor Manuty, Mr Anuar Tahir, Ms Irene Fernandez, Ms Fuziah Salleh and Dr Chandra Muzaffar (Parti Keadilan Nasional); and Mr R. Sivarasa (Parti Rakyat Malaysia).
12. ABIM, ALIRAN, SUARAM and several other NGOs were part of this network, called PEMANTAU (or Monitor). The network was co-ordinated by a new NGO, BUDI, which has published a preliminary report on the general election.

PART IV

Conclusions

16. Conclusions

Colin Barlow

These discussions of economic, political and social aspects of Malaysia raise major and often interrelated questions about the country's development, both in its advance from the past to the present and in its future progression from 2000 onwards. This last chapter presents and discusses views expressed by participant authors on selected issues, highlighting elements judged worthy of important consideration in understanding what happened in times past and what is likely to be pertinent in times to come.

The wide canvass of contributors to this volume is helpful in throwing light on different facets of Malaysian development, while the historical approach adopted by most authors also assists in appreciating the various advances and changes as a continuum over time. This is a context in which the needs of today often depend significantly on events occurring many years previously, and where the way in which past processes evolved created a degree of path dependency for the future. The disparate interpretations of the same events by separate authors also serve to illuminate their multiple features, creating better insights into the complexities of the Malaysian polity.

The selected issues now treated are those arising from discussions in the book, and little attempt is made to broaden the discourse beyond the questions which they raise. The issues are the conditions of economic advance, the distribution of income and persistence of poverty, the challenges of regional planning and foreign policy, the nature of the political process, and social changes to various groups. These issues are chosen somewhat arbitrarily, and there is naturally overlapping and inter-relationship between them.

It is hoped, however, that the material in these conclusions will enhance the insights of readers into the nature of Malaysian development, encouraging them to further study individual chapters and assisting their overall appreciation of what has occurred.

THE CONDITIONS OF ECONOMIC ADVANCE

Athukorala in his generally positive coverage in Chapter 2 of Malaysia's impressive economic growth to the late 1990s sees government 'policy' as important and indeed crucial in guiding economic development, subject to some constraints flowing from the New Economic Policy (NEP). He favours official approaches in promoting an open and flexible economy, as well as in maintaining an 'outward-oriented overall policy stance' (p. 23) and in freeing and deregulating markets. He indicates too that the high economic growth promoted by these approaches will 'trickle down' to lower levels, and assist in alleviating poverty.

Athukorala also appears to feel that government has a role in intervention beyond the formulation of overall macro-policies, pointing to its useful contribution in supplying the hard infrastructures of roads, ports and other public facilities and in providing health, education and other major services. Government is seen too as having special functions in curbing the activities of trade unions and maintaining 'significant controls on capital account transactions' (p. 23). Athukorala criticizes some provisions for education of the domestic labour force, seeing the need for training which will further support the building up of its skills. He accordingly supports initiatives in allowing foreign and other entrants into the tertiary sector and in giving incentives to the private sector to train its workers.

Menon, in developing in Chapter 3 the theme of openness to trade, capital and labour flows, appears to uphold the main view of Athukorala. But he also points to the low factor productivity growth of both foreign and domestic firms, denoting that most of the large inward capital investment into Malaysia is in low-skill labour-intensive assembly activities dependent on migrant labour and displaying a poor rate of technological change. This latter assessment does not follow the frequently expressed view that foreign investment leads to a transfer of technology which boosts factor productivity. Menon further points to the very high tariffs and duties protecting the heavy industry sector, including especially automobiles.

Yap in Chapter 4 again substantiates the need for state intervention through describing the events surrounding the financial crisis and its aftermath, according a prime role to official responses. These were first in terms of the capital controls and exchange rate fixing, and later in terms of institutions set up to assist financial sector restructuring. These measures according to him did much to stabilize circumstances, generating confidence and encouraging a renewal of economic activity in the wake of the previous credit withdrawals. Indeed, Yap sees the sluggish initial response of government to the crisis as exacerbating circumstances and delaying recovery.

Yap also comments on the need for clear separation between government and business, and for encouraging competition within the business sector. This is under circumstances where 'it is clear that some economic agents took advantage of NEP for 'rent-seeking' purposes, with political patronage becoming an important factor in business' (p. 56). Yap further points to needs to improve both the local and international financial market structures, enhancing transparency and reducing the uncertainty which characterized the market during the crisis.

Tan and Ariff in addressing manufacturing in Chapter 5 likewise uphold the necessity for state intervention, but are more censorious of the directions this

has taken. Thus they confirm the desirability of export orientation and reduction of tariffs as well as of the NEP measures to enhance employment and achieve better socio-economic redistribution. But they note the heavy protection still accorded to certain heavy industries including automobiles, and indicate the severe competition likely to be faced as this protection is wound down under provisions for the Free Trade Area of the Association of Southeast Asian Nations. They, like Athukorala, question whether the provisions to encourage improvement of human resources have been all that successful or adequately followed through.

Tan and Ariff also seem to doubt the effectiveness of support for small industry and research on new technologies, even more significantly implying that official provisions have not been sufficient to encourage manufacturers in Malaysia to exploit the country's comparative advantage in resource-based products. They also suggest that policy has not prevented what they consider an undue reliance on capital and labour inputs from overseas, where they denote that these inputs have the low productivity mentioned by Menon while labour is paid wages which are unduly high in relation to such productivity. They view the continuing massive reliance on these inputs as associated with failures both in training local Malaysian labour and in developing new and appropriate technologies.

Tan and Ariff stress as well that the current reliance on foreign labour has badly distorted the directions of enterprise, causing 'serious structural imbalances' (p. 71) including high social costs. These costs not only include those of social disturbance to the Malaysian community, but also and even more significantly involve the encouragement given by the availability of migrants to the undesirable current focus on low-skilled economic enterprise. The costs may also be extended to the grave long-run political consequences flowing from large blocks of immigrants labelled by Khoo in Chapter 10 as a 'new underclass' (p. 139) in Malaysian society with very poor future prospects. Such consequences have been illustrated in numerous other national contexts, being seen at their most extreme in countries such as Germany, Northern Ireland and Fiji.

These observations of participant authors bring to the fore aspects that merit attention in improving the conditions of economic advance and in providing for continued strong economic growth in the present century. It certainly emerges that government in the case of Malaysia has been most important in providing the long-term political stability essential for successful application of economic enterprise. Government has also made key contributions in supplying basic infrastructure and services, and in guiding economic development through policy initiatives encouraging particular directions of growth. Hence the present stress on export orientation appears as an appropriate and successful stance that should certainly be maintained. While there was at an earlier stage a strong argument on affirmative action and redistribution grounds for direct official intervention in enterprises through the NEP, that led as one undesirable consequence to the widespread loss-making recorded by Yusof in Chapter 6. Now that the main goals of this very important Policy have been substantially achieved, its continuation is no longer desirable and would work against achievement of the multicultural society canvassed below. Such direct official intervention is again much more difficult in Malaysia's situation of increasingly significant global linkages and markets.

There also seems to be no economic justification for the continued high protection of the 'heavy industry' automobile sector, which having been assisted substantially over many years in its build-up as an infant industry should now be allowed to progressively face up to the conditions of the private market. It is in fact likely to have to do this under the forthcoming provisions of the Association of Southeast Asian Nations Free Trade Area, which as Tan and Ariff in Chapter 5 also point out seems set to benefit most of Malaysia's export items due to their already low protection.

It likewise appears that despite its already very considerable efforts, government should do much more in providing for training of the domestic workforce at all levels, ranging from management to ordinary labourers, and that this thrust should be accompanied by even greater emphasis on developing technologies appropriate to Malaysia's directions of economic enterprise. Responding to training needs is an extremely hard task, entailing the supply through both public and private sectors of a wide menu of educational facilities. Some of the latter are already in place, but all need to be established much further. Responding to research requirements likewise involves building up public and private research facilities to work both on adapting foreign technologies to the Malaysian situation and to promote some spheres of more fundamental research.

It looks too as if there is a good case for strengthened official encouragement of a shift to more resource-based industrial development associated with more productive capital and labour. Such resource-based development, which has ultimately to spring from responses on the part of manufacturers themselves, involves movements downstream in elaborating local resources into intermediate or final products for the market. This movement should embrace industries ranging from palm oil and timber to food, chemicals and petroleum. It can again be assisted by government support for a skilling of the local workforce in these spheres, as well as for research on related technologies. This thrust would be immensely bolstered by the further incentive given to manufacturers and other labour-employing groups of a purposeful and progressive reduction through official measures in the presence in Malaysia of low-cost migrant labourers, with their encouragement of low-skilled enterprise. This is an extremely difficult action to undertake given the huge share of illegal migrants, but should be facilitated by what now seems to be the wide support for such a measure in the broad Malaysian community.

It is nonetheless important to realize that the efforts of government alone are quite insufficient in promoting economic advance, and that the contributions of entrepreneurs, businesspeople and managers, together with their supporting facilities of credit and other services, are also vital to this process. The role of this business class has not been given as much attention in this volume as that of government and its policies, except in respect of creating a *Bumiputera* entrepreneurial class of this nature in the manner addressed below. But no sustained economic advance can occur without a dynamic business class, whose activities become even more important with rising linkages to the global economy. Indeed, the resourceful response to economic growth of this class in Malaysia has been critical in promoting the country's impressive economic performance.[1]

Yet it is most desirable in relation to business that there should be a clearer separation than at present between it and government, under competitive circumstances where the most effective rather than the most influential performers get rewarded. This is difficult to achieve in any country, and notably under the still patriarchal circumstances of Malaysia resembling those elsewhere in Southeast Asia. Achieving such separation must be an outcome of firm and sustained government action, in response to the kind of democratic pressures elaborated below in the discussion of the Malaysian polity. There is no doubt that if more separation can be achieved it will much improve the efficiency of the country's economic mechanism, and hence contribute substantially to future growth.

All these considerations apart, it certainly appeared in 2000 that Malaysia had surmounted many setbacks of the late 1990s' financial crisis, and was poised to continue strong economic growth during the current decade. Such growth could in itself make adjustments like those just proposed rather harder, in that substantial changes are usually easier to effect when virtually forced under conditions of drastic economic restraint. But the wider debate which should follow changes towards a more open political process should facilitate these adjustments, with their strong potential to assist the long-run viability of the Malaysian economy.

DISTRIBUTION OF INCOME AND PERSISTENCE OF POVERTY

Yusof in scrutinizing income distribution in Chapter 6 and seeing the progressive reductions in inequality between key groups up to 1990 (Table 6.1) basically confirms the high effectiveness of many measures to promote equity taken by the Malaysian government. Yusof's detailed exploration of the NEP reveals how comprehensive it was in its provisions, while he as well as Khoo in Chapter 10 underline the effectiveness of this policy in producing a new '*Bumiputera* Commercial and Industrial Community' focusing around a Malay middle and professional class. The actions taken facilitated the movement of *Bumiputera* from traditional low income and low productivity agricultural activities into what the policy-makers regarded as the modern, high income and highly productive industrial sector.

The NEP was a prime example of a state-engineered interventionist policy, succeeding the previous much more *laisser faire* regime elaborated by Khoo and labelled by Yusof as having 'the underlying premise of a mistrust of free enterprise and the workings of market forces' (p. 83) and trickle down. But the NEP was also a major component of the shock reaction to the inter-ethnic riots of 1969, where this shock garnered it wide political support for a decade thereafter. It should be noted too, however, that the NEP was preceded by the quite strong intervention in redistribution embodied in the improvement measures in rural areas of the visionary Tun Razak in the 1960s. Indeed, the NEP incorporated the land settlement part of Tun Razak's measures as one of its components.

The NEP was certainly a blunt instrument with the many deficiencies elucidated by Yusof. Yet in the international context it stands as an almost unparalleled success in the way it nurtured a fair portion of a national population to a level where those concerned can probably stand on their own feet without much further special assistance. Even the encouragement given under this Policy to establishing multiple and largely loss-making government enterprises at state level provided useful impetus to regional including *Bumiputera* development, and this impetus was often sustained after the enterprises themselves had been wound down or converted to more independent entities.

But Yusof also records a considerable apparent re-widening of income distribution and income disparity from 1990 (Table 6.1), attributing this to the aftermath of the government's new more market-oriented policies from the mid-1980s as well as to the fact that NEP-type policies were no longer 'centre stage', while the opportunities for non-*Bumiputera* were now much enhanced. While the safety net provisions of government appear to have worked quite well in containing the worst effects of the 1997 financial crisis for the local Malaysian population, there seem from Yusof's figures to be a residual 7 per cent or so of people, mainly Malays and Indians, who although mostly having paid jobs are facing grave hardships in their lives and are still at or near poverty levels. These persons have not benefited much from either the NEP or associated measures, and despite the optimistic view of Athukorala do not seem likely to gain much from the trickle-down effects of the renewed Malaysian economic growth in the new century.

The positions of some urban dwellers in this residual category are well portrayed in the scenarios of factory workers and squatters presented in Chapter 7 by Nasir Hashim. Nasir, indeed, writes in a vein recalling the classical and effective exposures of poverty in Sydney, Australia, and parts of England by Park (1954) and Orwell (1962). The poor urban dwellers of Malaysia appear locked into situations of exploitation and hardship perpetuated by the system surrounding them, also seeming unlikely to get much future benefit from what Khoo in Chapter 10 terms a 'significantly incomplete' (p. 142) version of the corporatist state promoted by government. That corporatist view includes the government and capital as key elements, but largely misses out on labour. There are also substantial remaining pockets of poverty in rural areas, notably connected with persons still engaged with the minimally profitable smallholder rubber cultivation.

It does in fact seem pertinent that provision is made to enhance the social safety net, with the goal of directly assisting such poor people. While Nasir sees the intervention of non-government organizations as being one route towards helping them, further pressures towards more official relief are likely to arise from the pronounced swing of the Malay electorate away from the United Malays National Party at the 1999 general election. But these poor people apart, there appears in 2000 to be room in Malaysia for continuing to wind back special assistance to *Bumiputera* elements in the population, with a return to non-discriminatory approaches in tune with the Malaysian concept of a multicultural society interacting together as a *Bangsa Malaysia*.

REGIONAL DEVELOPMENT AND FOREIGN POLICY

Pang in examining planning in Sabah in Chapter 8, and Leigh in addressing the promotion of growth in Sarawak in Chapter 9, both highlight critical aspects of regional development. These chapters excellently convey the flavour of regions on the periphery of Malaysia, far away from the economic and political centre on the peninsula.

While planning can be useful in guiding those involved in development in appropriate directions, it appears that the Sabah Action Blueprint employed for three years from 1987 did not fulfil this purpose, and thus failed to enlist the participation of key players in politics and business. The Blueprint seems to have constituted a prime example of an unrealistic, over-detailed and cumbersome plan formulated by bureaucrats and researchers out of touch with the realities of development. The fact that it was abandoned after only a few years was not surprising, and matched circumstances in numerous similar situations where substantial planning efforts by local or international development administrations have proved entirely misplaced. In fact, the plan for the East Asian Growth Area quoted negatively by Leigh in relation to the future options of Sarawak is another good example of intricate and inappropriate provisions, with details being given by Trewin et al (1998).

But the setbacks of the Blueprint encouraged a move to the more flexible and appropriate Outline Perspective Plan, which to date at least appears to have engaged considerably more participation and led to far more positive action underpinned by collaboration between parties involved. This Plan certainly seems to follow the strictures of Tan and Ariff in emphasizing infrastructural support for resource-intensive industries, and in specifically concentrating on downstream processing from key economic sectors which in Sabah's case comprise oil palm and timber. It likewise puts valuable emphasis on developing indigenous technology capacity to this end.

Leigh in describing in Chapter 9 the net drain of resources from Sarawak to the Peninsula through both petroleum and enforced purchases by local consumers of tariff-protected goods highlights a common problem of faraway and politically weak regions. Similar situations are exhibited, for example, by some provinces of eastern Indonesia which contribute large net flows to Jakarta (Barlow and Hardjono 1996). It is interesting that as with the Indonesian provinces until recently at least, little can be done owing to the unequal power balance about alleviating this burden on Sarawak. This is under circumstances where the recent decline in timber revenues is likely to further reduce the political power of the state, making it even more dependent on the centre.

The questions of regional development in Sarawak and Sabah resemble one another, and ultimately depend on the effective use of limited natural resources. Thus, while in Sarawak timber and its downstream processing must remain important subject to falling supply, the further development of oil palm and other agriculture has also to constitute a key and possibly very profitable option. But Leigh indicates too the government emphasis, adopted in light of the short-term benefits of construction to local and other elites, on developing hydro-electric resources through the giant Bakun dam. Indeed, he suggests that this seemingly inappropriate measure will build in 'a drastic competitive disadvantage of high energy prices for Sarawak industrial development' (p. 123). The big project approach of this dam once more has international parallels, with gains to powerful groups flowing from construction not being compensated for by any real long-term viability.

Leigh's reference to the difficulties attached to the Sarawak government policy of converting customary rights to plantation agriculture for the purpose of large-scale oil palm production again raises a common phenomenon. The scenario is one where powerful governments working with local business elites acquire traditional lands, amalgamating the small parcels to pursue big agriculture to the basic disadvantage of original occupiers. This was illustrated in Indonesia over three decades of the New Order up to 1998, when vast areas of such land were acquired to establish big estates and are only now being partly seized back by local peoples. While the provisions in Sarawak allow part-ownership by these peoples, Leigh raises the disadvantages to them of the new institutional arrangements which do not permit them to participate effectively. He mentions the alternative of smallholder-based cultivation, which can be a viable and much more politically acceptable option of introducing modern plantation agriculture. That could be along lines used on the Peninsula, as well as in Indonesia and Africa (Barlow 1987).

Foreign Policy

Muzaffar in addressing in Chapter 11 Malaysia's 'pragmatic and realistic' foreign policy (p. 148) deals with what appear to be its eminently sensible overall foreign relations priorities. The first place accorded to bilateral relations with members of the Association of Southeast Asian Nations seems most appropriate, although Muzaffar indicates difficulties springing from a reluctance to disturb harmonious ties with neighbours in particular. Thus serious human rights violations by Indonesian elements in East Timor were swept under the carpet until quite recently, and although Muzaffar does not report this the previous actions of Malaysia seem to be a continuing cause of mistrust on the part of that tiny emerging state.

This aspect of franker intra-Association relations has been canvassed openly by Thai and Philippine sources, which have long argued that more open exchanges of views are best for the long-term viability of the Association. But the fact remains that maintaining satisfactory international relations is a delicate balancing act, where Malaysia's background of perennial suspicion of Singapore's commercial activities, for example, are rarely mentioned although ever-present in the two countries' relations. Again, there are difficulties for Malaysia with the much more unstable Indonesia, comprising problems of how to maintain cordial bonds in the presence of frequent Indonesian policy changes, severe problems for Malaysia's Indonesian plantation investments in face of local land seizures, and the fear of contagion spreading from the current Indonesian social re-orientations. Malaysia's usual method of behind-the-scenes negotiation on difficult issues is in fact probably the most effective technique to use in such instances.

It is also interesting to note the dilemma described by Muzaffar in Malaysia's maintenance of satisfactory relations with the Organization of Islamic Countries, with the trials of securing action on important issues having been manifested over very many years. This feature reflects the frequent difficulties in relations between many Islamic countries, and makes Malaysia's position in this respect hard despite its best efforts.

Muzaffar's account of the major role played by Malaysia and its prime minister in promoting the position of the South, as well as in encouraging South-South co-operation, is an interesting foreign relations characteristic which is, as he notes, bolstered by Malaysia's good economic and social progress. It is probably helped as well by Malaysia's position as a relatively small power with comparatively minor significance on the world economic stage. Malaysia's status in this respect has an interesting likeness to that of Australia, another minor power which has nonetheless exercised considerable influence over international trade negotiations and over the ultimately disastrous United Nations intervention in Cambodia (Evans and Grant 1992).

Muzaffar accurately describes Malaysia's relations with Australia as being of low priority in foreign policy, although he recognizes the substantial personal and trade links and basically strong underlying ties between the two countries. His allusion to the 'patronizing attitude' of Australian leaders (p. 152) as well as of the Australian media and non-government organizations is significant to note, for it undoubtedly contributes to poor continuing bilateral relations. Many people in these groups do not hesitate to bluntly criticize perceived Malaysian human rights violations, taking what can be justifiably interpreted as neo-colonialist attitudes. Such bluntness, which is couched in a failure to adjust to a different cultural context, is manifestly counter-productive although the message emerging is certainly not that criticisms should never be made. They should definitely be levelled, but couched in subtler ways more in tune with the Malaysian scene. Doing this is likely to be far more effective.

THE NATURE OF THE POLITICAL PROCESS

Insights into this process appear throughout the book, although a main focus on it appears in Chapter 10 where Khoo deals with the politics surrounding the Prime Minister, Mahathir Mohamad. This man with his 'remarkable personal vision and format for the future' has indeed been a primary force in Malaysian politics for almost a generation, and during this period had substantial impact on its evolution. But the political stage was set in a historical process beginning long before Dr Mahathir's arrival, with the framework of action becoming broadly clear following the inter-group bargaining at Independence from Britain in 1957. It was then that the coalition of ethnic parties led by the Malays began operating in the setting of political institutions conferred on the country at that time.

In Chapter 12 Rahman Embong comments perceptively that 'with political power in the hands of Malay leaders who shared it with the non-Malays, the post-Independence project of transformation and modernization of Malay society was state-sponsored and state-led and had to be so' (p. 164). This factor of government pre-eminence has been crucial right from the time of Independence, so that even during the *laisser faire* period preceding the 1969 riots, officialdom was pretty firmly in control. It has remained so in the reversion from the mid-1980s to an economic system more dependent on the private sector and market forces.

But the government 'policy' factor mentioned by Athukorala in Chapter 2 became especially dominant from the launching of the NEP in 1970, and has continued in this vein to the present. Indeed, the strong support for this Policy during the ensuing decade probably strengthened the tradition in politics of official intervention. Mahathir used such circumstances for his own purposes, where Khoo in Chapter 10 describes how he modified the thrust of the NEP and pushed forward strategies of modernization, industrialization, privatization

and bureaucratic reform. He did this within a significantly incomplete corporatist framework, entailing a strong government alliance with business, but with little participation of labour which 'had no more meaningful role than to supply the nation's comparative advantages of low wages and industrial peace' (p. 142). This significant change from the thrust of the NEP in fact resembled similar recent transitions in most advanced industrial economies, and in the Malaysian case served to entrench the position of the underclass section of the labour force described by Hashim. It is also clear, as pointed out by Yap in Chapter 4, that this is a framework still embodying considerable political patronage and inadequate transparency.

Mahathir has retained control of the political process for the long period of almost two decades by dint of astute manoeuvring, taking pragmatic and often audacious actions, and skilfully appeasing key groups. Perhaps most important of all, however, has been his systematic promotion of a dynamic and popularly attractive vision, involving a comprehensive format of development for his country. This vision, which is touched on especially by Khoo and Rahman Embong, was first promoted on a wide scale through his insightful book, *The Malay Dilemma* (Mahathir 1970), but has since been cleverly modified in response to the changing needs of particular times. Mahathir has been helped by the strong national economic growth for most of his stewardship, and by the broad support of the growing middle class partly composed of the new *Bumiputera* business and professional community. But he has as part of his efforts to maintain power undercut the legislative branch, the influence of parliament and the status of the monarchy, with the two former in particular having potentially severe consequences for the democratic political process. These changes might well mean there are insufficient checks on a future strong leader who wishes to push through policies without undue constraints.

Other significant alterations affecting Malaysian politics have also taken place in recent years, however. Most importantly, the traditional support of ethnic Malays for the United Malays National Organization has notably weakened. This was signified by the 1999 general election described by Lee in Chapter 13 and featuring a much enhanced share of the vote for the *Parti Islam SeMalaysia* (PAS) or Islamic Party and the formation of an opposition multi-ethnic coalition of the four main contesting parties. While the stronger showing of the Islamic Party in particular could be partly ascribed to the furore surrounding and following the arrest of Anwar Ibrahim in September, 1998, it also reflected the still unequal distribution of income and circumstances where some *Bumiputera* had benefited little if at all from the affirmative action policies of the NEP. It further indicated the likelihood of a rather stronger Islamic influence within the Malaysian polity, although here the underlying currents outlined by Zainah Anwar in Chapter 14 could well revert to the more moderate tone characterizing the period up to the early 1970s. The fact that following the 1999 election the United Malays National Organization no longer had the required two-thirds majority in Parliament needed to amend the constitution and was now more dependent on the support of Chinese-based parties in the ruling *Barisan* marked a sea-change, with significant implications for the future greater influence of other groups.

A further alteration in politics which is more long-standing and which is pointed out by Lee in Chapter 13 is the marked reduction in Chinese influence since 1969 and the implementation of the NEP. But Lee also outlines the existence of significant Chinese-based political parties on either side of the political divide, indicating the recent attempts by all of these to bridge the racial divide as well as the strong recognition by *Barisan Nasional* leaders of the Chinese interest. That of course is encouraged even more by the key political support for the *Barisan* on the part of Chinese voters. There is too as a background to this the continuing high importance of Chinese in business, albeit complemented nowadays by the new class of Malay entrepreneurs.

There has again, as Muzaffar describes in Chapter 15, been a most significant rise in the standing of Malaysian non-government organizations despite attempts by government to suppress them, with these now forming an influential group in Malaysian society. These groups cannot be countered so easily because of their wide community support where Lee notes, for instance, that 'young and able Chinese fired with idealism but reluctant to join what they consider parties with narrow communal concerns find they are increasingly drawn to the voluntary, non-government organizations' (p.171). The NGOs are also assisted by their often strong international connections, both within Asia and on the global scene. This emergence of a countervailing political force in the form of NGOs and other community bodies parallels similar developments elsewhere in Southeast Asia, and was examined in the Philippine case, for example, by de Dios (1999). Indeed, the move of some influential Malaysian NGO leaders into the formal political arena also resembles the Philippine scene, and is another factor likely to reduce the previous lopsided nature of Malaysian politics with the continued dominance of one group.

Finally, in the catalogue of significant changes affecting the political process, it seems as suggested by Khoo in Chapter 10 that the increasing integration of the Malaysian and global economies may restrict the freedom of political action within Malaysia, where this is especially likely to be true of economic policies. Although state-level politics have also altered in significant ways, it does not seem that this will have much influence on the Malaysian political process with its strong federal centre. That is borne out, albeit indirectly, by the analysis of circumstances in Sarawak by Leigh, as well as by observation of the situation in other states. Such an analysis perhaps excepts the position of Kelantan and Trengganu as springboards for the federal aspirations of the Islamic Party. But it does appear nevertheless that circumstances in Sarawak at least match those at federal level in the dominant alliance of government and business to the exclusion of ordinary farmers.

It may be inferred that these modifications to the political process will probably act to broaden the participation of constituent groups in the political process, and to make the national leadership more responsive to expressed societal needs. Here Khoo, for example, suggests that Anwar Ibrahim's apparent empathy in the late 1990s to a civil society favouring 'smaller' people and multiculturalism could well be the direction of politics after Mahathir. This direction could work to add the missing element to the corporatist framework. It might well contribute to a rather different future Malaysian polity, with progress towards reducing the distribution of income and eliminating the still substantial underclass of Malaysian society. It appears too that while the ethnic basis of Malaysian politics will persist to an extent, the inter-ethnic element will grow more significant, and future divisions in the political process may be more on the basis of class and interest group. Given the leadership of any future government by a strong inter-ethnic coalition, it also seems likely that the major role played by government in directing Malaysia will continue in the tradition laid down over such a long period, although political conditions might well be less stable than those which reigned so long under the *Barisan*. These speculations must be tested with time, although it is already certain that a distinctive era in Malaysian politics is almost at its end.

SOCIAL CHANGES TO VARIOUS GROUPS

The discussions of the book also help to clarify the substantial changes which took place in Malaysian society over the last four decades of the 20th century. There was indeed a dramatic shift from a predominantly rural society based around a few primary exports to the largely industrial and urban-based nation of 2000. This shift, and its accompanying phenomenon in terms of the emergence of a substantial middle class of skilled professionals and another class of factory workers, had key consequences both for Malaysians and their constituent ethnic groups. Some of these consequences are explored in depth by contributors. There were too, as a partly independent development more conditioned to changes on the global scene, movements in the conditions of Islam which are scrutinized by Zainah Anwar in Chapter 14.

Probably the most dramatic social change was that which occurred to the Malays, including those who became members of the '*Bumiputera* Commercial and Industrial Community'. This was a classic transformation, and has been confronted by the members of numerous other societies around the world as they tried to modify their behaviour and outlook patterns in face of altered economic and other circumstances. Rahman Embong in debating the position of the 'new Malay' in Chapter 12 points to the long antecedents to the discussion of how this ethnic group should adjust to changed societal conditions, going back to the classic ideas of Abdullah Munshi in the early 19th century. Clearly, and as suggested by him and others, this adaptation has to be widened beyond the current emphasis by Malaysian political leaders on a movement towards entrepreneurship, business and key professional fields, vitally productive as that has been in facilitating the major economic and social transition that has occurred. The adjustment should come to involve other classes in society, including most importantly the new proletarians also cited by Khoo. It is in fact interesting to note, as Rahman Embong likewise indicates, that 'the pre-independence modernization project was not couched in class terms', being more populist in nature and involving the whole Malay community.

It appears that securing modernization must for all groups again involve concentrating on education, where this should focus on adjustments not only to the changed economic conditions but also to the multicultural society that all agree is a desirable concomitant of the shifts that are taking place. Despite the large efforts that have taken place over many years in ensuring a fairer participation of all races in each area of activity, much remains to be done in achieving this throughout every sector of activity including the Malaysian public services. Thus the emphasis on training at school needs to be followed by encouragement in this direction in the workplace. The competition between groups that occurs in such a multicultural situation can be a vital factor in facilitating the way in which members of each ethnic group modify their behaviour in relation to the new conditions.

Lee in addressing in Chapter 13 the lesser but still very substantial social shifts impinging on Malaysian Chinese as they confronted the NEP and their weakened political position points to how older and well-established Chinese business enterprises have been able to survive. He also indicates the manner in which younger Chinese entrepreneurs have been able to build up large businesses with Malay support. The biggest difficulty seems to be for 'middle-level' Chinese businesspeople, who face heightening competition with Malay entrepreneurs and contractors. However, as also mentioned by Lee, the more recent liberalization of economic policy has facilitated the entry of non-*Bumiputera* and especially Chinese into the new manufacturing and high-tech sectors, and this will have assisted the middle group.

It is in fact apparent that the Chinese, working from their original ascendancy in the industrial sphere and with their well-known ability to confront and adapt to change, have significantly less difficulty than the Malays in matching altered circumstances. There is no doubt too that both Chinese primary education and other specifically Chinese institutions, including the Chinese political parties, allow this group, as Lee points out, to maintain their distinctiveness. But while the latter is true, it is evident at another level, and in relation to all groups in Malaysian society, that the ethnic schools in particular also constitute a bar to achieving greater multiculturalism. In this they parallel other institutions in Malaysian society that have tended to preserve its communal emphasis throughout the modernization period and up to today.

The alterations in conditions of Islam as they apply to Malaysian women appear from the analysis of Zainah Anwar in Chapter 14 to continue the long story of discrimination against this sex, revealing circumstances similar in

nature to those featuring parts of Christianity and Judaism in other countries. It is interesting that the period of Islamic enlightenment in Malaysia in the mid-1970s, which also applied around that time in other world religions, was succeeded subsequently, and notably in the 1990s, by repressive measures against women by no means sanctioned in the Qur'an. But it is clear too that in the recent political conditions of Malaysia entailing a greater role for NGOs and other community groups, there may be scope for challenging such measures and perhaps for reversing them where they are outside the jurisdiction of religious courts. This was true, for instance, of the eventual reluctant agreement to include Muslims under the provisions of the Domestic Violence Act, 1994. The active role taken by the Sisters in Islam in this and other matters in forwarding the cause of Muslim women appears as an admirable venture, which will hopefully gather more force over time.

It is further interesting to note from Zainah Anwar's analysis the characteristic reluctance of government officials and politicians to interfere with the religious authorities, enabling the latter 'to push their obscurantist vision of women's rights and responsibilities into the public sphere, dominating and setting the agenda of what is Islamic and what is not, and of what is right and what is wrong' (p. 183). This appears to be a situation where those in politically influential positions are generally hesitant to challenge the religious authorities, partly because of ignorance. But if future change is to be towards a more democratic Malaysian society, this may again lead eventually to a more open Islam which it seems would benefit greatly from the more moral stance towards women then likely to be adopted.

The discussions of this book have served to bring to the fore some key economic, political and social issues in the development of Malaysia. It is hoped that the contributions of the distinguished authors make a good start towards securing a wider international understanding of one of the worlds' most dynamic developing countries, already well on its way to taking its place among the developed nations of the modern world.

NOTE

1. It is planned to specifically address the various contributions of Malaysian business and labour in the volume of this Malaysia series planned for 2002.

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