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# MALAYSIA

## PAST, PRESENT & FUTURE

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## Introduction

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IN November 1984, 270 scholars, officials, politicians and businessmen met at the Fletcher School of Law and Diplomacy, Tufts University, Medford, Massachusetts at a two-day 'Conference on Malaysia' organised by the Fletcher School, the Asia Society and the Institute of Strategic and International Studies (ISIS) Malaysia.

It was the biggest ever conference on Malaysia to be held in the United States. For the Fletcher School and the Asia Society, it was part of the Asean series. For the Malaysian Institute of Strategic and International Studies, it was part of a programme of action to make Malaysia, the least known of the Asean countries in the United States, better known and understood – warts and all. This book brings together the background papers prepared for the conference.

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# Malaysia's Strategic Vision: Into the 21st Century

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**Datuk Musa Hitam**

*Deputy Prime Minister of Malaysia\**

IF A MAN has to predict the future, it would be wise for him to predict at least 15 years ahead. In this way, he can be sure that he is safe. For in 15 years, no one will remember his predictions. I will seek even greater safety, by not even predicting what Malaysia would be like in the year 2000. Instead, I will attempt to describe what my country of 15 million Malaysians is attempting to do and to become by the dawn of the 21st century.

China, as you well know, has embarked upon an ambitious programme of Four Modernisations. By no means can it be said that that huge country is at one as to the goals that are being pursued and the means by which that journey is to be made. Similarly, in a democratic country such as Malaysia, there are differences of views and aspirations, disagreements as to ends and pathways. But it is equally clear that the democratically-elected government of which I am a member, has a long-term programme of Six Modernisations, six modernisations that are at the core of our strategic vision.

For five of those Six Modernisations, we turn to the Rukunegara, the national ideology that was promulgated in the early 1970s, as we emerged from the tragedy of communal conflict, known in our history as the May 13 incident. The Rukunegara proclaims five ideals: first, the ideal of a united Malaysian nation; second, the ideal of a society founded on social justice for all Malaysians; third, the ideal of a democratic society; fourth, the ideal of a liberal and tolerant society; fifth, the ideal of a scientific and progressive society. These ideals arose out of the crucible of conflict. They are the result of a national consensus. They remain the ideals of the present government. They are five pillars of Malaysia's strategic vision. To these five pillars and especially in the 1980s, we have added another: the creation of an industrial society.

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\* Datuk Musa Hitam held the post of deputy Prime Minister from June 1981 to January 1986.

In the last 15 years, there have of course been other central national concerns. No doubt in the 15 years to the 21st century, there will be other central national concerns. But I can assure you that the six pillars of Malaysia's strategic vision will remain, for they are the dreams of the Malaysian nation, shaped by the moral and ethical perspectives of the Malaysian people and driven by the dictates of the Malaysian condition. How to realise these strategic objectives will be the central strategic challenges and the central strategic problems of Malaysia which will stretch well into the 21st century.

Some of these strategic problems and strategic challenges have been thrust upon us willy nilly - by the circumstances of the modern world, by the nature of our society, by the aspirations and needs of our people and by events beyond our shores and beyond our control. But some of these problems are of our own choosing; the child of our ambitions as a nation, of our new sense of confidence in ourselves and of our new sense of urgency. Malaysia today is impatient for rapid change and anxious for rapid advancement. There is a new national ethos which has affected those in the private and the public sectors, the peasant in the field as well as the entrepreneur in the boardroom. It puts pressure on the people to strive and on the government to perform. At the risk of appearing most immodest, please allow me to say that Malaysians are beginning to feel that we are a nation on the move, that especially in the economic field, the 1980s must be an era of breakthroughs.

We do believe that now is the time we make the breakthrough towards an industrial society. Our manufacturing sector now contributes 18 per cent to our GDP. It has been one of the leading growth sectors of our economy. We will do our utmost to fully exploit the upswing in the world economy. We are intent on joining the ranks of the NICs. I assure you that we will burst our blood vessels trying.

We do not embark on this difficult journey wide-eyed, oblivious to the obstacles in our path, unaware of the massive problems ahead. We are entering the race late in the day. The conditions that allowed for the Japanese miracle have to a significant extent been transformed. It only means we will have to try harder.

We do definitely know that the breakthrough towards an industrial society cannot be accomplished without the full participation of our domestic private enterprise and the private enterprise from abroad, which we welcome with open arms. Malaysia's present incentive package, substantial though it already is, is currently under review. At home, we have embarked on a massive programme of privatisation, which opens opportunities for billions of dollars of investment from within our shores and from abroad. I urge hard-headed American businessmen to sell to us, to buy from us, to invest in us and in Malaysia, to enter into a deeper relationship with us and not to yield the ground to their aggressive competitors. On behalf of the Pacific region, where the Pacific Age has already begun, I urge Americans to Go West.

Such is the importance Malaysia places on the breakthrough to an industrial society that I have dealt with the sixth modernisation first. Let me return to our first modernisation: the creation of a united Malaysian nation. On national unity and the problems of race in Malaysia, please let me say forthrightly

that the results so far achieved are not good enough. On this vital question, upon which so much of Malaysia's future is hinged, no results can be regarded sufficient, no accomplishment adequate.

Malaysia has not resolved all the internal contradictions, not allayed all the fears, not undermined all the grievances, not eroded all the bases of possible conflict and disharmony. Far from it. Racialism infuses much of the social psychology of Malaysians in just about every sphere – in the arena of politics, in business, in industry, on the shopfloor, and very sadly, in our schools and universities. Many of Malaysia's urban ghettos remain cesspools of racial feelings and sentiment.

Having said all these, the question might be posed: given Malaysia's very plural society, the colonial heritage of racial cleavages reinforced by layer upon layer of divisions on racial lines, Malaysia's inheritance of an education system divided along different language streams, can anyone seriously or soberly contend that Malaysia has done badly? A great many with lesser problems have done much much worse.

Our track record speaks for itself. From the time our founding fathers embarked on the struggle for Independence, Malaysia has had one serious racial outbreak – the riots of 1969. No more. We have been the proverbial cat with nine lives, defying the all-knowing prophets of calamity.

To build one nation out of so many great communities is no easy task. From the beginning of our history as an independent state, we have been repeatedly told – by well-meaning friends, by ill-intentioned foes, by sincere analysts, by jaundiced Jeremiahs, by the cynical and the concerned – that it is an impossible one. If they were and are right, then this modest country of 15 million has done the impossible and continues to accomplish the impossible.

Of course, just as peace is not merely the absence of war, harmony is not merely the absence of violence. But by any yardstick you care to choose, there can be no doubt that great strides have been made by Malaysia in its long journey towards one nation. The short-term instabilities resulting from the creation of one language stream in our education system at the secondary level, the short-term costs in adopting one language (so that we can all talk to one another and, hopefully, understand each other better), have begun to yield the long-term gains that were expected and hoped for.

The attempt to undermine the economic bases of racial discord by restructuring society and eradicating the identification of race with economic occupation has also not been without its costs in terms of dissatisfaction and the stresses it has put into the body politic. But who can say that it has not worked to help remove the causes – the justified causes – of Malay dissatisfaction that culminated in the racial violence of May 13, 1969?

The point has to be conceded: Malaysia has had to break many eggs to try to make its omelette. (For this, many of us feel, Malaysia has been variously flayed and fried, especially by the media of the West.) At the same time, the point has to be pressed that fortunately, unlike some countries which have seen similar well-meaning chefs at work, that omelette is being slowly but assuredly made.

Malaysia's good race relations record has not been the result of accident

but of toil, of tears, of sweat and much else besides. It has been founded on the collective genius of the Malaysian people, a genius for getting along, steeped in history and experience. It is a result of the willingness of all Malaysians to accommodate, to give and take.

To understand why it is that we have not become one of the tragedies of human history, it is also necessary to understand our complex system of checks and balances, of power sharing and the sharing of decision-making, which defy the mechanistic theories of coalition building. Malaysia has always had a coalition government even though there has never been the legislative or parliamentary necessity of having a coalition government. We have always had a multi-party and multi-ethnic government even though there has never been the necessity to have one. And we have practised, lived by, and stood by democracy.

Let me now turn to our strategic objective of ensuring social justice. I have already touched on Malaysia's New Economic Policy. Let me assure you that the New Economic Policy is not a case of double-talk and double-think. Please let me clarify some basic misunderstandings of this core policy of the Malaysian nation. First, the New Economic Policy has two prongs, not one. The first central objective is the eradication of poverty regardless of race. In pursuit of this, vast programmes have in the last decade been launched to meet poverty wherever it is, especially where it is most acute. Although our achievements have fallen short of our ambitions, let me say *en passant* that whereas in 1970, 49 per cent of the Malaysian people were below our relatively high poverty line, in 1983, 30 per cent were in this situation.

The second central objective of the New Economic Policy is restructuring of society to ensure a more equitable distribution of wealth and a more balanced participation of the various communities in the modern sectors of the Malaysian economy. The entire restructuring process, let me hasten to emphasise, is to take place within the context of an expanding pie. It is not a zero-sum game. Within the context of an expanding pie, all sectors are to get a larger slice. There is a place in the sun for all Malaysians – and for the foreign entrepreneur. It is an essential element of the overall master plan that the foreign investor must increase his investment, not cut down. Foreign investment is given a strategic role to play. I am here today because I am committed to greater foreign investment. My prime minister has energetically and tirelessly traversed the globe in the role of Malaysia's premier salesman.

For this national endeavour, for the New Economic Policy, Malaysia makes no apologies and sees no reason for regret. It is in keeping with the national aspiration of creating a more just society in which the wealth of the nation is more equitably shared. We believe that a civilised society cannot be founded on the basis of the law of the jungle. The strong must not be made weak. But the weak must be made strong, must be given a helping hand, so that they can fend for themselves.

The justification for Malaysia's New Economic Policy goes beyond principle and beyond moral values, of course. It is our conviction that a more equitable distribution of wealth and a more balanced participation of all Malaysia's communities in the modern, fast-advancing sectors of the Malaysian



economy is a *sine qua non*, an indispensable condition for a united Malaysian nation in the longer run and an essential prerequisite for political survival and stability in the shorter term.

Malaysia's New Economic Policy is no more than your own programme of affirmative action, aimed at assisting the disadvantaged in American society. The disadvantaged in Malaysian society, like the disadvantaged in American society need a helping hand, especially since they are caught in the vicious circle of backwardness. Society's cards are heavily stacked against them.

I put it to you that in all societies, discrimination is the norm, an unavoidable organising principle. Better students are admitted to universities. We all try our best to ensure that people in good health do not get admitted to hospitals. Even in America, it is difficult for women to become company presidents. In a lighter vein, it is difficult for Blacks to enter the Klu Klux Klan and for Whites to enter Black Panthers. The only question that faces every government is whether it wishes to intervene to ensure a more balanced and fair and just system of societal discrimination or to take a *laissez faire* position. It is arguable that non-intervention itself is intervention in support of the status quo. Obviously, where the status quo is moral, is just, there should be no intervention. We in Malaysia believe that our status quo is unsupportable – unsupportable in terms of justice and morality and unsupportable in terms of political stability and national unity.

It is my view that cold-blooded analysis cannot but yield the conclusion that there is practically not one single element in our New Economic Policy, not one single objective, not one single method utilised that cannot be found in one or more of your own affirmative action programmes. The essential distinction, if I may be so bold as to suggest, is that Malaysia's affirmative action endeavour cannot be allowed to fail. We believe that there is no room for tokenism. Our programme must be pursued over the broadest of fronts with a singlemindedness of purpose. We have absolutely no choice but to summon the courage to stand fast and to proceed with vigour and urgency. For that courage, that vigour and that sense of urgency, we apologise to no one.

The challenge for Malaysia in the future, as in the past, is how to get the job done, how to ensure that the task of creating a more just society in which the wealth of the nation and the opportunities in the nation can be more equitably shared is carried out effectively – and efficiently – without incurring unnecessary costs with regard to Malaysia's other values and objectives.

Let me now go to two other pillars of Malaysia's strategic vision, the challenges of maintaining a democratic and a liberal society, two central ideals of Malaysia's national ideology. An aspiration is not a challenge, of course, if it is already securely achieved and if no forces dispute it or threaten it. Even for the United States there are those who will contend that the struggle for a democratic way of life and for liberalism is far from over, that it is a never ending battle in the face of those who wish to curtail democracy and confine liberalism. In Malaysia and in the context of the long throw of history, our battle for democracy and for liberalism has been a relatively short one. Our first national elections were held not in the 19th century but in 1954. Although there may be

differences of assessment as to how deeply rooted Malaysian democratic institutions and practices are in the Malaysian soil, there can be no doubt that it is a relatively new plant. At the same time, there can be no doubt whatsoever that Malaysia is a democracy, that all of Malaysia's national governments have been the result of democratic and free elections. No fewer than five democratic and free general elections have been held in independent Malaysia. We have had no fewer than four prime ministers since 1957. Every transition has been smooth, orderly, in the best tradition of the democratic process. This is a record of which we are proud.

Having said this, it would be amiss for me not to mention that the maintenance of democracy and liberalism will continue to be challenges that Malaysia will have to face in the foreseeable future. The challenge of the 1980s and 1990s lies in the task of broadening the consensus for a democratic and liberal society in the face of a social and socio-psychological system where authoritarianism is a major and powerful element.

It would be amiss of me also not to deal with the problem of religious extremism that has reared its ugly head in a host of countries. Fortunately, in the case of Malaysia, this is not a new problem either on the social plane or in the political arena. It is a fact practically never recognised by Western analysts, whose analyses have tended to be understandably skewed by a disproportionate interest in the politics of Malaysia's urban areas, that ever since the first national elections in 1954, the main opposition party in Malaysia has been Parti Islam Se-Malaysia, PAS, a party whose appeal has been Islam-based. We have lived with Islam in its extremist form, wrestled with it, fought it, since the mid-1950s. We have successfully managed the problem of religious extremism at the political as well as societal level for a whole generation, within the context of an open society. There is a certain knowledge, strength, conviction and capability derived from the hard knocks of experience over an extended period of time.

The West seems to be mesmerised by Islamic extremism. I repeat: We have not been surprised by the phenomenon or taken unaware. Please be assured that the modernist Islamic leadership in Malaysia will be able to handle the challenge of the Islamic extremists in Malaysia. Through a complex process of accommodation (where this is fully justified), co-option (where this is required) and confrontation (where this is necessary), we *Sunni* Muslims of Malaysia will remain well on top of the situation.

Please also let me allay whatever fears there are about the 'Islamisation' process in Malaysia and about our programmes to infuse Islamic values into our education and administration system. Islam is not a medieval religion. It is relevant to our times and to the 21st century. The Islamic values we seek to infuse into our society are the Islamic values of honesty, anti-corruption, public trust and trustworthiness, efficiency, diligence, moderation, tolerance, thrift, contribution to society as opposed to contribution to oneself, respect for science and technology – and other values with which I hope you won't disagree. We see absolutely no contradiction between Islam and modernisation. Indeed, the Islam of the 21st century must be a core element of our modernisation programme.

Without doubt, Islamic extremism in Malaysia threatens our aspiration to be a united nation, to be a just, democratic and liberal society. It, of course, strikes at the heart of our effort to be a progressive nation oriented to modern science and technology. In the effort to move vigorously in this direction, we, many years ago re-moulded our entire education system from top to bottom, giving it a decided science and technology tilt.

At this stage, perhaps I should talk of the challenge of ensuring national security. The first thing that might be said in this regard is that Malaysia has adopted a strategy of comprehensive and integrated security. Its objectives are economic, political, social, military and diplomatic. Its means are economic, political, social, military and diplomatic. There is no over-dependence on the military instruments of national security, which we regard as not the first but the last line of defence. To be sure, Malaysia stepped up its expenditure on the military most substantially in the early 1980s. Ill-equipped in more senses than one to fight anything but counter-insurgency wars, we have moved in the direction of building up our conventional capability. Arms and men in uniform do have an important role to play. But Malaysia's first line of defence, we believe, lies in our national resilience and our ability to ensure an environment of peace and security in Southeast Asia.

The first, primary challenge in ensuring Malaysia's national resilience and thus Malaysia's national security lies in ensuring a united people and in resolving the major internal contradictions in the Malaysian body politic; and, as important as anything else, it lies in ensuring vigorous economic growth. The restructuring process demands it. Racial harmony depends substantially on it. The resources that it yields enhance Malaysia's ability to contend with whatever challenges might arise. Economic growth, equitably distributed, pulls the rug from under the feet of the enemies within.

With regard to rapid economic growth, Malaysia can count itself among the world's fortunate. In 1978, our real GDP growth was 7.6 per cent. In 1979, it moved to 8.5 per cent. In 1980, it slowed to 8.0 per cent. In difficult year 1981, Malaysia managed a firm 6.7 per cent. In deep recession year 1982, our performance was 4.8 per cent. In the slightly better year of 1983, we hit 5.9 per cent. This year (1984), 6.9 per cent is predicted. We expect 6.7 per cent for next year. Six per cent or seven per cent may appear to be something that Malaysia should be satisfied with. But so important is economic growth to our entire body politic, however, that our friends should understand our dissatisfaction.

It is the basis of our greater assertiveness on North-South issues, our vigorous attempts to secure better commodity prices, our battle against tariff walls and non-tariff barriers, our grave concern over increasing protectionism.

If national resilience is part of our first line of defence, so is the creation of a low-threat or no-threat environment of peace and security in Southeast Asia. This is a substantial challenge to our political knowledge, intelligence, our diplomatic skills and resources. Fortunately, in this endeavour, Malaysia is not alone but on a team of six. Together, Asean has achieved a most creditable performance, with regard to the Kampuchea question, with regard to mobilising world opinion, with regard to helping to ensure a viable balance of forces, psychological and physical. Be assured that Malaysia's and Asean's friendship

with the United States remains an essential ingredient of this viable balance of forces.

The United States is in a strong position to act, in pursuit of its own interest, to build a strong and secure Malaysia and a strong and secure Asean. Strategically, it has made a remarkable comeback from the aftermath of the Vietnam War. Economically, it has yet to respond fully to the opportunities that are there in Asean – and in Malaysia. I believe that the United States is a natural ally in Malaysia's struggle to achieve its strategic vision. I call on the United States to come forth, to join us, to be a full contributor to the realising of the Malaysian Strategic Vision and to the making of the Pacific Century.

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# Malaysia's Strategic Environment: One Perspective on the Present and the Future

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**Dr Noordin Sopiee**

*Director-General*

*Institute of Strategic and International Studies (ISIS) Malaysia*

THE PRIMARY purpose of this paper is to stimulate discussion.<sup>1</sup> It sets out one Malaysian perspective on Malaysia's strategic environment, a perspective with which many Malaysians will disagree in part or even in toto. No doubt everyone can agree that there are a hundred issues that can be subsumed under the heading that appears on the title page of this paper. I will touch, fleetingly, on only seven issues:

- The general strategic environment of Malaysia
- The Philippine situation
- The Kampuchean Question
- The nature of the Soviet threat
- The nature of the Chinese threat
- The re-armament of Japan
- The role of the United States.

## **The general strategic environment of Malaysia**

The first controversial statement I shall make is that Malaysia today faces no immediate external threat and that in the foreseeable future (which may not be a long period, of course) the country will face no substantial external military threat. In other words, Malaysia at present resides in an external environment of comparative peace and security; and this fortunate state is likely to continue as far into the future as we can at this stage see. This is not to say that the country can afford to fall asleep. (For peace is always a constant battle and security is

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<sup>1</sup> Throughout this paper, GNP refers to Gross National Product, a more inclusive term than Gross Domestic Product (GDP) which is also used in this paper.

always a constant struggle.) It is not to say that the situation cannot be improved immeasurably or that there is not the need to actively and with determination seek an improvement. But anyone who argues that Malaysia's external environment is a bad and dangerous one should lie back and imagine how much worse it can be.

The Soviets may huff and puff and steam in and out of Cam Ranh Bay. They may steam up and down the Straits of Malacca with the new ships of the Soviet Pacific Fleet. Their planes may at times violate Malaysia's air space. But the prospect of a Soviet military adventure in the region or against Malaysia is simply not on. Outside the context of a general war encompassing the Indian and Pacific oceans and involving the superpowers, there is very little danger indeed of anyone interdicting the region's vital sea lanes or cutting the jugular vein stretching from the Indian Ocean through the Straits of Malacca to Tokyo Bay and beyond. The context is at this point in time somewhat far-fetched.

That the strategic environment for Malaysia is a good one is not the result of accident but of sound management. The Asean community which accounts for six of the eight fully independent states of Southeast Asia, which adds up to 75 per cent of Southeast Asian real estate, where nearly three out of four Southeast Asians live and which has more than 90 per cent of the region's aggregate GNP, is in excellent shape, except in the case of the Philippines.<sup>2</sup>

Malaysia, the only country which borders all the Asean states, faces no real external threat from any of its neighbours. Thailand is secure. Although much is to be desired, the Indochina Periphery, which is 40 per cent the size of Indonesia and smaller than the Philippines in size and slightly bigger than the Philippines in population, has been soundly stabilised, with little prospect of a substantial military-political spillover effect even on Thailand, still less Malaysia.

So much for the present. What of the years ahead? Confucius is supposed to have said: 'Prediction is difficult ... especially if it concerns the future'. And I am reminded of the Japanese saying, *Ashita no koto o yuto oni ga warau* (when we speak of tomorrow, the Devil laughs). We are amply warned of the difficulties and the dangers. But it may well be reasonable to argue that the main real-world threat to the strategic environment of Malaysia in the foreseeable future could come from at least five directions. First, a severe deterioration in the Philippine

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<sup>2</sup> It is important to note that what I call the Indochina Periphery (Vietnam, Kampuchea and Laos) is not much larger than Burma and constitutes only 15 per cent of the land area of Southeast Asia. Malaysia, incidentally, is as big as Vietnam.

In terms of people, the Indochina Periphery adds up to only 18 per cent of the population of the region. There are almost as many Filipinos as there are Vietnamese. For every one Indochinese, there are more than four residents of the Asean community.

If one puts the GDP of the Indochina Periphery at US\$10 billion in 1982, this was no more than the GDP of Burma and Brunei combined. It was 40 per cent of Malaysia's GDP, 12 per cent of Indonesia's GDP. Singapore, with a population 22 per cent smaller, had a GDP 20 per cent bigger. Brunei, with a population of some 200,000, had half of Vietnam's GDP. The Indochina Periphery had a total GDP less than 5 per cent that of the Asean Core. It is worth noting that the comparative economic gap has of course widened since 1982.

situation, involving Manila's antagonism towards Asean and the deprivation to the United States of its military facilities. Second, a severe deterioration in the Indochinese corner of Southeast Asia. Third, a substantial change in Soviet policies and ambitions. Fourth, an about-face in Beijing foreign policy. Fifth, a serious drop in the level of Japanese wisdom and a decline into insanity. Sixth, a substantial reduction in US interest, involvement and military presence in Southeast Asia and the wider Pacific.

### **The Philippine situation**

The first point that must be made about the Philippine situation is that the problem may be much bigger and much more difficult than many may presume. The second point that ought to be made is that it remains most unlikely that the Philippines will 'go down the tubes' despite its severe political problems and its disastrous and more intractable economic position. At this stage, the emergence of a communist regime in Manila is conceivable but extremely far-fetched.<sup>3</sup> Even if disastrous things do happen in the Philippines, their impact on the overall strategic picture will be grave only if they impact most directly on Asean and the American equation.

In this regard, it seems most unlikely that whatever happens in the Philippines will drastically transform Asean. The Association has simply become too useful, even as its political burdens on its members continue to remain light. We must not dismiss out of hand the possibility of the creation of a third Sabah crisis<sup>4</sup> should whatever emerge in Manila perceive the value of an external diversion. But the Asean community today is a different place from the time of the first and the second Sabah crises. And it is much more likely that the Philippines in the years ahead would turn to domestic preoccupations than look outside. To be sure, there is great intellectual antagonism towards the American bases. But it is most likely that whatever emerges in the longer term, the US facilities will remain.

### **The Kampuchean Question**

With regard to the Kampuchean Question, it should be clear that the present situation has been securely stabilised in spite of small military spillovers into Thailand now and again and despite the sanctuary provided to the anti-Heng Samrin forces.

It ought to be recognised too, when we say that we are all seeking a solution,

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<sup>3</sup> At present, the New People's Army is an orphan Marxist party, spurned by Beijing. If the Soviet Union buys in (a tempting thought in Moscow), using Vietnam as a proxy, this could grievously tax any Philippine government.

<sup>4</sup> The first Sabah crisis refers to the Indonesian and Philippine objection to the inclusion of Sabah into Malaysia in 1963, which led to the 'Indonesian confrontation'. Two or three years later, the second Sabah crisis occurred when the Philippines staked its Sabah claim, leading to the souring of relations with Malaysia.

that in the context of what is today feasible and prudent rather than what is desirable, the present situation already constitutes one realistically (though not legally) acceptable short-run solution.

To be sure, it is far from a good solution:

1. It ensures the entrenchment of Soviet influence in Indochina.
2. It involves the Asean states in the Sino-Soviet conflict.
3. It diverts Vietnamese attention from the task of domestic economic reconstruction, which must be preferable in the short, medium and longer term to a preoccupation with military, strategic and external preoccupations.
4. It divides the region into two confrontationist blocs and strengthens the regional ambience of suspicion and enmity.
5. It runs counter to what must be the long-term Asean strategy of drawing Vietnam and the other Indochinese states into a region-wide system of fruitful, peaceful and positive co-existence.
6. It prevents a halt to the process by which Hanoi is attempting to Vietnamese Kampuchea through the settling of Vietnamese in large numbers in that country.
7. It strengthens the historical enmity between Vietnam and Thailand.
8. We should not forget the suffering it causes the Kampuchean people.
9. We should also not forget the destruction of the vital resource and infrastructure, the hardware, software and peopeware that would be needed by Kampuchea if it is to have a fighting chance to re-emerge as a viable independent state after the Third Indochina War.
10. The present situation has had the tendency to generate pressures for an arms race in the region.

In addition we have to throw into the equation the more problematic assessment of whether the present position will contribute solidarity or division to Asean in the days ahead and whether it will not in future put Thailand at risk. There have also been differences in assessment with regard to whether the continued strength of the military element in the Thai political system (which a continuing Kampuchean stalemate works for) is a positive or negative factor.

Quite clearly, any criticism of the present solution, a stabilised stalemate, must be informed by the most careful calculation as to (1) the feasible and realistic alternatives and (2) the means by which we can move from the stalemate solution to a preferable one.

Unfortunately, mankind has so far in our history been able to devise only three basic methods of making peace between contending groups. The first is conquer/surrender. The second is compromise/accommodation. The third is separation/partition.

In stark terms, Vietnam's solution is the conquest, politically and militarily, of Kampuchea; Asean's solution is compromise and accommodation (withdrawal of Vietnamese troops in return for a Kampuchea that is more or less neutral and independent but under substantial Vietnamese influence). Some have argued that one track of Indonesia's foreign policy envisages a combination of all three methods: conquest, in the sense of acceptance of Kampuchea as a Vietnamese satellite state; compromise and accommodation, in the sense that



in return, Thailand's security should be firmly secured; and separation, in the sense that the Kampuchean Question should be taken out of the nexus of Vietnamese-Asean relations and should not be an obstacle to the development of these relations.

The short-run problem lies in the fact that if Thailand ever feels betrayed, if there is an eagerness gap (if Asean is more keen on moving to a solution other than the existing one) and if there is an activity gap (if Asean accommodates in the face of blatant Vietnamese intransigence or is seen to be made of mush), we are more likely to reach the conquest/surrender solution than the compromise/accommodation solution. And the Asean states and their friends could end up with a less preferable scenario than exists today and diminish the chances of creating the longer-term Southeast Asian scenario that is sought.

The question that has also to be asked is whether any other practical solution will banish the negative aspects of the present one. Will it reduce Soviet influence? Will it make Vietnam change its perceptions of the reality of the Chinese threat? Will it foster a situation where Vietnam no longer needs the massive foreign aid that only the Soviet Union will be willing to provide? Vietnam is a proud, fiercely nationalistic state. It is not a monkey that will be satisfied with peanuts.

Again, how sure can one be that a different solution will guarantee that the Asean states will be able to stand aloof from the Sino-Soviet conflict? Can one be sure that a different solution will result in Le Duan and Le Duc Tho taking a leaf from the heretical works of Deng and adopting the policies for Vietnam that are today practised by their mortal enemy in Beijing? To what extent can we be sure that a different solution will result in the dismantling of the curtain of enmity that has divided the region and in fostering the development of a system of peaceful and positive co-existence? Whatever happens, can the Vietnamisation of Kampuchea be halted, still less reversed? To what extent can one be sure that something different will be able to yield greater security safeguards to Thailand and strengthen Bangkok's sense of security, thus preventing a Thai movement towards Beijing?

To be sure, it is not difficult to devise scenarios that would lessen the suffering of the Kampuchean people. But how sure can one be that Kampuchea will have the wherewithal to establish a viable state when it continues to lack this capability even with such solid Vietnamese help?<sup>5</sup> No less important, how sure are we that movement on the part of Asean at this stage will not be seen as weakness and lack of stamina – and will not result in consequences that will be detrimental to the longer-term future of the region?

These questions have to be answered by the critics of the present situation. The rational, cold-blooded answer to most of these how-sure-are-we questions must be 'not sure at all'. But it may well be true statesmanship to act now on the basis of exploiting possibilities and grasping probabilities whilst continuing to

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<sup>5</sup> It should be noted that in the opinion of many observers, there has been in recent times (for example the 1960s) a viable Kampuchean state, i.e. under Norodom Sihanouk.

make sure that Hanoi understands the Asean resolve. In the face of the meticulous and academic dissection of the differences between Asean states, it is essential to make clear that despite the internal contradictions what is important at this stage are not the differences in perspectives but the solidarity in policy, not the divergences in attitude but the uniformity in action. Consideration of the Thai predicament will remain paramount. Differences that make no substantial difference make no substantial differences.

With regard to Vietnam and Indochina, should that be the objective of Asean foreign policy, it appears equally clear that Malaysia and the Asean Core face essentially three basic options:

1. A Vietnam, and an Indochina that is under Soviet influence;
2. A Vietnam, and an Indochina that is under Chinese influence; and
3. A Vietnam, and an Indochina that is under neither Soviet nor Chinese influence, that is fully independent.

The Asean states should work for scenario three but it should be fully cognizant of the fact that scenario one is preferable to scenario two. Asean and its friends should also aim for a Vietnam and an Indochina that is not only independent but also *defensively* strong and *offensively* weak. To merely seek a strong Vietnam per se is not wise; for strength has a way of changing perspectives and fathering ambitions.

One of the virtues of the present situation is that Vietnam is strong on defence and weak in attack (of the conventional major kind) – and in the face of Russian caution and interest, in denying what it sees as Chinese and American hegemonist impulses in the Asean Core. The existence of a Chinese military threat that allows it to impose internal controls that are accepted and legitimised, that rigidifies the regime and makes economic hardships defensible probably strengthens more than weakens Vietnamese national resilience. At the same time, it ensures that Hanoi will not have military aspirations outside of Indochina and will not be able to sustain any external aggression outside the Indochina Periphery even if it has any ambition to do so which it clearly has not at this point of time.

The Asean states have to be careful about the prescription of Vietnam as a buffer state against China, for Vietnam can only be useful as a geographical buffer against Beijing if one envisages conventional military Chinese aggression over land, which is extremely unlikely. An independent and viable Vietnam and Indochina can be a psychological counterweight and can give the Asean states another card to play. But great care must be taken to ensure that a 'buffer' does not pose a greater threat than the enemy that it is intended to be a buffer against.

### The nature of the Soviet threat

With regard to the Soviet threat, it may well be useful to exaggerate the danger, to look at the dangerous scenarios in order that one is not caught napping. Certainly there is no reason for sleepy-eyed complacency. But in assessing the reality, it is useful to adopt an attitude towards fear of the Soviet threat that some men adopt towards wine, women and song: a little is not bad but too much is not good.

Malaysia and the Asean Core should be fully alert to the Soviet threat because there is a big power gap, because the Soviet Union is not a power in retreat, because the Soviet Union is a state with a sense of global entitlement and a drive towards true superpower status. Fourthly, it is an opportunistic power, not afraid of moving when there are targets of opportunity, when strategic windows are open. Fifthly, the Soviet Union is a communist state. Sixthly, it is no longer a faraway power devoid of the ability to project tremendous military assets in Southeast Asia.

At the same time, there are good reasons why the states of the Asean Core should not be unduly alarmed. Whereas in Indochina the Soviet Union has the most substantial capability, the most substantial intent and the most substantial, even vital, interests, Moscow has only limited capability, limited intentions and limited interests vis-a-vis the Asean community.

Whereas the Soviet Union has massive economic clout in the Indochinese Periphery, it does not have it in the Asean Core, unlike the Americans and the Japanese. Japan and the United States can by economic means bring quite a few Asean states to their knees. The Soviets cannot. Secondly, the Soviets do not have the psychological levers of power. The psychology of Malaysia and the Asean states is greatly resistant and antagonistic to the Soviets. Thirdly, the Soviets do not have political power in the way that the Americans and Japanese have. In addition, the Soviet Union does not have diplomatic and cultural capability and it does not have the skill and acumen that the Japanese and the United States obviously have. If it has been facetiously argued in the past that with friends like the United States one does not need enemies, it might less facetiously be argued that with enemies like the Soviet Union one does not need friends.

The Soviet Union is an incredibly unidimensional power. All that it has is military hardware, military software and military peopeware. Clearly, a nation that cannot convert military capability into power may have massive military capability but little power.

In essence, military capability can be used in three basic ways. The first way is to use it: to shoot people and to destroy things. The second way is to clearly threaten to use it. The third way is to let one's very presence have an intimidating effect on someone else.

No one has been able to come up with plausible scenarios under which the Soviet Union will actually use its military might in the Asean area outside the context of a general, wider war. (In a general, wider war, the Soviets will have many more important fish to fry. If the Asean countries stay out, the Soviets might be able to keep out. Obviously, in any war with Western Europe, for example, the Soviet Union is not going to go out of its way to attack Switzerland and Sweden.) The difficulty (for the Soviets) with the 'intimidation of threat' and the 'intimidation of presence' is that they work only if the intended victim believes he will suffer some form of loss or retribution should he not give in. The problem for the Soviets is that the leadership of no Asean country is intimidation-prone and none expects retribution. And for so long as the United States has a military presence and has a strong psychological impact in the region, for so long as the Northern Wind is not the only wind blowing, for so long will the Russian military presence fail to intimidate. Friends of the Asean

countries who believe that these states should be more mortally afraid of the Soviet threat ought to bear in mind that the exaggeration of the Soviet danger could have negative repercussions and could have effects counterproductive to American interests.

The sober reality (sobering to the Soviets) is that no Asean political leadership today believes that the Soviet Union as of now has interests in the Asean Core which would justify the actual application of its military projection capabilities. One should not look a horse in the mouth. Most assuredly, if the Soviet Union is seriously provoked, if the Indochina Periphery is seriously threatened by any Asean state, we can expect matters to change. But given the Soviet's primary and only major interest of denying what they perceive to be Chinese 'hegemonist' and American 'imperialist' impulses, given that the Asean states will not be so mad as to go in for the medieval sport of bear-baiting, and because the Asean states have a China card and an American card up their sleeve, we can reasonably expect the Soviets to behave themselves in the foreseeable future.

Moscow must indeed know that any aggressive action will risk driving the Asean states into the hands of its mortal enemies, solidifying anti-Soviet policies within the Asean community, strengthening the US-China-Japan strategic condominium and creating a US-China-Japan-Asean strategic coalition, thus accelerating what is already a negative (and deteriorating) correlation of forces in the Pacific.

### The nature of the Chinese threat

With regard to the Chinese threat, it might be said that no country in Asean today perceives China as an immediate threat. For so long as the thoughts of Marx are firmly in the hands of Deng and for so long as China holds fast to the present line and keeps Maoist romanticism at bay, there is confidence that the China threat is something to talk about and not to immediately prepare against. At the same time, it might be argued that there is no country in Asean that does not believe that in the longer term China could pose a serious threat to one or all of the states of the Asean Core. It might be useful to remind ourselves that China has in the past played a major role in the communist terrorist movements in every part of the Asean community. Beijing's connection with all these parties remains to this day. The principle that government relations are to be differentiated from party-to-party relations is useful to China. But anyone who does not know that the party is the government in China knows nothing of that Middle Kingdom. It is true that no one in the present regime in Beijing dares to disown China's fraternal communist parties in Southeast Asia for fear of losing ideological legitimacy. But this fact is in itself instructive and makes an important point.

In Malaysia's case, there is the added complication of a large community of Malaysians and some aliens of Chinese origin. With regard to the 'overseas Chinese', Beijing has shown over the years a substantial ability to shift positions, on occasion acting as a concerned and active *paterfamilias* undertaking the

responsibilities of the head of the household (as in the case of the expulsions of Chinese Vietnamese in the late seventies) and at times taking a hands-off attitude. The recent invitation extended by the Chinese embassy in Kuala Lumpur to prominent Chinese Malaysians to go to China to celebrate 'our' anniversary (the anniversary of the communist takeover in China) does little to generate confidence in Beijing.

However integrated Chinese Malaysians are within the body politic, 100 per cent success cannot be counted upon. A few can do a great deal of harm in a multi-racial society. To do this harm, China would require no substantial military capability and would not need to make a substantial commitment of resources. To set off dynamite, all one needs is a box of matches. There is no denying that China can bring this box of matches to more than one country of the Asean Core.

It has been argued that no country in Asean dares to dismiss the giant at their doorstep in the longer term. It is in this light that their concern with American assistance which has long-term strategic positive effects for China's self-extension capabilities, has to be seen.

### **The re-armament of Japan**

It is one of the unfortunate facts of life that on the question of Japanese re-armament, very few are able to examine it cold-bloodedly and without emotion, least of all perhaps, the Japanese. On this issue, there has unfortunately been too much heat and too little light, too much innuendo and too light insight. First, there is too much loose thinking and looser talk about the 'militarisation' of Japan. There is little to gain from the semantics of the smear. When some insane person in Japan stands up to say that 'war is the father of creation and the mother of culture' as was proclaimed in the 1934 Japanese government document, 'Basic Principles of National Defence and Proposal for Defence Build-Up', then and only then can we talk of possible militarisation.

Second, there is the myth, too widely believed by the Japanese that their country cannot become a large military power, even if it wants to be one. Third, there is the myth that Japan is already a large military power. Fourth, there is the myth that Japan can quickly become a military giant once the proverbial consensus is reached. Fifth, there is the myth that whatever happens Japan will never become a nuclear power. Sixth, there is the assumption on the part of many that a militarily powerful Japan is a threat to the rest of Asia. There are other myths. We at present see, for example, a country committed (under American pressure) to guaranteeing the safety of its sea lanes up to 1,000 nautical miles from Tokyo Bay. Nobody bothers to say that the only way this can be done is for Japan to be a bigger military power than the US or the Soviet Union. No country on earth today can secure 1,000 miles of sea lanes. Japan already has a policy under whose ambit the most massive arms build-up can take place.

Japan has every right and every justification to enhance its military capabilities. And it may well be to the benefit of the entire Pacific if Tokyo does so. Many in the Asean region have argued most passionately that Japan should not

seek to militarily intrude into Southeast Asian waters. The arguments are three.

First, there is the apprehension that Japan will eventually be forced into a surrogate role and become a proxy, thus allowing the Americans to reduce their presence, interest and commitment to stability in the Asean community and in the wider Southeast Asian region.

Second, Japan already has tremendous economic power, and to a lesser extent, other forms of capability in the Asean community. The addition of military clout on top of economic, political, psychological and diplomatic power would result in 'excessive' Japanese power in the community. Even if one takes past historical experiences out of the reckoning, there are understandable Asean fears of a Japan that is not only economically dominant but also militarily powerful in the Asean community. Japan is the only power in the world that has vital and permanent interests in the community. It has a hierarchical world view. The Japanese people do not have the highest respect for the Asean countries. A huge power asymmetry is not in the interest of Japan or the Asean community.

Third, a military role in Southeast Asia could divert Japanese attention from the most valuable economic role that it has played in ensuring the security and stability of the Asean community. Already one hears of Japanese calls for a diversion of resources from Official Development Assistance (ODA) to arms that could then be diverted for use in Southeast Asia.

With regard to the Asean community, Japan has made the most remarkable contribution to peace, security and stability, the more remarkable because it has been so seldom recognised. The threats to the Asean states are primarily internal, not external, an assertion that has as much validity for Thailand as for Malaysia. In dealing with these threats, the most important factor is national resilience. The backbone of national resilience is economic development and economic prosperity. Without economic strength, the states of the Asean Core, Malaysia included, would not have peace at home and the domestic wherewithal to do what must be done internally to secure their houses. The danger of a drastic change in Japanese military policy and a diversion of Japanese resources and attention from the economic means of security-building could have severe repercussions on the Asean states.

### **The role of the United States**

It is incontestable that the deepest and widest engagement of the United States is essential for the stability of the entire region. There was a time when there was a crisis of confidence in the United States, when, in the aftermath of the Vietnam War, the Nixon Doctrine and the Carter decisions on the run-down of military forces, the United States was seen to be an eagle with ruffled feathers intent on winging its way out of Southeast Asia and the Western Pacific. That crisis period has long been put behind. The United States today appears strongly committed to staying in the entire Pacific and Indian oceans. It has in the last five years gained tremendous political ground as a result of Vietnam's aggression in Kampuchea and Soviet backing for that aggression.

To imagine how very important the United States is in the Pacific one need only ponder on what life would be like without the Americans. The Pacific would be a Russian lake. There is no doubt how the reeds will bend if only one wind, the Russian wind, blows. The United States is the only power which can maintain the military balance of power in the Pacific Basin. It can therefore be no surprise if no serious political party or force in any of the countries of the Asean Core, the Philippines included, seriously desires an American military withdrawal.

The edge that the Americans have over the Soviets is that unlike the latter, the United States is a fully multidimensional superpower with comprehensive strength on every dimension of power. It is militarily stronger than the Soviet Union, no matter what American detractors say. It is a strong economic power in the entire crescent of the Free World states of the Pacific rim. Very importantly, too, whereas the Soviet Union has to work in a resistant and negative environment, Washington's regional environment is a sympathetic and positive one.<sup>6</sup> Whereas the Asean states want the Soviet Union to reduce its presence, all want the United States to increase its presence, especially its economic presence.

At a time when the Soviet Union, which used to have a gun in one hand and *Das Kapital* in the other, is now left only with that gun, its ideology and model having been completely discredited, it is fortunate that the Reagan administration has recommitted the United States fully to Southeast Asia. At a time when the Soviet Union fully asserts that it is a Pacific power with every legitimate right to be in the entire region, it is heartening that, contrary to the disastrous Carter years, the United States has done the same – in deed as well as in word.

It might perhaps not be surprising in a paper devoted to an examination of threats, that the US gets such short treatment. The reality is that no Asean state regards the United States as a threat. Lest the wrong impression is conveyed, however, it is quite clear that Washington does have two significant problems on which it will need to work. The first concerns the contradictions between Malaysia-Asean and the United States on economic issues and on North-South questions. This is not to be minimised since there often is opinion in the Asean countries that although the US is a political-strategic friend, it very often is an adversary on many economic questions of substantial national import, economic questions that impinge substantially on national security-strategic interests. High US interest rates and the policy of sequestering the wealth of the world to finance massive American deficits, for example, are clearly subversive (in result) of all the regimes and the stability of every Asean state.

The second problem revolves around American-Chinese relations. Many in Malaysia and the Asean Core believe that all too often China is dictating American policy. In its assistance programme to the PRC, there is significant official opinion

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<sup>6</sup> The goodwill that exists toward the United States may not be fully expressed publicly by states who believe in pursuing independent foreign policies. Their pursuit of equidistance as between the Big Powers is in fact analogous to their pursuit of non-alignment.

that Washington is often inadequately sensitive to longer-term strategic implications. Many would agree fully with the view expressed by some Americans that China continues to regard the United States as a major adversary, that its friendly gestures are tactical and that in the longer term, Beijing's policies and those of Asean and the United States may conflict rather than coincide.

It might be appropriate to conclude a paper on threats and problems with some thoughts on openings and opportunities for the United States in the coming decades – and a quote from a most American president. Theodore Roosevelt wrote in 1903: 'The Atlantic is now at the height of its development and must soon exhaust the resources at its command. The Pacific Era, destined to be the greatest of all, is just at its dawn.' If 80 years ago, 'the Pacific Era' was at its dawn, it is now early morning, having endured and survived the winds of war. There truly are great opportunities for all of us in the Pacific Basin to move the world centre of economic gravity to this region. In the making of 'the Pacific Era', the United States' role is obviously central.

America now trades more across the Pacific than across the Atlantic. In 1982, American trade with all of Western Europe (the EEC and others traditionally considered under 'Western Europe' plus Austria, Greece, Finland, Spain, Switzerland and Yugoslavia) amounted to US\$11 billion. Its trade with East Asia totalled US\$128 billion! By the year 2000, East Asian GDP will exceed that of 'Western Europe'. Malaysia's imports per capita from the United States in 1982 was US\$120, as compared with Italy's US\$80.7. Asean as an area of economic importance to the United States is shown by the dramatic fact that in 1981 US trade with China, for too long considered an enormous market for America, amounted to US\$5.8 billion; whereas America's trade with Singapore alone, a nation of 227 square miles was no less than US\$16.25 billion. To quote Bernard Gordon: 'It is long past time for the United States to shape its Asia-Pacific policies based much less on fear, and much more on the opportunities the region holds out for all its members.'



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# Malaysia – A Political Survey

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MALAYSIAN politics often appear to the outsider as a melange of ambiguities further clouded by symbolic acts and often misleading rhetoric. A rarity in Southeast Asia, Malaysia has two living former prime ministers, neither in jail or exile, competitive state and national elections and an economic climate generally favourable to private enterprises. The country enjoys one of Asia's highest standards of living, an expanding economy, an extensive educational system and a strong communications infrastructure. Thus, politically it presents a pluralist model and economically its people are better off than anywhere else in South-southeast Asia with the exception of the neighbouring city state of Singapore.

Yet these positive elements are often lost sight of in day-to-day analyses of the nation's politics. Rather, focus has been on long-term problems such as communal politics, economic imbalances among the races and the seemingly perennial infighting that appears to characterise party politics. More recently, attention has turned to the increasing vitality of Islam in the society, new styles of leadership and the clash of party personalities.

This paper seeks to achieve two goals, to provide to those less acquainted with Malaysia a brief review of contemporary history, demographic patterns and government structure and then to turn to more immediate political issues prominent in today's media. However, it should be emphasised that while these problems are important, they cannot be ranked with some of the vital issues facing Malaysia's neighbours. Thus, unlike Burma, Kampuchea or the Philippines, insurgency is no longer of great importance, except in small areas near the Thai border and sometimes as a rationale for government policies of control. Nor is the economy anywhere as severely dichotomised between rural and urban areas as in the Philippines and Indonesia. Finally, the national leadership is not challenged as in the Philippines or in danger of being unconstitutionally overthrown as in Thailand.

## Historical overview to 1981

Independence came to Malaya more slowly than it did to most of Southeast Asia. Although the country was less damaged by the Second World War than Burma or the Philippines, it was not until 1957 that the British formally transferred sovereignty. Among the reasons for this delay was the heterogeneous character of a population in which the Chinese and Indians were considered 'transients' by the colonial administration and lacked cohesion within their own ranks and the Malay population reflected more parochial traditional attitudes and loyalties. As well, the lengthy 'Emergency' (1948-1960) during which the largely Chinese communist party rebelled against the colonial regime was a destabilising factor. The post-war years saw a number of attempts to fashion a political structure satisfactory to all concerned and, in fact, the final form of the state was not completed until 1965. (Malaya became Malaysia in 1963 with the incorporation of Sabah, Sarawak and Singapore into the federation, but in 1965 Singapore opted out.)

In briefly reviewing the political history of Malaya-Malaysia under its first three prime ministers, we can divide the period into two eras. During the first dozen years after independence, the country still maintained much of the atmosphere of a former British colony. A visit to a military encampment, to the University of Malaya, to a meeting of district officers, to one of Kuala Lumpur's private clubs or to the business community gave one a sense of continued British presence. The modern sector of the economy was primarily in the hands of foreigners - British Commonwealth officers were attached to the armed forces, English was the language of higher education and the structure of Parliament and the courts was largely drawn from the model of Britain.

During those years there were a number of economic and political elements that determined the national environment. Political power was rather firmly held by the Alliance coalition, made up of the dominant Malay party, Umno (United Malays National Organisation), plus the Malayan Chinese Association and Malayan Indian Congress. From the beginning communal issues were at the centre of political differences but government rhetoric and policies of the period emphasised the need for co-operation and pluralism. As the first prime minister commented, it was impossible to throw all the Chinese into the sea. This pluralist goal was challenged by both Malay and Chinese chauvinists and it was necessary to maintain a delicate balance if the Alliance was to maintain control.

Part of this pattern was the dominance of the Chinese and Indians in the indigenous urban and commercial world with the relegation of the Malays to the rural sectors. The Malay elite on its part wielded political power and controlled the upper echelons of the civil service, including the political and military spheres. Malays were given special consideration in helping to improve their economic and social positions, but the country continued to support a largely capitalist *laissez faire* society dominated by non-Malays in the economic sphere. In this environment many Malays felt that the government was not

tending to their needs and that the Chinese in particular might endanger their control of the state through their economic power and increasing political role.

The bloody racial riots of May 1969, which followed a poor showing of the Alliance in national elections, was a watershed that foreshadowed a new era. The years that followed showed a government still supportive of democratic pluralism but one more cognizant of both pressure from the Malay community for greater consideration of its interests and the need to weld the people into one nation. Politically, Malay influence was seen in the increased importance of Umno within the ruling coalition and the greater significance given to that community's interests in the Malay language, Islam, education and correcting economic imbalances within the society.

The economic cornerstone of the era was the New Economic Policy (NEP) which was formulated in the early 1970s. Its two prongs called for reducing and eventually eradicating poverty and restructuring the society so as to correct economic imbalances and eliminating the identification of race with economic position. Based upon the assumption of strong economic growth, the NEP sought to bring the Bumiputera (literally the 'sons of the soil', primarily the Malays) into the modern sector and to expand the economic and social infrastructure for the rural poor. The NEP sought to achieve its goal of correcting these imbalances through training and education of Malays in management, establishing percentages for employment and ownership in the modern sector, giving special consideration to Malay businessmen through advice, subsidies, quotas, etc, increasing the number of Malay students in the universities and encouraging them to consider commerce, science and engineering courses and a host of other efforts. As it developed in the 1970s, the NEP went through a number of changes of emphasis, partly in order to assuage the fears of foreign and non-Malay business interests, and in the Third Malaysia Plan (1976-1980), the goal of eradicating poverty was given greater stress.

If consideration of the needs of the Bumiputera population was one target of this period, the other was to strengthen national unity, one of the reasons also given for the promulgation of the NEP. The Alliance was expanded into the Barisan Nasional (National Front) to include most of the former opposition parties. There was a tightening of security and sedition laws to control undesirable dissent and a national ideology was fostered. The *Rukunegara* called for greater unity of the nation's peoples, a liberal and tolerant society, a democratic way of life and progressive society to be achieved through belief in God, loyalty to king and country, upholding the constitution, the rule of law and good behaviour and morality. The fundamental problem of this era, as with all others, was how to meet the communal demands and attitudes of the people and still maintain a unified pluralist system.

### Communal patterns

The communal composition of Malaysia has been an important basis for much of the political interaction that has taken place since independence. Demo-

graphic data must be considered on several levels. Malaysia is now composed of peninsular Malaysia (11,138,227), Sabah (1,002,608) and Sarawak (1,294,753). The population of Malaysia as a whole totalled 13,435,588 in 1980 divided among approximately 47 per cent Malays, 33 per cent Chinese, 9 per cent Indians and Pakistanis and 10 per cent others. Given the integral relationship between religion and ethnicity within the Malay community, almost all Malays are Muslims, with additional adherents to that faith among those of Pakistani descent plus some Chinese and tribal citizens. As of 1980 some 53 per cent of the population was Muslim, an increase of 3 per cent over 1970. However, most other ethnic groups reflect the faiths of their ancestry.

Prior to the formation of Malaysia in 1963, Malaya was statistically dominated by the Malay-Muslims who numbered some 50 per cent of the population. Sabah and Sarawak added a large number of other groups such as the Ibans, Land Dayaks and Kadazans but less than 300,000 Malays. Thus, with the final formation of Malaysia the Malay population totalled 46 per cent.

Within peninsular Malaysia there are approximately 55 per cent Malays, 35 per cent Chinese, 10 per cent Indians and Pakistanis, plus others. While dominating the nation politically, the Malays have traditionally lived in rural areas with considerable concentration on the East Coast. In recent years they have begun to move into urban centres. The Chinese have tended to be urbanites and have concentrated in the cities of the West Coast such as Kuala Lumpur, Penang, Ipoh and Malacca, while the Indians have centred in the cities, and a large number of plantations.

Historically there have also been fundamental disparities in income, occupation, education and lifestyle among the communal elements of the society. When the New Economic Policy was formulated in the early 1970s these disparities were highlighted in the Mid-Term Review of the Second

#### POPULATION DISTRIBUTION BY ETHNICITY

(Estimated as at Dec 31, 1979)

	Peninsular Malaysia	Sabah*	Sarawak	Total
Chinese	3,876,532	178,469	383,504	4,438,505
Malays	6,050,361	49,937	244,990	6,345,288
Indians & Pakistanis	1,158,680	-	-	
Land Dayak	-	-	110,966	
Melanau	-	-	66,630	
Kadazan	-	238,046	-	
Bajau	-	109,108	-	
Murut	-	39,282	-	
Ibans	-	-	354,158	
Other indigenous	-	176,777	64,122	240,899
Others	83,004	189,925	12,058	284,987

\* 1978 figures.

Malaysia Plan. At that time statistics showed 84.5 per cent of the Malay and only 9.6 per cent of the Chinese and 4.9 per cent of the Indian households making less than M\$100 per month (about US\$33) while the mean income was M\$178.7 for the Malay household, M\$387.4 for the Chinese and M\$310.4 for the Indian. There was considerable variation in the availability of such amenities as piped water, adequate sanitary facilities and electricity between the urban centres where the Indians and Chinese tended to live and rural, Malay-dominated areas.

There were also great differences in occupation during this period. The percentage of Malays in commerce, manufacturing and construction was 16 per cent to 28 per cent while they composed only 7 per cent of manufacturing management as against 68 per cent Chinese, 4 per cent Indian and 18 per cent foreign. Finally, Malay ownership of limited company share capital at the time was 1.9 per cent as against 22.5 per cent for the indigenous Chinese, 1 per cent Indian and 60.7 per cent foreign (much of it foreign Chinese).

This demographic and economic pattern has been a major issue in Malaysian political life. Historically, the Malays, with only approximately half the population, have dominated the political life of the nation, in part due to the manner in which constituencies are formed (with 35 per cent of the population of the peninsula, the Chinese have but 19 per cent of the parliamentary seats). On their part, the Malays have perceived the Chinese, Indians and foreigners as dominating the economy. Thus the tendency has been to see communal orientation rather than class as the basis of societal divisions, although the two often go together. While the NEP has tended to weaken the identification of race with economic position and, as will be noted, raised the issue of Malay class differentiations, the Chinese and Indians apparently still are the dominant indigenous economic power. This is largely due to the primarily rural character of the Malay community where opportunities are fewer, traditional values remain strong, underemployment is endemic and where, according to the 1980 census, there is a higher unemployment rate than in urban areas.

## **Political structure**

The formal structures and externalities of the Malaysian political system are often not quite what they appear to be on the surface. Outwardly, the state is a federal, monarchical, competitive democracy which has been dominated by a one party coalition since independence. The federal structure does divide legislative power between the national and state governments, with the latter predominant in religion, land, agriculture and forestry and active in state development projects. The states have financial resources from mining, licences, etc.

However, there are legal as well as political limits on state powers, placing the Malaysian federal system somewhere between the stronger American and weaker Indian patterns. The states are not explicitly involved in the constitutional amendment process; although there are concurrent powers held by both the federal and state governments, the former has 'preference'. Article 150 allows the federal Parliament to declare an emergency, giving the

central authorities wide powers; and budgetary resources available to the states are insufficient, making them dependent upon federal largesse. However, unlike India, state governments cannot be easily suspended.

For peninsular Malaysia, the political strength of the National Front further weakens the state autonomy through the dominance of the national coalition at the state level. For over a decade, all peninsular states have experienced National Front majorities in their state legislatures and are expected to act within the coalition's guidelines. The chief minister of the state, the *Menteri Besar*, or the *Ketua Menteri* must also be acceptable to the Front's leadership.

The role of the sultans is another matter. In four states (Sabah, Sarawak, Malacca and Penang), the ruler is appointed by the king (*Yang Di-Pertuan Agong*) with the consent of the respective chief ministers, designated the *Ketua Menteri*. The sultans are generally expected to act with the consent of the political authorities, but they also have constitutional powers, particularly in religion and discretionary powers in the formation of the state government. They must give assent to legislation, although this has largely been a formal right. Perhaps most importantly, the sultans appear to many rural Malays to be the protector of their rights and the symbol of their power.

The relationship between the political authorities and the sultans, especially at the state levels, has not always been easy. The politicians have at times perceived the sultans as overreaching their prerogatives and the sultans have sometimes been jealous of the politicians' powers. In a few cases the sultans have been perceived as becoming too independent or involved in state politics, as for example, the sultans of Perak and Johore who proclaimed different times for the *Ramadan* (the Muslim fasting month) from the federal authorities, leading to some confusion.

Nor has the position of the king been free from controversy. Chosen for a five-year period by the other sultans, the *Yang Di-Pertuan Agong* can show his independence through both constitutional and political means. While he is a 'constitutional monarch', ringed by legal restrictions, it is possible for the king to employ his powers to thwart government policies, such as withholding consent to legislation. This has made the choice of king a matter of concern to party leaders, and led to a constitutional crisis in 1983 when the possibility of selecting either the sultan of Perak or Johore arose. Both are known for their independent dispositions. The government decided to weaken the powers of the monarchs through transferring the ability to declare emergencies from the king to the prime minister and eliminating the right of the king and sultans to block legislation by withholding royal assent. The legislation easily passed Parliament but when the sultans refused their consent to the bill, a five-month constitutional crisis ensued. Finally, a compromise was reached which allowed the king to maintain his emergency powers but gave him the ability to delay, not block, legislation while not touching the sultan's prerogatives.

The crisis underscored several political facts of contemporary Malaysia. There is a growing impatience with the role of the sultans among urban and educated Malays (although such reactions have their seeds in the time of the first prime minister, Tunku Abdul Rahman). Many see them as an anachronism

and a possible check on government efforts to modernise the society. The attempt also showed the willingness of the prime minister to take on the hereditary rulers of the Malay establishment. Yet, the necessity of a compromise also demonstrates the disagreement existing in the Malay community over the role of the sultans, the continued loyalty of many Malay politicians to them and the inability even of a strong and popular prime minister to seriously weaken their powers.

Malaysia's parliamentary system is also built on the British model with the prime minister and cabinet responsible to the Parliament. The prime minister has considerable power, but is limited by political forces within the coalition. Much of his ability to move the system depends upon a combination of his personality and capacity to placate both his own party constituency and members of the coalition. Traditionally, his key partner has been the deputy prime minister, a position based upon election to the second-in-command of Umno. While there is no political or constitutional necessity, every living deputy prime minister has later become prime minister, including Tun Abdul Razak, Tun Hussein Onn and the present prime minister, Datuk Seri Dr Mahathir Mohamad. Moreover, in recent years, all home, defence and finance ministers have also come out of the ranks of Umno.

Parliament itself shows considerable life in the question period and during debate, but the overwhelming government majority and the divisions within the opposition mean few surprises. Government backbenchers have long complained of their inability to influence policy, a cry made in most parliaments throughout the world. With only 14 opposition members out of 154 after the 1982 elections, little policy consensus between the Chinese-dominated Democratic Action Party (DAP) and the radical Malay Muslim Parti Islam Se-Malaysia (Pas), and members of Parliament no longer immune from sedition charges for promoting ill-will or hostility among the races, the opposition holds little real power.

Finally, Malaysia has always been defined as a one-party dominated state, first under the Alliance and later under the National Front. Successive Alliance and National Front governments have held clear majorities in Parliament, but this external show of strength hides considerable internal division. First, both coalitions have been uneasy combinations of primarily communal parties with differing goals. Differences within the coalition appear most noticeably when state and federal electoral tickets and cabinet posts are formulated. They also arise over communal issues such as education or language. This heterogeneity would make policy-making even more difficult if it were not for the predominance of Umno within the coalition, holding a majority of seats in the parliamentary delegation of both Alliance and National Front.

However, within each party of the coalition there has also been perennial political disputes over personalities and issues. These will be assessed in greater detail in another section, but suffice to say here that within the Alliance/National Front, the MCA and MIC have fought among themselves since independence, leading to countless internal feuds, more than one court case and numerous resignations at all levels of the parties. Nor has Umno been immune

from such tensions. As more militant Malay politicians have attempted to press for greater Malay rights, the leadership has sought the road to racial compromise. In addition, the party is constantly attempting to establish a degree of discipline and Umno party meetings at all levels display considerable infighting over electoral posts. However, it must be emphasised that at no time in recent years has there been any question as to the continuing dominance of the coalition and Umno's paramount position within it.

### Recent developments

When Mahathir became prime minister in 1981 upon the resignation of Hussein Onn, a new atmosphere was immediately observable. Mahathir and his deputy prime minister, Datuk Musa Hitam, had both been in political exile a decade previously and the prime minister had written the controversial book, *The Malay Dilemma*, banned until he took office. Over the ensuing years he had come to support the pluralist model of his predecessors, but he was prepared to follow a far more aggressive and activist pattern than they. Some of the changes that took place were symbolic, underscoring the need for greater efficiency and accountability in government. Thus, all civil servants and ministers were required to wear name tags, time clocks were put into government offices, all government officers were to hold fortnightly meetings with minutes sent to the prime minister's office, required management checklists were formulated, etc. It was emphasised that corruption would not be acceptable and Mahathir accelerated his predecessor's efforts to weed it out. These policies did not reform the bureaucracy and politicians overnight as evidenced by the 1983 World Bank Report castigating the mismanagement of the heavily subsidised fishing industry and by the scandal surrounding Bank Bumiputera operations in Hong Kong, but changes for the better were observable.

The prime minister also showed a self-admitted willingness to be blunt in his rhetoric, a trait not always welcomed. His words were mirrored in his action as illustrated by his head-on confrontations with traditional practices and supposedly invulnerable powers and willingness to take difficult stands. Thus his confrontation with the king and sultans, decisive moves against the Pas opposition, conflict with the British after they raised tuition payments on foreign students and were perceived to be blocking the takeover of firms held by their nationals, and willingness to support Musa for deputy president in the 1983 Umno elections.

The prime minister also has a propensity for the innovative, as seen in his co-optation of the Muslim youth leader, Anwar Ibrahim, into the government and his 'Look East' policy. Often these words and actions have been characterised as controversial or abrasive, but Mahathir did not rise within Umno without strong political capabilities. During his administration his abilities have been evidenced in the relative quiescence of Umno in comparison with Hussein Onn's last years, his often symbolic means of easing Islamic pressures and the continuing dominance of the National Front in the political life of the nation. Not all of his efforts have been successful and unwanted compromise,



and even retreat, have made the achievement of announced goals not all that was hoped, as exemplified in the compromise involving the sultans and the revised targets of the NEP.

What follows is a review of some of the salient issues faced by the new administration including the growing role of Islam, the 'Look East' policy, the 1984 Umno general assembly, divisions within the National Front and changing economic patterns within the Malay community.

### The Islamic resurgence

During the 1970s and 1980s the signs of Islamic influence became increasingly apparent in Malaysia. The media provided more time for religious programmes, from prayer to Koran reading contests. The rhetoric of politicians had tended to stress Islamic issues more frequently. The government has attempted to make Muslim holidays more national in scope. More women are dressed in what are perceived to be proper Islamic clothing and civil servants are asked to dress conservatively. International Muslim meetings are now regularly held in Malaysia and the country has shown greater consideration to international Islamic problems. There has been a growth in Muslim organisations (*dakwah*) emphasising proselytising among the non-believers and increasing the understanding of the faithful. These developments and others have made political parties and leaders even more cognizant of religious issues and there has been a struggle among the Muslim parties as to who can best foster and protect them.

It is understood that in Malaysia there is a close symbiotic relationship between religion and ethnicity and the defence of Malay interest is comparable to support of Islam. Observers for more than a century have noted that to be a Malay is to be a Muslim and the political, social and economic life of the nation recognises that fundamental pattern.

Given this relationship, the factors responsible for this growth in Islamic intensity and identity can be briefly described. The Islamic resurgence in Malaysia can largely be related to the changing character of the society, the influence of education, international forces and government policy. In the first instance, the process of modernisation has increasingly brought the rural Muslim into an urban setting and distributed Western culture and artifacts into the villages. This has led to both an ethnic and ideological confrontation. In the cities the Malay has found it necessary to compete with more Chinese and Indian communities, raising his consciousness of his own religious and ethnic identity. It has also shown the Malay the disparities in income and lifestyles that persist in that society, increasing demands for a larger role in the modern sector. On the ideological side, the Muslim has been faced with cultures and values that are often perceived as alien and even antithetical to his own. This too has underscored his sense of separate identity.

Secondly, young Malays have entered colleges and universities at home and abroad in increasing numbers where they have been confronted by different peoples and cultures (even in Malaysia higher education was previously primarily Chinese and Indian in its student body). However, rather than becoming

assimilated into this new environment, many of these youth became even more closely attached to their religious foundations. They returned to society more deeply conscious of their Islamic identities and prepared to become involved in religious organisations committed to increasing the role of Islam in the nation.

The resurgence of Islam elsewhere in the Muslim world has impacted upon Malaysia's population as well. Pride is taken in the increasing role that Muslim nations play upon the world stage. Funds from Middle Eastern countries have aided educational and *dakwah* (missionary) activities. Efforts to develop a greater role for Islam in political and economic areas in places like Pakistan and Iran have not been overlooked by religious activists in Malaysia. From all of these has come an enlarged pride in Islam and a reinforcement of a sense of being part of a wider and increasingly powerful community of the faithful.

Finally, the government itself has given impetus to the resurgence. As it has rhetorically and symbolically attempted to show itself as the protector of Muslim interests, it has also further intensified a sense of Islamic identity. Ironically, the leadership does not foster the religious compartmentalisation of the country, but political pressures have led it to mount policies that may aid in doing just that.

Succumbing to these influences and reflecting the religious preferences of some of its personnel, the Mahathir administration has attempted to show its support of Islam through a series of often largely symbolic acts. Rhetorically, there has been an increasing emphasis on the need to strengthen and protect Islam. Both the prime minister and his deputy have asserted that Malaysian policies are founded upon Islamic principles and Mahathir has stated that it would be possible to have an Islamic state while protecting non-Muslims. There are also constant references to the need to work within Islamic precepts. However, this rhetoric is also accompanied by comments meant to assuage the fears of non-Muslims, warnings that religious fanaticism is dangerous and intolerable and statements that the goal is to increase the understanding among Muslims of their own religion, not to endanger the beliefs of others.

There have also been a number of actions to give content to the rhetorical support of Islam. In 1982 an Islamic insurance company and pawnshops were approved while in 1983 the first 'no interest' Islamic bank was opened with much fanfare. As previously noted, Malaysia has been the venue of numerous Islamic conferences and in 1983 the International Islamic University was opened with Arab financial aid. Some observers have characterised most of these programmes as symbolic and promulgated to blunt pressure from the Islamic community without actual major changes in policy. This is a difficult balance to maintain. By placating Muslim demands, the government further strengthens the role of the religion in the society, thus generating new expectations among the Muslims and increasing the fears of non-Muslims.

### **The May 1984 Umno elections**

Nothing seems to lead to more political rumours, interpretations and gossip than the triennial Umno party elections and general assembly. Not only do

these gatherings tend to set the direction of the most powerful element of the Front, but they also show the balance of power in the party and ultimately in the government. The meetings this year (1984) were no different. The delegates were not only asked to give their support to the often controversial policies of Mahathir, but also had to deal with elections that had been preceded by bruising campaigns.

Given the unassailable position of the prime minister, there was no challenge to the presidency, leaving the election struggles centred on four areas, the deputy presidency, three vice-presidents, the head of the Umno Youth and members of the Supreme Council. In the 1981 elections, the post of deputy president had been won by then education minister and later deputy prime minister Musa Hitam over finance minister Tengku Razaleigh Hamzah by a vote of 722 to 517. This time Mahathir had come out in favour of his deputy, repeating the words of Malaysia's first prime minister, saying that, 'Tunku Abdul Rahman used to say it's better to work with the devil you know than the angel you don't know' and that he got along well with Musa. Razaleigh challenged again, in spite of the views of some of his friends that he might be damaging his own prospects, as well as those of the party. The third well-known candidate was Umno vice-president and former Selangor chief minister Harun Idris, who had made something of a comeback after serving a prison term for corruption. The campaign was bitter, but Musa won even more convincingly the second time - 744 to Razaleigh's 501. Harun was politically humiliated, receiving less than 3 per cent of the vote, and decided to retire from politics and return to his business interests.

The election for vice-presidents showed the rise of new faces in the party. The old political war-horse and perennial vice president, Ghafar Baba, was returned, but in third place. Heading the list was Datuk Amar Haji Wan Mokhtar Ahmad, the strongly Islamic chief minister of Trengganu, which emphasises the strength of regional political personalities (only seven federal ministers were returned as against 10 state chief ministers, a major reversal from 1978 when there were 12 and three respectively). The other vice-president chosen was Abdullah Ahmad Badawi of the prime minister's office and a rising star in the government.

The contest for the presidency of Umno Youth was between the incumbent Anwar Ibrahim, former head of Abim (the major Islamic youth organisation) and then minister of culture, youth and sports, and his predecessor Suhaimi Kamaruddin, whom he had defeated by only 10 votes in 1982. Suhaimi's supporters argued that the Umno Youth had become a mere tool of the party establishment and had surrendered its traditional role of challenger to compromising party policies. However, Anwar Ibrahim won easily, 226 to 137, in part because of the strong support he received from the prime minister.

Several aspects of the conference and its elections were of considerable interest. During the long constitutional crisis, government efforts to hide divisions among Umno cabinet ministers and party leaders were ultimately unsuccessful and a number of politicians either sided with the sultans or did not actually support the prime minister's position on the issue. The elections

showed the downfall of those members of the Supreme Council who did not support Mahathir. The elections also weakened the strength of Razaleigh and his supporters in the struggle against Musa, and continued Anwar Ibrahim's leadership of Umno Youth, all of which appear to put the prime minister in a strong position for the coming years.

However, there were several other patterns which might not have been quite so reassuring. The 1981 general assembly had been noteworthy for the strength of teachers among the delegates, some 40 per cent of those attending. By 1984, that percentage had dropped to some 27 per cent with their previous predominance replaced by a block of businessmen and professionals. This underscored growing influence of Malay financial interests in the party, a role emphasised by the chairman of the chamber of commerce who said that the chamber had a 'direct line' to the prime minister's office. The increasing importance of money in Umno politics had been noted in previous state and federal elections and the prime minister had become obviously concerned. During the Umno gathering, he had warned that the party could be destroyed and become a rich man's club if the use of money to win elections were to continue. 'What gave birth to Umno and gave it strength was not money but spirit.'

Secondly, Umno shows no sign of retreating from its traditional infighting and at times it appears that Will Rogers' comment that he belonged to no organised party since he was a Democrat could also characterise Umno. The increasing role of regional party leaders, the decline of the better organised teachers and the growth of the rather heterogeneous business and professional bloc does not make the job of maintaining party discipline any easier. Again, Mahathir warned of the politics of personalities and the tendency to make derogatory remarks about party opponents. All of this does not mean that Umno is in any way disintegrating – far from it. But neither has it solved its seemingly congenital factionalism.

A third and perhaps more pleasant problem, and certainly one ripe for speculation, is the potential embarrassment facing the prime minister in terms of the young, ambitious, well-educated and technologically oriented politicians rising to the top. Based no longer on longevity and good service to the party, these new voices will challenge Mahathir's skills if he is to keep them both active and satisfied. The general assembly had accelerated a situation that had been festering for some time as observers assessed the possibility of changes. Alterations did take place this July (1984) when the prime minister combined some surprises with a general pattern of continuity. Several ministers received new jobs as Razaleigh moved from finance to trade and industry, Anwar Ibrahim from culture, youth and sports to agriculture and two up-coming politicians, Rais Yatim and Adib Adam, exchanged the posts of land and information. Among those who gained new ministerial positions were the new Umno vice president Abdullah Ahmad Badawi in the traditionally important Ministry of Education and Mahathir's close friend and successful business magnate, Daim Zainuddin, in the Ministry of Finance. The strong capabilities, ambitions and vitality of this cabinet will provide new avenues of speculation to political pundits for some time to come.

## Divisions in other parties of the National Front

If Umno has often appeared to be internally divided, its principal partners in the National Front have been even more factious. Recently, these parties have reflected a growing sense of communalism, even in Sarawak which shows signs of mirroring the peninsula's ethnic politics. However, it has been the Malaysian Indian Congress (MIC) and particularly the Malaysian Chinese Association (MCA) that have received the headlines in the past two years. This is nothing new since these long-time allies of Umno have been characterised by infighting since the early days of the Alliance. The seemingly perennial feuding of the MIC was again apparent last year as the party's president attempted to purge his opposition, but the troubles of the MCA became of paramount interest in the media.

It had appeared after the 1982 national elections, that the MCA was in a strong position, given its successes at the polls. In 1983, the long-term president of the party, Lee San Choon, resigned stating that the party was more stable than at any time during his decade in office – although others argued that he was getting out before personal and party matters overtook him. He also announced his expectation that his successor would be Dr Neo Yee Pan and that his resignation was timed to give Neo the ability to prepare for the 1984 party elections.

However, the MCA was not as quiescent as Lee had described it. Within the party and the Chinese community, there had been continuing demands for greater government concern for their needs, including issues such as their place in the NEP, the maintenance of their culture, more MCA cabinet posts, educational questions such as the attempt to establish a Chinese university and more slots for the Chinese in local tertiary education, etc. Many were frustrated with what they perceived to be few concrete results from the strong MCA showing in the 1982 elections and there were accusations that Neo was not using his positions in the government and National Front to support Chinese interests. Finally, the MCA has not been immune from frequent personality and power struggles, the most recent being in 1973 and 1979.\*

In 1984 these problems helped to bring internal conflicts into the open, the catalyst being the rivalry between Neo and MCA vice-president Tan Koon Swan and accusations of 'phantom members', allegedly some 80,000 to 100,000 fraudulent names on party membership lists. In March, Neo expelled Tan and 13 of his supporters, leading to one of the party's most bitter feuds in its history. The events of March were followed by the suspension of a number of party branches by Neo, rival meetings of the two leaders and their supporters, the

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\* **Editor's note:** In 1972-73 several influential Perak MCA leaders were removed by the central MCA leadership for their role in setting up the MCA Task Force in Perak. For more details on the resultant MCA crisis, see Loh Kok Wah: *The Politics of Chinese Unity in Malaysia: Reform & Conflict in the MCA, 1971-73*, (Singapore: ISEAS, 1982) and J Strauch: *Chinese Village Politics in the Malaysian State* (Harvard University Press, 1981). In 1979, Michael Chen and Richard Ho, two MCA leaders in the federal cabinet, unsuccessfully challenged the incumbents for the MCA central leadership. Both subsequently left the MCA.

rallying of local branches behind one side or the other and accusations of fraud from both sides.

As the dispute continued to boil, Mahathir had attempted to remain publicly neutral on the dispute, although he probably was unsettled by further factionalism within the Front. On his part, former president Lee turned from his anointed successor and sided with Tan, as have a majority of the MCA MPs. Again these divisions do not portend the collapse of either the MCA or National Front. However, they are of importance in meeting the challenge of the opposition in future elections.

### **The Look East policy**

One of the more intriguing innovations of the Mahathir administration and one that set off alarm bells among some Western businessmen was the Look East policy formulated in 1981. While one of its goals was to emulate Japan and South Korea in their successful industrialisation and technological advances, even more emphasis was given to the need to pattern Malaysia after those two societies in terms of their work ethic, discipline and morality. Qualities to be admired were discipline, hard work, efficiency, management style, cleanliness, loyalty, thrift and the ability to maintain the national culture and morality while striving to achieve economic progress. (On his part, prime minister Nakasone noted that the Japanese people were honoured to be considered one of the models of traditional Asian ethics.) Critics, mostly from academia and the opposition, saw in this a Japan-like 'Malaysia Inc.', which was not only impossible to achieve, given the differences in the two societies, but was also undesirable, given the economic inequities and domination of big business in Japan.

More specific aspects of the Look East policy have been in the realms of education and training for Malaysian students, possibilities for increased trade and investment, and the exchange of visits to the leadership. As a fact of economic life, Japan became Malaysia's major trading partner even before the new policy was announced. Although this shift of Malaysian perspective does not appear to be fundamental, it has worried some Western business interests. Mahathir has attempted to assuage these fears, stating that he was simply broadening past tendencies to look primarily to West and that both East and West had something to offer Malaysia.

Several reasons have been forwarded for the inauguration of the Look East policy. Originally there were those who saw it as a rejection of the West or at least a reaction of objectionable British educational and financial practices and a continuation of Mahathir's alleged anti-British attitudes. More properly, it would appear to be a reflection of the prime minister's belief in modern Islamic values, emphasising hard work, efficiency, discipline and good management. It remains to be seen if more content will be given to fit the rhetoric.

### **The NEP reconsidered**

The original goals of the NEP, the eradication of poverty and economic imbalances based upon race, remain at the core of government policy, but the

means of achieving them and the ramifications of the NEP continue to be points of controversy. There appears to be little question that the life of the general population has improved since the inception of the plan. The latest census reports that 71 per cent of all households have radios, 47 per cent televisions and 18 per cent automobiles while in rural areas, 40 per cent have televisions and 11 per cent automobiles. It is also recognised that Malays have entered the modern sector in terms of employment residence, management and ownership in increasing numbers, although government statistics are not as complete as might be desired.

However, at the same time both the goals and effects of the NEP have raised questions. The Mahathir administration has noted the possibility of lengthening the attainment of some of the NEP targets because of the recent recession. It has moved against inefficient and poorly-run Bumiputera firms and inaugurated a 'privatisation' programme to divest itself of many public enterprises. This has opened interesting questions as to how the Bumiputera are to attain the ultimate target of ownership of 30 per cent of the modern sector. While Mahathir has stated that privatisation can be achieved because the NEP is working, others have considered that the only means through which the ownership target can be reached is through government and quasi-government enterprises 'holding in trust' capital for a Malay community not yet financially able to achieve that goal on its own.

While most observers would agree that the NEP has raised the living standards of the poor, critics have asked at what price. It is argued that the policy has fostered a coalition of Chinese and Malay businessmen and Malay bureaucrats and politicians who have taken advantage of the system. Some political opponents and academics have charged that the NEP has increased income inequities within the Bumiputera population, allowing only well-placed members of the community to reap the benefits of the special rights granted them. There is little doubt that a new Malay entrepreneurial element is developing with close ties to Umno, as was evident at the last general assembly. There are also increasing questions within the Malay community as to economic aggrandisement of their members.

There are also continued rumblings within the Chinese and Indian population both in terms of the special privileges granted the Malays and the economic activities of their own members. The inability of the government to meet the expectations of the poor of all the major communities can provide difficulties for the National Front as seen in recent by-elections. However, class is still not the basis of division within Malaysia and it appears that many of the NEP's critics, desirous of seeing class substituted for communalism are fashioning descriptions that are really expressions of their hopes.

### **Some concluding questions**

As noted in the introduction to this paper, Malaysia remains something of a rarity in Southeast Asia, given its pluralist political and economic system. However, this paper has also underscored a number of questions that the country must face over the next years if that pattern is to continue. Among these are:

1. Can the government continue its policy of Islamisation and still be able to satisfy Muslims who wish more content to the present rhetoric while at the same time assuaging the fears of non-Muslims?
2. How will Mahathir continue his policy of modernisation, given the sultans and their supporters and Umno's rural constituents? He displayed his political strength at the Umno triennial meeting, but the constitutional crisis and continuing challenge of Pas give evidence that his foes are not dormant.
3. Can the government continue to meet legitimate Bumiputera economic and social needs and still satisfy the non-Malays? More than one author has noted that Umno's Chinese partners need material benefits from the coalition to show their constituents if they are to compete effectively with their Chinese political opposition.
4. How can the NEP be restructured so as to meet the needs of the poor and correct economic imbalances without unduly strengthening the coalition of Malay and Chinese entrepreneurs and politicians and bureaucrats who see in it a source of personal aggrandisement? Ancillary to this are questions of the possible future development of class-based conflicts within the Malay community and how to control the employment of money in Umno politics.

In sum, how is Malaysia to continue its pluralist system under a modernising elite, given the communal pressures within the society? Certainly, the prime minister's public stance is one that rejects domination by any one group. As he advised the 1984 Umno general assembly:

Umno has no intention of robbing others of their rights and property gained legitimately. Islam as the official religion and the religion of the Umno members also does not allow Umno to rob the other people of their rights. What is needed by Umno is the co-operation of all the races so that justice prevails in this nation that we love.

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# Malaysia: Growth and Structural Change

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THE ECONOMIC history of Malaysia provides a number of interesting object lessons. First, Malaysia's economic progress provides further evidence of the difficulties of managing a small open economy. Like other countries that have benefitted from resource windfalls through rapid changes in the terms of trade, Malaysia has found it difficult to transform available resources into a coherent development programme. Resource scarcities apparently are not the only constraints on growth. Second, like many countries, developing and developed, Malaysia confronts a problem of persistent deep-rooted poverty, exacerbated by sharp ethnic divisions that parallel the rural-urban dualism of the country. But unlike many other nations, Malaysia has enunciated a programme, the New Economic Policy, that aims at alleviating poverty and attempts to restructure society. The progress Malaysia makes in this area will provide a lesson to other countries facing a similar social dilemma.

Finally, a study of Malaysia's economic fortunes over the past two decades reveals as much about the prognosticating abilities of economists as it does about the possibility of encouraging rapid growth through sound economic policies. In the late 1960s, when the Second Malaysia Plan (SMP), 1971-75, was being formulated, most economists were cautious about Malaysia's prospects. It was, after all, a country whose export performance depended on a few primary commodities - tin, rubber and timber - whose prices, relative to import prices, were expected to decline. And like many primary commodity exporters, the economy was characterised by a substantial degree of dualism. Within the agriculture sector there was a modern estate sector, characterised by high productivity, while the traditional smallholder sector was marked by low productivity and low incomes. Foreign commercial interests continued to dominate the modern sector. But perhaps most important, the frustration among the Malays about what benefits economic development conferred to them contri-

buted to the communal riots and reprisals that rocked Kuala Lumpur in 1969. The incident resulted in the death of hundreds, the declaration of a state of emergency and the suspension of Parliament. Against this background, economists held that Malaysia's economic prospects for the 1970s were poor. In fact, Malaysia's economic growth in the 1970s, at an annual rate of 7.8 per cent, exceeded the rates recorded for most developing countries and was well above the 5.6 per cent growth rate for all middle-income economies.<sup>1</sup> This rapid growth, unexpected by economists, resulted in part from favourable external conditions and in part from sound and often imaginative economic management.

It was not surprising therefore that by the end of the decade, when the Fourth Malaysia Plan (FMP) was under preparation, expectations were high. The forecast rate of GDP growth for the 1980s was 8 per cent per annum, accelerating from a rate of 7.6 per cent in the first half of the decade to 8.5 per cent in the second. It now appears that these economic forecasts were too sanguine. Various factors, including the unexpected duration of the recession in the OECD countries and a deterioration in export prices and demand, have resulted in a GDP growth of 4.2 per cent per annum since 1980, substantial current account deficits and a rapid build-up of domestic and external debt. While external factors undoubtedly played their role, structural problems, including a decline in the growth of agriculture, a major shift in labour deployment, the likelihood of a much reduced rate of export growth, a rise in the capital: output ratios, a decline in national savings and a major shift in the role of the public sector, have begun to emerge. These are problems that were disguised by the very rapid rise in export earnings from 1970 to 1980. Malaysia's economic prospects now appear less rosy than economists earlier believed. But more important, the likelihood of slower growth over the medium-term also implies that policies of poverty eradication and restructuring will call for harder choices than would have been true if the economy had continued to expand rapidly. It is these issues that this paper addresses.

### **Background to the Malaysian economy**

In the 1960s, Malaysia shared many of the characteristics associated with primary product export economies. Agriculture and mining, largely tin, constituted some 46 per cent of GDP while the manufacturing sector contributed less than 10 per cent. Exports were concentrated in rubber, tin and timber – commodities whose long-term growth prospects were considered poor. Nevertheless, the growth for the decade averaged over 6 per cent despite sharp fluctuations in the prices of the principal exports, the uncertainties created by the 'confrontation' with Indonesia in the first half of the decade, the separation of Singapore in 1965 and the riots of 1969. All these factors clearly affected the level of private investment so that with only small increases in public investment, total fixed capital formation, as shown in Table 1, increased only marginally. Although the economy performed reasonably well during the decade, the incomes of a substantial por-

<sup>1</sup> *World Development Report 1982*, pp 112–113 (World Bank, 1982).

Table 1 STRUCTURE AND GROWTH OF GROSS NATIONAL PRODUCT

	(Percent)						
	Share of Gross National Product in current prices				Annual Rate of Growth in constant prices <sup>#1</sup>		
	1961	1970	1980	1983	1961-70	1970-80	1980-83
1. Consumption:	80.4	77.8	70.4	76.7	4.7	7.5	4.1
(a) public	n.a.	(16.4)	(17.6)	(21.3)	n.a.	(9.2)	(8.4)
(b) private	n.a.	(61.5)	(52.7)	(55.4)	n.a.	(7.0)	(2.4)
2. Fixed capital formation	15.6	17.7	29.8	33.3	6.4	10.1	3.8
(a) public	n.a.	(5.7)	(11.1)	(13.7)	n.a.	(13.0)	(2.6)
(b) private	n.a.	(12.0)	(18.7)	(19.5)	n.a.	(8.6)	(4.6)
3. Exports	50.3	45.1	60.8	55.9	6.0	8.0	11.5
4. Imports	44.7	40.4	57.2	60.5	2.9	9.4	8.6
5. Gross National Product	100.0	100.0	100.0	100.0	6.4	7.4	4.2

**Note** \* Rates of growth were calculated using least squares regressions  
n.a. = not available

**Sources** 1961-1970 data: Kevin Yong, et al., *Malaysia: Growth and Equity in a Multiracial Society* Baltimore, MD: The Johns Hopkins University Press, 1980  
1970-1978 data: Joseph J. Stern, "An Analysis of the New National Accounts Data," (unpublished), Unit Perancang Ekonomi, Kuala Lumpur, 1977  
1978-1983 data: *Economic Report 1983/84*, Ministry of Finance, Kuala Lumpur, Malaysia, 1984.

tion of the population increased only modestly. Because of sizeable losses in the terms of trade, average per capita income in peninsular Malaysia grew by only 2 to 3 per cent a year during 1961-70<sup>2</sup>, with average per capita income in the agriculture sector increasing by less than 2 per cent a year. Although Malaysia is not characterised by an excessive level of population relative to its resource base, rapid population growth and a large number of young people entering the labour force created a difficult employment situation. Unemployment, estimated at 7.5 per cent in 1970, was expected to decline only marginally to 7.0 per cent, by 1975.

With a ratio of exports to GNP of over 50 per cent (see Table 1), Malaysia's economic fortunes are highly dependent on the export sector. In 1961, nearly two-thirds of export earnings came from rubber and tin, two commodities whose prices and demand are heavily influenced by world economic conditions. As is clear from the data in Table 2, export prices increased for both tin and rubber while at the same time domestic policies helped make possible quantity increases in rubber exports as well as the development of new export commodities, notably palm oil and such manufactures as garments and electronic goods.<sup>3</sup> The discovery and rapid exploitation of oil and natural gas reserves,

<sup>2</sup> The terms of trade declined by nearly 20 per cent during the 1960s. Cf. Kevin Young, Willem CF Bussink and Parvez Hassan, *Malaysia: Growth and Equity in a Multiracial Society*, (Baltimore, MD: The Johns Hopkins University Press, 1980).

<sup>3</sup> Joseph J. Stern, 'Growth and Structural Change in Commodity Exports', Economic Planning Unit, December 1979 (unpublished).

Table 2 GROWTH AND STRUCTURE OF COMMODITY EXPORTS (percentage)

Commodity	Unit	1961	1970	1980	1983 <sup>d</sup>	(Percent)		
						Rates of Growth		
						1961-70	1970-80	1980-83
<b>Volume</b>								
1 Rubber	'000 mt	785	1,345	1,526	1,500	6.2	1.3	-0.6
2 Tin	'000 mt	76	94	70	53	2.4	-2.9	-8.9
3 Petroleum crude <sup>a</sup>	'000 mt	1,910	4,970	6,709	7,600	11.2	3.0	4.2
4 Timber	'000 m <sup>3</sup>	3,036	10,329	18,152	23,900	14.6	5.8	9.6
5 Palm oil	'000 mt	95	402	2,138	2,900	17.4	18.2	10.7
<b>Value</b>								
1 Rubber	\$m	1,567	1,724	4,617	3,600	1.1	10.4	-8.0
2 Tin	\$m	523	1,013	2,505	1,617	7.4	9.5	-13.6
3 Petroleum crude <sup>a</sup>	\$m	107	202	6,709	7,600	7.3	41.9	4.2
4 Timber	\$m	188	842	3,799	4,385	18.1	16.3	4.9
5 Palm oil	\$m	61	264	2,515	2,813	17.7	25.3	3.8
6 Manufac goods <sup>b</sup>	\$m	146	333	7,839	9,543	9.6	37.1	6.8
7 Other exports <sup>c</sup>	\$m	636	784	188	2,460	2.4	-13.3	135.6
Total	\$m	3,238	5,162	28,172	32,018	5.3	18.5	4.4
<b>Structure</b>								
1 Rubber	Percent	48.4	33.4	16.4	11.2	-	-	-
2 Tin	Percent	16.5	19.6	8.9	5.1	-	-	-
3 Petroleum crude <sup>a</sup>	Percent	3.3	3.9	23.8	23.7	-	-	-
4 Timber	Percent	5.8	16.3	13.5	13.7	-	-	-
(a) saw logs	Percent	(3.9)	(12.1)	(9.3)	(9.7)	-	-	-
(b) sawn timber	Percent	(2.0)	(4.2)	(4.2)	(4.0)	-	-	-
5 Palm oil	Percent	1.9	5.1	8.9	8.8	-	-	-
6 Manufac goods <sup>b</sup>	Percent	4.5	6.5	27.8	29.8	-	-	-
7 Other exports <sup>c</sup>	Percent	19.6	15.2	1.7	7.7	-	-	-
Total	Percent	100.0	100.0	100.0	100.0	-	-	-

**Notes** <sup>a</sup> Includes re exports from Brunei up to 1980.

<sup>b</sup> SITC groups 5-8

<sup>c</sup> Residual

<sup>d</sup> Preliminary estimate

**Sources** 1961-1970: Kevin Yong, Willem C.F. Bussink and Parvez Hasan, *Malaysia: Growth and Equity in a Multi-racial Society* Baltimore, Md. The Johns Hopkins University Press, 1980

1970-1983: Ministry of Finance, *Economic Report 1983/84* Kuala Lumpur, Malaysia, 1984

boosted by the dramatic petroleum price increase in the 1970s, further helped boost export receipts. By 1970 the share of rubber and tin in total export earnings had declined to slightly over half while palm oil and manufactured exports together formed over 10 per cent of total merchandise exports.

Malaysia's economic performance in the 1970s exceeded even the most optimistic expectations. Gross national product grew at an annual rate of 7.4 per cent (see Table 1) resulting in rising per capita incomes and major structural shifts in the economy.<sup>4</sup> While much of the growth was fuelled by the export

<sup>4</sup> The growth in incomes was further helped by the fact that the terms of trade for Malaysia rose by 16.3 per cent during the decade.

sector, investor confidence resulted in a rapid rise in investment which complemented major improvements in the productivity of both the agricultural and industrial sectors. By the end of the decade, the capital formation proportion stood at nearly 30 per cent and both public and private sector investment had increased rapidly throughout the period. Despite the rapid rise in the share of resources devoted to investment, consumption (public as well as private) also increased, fuelled in large part by the increased resources gained through the rising terms of trade.

By 1980 the structure of the economy had been transformed. Primary production activities – agriculture, forestry, fishing and mining – had decreased their share in the GDP to slightly more than 25 per cent while the manufacturing sector now accounted for over 20 per cent. The manufacturing sector grew at a rate of 12.5 per cent per annum during the decade, reflecting both the growth of resource-based industries which enjoyed sustained increases in external demand and the development of labour-intensive industries such as textiles, electrical machinery and electronics, which were provided with considerable fiscal incentives. Employment grew by 4.1 per cent per year over the decade despite rises in real wages (estimated at 2.6 per cent per annum for the period 1973–79 in manufacturing and at a somewhat lower rate in agriculture<sup>5</sup>). This lowered unemployment from nearly 8 per cent in 1970 to 5.3 per cent 10 years later. By 1980 Malaysia had achieved what many developing (and developed) countries only hope for – nearly full employment.

In terms of sectoral performance, the record is equally impressive. During the 1960s, the growth of agricultural production was about 6 per cent per annum but agricultural income growth was probably no more than 1 or 2 per cent a year. Real income from rubber-growing declined in the 1960s as the fall in rubber prices offset the growth in output. That decline affected the estate sector in particular since, even by 1970, nearly three-quarters of the value-added in the estate sector was from rubber. The estate sector was able to earn profits despite falling product prices due to the impressive increases in land and labour productivity.<sup>6</sup> Wages were held either constant or allowed to rise only marginally. In the traditional, non-estate sector, which also includes land development schemes, real incomes expanded by some 2–3 per cent per year, outstripping the growth for agricultural incomes as a whole.

The rate of growth of the agricultural sector in Malaysia, at 5.1 per cent yearly during the 1970s, was among the highest anywhere. The expansion in the production of rubber and palm oil, which now account for over half of total agricultural output, was a major factor. In addition the completion of the Muda irrigation scheme and the implementation of numerous small-scale irrigation projects made possible dramatic increases in rice output so that by 1980 the rice self-sufficiency level stood at 92 per cent, up from 78 per cent in 1970. Padi production increased at an annual rate of nearly 3 per cent in the 1970s, bene-

<sup>5</sup> Economic Planning Unit, Malaysia, *Fourth Malaysia Plan, 1981–85* (Government of Malaysia, 1981).

<sup>6</sup> Kevin Young, *et al. op cit*, p 31, note that with a nearly 50 per cent rise in production, employment on rubber estates declined by 10 per cent in the 1960s.

fitting from both improvements in yields (up by nearly 20 per cent) and acreage increases (up 12 per cent).

Although government policies vis-a-vis the small-scale agricultural sector were a success, the income disparity between the traditional agricultural sector and the rest of the economy increased during the 1960s. Poverty continued to be the lot of many in the rural sector. In part this outcome reflected external price developments and in part it was due to the long gestation period that characterises land development projects. Unavoidable as these trends might have been, they contributed to the disillusionment of the Malays since the traditional agricultural sector is dominated by the Malay community. In the 1970s, more favourable external conditions and the pay-offs from previous heavy land development investments reversed these trends. By 1980 the incidence of rural poverty had declined to 38 per cent from nearly 60 per cent 10 years earlier and the disparities between urban and rural incomes probably did not widen during the 1970s and may even have begun to decrease.

In the manufacturing sector Malaysia initially followed the classical policy of encouraging import substitution. Effective protection rates were high, biased in favour of domestic sales and against exports. The import substitution policy was initially successful – at least as measured in terms of manufacturing sector growth rates. During the 1960s, manufacturing grew at an annual rate of about 11 per cent and its share in GDP rose from less than 10 per cent to about 17 per cent. Given the adverse trends in the prices of agricultural exports, the manufacturing sector was an important source of growth at that time.

**Table 3** EFFECTIVE PROTECTION BY INDUSTRY GROUPS (percentage)

	1963/65	1974	
		Domestic Sales	Exports
1. Consumer goods	42	50	1
2. Intermediate goods	25	37	-2
3. Capital goods	5	28	-1
4. Exports of primary-based industries	-38	15	-56
Total (All Industries)	-8	39	-51

**Source:** Lutz Hoffman and Tan Siew Ee, 'Industrial Growth, Trade and Structural Interdependence in a Small Developing Economy: The Case of West Malaysia', draft manuscript, University of Regensburg, 1978, p105

In the subsequent period, 1970–80, manufacturing sector growth continued at the remarkable rate of 11.4 per cent per annum. Now the main motive source no longer was import substitution but the development of manufactured exports including some processed primary products (palm oil, wood products) but largely labour-intensive exports from Free Trade Zones (FTZs). On the positive side, this pattern of manufacturing not only boosted growth but may have accounted for over one-third of total labour absorption in the 1970s. On

the negative side, the FTZ industries had weak linkages to the rest of the economy and created few demands for local products. Most FTZ products are import-intensive and their performance is highly dependent on external events. Perhaps equally important, firms located in the FTZs have made only limited contributions to skill development and the transfer of technology. Government policies which allowed the ringgit to appreciate in response to the strong demand for Malaysia's natural resource exports further frustrated the development of a more diverse export sector and one more closely tied to the rest of the economy. While the rising value of the currency during the latter half of the 1970s helped hold down inflationary pressures, it also eroded incentives to domestic export industries.

The government has now begun to address the problem of the relatively shallow, albeit impressive, record of past industrial growth. The FMP set as a goal the establishment of a more diversified manufacturing base, including the establishment of heavy industries, and of ensuring that a transfer of technology takes place.<sup>7</sup> Deepening the industrial structure by creating complementarities and links between industries and between the manufacturing sector and the rest of the economy is a long-run process and a major challenge for the decade ahead.

On the whole, Malaysia's record of growth and political stability would suggest that one was dealing with a paradigm of successful development. However, two fundamental and deep-rooted problems – the racial imbalances in income distribution and the persistence of poverty – must colour any assessment of economic success. How Malaysia deals with these problems as much as its future economic success or failure will determine to a very large extent whether Malaysia's economic growth will be considered a success.

Of the total 1983 population of 14.8 million, just over 59 per cent are Bumiputera,<sup>8</sup> nearly 32 per cent are Chinese, 8.6 per cent are Indian, while the remainder, 0.7 per cent, belong to other racial groups. The Chinese have been strongly identified with mercantile and urban-based industrial activities while the Malays predominate in agricultural activities and hence are primarily rural.<sup>9</sup>

<sup>7</sup> Economic Planning Unit, Malaysia, *Mid-Term Review of the Fourth Malaysia Plan, 1981-85*, (Government of Malaysia, 1983) p 250.

<sup>8</sup> The term 'Bumiputera' literally means 'son of the soil'. The term is applied to Malays as well as a number of ethnic groups in Sabah and Sarawak.

<sup>9</sup> The ethnic character of the society and its interactions with income distribution and poverty are not only sensitive and complex issues but ones that have fascinated a number of social scientists over the years. In this paper we do no more than skim the surface of these issues. A sampling of recent works dealing with inequalities and poverty in Malaysia includes: Donald R. Snodgrass, *Inequality and Economic Development in Malaysia* (New York: Oxford University Press, 1980), Sudhir Anand, *Inequality and Poverty in Malaysia* (New York: Oxford University Press, 1983), Dipak Mazumdar, *The Urban Labor Market and Income Distribution* (New York: Oxford University Press, 1981), Tan Tat Wai, *Income Distribution and Determination in West Malaysia*, (Kuala Lumpur: Oxford University Press, 1982) and Praviss Visaria, 'Incidence of Poverty and the Characteristics of the Poor in Peninsular Malaysia, 1973,' World Bank Staff Paper No 460, Washington, DC, May 1981. The interested reader might pursue these references which are only the tip of an iceberg of the literature dealing with poverty, income distribution and race in Malaysia.

Income differences existed at the time of independence and while the problems of poverty and its identification with race are not due to post-independence development policies, there is broad agreement that income distribution did not improve prior to 1970 and may have worsened.<sup>10</sup> The simplest measure of income differences among ethnic groups is the 'disparity ratio' or the mean income of the non-Malays (or of the Chinese) to that of the Malays. Based on per capita income, the Chinese: Malay disparity ratio stood at 1.74 in 1957/8, rose to 1.84 in 1967/8, and to 2.03 in 1970, while the non-Malay: Malay disparity ratio showed a similar trend.<sup>11</sup> In part the worsening of the Malay relative income position reflected the worsening of the external terms of trade throughout the 1960s and the consequent slow income growth in the rural areas where the Malays are a majority. Not only was the Malay community dissatisfied with the distribution of income growth but there was a growing belief that with the existing maldistribution of assets and employment, the income distribution problem was intractable. For not only were the Malays severely under-represented in the professional, managerial, and supervisory professions, but the proportion of share capital of limited companies held by the Malays was only 2 per cent, while the Chinese held about a third and foreigners the rest.

Following the riots of May 1969, political leaders recognised the need to frontally address the interlinked issues of poverty and economic imbalances. The New Economic Policy (NEP) adopted in 1971 has as its goals the 'eradication of poverty for all Malaysians, irrespective of race', and the restructuring of society to reduce, and eventually eliminate, the 'identification of race and economic function'.<sup>12</sup> These broad statements translate into three specific goals that guide and constrain economic policy. First, the eradication of poverty implies not only the creation of a sufficient number of new jobs so that the unemployed can become productive members of society but also the development of special assistance programmes aimed at 'poverty groups': padi farmers, coconut farmers, rubber smallholders and fishermen. Since the Malays dominate these occupations, poverty eradication would also help reduce ethnic income difference. Second, employment patterns were to be changed so that the Malays would be better represented in the higher paid urban professional and managerial jobs while the absolute number of Chinese in agriculture and production-related jobs was to increase. And third, policies were to be implemented that would raise the ownership of share capital in limited companies by Malay individuals and Malay interests to 30 per cent by 1990, the end of the

<sup>10</sup> Not only are income distribution data scarce and suspect but there is the more technical question of whether the data collected from different surveys and for different purposes can be compared to develop a time perspective on the movement of income distribution. Sudhir Anand, (*op cit.*, pp 42-53) makes the case that the various surveys are not comparable. Snodgrass (*op cit.*, pp 67-78) reaches the opposite conclusion. We lean to Snodgrass's view that even if the data are not strictly comparable, the revealed trend is strong enough to withstand statistical scrutiny even if the exact measured levels of distribution cannot be compared.

<sup>11</sup> Snodgrass, *op cit.*, p 82.

<sup>12</sup> Economic Planning Unit, Malaysia, *Mid-Term Review of the Second Malaysia Plan*, (Government of Malaysia, 1973), pl.



NEP period.<sup>13</sup> Most important, all the NEP targets are to be 'undertaken in the context of rapid structural change and expansion of the economy so as to ensure that no particular group experiences any loss or feels any sense of deprivation in the process'.<sup>14</sup> Perhaps no other country has so clearly and forthrightly set out its social objectives.

The policies that are to bring about a restructuring of employment, asset distribution and eradication of poverty, without engendering any feelings of loss or deprivation, all assume that rapid economic growth can be maintained. Only in this way can sufficient employment be generated so that the massive restructuring called for can indeed occur. More particularly, much of the employment growth must be in the urban and manufacturing sectors if sufficient professional and managerial jobs are to become available to allow Malays to increase their share of such jobs to at least 30 per cent at all levels. Employment restructuring also implies that training opportunities for Malays must be increased so as to create a sufficient pool of skilled workers. To that end universities run an informal quota system and about 80 per cent of the places in higher education go to Malays. However, in 1983 only 64.9 per cent of degree courses went to Malays. Nevertheless, almost all government scholarships for foreign studies are reserved for Bumiputeras and such institutions as ITM (Institut Teknologi Mara) attempt to teach Malays how to become entrepreneurs. Of all the levers used to implement the NEP goals, educational bias is probably the one most resented by the non-Malays.

Continued rapid economic growth is also required if asset redistribution is to be accomplished. Here, however, the problem is further compounded by the fact that Malay incomes and savings are too low to allow for a wide dispersion of assets. If the acquisition of shares were to be made available to those Malays who could purchase them today, then the end result might be to create a small class of Malay millionaires, achieving the NEP objective of asset redistribution and of raising the average income of the Malays relative to non-Malays while worsening the intra-Malay as well as the overall income distribution. Hence a central feature of the asset redistribution target is that three-quarters of the increase in Malay ownership would come from the acquisition of shares by government agencies. Such shares are to be transferred to Malay individuals as their income and savings increase. In the short run therefore the asset redistribution objective involves an increase in public sector participation in the economy. In response, each of the 13 states now runs a state economic development corporation (SEDC) which invests in new, mostly small, ventures managed by Bumiputeras. Between 1971 and 1982, a total of M\$564 million (or US\$242 million at the 1982 exchange rate) had been invested by the SEDCs in 321 companies. This development partly accounts for the rapid increase in

<sup>13</sup> The ownership shares of the Chinese and Indian communities were to change relatively little. See Economic Planning Unit, Malaysia, *Third Malaysia Plan, 1976-80*, (Government of Malaysia, 1976), p. 86.

<sup>14</sup> Economic Planning Unit, Malaysia, *Mid-Term Review of the Second Malaysia Plan*, (Government of Malaysia, 1973), pl.

public investment in recent years. More recently, questions have been raised about the efficiency of these publicly financed enterprises. There is at least some evidence that implementation and management capacity in the public sector was strained during the Third Plan period and this realisation, plus the erosion of domestic and foreign resources, has led the government to scale back its investment programme in the Fourth Plan.<sup>15</sup>

To ensure private sector compliance with the objectives of the NEP, the government promulgated the Industrial Co-ordination Act (ICA) requiring that all new private investment be screened to ensure that the assets and employment objectives of the NEP are met. Whether one views the introduction and operation of the ICA as having brought about a radical change in Malaysia's basic framework of minimum government intervention in, and administrative control over, the activities of the private sector or whether one views it as the minimum necessary means of implementing the socially desirable NEP targets in the private sector obviously depends on where one stands on the issue of growth and equity. The initial reaction by private investors, especially Malaysian Chinese, was that the act would stifle private investment and harm growth. The reality seems to be somewhat less dramatic. The government has indicated that the NEP targets are to apply to the manufacturing sector as a whole, not necessarily to each investment, so that at least in principle there is no need for each new project to strictly adhere to the targets. But having said that, it must be added that it would be difficult for the government to ensure overall compliance with the NEP goals in the manufacturing sector if it completely failed to enforce compliance on individual projects. And in fact, under an informal quota system, every business – private and public – with more than about 10 employees, is expected to ensure that 30 per cent of its staff at each level are Bumiputera. But many companies complain that not enough Malays have the needed qualifications, so that they must pay a premium over the market wage to recruit the few who do. Despite these apparent problems, private investment has continued to grow and foreign private investment was not lacking during the Third Plan period. Investors were clearly able to find the needed Bumiputera partners allowing them to win approval under the ICA. What is less clear is the extent to which such partners have any real stake in the management of the companies. Some argue that such Bumiputera partners have no real power in the companies and that since only a small number of Malays are tapped to be partners in private ventures, Malay income distribution has worsened. Both of these contentions have at least some basis in fact and the attainment of the employment and asset restructuring targets will clearly be difficult ones to achieve.

The government has followed three broad poverty eradication programmes. First, there was a range of programmes that tried to raise the yields of various crops. Research on rubber, begun years before, paid off with sub-

<sup>15</sup> See Economic Planning Unit, Malaysia, *Mid-Term Review of the Fourth Malaysia Plan, 1981-85* (Government of Malaysia, 1983) for revised and scaled down allocations for public sector expenditures.

stantial increases in smallholder output in the 1970s, a time when rubber prices were also rising. Similarly, padi farmers benefitted not only from the introduction of new padi varieties but also from the completion of the Muda irrigation project in the mid-1970s which allowed double-cropping in the large command area. Efforts were also made to improve the access by padi farmers, and others, to extension services and capital inputs. Fishermen on the East Coast, for example, were provided with improved boats, motors and nets. And Bumiputeras are generally favoured in the award of government permits and contracts. In 1983, for example, some 68 per cent of logging licences and 53 per cent of road haulage company permits went to Bumiputeras. These measures not only assisted in the restructuring objective but also in poverty eradication since they ensured that Bumiputeras were given access to highly profitable occupations.

A second, and perhaps the most important poverty eradication tool, was the large-scale effort at resettling smallholders on newly-planted estates with sufficient acreage for each family to ensure an income well above the poverty line. Land development schemes, in which individual settlers work under common management, constitute about 10 per cent of the agricultural acreage in peninsular Malaysia, producing mostly rubber and palm oil. The most important land development agency, Felda (the Federal Land Development Authority) was established in the 1960s and is responsible for more than half the land developed for smallholders. Although rubber was predominant on early Felda schemes, after 1965 oil palm became the most important crop. This shift reflected the strongly held belief that rubber prices would continue to decline, if not absolutely, then at least relative to import prices, and that palm oil offered a better return. Although rubber prices rose during the 1970s, the shift to palm oil helped Malaysia diversify its exports and smallholders to increase their incomes. The Malaysian land development schemes must be counted as the most successful anywhere and it is perhaps no exaggeration to say that a settler who is given the right to move into one of these schemes quickly rises well above the poverty level.<sup>16</sup>

Lastly, Malaysia has strongly supported the provision of such social goods as education, health services, housing, potable water and sanitation. But most important, the evidence suggests that, unlike other countries, these services indeed do reach the poor and help improve their quality of life.<sup>17</sup>

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<sup>16</sup> Because of rising world commodity prices during the 1970s, settlers often found their incomes substantially above the poverty level, leading the World Bank to argue that the settlement schemes were too generous and that giving each settler less land would still allow them to be above the poverty line while permitting the government to settle more families on each scheme. The government retorted that the intention was to create an income level for settlers that would remain above the poverty line even if world prices declined from their 1970 highs. Nevertheless towards the end of the decade the acreage allotted to each settler was in fact reduced.

<sup>17</sup> Jacob Meerman, *Public Expenditure in Malaysia: Who Benefits and Why* (New York: Oxford University Press, 1979), p. 7, notes 'that public expenditures in Malaysia are distributed in ways that seem to contradict the conventional wisdom. To a surprising degree they benefit the poor, rural population'.

Although there was considerable progress towards achieving all the NEP targets during the 1970s, in some areas progress lagged behind the rate of improvement originally forecast. The Fourth Plan notes that 'several areas of imbalances remained critical despite the achievements made so far'.<sup>18</sup> Nor should this be surprising since many of the targets were based on poor and imprecise data and since relatively little is known about the dynamics of restructuring society. What is noteworthy is not that much remains to be done but that so much has already been achieved.

For even if the precise targets were not met, the improvements were impressive. The poverty incidence declined from 49.3 per cent in 1970 to 29.2 per cent in 1980 with the improvement occurring in both the agricultural and non-agricultural sectors. The number of poor households decreased by nearly one-quarter in the agriculture sector and increased slightly (by 6 per cent) in the non-agriculture sector where, because of urban migration, there was a rapid increase in the formation of new households.<sup>19</sup> The most dramatic improvements occurred among the rubber smallholders, oil palm smallholders (who nearly disappeared as a poverty target group) and padi farmers.

In terms of employment, restructuring participation of Bumiputeras in the 'secondary' sector – mining, manufacturing and construction – increased from just over 32 per cent in 1970 to nearly 40 per cent 10 years later. Parallel with these changes, Bumiputeras increased their share in the professional and technical and administrative and managerial categories although the increase, especially in the latter category, was far below the rate needed to reach the 1990 targets. And in terms of salaries and wages, survey data indicate that Bumiputeras held only 6.4 per cent of the top-paying jobs in 1976 with the Chinese still holding over 30 per cent of such jobs while foreigners held 56 per cent. Clearly non-Malays continued to dominate the higher-earnings occupations.

The progress made in restructuring asset holdings was also dramatic but again fell short of the rate of improvement needed to achieve the 1990 targets. The two biggest banks, Bank Bumiputra and Malayan Banking, are directly or indirectly under Bumiputera control. The same is true for the dominant companies in oil and gas (Petronas), tin mining (Malaysian Mining Corporation) and plantations (Sime Darby, Guthrie, Harrisons Malaysian Estates). The share of foreign asset ownership has declined to less than half of the share capital in limited companies, although in absolute terms such shares increased by some M\$8.5 billion. While there was a corresponding increase in shares held by Bumiputeras, the largest increase occurred in assets held by Bumiputera trust agencies. Out of the total new equity of M\$19.8 billion created during the 1970s, only 15.2 per cent (M\$3 billion) was taken up by Bumiputera individuals or trust agencies. Progress was especially poor for Bumiputera individuals, an

<sup>18</sup> Economic Planning Unit, Malaysia, *Fourth Malaysia Plan, 1981–85* (Government of Malaysia, 1981).

<sup>19</sup> The comparison is much more favourable if we focus on two sub-periods, 1970 to 1975 and, 1975 to 1980. Over the first period the number of poverty households in the agriculture sector rose by 46.2 thousand or some 23.5 per cent, in the second period the number of poverty households fell by 36.2 thousand or some 14.0 per cent.

outcome that reflects their relatively low incomes and savings and their rural location. That these somewhat disappointing results occurred despite the incentives given to various public sector financial organisations and enterprises, whose efficiency often leaves something to be desired, raises a difficult dilemma. A heavier reliance on such public enterprises would seem to be called for if there is to be any real hope of achieving the restructuring target, yet the cost, in terms of economic efficiency, in using such enterprises is admittedly high and rising. Not surprisingly then, the Mid-Term Review of the Fourth Plan, recognising this dilemma, as well as the growing scarcity of public sector resources, states that government support programmes to assist the Bumiputera commercial and industrial community would be encouraged to utilise 'their own resources and [tap] the resource of the market rather than continually relying on government programmes'.<sup>20</sup> Whether this policy shift which reduces the government's direct role in asset creation is consistent with the restructuring objectives of the NEP remains to be seen.

Past economic growth, aided by rising primary commodity prices and rapid increases in labour-intensive exports, as well as the NEP policies that aimed at restructuring society, all served to varying degrees to reduce income inequalities. Whether one considers the improvement in income distribution, shown in Table 4, as considerable or insignificant depends on one's expecta-

**Table 4** PENINSULAR MALAYSIA: MEAN HOUSEHOLD INCOMES

	1970 (M\$/month)	1979 1970 Prices)	Rate of Growth (per cent)
<b>A. By ethnic group:</b>			
Malay	172	296	6.2
Chinese	394	565	4.1
Indian	304	455	4.6
Other	813	1,147	3.9
All races	264	417	5.2
<b>B. By location:</b>			
Urban	428	587	3.6
Rural	200	331	5.7
<b>C. Analysis</b>			
1. Gini coefficient	0.513	0.508	
2. Disparity ratio			
Malay	1.00	1.00	
Chinese	2.29	1.91	
Indian	1.77	1.54	
Other	4.73	3.88	

**Source:** Economic Planning Unit, Malaysia, *Mid-Term Review of the Fourth Malaysia Plan, 1981-85*, (Government of Malaysia, 1983)

<sup>20</sup> Economic Planning Unit, Malaysia, *Mid-Term Review of the Fourth Malaysia Plan, 1981-85*, *op cit.*, p 110.

tions. The available data indicate that progress has been made in reducing inter-racial income inequalities. While the improvement may not have been dramatic, historical experience suggests that substantial changes in income distribution should not be expected over short time periods. Even so a number of *caveats* must be added to the revealed improvement in the ethnic distribution of income. First, it is not clear how much of this improvement reflects long-term changes in the structure of the economy, especially in the distribution of assets and the structure of employment, and how much is due to the short-run effects of improved commodity prices which did much to reduce rural poverty, especially among the Malay poor. Such an evaluation awaits further data. Second, while there was a considerable improvement in the Malay: non-Malay income disparities, the Gini-coefficient, measuring the income distribution over the entire population moved by less than 1 per cent. In part this bears out the contention that income distribution changes only slowly but it also reflects the fact that the *intra*-ethnic income distributions worsened for the Malays and, although less so, for the Chinese. In view of these developments, how one assesses the success of the NEP in terms of impact on income distribution depends in large part on how one weights improvement *between* ethnic group income distribution as compared to the *intra*-ethnic group income distribution. The evidence suggests that while the NEP policies and the general economic environment helped in reducing one set of income disparities, they worsened income disparities in another dimension.

Regional income disparities were also to be reduced since considerable disparities in incomes existed among states. In 1970, for example, Selangor, including the Federal Territory of Kuala Lumpur with a large Chinese population, had a per capita GDP 1.63 times the national average, while Kelantan, a predominantly Malay state, had a per capita product of less than half the national average. The regional development strategy, as enunciated in the Mid-Term Review of the Second Plan, aimed at reducing the marked economic disparities between the states by allocating sufficient development funds to the backward states to allow them to exploit their economic resources while at the same time promoting the migration of population to areas with more substantial economic bases. While government policy was aimed at accelerating the economic development of states to the maximum extent possible, it also encouraged population shifts from the less well endowed regions to those better able to absorb labour in productive activities. Although migration could be expected to occur as a natural response to differences in economic opportunities, the land development schemes of *Felda* and other agricultural agencies provided additional avenues for population shifts. Note that the legitimate concern for an improvement in regional income distribution reinforced the other NEP objectives since the poorest states were also those dominated by Malays.

The impact of regional development policies over the past 13 years has been mixed. Table 5 shows the growth rates for the 12 states<sup>21</sup> aggregated using

<sup>21</sup> Malaysia consists of 13 states plus the Federal Territory. For purposes of this analysis the states of Kedah and Perlis are combined as are data for the Federal Territory and the state of Selangor in which it is physically located.

three alternative weighting schemes. The gross regional product growth rate weights the growth realised by each state by its initial share in total domestic product. The resulting rate of growth is identical to that which would be obtained by simply calculating the national rate of growth.<sup>22</sup> Such an index is dominated by the performance of the richest states, that is, Selangor, Sabah and Pulau Pinang. In order to see whether income growth has indeed favoured the poorer states, two alternative growth indices were constructed. The first, the 'equal weights' index uses population shares in weighting the regional growth rates. This index treats each person's welfare as equal regardless of which state the person lives in. A second alternative weights the regional growth rates by a set of 'poverty weights' derived from a function that allowed for a declining marginal utility of incomes to those better off, thus recognising that social welfare is maximised if income growth is concentrated among those most deprived.<sup>23</sup>

A comparison of the three growth indices indicates the extent to which growth has met the regional distributive targets. In general, the extent to which population or poverty weighted index of growth diverges from the growth rate of gross regional product, and the direction of the divergence, measures the extent and direction in which growth is distributionally biased. If the population and poverty weighted growth indices exceed the growth rate for gross regional product, then the regional distribution of growth has favoured the poorer states. Conversely, if the rate of growth of gross regional product exceeds the population or poverty weighted indices, the growth has been concentrated in the richer states, further worsening income distribution. The three regional growth indices are summarised below. Note that over the period of most rapid growth, 1975-80, development favoured the richer rather than the poorer states. Only more recently, when the economy as a whole has performed less

**Table 5 REGIONAL GROWTH RATES (per cent per annum)**

Index	1970-75	1975-80	1980-83 (Preliminary)
1. Gross Regional Product weights	7.2	8.4	5.3
2. Population shares weights	7.2	7.6	5.5
3. Poverty shares weights	7.2	7.1	5.6

**Source:** See Joseph J Stern, 'An Index of National and Regional Income Growth', Economic Planning Unit, Government of Malaysia, April 1978, for the derivation of the weights. Data taken from: Economic Planning Unit, *Third Malaysia Plan, 1976-80 and Mid-Term Review of the Fourth Malaysia Plan, 1981-85*.

<sup>22</sup> The rates of growth shown in Table 5 differ from those shown in Table 1 because the regional growth rates represent average annual rates of growth and because of definitional differences between regional and domestic product.

<sup>23</sup> The methodology used here was first described by Montek Ahluwalia in Hollis B Chenery, *et al*, *Redistribution with Growth* (London: Oxford University Press, 1974), Chapter 2 and the appendix thereto. For its application to regional growth analysis, see Joseph J Stern, 'An Index of National and Regional Income Growth', (Economic Planning Unit, Government of Malaysia, April 1978).

well, has growth begun to favour the more backward regions. But this conclusion must be tempered by the realisation that the 1983 national accounts data are still preliminary and subject to revision which, if past experience is a guide, is often substantial.

In sum, the 1970s were a period of rapid growth and considerable structural change – despite the gloomy predictions of economists who had forecast that Malaysia, troubled by ethnic strife and declining commodity prices, would not do well. While external factors played their role,<sup>24</sup> government policies helped to stimulate and guide growth. Especially important was the government's decision to diversify out of rubber and into palm oil as well as the effective support the government gave to the development of labour-intensive exports and industrial development. But perhaps more important, government policy was flexible in its approach to the implementation of the NEP. When first announced, some feared that its strict targets and timetables would stifle private investment. It did not in large part because the government realised that an overzealous approach to implementation would have had serious economic repercussions. This had led some to argue that the failure to make more progress with the social goals reflects the government's unwillingness to trade off growth for welfare. While Malaysia might have grown more rapidly if there had been less concern with income distribution and ethnic balance, it is also clear that rapid economic growth was possible even while attention was paid to these social goals.

Yet it is also correct that the rapid growth hid a number of problems that began to emerge in the latter part of the decade. The exchange rate was allowed to appreciate, lowering the cost of imports and probably deterring the development of industrial export growth outside the FTZs. Government expenditures, fuelled by oil revenues, were allowed to grow especially for ambitious public sector investment programmes justified both in terms of the NEP restructuring objective and the government's desire to create a more self-sufficient economy. Not only had the government budget become highly dependent on a continued high level of oil revenue but serious questions were raised as to the efficiency of these investments.

Despite these emerging problems, economists looking at Malaysia at the end of the 1970s suggested that rapid growth could be continued in the 1980s. Indeed rapid growth was necessary if the NEP targets were to be met. Yet once again events turned out different from those forecast. Since 1980, the economy has experienced much slower GDP growth, of perhaps 4–5 per cent per annum. Substantial current account deficits have emerged following several years of surpluses, and the government's budgetary situation has become strained with

<sup>24</sup> It is difficult, if not impossible, to estimate what the growth would have been if real commodity prices had not increased in the late 1970s and if oil had not registered its dramatic growth in value and quantity. One estimate, taking account only of the direct effect, suggests that real national income growth would have been of the order of 8–9 per cent per annum as opposed to the actual experience of 11–12 per cent per annum. But even this lower estimate would still have ranked Malaysia among the top growth performers among developing nations.



the consequence that there has been a large build-up of foreign and domestic debt. If growth is to accelerate, policies must address the structural problems that have emerged which, if unresolved, have the potential of retarding development. It is to those problems and their solutions that we now turn.

### Recent developments: 1980-1984

The most visible manifestation of economic difficulties has been the appearance since 1980 of rapidly growing current account deficits in the balance of payments. The improvements in the terms of trade enhanced national income and purchasing power during the 1970s, so that with real income rising by more than expenditures, current account surpluses were generated. However, by 1980 a number of domestic and external events conspired to bring about a string of balance of payments deficits.

**Table 6** TERMS OF TRADE AND THE BALANCE OF PAYMENTS

	1975	1977	1979	1980	1981	1982	1983 (est.)
<i>Terms of Trade</i>							
(1974 = 100)	79.7	98.0	110.2	123.0	109.6	104.3	109.5
Export prices	74.6	95.6	128.6	155.7	161.8	155.2	158.7
Import prices	93.6	97.6	106.9	126.6	147.6	149.1	145.0
<i>Current Account Balance</i>							
(\$ millions)							
Goods	724	3,738	6,603	4,917	-211	-1,926	324
Services	-1,481	-2,664	-4,440	-4,959	-4,741	-5,568	-6,884
Total Balance	-757	1,074	2,163	-42	-4,952	-7,594	-6,560
As percentage of GNP							
	-2.5	3.5	5.0	-0.1	-9.1	-12.9	-10.3

**Source:** Terms of trade: World Bank

Current account balance: Ministry of Finance, *Economic Report 1983/84*, Kuala Lumpur, Malaysia.

The most notable external developments were the prolonged recession in the OECD countries and the sharp decline in commodity prices combined with the rise in import prices as a consequence of world inflation. Faced with a deterioration in the terms of trade and with sluggish export demand, the government adopted countercyclical policies to protect income and employment levels. This policy initiative was based on the belief that the world recession, following past patterns, would be of relatively short duration. When the reces-

sion became an unusually long one, the government found it impossible to maintain expansionary fiscal and monetary policies and, in mid-1982, the government was forced to retrench its public sector expenditure programme.

There can be no doubt that external sector developments have played a role in Malaysia's current economic malaise. But it is also clear that a number of structural factors are playing their part. In retrospect it is now apparent that policy makers were able to avoid dealing with these structural problems because the rapid rise of incomes in the 1970s masked their extent and seriousness. Now that export demand and prices are no longer able to sustain rapid growth in real incomes, the neglected problems are more easily seen.

Much of the report growth that fuelled Malaysia's booming economy during the 1970s reflected increases in prices rather than volumes. Since 1976, for example, real export volumes have grown at only 2 per cent per annum, much less than the 6 per cent annual increases recorded in the period 1970 to 1976. A number of complex factors account for this out-turn. Timber and tin resources are being rapidly exhausted while rubber exports have declined in the face of a long-term shift of estate acreages to palm oil, a development that has not been offset by productivity gains in either the estate or smallholder sectors. Compounding these problems was a major shift in the disposition of labour. A large part of the employment increase recorded in the last half of the 1970s occurred in the service and construction sectors so that by the end of the decade there were not only generalised complaints about inadequate labour supply but specific complaints about severe shortages of agricultural labour, especially in the rubber and palm oil sectors. The emergence of a labour shortage in the agriculture sector also helps explain the deceleration in the growth of the sector from 6 per cent in the first half of the 1970s to less than half that rate since then, and with all of it attributed to the growth in palm oil. While the emergence of an agricultural labour shortage is a fairly natural development phenomenon, reflecting the shift of labour out of the relatively low income agricultural sector to the higher income manufacturing sector, the short-run consequences for Malaysia may be severe. First, much of the export growth in the 1970s came from agricultural commodities and, if such output growth is constrained in the future, it will reduce resource availabilities unless there is offsetting improvement in export prices, or in the development of manufactured exports. Second, while capital can of course substitute for labour in agriculture, the capital intensive technologies are not yet well developed for either rubber tapping or the harvesting of oil palm nuts and, in any event, the substitution of capital for labour will raise the real cost of production for both commodities.<sup>25</sup>

At the same time that real export growth decelerated, import demand boomed so that by the end of the decade import growth exceeded that for exports. The rising demand for imports reflected both the increases in real in-

<sup>25</sup> An electric tool to tap rubber trees, using puncture tapping rather than the traditional cutting process, is being tested but its effectiveness remains to be proven.

comes and the government's failure to prevent the appreciation of the ringgit in the face of strong commodity prices. The increase in government expenditure, and especially the expansion of public sector investment which grew in real terms by more than 16 per cent per annum from 1975 to 1982, further stimulated import demand.

Accompanying the increase in import demand, there was a dramatic shift in the composition of imports. Investment and intermediate goods now account for over three-quarters of imports, reflecting the progress and the success of the initial stages of consumer goods import substitution. This shift, it has been argued, now opens the way for a 'second round' of import substitution concentrating on intermediate and capital goods. Partly in response to this belief, the government has promoted a number of large heavy industry projects. The government also hopes that these large projects will provide a new engine for domestic growth through their strong forward and backward linkages especially to the nation's extensive energy and gas resources. The heavy industry projects include two refineries, cement plants, two sponge iron plants, a cold rolling steel mill, a methanol plant, the Asean urea-ammonia plant, a paper-pulp plant, downstream development of petrochemical complexes and the development of a 'Malaysian car'. While no exact cost estimates exist for all these projects, by their nature they will entail large capital-intensive investments with a long gestation period.

What is the likely impact of these investments? First, all the projects are import-intensive of capital goods, which placed a substantial burden on the balance of payments during their construction phases. Second, since the projects all involve a substantial degree of government involvement, they will place additional demands on public sector funds. Third, the projects are all capital-intensive and their direct employment impact is small. They are thus unlikely to make much of a contribution to either employment creation or the employment restructuring objective. Finally, it is not clear that the products to be produced enjoy a long-run comparative cost advantage. If that is the case, then the Malaysian consumers will be saddled with high-cost intermediate and final products. Once these high-cost domestic products become embedded in the industrial structure of the economy they have wide-ranging effects, eroding the competitive position of other products and making manufactured export development, or efficient import substitution, even more difficult.

While the available data are too skimpy to allow for a definitive judgement on the projects, experience in other developing countries provides little encouragement. Korea, at a roughly similar stage of development, also undertook a number of large capital-intensive projects. The short-run results were not salutary and there is a general agreement that the Korean economy paid dearly in terms of a short-run economic slowdown. Some of these capital-intensive projects, begun in the early 1970s, are now beginning to become financially profitable although the precise base against which profitability is measured is a matter of dispute. But in any event, their economic viability is by no means self-evident. Moreover, Korea's population is nearly three times that of Malaysia, providing

not only a larger domestic market but also a larger pool of trained labour.<sup>26</sup> It is true that the government has announced that it would like to see Malaysia's population increase to 70 million by the year 2100 although the specific policies to bring about such a reverse demographic transformation have not yet been enunciated. In the absence of any dramatic change in current demographic trends, the World Bank<sup>27</sup> estimates that Malaysia's population will stabilise at around 33 million by the year 2005. It is true that some of the heavy industries now under consideration or construction partake of scale economies and hence do depend on access to large markets. But there is no reason why if such products enjoy comparative advantage they cannot be exported. Consequently there is no need to assume that they will cater only to the domestic market. If they do not have an international competitive edge then forcing Malaysian consumers to purchase such products will require that lower cost imports are kept at bay through tariffs and other control with the effect of lowering real welfare.<sup>28</sup>

Deepening the industrial structure and creating complementarities and linkages among industries, and between industry and the rest of the economy, takes time. It may well be that the present policy focussing on heavy industries will permit such linkages and complementarities to develop. But it is equally important to expand the manufacturing export base and to ensure that import substitution is efficient and does not saddle the economy with industries that cannot compete on the international market. Although it remains to be seen whether the present investment pattern will result in an efficient industrial sector, there are enough unanswered questions regarding this strategy to raise serious doubts.

With its commitment to social as well as economic goals it is not surprising that the role of the public sector in the economy expanded during the 1970s. This development however was viewed with some degree of concern in the Fourth Malaysia Plan<sup>29</sup> which posited a much lower rate of growth for the public sector than had been the case during the Third Plan period. In fact, however, the government sector has expanded rapidly since 1980. Although to some extent this expansion was part of the countercyclical fiscal policies the government adopted in 1980, other factors played their role. The civil service was given

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<sup>26</sup> There is also evidence that the educational system has not kept pace with the economy's needs. Malaysia spends a high proportion of its GNP on education (5 per cent) but relatively little is directed towards technical and vocational training. While about 16 per cent of the 15-22 year-olds are enrolled in secondary education, only 1.7 per cent of this age group are undergoing technical and vocational training. By contrast, in Korea, which spends only 3 per cent of its GNP on education, 23 per cent of the 15-22 year-olds are enrolled in secondary schools and beyond, and half of these are receiving technical and vocational training.

<sup>27</sup> World Bank, *World Development Report*, 1984, p. 255.

<sup>28</sup> Nor will be increase in population automatically solve the problem of agricultural labour shortages. There is little reason to suppose that the increased labour supply will accept employment in the agricultural sector rather than in the urban manufacturing sector.

<sup>29</sup> See Cf. Economic Planning Unit, Malaysia, *Fourth Malaysia Plan, 1981-85*, (Government of Malaysia, 1981), pp. 198 and 209.

a large, and some would say overly generous, salary increase at the end of 1979 and public sector investment, as noted above, also increased dramatically. In addition, subsidies to agriculture, largely for fertilizer, and on kerosene and diesel fuels, rose rapidly. This latter subsidy represented an attempt to hold down energy costs and was justified in terms of the impact rising energy prices would have had on the poor. But there is evidence that many who would not be counted in that target group benefitted from this subsidy and that other government subsidies also have, over time, developed substantial leakages. While the high revenues from oil and commodity export taxes allowed the government to expand its role during the 1970s without incurring large deficits, the fall in both oil revenues and export tax receipts have now resulted in sharply lower revenue inflows and rising deficits. Such deficits stood at 8 per cent of GNP in 1980, and rose to 21 per cent of GNP by 1982 before declining marginally in 1983. To finance these deficits the government has had recourse to substantial domestic and external borrowing, with a consequent 'crowding out' of private investor borrowing and a rapid rise of foreign debt. Foreign debt, public and publicly guaranteed, rose from some 13 per cent of GDP in 1971 to 15 per cent in 1980 and doubled to 30 per cent by 1982. And the terms of this debt have hardened: interest rates have risen while maturities have shortened.<sup>30</sup>

As the government tries to accelerate growth, it faces some difficult adjustment problems. Import demand will continue to grow and, in the short run at least, may exceed feasible export growth. Yet the government has stated that the debt: service ratio should not exceed 15 per cent. Although it currently stands at about half that level, future repayments flowing from the recent heavy borrowings will raise the debt/service ratio in the near future. Moreover, the government is also committed to reducing its budget deficit. Government programmes also play an important role in achieving the NEP targets. It is generally agreed that if the economy does not grow rapidly, then the attainment of the NEP targets may be impossible; certainly they will be politically very painful. The question therefore remains whether Malaysia can regain its growth momentum while adjusting to the lower domestic and foreign resource levels.

It is fair to assume that some of the negative external factors that caused the severe economic problems of the early 1980s will moderate during the rest of the decade – and indeed there is some evidence that this is already happening. Malaysia's terms of trade, for example, are projected to improve by about 1 per cent per annum and demand for her traditional exports can be expected to recover. These developments, combined with some growth in manufactured exports, allow the Mid-Term Review of the Fourth Malaysia Plan<sup>31</sup> to forecast that GDP will grow at slightly more than 6 per cent per annum for the rest of the plan period. This rate of growth should be just sufficient to generate the

<sup>30</sup> World Bank, *World Debt Tables*. In 1970 the average interest rate on external public debt was 6.1 per cent and the maturity 19 years, by 1980 the interest rate was 12 per cent and the maturity was down to 12 years.

<sup>31</sup> Economic Planning Unit, Malaysia, *Mid-Term Review of the Fourth Malaysia Plan*, (Government of Malaysia, 1983), pp 61–72.

employment needed to allow the restructuring targets of the NEP to be met. But the projections also call for a sharp reduction in the growth of imports if external balance is to be restored and future borrowings held in check. Whether this can be achieved is less certain since many of the public sector projects now underway are highly dependent upon imported capital goods. Quite clearly then, any effort to reduce the import intensity of investment and growth would improve the medium prospects of the economy.<sup>32</sup> It is fair to conclude that both efforts to stimulate exports and control the demands for imports are needed if the economy is to grow rapidly enough to allow further progress to be made in meeting the NEP targets. For the medium-term at least it will no longer be simple to meet both the aspirations for growth and equity; rather, given current internal and international conditions, continued improvements in restructuring and poverty eradication will be more difficult to achieve than they were in the halcyon days of the export boom years of the 1970s.

Malaysia has compiled an enviable development record. It has not only managed to raise per capita incomes substantially over the past 15 years but has done so while paying explicit attention to social goals. Although poverty remains, its incidence has been reduced, and while ethnic income disparities are still present, they are less pronounced now than they were in 1970 when the NEP was first formulated. But in the course of this development, new problems, bottlenecks and constraints have emerged and must now be addressed if Malaysia is to continue to grow rapidly. If past response by Malaysian policy makers to the emergence of problems is any guide to future actions, the issues will be effectively addressed and policies will be put forward that will make it possible for the economy to resume rapid growth. But perhaps most important, the gains that all income groups enjoyed during the past period of rapid growth have increased their stakes in the economy, increasing the likelihood that an adjustment to the current policies needed to deal with the structural problems will be made and will be accepted.

<sup>32</sup> Recognising this need, some of the large capital-intensive projects have been postponed or cancelled.

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# Malaysia's Economy: Domestic and International Prospects

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THIS BRIEF paper will outline the main features of the Malaysian economy and discuss its prospects and the possible role of US businessmen in Malaysia's socio-economic development.

The Malaysian economy stands out as one of the most dynamic, stable and promising economies, particularly in the Third World. It has undergone tremendous structural change since independence in 1957. From a colonial agricultural economy producing mainly rubber and tin, it has evolved into what may be considered a newly industrialising country (NIC) with a much more diversified economic base. Today, rubber and tin have become less significant, while palm oil, timber, petroleum and now LNG production have become important pillars of the Malaysian economic structure. These agricultural and primary commodities have also strengthened the manufacturing base, which now accounts for about 20 per cent of the gross domestic product.

Malaysia's economic growth rates have averaged about 7 per cent per annum in real terms, largely because it is an open economy, practising free enterprise under a strong and stable government and with one of the most liberal foreign exchange regimes in the world. It is financially stable and the average inflation rate has been less than 5 per cent per annum over the years. Its income per capital is ranked by the World Bank as 'upper middle income' at about US\$1,840 per annum. Malaysia's balance of payments has always been strong with healthy merchandise account surpluses, traditional deficits on the service account, but with a basic underlying strength on the overall balance of payments. This has enabled the Malaysian ringgit to float strongly against most international currencies, except the US dollar, which is in any case regarded as too strong!

The Malaysian economy is in many ways unique and yet exciting in its complexity. Malaysia is a multi-racial, multi-religious society of 15 million, with

a federal system of government. It comprises 13 states, two of which – Sabah and Sarawak – are separated from peninsular Malaysia by some 1,000 miles of sea. The predominant racial group, the Malays or Bumiputeras who constitute 56 per cent of the population, has a mean monthly income of M\$296, while the Malaysian Chinese and the Malaysian Indians have mean monthly incomes of M\$565 and M\$455 respectively. This kind of economic imbalance, along racial lines, is inhibitive to the long-term economic growth and stability of the country. Thus, the New Economic Policy (NEP) which is somewhat akin to the US policy of affirmative action, was introduced in 1971 to:

- Eradicate and alleviate poverty, regardless of race; and
- Restructure the economy to ultimately eliminate the identification of race with occupation.

This is the basic philosophy underlying all aspects of Malaysia's economic planning and implementation. After nearly 15 years, the NEP has shown considerable achievements, although much more needs to be done to reach its quantitative targets. One important target is that foreign ownership in the corporate sector should be reduced from about 60 per cent in 1970 to about 30 per cent by 1990, with Bumiputeras achieving a target of at least 30 per cent and non-Bumiputeras attaining 40 per cent.

### **Problems facing the Malaysian economy**

Considerable strains in the economic structure and finances have emerged because of the Malaysian economy's rapid expansion. The international recession has further aggravated these structural strains. The following factors, that have arisen because of the prevailing international economic climate, are of concern to Malaysians:

- (i) The secular decline in commodity prices, especially for rubber and tin, have considerably reduced export earnings.
- (ii) Declining commodity prices have made agricultural production less attractive and has caused a slowdown in the productive capacity of the agricultural sector.
- (iii) With rapid growth, the traditional surpluses on the merchandise account has been reduced while the deficits on the service account of the balance of payments, have widened.
- (iv) The high interest rates in the US and other capital markets have meant higher costs of borrowing, which has had to be undertaken nevertheless to finance Malaysia's socio-economic development and particularly poverty eradication programmes.
- (v) Counter-cyclical policies pursued by the government to attain high growth and distribution targets, have led to some strain in government finances.
- (vi) Consequently, the debt-servicing burden has increased so that foreign debt servicing ratio is now about 6.5 per cent.
- (vii) The growth in the private sector and manufacturing has also been constrained by:



- A slowdown of foreign investment due to the recession;
- Problems of protectionism and access to markets in industrial countries; and
- Some lack of dynamism and entrepreneurship as well as technological competence of Malaysia's private sector.

Despite all these unfavourable factors, Malaysia's economic growth is estimated at about 7 per cent this year and next year as well.

### **Prospects for the Malaysian economy**

#### **• Domestic prospects**

What then are the prospects for the Malaysian economy? On the domestic front, it is clear that the economy is at the crossroads. The structural problems have had to be addressed and indeed they have been tackled, head on. In the last few years decisive measures have been taken to reduce the balance of payments deficits, the budgetary deficits and the debt burden.

This has been achieved by abandoning, at least for now, counter-cyclical budgetary policies. We have, in their place, new strategies to reduce the size and role of the public sector and to increase that of the private sector.

Thus, the current account of the balance of payments deficit as a proportion of GNP has declined from 14 per cent in 1982 to about 7 per cent in 1984. Similarly, the public sector expenditure as a proportion of GNP has been reduced from about 58 per cent in 1982 to about 54 per cent this year, while the federal government's budget deficit as a proportion of GNP has been reduced from about 19 per cent in 1982 to about 12 per cent this year.

When the decision was made to undertake these drastic measures a few years ago, even the most optimistic observers from international organisations were quite sceptical as to whether the Malaysian government had the will and the determination to pursue these painful but prudent policies. But what had to be done was done. It is pertinent to point out that these economic policies were implemented without any of the conditionality or compulsion that is imposed by international institutions. The IMF, for example, has imposed them in many countries that have had to depend on the IMF for standby credits. Malaysia is proud of the fact that it has never gone to the Fund for credits under IMF conditionality.

I would stress that the practice of financial prudence has been the hallmark of Malaysia's economic and financial management. It is also a strong reflection of Malaysia's special brand of economic management, which is, pragmatism and flexibility. You will find that these important characteristics permeate the system, not only in the field of economics and finance, but also in administration and overall political management. This special style enables the economic managers and planners to respond readily and effectively to the changing international environment.

We recognise that we cannot do much about the international environment. But we can take serious note of the fact that the international economic

outlook continues to be uncertain. Indeed, given that the US, Japanese and OECD economies will expand by 2.5 per cent, 3.8 per cent and 2.8 per cent respectively in 1985 and even for 1986, Malaysia's course is to consolidate the economy and brace itself against the vagaries of international economics. It is believed that this strategy will ensure sustained and steady economic growth that will also ensure continued financial stability and reasonable equity.

This strategy may mean some slowing down in growth, particularly since government spending will continue to be restrained. However, new strategies are being evolved to encourage the private sector to play a much larger role than in the past. New concepts such as 'privatisation' and 'Malaysia Incorporated' were announced by prime minister Datuk Seri Dr Mahathir Mohamad recently to give emphasis to this strategy of encouraging investors, both domestic and foreign, to take the lead in expanding the private sector in Malaysia.

In the 1985 budget, finance minister Daim Zainuddin unfolded a package which surprised even the more progressive businessmen. It contained a major overhaul of the income tax structure. Individual income tax rates were revised downwards dramatically from 55 to 40 per cent, to be in line with the company tax rates. This was done to encourage more investment through better incentives for hard work, enterprise, productivity and innovation. Some called this move Reaganomics but we believe it is our brand of Malaysianomics.

This new strategy for the Malaysian economy is expected to further enhance the prospects for both domestic and foreign investment in Malaysia. In addition, the government is committed towards reviewing and revising the whole range of industrial incentives, which are already liberal and competitive vis-a-vis the best in the world. Emphasis will be placed on providing incentives for high-technology industries which would establish stronger forward and backward linkages with the economy. Encouragement will be given to exporters, especially those who manufacture products with Malaysian raw materials. Medium and small-scale industries that will supply and strengthen the larger industries will also be considered for further incentives.

The government also recognises that the agricultural base needs to be strengthened and made more efficient. Malaysia's future, however, as a progressive and modern economy lies in greater industrialisation. This can take place both in the manufacturing and agricultural sectors. To this end, the government through its Heavy Industries Corporation (Hicom) has identified several major industries which in the medium-to-long term would provide a firm foundation for greater and deeper industrial expansion.

#### • Foreign prospects

To be perfectly candid, my judgement is that the prospects are exceedingly good. Given the scenario that the industrial countries will be reasonably well managed, and barring any international catastrophe, it is reasonable to assume that the industrial countries would in the medium-term, continue to expand on a moderate growth path. At the same time, Malaysia, with its policy of prudent economic and financial management, will be able to attain comparatively higher

growth rates of 6-7 per cent per annum. Malaysia could do even better if the industrial countries perform better than the present low rates of 2-3 per cent per annum.

This optimistic outlook projection is based on some of the following positive factors:

Firstly, Malaysia has always encouraged foreign investors to participate as true partners in development. It has never nationalised any part of the economy, as in the case of many other developing countries. Whatever foreign investment assets it has acquired, have always been purchased with hard earned foreign exchange and at open market prices.

Secondly, Malaysia must be seen as a progressive and modernising economy amongst similarly market-oriented economies, in the context of Asean. The Asean market therefore must be taken into account in the calculations that foreign investors will want to make before coming out to Malaysia. Indeed, only last week ministers of finance of Singapore and Malaysia met formally, after many years, to deliberately plan for greater co-operation, particularly in the fields of industry and tourism. Asean countries have also recently developed an 'early warning system', which will now be able to signal more opportunities for investment and trade amongst Asean countries, and with the rest of the world.

Thirdly, it must not be overlooked that Malaysia and Asean are part of the new epicentre of world economic growth and expansion in the Pacific Basin. With the NICs in East Asia and the tremendous economic expansion taking place in China today, the potential for foreign investment in Malaysia and in the Asean region makes the mind boggle. The US and Japan can play an increasingly significant role to promote private investment for mutual prosperity.

### **Position and role of foreign investment in Malaysia**

Malaysia offers some of the best prospects for foreign investors, particularly in the Third World. At present, the major foreign investors are from Japan, Singapore, Britain, the US, France and West Germany.

However, the size of foreign investment in Malaysia has been somewhat disappointing. This may be partly due to the fact that private sector investment as a whole constitutes only about 20 per cent of the economy. It could also be because Malaysia has a relatively small market for the consumption of domestically-produced goods. Furthermore, Malaysia's manufacturing sector has been expanding rapidly only in the last decade.

Nevertheless, it is enigmatic that Malaysia, despite its considerable advantages, has not attracted more investment than it could or should. Malaysia stands out in areas of political stability, good administration, literate and trainable labour force, good location in Asia, rich resources, very liberal tax incentives and very agreeable fiscal and social climate.

Nevertheless, American investment in Malaysia amounted to only about US\$10 million per year in manufacturing. Although many of the biggest American

companies are doing business in Malaysia, they are mainly confined to the electronics industry. This has made Malaysia the largest exporter of integrated circuits outside the US with an export bill of about US\$2 billion.

The question is why have the US and other investors not invested more and why have they confined themselves to so narrow a range of investments? This is the question I wish to pose. Perhaps we will, through our discussions, fill the gap in our knowledge on what needs to be done and how to attract more US investments to Malaysia.

It is learnt from US State Department officials and American businessmen in Malaysia, that there is still limited awareness in the US as to the potential and prospects for investment in Malaysia. It has been suggested that Malaysia is 'put off sight' and 'does not show up' vis-a-vis some other countries, which may be less endowed and even less attractive to investment.

One argument that has been put forward is that American businessmen prefer to have definite and rigid guidelines on investment rather than flexible rules that can be negotiated, particularly in terms of equity ownership. It is true that Malaysia does not have rigid guidelines, but this should be its strength and a reflection of its pragmatic approach to investment and economic development. Government leaders have often stressed in international fora that flexibility is adopted in order to ensure that greater preference and priority are given to foreign investors who provide greater benefits to the country - in terms of contributing to Malaysia's socio-economic aspirations.

Thus, if there is a high proportion of exports, Bumiputera and other local participation, transfer of technology, greater linkages and the generation of more and higher level employment, then adjustments are made accordingly to provide greater tax incentives and correspondingly high shares of equity capital for US and other foreign companies. For instance, the 30 per cent target for foreign ownership has been allowed to go up to 100 per cent, in cases where the exports are 100 per cent and where other criteria are adequately satisfied. On the other hand, rigid guidelines could be counter productive as they may discourage bona fide foreign investors who can contribute more than their competitors to the Malaysian economy. Thus Malaysia's economic and fiscal policies and incentives are flexible in order to provide incentives and rewards to the more productive and attractive investors.

In this connection allow me to touch briefly on what was done recently for the American Business Council in Malaysia in connection with the electronics industry. The pioneer tax-free status period of eight to 10 years had expired for many American electronics companies this year. Because of that, the government had to consider whether it should give any tax incentives to an industry that had made very significant profits, even from a period of six months to one year of the establishment of a company. The government, however, recognised that there were many other benefits which the economy had gained from American multinationals, despite the large outflow of funds in the form of dividends and profits. What the government did is ample testimony to its conviction that, despite all that is said of multinationals in many developing countries,

significant mutual benefits can be obtained via a healthy respect for each other's objectives, in a spirit of equal partnership in business and economic development.

Thus, the following incentives were given to on-going investments carried out by existing semiconductor companies and I quote from an official document:

- (i) Expansion and/or modernisation for the manufacture of semiconductors shall be eligible for consideration of Investment Tax Credit (ITC) at a minimum rate of 25 per cent;
- (ii) Expansion and modernisation projects which involve backward or forward integration shall be eligible for consideration of ITC at a minimum rate of 50 per cent;
- (iii) An expansion project which is located in a different site in less developed areas (i.e. outside Penang, Federal Territory, Selangor and Malacca) shall be eligible for consideration for pioneer status. To facilitate the administration of the pioneer status incentives, a new company shall be formed for this expansion project; and
- (iv) Expansion/diversification projects involving the manufacture of ancillary products of high technology such as 'leadframe', wafer, etc, whether in existing or different site shall be eligible for consideration for their preference of pioneer status or ITC at a minimum rate of 50 per cent. To facilitate the administration of the incentive, a new company shall be formed for this expansion project.

In considering the merits of each case for a higher level of ITC than the minimum of 25 per cent, such factors as employment of skilled Malaysians, higher value added, training of Malaysian workers, research and development facilities, Malaysian equity participation and any other special features will be taken into account.

Furthermore, a company granted ITC or pioneer status can qualify for an additional ITC of up to a maximum three years as provided under the Investment Incentives Act if the company complies with the local content requirement, produces a priority product and the project is located in an area designated as a development area.

I have singled out the case of the US electronics companies' experience in dealing with Malaysia as they form about the largest and most important segment of foreign investors in any one industry or for that matter in the country. It is learnt that the American electronics companies are happy with this flexible and practical approach to American investment. The fact that one approach has been right should be a source of encouragement.

## **Conclusion**

I have highlighted some of the strengths and weaknesses of the Malaysia economy. In the process I have also focussed on the underlying fundamental and promising prospects for foreign and particularly, American investment, in Malaysia.

The question which still lingers is, why have American businessmen not been able to see the attraction of investing more in Malaysia? I have posed some

questions and given some partial answers to this basic question. It is hoped that this paper would stimulate thinking as to what can and should be done to encourage more American investment in Malaysia.

We have the natural resources, political stability and a free enterprise system that encourages and welcomes foreign participation in our socio-economic development. We seek to find out how we can invite greater foreign participation, to get a bit of the action, to take a slice of the cake, and to share our warmth and hospitality under the Malaysian sun.

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# Asean and the Negotiated Order in Southeast Asia

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IN THE 1950s and 1960s, five nations lying at the southeastern extremity of the Asian land mass gradually worked out a pattern of special association to bring themselves together into an increasingly close relationship. This took concrete form in 1967 as the Association of Southeast Asian Nations or Asean. Asean was not – is not – a military alliance or a common market or a United States of Southeast Asia.

On the other hand, Asean is, potentially, a significant means of promoting world order through consultation and negotiation. It is a supra-national organisation bringing together originally five, and now six, countries. Each country surrenders a very limited amount of sovereignty to this new organisation, which is expected to achieve what could not be accomplished by the five or six nations acting separately. Asean was formed in August of 1967 with Thailand, Malaysia, Singapore, Indonesia and the Philippines as the original participants. The latest addition which was made in January 1984 is Brunei.

In its early period, Asean's physical expression was limited to annual, or sometimes special additional meetings, of the five foreign ministers of the Asean countries. Since then it has acquired a limited amount of central machinery but Asean's organisers were persuaded that it would be a serious mistake to build up yet another large international bureaucracy. In more recent years, they have considered it desirable to establish a central secretariat for Asean in Jakarta – housed in an elegant building in the outskirts of Jakarta where the Asean secretary-general has his permanent office, and where there is space for considerable expansion of activity. But the emphasis on 'small is beautiful' persists and there is a determination to avoid a large, permanent bureaucracy.

The central purpose of Asean, in the views of the founders and their five governments, was to create a 'zone of peace, freedom and neutrality' (Zopfan) among the five nations. While Thailand had never come under foreign domi-

nation, the other Asean members all had for at least a century been under colonial rule by European powers or the United States and the 'freedom' of Zoplan reflects their determination to preserve their independence. Similarly, there is a commitment to settle their own problems without resort to arms and also to avoid involvement in superpower contests which would jeopardise the peace of the region. And, finally, a policy of *neutrality*, while defying precise definition in this context, reflects a desire on Asean's part to keep its distance from the 'East-West', 'communist-free world' struggle.

In fact, two of the Asean nations (Thailand and the Philippines) are bound to the United States and other powers through the mutual security treaty of the Manila Pact (1954). Malaysia and Singapore also have a security tie, albeit a looser one, to Australia, New Zealand and Britain. At the same time, some of the Asean countries are also associated in greater or lesser degree with the 'Third World', the Non-Aligned nations, the '77', the South, etc. Today, however, the commitment to co-operation in Asean transcends many of these other associations.

In their pragmatic way, the founding fathers of Asean in fact said nothing of Zoplan in the early days following Asean's creation in August 1967. Their emphasis then was on social and economic issues and commitment to enhance their mutual co-operation in those realms. Only as the organisation began to show its viability did the members consider it politic and feasible to move into more political realms.

My first experience with Asean may serve to illustrate some of these abstractions. I should emphasise that my role at the time of the birth of Asean was rather consciously and carefully to play no role at all! I had just returned to Bangkok after having been assigned there earlier, as deputy to the American ambassador, from 1958 to 1962. Promptly after I returned in September 1967, as ambassador, I was in touch with the Thai foreign minister, Thanat Khoman. This was virtually at the moment of birth of Asean, and the diplomatic corps in Bangkok was invited to attend. It was subtly suggested to me, and I understood and honoured the suggestion, that as a representative of the US government I should not seek to play any special role. In other words, 'please come as one of the diplomatic corps, have a benign and approving look,' but nothing more. At that moment in history, if you will think back to 1967, the US was very deeply involved in Thailand with major programmes in the economic sphere. There were close to 40,000 American forces in the country, related primarily to the growing US role in Vietnam. Inevitably the US ambassador was playing a very active role in many of the programmes. Nevertheless, I took the suggestion, accepting that I should not be any more involved in this birth of Asean than any of my colleagues whether they were from Saudi Arabia or Switzerland. (Washington did not always see it this way, incidentally, and had its impatient moments with the 'Asian' way, which I felt should be respected.) This discussion of Asean has to do with the evolution or creation of a new organism intended through the use of negotiation to introduce order into an otherwise loose and sometimes chaotic theatre of international relations, Southeast Asia, and in this way making a significant contribution to world order.



As has already been noted, the story really opens with the end of the Second World War and a Southeast Asia that had for the century and a half before been under European colonial rule, with the exception of Thailand. As a result, most of the very real ties which could have bound the countries of this region together had for a long time been suppressed; these were primarily cultural, historical and religious ties. There had been only very limited economic links. Whether it was the Dutch East Indies or the Federated Malay States or the Philippine Commonwealth, connections were more with the metropole than with each other. For example, if in Bangkok one wanted to communicate by cable with Rangoon or Saigon, one had to go the several thousand miles through London or Paris, despite the fact that those two capitals were virtually next-door neighbours. Only slowly, as these countries became independent after the Second World War, did they rediscover the sense of identity and kinship that had been so long repressed or even lost. As they became newly independent, they began an intercourse that has grown rapidly.

Late in the 1940s and early 1950s and especially in the United States and Europe, concern began to grow about the aggressive expansion of the USSR, and its authority and power, and the policy of 'containment' was articulated and given expression, for example, by George Kennan as Mr X in an article, 'Sources of Soviet Conduct', in *Foreign Affairs* (July 1947). As time went on, and as the shape of the postwar international relationships became clear, it had its expression also in Southeast Asia. The threat of Soviet and, more generally, communist expansion (including Mao's China and North Vietnam), began to be recognised once the colonial powers had been obliged to give up their position and leave the area, creating what could have become a dangerous vacuum. The particular expression of the containment policy in Southeast Asia was the Manila Pact, providing security assurance to the region's two members, Thailand and the Philippines, from the Seato powers in Europe, the US, Australia and New Zealand. This, then, was one of the first associations among some of the future members of Asean – the process had begun in 1954 when the Seato Treaty was signed in Manila.

Also, when some of the former British colonial areas in Southeast Asia, specifically Malaysia and Singapore, gained their independence, they too felt militarily vulnerable and maintained a continuing military relationship with Australia, New Zealand and Britain. Even in the 1950s and 1960s, the tensions in the area were particularly strong, especially in Indochina where the northern part of Vietnam was already linked with Communist China and the USSR. The southern part was under constant pressure, and in the adjoining area the neutral countries of Laos and Cambodia were seeking to maintain their independence but were also under pressure, both external and internal, from North Vietnam, China and elsewhere. Thus the countries in this area were experiencing a rather unsettled and precarious kind of independence, an independence that many felt was vulnerable and indeed in danger of being lost to an aggressor's move.

A major country in the region, Indonesia, under president Sukarno, was pursuing quite a different course from those followed by Thailand, the Philip-

piners, Malaysia and Singapore. Rather than linking itself with the US or any European power, and seeking protection from an alliance relationship, it was one of the leaders of the Non-Aligned Movement. Sukarno's principal companions in this initiative were Nehru, Zhou Enlai, Nasser and Tito. Thus Southeast Asia was divided by the sharp differences in orientation between the aligned nations, on the one hand, and Indonesia, on the other hand. This made for strained situations, recriminations, and in some cases, even the outbreak of border and guerilla warfare. A case in point was the effort by Indonesia (with some help from the Philippines at various times) in a policy called *konfrontasi*, to try to frustrate the formation of a new Malaysia, and especially to deny it territory on the island of Borneo.

Nevertheless, there were some germs of regional co-operation and association that had already been planted and had begun to grow in Southeast Asia, including a number which were inspired from outside and nurtured with outside help. As has already been mentioned, there was Seato which, although an alliance owing its origins primarily to US initiatives, also had economic, social and regional development programmes in addition to its central military aspects. These programmes brought together Thailand and the Philippines primarily, and by looser association, some of the non-communist countries of Indochina as well. The Commonwealth countries also had their association that tied them with the more distant, long established Commonwealth members.

There were modest efforts in this period also to try to bring together the various ministers of education, finance, etc, from as many of the countries of the region as possible with the thought that they had many common problems and they could benefit from an opportunity to compare notes and develop some useful co-operation. This extended also to developing and refining techniques for teaching English (Southeast Asia's lingua franca) as a foreign language.

The US provided the leadership in trying to organise some of these associations which bore names such as Seameo (Southeast Asian Ministers of Education Organisation), et al. It was their *raison d'être* that if feelings of regional identity and solidarity could be heightened there would be less susceptibility to penetration and subversion by communist sources. Moreover, if these neighbouring countries would work together, they might be able to develop common programmes, operate more effectively and make the requirements for outside assistance somewhat less. At the same time that these efforts were taking place, there were also some modest regional aspects to the Non-Aligned Movement efforts in which Indonesia played an important part.

Finally, and most pertinent to our discussion, there were a few preliminary, partial efforts - mostly abortive - of some of the Southeast Asian countries to develop some international associations on their own initiative. One of them was called Maphilindo. Another was the Association of Southeast Asian Nations, ASA. I mention these because, although short-lived, they reflect an impulse on the part of these newly-independent countries to develop some pattern of association rather than find themselves in a Balkan kind of situation in which strains and hostilities would develop that would be very hard to suppress or erase. They

hoped, having been isolated from one another through the centuries of colonial rule, that they could now find ways of working more effectively together.

These initial attempts, however, did not get very far. For one thing, one of the most important countries in the area, Indonesia, the largest and most populous, had been following a non-aligned, generally neutralist course. Therefore its principal associations were elsewhere, outside the region, with Nehru, Tito, Nasser, et al, and its relations with its Southeast Asian neighbours were frequently strained. But in 1965 Sukarno was replaced by General Suharto, ably aided in foreign relations by Adam Malik. Indonesia subsequently embarked on a different course, particularly with regard to relations with its Southeast Asian neighbours. Thus 1965 was a year of significant transition (as well as 'The Year of Living Dangerously') for Indonesia. It was also the year Southeast Asian intra-regional relationships began to move towards the co-operative mode which has strongly characterised them in the years that have followed. The idea that was abroad in Southeast Asia, and still has its impact in many realms of neutrality and non-alignment, was certainly not thrown overboard; Indonesia and Malaysia still label themselves 'non-aligned'. But there was also the growing strength of the idea that the Southeast Asian nations had more in common than the differences between them and that they could benefit from closer association. This suggested an association that would bring into being some kind of order, provide for fruitful co-operation in pertinent fields and bring to an end hostility which, up until that time, characterised some of their relationships.

When they first began to talk seriously about this idea of association, there was general pessimism about the prospects. Some felt that they might be misunderstood; particularly, it might be unwise for them to be seen to be embarking on the setting up of a new bloc. Therefore, they talked little about security matters and political association. In fact, they believed such matters should be openly approached only after it had been demonstrated, in less sensitive and less controversial fields, that the five nations could work together successfully. Thus, initially, they gave a good deal more attention to cultural and economic co-operation. In fact, in 1967 when the five original countries of Asean gathered to formalise their new association, there was no mention of political or security co-operation. Emphasis was put on the cultural and economic fields. While they considered that the time had come to try to form some kind of significant association (so that they would be much more the masters of their fate than if each country were going its separate way), they nevertheless avoided reference to matters they still considered too sensitive and perhaps likely to give a hostile superpower an excuse for pressures or intervention.

There were five rather remarkable figures who were the foreign ministers of the five Asean founding countries. They were principally responsible for the formation of the grouping and for giving Asean its first look, as primarily a cultural and economic organisation. They agreed on the need, in the first place, to develop through their association a way to make common cause on issues that were of importance to them. However, they perceived that there should be no implication of an alliance. The 'founding fathers' were: for Indonesia, Adam

Malik; for Thailand, Thanat Khoman; for the Philippines, Fidel Ramos, and later, Carlos Romulo; for Singapore, S Rajaratnam; and for Malaysia, Tun Razak, who was strongly supported by the then prime minister, Tunku Abdul Rahman.

The professionals who put Asean together had already had considerable experience working as diplomats and government ministers, and had ample opportunity to get to know one another. On many occasions they had engaged in discussions about the problems confronting Southeast Asia and what might be the most effective means of handling these. 'Committed' nations like Thailand and the Philippines could compare notes with the non-aligned, most notably Indonesia. Little by little this idea of association had germinated and grown and ultimately flourished to the point where it was possible to formalise it in the fall of 1967.

There certainly are times when bilateral diplomacy has a major role to play, and conducting relations directly among the independent countries suffices to meet the problems. At other times the building of something new is required, something supra-national. Asean is a good case in point. Its founders took the international framework as something that they felt needed to be further adapted by them to meet the needs of Southeast Asia and its separate, independent nations. This was a case not of addressing worldwide issues, but rather looking through another closer lens, a lens focussing on virtually every international subject and issue as it expressed itself in this one region. Once regional interests had been identified and formulated, they could then be pursued in the wider international context. Moreover, and most importantly, the strength that comes from five nations speaking with a single, united voice is at least as great – or greater – than the sum of five separate, discrete voices.

The situation in Southeast Asia in the fall of 1967 was not promising. There was a war under way and growing graver in Vietnam, and indeed, spreading throughout Indochina and moving towards a tragic climax. At that time, the People's Republic of China (PRC), moving into its Cultural Revolution, had generally an aggressive posture with regard to this part of the world, and had been engaged in subversive activities which were particularly disturbing, in different ways, especially in the cases of Thailand, Malaysia and Indonesia. There had been the so-called 'Emergency' in Malaysia which was related to the continued presence of a small but tightly organised Chinese rebel group which was still receiving support and assistance from the PRC. In Thailand there was the insurgency, serious particularly in the northeast and north, and receiving support from the PRC and North Vietnam. And in 1965 Indonesia had passed through an acute crisis brought about by a leftist bid for power which many considered to have received PRC support.

Furthermore, there were stresses and strains among the five countries themselves. These five leaders, the foreign ministers mentioned above, recognised these threats. They knew that if their countries were going to survive, the last thing that could be countenanced was further division and struggle among the countries within the area. Thus, they sought to create an area of stability which would remove from the region any of the recurring international crises. They wanted to take advantage of what was for all of them (except Thailand)

their newly-won independence and to move, in peaceful circumstances, to devote their energies to nation-building and, economic and social development.

Asean, it was announced, was established for economic and cultural co-operation. This was a wise tactic – the political realm was a dangerous one to work in until mutual trust and the habit of co-operation had been developed. A political association might be vulnerable to the manoeuvrings of outside powers and it was best to establish a habit of working together and the value of it in other fields before openly moving into the more sensitive and controversial political realm. According to a statement of the time, Asean was based on the principles of 'efficiency, stability, harmony, equity and diversity' – a new kind of world order! This was the vision of the people who were putting Asean together at that time. They felt, on this point of avoiding politics, that an emphasis on the economic and cultural would help divert hostility and political pressures and similar problems that might otherwise be generated by the Third World non-aligned countries or by the Soviet Bloc or others.

Also, while some of the problems in the economic and cultural realms were fairly formidable, they were generally more manageable than political problems. Better to start with modest steps and go on from there.

It became clear early on, in any case, that one important feature of Asean was the clout that it gave this new collective in dealing with the superpowers, and with Japan and China and the European Community. They were putting themselves in a better position than if each one of them was trying to work out singly the solutions to its international problems. If all five could adopt a unified position and present a united front, they had to be taken more seriously.

This became clear when apprehensions in Southeast Asia rapidly grew when, in April of 1975, South Vietnam collapsed and the North established its rule throughout the country. Its domination of Kampuchea and Laos followed soon thereafter. These events gave added urgency to Asean and its potential role as a unified voice. Soon thereafter Asean's own top-level deliberations became more formal and substantive. These provide a valuable means of mutually informing and reaching agreed assessment and co-ordinated approaches to common problems.

A valuable current illustration of the Asean *modus operandi* is provided by their handling of the Kampuchea issue, a matter of acute concern especially to Thailand. Asean has eschewed a military confrontation with Vietnam even though this was threatened several times when Vietnam's forces have approached or even breached the Thai frontier. Instead Asean has consistently and forcefully put its case each year since 1979 before the United Nations and has prevented Vietnam from securing the recognition by that body and world opinion of its seizure of the government of Kampuchea by force in February, 1979. Not only has Asean chosen to desist from military action – reflecting wisdom in general and, probably also, a cold assessment of the military balance – but it has kept open the door for dialogue with Vietnam. Thus, hope remains that the solid Asean position, backed by UN votes, will eventually persuade Vietnam to accede to a Kampuchean solution which accords that tragic nation real independence and permits a lessening of the strains with its Asean neighbours. In a word, the

Asean objective has been described as 'internationalising the Kampuchea issue and curbing Vietnam's belligerence'.

Asean has worked as a body, also, to establish a pattern of developed country responsibility with regard to the Southeast Asian refugees.

What does Asean represent, then, in real, physical terms? In area, it is about the same size as the United States east of the Mississippi, plus Texas and Oklahoma. Its members range in size from the city state of Singapore, through little Brunei, all the way to Indonesia – by all odds the largest member. The total population of Asean is now the fourth largest in the world today, with close to 275,000,000 people. It seems quite clear that by the end of the century, only China and India will be more populous. In terms of resources and production, here is a major source of the world's tin, rubber, rice, tropical hardwoods, vegetable oils and a good deal of petroleum, sugar, coffee, tapioca, other metals and minerals. Here has been the beginning, still modest, of some manufacturing – textiles, and some relatively simple machinery and electronic products are turned out. More sophisticated enterprises, however, are already well-established in Singapore and are beginning to appear elsewhere as well. The prospect is good for labour-intensive industries, no longer so profitable in Japan, Korea and Taiwan, to find profitable homes in the Asean area. Furthermore, there is now a basis for a petrochemical industry and the downstream products that this will bring.

A factor of major importance, never to be ignored, is the geographical position of the Asean countries, astride the routes between the Western Pacific and Japan, Korea, Taiwan and China, on the one hand, and the nations bordering the Indian Ocean, and beyond the Indian Ocean, the Persian Gulf, the Suez Canal and the Mediterranean. It is a strategic location, controlling and presumably capable of blocking the very significant economic and military routes through that restricted area. It is important for the countries of East Asia that get a substantial portion of their oil (70 per cent for Japan) from the Middle East. It is strategically important for the two naval superpowers, the US and the USSR, in providing the optimum route to be taken to move their fleets back and forth between the Indian Ocean and the West Pacific.

Several years after Asean was first created, it declared itself to be a 'zone of peace, freedom and neutrality' – Zopfan. The initiative for this came primarily from Malaysia. What 'Zopfan' really means is not entirely clear! For one thing, Malaysia itself, along with Singapore, has a security arrangement, albeit a loose one, with Australia, New Zealand and Britain. Thailand and the Philippines, as signatories to the Manila Pact, have a security arrangement with the US and several other nations. Moreover, stationed in the Philippines are substantial American air and naval forces. But I have become persuaded that 'Zopfan' is essential to the Asean philosophy even if it is hard to tie it down in specific terms. For one thing, it rests on the principle that these six countries are going to go their own way and seek their own pattern of political and economic development. They mean not to be caught up in an East-West struggle, even though they have an orientation which is friendly to the US, Japan, the South Pacific and Western Europe and are generally apprehensive of the intentions of com-

munist powers. (For several this means the Soviet Union and Vietnam, especially, and for others, the PRC as well.) This apprehension, incidentally, has grown more acute with the growing military presence of the Soviet Union on the South China Sea, at Cam Ranh Bay, Danang, etc.

To explore this concept a little further I have talked about 'Zopfan' with Southeast Asian friends, and with Americans familiar with the region and with the thinking of its leaders. There is general agreement that the concept has a primarily Malay origin, but with Buddhist roots as well. Its significance is ambiguous in that it has differing shades of meaning depending on the definer! While a non-Asian tended to dismiss it rather cynically as 'eating your cake and having it, too,' a careful Malaysian scholar spoke of 'national resilience, a not-enforced neutrality'. For Indonesia it was considered by some to relate primarily to Southeast Asia's regional solidarity and keeping the external powers (the superpowers above all?) out of the region. According to other Malaysians, 'Zopfan' suggests a guarantee of neutrality in which the superpowers may play a role, while Indonesians resist the idea of giving such a role to the powers. Draw your own conclusions!

We should not fail to discuss how Asean negotiates. How does it operate when, once each year, or sometimes more often, its foreign ministers meet to address the outstanding questions that they must consider and resolve? The processes of Asean illustrate a *modus operandi* which is a departure from the earlier patterns of 'negotiating world order'. In the West, where most such patterns have been developed in the past, organisations have generally been structured to operate on the basis of majority – or sometimes unanimous – vote. In keeping with procedural patterns rooted in classical and medieval legal systems and governing assemblages, he who musters a majority vote – even a majority of one – carries the day. His programme becomes the programme of all, loyally followed also by the, perhaps, 49 per cent who opposed.

Asean, rooted in South and East Asian traditions, most notably Buddhist philosophy, seeks to negotiate order in its part of the world through consensus rather than majority vote. 'Consensus is by origin a technical term in physics meaning the combined efforts of various organs of the body to create any single action. Through the years, however, it has come to be used more figuratively to describe a meeting-point of various different opinions. Consensus is often discovered by scholars to be the best word to describe the psychological bases of an Asian nation, particularly one with a Buddhist background in which the Middle Way is always the ideal.' Specifically it has been said of Thailand, but would have pertinence throughout Asean. 'Thailand's foreign policy thrives on compromise and alliance rather than confrontation.' Malay culture has its counterpart process, called *musyawarah*. It is indicative that at Asean meetings *musyawarah* is employed, rather than Western-style debate and majority voting. This is a process – a species of dialogue – which also traditionally leads to consensus. Thus, Southeast Asians are persuaded that their non-abrasive *modus operandi* yields more benefit in the long run and risks less confrontation.

In the financial and economic realm, Asean in the first place is a means of bringing together the policies of its members so that their united voice can have

more weight in some of the large international commodity, monetary, trade and similar meetings. The Asean countries are members of the '77' and they have an additional special position in that they have joined together and do negotiate as a body with Japan and the US and Western Europe (the EEC) on technological exchanges, trade questions, and the like. There has been developed a regular pattern of negotiations with these various countries and groups outside the area.

They also have several economic programmes in Asean itself. While most of them are but a 'gleam in the eye' of the six countries and their leaders and many have not become at all concrete, a few have seen some forward motion. One such is industrial complementation. This involves industrial projects started in one or another of the Asean countries which may enjoy a comparative advantage. The other countries may participate, if and where they enjoy some particular advantage and there would be a sale of the product without tariff barriers among all the six countries. This could become a kind of import substitution programme for Asean as a whole. It would also open the markets of five of the countries to certain products that can be more advantageously made in one of the Asean countries. There are a few such arrangements currently ongoing - a urea plant in Sumatra at Aceh was opened recently; a soda ash plant in Thailand is another illustration.

There is also the goal of a common market for the Asean countries with preferential trading agreement. Several thousand commodities have been identified and entered in that programme, although they are with few exceptions not items which are significant in trade. There has developed a certain amount of economic co-operation which in due course may make it possible for the Asean countries to develop some of the kinds of associations that have been established in the European Common Market. Progress in this field has been slow, however, primarily because the Asean nations have basically competing rather than complementary economies. They are now nurturing their own infant industries and, apart from Singapore, they tend to produce primary and consumer products and are often in competition with each other. Thus they are going to have an uphill fight in trying to find the kinds of things that would be advantageous for them to produce and market collectively. The fact that they are associated and recognised as such, including by the major global powers, however, means they can speak with a more powerful voice than they could if each was trying to make its way alone. This is certainly true in some of the world-wide forums where trade and commodity agreements are negotiated. It is too early to reach any firm conclusions, then, as to what benefits Asean will bring to its members in the economic realm.