

## FOREIGNPOLICYANALYSIS

## Malaysian Dilemma: The Enduring Cancer of Affirmative Action

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In March 2010, Prime Minister Najib Razak announced a New Economic Model (NEM) for Malaysia. Included in the NEM were pledges to revise and wind back many of the country's race-based affirmative action policies under the New Economic Policy (NEP). The economic, social and cultural policies of the NEP, which have been in place since 1971, favour the 65% of Malay or Bumiputra-Malaysians and discriminate against the 25% of Chinese-Malaysians and 10% of Indian-Malaysians.

The announcement of the NEM is enormously significant. Perhaps the best-performing of the so-called Newly Industrialised Countries of Asia in the 1980s and 1990s, Malaysia was long upheld as a model of a successful, rapidly developing, and multi-racial country that was worthy of emulation.<sup>1</sup> Its pro-Malay affirmative action and redistributive policies were widely seen as successful in creating a prosperous and harmonious multi-ethnic society, and in reducing poverty among the Bumiputra population—constituting the majority of the poorest Malaysians. But the NEM casts fresh and serious doubt on this positive assessment.

Economists have long argued that the country's affirmative action policies are inefficient and unfair, and the problems they have caused are difficult to repair. But it is the first time that a Malaysian prime minister is linking the country's enduring economic-structural problems with the affirmative action policies of three decades. It is also the first time a Malaysian leader has proposed the substantial revision and even winding back of these long-standing policies.

There is also a broader message. For so long the poster-child for such initiatives, Malaysia's current predicament issues a warning about the longer-term economic and social costs of adopting racially based affirmative action and redistributive policies for multi-ethnic communities.

**Part A** of this report looks at the rise of affirmative action policies in response to the tragic race riots in May 1969—still the defining event for many Malaysians—and the economic consequences and costs of these policies, how the NEP's burgeoning legacy of affirmative action is now firmly entrenched in all aspects of economic life in Malaysia, and why these policies are behind the serious 'structural factors' that threaten Malaysia's economic future.

**Part B** examines the moment of self-reckoning in modern Malaysia. Najib is proposing to revise and wind back these policies rather than abolish them altogether. Even so, it is a bold political gamble driven by the ruling United Malays National Organisation or UMNO-led Barisan National coalition's poor showing in the 2008 general elections, and a realistic appraisal of the link between long-standing affirmative action policies—especially the objective that Bumiputras own at least 30% of the corporate assets in the country—and Malaysian structural economic problems. However, UMNO's vulnerability is also a reason why it has become more

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(rather than less) difficult to dismantle many of the affirmative action policies that have been in place for almost 30 years. The prime minister faces considerable obstacles in the form of resistance from within his own party, the opposition parties, and significant and powerful segments of the Malaysian elite.

Indeed, although it is still too early to assess Najib's capacity to introduce genuine and far-reaching reform, current policy initiatives do not represent a significant roll-back or revision of existing affirmative action policies in any meaningful sense. There have also been few initiatives aimed at reducing the role of the state in the Malaysian economy—which is essential for cutting back rent-seeking opportunities by Malay elites in the name of affirmative action. Worryingly, when it comes to taking on the key pillars of the most wasteful and unequitable pro-Malay policies, there is already early but troubling evidence that Najib is stepping back from the bold declaration of a New Economic Model for the country. By Najib's own admission, without genuine and far-reaching reform of existing affirmative action policies, Malaysia is facing a bleak and precarious future.

As in any multi-racial independent country, the duty of this Government of ours must be to narrow the gaps of any differences and not to widen them ... [Chinese and Indian businessmen] must contribute their help to the Government and not seek new pastures by moving their businesses away from Malaysia. They should not desert a 'sinking ship' like rats, but must play their parts like true Malaysians.<sup>2</sup>

— *Abdul Rahman (First Prime Minister of Malaysia, 1957–69)*

The Malays are spiritually inclined, tolerant and easy-going. The non-Malays and especially the Chinese are materialistic, aggressive and have an appetite for work ... The economic dilemma of the Malays still exist [because] for every step forward that the Malays make in the economic field other races make ten.<sup>3</sup>

— *Mahathir Mohamad (Prime Minister of Malaysia, 1981–2003)*

## Introduction

In March 2010, Malaysian Prime Minister Najib Razak announced a New Economic Model (NEM), designed to propel Malaysia from a middle-income country (approximately US\$7,000 per capita) into a high-income country of US\$15,000 per capita by 2020. In pursuing 'pro-growth' policies, Najib pledged that the role of government will change from 'orchestrator to a facilitator' by promoting greater private-sector investment in the economy.<sup>4</sup> Significantly, as part of the shift towards a high growth economy, the prime minister also signalled the revision of Malaysia's controversial affirmative action policies favouring the indigenous Bumiputras or Sons of the Soil (commonly referred to as Malays).

The affirmative action policies have been in place since the New Economic Policy (NEP) was launched in 1971 by Abdul Razak, the second Prime Minister of Malaysia. Although the NEP was officially terminated in 1990, and replaced by Mahathir Mohamad's New Development Policy (NDP), the NDP continued the NEP's affirmative action legacy, and many of Malaysia's race-based policies and objectives still remain in place today. Although many 'big picture' visions for the country have been launched since 1971—most notably Mahathir's *Vision 2020*<sup>5</sup>—Najib is the first Malaysian prime minister to publicly stake his leadership on not just revising but also scaling back pro-Malay economic and social policies. This courageous gamble occurred after a disastrous result at the last general election in 2008 for the governing United Malays National Organisation or UMNO-led coalition—a result of government scandals, corruption, as well as the recent slowdown in Malaysia's economic growth and uncertain economic prospects for its future.

Najib is correct in identifying the long-standing affirmative action policies as a major factor inhibiting the Malaysian economy, particularly the vibrancy of and innovation in the domestic private sector. As **Part A** shows, the affirmative action policies of the NEP were an understandable, if controversial, response to the May 1969 race riots in Malaysia—still a defining event in Malaysian history. Despite some successes in achieving NEP objectives, they have proven costly to the country. It is impossible to understand the extent of Malaysia's problems (and the enormity of Najib's challenge) without looking back at the unfolding consequences of Malaysian affirmative action policies. These policies are also a major reason behind the persistent corruption and misallocation of capital in

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the Malaysian political-economy, the unsustainable burgeoning of the Malaysian budget deficit, and the steady stream of highly qualified and/or rich Malaysians of Chinese and Indian descent permanently leaving their homeland.

**Part B** points out that the poor political results at the last election, which are largely driving Najib's gamble, are also a reason why it has become more (rather than less) difficult to dismantle many of the affirmative action policies in place for almost 30 years. The prime minister faces significant obstacles in the form of resistance from within his own party, the opposition parties, and significant and powerful segments of the Malaysian elite. Indeed, when it comes to the long-standing interventionist policies to increase Bumiputra participation and ownership of assets in the economy, there is already early but troubling evidence that Najib is stepping back from the bold declaration of a New Economic Model for the country.

**Table 1: Prime Ministers of Malaysia since independence in 1957**

|                       |                 |
|-----------------------|-----------------|
| Abdul Rahman          | 1957–69         |
| Abdul Razak           | 1969–76         |
| Hussein Onn           | 1976–81         |
| Mahathir Mohamad      | 1981–2003       |
| Abdullah Ahmad Badawi | 2003–09         |
| Najib Razak           | 2009 to present |

## **PART A**

### **Malaysian race riots and the New Economic Policy**

On the 13 May 1969, Malay mobs brandishing swords and daggers streamed into the Chinese dominated areas of Kuala Lumpur and began burning, looting and even killing residents. Upon hearing the news, Chinese- and some Indian-Malaysians armed themselves with guns and retaliated against Malay kampongs (traditional Malay villages). Official figures indicated that 196 people were killed over several weeks of sporadic rioting; Western diplomatic sources believed the real figure was more than 600.<sup>6</sup> More than 750 cases of arson were recorded and over 200 vehicles burnt and destroyed. In Kuala Lumpur alone, an estimated 6,000 were made homeless—around 90% of them Chinese.<sup>7</sup>

The 1970 election and the subsequent rioting also took place within the context of a heated national and political debate about the role of indigenous Malays in the economy, culture and society—one that had been taking place since Malaya independence from the British in 1957 and the formation of the Malaysian Federation in 1963.<sup>8</sup> The May 1969 riots occurred just as Malaysia was emerging as a new country with more than half of its population in poverty and deeply divided along racial lines. Just two years earlier, the controversial *National Language Act 1967* had been passed, establishing Bahasa Malaysian (rather than English) as the national language.

In the lead up to the race riots, the 'ultra right-wing' Pan Malaysian Islamic Party (PAS) demanded more rights for Bumiputras, while the Chinese dominated Democratic Action Party (DAP) pushed the idea of a 'Malaysian Malaysia' and the dilution of special privileges for Bumiputras under the Constitution. In a country that was then made up of 4.3 million Malays, 3.4 million Chinese, and 1 million South Asians (mainly Indians), race—and dividing political and economic power

along racial lines—was building up as a controversial and potentially explosive issue. This goes some way in explaining why the 1969 race riots were not just a pivotal moment in the country's history but the primary justification and driving force behind the racial affirmation principles in the NEP implemented in 1971, just two years after the riots.

Given that the race riots occurred due to socio-economic racial divisions within the country, Malaysia's leaders could have responded by attempting to move the country away from ideologies and policies that emphasised and entrenched racial differences. Instead, after Prime Minister Abdul Rahman was overthrown in an internal party coup and replaced by Abdul Razak in 1970, UMNO leaders went the other way, preferring to pursue national stability through granting special status and privileges to placate Malays.

### ***The ideology of racial (dis)harmony***

The special place of Malays was a controversial and much debated issue from the moment of Malaya independence from the British in 1957 and the formation of the modern Malaysian Federation in 1963. But the race riots gave more impetus to a national political ideology that reaffirmed the Bumiputras as the privileged race in Malaysia. The country's longest serving prime minister, Mahathir Mohamad, was the central figure in the rise of affirmative action in the country. Although the debate about Bumiputra rights preceded Mahathir, much of the ideology behind this decisive turn in national ideology was encapsulated in *The Malay Dilemma*, which he wrote during his 'wilderness' years in politics. (The book acquired renewed relevance and influence after Mahathir became prime minister in 1981.)

Following the race riots in May 1969, Mahathir (who had been a Member of Parliament since 1964) wrote a widely circulated letter critical of then Prime Minister Abdul Rahman, who Mahathir believed had sided too heavily with the Chinese throughout his leadership. Mahathir was removed from the UMNO Supreme Council in July 1969 and his party membership revoked two months later. He then wrote the *The Malay Dilemma* and released it in 1970. Even though *The Malay Dilemma*, which eloquently encapsulated the principles behind the rise of 'Bumiputra exceptionalism' in Malaysian politics, was banned by then Prime Minister Abdul Razak (with the ban only lifted in 1981 when Mahathir became prime minister), the book was widely read and influenced Malaysian politics for many decades to come.

In particular, Mahathir argued that Malays were the 'rightful owners of Malaya,' and other races should only be citizens through 'conditional' Bumiputra consent.<sup>9</sup> Because 'the original people are the only people who can claim Malaya as their one and only country ... this confers on the Malays certain inalienable rights over the forms and obligations of citizenship which can be imposed on citizens of non-indigenous origin.'<sup>10</sup>

Although Mahathir was primarily talking about the imposition of Malay language, culture and religion throughout the country, he also argued elsewhere that it was the moral obligation of any 'Malaysian' government to ensure that the Bumiputras had 'a share in everything, in the good things of life as well as the responsibilities.'<sup>11</sup> Importantly, 'legal equality was meaningless in the face of social and economic ostracism practised by racial groups'; 'an enlightened government and society must insist on positive steps' to achieve social and economic equality; and 'the government and society must scrutinise not merely public action but also private action so as to ensure that racial equality prevails.'<sup>12</sup>

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### **Malaysia's 'New Economic Policy' and affirmative action**

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The political downfall of Abdul Rahman and the rise of Abdul Razak in 1969 signalled the ascendancy of the so-called Young Turks within UMNO. Young Turks such as Syed Nasir Ismail and Mahathir (who was welcomed back into UMNO in 1972 and appointed Minister of Education in 1974) supported state interventionist policies to correct the economic imbalance between Malays and non-Malays. Rahman had wanted to work on raising the living standards of Malays gradually, consistently warning throughout the 1960s about the dangers of redistributive policies that involved 'robbing Peter to pay Paul.'<sup>13</sup> Leading UMNO figures under Razak criticised Rahman's 'appeasement of the Chinese' and allowing Malaysian Chinese Association (MCA) leaders to hold cabinet positions in finance, industry and trade under the UMNO-led Alliance coalition. All this meant the end of Rahman's more laissez-faire and balanced racial policies, and the emergence of an era of state intervention to support pro-Bumiputra policies that continue to the present day.

When the NEP was announced in 1969, it was put forward as a new approach to address the racial inequality that had largely contributed to the race riots. After all, racial divisions were exacerbated by economic divisions along racial lines. In 1970, the mean household income of Malays was almost half that of Indians and almost a third that of the Chinese.<sup>14</sup> Malays, comprising around half the population, accounted for 74% of all poor households,<sup>15</sup> while 65% of all Malays lived in poverty compared to 26% of the Chinese.<sup>16</sup> The NEP therefore proposed to drastically improve 'national unity' by pursuing two objectives. The first was to 'eradicate poverty' regardless of race. The second was to 'restructure society' to eliminate the policy of indentifying race with economic success.

These objectives sounded plausible and even-handed in light of the racial violence. But, in practice, their interpretation and implementation gave rise to a number of affirmative action objectives and policies that exclusively favoured Malays.

Tellingly, the NEP's goal of 'poverty reduction' was predominantly focused on reducing 'Malay poverty' and not poverty per se, especially in rural areas where almost 60% of residents (mostly Malays) lived in poverty. Under the NEP, state-interventionist policies would be implemented to raise Malay income by expanding employment opportunities in the urban sector exclusively for Malays. This would be complemented by the *Outline Perspective Plan* in 1973 to 'restructure' the Malaysian economy such that the Malay share of corporate wealth would rise from 2.4% in 1970 to a minimum of 30% by 1990. In 1970, the Chinese controlled 34.4% of the corporate wealth in the country, with foreign entities (particularly British) owning 63.3%. Under the NEP, the Chinese were to own no more than 40% of the country's corporate wealth, while the foreign share would be reduced to 30% by 1990.

The successive five-year National Economic Plans from 1971 to the 1990s slowly entrenched state intervention in the economy and established affirmative action policies to help Malays. For example, the *Industrial Coordination Act 1975* required non-Malay manufacturing firms (with more than \$100,000 in shareholder equity and employing more than 25 people) to divest at least 30% of their equity to Malays. They were also required to ensure their workforce reflected the Malay proportion of the Malaysian population (about 50% at the time). Owners of new businesses in many industries needed to find a Malay partner for successful registration. Special categories of bank loans were created exclusively for Malay-owned businesses.

All banks were required to earmark at least 20% of all monies loaned to Malays; these loans were guaranteed by government. Generous government assistance was provided to Malay entrepreneurs, including preferential access to contracts, licenses, franchises, technical assistance, management training, and attractive premises on reduced rent. Currently, businesses with at least a quarter of Malay executives are entitled to a 10% corporate tax reduction.

Affirmative action policies went beyond the corporate sector to the civil service and education sectors. Such policies were justified under Article 153 of the Malaysian Constitution, which grants the Yang di-Pertuan Agong (King of Malaysia) responsibility for 'safeguarding the special rights of Malays' in these areas (despite being subject to Article 136, which protects the rights of Malaysians in their employment irrespective of race). Article 153, which had been drafted at the time of Malaya independence in 1957, was to be reviewed in 1971 but was indefinitely deferred because of the race riots in 1969.

Of note was the New Educational Policy implemented in 1971 to make Malay the main language of instruction in all state-run educational institutions from primary to tertiary levels. A National Cultural Policy (NCP) was instituted to impart Islamic values and Malay culture to all students. Although the NCP was to include 'suitable elements from other cultures,' it ignored all non-Malay cultural traditions.<sup>17</sup> From 1968 to 2000, approximately 50 Chinese schools and 150 Indian schools were closed, while 2,637 Malay schools were opened during the same period.<sup>18</sup>

At the tertiary level, the reservation of quotas for non-Malays in universities, which had begun in the 1980s, forced thousands of non-Malays to enrol in non-government funded universities, which are now over 90% dominated by non-Malays. A 1985 study surveyed graduates in five of the largest public universities in the country and found that from 1982–83, two-thirds of students were on some form of government funded scholarships. Significantly, four out of every five scholarships were granted to Malay students. Chinese students received 14.4%, while Indians received 4.3%. The study also found that the monetary value of Malay scholarships was significantly higher than non-Malay ones.<sup>19</sup> These policies remain unchanged.

This was one part of a broader plan to increase the number and proportion of Malays in the professions, especially in lucrative areas such as medicine, law, accountancy and engineering. In 1970, Malays constituted only 5% of all professions in the country, compared to the 61% Chinese and 23.3% Indian.<sup>20</sup> Yet, the education sector itself reflects the enduring and rampant bias of the policies. In 1970, non-Malays formed 60% of the total enrolment in public universities. By 1980, this had dropped to 27%, while Malays constituted 73%.<sup>21</sup> At the time of writing this report, there were no non-Malay vice-chancellors in Malaysian public universities. In one of the country's leading public universities, the University of Technology, an estimated 90% of students are Malays.<sup>22</sup> The state-led 'economic and social engineering' has resulted in the largest public sector budget in Southeast Asia and a huge civil service of some 1.2 million employees. The United Nations estimates that the Malaysian civil service is 4.3% of the population compared to 1.79%, 1.81% and 2.06% in Indonesia, the Philippines and Thailand respectively.<sup>23</sup> Between 1970 and 1980, 260,000 additional Malay workers were employed by the civil services, expanding the public sector from 21% to 29% of the economy. In fact, 47.3% of all additional Malay employment was generated directly by government intervention in the economy.<sup>24</sup> The Malay share of new recruits rose from 68% in 1970–78 to 93% in 1990,<sup>25</sup> and has remained at this level since. Bumiputras now comprise around 90% of the public service. Note that from 1970 onwards, the public sector undertook three major revisions of salaries, meaning that jobs in the civil services are often better paid than equivalent positions in the private sector.

**The Malaysian civil service is 4.3% of the population compared to 1.79%, 1.81% and 2.06% in Indonesia, the Philippines and Thailand respectively.**

**The probability of being Malay and in poverty fell from 56% in 1970 to 16% in 1987. Poverty among rural Malays fell from 60% in 1970 to 38% in 1980.**

**The fact that 'race relations' is still a politically sensitive and government-censored debate within Malaysia shows how Malaysian society is far from harmonious.**

## The apparent success story of the NEP

Proponents of the NEP's affirmative action can point to some success from the 1970s onwards. Notably, despite widespread non-Malay resentment of many existing policies, Malaysia has not experienced the trauma of race riots like the ones in 1969.

In terms of achieving the affirmative action objectives that were laid out in 1971, proponents can also point to some apparent successes, although the consistency and credibility of official data dealing with racial categories has been questioned by many experts.<sup>26</sup> Nevertheless, according to official figures, the annual household income of Malays grew from RM\$276 in 1970 to RM\$2,376 in 2002. During the same period, the disparity ratio in household incomes between the Chinese and Malay citizens reduced from 2.29 to 1.8. More broadly, absolute levels of poverty declined from 49.3% in 1970 to 16.5% in 1990 to 5.1% in 2002. Statistics on falling poverty levels in Malay-dominated states such as Kelantan and Terengganu also suggest that poverty reduction in the Malay population roughly matched the overall decline in Malaysian poverty levels since 1971. As one study concluded, the probability of being Malay and in poverty fell from 56% in 1970 to 16% in 1987.<sup>27</sup> Poverty among rural Malays fell from 60% in 1970 to 38% in 1980.<sup>28</sup>

There have also been significant advances for Bumiputras in terms of wealth distribution—the NEP's economic 'restructuring' objective.

**Table 2: Asset distribution and Malaysian professionals by ethnicity**

|                          | Ownership of shares in public limited liability companies by ethnicity |       |       | Professionals by ethnicity |       |       |
|--------------------------|--|-------|-------|----------------------------|-------|-------|
|                          | 1970   | 1980  | 2002  | 1970                       | 1980  | 2002  |
| <b>Malays</b>            | 2.4%   | 12.5% | 18.7% | 4.9%                       | 14.9% | 37.2% |
| <b>Chinese</b>           | 22.8%  | 34%   | 40.9% | 61%                        |       | 50.1% |
| <b>Foreign residents</b> | 62.1%  | 53.3% | 28.9% | 23.3%                      |       | 11.2% |

**Sources:** *Second Malaysia Plan, 1970–74; Fourth Malaysia Plan, 1981–85; Ninth Malaysia Plan, 2006–10.*

These figures are widely disputed on technical and credibility grounds. For example, the official figures use the 'par' or 'issue' value of the shares. Using the 'market' value, one study showed that Bumiputra ownership was as high as 34.5% in 1989,<sup>29</sup> above the stated goal of 30% ownership that was conceived in 1971.

## The worsening economic cancer of affirmative action

The NEP was an understandable, if controversial, response to the race riots. For the 'ultra Malays' such as Mahathir, these statistics vindicated the affirmative action policies. After all, these policies had seemingly achieved what the NEP had set out to do. Notwithstanding counterarguments that many of the advancements for Malays (for example, in poverty reduction and increased household incomes) were as much the result of robust economic growth as affirmative action policies,<sup>30</sup> there is no doubt that Malaysia's Bumiputras are in a much better position (in absolute and relative terms) than they were in May 1969.



Although there has been no recurrence of the racial violence of 1969, the resentment among Chinese- and Indian-Malaysians having to endure affirmative action policies remains widespread and profound. The number of skilled non-Malays leaving the country is one indication of resentful non-Malays voting with their feet, a problem that has become a significant ‘brain drain’ problem for the nation. More than 250,000 people left Malaysia between March 2008 and August 2009 (not including students studying abroad) compared with 140,000 leaving in 2007.<sup>31</sup> The government refuses to give an ethnic breakdown of these citizens, although anecdotal observations reveal that the vast majority of these itinerant Malaysians are of Chinese or Indian ethnicity. Some 700,000 Malaysian citizens remain overseas. The social and cultural consequences of three decades of affirmative action are worthy topics in themselves. The fact that ‘race relations’ remains a politically sensitive and largely government-censored debate within Malaysia speaks volumes about the fact that Malaysian society is far from harmonious. As the Wikileaks cables reveal, there remains ‘the distinct possibility of racial conflict’ in Malaysia, according to Singapore’s highly respected Ambassador-at-Large Tommy Koh<sup>32</sup>—reiterating a common if not openly expressed view in the region. These matters are not discussed further here because this report is restricted to the economic consequences of Malaysia’s affirmative action policies—consequences that are behind Prime Minister Najib’s pledge to roll back many of these policies.

### ***The costly rise of state-owned giants***

One of the main differences between the affirmative action policies of the NEP and the softer pro-Malay policies before 1971 was the NEP’s objective to ensure that Malays control at least 30% of corporate assets within two decades. In doing so, government played an active role in acquiring assets for Malays.

This was done in a number of ways. One was using government leverage and resources to acquire large businesses from foreign owners, which the government subsequently held in trust for Malays. Once these firms were acquired, Malays were installed in management and employed by these firms en masse. Another was the practice of Malaysian government-owned entities entering into joint ventures with foreign firms. Even though these joint ventures were often managed by foreign executives, the newly created venture was obligated to place up to a quarter of its shares with the Malaysian government to be sold off to Malays. A third was the creation of huge state-owned firms such as energy giant Petronas.

The use of state-owned entities to increase Malay ownership meant the rise of a huge state-owned sector, which expanded from 21% of the economy in 1970 to 29% in 1980. Current investment by the state-owned sector in the Malaysian economy exceeds that of the private sector.

Using state-owned entities to enhance Malay ownership and involvement in the economy has come at great cost to the economy, particularly in crowding out private sector opportunity, investment and more efficient employment. For example, in a study that examined 1,133 state-owned companies springing up as a result of NEP policies, 286 were either closed, inoperative or under receivership.<sup>33</sup> In 1987, the government’s Central Information Collection Unit revealed that almost half of the 1,148 state enterprises were losing money while only 466 were profitable.<sup>34</sup> Yet, allocation of funds for implementing the NEP or ‘restructuring’ (which predominantly refers to the state interventionist approach to increasing Malay economic ownership and participation) continued to rise.

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**The move towards privatisation of state assets under Mahathir's leadership did more to transfer large sums of national wealth into the hands of a small number of well-connected Malays than to drastically improve productivity and efficiency.**

**Table 3: Proportion of NEP funds allocated for 'economic restructuring'**

|                      |           |     |
|----------------------|-----------|-----|
| Second Malaysia Plan | 1971–1975 | 22% |
| Third Malaysia Plan  | 1976–1980 | 37% |
| Fourth Malaysia Plan | 1981–1985 | 47% |
| Fifth Malaysia Plan  | 1986–1990 | 57% |

**Sources:** *Second Malaysia Plan, 1971–75; Third Malaysia Plan, 1976–80; Fourth Malaysia Plan, 1981–85; Fifth Malaysia Plan, 1986–90.*

Even when the NEP officially ended in 1991, Mahathir's National Development Policy (NDP) retained key aspects of the NEP's 'restructuring' policies. Notably, the *Second Outline Perspective Plan for 1991–2000* and *Third Outline Perspective Plan for 2001–2010* held firm on the minimum 30% target for Malay ownership of corporate assets. Thus, even though Mahathir put more emphasis on rapid growth, innovation, infrastructure building, and industrialisation than his predecessors, the policy of furthering Bumiputra control over a greater proportion of corporate assets (and granting Malays special or exclusive access to opportunities in important and lucrative corporate assets in sectors such as mining and resources, infrastructure, banking and finance, retail and distribution, manufacturing, and property) continued. To be sure, from the late 1980s onwards, Mahathir placed special emphasis on courting foreign firms in recasting Malaysia as a high value manufacturer of exports such as electrical products and computer chips. As far as UMNO was concerned, this had the happy coincidence of reducing Malay reliance on domestic Chinese capital.<sup>35</sup>

Significantly, the government stopped releasing comprehensive data and methodology used for calculating levels of Bumiputra ownership in 2001, with the official figure of 20% in 2000 rising to 22% in 2008.<sup>36</sup> This could suggest that current Bumiputra ownership is closer to, or exceeds, the 30% target if standard methodologies of calculation are used. The Institute of Strategic Analysis and Policy Research, which serves as the Malaysian Chinese Association's think tank, released a report in 1989 indicating that the 30% target for Bumiputras had actually been reached.<sup>37</sup> Whatever the true figure, the 30% target remains the primary justification for the continuation of 'restructuring' policies.

### ***The emergence of a Bumiputra 'rent-seeking' elite***

The NEP was designed to distribute more wealth to Malays. One of the ways the government did this initially was by transferring economic wealth into 'trusts' that were created for the benefit of Malays. In the late 1970s and early 1980s, around 70% of corporate assets designated for Malays were held in trust agencies, with the remainder 30% held by Bumiputra individuals. However, from the 1980s onwards, much more emphasis was given to personal wealth acquisition by Malays. By 1990, Bumiputra individuals owned 73% of Malay corporate assets, which rose to 91.2% in 2002, with the remainder held in Bumiputra trusts.

This rapid shift from building up the assets of Bumiputra trusts to enriching individual Malays created an elite and a relatively small middle- and upper-class of privileged Malays. Given that the rapid transfer of enormous wealth to private Bumiputra individuals was dependent on dispensation by governmental agencies, private wealth accumulation by Malays became dependent on the strength of one's political and business connections rather than on merit or business knowhow. Likewise, well-connected Malays in the bureaucracies and company directors controlled the issuing of lucrative government contracts as well as licenses and permits.

For example, there is a close connection between those Malays who are given the rights to purchase shares (and other assets of government-controlled firms) and the well-connected. The *Amanah Saham Nasional* (ASN) scheme provides a telling illustration. The scheme was set up as a vehicle to transfer much sought after assets held in Bumiputra trusts to Malay individuals and offered tax-free returns that were much higher than fixed deposit and bond rates. Although more than two million Malays owned shares in the scheme, about 26,000 individual Malays owned 75% of all ASN shares. The move towards privatisation of state assets, which accelerated under Mahathir's leadership, did more to transfer large sums of national wealth into the hands of a small number of well-connected Malays than it did to drastically improve productivity and efficiency.

In addition to the emergence of a small class of wealthy Malay 'insiders,' affirmative action 'restructuring' policies have also led to the emergence of a Malay managerial elite overseeing state-controlled businesses and other commercial agencies. The problem is that the path leading to executive appointment in these firms is based largely on connections to politicians, senior bureaucrats or UMNO party officials, current state-owned management staff, or other government entities. Because promotion is based almost as much on privileged connections as it is on entrepreneurial, management or bottom-line record, a large proportion of the Malay managerial elite have not sufficiently developed the entrepreneurial and other corporate skills required by an economy looking to shift from a 'middle-income-per-capita' to 'high-income-per-capita' status. Indeed, one study of the privatisation of firms by the government shows how government connections were crucial in determining the Malay candidates and Bumiputra companies chosen to take over these firms. The best rewarded 'entrepreneurs' and companies were those most closely associated with UMNO.<sup>38</sup>

The prevalence of so-called 'Ali Baba' arrangements<sup>39</sup> between a Malay rentier seeking an entrepreneurial, 'can-do' Chinese business partner to thrive in 'Bumiputra friendly' sectors of the economy became common practice. Established and well-connected Chinese entrepreneurs themselves exploited the large pool of capital available to Bumiputra partners and Malay-only opportunities. Using backroom partnerships with Malay partners, a new breed of Chinese entrepreneurs emerged on the back of NEP affirmative action policies. This is another proof of much of the country's wealth resting in the hands of economic elites who owe their rise to government largesse rather than entrepreneurial risk-taking or the building and running of profitable businesses.

In summing up the enduring legacy of the affirmative action policies, two commentators observe that 'the patronage system under Mahathir (who became prime minister in 1981) grew substantially, and [now] includes layers of intermediaries.'<sup>40</sup> Another commentator, speaking about the enduring legacy of affirmative action, puts it this way:

... it revolved around the role of the Prime Minister who dispensed favours, patronage, and occasional policy concessions in a web of bilateral arrangements and agreements.<sup>41</sup>

In other words, this political-economy of 'elite bargaining' enhanced executive powers and promoted a sharp growth in patronage.

### ***The cost of affirmative action in tertiary education***

Offering preferential treatment to Malay students in terms of scholarships and enrolments was designed to produce a generation of educated and skilled Bumiputras as part of the NEP's 'poverty alleviation' and 'restructuring' objectives. However, this policy did not result in the intended consequences because of two major problems.

**"The quota system may encourage ... lowering standards [in higher education] and therefore erode the comparative capability of the nation and slow down the growth in technological capability."**

**Except for a brief period from 1993–98, the Malaysian budget has never been in surplus since the introduction of NEP in 1971.**

**Quality and outcomes.** Over the last 40 years, scholarships and enrolments have been awarded based primarily on race rather than merit. For this to happen, entry point qualifications and assessment standards have had to be lowered, according to numerous studies<sup>42</sup> as well as the author’s direct knowledge of Malaysian universities. Malaysian students on the whole score much lower marks than their Chinese and Indian counterparts. As one anonymous Malaysian government official in the tertiary sector put it:

I have to be frank about it. The quota system that we have may encourage ... lowering standards [in higher education] and therefore erode the comparative capability of the nation and slow down the growth in technological capability.<sup>43</sup>

Moreover, and similar to the rise of well-connected Malay economic elite benefitting disproportionately from the affirmative action policies, a study done in 1985 showed that almost one quarter of the top 5% of Malays (by wealth) received scholarships to universities.<sup>44</sup>

**Cost.** The combined amounts allocated for Malay-dominated tertiary institutions and ‘Other Educational Support Programs’ (mainly Malay scholarships) having been consistently rising (see table below).

**Table 4: Public funds allocated for Malay dominated public universities and Bumiputra scholarships and grants**

|                             |                  |                          |
|-----------------------------|------------------|--------------------------|
| <b>Fifth Malaysia Plan</b>  | <b>1986–1990</b> | <b>RM\$2.97 billion</b>  |
| <b>Sixth Malaysia Plan</b>  | <b>1990–1995</b> | <b>RM\$4.23 billion</b>  |
| <b>Eighth Malaysia Plan</b> | <b>2001–2005</b> | <b>RM\$22.21 billion</b> |
| <b>Ninth Malaysia Plan</b>  | <b>2006–2010</b> | <b>RM\$27.34 billion</b> |

**Sources:** *Fifth Malaysia Plan*, 1986–90; *Sixth Malaysia Plan*, 1990–95; *Eighth Malaysia Plan*, 2001–05; *Ninth Malaysia Plan*, 2006–10.

The proportion of these items in the entire education budget rose from 49% in the *Fifth Malaysia Plan*, 1986–1990 to 60% in the *Ninth Malaysia Plan*, 2006–2010. By 2008, public expenditure on education (which includes both primary and tertiary) had reached around 25% of GDP, by far the highest in Southeast Asia.<sup>45</sup>

### **Budget deficits**

More generally, the rapid increase in the state’s economic role in pursuing race-based ‘poverty reduction’ and ‘restructuring’ objectives has led to increasing government budget deficits. Except for a brief period from 1993–98, the Malaysian budget has never been in surplus since the introduction of NEP in 1971.

- From a deficit of less than RM\$1 billion before 1973, the fiscal deficit ballooned to more than RM\$10 billion in 1982, RM\$20 billion in 2000, and more than RM\$35 billion in 2008—with total government debt amounting to around 41.5% of GDP.<sup>46</sup>
- Measured as a percentage of GDP, the fiscal deficit worsened from the budget surplus of 4% in 1998 and 0.16% in 1999 to become a deficit of 3.2% in 2000, 3% in 2001, 6% in 2003, and 4% in 2004.
- Government budget deficit was 7.4% of GDP in 2008, 5.6% in 2009, and will be around 5.6% in 2010.<sup>47</sup>

Although these figures are not necessarily dire by global standards, it is important to note that at least 40% of the government’s income comes from

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revenues and dividends transferred by the state-owned oil giant Petronas, which manages all of the country's petroleum resources.<sup>48</sup> There are two problems here. First, the company's current oil reserves are due to run out in around 15 years.<sup>49</sup> (This explains why Petronas has bought heavily into oil and gas fields in other parts of Asia.) Second, Petronas is forced to pay around 60% to 75% of its profits in dividends each year—74% in 2010—to help sustain the government's spending programs.<sup>50</sup>

The vast network of individual and business tax concessions (that overwhelmingly benefits Malays) is also demonstrated by the remarkably narrow federal tax base. Around 20% of Malaysians pay personal income tax,<sup>51</sup> while conversations with several state and federal politicians as well as finance bureaucrats suggest only around 15% of businesses pay corporate tax. Although statistics looking at taxpayers by ethnicity are not publicly released, the author's conversations with government officials indicate that around 80% of tax revenues come from Chinese individuals and firms.

## **PART B**

### **A political tsunami and the rise of the New Economic Model**

In the March 2008 general elections, the UMNO-led Barisan Nasional (BN) coalition suffered its worst-ever result. Having made significant gains in the 2004 elections, BN lost its two-thirds majority in the Malaysian Parliament since independence, meaning that its capacity to pass constitutional amendments was no longer guaranteed. Gaining only 50.6% of the popular vote (compared to 63% in 2004), BN lost control of four important states in Kedah, Penang, Perak and Selangor. The Pakatan Rakyat (People's Alliance) opposition alliance—consisting of the Democratic Action Party (DAP), Parti Keadilan Rakyat (PKR), and Parti Islam Malaysia (PAS)—gained 47.2% of the popular vote.

While Chinese (25% of the population) and Indian voters (8% of the population) deserted BN in droves, an unexpected number of Malay voters also abandoned the government. A combination of non-economic factors played an important role in the result. For example, 30,000 Indians demonstrated in Kuala Lumpur in late 2007, followed by a demonstration of another 20,000 Indians a few weeks later,<sup>52</sup> complaining about issues such as the legacy of the government mistreating the Indian minority community in Malaysia. Outrage over political interference in judicial appointments and the personal misbehaviour of a number of BN politicians also angered the minorities. But many 'middle Malaysians' abandoned BN to express their anger over cronyism and corruption in the political-economy.

Although GDP growth has averaged 4.7% each year since 2000 (after averaging 7.2% in the 1990s), much of this has been on the back of unsustainable government deficit spending in order to artificially boost the economy. (The budget deficit in 2009 was 7% of GDP.<sup>53</sup>) Given that much of the spending is politically motivated and directed toward selective sectors and groups within the country, the vast majority of Malaysians do not benefit from this growth. Since the 1997 Asian Financial Crisis, when the country's economic weaknesses were exposed, structural problems such as declining private investment, and declining total factor productivity and competitiveness in sectors such as manufacturing and services, have plagued the 'real' economy.<sup>54</sup> Net investment inflows have lagged behind that of other recently industrialised Asian economies, and fell 81% in 2009 from a year earlier to US\$1.4 billion.<sup>55</sup> Declining domestic profits have led to net capital investment outflows since 2007.<sup>56</sup>

Following BN's electoral disaster, Najib replaced Abdullah Ahmad Badawi as Prime Minister in April 2009. In a major report outlining his New Economic Model (NEM),<sup>57</sup> Najib identified a number of serious structural problems in the Malaysian economy.

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**Malaysia's 'export orientated model' hatched during the Mahathir era is in decline: Malaysia has not recovered to pre-Asian Financial Crisis levels in any of the key economic indicators.**

**For the first time, a national government is blaming Malaysia's structural problems on the 'unintended consequences' of affirmative action policies.**

One was declining private investment, which has fallen from a peak of around 32% of GDP in 1996 to the current low of 10%.<sup>58</sup> Others include a cumbersome and corrupt bureaucracy, a reliance on low value-added industries that perpetuated the reliance on low-skilled jobs offering low wages, the lack of innovation and creativity in the economy, and insufficient numbers of skilled workers in the economy. According to the report, Malaysia is stuck in a 'middle-income trap' and cannot emerge out of it without undertaking significant reform.

It is widely accepted that Malaysia's 'export orientated model' hatched during the Mahathir era is in decline: Malaysia has not recovered to pre-Asian Financial Crisis levels in any of the key economic indicators, while export growth from 2000–06 is at its lowest levels since the 1960s.<sup>59</sup> But it is significant that Najib's reform program is not just economic but social and political. Although his statement that the government's 'first priority must be to eradicate poverty, irrespective of race'<sup>60</sup> mirrors those made by the framers of the NEP, Najib stands out for explicitly linking successful reform to a 'change in the national mindset' and comprehensive 'review' of the long-standing affirmative action policies.

Significantly, Najib is the only Malaysian leader to argue that Malaysia's structural problems (summarised above) have been largely caused by the failures in the implementation of the country's affirmative action policies. For Najib, 'Policies which served a purpose in a previous era' are now 'impediments to success, distorting the market and putting [Malaysia] at a competitive disadvantage.' The country's economic and education system needs to be 'market friendly' and 'merit-based.' Although Najib is not proposing the wholesale abolition of these policies, his reforms are intended to reflect a government that will no longer tolerate practices that support 'the behaviour of rent-seeking and patronage'<sup>61</sup> in the name of affirmative action. In doing so, Najib is the first Malaysian prime minister to question the wisdom of UMNO's 30-year-old strategy of targeting Malay elites to stay in power. He is also pledging to reform and dilute the system of Malay patronage and extend affirmative action to include poorer and disadvantaged Malaysians of all ethnicities. This is an unprecedented gamble for a leader of a party that has been in power from the time of Federation, an organisation that often comes close to conflating the national government with the party itself. (Although Najib's predecessor, Abdullah Ahmad Badawi, did speak against 'rent-seeking' in the Malaysian system.<sup>62</sup>) But the significance of the NEM is that for the first time, a national government is blaming Malaysia's structural problems on many of the 'unintended consequences' of affirmative action policies.

To be sure, such a gamble makes sense. An opinion poll conducted by a respected and independent think tank, the Merdeka Centre for Opinion Research, in 2008 found that 71% of Malaysians—including 65% of Malays—believed that affirmative action policy needed revision.<sup>63</sup> Despite the absence of large-scale violence, this is not surprising since there is much evidence to suggest that three decades of race-based policies have divided rather than united the country. For example, a telephone survey of 1,200 Malaysians by the Merdeka Centre indicated that more than 50% blamed politicians for racial problems, while more than 40% did not consider themselves 'Malaysians first.' Around 70% indicated they would help their own ethnic groups first. The findings included generalisations such as Malays being seen as 'lazy,' Chinese as 'greedy,' and Indians as 'untrustworthy.'<sup>64</sup>

The NEM has the potential to better unite the country and win back disaffected Chinese and Indian voters to the BN coalition. As the party's leader, Najib's primary purpose is to restore UMNO's dominance in Malaysian politics. The decision to reform aspects of affirmative action policy and link it to the party's vision of revitalising the Malaysian economy is potentially a clever strategic shift for UMNO.

Finally, it is worth noting that there is also somewhat of an irony that Najib should be the first leader looking to wind back affirmative action policies since it

was his father (Prime Minister Abdul Razak) who instituted the affirmative action policies in the first place.

### Formidable obstacles

It is still too early to assess the capacity of the Malaysian government to introduce genuine reform. So far, small and piecemeal reforms include allowing non-Malay participation in 27 economic subsectors.<sup>65</sup> There was also the relaxing of a requirement for foreigners to find a Malay partner when investing in newly opened service sectors such as health, tourism, and business and technology services. However, as several commentators note, these early reforms do not include much more important and lucrative areas in which there is already extensive state and Malay involvement (or expertise): real estate, finance, mining and resources, travel, utilities, wholesale and retail.<sup>66</sup> Such piecemeal reforms are also designed to attract foreign capital into selective, non-politically sensitive sectors of the Malaysian economy. They do not yet represent the significant roll-back or reform of existing affirmative action policies in any meaningful sense. There was also the relaxation of limits on foreign capitalisation for investment banks, Islamic banks, and insurance companies—raising the ceiling from 49% to 70%. But this is really more of an ad hoc policy to address Malaysia's increasing reliance on foreign capital in domestic financial institutions.

In particular, Najib has introduced few policies that will actually reduce the role of the state in the Malaysian economy in any significant way. By his own admission, corruption largely stems from the resources available to the party and bureaucracy to dispense largesse and other favourable treatment to well-connected individuals. Reducing the role of the state and its control over resources is therefore essential for reducing the 'rent-seeking' and 'political patronage' (particularly of Malay elites) that his NEM promises to do. A December 2010 report released by the National Economic Advisory Council (NEAC), which makes official recommendations on implementing the NEM, is largely silent on the issue of affirmative action. Although Najib has resisted pro-Malay groups that are calling for a mandatory increase in the long-standing 30% target for Bumiputra ownership of corporate assets, he has also failed to honour his earlier pledges to abolish the 30% target. In June 2010, Najib confirmed that the long-standing 'restructuring' target will remain.<sup>67</sup>

Meanwhile, comprehensive and reliable official data on actual ownership along racial lines is still a closely guarded secret, meaning that the 30% target remains a seemingly never-ending justification for pro-Malay 'restructuring.' The latest government pledge to 'revise affirmative action policies' (at the time of writing this paper) was not accompanied by any further details. Notably, the *Tenth Malaysia Plan, 2011–15* remains largely focused on Bumiputra advancement in terms of equity ownership, property ownership, and Bumiputra entrepreneurship, while there are few significant initiatives aimed at reducing the role of the state in the economy.<sup>68</sup>

The fact that the government has been slow to implement meaningful policies to revise and roll back affirmative action in the economy is testament to the significant obstacles confronting Najib's '1Malaysia' framework of national economic unity and 'racial blindness.'

Importantly, because the UMNO-led BN coalition has relied on the 'political and social contract' between UMNO and Malay elites to remain in power since the implementation of the NEP in 1971, these Malay political, bureaucratic, business and social elites stand to lose the most from any genuine revision of long-standing affirmative action policies. Najib reversed his earlier plan to roll back the 30% Bumiputra target for corporate ownership under pressure from the BN coalition's Supreme Council,<sup>69</sup> confirming that members of his own party and cabinet are

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not prepared to risk a four-decades-old strategy that has kept UMNO in power. Significantly, the reports issued by the supposedly 'independent' NEAC, which exists to advise the government on options for NEM implementation, has to be ratified by the cabinet before release. It is reported that the cabinet crossed out aspects of the NEAC's December 2010 report that dealt with sensitive affirmative action revisions.<sup>70</sup> There is further confirmation that senior UMNO figures are far from unanimous in their support of Najib's gamble.

The role of Malaysia's 1.2 million civil servants is also critical. Civil servants have been the major beneficiaries of the NEP's state-led approach to affirmative action 'restructuring.' The Bumiputra-dominated civil service (of whom an estimated 90% are Malay)<sup>71</sup> are the strongest supporters of the existing policies, and form a massive voting bloc for UMNO. In the current climate of political vulnerability, UMNO cannot afford to alienate this constituency. Najib is also relying on these civil servants to overcome the deeply entrenched 'pro-Malay' culture in implementing current and future NEM policies. For example, 95% of government contracts are given to Malays. Even if tenders for lucrative government contracts were opened to non-Bumiputra companies in many sectors, the entrenched cultural bias in the civil service means Bumiputra firms will continue to be awarded contracts.

Finally, there are considerable political uncertainties for Najib to negotiate. In 2008, the Pakatan Rakyat opposition alliance (consisting of the DAP, PKR and PAS) exploited public sentiment that was critical of corruption and patronage in the Malaysian political-economy. Led by Anwar Ibrahim, who was publicly critical of the NEP's affirmative action policies, the opposition managed to make record gains in the March 2008 elections.

However, it is a mistake to think that opposition parties are unified in their rejection of pro-Malay policies and that the existence of a formidable opposition will necessarily strengthen UMNO's determination to implement the NEM. For example, the pro-Islamic PAS have misgivings about proposed policies such as the adoption of a more 'free-market' approach to resource and capital allocation, and the removal of a number of subsidies that mainly benefit Malays. (Such subsidies amounted to RM\$70 billion in 2010, which is 34% of the government's budget and equal to 4.7% of GDP.<sup>72</sup>) These subsidies are applied not only to essential items such as food and fuel (which benefit everyone) but also cover discounts of between 10% and 15% for Malay homebuyers.

It is also a mistake to assume that Malay voters who abandoned UMNO in droves in 2008 will support the dilution of pro-Malay affirmative action policies. The widespread, popular complaint against entrenched corruption and cronyism is arguably more about the existence of a minority of well-connected Malays who benefit from these policies than the policies themselves. Therefore, there is little substantial evidence that the majority of the almost 18 million ethnic Malays favour the drastic winding back of affirmative action. The enormously difficult task of convincing Malay voters that affirmative action policies ought to be wound back is made more important by the fact that the Malay population could rise from 65% to around 75% of the total population by 2020 (due to higher birth rates among the Malay population on the one hand and Chinese and Indian emigration on the other).

Probably more significant is the backlash among UMNO politicians and members against revising affirmative action policies. One such manifestation of internecine discontent is the rise of Perkasa, which claims to have more than 300,000 members,<sup>73</sup> at least 60% of whom are UMNO members.<sup>74</sup> Perkasa has won the support of prominent figures such as Mahathir, who frequently speaks at its rallies. Given UMNO's political vulnerability, it is less likely to risk exacerbating internal divisions by winding down key affirmative action policies.



## Conclusion

The economic debate about the costs of the NEP's affirmative action policies ended a long time ago. For instance, a World Bank report states, 'The main upside risk to the long-term outlook is [whether] the reform program under the New Economic Model will be comprehensively and expeditiously implemented ... the potential stalling reform momentum could drive down growth prospects and lead to rising government debt relative to GDP.'<sup>75</sup> The consensus is that the NEP was an understandable policy response to past traumas—but it is also a millstone around the neck of the struggling Malaysian economy and the cancer behind the country's growing structural problems. By explicitly linking the NEP's affirmative action policies to fundamental Malaysian structural weaknesses, Najib has at least ensured that a genuine *political debate* is finally occurring.

In the speech that formally launched the NEM, Najib acknowledged, 'In the short term there will be entrenched opposition ... But for the long-term strength of our nation, we cannot afford to duck these issues any longer.'<sup>76</sup> In a subsequent interview with the *Wall Street Journal*, he conceded that 'the pace of reforms will depend on the people's buy-in to the changes.'<sup>77</sup>

Najib is correct on all these counts. But UMNO has been in power longer than any other governing political party in the world.<sup>78</sup> Given the vast and deep network of rent-seeking and patronage that has built up over three decades—one long supported and reinforced by the state's firm control over media, educational and bureaucratic organisations in addition to enormous economic resources—the support for the status quo is vast, deep and long-standing. Getting popular 'buy-in' will be difficult. And with UMNO still vulnerable, Najib will have a difficult task convincing his colleagues to 'risk all' for the sake of Malaysia's long-term future.

## Endnotes

- 1 For example, see Allison Murphy, 'Affirmative Action in a Deeply Divided Society: Lessons for South Africa from Malaysia's Successful Redistribution Policies,' paper presented at the annual meeting of the American Political Science Association (Washington DC: 25 May 2009).
- 2 Abdul Rahman, *Viewpoints* (Kuala Lumpur: Heinemann Educational Books, 1978), 85.
- 3 Mahathir Mohamad, *The Malay Dilemma* (Singapore: Times Books International, 1970), 97, 47.
- 4 Liz Gooch, 'Malaysia Outlines New Growth Strategy,' *The New York Times* (30 March 2010).
- 5 See Mahathir Mohamad, *Vision 2020: The Way Forward*.
- 6 See 'Race War in Malaysia,' *Time* magazine (23 May 1969).
- 7 See In-Won Hwang, *Personalized Politics: The Malaysian State under Mahathir* (Singapore: Institute of Southeast Asian Studies, 2003), 78.
- 8 Indeed, much of the reason behind the earlier disagreements between Malaysia and Singapore (which was part of the Federation in 1963) was over Singapore's disagreement with Kuala Lumpur's perceived 'pro-Malay' stance. Singapore had its own race riot between Chinese and Malay residents in July 1964 in which 23 people were killed. Fearing that a Chinese-dominated and more prosperous Singapore would eventually overtake other Malaysian states to become the dominant one, Malaysia expelled Singapore from the Federation.
- 9 *The Malay Dilemma*, as above, 126.
- 10 As above, 133.
- 11 As above, 66.
- 12 As above, 67.
- 13 Abdul Rahman, *Looking Back* (Kuala Lumpur: Pustaka Antara, 1977), 243.

**Given the vast and deep network of rent-seeking and patronage that has built up over three decades, the support for the status quo is vast, deep and long-standing.**

- 14 *Second Malaysia Plan, 1971–1975* (Kuala Lumpur: Government Printers, 1971).
- 15 *The Second Outline Perspective Plan, 1991–2000* (Kuala Lumpur: National Printing Department, 1991), 32.
- 16 *Second Malaysia Plan*, as above, 5.
- 17 See Kua Kia Soong, *The Chinese Schools of Malaysia: A Protean Saga* (Kuala Lumpur: United Chinese School Committees, 1987), 88–9.
- 18 See ‘What Happened in Malaysia Over the Last 49 Years Since Independence,’ *The Temasak Review* (18 September 2010).
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- 20 *Third Malaysia Plan, 1976–1980* (Kuala Lumpur: Government Printers, 1976).
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- 22 This is based on conversations with several teaching staff from the university. These estimates are supported by Molly N.N. Lee, ‘Higher Education in Malaysia: A Critical Review of Policies’ (1994), unpublished.
- 23 UN Online Network in Public Administration and Finance.
- 24 Tai Yoke Lin, ‘Inter-Ethnic Restructuring in Malaysia, 1970–1980: The Employment Perspective,’ *Southeast Asian Journal of Social Science* 10:2 (1982), 32–48.
- 25 See Lim Teck Ghee, ‘Social and economic integration of different ethnic groups in South-east Asia, with special reference to Malaysia: A review of literature and empirical material,’ *International Institute of Labour Studies Discussion Paper* (Geneva: 1995).
- 26 For example, see Kwame Sundaram Jomo, ‘The New Economic Policy and Interethnic Relations in Malaysia,’ UNRISD Identities, Conflict and Cohesion Programme Paper Number 7 (September 2004).
- 27 Surjit S Bhalla, ‘Inequality, poverty and human resources in Malaysia, 1970–1987,’ unpublished paper.
- 28 See Lim Teck Ghee, as above, 5.
- 29 Fong Chan Onn, ‘Malaysian corporate economy restructuring: progress since 1970,’ paper presented at the seminar ‘New Economic Policy and its Future’ (Malaysian Social Science Association, 24–26 July 1989).
- 30 See Kwame Sundaram Jomo, as above. Bear in mind that in 1970, one quarter of Chinese-Malaysians lived in poverty. Despite being excluded from the pro-Malay affirmative action policies, Chinese poverty also fell dramatically.
- 31 See Shamim Adam, ‘Malaysia growth at risk as dagger-waving repels ethnic Chinese,’ *Bloomberg* (8 September 2010).
- 32 See Philip Dorling and Nick McKenzie, ‘Big fat red faces for Singapore’s leaders,’ *The Sydney Morning Herald* (12 December 2010).
- 33 Salleh Ismail and Osman Rani, *The Growth of the Malaysian Public Sector* (Kuala Lumpur: Institute of International and Strategic Studies, 1991).
- 34 Reported in *Southeast Asian Digest* (21 July 1989).
- 35 See James V Jesudason, *Ethnicity and the Economy: The State, Chinese Business, and Multinationals in Malaysia* (Singapore: Oxford University Press, 1989).
- 36 See ‘Moving Towards Inclusive Socio-Economic Development,’ *Tenth Malaysia Plan, 2011–2015* (2010), chapter 4.
- 37 ‘The Malaysian Unity Plan: Strategies and Programmes to Meet the challenges of the 21<sup>st</sup> Century,’ *Malaysian Chinese Association Report* (Kuala Lumpur: MCA Reports, 1989).
- 38 Robert Stephen Milne, ‘Privatisation in the ASEAN States: Who Gets What, Why and What Effect?’ *Pacific* 65:1 (1992).
- 39 ‘Ali Baba’ arrangements refer to joint-ventures between Malays (aka ‘Ali’) and Chinese (aka ‘Baba,’ a term used to refer to the ‘Straits Chinese,’ who settled in the port settlements of colonial Malaysia before migrating to the tin-rich areas in the mid-nineteenth century. See Kwame Sundaram Jomo, as above.

- 40 Zainal Aznam Yusof and Deepak Bhattasali, 'Economic Growth and Development in Malaysia: Policy Making and Leadership,' Working Paper No. 27 (Washington, DC: The International Bank for Reconstruction and Development / World Bank, 2008), 28.
- 41 Gordon Means, *Malaysian Politics: The Second Generation* (Oxford: Oxford University Press, 1991).
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- 44 V Selvaratnam, 'Ethnicity, Inequality and Higher Education in Malaysia,' *Comparative Education Review* 32:2 (1988), 173–196.
- 45 *New Economic Model for Malaysia—Part 1* (Kuala Lumpur: National Economic Advisory Council, 2010), 55.
- 46 Figures from Bank Negara Malaysia monthly statistical bulletins.
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- 48 See Barry Porter and Chong Pooi Koon, 'petronas to pay 9.5 billion shell-sized dividend as oil production falls,' *Bloomberg* (1 December 2010).
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- 50 See Lee Wei Lian, 'NEM hot potatoes to test Najib's resolve,' *The Malaysian Insider* (4 December 2010).
- 51 See 'GST postponed,' *Economics Malaysia* blog (10 October 2010).
- 52 See Baradan Kuppusamy, 'Facing Malaysia's racial issues,' *Time* magazine (27 November 2007).
- 53 See Soraya Permatasari and Barry Porter, 'Malaysia seeks World Bank help to cut spending, trim deficit,' *Business Week* (11 November 2010).
- 54 Shahid Yusuf and Kaoru Nabeshima, *Tiger Economies Under Threat: A Comparative Analysis of Malaysia's Industrial Prospects and Policy Options* (Washington, DC: The World Bank, 2009).
- 55 See Shamim Adam, as above.
- 56 See Carolyn Hong, "'Structural problems remain" in Malaysia's economy,' *The Straits Times* (6 March 2010).
- 57 *New Economic Model for Malaysia—Part 1* (Kuala Lumpur: National Economic Advisory Council, 2010).
- 58 See Michael Schuman, 'Malaysia's new journey,' *Time* magazine (6 September 2010). According to some official government figures, private investment is about 25% of GDP. However, the definition of 'private investment' used by government statisticians is dubious. Even the Malaysian Central Bank (Bank Negara) figures indicate that currently, private investment is around 10% of GDP: See Goh Soo Khoon and Michael Lim Mah-Hui, 'The Impact of the Global Financial Crisis: The Case of Malaysia,' *TWN Global Economy* Series No. 26 (2010).
- 59 See *Malaysia Economic Model* (Washington, DC: The World Bank, 2009 and 2010).
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- 70 See Lee Wei Lian, as above.
- 71 It is estimated that around 98% of bureaucrats in the administrative capital of Putrajaya are Malay.
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- 75 *Malaysia Economic Monitor 2010: Growth Through Innovation* (Washington, DC: The World Bank, 2010), 11.
- 76 Prime Minister Najib Razak, as above.
- 77 James Hookway, 'Malaysia's Najib outlines affirmative action overhaul,' *The Wall Street Journal* (30 March 2010).
- 78 See Hal Hill, 'Can Malaysia take it to the next level?,' *The Jakarta Globe* (20 January 2011). Elections in Malaysia are generally 'free' (in that multiple parties contest these elections) but not wholly 'fair.' Through state dominance of the media, censorship and extensive gerrymandering, opposition parties have the odds continually stacked against them. The government also periodically uses the broad ranging *Internal Security Act 1960* (ISA) to intimidate individuals opposed to the government or its policies. Under Section 73(1) of the ISA, a police officer may without a warrant detain an individual who 'has acted or is about to act or is likely to act in any manner prejudicial to the security of Malaysia or any part thereof or to maintenance of essential services therein or to the economic life thereof.'









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