8 *The State and Development in Malaysia*

Race, Class and Markets

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Introduction

Malaysia has been one of Asia's most economically dynamic economies, undergoing substantial transformation since independence from British colonial rule in 1957. Between 1971 and 2007, for example, Malaysia's economy expanded an average of 7 per cent annually; witnessed massive urbanisation and the emergence of a large middle class; developed key export industries in electronics (semi-conductors, circuits), photovoltaics (solar wavers, cells and panels) and manufactured goods; established heavy industries in petrochemicals, engineering and automobile manufacturing; emerged as a key logistics and entrepôt trade hub in South East Asia; and saw the development of a financial services sector in regional Islamic finance (Abbott, 2009: 180; Gomez, 2012a: 84). A predominantly agrarian economy at the time of independence, with over half the population (56.4 per cent) engaged in agriculture and the export of raw commodities (rubber, tin, wood), by 2013 almost half (43.74 per cent) the country's exports comprised high-technology products, with the country's share of exports of electronic parts and components higher than any other country except China and South Korea (World Bank, 2014: 90; Hill, 2012: 8–10). Indeed, by 2014, Malaysia's GDP per capita (US$9,820) was third only to Singapore and Brunei in South East Asia, making it one of region's most developed economies (World Bank, 2014: 90; Crouch, 1996: 181–3; Hill, 2012: 8).

Not surprisingly, Malaysia has been celebrated as one of Asia's 'tiger' economies, attracting the moniker of 'newly industrialising economy' during the 1970s and 1980s, and more recently categorised by the World Bank as a 'high-performing economy' (Abbott, 2009: 180; Crouch, 1996: 222; Hamid, 2010: 255). Like many tiger economies of the era, the economic and policy formulas undergirding Malaysia's success were associated with the developmental state model. In particular, a strong, centralised bureaucracy responsible for industrial planning combined with a political elite singularly focused on economic growth and modernisation – often in contexts of 'soft authoritarianism' or semi-democratic political systems able to manage domestic constituencies and vested interests.

In contrast to laissez-faire market-led development, the developmental state model embodies the construction of a 'capitalist guided market economy', where a diverse set of policy tools including import-substitution industrialisation (ISI), export-oriented industrialisation (EOI), the creation of government-linked corporations (GLC), and tax, investment and other incentives are marshalled by the state to spearhead and accelerate industrialisation (Birdsall, Campos, et al., 1993: 81–104; Johnson, 1999; Lubeck, 1992: 178). In essence, the model captures the notion of the 'disciplinary capacity' of the state to mobilise and transfer resources to more productive sectors and groups and augment market rationality and capital formation by reducing risks to capital, and the ability to capture rents from economic activities and reinvest these in industrial up-skilling, thus improving national economic competitiveness (Haggard, 1990; Johnson, 1999; Lubeck, 1992: 178; Tan, 2009: 153–4). The elements of this model, most often advanced in relation to East Asia's tiger economies, particularly Japan, rest on technocratic, 'plan-rational' modalities of governance and what Chalmers Johnson described as the 'existence of a powerful, talented and prestige-laden economic bureaucracy' which is explicitly instrumental in terms of its ability to command control over most policy decisions, draft legislation, control the national budget and act as the source of major policy innovations (Johnson, 1982: 20–1; 320; see also Johnson, 1995; M. Wright, 1999: 941–2).[1]

In this chapter, I address the notion of the developmental state and its historical and contemporary relevance to Malaysia. I argue that despite the presence of specific developmental elements within the Malaysian state, the notion of a 'Malaysia Inc.' broadly concurrent with other

[1] It should be noted that Johnson was criticised for constructing a typology of the plan-rational developmental state that essentially depoliticised processes of decision making; conflicts between capital, class and the state; and the conflictual nature of public policy making within MITI. Counter-schools and historical narratives of Japan's developmental path, or what became known as a neo-pluralist school, challenged Johnson's typology, highlighting the political processes of accommodation within the Japanese state. See Samuels (1987), Wright (1999), Muramatsu and Krauss (1987), Muramatsu (1993).

tiger economies is erroneous and misinterprets the political dynamics of race and politics in Malaysia. Specifically, I trace the changing nature of Malaysia's political economy, the sublimation of the state to party-political interests dominated by UMNO (United Malays National Organisation), and in turn the emergence of what Gomez (2002a) describes as a 'political business' state. Rather than an elite, bureaucratic-driven developmental state, high levels of political intervention characterise Malaysia's political economy, where networks of political and business interests have coalesced and become what Wedeman (2002) describes as 'interpenetrated', creating exchange relationships between political parties and specific business interests. These exchange relationships represent a form of political–business patronage, in which certain concessions, licences, contracts, rights of operation or exclusive market entry are granted to specific business groups in exchange for political benefaction (political donations or patronage of political-party interests and activities), that allows the ruling party to increase its grip on power through a deepening maze of patron–client relationships and interwoven party–business interests (Edmund Terence Gomez, 2002a; Wedeman, 2002: 35–6).

Importantly, however, this form of 'political business' state is not necessarily antithetical to economic growth and development. As Gomez and Wedeman note, since 'state-controlled resources are deployed in a manner that allows for private profit making and generally coexists with pro-developmental ideologies, political business creates a form of "developmental state" that is, at least in the short term, capable of spurring considerable economic growth' (Wedeman, 2002: 36; Gomez, 2002a). Indeed, it is this phenomenon, I argue, that captures the nature of development in Malaysia: a political business state where control over the allocation of resources, rents and state patronage rests in the political-party sphere of UMNO with the bureaucracy relegated to implementers, advisers and managers of the interests of political business relations. In other words, rather than an *a*political, technocratic bureaucracy at the centre of a 'plan-rational' governance modality, Malaysia's form of developmentalism rests predominantly in the intermeshed networks of UMNO and capital (see also Brennan, 1985; Jesudason, 1995; Lubeck, 1992: 187–9).

To support this argument, I analyse the emergence of a bifurcated economy, where economic activity is split between a largely competitive export sector in areas such as electronics, various cash crops (palm oil), tourism and educational services dominated by foreign and Chinese–Malay ownership patterns, and a protected, largely inefficient and moribund domestic sector comprising non-tradeable goods in utilities, construction, food processing and protected manufacturing (automobiles), dominated by government-linked corporations and Bumiputera ownership patterns (Hill, 2012: 29; Tan, 2009). The intersection of these forces, I argue, explains both the salience of the political business 'developmental state' to Malaysia's historical development, and also its contemporary faltering, where elite Bumiputera capture of domestic rents, and a deepening cycle of political patronage designed to entrench political elites and UMNO, are unwinding the ability of the political business state to further economic development and allow Malaysia to move beyond its 'middle-income trap'.

Finally, in the Malaysian context I argue that marketisation, privatisation and broad-based neoliberal policy prescriptions involving user-pay and full-cost recovery principles applied to an increasing range of government and government-linked sectors (utilities and energy, construction, network infrastructure) represent not only an encroaching pattern of rent-seeking capitalism by the political business state but also, more fundamentally, the sublimation of race to class as a key factor aligning political interests. Marketisation and neoliberalism, in other words, are being used to deepen rents, a process that is stratifying Malay–class factionalism, adversely impacting wealth distribution and derailing the positive developmental outcomes historically associated with Malaysia's political business state.

The chapter is organised into three sections. In the first section I provide a brief overview of the historical development of Malaysia in the post-independence era, specifically tracing the role of the state, its mobilisation as an instrumentality of Malay nationalism, and the deployment of state assets in support of late industrialisation. In the second section, I trace the breakdown of this race-developmental compact, in part reflecting the fracturing of Malay interests by emerging intra-racial class sectionalism and the ascendency of money politics. And in the third section I address the implications of this in terms of Malaysia's 'middle-income trap', the utilisation of neoliberalism as a political rationality to sustain and legitimise sectional interests, and the increasing contradictions in the political business state model in Malaysia (Athukorala and Wagle, 2011: 116).

Race, the State, and Early Malaysian Development: 1957–1970

Race has always been at the core of political life in Malaysia, a reflection of the migratory patterns of Han Chinese and South Asians, many who arrived in the Malay peninsula during colonial rule.[2] Indeed, the Malay peninsula was a major international crossroads, historically plied as part of the spice trade, and under British colonial rule for its lucrative resources, especially tin, rubber, palm oil, pepper and tropical hardwoods, which reputedly made the territory the most profitable in the British empire (Jomo et al., 1997: 95; Lubeck, 1992: 185–9; Osborne, 1997). These migratory patterns also became ingrained in the structure of the Malay economy, reinforced by a colonial division of labour that used race as the basis for economic activity and imperial profitability:

> The Chinese organized labor and capital to export tin and dominated the intermediary trade between colonial merchant houses and consumers in the interior; the Indians were recruited to work on rubber plantations; and the Malay peasants were encouraged to produce padi rice for local consumption and commercial (Chinese) farmers (Lubeck, 1992: 186).[3]

The legacy of this racial division of labour had far-reaching consequences, creating 'patterns of uneven development, economic disparities, and social divisions' that extended into post-independence Malaysia (Chin, 2000: 1039; Crouch, 1996: 236; Jomo, 1986: 207–10; Khoo, 2002: 181). Control of what were then the commanding heights of the economy, for example tin mining, plantation agriculture,

[2] Indian and Chinese migration to the Malay Peninsula, of course, pre-dates British colonial rule and reflects ancient historical migratory patterns (see Kaur, 2009).

[3] Martin Brennan also highlights the role of colonialism in propelling Indian and Chinese immigration into the Malay peninsula, noting, 'The composition of the population was changed radically in a short space of time as imperialism ensured that labour was shifted from India and China to create surplus value on the basis of British capital. Thus by the Second World War a society had been created which appeared to be a vast medley of peoples which on the one hand "mixed but did not combine", while on the other hand was divided into discrete ethnic blocs composed of Malays, Chinese and Indians' (Brennan, 1985: 93–4). Andaya also notes the alignment of race with occupation, and its particularly extreme nature in Malaysia: 'In the professional fields, at the start of the NRP in 1970 there were only 40 accountants, 79 doctors and 33 engineers who were Malay' (Andaya and Andaya, 2001: 311).

Table 8.1 ***Ownership of share capital (at par value) of limited companies, 1969–1995 (per cent)***

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

Source: Gomez (2002b: 85).

banking, shipping, public utilities and manufacturing, were dominated overwhelmingly by foreign (predominantly British) interests, with local Chinese capital also maintaining a strong presence in banking, intermediate services in trade, retailing, professional services and small-scale manufacturing. By one estimate, foreign penetration extended to ownership of 84 per cent of large rubber estates, 60 per cent of tin production, and upwards of 75 per cent of exports, marginalising the majority of indigenous Malays and Indians (Gomez, 1999: 27–39; Khoo, 2002: 180–1).

Independence thus had no immediate impact on the social or economic structure of Malay society. Even after a decade of independence, for example, wealth inequalities as measured by share ownership of capital highlighted the continuing marginalisation of the Bumiputera and local Indians (see Table 8.1)(see also Ismail, 1999: 139). While political and administrative control of the state had been turned over to Malay aristocrats who had been cultivated as an expedient means to support indirect colonial rule, their class interests rested in management of the post-colonial order rather than in a transformation of social relations. As Lubeck argues, Malay aristocrats enjoyed an elevated status under colonial rule, with the British supporting existing ruling groups and their right to administrate religious and local laws. Malay aristocrats used their privileged position to dispense patronage; levy taxes; and allocate licences, land titles, mining concessions and access to higher education, supplementing their already well-remunerated positions with informal rents (Lubeck, 1992: 187–8;

Brennan, 1985: 96; Singh, 1998: 243). This, as Jomo (1986) argues, formed the basis of the 'administocracy' that would dominate political life in Malaysia as it also formed the leadership of UMNO. The very basis of the immediate post-colonial Malay state thus comprised a powerful rentier class, unconcerned by the travails of financial necessity to change the economic structure of society or pursue rapid industrialisation (Brennan, 1985: 119; Crouch, 1996: 16–20; Lubeck, 1992: 188).

The first ruling coalition, the Alliance Party, comprising UMNO, MCA (Malaysian Chinese Association) and MIC (Malaysian Indian Congress), thus left relatively untouched the composition of the economy. There were small innovations associated with the broadening of the tax base, the introduction of export duties on tin and rubber and an 'excess profits' tax on tin, and the introduction of a development tax on company profits. Protectionism was also extended, with the removal of preferential tariffs on Commonwealth(British)-produced goods, and ISI policies were promoted with the introduction of various incentives for new industries. So too, under the first Malaysian development plan (1966–70), the Alliance government participated more directly in the economy, increasing public infrastructure spending, and creating public utilities such as the National Electricity Board (NEB), departments of waterworks, telecommunications and Keretapi Tanah Melayu (Malaysian Railways), among others. There was also support for the development of Malay business, including an expansion in public-sector ownership, and the creation of government investment agencies (Perbadanan National Bhd, Permodalan Nasional Berhad, Amanah Saham Nasional), Bank Bumiputera and a Bumiputera Stock Exchange, as well as the creation of the Rural and Industrial Development Authority. In all, public enterprises expanded from twenty-two in 1960 to 109 by 1970 (Gomez, 1999: 34; Gomez and Jomo, 1999: 15–16; 20; Jomo et al., 1997: 97; Khoo, 2002: 181–5; Woon, 1989).

Despite such efforts, by the end of the 1960s it was evident that the market and the domestic economy were unable to correct the ingrained racial and social disparities in wealth, opportunity and incomes. Indeed, while GDP per capita had increased by 25 per cent between 1957 and 1970, this had been inequitably captured with incomes for the top 10 per cent of income earners increasing on average by 51 per cent while the bottom 40 per cent saw their incomes fall by an average of 13 per cent (Crouch, 1996: 21; Gomez and Jomo, 1999: 21; Zin, 2008: 117–19).[4] For the Malay peasantry, in particular, independence had elevated expectations about social mobility, poverty alleviation and economic rights, forging a strong grass-roots coalition that pressed for greater equity and economic security. The seizure of state lands in the late 1960s in Binjal Patah, Sungei Sireh and Teluk Gong, for example, indicated a growing radicalisation of Malay peasants demanding economic redistribution, while demands from organised labour for higher wages in the plantation and manufacturing sectors resulted in an increasing number of labour disputes (Khoo, 2002: 183; Macandrews, 1977: 297–8). Among the ethnic Chinese, too, increased government involvement in the economy and racially targeted programmes raised concerns about future economic opportunities and possible discrimination, contributing to a political climate of mistrust and rising tensions (Gomez, 1999: 35). As Khoo (2002: 183) observes, 'These mass economic expectations became ethnically divisive and politically volatile as they coincided with real and imagined fissures in the areas of language, culture, and citizenship during the formative period of a Malaysian nationhood'.

These fissures surfaced in the 10 May 1969 elections, with the Alliance Party suffering heavy losses, gaining only about 50 per cent of the Malay and 30 per cent of the non-Malay vote. Malays had turned in large numbers to PAS (the Pan-Malaysian Islamic Party), while the number of MCA seats fell from twenty-seven to thirteen, with opposition parties such as the Malaysian People's Movement (Gerakan), the Democratic Action Party (DAP), and the People's Progressive Party (PPP) attracting increased support from ethnic Chinese and Indians (Crouch, 1996: 20–4). By the end of the 1960s, the politics of consociationalism championed by the Alliance Party was clearly under challenge (Jesudason, 1989: 67–73).

New Economic Policy: 1970–1980

A few days after the elections on 13 May, race riots broke out, officially resulting in the deaths of 143 Chinese and twenty-five Malays, but with likely many more Chinese killed. The race riots led to the suspension of

4 Crouch (1996: 21) provides further evidence of the racial income disparities, noting that the 'mean household income for Malays in 1970 was $172 per month compared to $304 for Indians and $394 for Chinese'.

parliament in what was known as the 'palace coup' by UMNO's Young Turks, ending the rule of Prime Minister Tunku Abdul Rahman and the consociationalist politics of the Alliance Party. Power was placed in a National Operations Council (NOC), with the deputy prime minister, Tun Abdul Razak, assuming the premiership and ruling under a state of emergency from 1969 to 1971 (Crouch, 1996: 24; Embong, 2008: 35). Importantly, the NOC comprised members drawn from the Malay elite (military, bureaucracy, and politics), and a nominal representation from MIC and MCA. MCA's position within government, however, was severely weakened when UMNO engineered the incorporation of the PPP and Gerakan into the Barisan Nasional (BN)(or National Front), both of which enjoyed multiracial support. Further, the incorporation of PAS into the BN helped cement not only Malay dominance but that of UMNO as well. Indeed, in the wake of the race riots, subsequent constitutional amendments which made it illegal to raise issues associated with ethnic sensitives – including reference to Islam, Malay special rights, Malay as the official national language, and the constitutional privileges accorded to Malay sultans and monarchs – even included prohibitions on discussions in parliament, helping set in place what Thompson describes as an 'ethnocratic regime' (Thompson, 1996: 635; Gomez and Jomo, 1999: 21–2). Rather than expand participation in government, the broader BN coalition served to concentrate the power of UMNO through a process characterised as 'coercive consociationalism' in which political accommodation was achieved but on Malay terms (Mauzy, 1993).[5]

These political developments were instrumental to the subsequent character of Malaysia's 'developmental state' and the networks of political business that emerged. The immediate response to the race riots under an invigorated, Malay-focused BN was the introduction of the New Economic Policy (NEP) promulgated in 1970 (Gomez and Jomo, 1999: 22). The NEP was a twenty-year programme designed to

[5] Kukreja suggests a slightly different narrative in terms of the ascendency of Malay political assertiveness, noting that the 'aristocratic, English-educated elite's domination of UMNO' was abandoned in favour of a 'more ardent Malay Nationalist leadership', drawing support from the Malay middle class and religiously based Muslim groups. The process of 'accommodation' in which these factions were contained or managed, Kukreja suggests, was initially through the use of the Internal Security Act in which individuals were either removed from the party or dealt with through criminal sanction (Kukreja, 2002: 23–4; see also Brennan, 1985: 116; Case, 1995).

remedy ingrained economic inequalities and socially engineer national unity by eradicating poverty and achieving interethnic economic parity between the Bumiputera and the ethnic Chinese population (Naguib and Smucker, 2009). In essence, it comprised a national programme of affirmative action designed to 'alter the class structure of Malaysian society by sponsoring the rise of a combination of Malay capitalist, professional, and middle-classes' (see Jesudason, 1989: 76–127; Khoo, 2002: 184, 2006). Preferential access to loans, government contracts, higher education and commercial licences, together with the creation of new public universities, all-Malay residential schools and an extensive government scholarship programme to allow Malay students and government officials to attend overseas universities, was designed to accelerate the expansion of the Malay middle class, their rate of economic accumulation, and the representation of Bumiputeras among the ranks of Malaysian entrepreneurs and capitalists (Gomez, 1994: 3–5, 2002b: 84; Khoo, 2002; Naguib and Smucker, 2009; Thompson, 1996: 635).

At the same time, the NEP also introduced legal regulations for publicly listed companies, requiring Bumiputera ownership to be at least 30 per cent of issued capital by 1990, and by allocating 'publicly listed shares at par value or with only nominal premiums to Bumiputeras' (Gomez, 2002b: 84). Employment quotas were also introduced: 'employment in the various sectors of the economy and employment in all occupational levels should reflect the racial composition of the country by 1990' (Crouch, 1996: 25). To ensure compliance, the state enhanced its regulatory powers with the enactment of the Industrial Co-ordination Act (ICA) in 1975, which together with the existing Foreign Investment Committee vested in the minister of trade and industry immense discretionary power over such issues as ownership structures, licensing, local content quotas, product pricing and ethnic employment targets (Jesudason, 1989: 137–9). Increased bureaucratic surveillance also filtered down to state and local government, with non-Malay business in areas such as plantation work, property development, land use and local services also subject to NEP regulations (Andaya and Andaya, 2001: 305).

Most significantly, the NEP also represented a repositioning of the state within the economy, abandoning laissez-faire in favour of direct investment through public ownership. As Crouch notes, the

NEP was in practice an 'assault on the dominant position of foreign, particularly British, capital' in which the ideological aims of 'Bumiputeraism' would be achieved not, as popularly perceived, at the expense of Chinese-Malays' ownership of capital, but through a reduction of foreign ownership from 63.3 per cent in 1970 to 30 per cent by 1990 (Crouch, 1996: 26; Gomez and Jomo, 1999: 23). State capitalism would champion a new economic model: grow public enterprise, enhance economic growth, and thus expand opportunities for Bumiputeras, while still supporting the interests of Chinese-Malay capital. Importantly, wealth redistribution would be mediated through state enterprises and public ownership, and specifically through a policy of 'trusteeship'. Bumiputera trust agencies, for example, were special-purpose public enterprises that would acquire equity on behalf of Bumiputeras, avoiding issues of expropriation or nationalisation and the political ramifications of driving away foreign investment (see Jesudason, 1989: 56–60). Trust agencies would operate on a twenty-year sunset clause (1970–90), with control divorced from ownership, and equity and portfolio control allocated by political decree to political and bureaucratic elites who assumed guardianship of the trust agencies. Ownership of the trust agencies was collectively assigned to Bumiputeras, but without any specification of what this meant in practice, and no formal mechanisms set in place in terms of divestiture (Mehmet, 2011: 130).[6]

The expansion of state capitalism and the regulatory power of the state were important developments facilitating the emergence of a political business state in Malaysia. As Table 8.2 highlights, the number of state enterprises increased sharply from 109 in 1970 to 656 by 1980. Equally, the contribution of state monies to public ownership also escalated dramatically, from RM$4.6 billion under the First Malaysian Development Plan to RM$10.3 during the Second Malaysian Development Plan (1971–5), and RM$31.1 billion under the Third Malaysian Development Plan (1976–80). The injection of public funding, coupled

[6] There was also an implicit elite paternalism associated with trusteeship. As Gomez and Jomo (1999: 32) note, 'the government felt that the Bumiputeras' lack of propensity to save was a major impediment towards achieving the NEP objectives'. Public enterprises were therefore 'supposed to mobilise resources and accumulate capital on behalf of the Bumiputera community' (see also Mehmet, 2011).

Table 8.2 *Total number of public enterprises in Malaysia, 1960–1992*

Industry	1960	1965	1970	1975	1980	1985	1992
Agriculture	4	5	10	38	83	127	146
Building and construction	2	9	9	33	65	121	121
Extractive industries	0	1	3	6	25	30	32
Finance	3	9	17	50	78	116	137
Manufacturing	5	11	40	132	212	289	315
Services	3	6	13	76	148	258	321
Transport	5	13	17	27	45	63	68
Others	0	0	0	0	0	6	9
Total	22	54	109	362	656	1,010	1,149

Source: Gomez and Jomo (1999: 31), Rugayah (1994).

with asset appreciation, saw Bumiputera trust agencies average annual growth of 39 per cent between 1971 and 1980, rapidly increasing their presence within the economy (Gomez and Jomo, 1999: 31, 34). The state itself also expanded, with the public service increasing from 139,467 in 1970 to 521,818 by 1983 (Mehmet, 2011: 10).

These developments enhanced the power of the political bureaucracy, most specifically of UMNO, creating a mushrooming effect in which the discretionary power of ministers over industrial and development matters, the increasing economic might of government-linked trust agencies, and political appointments into government enterprise expanded networks of patronage and the power base of UMNO. In essence, the expansion of state capitalism and government-linked business was by default also the expansion of UMNO's hold over the economy, blurring the division between party (UMNO) and state. More specifically, it was also the extension of rentier politics in which government appointments and patronage created a new Malay elite – politically linked businessmen whose fortunes and prestige derived from government connections. As King observes (2008: 169), 'the route to economic success and the corporate world . . . came through political connections and state patronage'. Accessing patronage thus involved accessing UMNO, encouraging contests for political power which created cascading networks of patron–client relationships and an expanding use of political funding to gain support – or what Gomez terms 'money politics'(1994).

The results of these interwoven processes were fourfold, significantly impacting the Malaysian state and the structure of the economy. First, it created protected economic sectors, justified on the basis of the NEP and the development of Bumiputera business and capitalists. Utilities (electricity, water, sewage, sanitation, telecommunications), public works (roads, transport, infrastructure), civil aviation, energy (oil, gas), urban development (land acquisition, land utilisation, planning, construction), food processing and equity interests in heavy industries (petrochemicals, manufacturing), created a parallel economy of politically linked businesses, protected by the state, insulated from market competition, financial discipline or stringent accountability and transparency requirements, and with preferential access to state finance. Second, creating, in essence, a series of sanctioned monopolies, generating vast resources, power and influence, fuelled patronage politics, clientelism and the cycle of money politics, diverting economic resources to unproductive ends. Influence peddling, cronyism and corruption became institutionalised, reinforcing vested interests and networks that supported the business state (Case, 2005: 290). Third, the lucrative nature of networked access to the political business state also made for intense political competition, factionalism and disputation over the division of rents, creating tensions within the BN, UMNO and PAS, and intensifying the problems of political management. Finally, and perhaps most significantly, the division between party, state and corporate entities became increasingly conflated, interpenetrated through complex, mostly opaque, networks of ethnicity, patronage and vested interests (Gomez and Jomo, 1999: 24–7; Rasiah, 1997; Searle, 1999; Verma, 2002).

For Chinese-Malays, the NEP and the deepening networks of capital associated with the political business state fuelled fears about marginalisation and encroachment into Chinese enterprise. While enterprising Chinese cultivated relationships with politically connected Malays to protect and advance their interests, the MIC and MCA lobbied for the right to develop their own investment vehicles and advance the economic interests of non-Bumiputeras. MCA subsequently developed a publicly listed conglomerate, Multi-purpose Holdings Bhd (1975), mobilising Chinese capital and using its leverage within the ruling BN to secure access to government contracts and enterprise opportunities, which by 1982 saw the conglomerate emerge as the second-largest shareholder of corporate stock in the country (Gomez, 1994: 5, 1999: 37, 39, 2002b: 85; Jesudason, 1989: 132; King, 2008: 168).[7]

The reshaping of Malaysia's political economy, particularly the relationship between the state, business and Bumiputeras, created a two-track economy, where state-sanctioned rents and NEP policies subsidised Bumiputera businessmen who were mostly drawn from 'three main groups: UMNO supporters, retired civil servants, and royalty' (Crouch, 1996: 214; Tan, 2008):

> The new Malay business class was in fact a creation of the government. Malay business people were not entrepreneurs but clients of politicians who were given business opportunities as rewards for political support. Foreign or non-Malay enterprises were in effect forced to allocate shares, normally at below-market prices, to Malay business in order to conform with the government's equity guidelines . . . before the company could get the licenses or contracts that it needed (quoted in Thompson, 1996: 636).

By contrast, a largely dynamic, growing and increasingly competitive export sector dominated by foreign and Chinese capital continued to prosper. Throughout the 1970s this was propelled, in particular, by increasing flows of Japanese investment but also foreign greenfield investments as international production chains were disaggregated due to deepening trade liberalisation (Bergsten, 1996; Jomo and Wee, 2014: 59). By the time of Mahathir's assumption of the prime ministership in 1981, the structure of Malaysia's political economy was cast thus:

> A rentier segment for accumulating resources for political patronage . . . a protected sector for politically important small and aspiring business men, a quasi-monopolistic segment for well-connected business men and large state companies, and a sizable competitive arena comprising multinationals, local Chinese companies, and a few Malay companies to ensure national competitiveness (Jesudason, 1996: 135).

[7] The fears of ethnic Chinese about economic marginalisation were likely used as a means of political bargaining rather than a reflection of any real reduction in their economic position. Jesudason's observations, for example, highlight how the economic position of the ethnic Chinese was consolidated through the NEP: 'What stands out, from examining the available figures, is that the chief characteristic of the Chinese sector is *not* any pronounced reduction of its stake in the economy . . . Chinese ownership of limited companies increased from 23 percent in 1970 to 33 percent in 1982 . . . [and] when the shareholdings of ethnically unidentifiable owners are added to the Chinese share . . . then the Chinese share increased from 35 percent to 47 percent between 1970 and 1982' (Jesudason, 1989: 159).

Mahathir and the Politics of Liberalisation and Marketisation

Commencing in the 1970s, export expansion emerged as the dominant source of growth in manufacturing, particularly for electrical and electronic goods, constituting a third of GDP and employing 25 per cent of the workforce by the mid-1990s (Crouch, 1996: 226; Ghee and Woon, 2004: 376; Gustafsson, 2007; Yusuf and Nabeshima, 2009: 18–19). Much of this transformation was attributed to the NEP. In reality, however, the NEP had been a drag on the economy, slowing the rate of economic growth and wealth accumulation. Adam and Cavendish, for example, note that prior to the introduction of the NEP, 'Malaysia ranked third only to Japan and Singapore among East Asian nations in terms of GDP per capita; by 1990, it had fallen behind South Korea, Taiwan and Hong Kong as well' (Adam and Cavendish quoted in Gomez and Jomo, 1999: 25). Jesudason adds further to this thesis, noting,

> State enterprise expansion, at best, was an enormous exchange of assets in which the state paid out cash for existing assets built up by the foreign and Chinese sectors. There was little net increase in production and employment, although it met the ethnic goal of having greater control of the economy. More problematic, many state companies hardly reached the point of commercial viability. The success rate per dollar spent was low but state authorities were slow to undertake corrective action because of the high priority given to these state enterprises (Jesudason, 1989: 84).

The emergence of a twin-track economy was politically problematic, especially for UMNO, whose survival rested on deepening networks of patronage and expanding the largesse of the politics of Bumiputeraism – in effect the state-mediated diversion of growth dividends generated by a dynamic export sector and of economic rents to Bumiputeras. Indeed, by the early 1980s this model was increasingly stressed. First, the rapid expansion of public enterprise was proving a drain on the public purse, consuming larger amounts of discretionary public spending and blowing out public debt (by 1981, for example, government expenditure had risen to almost 20 per cent of GDP while public enterprise was responsible for a quarter of public debt). Second, the onset of a severe global recession in the early 1980s among major industrialised economies contracted demand for exports, reduced global liquidity and inward foreign investment, and pushed down global commodity prices, causing falls in export-driven revenues and a contraction in the Malaysian economy (Charette, 2006: 60–1; Cheng, 2003: 54–5).[8] Third, politically linked companies, many of which had ventured into the stock market to raise equity and access finance through state-linked banks, and had invested heavily in property and construction which had boomed in the 1970s, now found their assets stranded as stock and property prices plummeted, leaving many enterprises unable to service debt obligations and requiring state assistance to stave off bankruptcy. Finally, allegations of corruption, misappropriation, and inefficient administration of the NEP dogged UMNO. UMNO politicians, for example, were alleged to have profited from the loss of RM2.5 billion by Bank Bumiputra's Hong Kong subsidiary, while some ministers were alleged to have profited from offshore loans negotiated for state-linked enterprise (Andaya and Andaya, 2001: 315; Gomez, 1994: 11–12).

Perhaps of most concern, however, was growing grass-roots criticism that the NEP was benefiting well-connected individuals but leaving untouched the majority of Bumiputeras. While economic growth and the expansion of public enterprise had helped reduce poverty, for many Bumiputeras the rise of the 'new rich' signified increased class stratification and the concentration of wealth ownership. Management of the NEP, for example, was increasingly seen as inefficient or co-opted by the new rich, with estimates that less than half the monies earmarked for poverty eradication actually reached the poor – the remainder being consumed by administrative overheads and related expenses (Gomez, 2002b: 86; Gomez and Jomo, 1999: 28). Moreover, despite the enormous growth in public enterprise (Table 8.2), the impact on Bumiputera ownership was nominal – corporate holdings held in the name of Bumiputeras, for example, expanded modestly to 12.5 per cent by 1981 (Table 8.1).

These structural and political stresses coincided with the arrival of Mahathir Mohamad, Malaysia's fourth and longest-serving prime minister (1981–2003). Mahathir's response was a programme of structural reform, including certain sections of the NEP. While Mahathir was a

[8] Gomez notes of the recession in the 1980s, 'the economy was plagued by severe declines in commodity prices – oil prices plunged in the early and mid-1980s, the tin market collapsed in 1985, and the prices of rubber, cocoa and palm oil fell' (Gomez, 1999: 133).

strong proponent of the aims of the NEP, he believed it had created perverse incentives. For Mahathir, state patronage and the economic rents enjoyed by Bumiputeras were creating a politics of dependency, with Bumiputeras preferring to use ethnic Chinese as frontmen, reducing the incentives for Bumiputera capitalists, entrepreneurs and business to emerge onto the national and regional market.[9] Indeed, while the NEP had succeeded in elevating a significant number of Bumiputeras into business positions and corporate boards, in reality the 'functional company directors' were still dominated by ethnic Chinese, perpetuating race–wealth inequalities. Only a handful of the top 100 companies in Malaysia, for example, were owned by the government or Bumiputera, with conglomerate ownership structures still dominated by ethnic Chinese and foreign capital. Equally, despite the impressive growth of Bumiputera trust agencies which had acquired considerable assets throughout the 1970s, the percentage of individual Bumiputeras holding share capital actually declined, from 60 per cent in 1970 to 34 per cent by 1980, with Bumiputera divestments being purchased by and advantaging ethnic Chinese (Gomez, 1994: 122–4, 2004: 8; Gomez and Jomo, 1999: 34).

Mahathir's reform vision thus rested on empowering individual Bumiputeras, accelerating the development of Bumiputera-owned business, and the rise of Bumiputera conglomerates. Perhaps because of this emphasis, Mahathir favoured a 'Look East' policy broadly designed to emulate the success of Japan and South Korea, both of whom had achieved significant inroads into international markets with the development of large *zaibatsu* and *chaebol* conglomerate enterprises (for example, Panasonic, Toyota, Sony, Mitsubishi and NEC in Japan; Daewoo, Hyundai and LG in South Korea). Mahathir favoured a similar model for Malaysia, adopting a series of developmental state-type policies that aimed to deepen the nexus between financial capital and industry, enhance the financial apparatus of markets, 'pick winners' and augment the rate of industrialisation – articulated in his '2020' vision which aspired to see Malaysia a fully developed nation by the year 2020 (Gomez, 2012b: 74; Ping, 2008).

[9] Gomez (2002b: 91) also observes that well-connected Malays also prefer to use ethnic Chinese as frontmen since they often belong to competing UMNO factions, helping shield their business interests from internal UMNO factionalism.

In the early 1980s this approach focused on market intervention and manipulation to alter incentives, the creation of new financing vehicles, protectionism to help industrial development (including tariffs, mandatory import licensing, the licensing of manufacturing – via the ICA, tax incentives, local content requirements) and state investment in new industry. State control over industrial development became a key feature with the development of the heavy industries programme, implemented through the Heavy Industry Corporation of Malaysia (HICOM), who launched joint ventures predominantly with Japanese enterprises to develop motorcycle, cement, fertiliser, pulp and paper, petrochemical, steel, methanol and automobile (the Proton car) industries. Similar to their East Asian counterparts, Malaysian government bureaucrats became actively engaged in the negotiations of joint ventures, contractual details, technical content and commercial planning of investment projects, with Mahathir empowering the Ministry of Trade and Industry to co-ordinate the sectors into which private capital should invest. This was ultimately promulgated with a ten-year Industrial Master Plan (IMP) (1986–95) similar to the plan-rational industrial strategy of South Korea (Felker and Jomo, 2007: 63; Gomez, 2012b: 74; Gustafsson, 2007; Jomo et al., 1997: 100–3; Jomo and Wee, 2014; Siew-Yean and Zainal-Abidin, 1999: 57).

The outcomes of these endeavours, however, were largely unsuccessful and by the mid-1980s, as the international recession hit harder and the Malaysian economy recorded negative growth, these overtly developmental state policies were increasingly supplanted by economically rationalist, export-oriented industrialisation strategies as well as a raft of neoliberal reforms focused on the bureaucracy and privatisation measures. Efforts at attracting and retaining foreign investment, for example, were enhanced through the Malaysian Industrial Development Authority (MIDA). While MIDA had promulgated 'ten-year pioneer status' tax holidays, import-duty tax exemption and a range of related incentives, including the establishment of export processing zones (EPZs) in the 1970s, Mahathir redoubled these efforts, focusing on attracting foreign capital, particularly from East Asia, by introducing the Promotion of Investment Act in 1986 which provided for pioneer tax status of up to ten years; tax concessions on capital expenditures; exemption from sales, excise and import tax; and allowing foreign investors to own equity in local corporations providing a minimum 80 per cent of manufactured outputs were exported. The strict

Bumiputera employment requirements for the licensing of manufacturing were also relaxed (Gomez, 1999: 132–3; Henderson and Phillips, 2007; Ismail, 1999: 149; Jomo and Wee, 2014: 33; Yean, 2014).

With declining growth and tax revenues the fiscal position of the government weakened, forcing the adoption of austerity measures, the announcement of funding cuts to public enterprise and a wage freeze. Public enterprise was instructed to show efficiency improvements and better budget management practices, while the commercial failures of the joint ventures associated with HICOM were sold off to foreign and Chinese investors. The biggest shift in state policy, however, was with the roll-out of privatisation measures, first suggested in 1983 but progressively introduced from the mid-1980s to 1990s.

Privatisation, Patronage Politics and the Rise of the Conglomerates

The politics behind privatisation were multifaceted. In part they reflected the ideational agility of Mahathir's premiership, in part the realpolitik of UMNO's power base and the expanding circuits of patronage that required deepening resources, in part economic pragmatism.[10] Mahathir's political base, for example, became increasingly polarised, with one section of UMNO demanding a continuation of redistribution through the NEP, while another faction insisted on a growth-first strategy, liberalisation and mobilising private capital in order to restore growth. The pro-liberalisation camp was backed by big business and influential individuals who supported Mahathir, the latter by smaller and politically dependent Malay businessmen and sections of the bureaucracy (Gomez, 2002b: 97; Khoo, 2002: 192).

[10] Mahathir's ideational agility and political pragmatism are revealed in his anti-bureaucracy stance come the mid- to late 1980s. After a period in which he aspired to emulate the East Asian developmental state model and directed the bureaucracy to be more actively involved in a plan-rational approach to economic development, he subsequently moved to minimise the role of the bureaucracy, increasingly concentrating power in the executive and office of the prime minister, circumventing the bureaucracy with the establishment of various think tanks to provide strategic advice, and minimising bureaucratic oversight over core policy initiatives and programmes. Indeed, by the late 1980s Mahathir's stance toward the bureaucracy was derisive, caricaturing them as inefficient and bloated (Gomez, 1999: 139).

The opposition to privatisation came from many quarters, particularly economic nationalists, grass-roots Bumiputeras, and the bureaucracy fearful that a programme of denationalisation would lead to foreign or Chinese interests gaining economic advantage. Mahathir stressed, however, that privatisation would be used to meet the objectives of the NEP and advantage Bumiputeras. Indeed, Mahathir saw privatisation as a vehicle that could both curtail the subsidy syndrome of the Bumiputeras and foster the development of Bumiputera conglomerates. Mahathir thus leveraged the process of privatisation as a means to preference Bumiputera business, which at the same time also deepened his own personal patronage networks and those of UMNO (Gomez, 1994: 15; Lim, 1986)

State assets were subsequently sold either to private individuals or to GLCs, or were listed on the Kuala Lumpur Stock Exchange (KLSE), often with equity splits and share pricing that privileged specific individuals or Bumiputera corporations. Indeed, Mahathir favoured an opaque, personalised mechanism of privatisation, justified on the basis of a feigned ethnic meritocracy: 'The best way to keep the shares between Bumiputera hands is to hand them over to the Bumiputera most capable of retaining them, which means the well-to-do' (Mahathir quoted in Gomez, 1994: 7). As the rate and extent of privatisation measures deepened, the growth in money politics thus also expanded. Indeed, the power-political configuration engineered by Mahathir with his appointment first of Daim Zainuddin (1984) and then of Anwar Ibrahim (1991) as federal minister of finance set Malaysia on a course that would institutionalise money politics and the intermeshed relationship of UMNO with capital, elite business and corporate power (Gomez, 1994: 14–15, 2004: 123).

Like Mahathir, Daim and Anwar utilised the immense concentration of power in the executive to distribute concessions to a select core group of Bumiputera businessmen, bypassing normal processes for the divestiture of state assets (open tender, transparent and independent review). State monopolies in energy, telecommunications and transport, in particular, were privatised, while lucrative infrastructure projects (dams, ports, highways) were awarded to politically connected individuals (Gomez, 2004: 124–5). As Khoo (2006: 184) observes, 'a new category of politically connected Malay, non-Malay, or often interethnic conglomerates arose and evolved into privileged oligopolies', but operating in sectors where 'state policies and protection made the difference between success and failure'. Resources and commodities, construction and property development, tourism, gaming, banking, utilities, transport and specific import-substituting industries become the bedrock on which mass fortunes arose and large conglomerates emerged (Ismail, 1999: 173–83).

Importantly, the pattern of development of conglomerate capitalism in Malaysia became, in essence, the institutional basis on which the country's political economy was forged. It had three obvious characteristics. First, a familiar pattern of operational agglomeration:

> Deal in property and real estate, build up construction capacity, lobby for infrastructural and utility works, secure a banking or finance arm or a brokerage license, buy up plantations, diversify into tourism, and enter newly privatised areas like telecommunications and social services [health, education] (Khoo, 2006: 184).

Second, an emergent pattern of financialisation and corporate leverage. Privatisation through equitisation and listing on the KLSE attracted increasing inflows of foreign portfolio investment, which by 1993 had reached RM24.667 billion annually, injecting large cash reserves into the balance sheets of conglomerates. In turn, this allowed conglomerates to increase external borrowings, which grew from RM5 billion in 1988–90 to RM38.650 billion by 1997, with conglomerates rapidly expanding their holdings (Khoo, 2006: 185).[11] The growth pattern of conglomerates, in other words, rested on a leveraged acquisition model rather than on commercial innovation, new product development or organic growth typical of *zaibatsu* and *chaebol* conglomerate enterprise.

Third, economic distortion through inflated stock market capitalisation. By 1995 the government had dismantled its monopoly control over infrastructure projects, transferred forty government-owned entities to Bumiputera trust agencies, and divested 120 state-owned enterprises – in effect injecting massive rents into the stock market. Stock market capitalisation as a percentage of GDP subsequently increased threefold, from 105 per cent in 1989–93 to 342 per cent by

[11] The establishment of the Labuan International Offshore Financial Centre in Malaysia in 1993 also provided a further conduit that facilitated access to foreign funds, reducing transparency and oversight mechanisms regarding issues of excessive leveraging and debt service ability (Jomo and Wee, 2014: 46).

1997 – becoming the fifteenth-largest bourse in the world and the fourth-largest in Asia (Gomez, 2012b: 75; Khoo, 2006: 186–7). Indeed, by 1997 privatised state enterprises accounted for 22 per cent of total stock market capitalisation, indicative of the magnitude of wealth transferred from public ownership to private-sector interests (Gomez, 1994: 17, 2012b: 75).

The extent of this process and the wealth accumulation to specific sectional interests over a relatively short period of time reveals much about the power of the political business state and the rentier politics it supported. By the mid-1990s a class of super-rich, politically connected beneficiaries had emerged whose interests were firmly melded to UMNO – a virtuous circle of money politics that served to tighten the interlocking bonds of the political business state. This transformed not only the structure of Malaysia's economy, but also the modus operandi of conglomerate business culture, which was now enmeshed in a complex network of financial intermediaries, foreign and domestic capital, personal patronage and government–UMNO largesse.

The relationship between the state and financial capital was equally transformed, deepening the connections with international capital while at the same time realigning domestic sectional interests which fractured along multiple lines: rentiers (mostly but not exclusively Bumiputeras) who remained dependent on state–UMNO patronage and operating in protected sectors (e.g. non-tradeable goods), a transitional class whose material wealth had originally derived from patronage but whose interests were increasingly diversified, and an 'entrepreneurial' class that represented new, often inter-ethnic groupings whose material interests were expansionary, outward-looking and pragmatic (Searle, 1999: 53–6). Perhaps most importantly, the traditional race-developmental compact that had defined the NEP had weakened, with class tensions within the Bumiputeras and UMNO becoming more obvious as wealth concentration, political business and cronyism became endemic. These tensions only deepened in the post-Mahathir era.

After Mahathir: Class, Crisis and the Political Economy of Malaysian Neoliberalism

Regardless of the fracturing of race–class interests, UMNO remained the cornerstone of the political business state and of money politics.

Mahathir dispensed concessions to build his personal power base, and doubtlessly his family fortune; Daim, upon stepping down as minister of finance, revealed he had interests in virtually all key areas of the economy, including banking, media and property development, while his assets had grown to RM1 billion and spread across multiple countries; Anwar, likewise, dispensed concessions to build his power base among Bumiputeras. The pioneering work of Gomez (1994, 2002b, 2012b), who extensively maps the complex networks operating between specific political leaders, UMNO, and businessmen, intricately details the networks of power, money, and influence. By the mid-1990s, the commonality among Malaysia's new rich, highly successful Bumiputeras and non-Bumiputeras alike, and of their conglomerate empires, rested in their personal political networks and the fact that they had all benefited from 'major privatised rents' (Gomez and Jomo, 1999: 98–9).

The contours of this particular configuration of Malaysia's political economy were, of course, challenged by the onset of the Asian financial crisis in 1997, which quickly unwound the financial positions of many conglomerates and financial institutions. Foreign and domestic investment collapsed, asset prices tumbled and loan-to-value ratios skyrocketed, shaking consumer confidence and making insolvent numerous enterprises. Mahathir and Daim responded by reasserting the role of the state in the economy, establishing an asset management company, Danaharta, which recapitalised the financial sector and helped write down non-performing loans, while the newly created Corporate Debt Restructuring Committee underwrote specific private-sector debt and liabilities, managing a total of sixty-seven applications from large enterprises for loan funds, including state-owned banks like Bank Bumiputera and Sime Bank (Case, 2005; Khoo, 2006: 186–7).

Renationalisation of distressed assets and some previously privatised enterprises created obvious tensions between attempts to accelerate the entrepreneurial standing of Bumiputera conglomerates and the role of the state in the economy. In 2003, for example, several years after the crisis and as Mahathir was about to stand down as prime minister, no Bumiputera-owned enterprise were among the top ten domestic enterprises, while five GLC's were. Equally, in the process of bailing out domestic conglomerates, the dispensation of emergency financial measures to specific interests was not unrelated to the complex networks of patronage or the pursuit of political aggrandisement.

Mahathir's political feud with Daim in 2001, for example, saw GLCs take over the corporate assets of business elites allied with Daim, while political–business interests jostling for control of Chinese banking interests through measures ostensibly designed to 'consolidate' and 'rationalise' the sector in the wake of the financial crisis were in practice used to advantage Daim's position and patronage networks at the expense of Anwar's (Gomez, 2002b: 108, 2004: 125). Whatever the depths of damage done to the Malaysian economy, the 1997 financial crisis only consolidated the patronage networks of an UMNO-dominated political business state (Gomez, 2002b: 101–7, 2012a: 67; Rodan, 2004: 120–4).

In the post-Mahathir era, first under Abdullah Ahmad Badawi (2003–9) and subsequently under Najib Rasak (2009), there has been no reversal or even tempering of the UMNO 'patronage machine' (Nelson, 2012: 51).[12] Badawi's administration, for example, was cognisant of corruption, not least that it was accepted popular wisdom that the politics of post-financial recovery had been compromised by 'jobs for the boys' at the expense of meritocratic, transparent processes in the awarding of government contracts. But while Badawi attempted to curb some of these practices, his motivations for doing so were driven as much by the need to distance his administration from Mahathir's, consolidate his political power base and regain the support of Bumiputeras – whose view of UMNO had been badly damaged by Mahathir's vindictive personal politics (Jomo and Wee, 2014: 59). Mahathir's sacking of Anwar as minister of finance, ostensibly over policy disputes, and his expulsion from UMNO and subsequent imprisonment on allegations of sodomy, created widespread outrage and eroded support for UMNO among working- and middle-class Bumiputeras, many of who were Anwar loyalists. Badawi's launch of an anti-corruption drive was thus a populist one, that while successful in unearthing fraudulent customs officials and local state government bribery activities, and netting the scalps of a few senior heads of GLCs, was a 'low- to mid-level anti-corruption drive' that left untouched the systemic patronage networks on which UMNO depended for its political survival (Khoo, 2006: 191).

[12] Nelson (2012: 51) quotes the astonishing figures that UMNO has 'at least 17,000 branches and 191 divisions'.

There were other reforms, in part demanded by the international investor community, whose suspicions of the financial practices of the government – particularly the manner in which GLCs, financial institutions, the KLSE and stock valuations were open to government directives, often to the detriment of foreign capital – led to the adoption of international practices and greater depths of financial transparency. At the same time, Badawi's acquiescence to international capital also reflected greater international competition for foreign investment, particularly competition from China and Vietnam in electronic and electrical manufacturing. So too, Badawi tempered the focus of state developmentalism, redirecting it towards small and medium-sized enterprise (SME) in an effort to support rural development and a large segment of the population engaged in semi-formal enterprise. Cottage industries such as halal foods, for example, were supported through the introduction of a vendor scheme designed to create trade links with GLCs and multinational enterprise, while financial support in the form of soft loans was extended through the SME Bank. The GLCs were also reformed, reflecting in part their strategic position in the economy, but also the lead role they could play in economic and industrial upgrading. Performance indicators, service delivery and efficiency targets were thus subsequently introduced for both government and GLCs, along with tighter budget management practices (Case, 2005: 302; Gomez, 2012a: 68–71). Under Badawi, reforms generally aimed to sustain the role of the state as a developmental one, while liberalisation measures were put on hold out of political necessity to shore up UMNO's and Badawi's political base.

Najib's administration, by contrast, has been more assertive in utilising liberalisation as a means of repositioning Malaysia as a destination for foreign capital. The global financial crisis (2008) impacted Malaysia severely, causing large falls in inward foreign and domestic investment and a corresponding fall in economic growth. The crisis highlighted Malaysia's continuing reliance on foreign investment as a driver of economic growth, and more fundamentally the deepening class divisions among Bumiputeras and emerging contradictions in UMNO's support base. Najib responded to the crisis with a series of policies (the New Economic Model or NEM) designed to remove the Bumiputera equity requirements on foreign investors in various sectors (tourism, health, transport), liberalisation of foreign equity ownership ceilings for financial institutions (investment banks, insurance companies, Islamic financial institutions) from 49 to 70 per cent, as well as the removal of requirements that 30 per cent of share equity be preserved for Bumiputeras for new share listings – reduced to 12.5 per cent (Gomez, 2012a: 71–3). At the same time, more market-based instruments were introduced, including the removal of energy and fuel subsidies, the extension of user-pay service delivery models to an enlarging range of government services and encouragement of private service provision in health and education – among others.

Najib's embrace of liberalisation seemingly at the expense of Bumiputeraism caused strong opposition, not least from Mahathir himself. For working- and middle-class Bumiputeras, liberalisation raised concerns about economic opportunity, fairness and equity, especially in a context where politically linked businessmen and UMNO politicians had historically gamed access to state rents through privatisation. Indeed, under the NEP where 30 per cent of share equity was meant to be reserved for Bumiputeras, in practice this had been disproportionately captured by elites – a fact acknowledged by Najib, who disclosed that 'of the RM54 billion worth of quoted stock assigned to Bumiputeras since the commencement of the NEP only RM2 billion remained in the hands of the community in 2009' (Gomez, 2012a: 73). The privatisation of state rents as a means of enhancing Bumiputera capital ownership had in reality served to transfer vast fortunes to an elite few. Not surprisingly, popular support for UMNO eroded, fracturing along class lines and revealed in a survey in 2010 which found that only 22 per cent of Malaysians trusted UMNO (Nelson, 2012: 53).

Najib's response has been to hold course, albeit attempting to assuage discontent through targeted measures. These include the Government Transformation Programme (GTP) to enhance public safety, fight corruption, raise living standards and improve rural infrastructure and public transport; the introduction of means-tested funding initiatives to support the poorest 40 per cent of households; and the introduction of a Bumiputera Economic Empowerment (BEE)(2013) agenda, involving the direct injection of RM31 billion into Bumiputera business contracts and government subsidies to Bumiputeras (Chin, 2014: 177). These initiatives form part of Najib's 'new politics' and a broader '1Malaysia' (2009) agenda designed to secure UMNO's legitimacy by addressing an increasingly vocal 'politics from below' and popular demands for government responsibility and performance in the delivery of public services while stressing national unity, ethnic harmony and government efficiency (O'Shannassy, 2013: 430).

The extent to which Najib can engineer policy responses to reset Malaysian politics or the perception of UMNO among Bumiputeras and non-Bumiputeras alike, however, is problematic. Piecemeal policy measures that, on the one hand, push for deeper liberalisation and privatisation, while on the other failing to address race- and class-based inequalities by abandoning notional redistributive or affirmative action measures, threaten the political power base on which UMNO's legitimacy has rested historically. More obviously, they also reflect a fundamental failure to address the underlying reasons for popular discontent: patronage and the deepening of money politics. Rather than champion unity or furnish the means to secure political support, the 1Malaysia agenda commenced under Najib, for example, has in fact proven the greatest single threat to his personal political survival and to support for UMNO. The 1Malaysia Development Berhad (1MDB) (2009), a Malaysian government sovereign wealth fund, was established to spearhead strategic developments that would support the longer-term economic development of the country (particularly in tourism, real estate, energy and agribusiness) and generate returns for all Malaysians. By 2015, however, the fund was in serious financial trouble with debts of RM42 billion and in the midst of a cash-flow crisis with depreciating assets (Grant, 2015). More seriously, the poor performance of 1MDB was widely attributed to political interference in business decisions, with political pressure brought to bear in asset purchases reportedly favouring Najib's personal patronage networks. Most explosive of all, however, have been leaked emails published by the *Sunday Times* of London which allege that a Penang-based financier with personal connections to Najib's stepson had siphoned off several hundred million dollars from a joint-venture deal with 1MDB, while the *Wall Street Journal* revealed documents purporting to show that US$700 million from 1MDB had found its way into Najib's personal bank accounts (Wright, 2015; Wright and Clark, 2015). As ever, money politics, patronage and the complex networks connecting UMNO and businessmen to rents and deals often mediated by GLCs remain endemic to Malaysian political life.

Conclusion

The themes of this volume focus on the sublimation of the developmental state amid broader, structural changes in the international political economy, and the extent to which liberalisation and marketisation are now *de rigueur* policy responses across an increasing swath of states and sectors in Asia. The analysis in this chapter, however, suggests that several qualifications are necessary when making these observations in relation to Malaysia. Clearly, the state remains a central actor in the Malaysian economy, with several GLCs continuing to dominate across various sectors. If anything, the presence of the state (typically through GLCs) has been a strong driver of growth and economic development – and continues to be so – but in ways that are dissimilar to the historical experiences of East Asian developmental states such as South Korea or Japan. Among East Asian developmental states, for example, industrialisation was engineered through informal corporatist agreements between capital and labour, with the state (political bureaucracy) mediating specific socio-economic bargains about investment, taxation, social protections, employment, wages and productivity (Woo-Cumings, 1999). The capture of the state by techno-political elites, in other words, was used to consolidate the interests of capital by rapidly developing industrial economic activity, while the interests of labour were addressed through modest forms of redistribution, social protection arrangements and the cumulative impact of growth expressed in rising standards of living.

By contrast, the Malaysian 'developmental state' has been deployed in fits and starts, often bypassing the bureaucracy and operating outside a plan-rational modus operandi. Technocratic state forms have instead been subsumed by ethnocratic competition to control the state and state rents, which in turn have been used as the basis for constructing political constituencies, ensconcing political control and legitimacy. The Bumiputera capture of the state was thus used first and foremost to dismantle the race division of labour and existing colonial patterns of capital ownership by constructing a *de facto* compact between Chinese capital, the state and Bumiputeras to bring foreign (predominantly British) holdings under state control through a combination of financial equity participation, acquisition by takeover, nationalisation and affirmative-action Bumiputeraism. These processes were, of course, developmentalist in as much as they helped spur an initial wave of economic growth and industrialisation. At the same time, however, they also set Malaysia on a specific developmental trajectory, in which the redistribution of newly acquired state rents along race lines bifurcated the economy: one relatively protected from international forces and operative predominantly in non-tradable goods sectors, the other dominated by Chinese and foreign capital and operative predominantly in the export sector (Case, 2005: 286).

This was and remains significant. Among East Asian developmental states, for example, the emphasis on export-led growth, state-directed investment into export industries, and the utilisation of state rents to seed private capital formation dominated state approaches to development. In Malaysia, by contrast, the distribution of state rents along race lines became *the* dominant developmental motif, while the more dynamic export sectors of the economy remained reliant on foreign investment, Chinese capital and the largesse of government policy in terms of concessions to attract foreign capital. Much of the focus on economic development in the Malaysian context was thus subsumed amid a national project of social re-engineering, but in ways that were not always calibrated with export-focused growth or bridging Malaysia's racial economies.

Perhaps because of the predominance of race as a key instrumentality in political contest in Malaysia, this also held important implications for the development of bureaucratic and institutional capacity, witnessing the sublimation of the state and key institutions to UMNO – indeed the sublimation of business to politics. And since the business of UMNO rested essentially on a developmental agenda focused on redistributive Bumiputeraism in order to secure its political constituency, rents, patronage and money politics became a natural corollary, displacing and retarding the emergence of more institutionalised forms of governance in which the bureaucracy, the state and party politics are equally balanced.

These observations are not new. They do, however, tell us why measures like privatisation and liberalisation have been deployed; not exclusively because of changing ideational values among elites, or because of economic or political necessity, but often because of the way in which they extend the reach of state rents. The multiplier effects of privatisation in terms of the equity it releases to sectional interests, the political leverage it secures and the patronage it enables far exceed a simple politics of dispensing monopolies to politically connected individuals. Divesting state assets obviously releases enormous financial value, but financialising them through equitisation and listing on the stock market multiplies financial returns, allows access to leverage and international capital and deepens patronage networks and influence. The creation of Malaysia's conglomerates rested on this process, intensifying money politics and the configuration of Malaysia as a political business state centred on UMNO.

The contradictions of this particular configuration of power are many. The unifying force of race so central to UMNO's political power base and legitimacy has eroded over time as elite sectional interests capture rents and wealth but while privatisation and liberalisation expose working- and middle-class Bumiputeras to greater competition, less state largesse and reductions in redistributive Bumiputeraism. While race remains an important element in defining political identity in Malaysia, increasingly the economic interests of Bumiputeras are also being expressed along class lines, threatening the power base of UMNO and potentially its ability to continue with political business as usual.

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