

## DISINTEGRATION OF THE COLONIAL ECONOMIC LEGACIES AND SOCIAL RESTRUCTURING IN MALAYSIA

KENZŌ HORII

### INTRODUCTION

**T**HE New Economic Policy (NEP) of Malaysia (1971–90) was launched in 1971 as a direct response to a serious ethnic riot in Kuala Lumpur on May 13, 1969, the May 13 Incident. Many reports and books analyzing the nature, causes, and background of this incident have been published [3] [25] [14] [4].

In my view, the May 13 Incident was an outburst of chronic malaise suffered by the multi-ethnic Malaysian society since Independence in 1957. The fundamental contradiction of Malaysian society—the concentration of economic wealth in the hands of the rich Chinese and monopoly of political power by the Malay ruling groups—exploded to the surface under the impetus of national political excitement accompanying the 1969 general elections. Superficially the incident was triggered by public dissatisfaction with the election results, but the underlying cause was the stubborn persistence of a colonial economic structure which perpetuated and even expanded economic inequalities among ethnic groups. The launching of the NEP seemed to indicate that the Malay ruling groups had the same view about the cause of the riot. The NEP aimed to rectify the skewed social structure formed in the eighty-four years of colonial rule so that multi-ethnic Malaysia could achieve political stability and national unity, with the restructuring of the socioeconomic system.

Comparing the economic policies taken by Southeast Asian countries in the postwar period, we find that only Malaysia has succeeded in carrying out social reform through the disintegration of the colonial economic structure by drawing upon local economic and political resources. In the course of implementation of the NEP, many sociopolitical inter- and intra-ethnic group tensions did heighten several times, but each time Malaysia deftly succeeded in quelling them [17]. Economically it did experience debt crises, fiscal crises, and minus growth due to external influences, but overall the country has maintained a high rate of economic growth. In this sense, the NEP has served as a clear guideline for Malaysia and has achieved the goal it set itself at the outset.

## I. HISTORICAL REVIEW OF THE BUMIPUTERA POLICY: BASIC NATURE OF ARTICLE 153 OF THE CONSTITUTION

The New Economic Policy of Malaysia implemented over twenty years is termed the Bumiputera<sup>1</sup> policy as its thrust is ethnic preference for Malays. It is also known as the Malay first policy as it puts Chinese and Indians in a weaker position than the Malays who are the main policy target group. The legal authenticity of the Bumiputera policy (hereafter NEP and Bumiputera policy are used interchangeably) is given by Article 153 of the Constitution promulgated at Independence in 1957.

The two major goals of the Bumiputera policy were the elimination of poverty from among all households irrespective of ethnic differences, and the reorganization of social structure so as to narrow and overcome economic gaps between ethnic groups and regions. In order to promote these goals, quotas and other privileges were conferred on Malays with respect to shareholding, employment, education, licenses and permits, land ownership, and finances. Most of these measures are based on Article 153<sup>2</sup> of the Constitution (Article 89 concerning land ownership).

Items 1 and 2 of Article 153 state that protection of Malay privilege is the

<sup>1</sup> Bumiputera means in Malay "sons of the soil." It denotes Malays and other indigenous people as distinct from Chinese, Indians, and other non-indigenous residents. Bumiputera roughly comprises the following three groups: (1) Semai, Jakun, Senoi, and other indigenous minorities living in Peninsular Malaysia; they are also called *orang asli*; (2) Malays, who are the majority in the peninsula and a minority in Sabah and Sarawak; they also include assimilated migrants from Sumatra and Java; all Malays are muslims, but Chinese and Indian muslims are not Bumiputera; (3) Kadazan, Murut, Kelabit, and other indigenous peoples in Sabah, Iban (Sea Dayak), Bidayuh (Land Dayak), Melanau, and other indigenous peoples in Sarawak, and Portuguese-Malay halfbreeds in the peninsula; most of them are non-muslims; of them the indigenous peoples in Sabah were officially called "pribumi" in the late 1970s and the first half of the 1980s. The scope of Bumiputera however has changed depending on the situation.

<sup>2</sup> This article begins with this sentence:

"(1) It shall be the responsibility of the Yang di-Pertuan Agong [king or supreme sovereign] to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities in accordance with the provisions of this Article.

(2) Notwithstanding anything in this Constitution, but subject to the provisions of Article 40 and of this Article, the Yang di-Pertuan Agong shall exercise his functions under this Constitution and federal law in such manner as may be necessary to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and to ensure the reservation for Malays and natives of any of the States of Sabah and Sarawak of such proportion as he may deem reasonable of positions in the public service (other than the public service of a State) and of scholarships, exhibitions and other similar educational or training privileges or special facilities given or accorded by the Federal Government and, when any permit or license for the operation of any trade or business is required by federal law, then, subject to the provisions of that law and this Article, of such permits and licenses" [10, p. 145].

administrative responsibility of the king.<sup>3</sup> Furthermore, Item 5 of Article 38 of the Constitution (Conference of Rulers) provided that the Conference of Rulers<sup>4</sup> be consulted before any change in policy affecting administrative action under Article 153. Revision therefore could not be made merely by parliamentary procedure but only by the approval of the Conference of Rulers. By this system the privileges of the Malays were doubly protected, by the parliamentary system and by the Conference of Rulers.

Since Article 153 could not be abolished unless the Conference of Rulers agreed, the Malay privileges and the Conference of Rulers become legally and constitutionally inseparable. This juridical relationship between the two undoubtedly had played a large role in maintaining and strengthening solidarity and order in the Malay community.

Moreover, a constitutional amendment made in 1971—the year the Bumiputera policy was enforced—provided that any change in Item 5 of Article 159 would be subject to approval by the Conference of Rulers. This amendment established the absolute power of the Conference of Rulers in maintaining the privileges of the Malays.

A further important constitutional amendment on March 3, 1971 revised provisions about freedom of speech, assembly, and association in Article 10. Matters pertaining to (1) the sovereignty of the rulers, (2) the status of Malay as the national language, (3) Malay special privileges, and (4) civil rights (citizens' rights) were excepted as objects of public and parliamentary criticism [17, p. 14].<sup>5</sup> Public debate on these matters was thus prohibited. The government claimed that this step was taken because these were "sensitive issues" likely to generate social and political unrest in a multi-ethnic society like Malaysia. By changing the constitution in this manner the Malaysian government succeeded in legally forestalling any expression of criticism, dissatisfaction, and opposition with regard to the Malay privileges.

A further constitutional arrangement stipulated that not only the king but also each ruler (sultan) of the states could withhold and exercise the same functions as the king to protect Malays in his own state.<sup>6</sup> With these legal measures, the sultans and Malays were bound together in a protecting/protected relationship on

<sup>3</sup> The Malaysian king or supreme sovereign, called Yang di-Pertuan Agong, is coopted by the members of the Conference of Rulers. His term of office is five years.

<sup>4</sup> The Conference of Rulers consists of the hereditary rulers of nine states and the governors of the four states of Melaka, Penang, Sabah, and Sarawak.

<sup>5</sup> For the detailed explanation of the Constitution (Amendment) Act, 1971 and Article 10, see Tun Mohamed Suffian et al. ed., *The Constitution of Malaysia, Its Development: 1957-1977* (Kuala Lumpur: Oxford University Press, 1979), pp. 12, 329, 379, 381-83.

<sup>6</sup> Item 10 of Article 153, which states: "The Constitution of the State of any Ruler may make provision corresponding (with necessary modifications) to the provisions of this Article" [10, p. 148]. On the strength of this stipulation, the Laws of the Constitution of Kedah (1963), for instance, has Article 70 concerning "reservation of quotas in respect of services, permits, etc. for Malays," which is about identical with the corresponding clause of the Federal Constitution. It declares that the protection and implementation of the privileges of the Malays in the state are the responsibility of the state's sultan.

TABLE I  
CHANGE OVER TIME OF THE ETHNIC COMPOSITION OF  
POPULATION IN PENINSULAR MALAYSIA

	(No. of persons)				
	Malays	Chinese	Indians	Others	Total
1911	1,437,712 (53.5)	916,619 (34.3)	267,203 (10.0)	51,220 (1.9)	2,672,754 (100)
1921	1,651,051 (49.2)	1,174,777 (34.9)	471,666 (14.0)	60,560 (1.9)	3,358,054 (100)
1947	2,427,834 (49.5)	1,884,534 (38.4)	530,638 (10.8)	63,805 (1.3)	4,906,811 (100)
1957	3,125,500 (49.8)	2,333,800 (37.2)	696,200 (11.0)	123,300 (2.0)	6,278,800 (100)
1970	4,841,000 (52.7)	3,286,000 (35.8)	981,400 (10.7)	73,000 (0.8)	9,181,700 (100)
1980	6,315,000 (55.3)	3,865,400 (33.8)	1,171,100 (10.2)	74,500 (0.7)	11,426,600 (100)
1985	7,325,000 (56.5)	4,248,400 (32.8)	1,311,900 (10.1)	82,900 (0.6)	12,968,800 (100)

Sources: (1) Figures for 1911 and 1921 from *The Census of British Malaya, 1921* (London, 1922), p. 29; all figures include Singapore population. (2) Figures for 1931 and 1947 are from [23]. (3) 1970 and 1980 figures are from population census of the years concerned.

Note: Figures in parentheses are percentages.

the basis of legally guaranteed Malay privileges, to the exclusion of other ethnicities. This relationship exists at both the federal and state level. Then how did the Malay privileges now based on these five constitutional arrangements originate and develop.

## II. ESTABLISHMENT OF COLONIAL RULE

### A. *Formation of Multi-ethnic Society*

The ethnic composition of the 13 million Peninsular Malaysians as of 1985 was 56.5 per cent Malays, 32.8 per cent Chinese, 10.1 per cent Indians, and 0.6 per cent others (Table I). The ethnic composition, as the table indicates, has not changed basically, despite slight fluctuations, since 1911. The basic pattern of ethnic distribution emerged in the process of the colonial policy implementation in the peninsula in the second half of the last century.

The Malay Peninsula became a British colony following the conclusion of the Pangkor Engagement between Britain and the Sultan of Perak State in 1874. Pre-colonial Malay society had two salient features with regard to the social and economic situation of its rulers, namely, the vulnerability of the economic basis

TABLE II  
ANNUAL CHINESE AND INDIAN IMMIGRANTS, 1890-1915

(No. of persons)					
	Chinese	Indians <sup>a</sup>		Chinese	Indians <sup>a</sup>
1890	127,936	3,197	1907	227,342	31,608
1895	190,901	3,645	1908	153,452	23,602
1900	200,947	27,278	1909	151,752	18,443
1901	178,778	12,055	1910	216,321	44,643
1902	207,156	2,059	1911	269,854	60,368
1903	220,321	4,198	1912	251,644	43,043
1904	204,796	11,151	1913	240,979	48,493
1905	173,131	19,785	1914	147,150	-11,856
1906	176,587	30,162	1915	95,735	25,003

Source: Compiled from [23, Tables 2.2 and 2.9].

<sup>a</sup> The net inflow, i.e., immigrants—repatriates and persons returning for short visits. The data for the net Chinese inflow from 1881 through 1915 is not available.

of the traditional rulers, or sultans, and the instability of their political status as typified by frequent conflicts over succession.

Following Perak, Britain placed under its control Selangor (the same year as Perak), Negeri Sembilan, and Pahang, and in 1896 the Federated Malay States were established. By introducing a residential system Britain limited the powers of the sultans to matters pertaining to Islam and traditional law (*adat*), gained control of military, diplomatic, financial, and educational affairs, and thus practically established its full reign over the country. In 1909 the tax farming system, which had been the financial base of the traditional rulers, was abolished followed by the *corvée* system in 1910, and in the same period the slavery system was prohibited in one state after another. While the sultans' powers were thus curtailed, their economic status became more secure as the state governments began to pay them pensions. Their political position also became stabilized as the nobility were educated in English and employed as middle administrative officers under colonial rule.

With conclusion of the Anglo-Siamese treaty in 1909 the British colonial government expanded its control to organize other states, Kelantan, Kedah, Terengganu, and Perlis into the Unfederated Malay States, where colonial control exercised through British advisors was less strict than in the Federated States. In 1914 the inclusion of Johor completed the prototype of the current peninsular state formation.

This process of expanding British political control over the peninsula resulted also in the growth of the colonial economy with all its vested interests. British capital made inroads into Malaya accelerating commodification of land (introduction of the concept of individual land ownership) [26] [6], and masses of Chinese and Indians were introduced into the peninsula, which thus began to be transformed into a multi-ethnic colonial state (see Tables I and II). Besides the Chinese and Indians, many people were brought in from Java and Sumatra, who later became

TABLE III  
YEARS OF ESTABLISHMENT OF STATE ECONOMIC DEVELOPMENT  
CORPORATIONS (SEDC)

SEDC	Year of Incorporation	SEDC	Year of Incorporation
Selangor SEDC	1964	Kelantan SEDC	1967
Penang SEDC	1965	Melaka SEDC	1967
Perengganu SEDC	1965	Negeri Sembilan SEDC	1967
Johor SEDC	1966	Perak SEDC	1967
Kedah SEDC	1967	Perlis SEDC	1973

naturalized as citizens of the Federated States. The Chinese and Indian population increased remarkably following the development of rubber-tree growing and tin extraction after 1910.

The most important factor relating to the economic structure which emerged under the colonial rule was that of ethnic job specialization. British were firmly entrenched both at the top and at the base of the colonial economic structure—colonial administration, large rubber plantations, tin mines, foreign trade, insurance, and shipping. Most Malays were concentrated in the traditional agricultural sector, where they engaged in small-scale traditional rice growing and then began rubber cultivation at the beginning of this century. They were increasingly bound to the two crops. The Chinese middle class in their role as merchant capitalists, monopolized small- and medium-scale foreign trade and domestic markets, and as commercial capitalists, traditional, local financing, and small- and medium-scale banking. Many Chinese also became managers and workers of rubber plantations and tin mines. Indians worked on the British rubber plantations, and for the railways which were carrying products of the colonial economy or for road construction. Many of the Indians thus settled at the bottom of the social hierarchy.

#### B. *Birth of Malay Protection Policy*

Britain thus succeeded in the political arena in dividing peninsular Malayan society into ethnic groups to facilitate its rule, and in the economic sphere, in creating a typical colonial economic structure which depended on the export of cheap primary products and the import of British manufactures.

In addition to the creation of a multi-ethnic society, British colonial rule also generated the crucial issue of the protection of the Malays. This was the predecessor of the Bumiputera policy of today. For example, the Malay Land Reservation Enactment enforced in 1913 in Selangor prohibited land ownership by ethnic groups other than Malays in vast agricultural areas of the country and rice growing was set aside exclusively for Malays. The Malay nobility were preferentially promoted to middle officials of colonial administration, and construction of Malay language primary schools was subsidized.

However, the protective policy by nature was not aimed at modernizing traditional Malay society or at raising the standard of living of the Malays. Rather,

it was intended to preserve traditional Malay society while reorganizing it by grossly limiting the traditional despotic powers of sultans. Seen from a different angle, this rule may be considered a kind of colonial trusteeship in which British colonial bureaucrats ruled on behalf of the sultans. This trusteeship however excluded the Chinese and Indians. British policy thus resembled the Bumiputera policy of later years, in that Chinese and Indians were a secondary concern for the colonial bureaucracy.

In the following, we will trace the evolution of this policy of protection.

### III. QUALITATIVE CHANGE IN THE PROTECTIVE POLICY FOR THE MALAYS

#### A. *Malayan Union Plan*

It is not disputed that the colonial policy of protecting the Malays laid the historical legal ground to legitimize the privileges and special status of the Malays in later years. In this sense, the special constitutional concept of privilege which is invoked to protect the Malays, is in an historical continuum from the Malay protection policies of the colonial period.

About when, then, did this early protective policy transform into Malay privileges? The first indication of the shift can be discerned in developments following the introduction of the draft constitution for the Malayan Union proposed by the British in 1946. When Britain returned to the Malay Peninsula after three years and eight months of Japanese occupation, and faced a nationalist upsurge, the Malayan Union plan and draft constitution was presented to the Malay ruling groups as a step preparing the colony for Independence. The three most important provisions were abolition of the sultan system, the granting of equal rights of political and cultural participation to the whole population, and granting of citizenship and nationality to all permanent residents [8]. This draft constitution was intended to create a European-type modern state by admitting equal political participation of the Malays, Chinese, Indians, and minority groups and thus drastically transforming the colonial system.

As the sultans had been forced to collaborate with the Japanese military government, they had had to accept the proposed abolition of the sultanates, but the nobility and other Malay upper classes had a strong sense of crisis, fearing the collapse of traditional Malay society. Out of this sense of crisis, the United Malays National Organization (UMNO) was founded with Johor nobleman Dato<sup>7</sup> Onn bin Ja'afar as leader. It was this Malay political party which opposed the British draft constitution. UMNO demanded two things: that the sultan system be retained under a constitutional monarchy, and that there be specific references to the special position (privileges) of the Malays in the constitution. UMNO thus completely rejected the Malayan Union plan [8, pp. 155-56, 161].

Negotiations continued to bridge the big gap between the colonial government and the Malay side. Finally, Britain retracted its draft constitution and accepted

<sup>7</sup> One of the titles of honor in Malaysia.

a constitutional monarchy based on the sultan system. Concerning the other point of dispute, the privileges of Malays, Britain was barely able to maintain its consistency by getting the Malay side to agree not to write them into the constitutional text. Compromise thus arrived at, the Federation of Malaya came into being. It had however been agreed that the right of the Malays to protection, which had existed during the colonial period, should continue and be dealt with in ordinary law. This meant that what started as protection of Malays in the colonial period came to be interpreted to be the rights and privileges of the Malays. It was no longer a matter of colonial paternalism. Another important point that became clear with the idea of Malayan Union was that UMNO declared Malay privileges to be inseparable from the continuation of the sultan system.<sup>8</sup> Therefore, although the Malay privileges were not written into the Constitution, this and similar other requests opened the way to their legalization in other laws. The special position of the Malays thus began to obtain legal recognition.

#### B. *Malay Privileges Written into the Constitution*

The second turning point as regards Malay privileges came during the period from 1948, the year of formation of the Federation of Malaya, to 1957, the year of Independence. In this period, the Chinese formed the Malayan Chinese Association (MCA: later Malaysian Chinese Association) and the Indians the Malayan Indian Congress (MIC: later Malaysian Indian Congress), and UMNO, MCA, and MIC subsequently got together to form the Alliance Party. The three parties engaged in debate over the Malay privileges as the MCA and MIC asserted their respective ethnic interests. Conflicts followed by negotiations led to the compromise of Malay privileges being written into the Constitution in 1957 simultaneously with Independence [16, pp. 100–102].

In this process, the three parties negotiated over how the ethnic groups involved could rectify imbalances among them. The three parties recognized the fact that the Malays were overwhelmingly strong in political power and the Chinese in economic power. On this basis, the main issue debated was how this disequilibrium in the distribution of political and economic power could be overcome through equalization and democratization. The Malays asked for preferential policies to improve their weaker economic position and demanded the use of Malay as the national language. The Chinese and Indians demanded that Malaysian nationality be granted to all who were born in the territory of Malaysia. They also asked for participation in political processes. These basic demands of the three ethnic groups had already been mutually recognized and some compromise was reached before the Federation of Malaya was founded. But as far as the Malay privileges were concerned, pre-Independence negotiation failed to lead to compromise. As the

<sup>8</sup> A letter of request UMNO presented to the British Government reads in part as follows: "As these States are Malay States ruled by Your Highnesses, the subjects of Your Highnesses have no alternative allegiance or other country which they can regard as their homeland, and they occupy a special position and possess rights which must be safeguarded" (Government of the Malayan Union. *Constitutional Proposals for Malaya, Report of the Working Committee* (Kuala Lumpur: Government Press, 1946), p. 7.



date of Independence drew near, the text of the constitution again became an issue. In 1956, a commission headed by Lord Reid was set up to draft the constitution, and presented its report (the Reid Report) the same year.

The Reid Commission admitted the incompatibility between "common nationality" for all ethnic groups and the "safeguarding of the special position of the Malay." That the Malays would be put in a difficult position should their privileges be abruptly abolished was also recognized but the commission avoided clear constitutional resolution of this contradiction and opted for the formula of the 1948 Constitution of the Federation of Malaya, namely, the continuation of Malay privileges by means of ordinary administrative law. The commission also proposed a time limit to the Malay privileges, recommending that fifteen years after independence they be reviewed and virtually abolished.

The United Malays National Organization, as the representative of the Malay community, vehemently opposed the Reid Commission-drafted constitution, and after further negotiations, obtained constitutional protection of Malay privileges, as well as the dropping of the review clause.

Malay privileges have thus survived since the colonial time though they have undergone gradual transformation by stages. The current period, opening with the introduction of the NEP, is one where Malay privileges are closely tied to the sultan system and the basic strategy of economic development policy under the NEP.

#### IV. THE PURPOSES AND BASIC NATURE OF NEW ECONOMIC POLICY

The basic goals of NEP are mutually complementary; the elimination of poverty and the restructuring of society. For the achievement of the first goal, NEP emphasized generation of job opportunities, growth in productivity, and improvement in social and public facilities in rural areas. In fulfillment of the second goal, NEP pledged to implement the following four policies: (1) promoting large-scale regional development programs not only to develop agriculture but also to create, in the rural areas, "New Growth Centers" which would have urban functions; (2) generating job opportunities proportionate to the population of ethnic groups; (3) increasing the share of Bumiputera in stockholding to 30 per cent in the twenty years from 1971; and (4) creating in the same decades a Bumiputera community which would undertake 30 per cent of the entire industrial and commercial activities of Malaysia [11, Chap. 1].

It was stated that NEP would be implemented in such a way as would not favor any particular group, ethnic or otherwise, and not harm the interest of any particular ethnic group. However, it is obvious that NEP policies have actually been implemented mainly for the sake of Malays. It was also declared that the government would directly participate in economic activities and accumulate capital for itself by establishing public corporations, because should NEP development programs be left to private capital, unfair wealth distribution might arise particularly at the beginning of the period.

More concrete policies were proposed at the Bumiputra Economic Congresses (Konggeres Ekonomi Bumiputra) convened in 1965 and 1968. On the strength of the congress decisions, the government made it clear that more public enterprises, statutory corporations would be established and that when private enterprises were launching new business or augmenting their capital, a set percentage of the shares should be preferentially allocated to Bumiputera.<sup>9</sup>

Underlying these goals and policies is the idea that the Malaysian society as a whole should be restructured.<sup>10</sup> New Economic Policy is thus based on the recognition that the persistence of occupational structure by ethnicity, or ethnically oriented social division of labor, originating in colonial rule, is the real root of the poverty and backwardness of Malay society. The remnants of colonial society should therefore be eliminated through the social reorganization of a structure which gave priority to the economic interests of the colonial rulers, and fostered accumulation of wealth in the hands of the Chinese as complementary to colonial interests in order to give the Malays a proper economic position and role.

The NEP thus should not be regarded merely as an economic policy. Rather, it should be understood as a comprehensive set of policies aimed at restructuring the socioeconomic nature of Malaysian society.

#### V. BUMIPUTRA ECONOMIC CONGRESS AND ESTABLISHMENT OF PUBLIC ENTERPRISES

The most important difference between the Malay protective policy under the NEP and that implemented in the previous periods pertains to the role of the state in the process of capital accumulation. In the pre-NEP periods, the policy of fostering Malay capitalists and entrepreneurs was limited to indirect measures such as encouraging Malays to accumulate capital. But after 1971, under the Bumiputera policy, the state itself began to participate in the capital accumulation process on behalf of, and for the sake of, Bumiputera. The landmark for this transition was the Bumiputra Economic Congresses of 1965 and 1968.

Before 1971, the government had three policies to encourage the growth of Malay capitalists and entrepreneurs: (1) protective policy; (2) policy enabling Malays to hold company shares; and (3) aid policy.<sup>11</sup> These policies were based on the principle that the government would merely create a favorable environment for capital accumulation by Malays but not go further. Before 1971, the government thus accorded preferential treatment for Malays on matters requiring govern-

<sup>9</sup> In actual practice, the Ministry of Trade and Industry temporarily purchases the allotted shares and keeps them in custody on behalf of Bumiputera.

<sup>10</sup> The second prime minister of Malaysia, Tun Razak, was expressing this idea when he said in the Foreword to the Second Malaysian Plan (1971-75) that the purpose of NEP was "to reduce and eventually eliminate the identification of race with economic functions." The Razak was apparently trying to say that NEP was intended to wipe out the ethnic-oriented job and employment structure formed during the colonial rule in Malaysia's history.

<sup>11</sup> For detailed explanations about the three policies see [7, pp. 22-31].

ment permits and licenses, generously extended loans, and provided them with training and education so as to create competent Malay entrepreneurs. On that plane, there was a minimum of competitive principle at work between Malay and non-Malay entrepreneurs and capitalists.

In spite of such efforts, Malay capitalists and entrepreneurs failed to emerge in any satisfactory numbers, with the result that the economic gap between the Malays and non-Malays even widened in this period. Irritation heightened with this situation, and voices became loud calling for direct government intervention to rectify the gap. At the 1965 Bumiputra Economic Congress a proposal entitled "Working Paper on Participation in Industry by Bumiputra" was presented.<sup>12</sup>

This paper proposed that, following the early Meiji Japanese government's policy, the transfer of ownership of state enterprises to private business would lead to the creation and management of state enterprises in later years. The Malaysian government readily accepted the proposal and immediately began to establish a whole spectrum of public entities. The first such bodies set up were State Economic Development Corporations (SEDC), in all states, followed by the establishment of a number of public corporations (Tables III and IV).

The Bumiputra Economic Congress was thus clearly a watershed: the content and direction of the government's Malay protective policy drastically changed under the impetus of the proposals adopted by the congress.

The Malaysian public enterprises are categorized as follows by their legal status. The first are departmental undertakings such as the telephone and telegraphic service and postal service; the second are statutory corporations set up under Acts of Parliament or Enactment of State Legislature. The Urban Development Authority (UDA) and the National Padi and Rice Authority (Lembaga Padi dan Beras Negara—LPN) belonged in the former and SEDCs in the latter category. The third are public corporations founded under the Companies Act, 1965, including the Petroliam Nasional Berhad<sup>13</sup> (PETRONAS, the National Petroleum Corporation) and the Perbadanan Nasional Berhad (PERNAS, the National Corporation). Before the Bumiputra policy period, the first category of enterprises were predominant, but during and after the Second Malaysia Plan (1971–75), more and more corporations were established in the second and their categories. In this period, statutory corporations were first set up, and then their subsidiaries and

<sup>12</sup> "The process of rapid economic growth started in Japan during the Meiji Era (1868–1912). During this era, the feudal structure of the Japanese economy underwent far-reaching changes, *by means of direct State intervention*. Instead of purely encouraging the growth of private capitalist enterprise, positive steps were taken by the State to give the 'big push' necessary to bridge the gap between Japan and the advanced capitalist countries of the West" [13, p. 108]. The author proposed in conclusion that "direct assistance by the Government be given either through the establishment of Development Corporation for Bumiputra or through such existing corporate bodies as are considered appropriate to enable new industries to be established which can be handed over to the Bumiputra once such industries have become viable [13, p. 109].

<sup>13</sup> Berhad ("limited" in Malay) refers to a public company, while Sendirian ("private") Berhad refers to a private limited company. They are abbreviated as Bhd. and Sdn. Bhd. respectively.

TABLE IV  
YEARS OF FOUNDING OF MAJOR PUBLIC ENTERPRISES AND CORPORATIONS

Names of Public Corporations and Enterprises	Year of Incorporation
Federal Land Development Authority (FELDA)	1956
Bank Bumiputra Malaysia Berhad (BB)	1965
Federal Land Consolidation and Rehabilitation Authority (FELCRA)	1966
South Kelantan Development Authority (KESEDAR)	1967
Majlis Amanah Rakyat (MARA, Council of Trust for Indigenous People)	1966
State Economic Development Corporations (SEDC)	1964-73
Agricultural Bank of Malaysia (ABP)	1969
Pahang Investment & Industrial Company Ltd.	1969
Perbadanan Nasional Berhad (PERNAS, National Corporation)	1969
Lembaga Padi dan Beras Negara (LPN, National Padi and Rice Authority)	1971
Pahang Agricultural Development Authority (PADA)	1971
Pahang Tenggara Development Authority (DARA)	1971
Urban Development Authority (UDA)	1971
Selangor Agricultural Development Authority (SEADA)	1972
Johor Tenggara Development Authority (KEJORA)	1972
Pahang Trading Company (PTC)	1973
Johor Port Authority (JPA)	1973
Farmers' Organization Authority (FOA)	1973
Terengganu Tengah Regional Development Authority (KETENGAH)	1973
Food Industries of Malaysia (FIMA)	1972
Permodalan Nasional Berhad (PNB, National Equity Corporation)	1974
Heavy Industries Corporation of Malaysia Berhad (HICOM)	1980

Source: Compiled from Paul Chan, "The New Economic Policy and Corporate Restructuring in Malaysia" (Tokyo: Institute of Developing Economies, 1986), p. 2.16, Table 2.5.

affiliates would be organized under the Companies Act. This practice contributed toward the proliferation of the second and third types of corporations.

Table V categorizes public enterprises and corporations by legal status. The table shows that the statutory corporations either under the federal government or states amount to 181, accounting for 15.2 per cent of the total number of public corporations while their subsidiaries under the Companies Act amount to 951, or 80 per cent of the total. Table VI indicates government shares in the paid-up capital of these corporations by their status (federal, state, or regional corporations). The table tells us that in all categories of public enterprises the

TABLE V  
TOTAL NUMBER OF PUBLIC ENTERPRISES AND THEIR SUBSIDIARIES

Agencies	No. of Enterprises	Share (%)
Federal statutory bodies	80	6.7
State statutory bodies	101	8.5
Government companies	56	4.7
Subsidiary companies	951	80.1
Total of public enterprises	1,188	100.0

Source: [20, p. 10], based on the Ministry of Public Enterprises report.

TABLE VI  
PAID-UP CAPITAL OF PUBLIC ENTERPRISES BY CONTROLLING BODY, 1990

Categories by Controlling Body	No. of Public Enterprises	Paid-up Capital (Million Ringgit) (1)	Capital Paid Up by Government (Million Ringgit) (2)	(2)/(1) (%)
Public enterprises under federal government	565	18,611	12,768	68.6
Public enterprises under state governments	553	5,123	3,857	75.3
Public enterprises under SEDCs	49	236	168	71.1
Total	1,167	23,970	16,793	70.1

Source: Compiled from data given by PNB and the Central Information Collection Unit (CICU).

government's capital share averages more than two thirds, indicating that the government has strong control over all of them. Table VII also corroborates this. According to this table, the government's paid-up capital share is 50 per cent or more in 67.3 per cent of the public enterprises. Those having a government share ranging from 20 to 50 per cent account for 25 per cent and those with a government share of less than 20 per cent only for 8.7 per cent of the total number of public enterprises.

Under what system are such huge amounts of state funds outlaid for public enterprises? The budgetary expenditure of the Malaysian government consists of two categories—current expenditure and development expenditure. The funds needed for the establishment of the said second and third categories of public bodies is appropriated from funds set aside as "private investment fund appropriation from the public sector and others." This terminology reflects the understanding that the fiscal expenditure for public corporations is meant to be eventually integrated with private capital. Public corporations to be established with funds outlaid

TABLE VII  
DISTRIBUTION OF PUBLIC ENTERPRISES BASED ON THE PERCENTAGE OF  
GOVERNMENT'S EQUITY IN THE PUBLIC ENTERPRISE

Percentage of Government's Equity	No. of Enterprises				Ratio (%)
	Federal	State	Regional	Total	
50% or more	277	253	41	571	67.3
Less than 50% but greater than 20%	120	84	8	212	25.0
20% or less	26	37	2	65	8.7
Total	423	374	51	848	100.0

Source: [20, p. 11], based on information collected by the Central Information Collection Unit, PNB.

Note: The numbers of enterprises do not coincide with those in Table V as the years taken as the basis are different.

under this expenditure item used to be called "Off-Budget Agencies (OBA)" under the third and fourth Malaysia plans, but they were renamed "Non-Financial Public Enterprises" (NFPE) under the fifth plan.<sup>14</sup> They are called "off-budget" or "non-financial" because the fiscal disbursements for these corporations can be made without approval by the federal or state parliament. The administrative bodies qualified to set up and register these public corporations comprise three categories—the federal government, the thirteen state governments, and the four local governments (Penang, Kuala Lumpur, Ipoh, and Melaka). Of them, the federal government of course has set up the largest number of public corporations.

## VI. THE ROLE OF THE NATIONAL CORPORATION, PERNAS

The government-established public enterprises and corporations can be categorized by their function. The first group comprises those bodies, typified by PERNAS, which were set up to buy out existing enterprises. This type of agencies contributed most to the elimination of the colonial legacy in the economic structure. The second can be termed the PNB (Permodaran Nasional Berhad, or National Equity Corporation) type engaged in share purchase and distribution on behalf of Bumiputera. The third is the MARA (Majlis Amanah Rakyat, or the Council of Trust for Indigenous People) type whose mission is to educate and create managers for commercial and industrial businesses. The fourth is the RDA (Regional Development Authority) type bodies for rural and regional development, having under their wing numerous public corporations. The fifth is the Bank Bumiputra Malaysia Bhd. controlling most banking operations and financial institutions. The sixth is the HICOM (Heavy Industries Corporation of Malaysia Bhd.) type public

<sup>14</sup> For "Off-Budget Agencies," see Bank Negara Malaysia, *Annual Report, 1983* (Kuala Lumpur, 1984), pp. 103–105; for "Non-Financial Public Enterprises," see Malaysia, *Fifth Malaysia Plan, 1986–1990* (Kuala Lumpur: National Printing Department, 1986), pp. 237–51.

corporations which play a crucial role in the development of the manufacturing industry. The seventh type consists of UDA and other public corporations set up for urban development. Of the seven types, the first type (PERNAS) and the second type (PNB) play the most important role. Let us now examine their functions.

Perbadanan Nasional Berhad (PERNAS), the most important of the government-established public corporations (Table VII), is a public limited company founded in 1969 by the Ministry of Finance ("Minister of Finance Incorporated") under the Companies Act with a paid-up capital of 11.25 million ringgit. Originally founded as a company to conduct trade with China on a monopoly basis, PERNAS set out to buy up British and Chinese companies after the Bumiputera policy was adopted. PERNAS thus served as the spearhead to wipe out the remnants of the colonial system. As of 1988, PERNAS had under its control ninety-six companies including sixty-nine subsidiary companies (more than 50 per cent capital share) and twenty-seven associated companies (20–50 per cent capital share) [21, pp. 100–106]. It functions as a huge public holding company.

Perbadanan Nasional Berhad began its work by taking over British and Chinese companies and establishing eight 100 per cent owned subsidiaries operating one each in the eight major business sectors, insurance, construction, real estate, trading, engineering, securities, mining, and wholesale and retail business. For British companies, the takeover process was subdivided into two stages—the "Malaysianization" stage and "Bumitization" stage.<sup>15</sup> In the first stage of "Malaysianization," the registered offices of the target companies were moved from London to Kuala Lumpur. In the second stage, the Malaysianized companies came to have a Bumiputera majority on their executive board. Management was thus practically shifted to the hands of Malays.

Perbadanan Nasional Berhad has thus annexed British mining interests into the Malaysia Mining Corporation Bhd. "Malaysianization" and "Bumitization" have already been carried out in such giant British agro-enterprises as Guthrie, Harrisons & Crosfield, Sime Darby, and Barlow Boustead. For Chinese enterprises, "Bumitization" has also proceeded in the area of banking and financing. With this completed, the main goal of the Bumiputera policy—the liquidation of the economic remnants of colonial rule—will be achieved. Already, the United Malayan Banking Corporation Bhd. (UMBC), the third largest commercial bank in Malaysia, has been placed under PERNAS control. The Multi-Purpose Holdings Bhd. (MPHB), one of the holding companies of MCA, was once about to control UMBC. UMNO negotiated with MCA on this matter, and as a result MPHB was forced to sell a large part of its equity to firms controlled by UMNO [1].

<sup>15</sup> Low Kam Yoke uses these terminology in his study [9] as follows. "The indigenization process has two stages. First the foreign controlled company is Malaysianized. This just means that a Malaysian group or the State has taken control of the company. The second stage is to restructure it to conform to the New Economic Policy directives regarding ownership and corporate control. We shall term this bumitization. Of course, indigenization and bumitization could be the same process in some cases. Bumitization would also include the takeover of other Malaysian companies by Bumiputras" [9, pp. 94–95].

Formerly, Chinese financial capital, while subject to large British financial and banking interests, had a tight grip on local commercial and financial businesses which controlled the markets of Malay farmers' products as well as commerce and foreign trade conducted by Chinese merchants. But by 1984 nearly 45 per cent of the financial and banking capital was acquired by Bank Bumiputra Malaysia Bhd. and other government-controlled banks and institutions [2, Tables 2-9, 2-10]. PERNAS has thus undermined the legacy of the colonial economy by annexing both British and Chinese enterprises and has contributed to the goal of increasing Bumiputera's stock ownership to 30 per cent.

## VII. MOBILIZATION OF BUMIPUTERA MASS CAPITAL

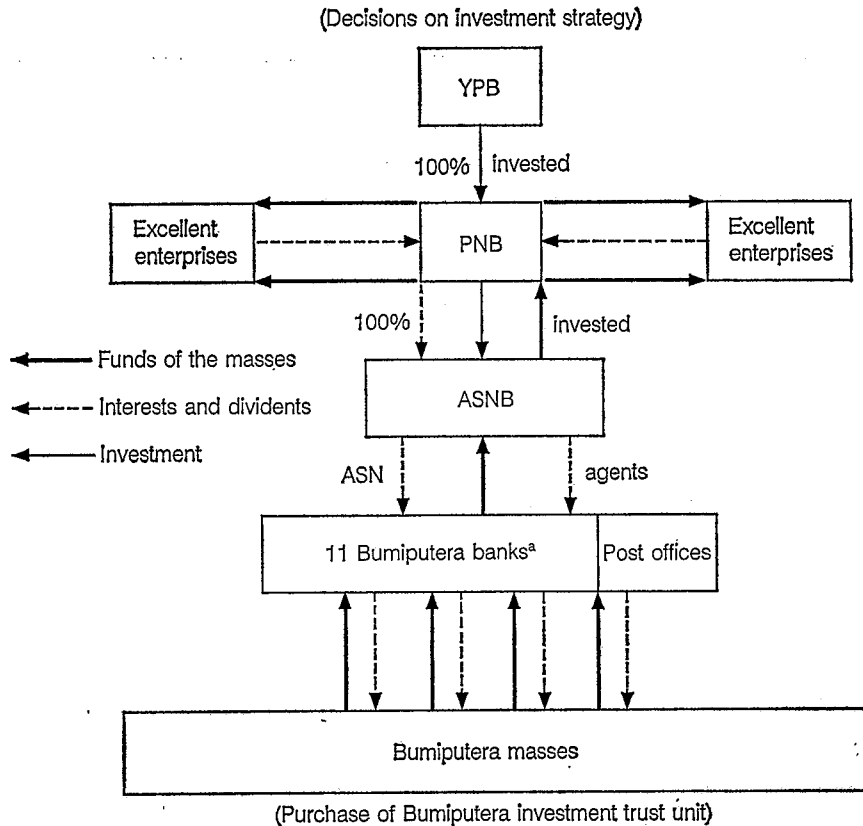
Another task the government faced was how the colossal capital stock accumulated by the government should be distributed. Since 1978, the government has set out to distribute the capital stock purchased from British, Chinese, and other companies among the Bumiputera masses. Firstly, it wanted to prevent the distributed capital stock from being concentrated in the hands of high ranking officials and rich Malays. Secondly, it wanted to create an organizational device to prevent the stock shares distributed to Bumiputera from being resold to non-Malays. The second consideration stemmed from the government's bitter earlier experience. The National Investment Company Ltd. (NIC), set up earlier than PERNAS to encourage Bumiputera to hold equity shares, failed to discourage the Bumiputera stockholders from selling their shares for capital gain [12, p. 73]. This was because NIC had no effective means to prevent such an eventuality.

It was to meet these two objectives that the Malaysian government contrived the unit trust scheme known as the Amanah Saham Nasional (ASN). This scheme has three implementing arms: (1) the Bumiputera Investment Fund (Yayasan Peraburan Bumiputera—YPB, founded in 1978), (2) PNB (founded in 1979), and (3) the Amanah Saham Nasional Berhad (ASNB, the national investment trust corporation, founded in 1979). YPB is the agency to make and decide policies for PNB, and is headed by Prime Minister Mahathir as president. PNB is 100 per cent owned by YPB and engages in actual investment operations by buying blue chips implementing YPB policies. ASNB was established to distribute to Bumiputera masses the shares PNB purchased by the unit trust formula. It is 100 per cent controlled by PNB [9, pp. 220, 228-29, 230]. The mutual relationships among the three bodies are shown in Figure 1.

Under the Bumiputera policy, the government invested in 674 companies by 1981, the investment said to total 2,145 million ringgit. How much has since been invested has not been disclosed. In 1981 the government decided to sell the purchased equity shares to Bumiputera within twenty years. The government selected 21 excellent companies out of the firms in which it had invested and decided to sell to Bumiputera 660 million ringgit worth of their stock shares. Five hundred and fifty-two million ringgit worth of these shares were transferred to PNB to establish the National Trust Fund, and the remaining 108 million ringgit portion was to be transferred to Bumiputera companies, their employees, and Bumiputera organizations.



Fig. 1. Organizational Relationships among Different Units of the National Unit Trust Scheme for Bumiputera Masses



Source: [7, p. 38, Figure 1].

<sup>a</sup> Malayan Banking Bhd., United Malayan Banking Corporation Bhd., United Asian Bank, Bank Bumiputra Malaysia Bhd., Bank Rakyat, Bank Pertanian Malaysia, Perwira Habib Bank, UMBC Finance Bhd., Kwong Yik Bank Bhd., Sabah Bank Bhd., and Sabah Finance Bhd.

About half of the companies and groups thus chosen as equity share recipients, or ten companies, were PERNAS subsidiaries. They included Malaysia Mining Corporation Bhd., Bank Bumiputra Malaysia Bhd., Kontena Nasional Sdn. Bhd., Malayan Banking Bhd., Komplek Kewangan Malaysia Bhd. (MARA's financing arm), and three subsidiaries of Bank Pembangunan Malaysia Bhd. (the Development Bank of Malaysia) [9, p. 225]. From this fact it is clear that the government intended to increase Bumiputera's equity share by conferring shares massively on the executives and employees of PERNAS subsidiaries. By November 1986, PNB invested in forty-three public corporations including the said ten.

TABLE VIII  
INVESTMENT SHARES OF PNB AND ASNB BY SECTOR

	1989 (ASNB)		1990 (ASNB)	
	ASNB (%)	PNB (%)	Investment Value (Million Ringgit)	Share (%)
Finance	24.5	13.7	3,745.0	34.6
Plantations	30.2	52.1	2,956.2	27.3
Mining	3.2	10.2	234.0	2.2
Industrial	31.0	17.7	883.8	8.2
Properties	11.1	6.1	2,994.1	27.7
Total	100.0	100.0	10,813.1	100.0

Source: Data for 1989 are from [15]. Data for 1990 are from Amanah Saham Nasional Bhd., "Laporan Kepada Pemegang<sup>2</sup> Unit" [Report to unit trust holders] (1990).

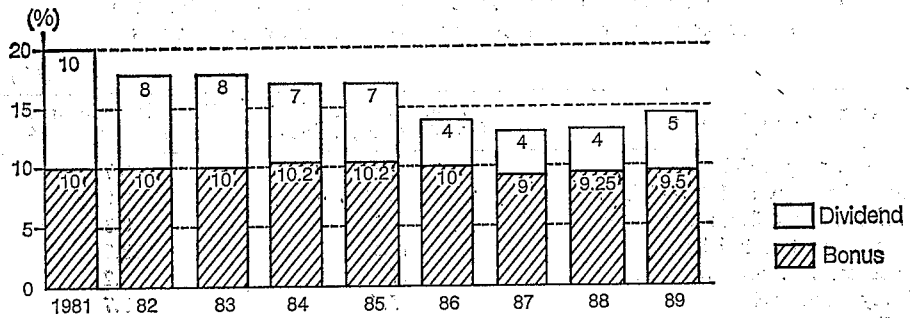
Details aside, the establishment of the said three agencies and the transfer of the equity shares bought by government in the name of the Bumiputera policy to PNB and then to ASNB marked the completion of all preparations for the final unit trust type transfer of these equity shares to the Bumiputera masses. It is important to note here that even thereafter the government purchased more equity shares through PNB and transferred them to ASNB. How then has PNB procured funds for its equity-share purchase operation? But before answering this question, let us examine how and how much PNB and ASNB have invested in what categories of excellent enterprises (Table VIII).

Table VIII casts light on the characteristic behavior of PNB and ASNB. As of 1989 PNB bought from the plantation sector 52.1 per cent of the stock shares purchased that year while ASNB's investments were about evenly dispersed over different sectors, 24.5 per cent in the financial sector, 31 per cent in the industrial sector, and 30.2 per cent in the plantation sector. But in only one year's time, by 1990, ASNB's investment pattern drastically changed, investment in the industrial sector plummeting to 8.2 per cent and that in the property sector jumping from 11.1 per cent to 27.7 per cent, up almost 17 percentage points. Its investment in the financial sector also rose to 34.6 per cent. As this change of investment pattern shows, ASNB swiftly shifted its investment to high interest sectors in order to be able to pay high dividends to Bumiputera who had trusted it with their money.

In fact ASNB is paying high dividends plus bonuses to Bumiputera masses. Figure 2 shows that from 1981 through 1989 ASNB was paying very high rates of dividend and bonus. The dividend rate in this period dropped from 10 per cent in 1981 to 4–5 per cent in the second half of the decade, but the bonus rate maintained the high level of 10 per cent or so. Overall, the Bumiputera masses were receiving 15–20 per cent interest throughout the period. The interest is so high that Bumiputera can well expect a handsome gain even if they borrow money from ordinary banks and entrust it with ASNB.

How much has PNB invested in various businesses? PNB started in 1979 with paid-up capital of 100 million ringgit, but it is said that it has at its disposal several

Fig. 2. ASN's Dividend and Bonus Rates



Source: [15, p. 17].

times more funds. In fact PNB operated 500 million ringgit under the Third Malaysia Plan (1976–80) and 1,500 million ringgit under the Fourth Malaysia Plan (1981–85), totaling 2,000 million ringgit. It is also said that additionally the government transferred equity worth 1,500 million ringgit at the market value to PNB. This sum added, PNB may have had a huge amount of 3,500 million ringgit funds for operation [9, pp. 230–31]. Moreover, PNB can expect the government's financial help anytime it is needed. There is practically no limit to fund availability to PNB, it is believed.

The government's loans to PNB carry no interest, and the term of their repayment has never been publicly disclosed. PNB at times borrows from the government without offering any security [9, pp. 231–32]. Under such extremely favorable conditions, PNB has been rapidly increasing its stockholding.

Lastly, let us examine to which social strata of Bumiputera masses the shares of companies, acquired by PNB, were distributed, in the form of units through the ASN. According to 1984 statistics issued by PNB, 1,622,107 Bumiputera investors purchased a total of 1,376.6 million ringgit worth of units, 848.7 ringgit per investor [9, p. 260, Table 5.9]. As the ASN system sets the ceiling of individual trust money at 50,000 ringgit, the actual average amount trusted per person is quite low. Now let us see the breakdown of the investors by social stratum (Table IX). Workers, non-clerical employees, farmers, and other relatively poor investors accounted for 34.4 per cent of the total number of investors, but they represented only 17 per cent of the total investment. The corresponding percentages were 0.1 per cent and 0.7 per cent, respectively, for the group of sultans, aristocrats, and politicians, and 0.9 per cent and 9.0 per cent, respectively, for the group of administrators and senior technicians. For the last group, the share of investment was ten times the numerical size of the group.

Let us compare these 1984 figures with the corresponding 1990 statistics (Table X) though strict comparison is difficult as the categorization of social status and profession has changed. The investment per person soared 3.2 times to 2,752 ringgit and the number of investors grew 1.5 times to 2.46 million. It is clear that ASN's trust investment system deeply penetrated Bumiputera society in the six year period. Though it is difficult to clearly identify social group-wise tendencies,

TABLE IX  
SHARES OF ASN INVESTMENT TRUST UNIT PURCHASERS IN THE NUMBER OF  
INVESTORS AND THE VALUE OF NET INVESTMENTS BY OCCUPATION

Social Status or Occupation	Share in No. of Investors, Sept. 1984	Share in Investment Value, Sept. 1984
Rulers and politicians	0.1	0.7
Administrators and technicians	0.9	9.0
Middle-level officers and officers	2.1	8.3
Clerical and technicians	10.5	13.2
Laborers and non-clerical staff	17.1	9.2
Army personnel	5.7	3.7
Police personnel	3.5	2.5
Teachers	4.5	9.9
Farmers	17.3	7.8
Fishermen	0.9	0.4
Businessmen	2.1	4.9
Self-employed	5.2	4.0
Retired	0.9	2.8
Housewives	17.0	16.4
Students	2.8	2.3
Unemployed	4.1	2.6
Employers	4.2	1.5
Others	1.1	0.8
Total	100	100

Source: [9, p. 260], based on data given by PNB.

it can at least be said that the weight carried by farmers, fishermen, and other poor social strata in trust investment diminished in relative terms. By contrast, the value of investment per person for the upper classes of society was 2.5 times larger than that for the farmers, workers, and fishermen.

On the whole, however, 44 per cent of the qualified Bumiputera population as of 1990 had their money invested under the trust system, their total investment amounting to 6,770 million ringgit. Consequently, the stock ownership rate of Bumiputera reached 17.8 per cent of the Malaysian total in 1985. It may be fair to say that ASN contributed greatly toward the goal of raising Bumiputera's equity ownership rate to 30 per cent.

#### VIII. CAPITAL ACCUMULATION BY BUMIPUTERA ENTERPRISES AND THE POLITICIZATION OF THE ECONOMY

In analyzing capital accumulation by Bumiputera, capital accumulation by Bumiputera enterprises is of course more important than the mobilization of the Bumiputera masses for investment trust. Bumiputera enterprises are divided into private and public enterprises. In this section, we focus on the basic characteristics of capital accumulation by private Bumiputera enterprises.

TABLE X  
NUMBER OF ASN INVESTORS AND VALUE OF NET INVESTMENTS ACCORDING TO OCCUPATION AS AT OCTOBER 31, 1990

	No. of Persons Qualified for Investment	Total No. of Investors	Share of Invested Value (%)	Net Investment Value (1,000 Ringgit)	% in the Total	Investment Value per Person (Ringgit)
Administrators and managers	74,811	20,040	26.8	393,506	5.8	19,636
Executives and trustees	131,423	48,125	36.6	560,749	8.3	11,652
Clerical staff	316,142	234,205	74.1	1,269,685	18.8	5,421
Laborers	871,480	396,675	45.5	750,961	11.1	1,893
Military personnel	167,412	119,708	71.5	262,568	3.9	2,193
Police personnel	104,711	67,718	64.7	216,117	3.2	3,191
Teachers	131,051	100,851	77.0	639,680	9.4	6,343
Farmers	1,038,419	390,609	37.6	349,572	5.2	895
Fishermen	67,104	23,582	35.1	23,354	0.3	990
Commercial staff	111,615	51,301	46.0	241,098	3.6	4,700
Self-employed	278,340	129,286	46.4	200,448	3.0	1,550
Retired	47,567	17,133	36.0	94,724	1.4	5,529
Housewives	1,533,059	413,628	27.0	929,887	13.7	2,248
Students	205,836	132,436	64.3	379,096	5.6	2,862
Settlers	113,903	75,747	66.5	68,483	1.0	904
Unemployed	331,813	206,358	62.2	315,008	4.7	1,527
Others	83,962	32,376	38.6	74,986	1.1	2,316
Total	5,608,648	2,459,778	43.9	6,769,917	100	2,752

Source: Amanah Saham Nasional Bhd., "Analisa penyertaan Bumiputra di-dalam Skim Amanah Saham Nasional dan Skim Amanah Saham Bumiputra sehingga 31. 10. 1990" [Occupational analysis of Bumiputra participation under the National Unit Trust Scheme and Bumiputra Unit Trust Scheme until October 31, 1990] (1991).

TABLE XI  
MEMBERSHIP OF REGISTERED PROFESSIONALS BY ETHNIC GROUP, 1985 AND 1988

	Bumiputera		Chinese		Indians		Others		Total	
	1985	1988	1985	1988	1985	1988	1985	1988	1985	1988
Architects	118 (16.7)	192 (21.6)	576 (81.7)	676 (76.1)	10 (1.4)	14 (1.6)	1 (0.2)	6 (0.7)	705 (100.0)	888 (100.0)
Accountants	306 (8.6)	514 (10.3)	2,966 (83.3)	4,079 (82.0)	213 (6.0)	315 (6.3)	75 (2.1)	72 (1.4)	3,560 (100.0)	4,980 (100.0)
Engineers <sup>a</sup>	4,037 (27.0)	4,895 (29.4)	9,806 (65.5)	10,512 (63.2)	800 (5.3)	885 (5.3)	336 (2.2)	334 (2.0)	14,979 (100.0)	16,626 (100.0)
Dentists	241 (23.1)	307 (24.1)	471 (45.2)	569 (44.7)	304 (29.2)	361 (28.4)	25 (2.4)	36 (2.8)	1,041 (100.0)	1,273 (100.0)
Doctors	892 (18.1)	1,653 (25.9)	1,992 (40.3)	2,258 (35.3)	1,887 (38.2)	2,285 (35.7)	168 (3.4)	197 (3.1)	4,939 (100.0)	6,393 (100.0)
Veterinarians	147 (28.7)	206 (33.7)	126 (24.6)	145 (23.8)	203 (39.6)	269 (35.9)	37 (7.2)	40 (6.6)	513 (100.0)	610 (100.0)
Surveyors	250 (34.8)	300 (34.7)	410 (57.1)	497 (57.5)	41 (5.7)	45 (5.2)	17 (2.4)	22 (2.5)	718 (100.0)	864 (100.0)
Lawyers <sup>b</sup>	327 (16.4)	504 (19.7)	1,060 (53.3)	1,249 (48.8)	488 (24.5)	754 (29.4)	114 (5.7)	55 (2.1)	1,989 (100.0)	2,562 (100.0)
Total	6,318 (22.2)	8,571 (25.1)	17,407 (61.2)	19,985 (58.4)	3,946 (13.9)	4,878 (14.3)	773 (2.7)	762 (2.2)	28,444 (100.0)	34,196 (100.0)

Source: Malaysia, *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990* (Kuala Lumpur: National Printing Department, 1989), p. 67.

Note: Figures in parentheses are percentages.

<sup>a</sup> Data as at May 25, 1988.

<sup>b</sup> For Peninsular Malaysia only.

The policy for the first goal of 30 per cent Bumiputera ownership emphasizes capital accumulation through industrialization and the second pertains to Bumiputera's acquisition of sufficiently large managerial and technological capacities to control 30 per cent of Malaysia's commercial and industrial activities. With reference to this goal, the Outline Perspective Plan (1970-90) states that Bumiputera's capital accumulation target will be attained through mobilization of public fund. This official document however fails to mention to which social strata, organizations, and groups such capital should be preferentially distributed for the sake of capital accumulation. However, for the continuation of this state wealth redistribution process (which involves capital and properties), it is definitely necessary that the national economy grows smoothly every year to generate new value added as resources for redistribution. Should it be mere redistribution of existing wealth, vehement antagonism from less privileged groups followed by dangerous conflicts and instability would be inevitable in a multi-ethnic society like Malaysia.

Have the Malays been successful, under the Bumiputera policy, in accumulating capital in the industrial sector? The answer is clearly no. In spite of the government's effort, capable Malay managers have not emerged in significant numbers in most industries, except of course a handful of elites. In the industrial sector, in particular, capital accumulation, knowhow and experience of technology, and managerial skills are poor on the part of Malays. All in all, the Bumiputera policy notwithstanding, Malays have not succeeded in being the main actors in the industrialization process, and consequently have had to depend on the management strategies promoted by transnational corporations.

Table XI shows registered professionals by ethnic group. Let us take the number of Bumiputera engineers in 1985 and 1988 as an indicator of Bumiputera's contribution to industrialization. Bumiputera accounted for 27 per cent in 1985 and 29 per cent in 1988 of Malaysian engineers. Bumiputera professionals of all kinds represented 22.2 per cent in 1985 and 25.1 per cent in 1988 of the Malaysian total. Only one out of four engineers was a Malay. The Malay population having a share of 55 per cent of the total Malaysian population, the actual percentages of Bumiputera professionals have failed to reach even half the Bumiputera policy-set employment reorganization goal. It is clear that Malays have not matched Chinese in producing engineers and other professionals. It may be said from the above that Bumiputera have not yet grown into major actors of industrialization.

Of course, there are some processing industries where Bumiputera are playing the key role. One of them is the FELDA-controlled palm-oil refining branch where Bumiputera's refining technology has progressed with the backing of government fund. There, the settlers' small capital and human resources are deftly combined to promote technological development. But such Bumiputera-run industrial branches are still few.

Bumiputera's advance into the industrial sector is thus still signally slow, reflecting immaturity of capital accumulation, low technological levels, and poor management knowhow. Now let us examine how Bumiputera capital has advanced into different sectors (Table XII). This table contains sectoral breakdown of Bumiputera-controlled companies out of the 215 joint stock companies listed on the Kuala Lumpur Stock Exchange (as of 1984).

TABLE XII  
 NUMBER OF PUBLICLY LISTED COMPANIES CONTROLLED BY BUMIPUTERA  
 AND BUMIPUTERA INSTITUTIONS AND BUMIPUTERA SHARES IN  
 PAID-UP CAPITAL BY SECTOR, 1984

	Total Number of Publicly Listed Companies	Bumiputera- controlled Companies		Value Paid Up by Listed Companies (Million Ringgit)	Bumiputera's Capital Share (%)
		No.	(%)		
Industrial	129	22	(17.1)	1,543.03	24.5
Financial	13	7	(53.9)	591.38	43.5
Properties	11	2	(18.2)	457.18	44.0
Oil palm	10	6	(60.0)	456.41	42.2
Rubber	30	8	(26.7)	399.48	24.6
Mining	20	18	(90.0)	92.54	40.3
Hotels	2	2	(100)	225.71	55.3
Total	215	65	(30.2)	3,765.77	32.2

Source: [9, p. 178].

In terms of composition of paid-up capital, 65 out of the 215 listed firms (30.2 per cent) are Bumiputera-controlled.<sup>16</sup> But taking a closer look we find that only 17.1 per cent of the industrial firms are Bumiputera-controlled in contrast to 53.9 per cent for the financial sector, 100 per cent for hotels, 60 per cent for oil palm farms, 26.7 per cent for rubber plantations, and 90 per cent for tin mining. The Bumiputera-controlled firms are relatively fewer in the industrial sector—the manufacturing sector in particular—than in other sectors.

In terms of paid-up capital shares, Bumiputera have a smaller share in the industrial sector than in other sectors. All non-industrial sectors show higher Bumiputera shares than the industrial sector. Why then have Bumiputera come to own more non-industrial stocks than industrial stocks? The primary reasons are, as was earlier said, Bumiputera's low industrial technology level and insufficient managerial knowledge and experience. But even more important may be the Bumiputera policy itself which provided them with conditions in which they could easily make inroads into business areas where they could expect quick returns safely. Such business areas comprise real estate, housing construction, agricultural land development, tin mining, stockholding business, lease business, insurance, tourism, publishing, information, communication, financing, banking, and securities trust business. Bumiputera's private capital flowed rapidly into these business areas in the 1970s and 1980s.

The manufacturing industry is essentially a roundabout production system based on ramified division of labor and cooperation organized among different production

<sup>16</sup> In Low Kam Yoke's description the definition of "controlled" is unclear, namely, whether a company is deemed "controlled" only when outside interests hold 50 per cent or more of its shares (the case of a subsidiary) or it is considered so even if the outsider share is between 20–50 per cent (the case of a related company).



TABLE XIII  
DISTRIBUTION OF BUMIPUTERA DIRECTORS  
BY OCCUPATION, 1984

Occupation	All Sectors (%)
Businessmen	27
Professionals	16
Politicians	20
Civil servants	22
Army/police	5
Royalty	8

Source: [9, p. 212, Table 4.13].

TABLE XIV  
DISTRIBUTION OF BUMIPUTERA DIRECTORS BY RANK STATUS  
AND POLITICAL AFFILIATION, 1984

Rank Status	%	Political Affiliation	%
With titles	55	With	90
Without titles	45	Without	10

Source: [9, p. 213, Table 4.14].

processes. Therefore, it takes a relatively long time to make it profitable. In the case of Bumiputera enterprises, however, they are assured relatively favorable business conditions with regard to permits, finances, information, and collaboration of related enterprises once they have established a kind of patron-client relationship with influential politicians. It is assumed that this situation smoothed their way to gaining profits in a short period of time in real estate, hotel, plantation, tin mining, and stockholding businesses. The relationship between Bumiputera enterprise executives and politicians can be seen from Tables XIII and XIV.

Table XIII gives the composition of the executives of Bumiputera companies by background. Nobles and influential politicians account for 8 per cent and 20 per cent, respectively, of the total number of executives. Ranking bureaucrats, the close allies of the aristocrats and politicians, represent another 22 per cent. Professionals (16 per cent) and career businessmen (27 per cent) must be doing major work related to actual business under the patronage of the influential. Of the executives, 55 per cent hold such honorable titles as *Datuk* or *Tan Sri* conferred by the state rulers or the king, while 90 per cent of them are affiliated with UMNO (Table XIV). Table XIV shows the great importance of elite politicians and UMNO in the management of Bumiputera enterprises.

Nominee companies often play a bridging role between Bumiputera enterprises and elite UMNO politicians. According to the *1983 Annual Report* of the Kuala Lumpur Stock Exchange, nominee companies as of the end of 1983 constituted 20 per cent (160 firms) of the shareholders of the top 797 companies. According to one scholar, nominee companies owned 11.5 per cent of the total capital stock

of the entire manufacturing industry in 1974-75 [24, p. 118, Table 2] and about doubled their share to 20.4 per cent by 1983.

Nominee companies have one special advantage: they can hold stocks of other companies keeping the real investor anonymous. Canadian economist Ozay Mehmet stated, "nominee companies are included in the share of other Malaysians [in the Fourth Malaysia Plan]. Yet, it is well-known that a significant portion of such companies are owned by Bumiputeras" [18, p. 103].

Malaysian scholar Edmund Terence Gomez argued in his recently published book on the important role of nominee companies:

The case studies have shown the extensive use of nominee companies to effectively shield the extent of the corporate wealth of politicians and political parties. The greater use of nominee companies will result in the failure to show the extent of the skewed distribution of the country's corporate wealth among the different ethnic groups (in so far as it relates to the NEP) and among individuals, groups, or families. [5, p. 174]

Let me cite several capital alignments. Gomez took 15 UMNO-related companies and examined their top-20 shareholders. Table XV gives the numbers of nominee companies among the top 20 shareholders and the nominee companies' shareholding percentages. Among the combined total of the top-20 shareholders of the 15 listed companies, 205 turned out to be nominee companies. While nominee companies' shares are less than 50 per cent for only two of the 15 firms, their shares are 70 per cent or more for five and 60 per cent or more for nine. They are overwhelmingly owned by nominee companies.

Gomez succinctly summarizes the relationship between elite politicians and UMNO-related business groups in the following words:

At the top of this hierarchy is the political elite, primarily responsible for making decisions pertaining to UMNO's involvement in business. This elite appoints trustees, more often than not, from the economic elite. These trustees, in turn, have others appointed as directors and managers of the companies the party has control over. These people represent the second echelon of trustees, and are the persons most often in the public eye. They are also normally viewed as being the persons responsible for the growth or development of the companies concerned. They shall, for reasons of clarity, be referred to as proxies... these proxies, using holding companies and through interlocking directorships and interlocking stock ownership, build up business conglomerates. [5, p. 25]

It is considered rational for Bumiputera to turn to full account the government preferential policy, using state and private financial capital made available to them, and advance into those business areas where they can quickly, safely, and easily cash in large profits. In other words, the Bumiputera policy is basically oriented toward redistributing the enormous state capital in line with government policies. In the 1980s, the traditional primary industry gave way to the advanced industrial sector led by multinational corporations, as the main motive force of economic growth. Under these circumstances it is only natural that Bumiputera began to go in for non-industrial sectors where they could more easily carry out capital accumulation.

TABLE XV  
TOTAL NUMBER OF NOMINEE COMPANIES AMONG THE TOP TWENTY SHAREHOLDERS AND  
THEIR COMBINED SHAREHOLDING IN FIFTEEN UMNO-RELATED COMPANIES

Holding Company	Publicly Listed Companies	Total Number of Nominee Companies <sup>a</sup>	Total % Control of Nominee Companies <sup>b</sup>
Fleet Holdings Sdn. Bhd.	New Straits Times Press (Malaysia) Bhd. (publishing)	13	74.68
	Sistem Televisyen Malaysia Bhd. (television network)	11	62.86
	Bank of Commerce Bhd. (commercial banking)	4	60.39
	Faber Merlin Malaysia Bhd. (hotels)	18	39.30
	Cold Storage (Malaysia) Bhd. (food processing)	12	42.56
Hatibudi Sdn. Bhd.	United Engineers (Malaysia) Bhd. (construction)	15	62.70
Koperasi Usaha Bersatu Bhd.	Idris Hydraulic (M) Bhd.	9	55.59
	Selangor Properties Bhd.	16	50.26
	Gadek (Malaysia) Bhd.	14	53.78
Halimtan Sdn. Bhd.	Malaysian Assurance Alliance Bhd.	19	81.22
	Roxy Electric Industries (Malaysia) Bhd. (manufacturing and merchandising electrical goods)	18	70.29
	Granite Industries Bhd. (stone processing)	16	65.20
	Aokam Tin Bhd. (tin mining and processing)	17	72.35
	Kampong Lanjut Tin Dredging Bhd.	16	61.87
	Ayer Hitam Tin Dredging Malaysia Bhd.	17	71.56

Source: [5, p. 175].

<sup>a</sup> The number of nominee companies among the top twenty shareholders.

<sup>b</sup> The shares of the said nominee companies in the stocks of the listed companies.

## IX. PRIVATIZATION POLICY AND ITS PROBLEMS

The Bumiputera policy is an income distribution policy for Bumiputera and simultaneously a policy helping Bumiputera to accumulate capital. The government has evolved a new policy since 1983 precisely to serve this second purpose, that of privatizing public corporations. The worldwide recession in the early 1980s triggered this policy change. In this period, Malaysia suffered from fiscal difficulties due to the stagnant primary product markets. Both fiscal deficits and external debts snowballed while many SEDC subsidiaries went into crisis or were simply bankrupted due to irresponsible management and corruption. Consequently, the transfer of public corporations to private business, proposed at the first Bumiputra Economic Congress in 1965, had to be prematurely carried out. It was premature because the private business side, supposed to be the receptacle of privatized public enterprises, had not sufficiently grown.

According to Puthuchery [22, pp. 217–35], ex-professor at the University of Malaya, the losses suffered by SEDC subsidiaries in thirteen states reached 162.9 million ringgit in 1980. The ten subsidiaries of the Malaysian Rubber Development Corporation (MARDEC) had a total accumulated deficit of 67.6 million ringgit (1979). Similarly, the thirty subsidiaries of the plantation operating Jengka Development Corporation chalked up 37.1 million ringgit in deficit in 1978. The Ministry of Public Enterprise disclosed in 1982 that 125 enterprises related to SEDC had registered losses totaling 360 million ringgit although 103 SEDC affiliates had reported profits totaling 346.8 million ringgit. In 1983 fifty SEDC subsidiaries went bankrupt. It is clear that the bankruptcies and crises of SEDC affiliates and related enterprises triggered the policy change in favor of privatization of public enterprises. The transfer of public enterprise to private hands had to come earlier than scheduled because the government, with huge fiscal deficits, could no longer afford to financially support public enterprises which had not practiced effective management and had developed excessive dependence upon the government. These enterprises ran into the red one after another and then began to collapse. This can be considered the result of too political business and the failure to foster competent Malay management.

Prime Minister Mahathir made up his mind to carry out the privatization policy in 1983. In 1985 he made public, through the Economic Planning Unit (EPU), his privatization guideline [19, pp. 64–67], which centered on the following four points: (1) the government should be unburdened of fiscal pressure; (2) management efficiency and productivity should be raised by doing away with rentier-style business practice dependent on commission and interest revenues and by encouraging competition among enterprises; (3) economic growth should be accelerated not by crowding out private enterprises but by stimulating private business; and (4) the NEP objectives should be attained by reducing the size and share of the public sector.

Privatization has been carried out in line with this policy. The fourth point is particularly important. Prime Minister Mahathir stated that privatization would not negate the objectives of NEP but would help Bumiputera to achieve the

target of equity and employment shares. This statement was directed toward Malay businessmen and UMNO leaders who were afraid that the benefit of privatization would go to Chinese capitalists and managers. Privatization has since been implemented in close linkage with Malay businessmen and UMNO-related enterprises. So far twenty-four public enterprises have been privatized, in four different forms of privatization.

The first is partial privatization in which part of the public enterprise stocks are sold to domestic and foreign private enterprises and other bodies. Malaysian Air System (MAS), Malaysian International Shipping Corporation Bhd., and Sports Toto Malaysia Sdn. Bhd. are cases in point. In such cases, the shares of these companies have been sold at government-determined prices on the stock markets.

The second is the partial contracting out of services. This formula is to transfer government-monopolized services to private firms by licensing. A typical case is Sistem Televisyen Malaysia Bhd. (TV3). The third is a formula contracting out whole projects and services through competitive bidding. Covered by this formula are highway construction, highway toll collection, parking lot management, and laundry of hospital bed sheets and overalls. The fourth is partial contracting out of services. On this formula, the Kelang Port Authority awarded a contract to the private firm Kelang Container Terminal Sdn. Bhd. for port services [19, pp. 69-95].

The privatization policy has just begun, and it will be fully unfurled in the coming years. EPU on February 27, 1991 disclosed a Privatization Master Plan. According to the plan, thirty-seven more public enterprises will be privatized in the coming couple of years. EPI said that fifty-six other public enterprises were being reorganized in preparation for privatization. It was announced on March 1 that in addition to the said thirty-seven, twenty-four more public enterprises would be privatized within 1991. The master plan in fact signaled the arrival of a full privatization era. Watching the implementation of the privatization policy so far, we need to pay attention to the following points.

Started as capital accumulation by public enterprises, the NEP process underwent a period of mobilization of Malay masses for investment trust, and then in a single step jumped to the period of privatization in which management is transferred to Malay capitalists, businessmen, and political organizations. But since the government's privatization policy is not clear enough, it is feared that many UMNO-related enterprises enjoy considerable benefit of ownership transfer. This may invite criticism from non-Malay groups as another proof of politicization of the economy. If the privatization is intended to sustain a high rate of economic growth needed for the stability and harmony of this multi-ethnic society, and not just to distribute public enterprise shares to Bumiputera, then the time may come when the government has to consider participation of non-Malays, to some extent, in the privatization process.

## CONCLUSION

All told, NEP has to a good measure achieved the goals it set itself at the outset, but at the same time it has given rise to new problems too. For instance, quite a few Malays who have adapted themselves to NEP and accumulated wealth as

successful businessmen and capitalists, are now forming a new class within Malay society, which is very far from ordinary Malays. Will this lead to the birth of a new antagonism within Malay society? Most of the Malay businessmen and capitalists are still under the protection of influential politicians, and so they are still in their juvenescent period. But in the future, is not there the possibility of class conflicts emerging among the Malays?

At present the ethnic antagonism and contradictions between the Malays and Chinese are sharper than the conflicts in Malay society. The rupture inside Malay society thus has not come into the open. But should the government err in implementing the privatization policy, a possible result might be that Malay capitalists and businessmen become excessively large and powerful and cause new problems in Malay society. The privatization policy thus will largely influence the socio-economic structure of Malaysia in the future.

Another problem is whether economic growth high enough to ensure social stability and continuation of Bumiputera policy can be sustained in the future. The driving force of Malaysian economic growth has changed from decade to decade—primary product export in the 1960s, oil and timber export plus active manufacturing industry in the 1970s, and foreign investment-centered industrialization in the 1980s. Malaysia will be able to procure finances needed for social restructuring if high growth continues, but should relevant economic growth be interrupted for long, then there is a serious possibility that the country may slip into a state of political instability. The political stability of multi-ethnic Malaysia depends basically on the two factors of the development of industrialization and firm primary product prices, but both factors are largely subject to such external factors as U.S. and Japanese transnational corporation strategies, and to such uncertain domestic factors as the political attitude of the Chinese and the degree of maturity of Malay entrepreneurs and capitalists.

So far, Malaysia has been successful in skillfully combining the forces of its diverse economic actors to bring about high economic growth in the course of the implementation of NEP. It is precisely this skill that Malaysia needs in the future in managing its economy.

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APPENDIX TABLE I  
CHANGES IN GROSS DOMESTIC PRODUCT AND EMPLOYMENT BY INDUSTRIAL SECTOR, 1970-90

Sector	1970		1975		1980		1985		1990	
	% of GDP	% of Total Employment	% of GDP	% of Total Employment	% of GDP	% of Total Employment	% of GDP	% of Total Employment	% of GDP	% of Total Employment
Agriculture and forestry	30.8	50.5	27.7	45.3	22.9	39.7	20.8	31.3	18.7	27.8
Mining and quarrying	6.3	2.6	4.6	2.1	10.1	1.7	10.4	0.8	9.8	0.6
Manufacturing	13.4	11.4	16.4	13.5	19.6	15.7	19.7	15.2	26.9	19.5
Construction	3.9	4.0	3.8	4.4	4.6	5.6	4.8	7.6	3.6	6.4
Electricity, gas, and water	1.9	0.8	2.1	0.8	1.4	0.6	1.7	0.8	1.9	0.7
Transport, storage, and communications	4.7	3.4	6.2	3.9	5.7	4.3	6.4	4.3	6.9	4.3
Wholesale and retail trade, hotels, and restaurants	13.3	10.9	12.8	11.8	12.1	14.0	12.1	16.3	11.1	18.7
Finance, real estate, and business services	8.4	0.9	8.5	0.9	8.3	1.6	9.0	3.5	9.7	3.5
Government services	11.1	11.7	12.7	13.1	10.3	13.7	12.2	14.6	10.8	12.8
Other services	2.5	3.8	2.8	4.2	2.3	3.1	2.3	5.6	2.1	5.7
(-) Imputed bank service charges	1.0		1.2		1.9		3.2		5.1	
(+) Import duties	4.7		3.8		4.6		3.9		3.7	
Total	100	100	100	100	100	100	100	100	100	100

Sources: Malaysia, *Fourth Malaysia Plan, 1981-1985* (Kuala Lumpur: National Printing Department, 1981); idem, *Fifth Malaysia Plan, 1986-1990* (Kuala Lumpur: National Printing Department, 1986); idem, *Sixth Malaysia Plan, 1991-1995* (Kuala Lumpur: National Printing Department, 1991); Malaysia, Ministry of Finance, *Economic Report, 1990/91* (Kuala Lumpur: National Printing Department, 1990); idem, *Economic Report, 1991/92* (Kuala Lumpur: National Printing Department, 1991).



APPENDIX FIGURE I

Map of Malaysia

