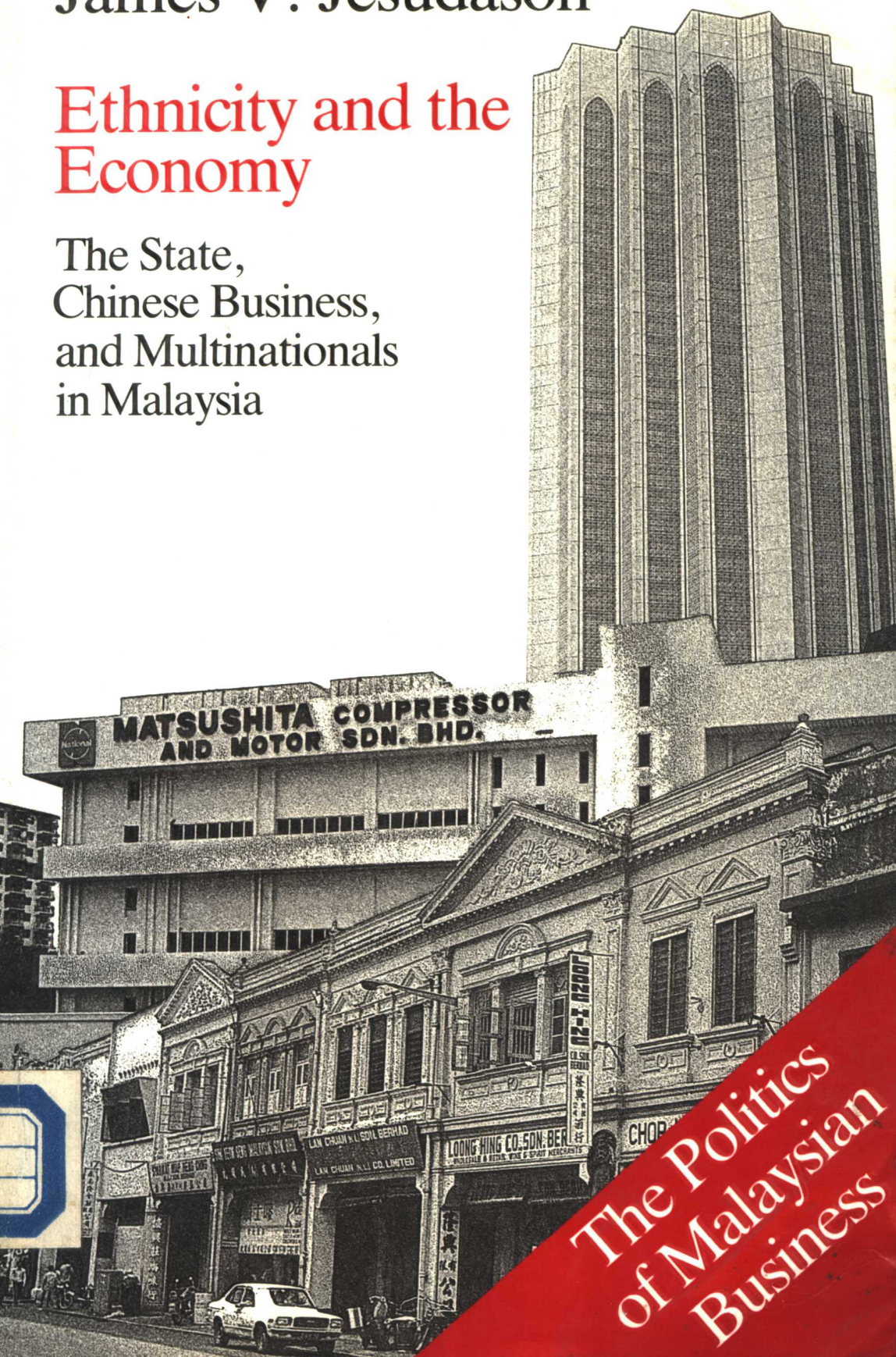


James V. Jesudason

Ethnicity and the Economy

The State,
Chinese Business,
and Multinationals
in Malaysia



The Politics
of Malaysian
Business

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**The State, Chinese Business, and
Multinationals in Malaysia**

James V. Jesudason

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To Judy

Preface

ECONOMIC development, especially in the Third World, is not an autonomous process. State élites play a central role in the economy, sometimes to lay the basis for growth, but often to ensure that the course of development takes place along lines that bring support for the regime. In this book I examine how the roles of key economic actors, such as multinationals, state enterprises, and private local capital, emerged from the politics of multi-culturalism in Malaysia. These groups are not faceless units of capital which national leaders can combine in the right mix to maximize growth. They represent different ethnic, national, and cultural segments, whose roles have important consequences for the political and cultural development of society. State élites, thus, have an interest in mediating these roles, and the economic arrangements adopted might entail high national economic costs, although these arrangements might bring significant political pay-offs, at least for a while, to the rulers.

There were two main concerns that led me to explore the role of ethnicity in shaping development processes and outcomes in Malaysia. The first was partly biographical in nature. I remember as a young boy in the 1960s how frequently Malaysia was praised as an economic and political success in Asia. Economically, it was ahead (in per capital GDP terms) of Taiwan and South Korea, the present 'economic miracles', and its political system had many attractive pluralistic features. Yet by the early 1980s, as I embarked on this study, it was apparent that the country was experiencing a relative decline within the East Asian region. Its political system was also becoming less pluralistic, although racial disaffection and political cynicism were not as evident at that time. Neither dependency nor world-system approaches, with their focus on external determinants, had much to offer as an explanation. I wanted to study the relative decline of the Malaysian economy giving due recognition to internal social-structural arrangements, and, in particular, to the role of ethnic structures.

My other concern was that while ethnic studies have become a 'growth industry', their focus has been rather narrow. In the economic area, scholars have been much more interested in examining the characteristics of small, economically successful ethnic groups—such as middlemen minorities—rather than in the macro-economic consequences of ethnic divisions. I feel there is a need to consider ethnicity beyond middlemen minorities and

examine its impact on how national economic choices and policies are made.

The other preoccupation among scholars of ethnicity, following the resurgence of interest in collective behaviour, has been the study of the conditions and bases for ethnic mobilization. Like 'ethnic identity', 'ethnic mobilization' is treated as an abstract concept needing explanation. The effort has led to useful economic and political frameworks for understanding ethnic conflict and mobilization, such as theories of internal colonialism, split and segmented labour market models, state-building processes, and the role of political entrepreneurs. Yet these studies have not moved on to consider what happens, once ethnic mobilization occurs, to the society's development. For example, how do ethnically based polities cope with divergent demands, such as meeting ethnic pressures while trying to provide for economic growth? How do key actors, such as the state, multinationals, and majority and minority business groups, interact in these societies? I feel that these questions can be asked of several multi-ethnic societies, leading to fruitful comparative work. By examining Malaysia, I hope to take the first small step.

Using ethnicity as an analytical entry point to the study requires some justification. In a sense, studies taking ethnicity seriously may be regarded as phenomenological, in contrast to analyses based on class, which appear more structural. Since ethnic phenomena seem immediately observable, resorting to ethnic explanations seems to be practising 'obvious' sociology, while class analyses promise to lay bare the hidden, deeper dimensions of social life. For a variety of historical reasons, ethnicity in Malaysia is a reality *sui generis*, and cannot be reduced to class. My position is that if analysts brush ethnicity aside, they will be making an obvious error, since a critical and felt element in the society will be ignored. However, I have tried not to treat ethnicity and class as competing analytical categories, since I recognize that both can and should be taken into account. I have emphasized ethnicity because it cannot be wished away and, equally important, it also allows me to capture Malaysia's political economy in a more comprehensive manner.

This study was undertaken in partial fulfilment for the Ph.D. degree in Sociology at Harvard University. The interviews for the analysis were conducted in early 1985, and the study completed in October 1987. A few revisions have been made to update the reader on important new events in Malaysia, but a complete analysis will have to wait for a clearer pattern to emerge from the current political turbulence. I have undertaken to publish the dissertation now because I believe the analysis is relatively self-contained in terms of the issues covered and, in addition, it might serve as a useful backdrop for other scholars to interpret future events.

In the course of this study I have relied on the ideas and encouragement of numerous people. I would like to thank my dissertation advisers, Professors Orlando Patterson, Ezra Vogel, and Donald Warwick. Professor Patterson has been a source of inspiration to me throughout my graduate career. Professor Vogel provided the right encouragement during hard times, and crucial feedback at important points in the analysis. Professor

Warwick helped enormously in making the presentation more readable and in forcing me to clarify my ideas. I am also grateful to Professor James Scott at Yale for his comments on the first chapter and to Professor Theda Skocpol for making me interested in political sociology. I thank them for their criticisms and advice, although I have not been able to incorporate all their suggestions because of various constraints. The shortcomings of the book are entirely my own.

My friends and colleagues have also played an important role in this study. I am grateful to Khong Yuen Foong for his support during moments of despair, and to Leong Choon Heng and Subha Segaram for sending me useful material from Kuala Lumpur. I also thank Marta Gil, David Harris, Habib Khondker, Kamaruddin Said, Michael Shifter, Stephen Turner, and Yoon Jeong-Ro for lengthy discussions and their good cheer.

My family has been very kind to me during the long gestation period of the work. I am grateful to my mother for always standing behind me, even when I decided to become a sociologist. I also thank my father, Christopher, Rohini, Nalini, and Peter for their concern and confidence in my ability to finish this study. My in-laws, too, have been most helpful.

My dear wife Judy, to whom this book is dedicated, was untiring in her patience and encouragement, without which this study would not have been completed. She came with me to Singapore so that I could carry out my work and turned down many good offers that would have advanced her mathematical career. I hope I can begin to repay my many debts to her.

I also want to express my gratitude to the Institute of Southeast Asian Studies for making available to me its excellent facilities. Finally, I want to express my indebtedness to those individuals who allowed me to interview them for the study.

Singapore
June 1988

JAMES V. JESUDASON

Abbreviations

ACCC	Associated Chinese Chambers of Commerce
ACCCIM	Associated Chinese Chambers of Commerce and Industry Malaysia
ASN	Amanah Saham Nasional (National Unit Trust Scheme)
CIC	Capital Issues Committee
CPM	Communist Party of Malaya
DAP	Democratic Action Party
EPU	Economic Planning Unit
Felda	Federal Land Development Authority
FIC	Foreign Investment Committee
FIDA	Federal Industrial Development Authority (See also MIDA)
<i>Fifth MP</i>	<i>Fifth Malaysia Plan</i>
<i>First MP</i>	<i>First Malaysia Plan</i>
FMM	Federation of Malaysian Manufacturers
<i>FoMP</i>	<i>Fourth Malaysia Plan</i>
FTZ	Free Trade Zone
GDP	Gross Domestic Product
HICOM	Heavy Industry Corporation of Malaysia
ICA	Industrial Coordination Act
ICU	Implementation and Coordinating Unit
IMP	Medium and Long Term Industrial Master Plan
KLSE	Kuala Lumpur Stock Exchange
MARA	Majlis Amanah Rakyat (Council of Trust for the Indigenous People)
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MICCI	Malaysian International Chamber of Commerce and Industry
MIDA	Malaysian Industrial Development Authority
MPAJA	Malayan People's Anti-Japanese Army
MPH	Multi-Purpose Holdings
<i>MTR FoMP</i>	<i>Mid-Term Review of the Fourth Malaysia Plan</i>
<i>MTR SMP</i>	<i>Mid-Term Review of the Second Malaysia Plan</i>
MTUC	Malaysian Trade Union Congress
MUI	Malayan United Industries

NEP	New Economic Policy
NOC	National Operations Council
OCBC	Overseas Chinese Banking Corporation
PAS (PMIP)	Parti Islam SeMalaysia (Pan-Malayan Islamic Party)
Pernas	Perbadanan Nasional (National Corporation)
Petronas	Petroleum Nasional (National Oil Corporation)
PMFTU	Pan-Malayan Federation of Trade Unions
PNB	Permodalan Nasional Berhad (National Equity Corporation)
SCCC	Selangor Chinese Chamber of Commerce
SEDC	State Economic Development Corporation
<i>SMP</i>	<i>Second Malaysia Plan</i>
<i>TMP</i>	<i>Third Malaysia Plan</i>
UMNO	United Malays National Organization

Newspapers and Magazines

<i>AB</i>	<i>Asian Business</i>
<i>AF</i>	<i>Asian Finance</i>
<i>AWSTJ</i>	<i>Asian Wall Street Journal</i>
<i>BT</i>	<i>Business Times, Malaysia</i>
<i>BT (S)</i>	<i>Business Times, Singapore</i>
<i>BW</i>	<i>Business Week</i>
<i>FEER</i>	<i>Far Eastern Economic Review</i>
<i>MB</i>	<i>Malaysian Business</i>
<i>NST</i>	<i>New Straits Times</i>
<i>SP</i>	<i>Suara Pemas</i>
<i>ST</i>	<i>Straits Times, Malaysia</i>
<i>ST (S)</i>	<i>Straits Times, Singapore</i>

Note

Unless otherwise indicated, all currency values are in Malaysian dollars (*ringgit*). In mid-June 1988, the exchange rates were approximately US\$1 = M\$2.60; £1 = M\$4.70; and Australian \$1 = M\$2.10.

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I The Ethnic Factor in Development

Introduction

THIS book examines the impact of ethnic divisions on state economic policies and development outcomes in Malaysia.¹ It argues that ethnic considerations decisively influenced the political élite's choices over critical development issues, such as the degree of state intervention in the economy, the choice of entrepreneurial groups to promote, the level of tolerance for economic inefficiency, and the degree of strain to impose on the state's fiscal position. In short, the essential motor of the development process, extending to macro-economic policies, was driven by powerful ethnic sentiments and patterns of ethnic political mobilization.

When Malaysia became independent from Britain in 1957, the ethnic composition of the 6.28 million population was 50 per cent Malay, 37 per cent Chinese, and 11 per cent Indian. The numerically dominant Malays, who considered themselves indigenous, were the paramount group controlling the political sphere and the bureaucracy, while the Chinese were essentially the domestic capitalist class. This traditional ethnic split between political power and economic predominance made the balance between the public and private sectors a politically sensitive one, subject to changing political constellations.

Compromises between the top ethnic leaders resulted in a relatively *laissez-faire* economic framework between 1957 and 1969. There was comparatively little state interference in the operations of the Chinese and foreign business groups. Although the development model was relatively successful in generating national income and diversifying the economy, the Malays—across class lines—did not see sufficient benefits for themselves in the existing economic arrangements. The economic model gradually became discredited, and was discarded after bloody race riots in 1969; the leader, Tunku Abdul Rahman, paid a high price for adopting this model and was made to resign.

After 1970, a younger group of Malay leaders pushed the state toward a highly interventionist role in the economy under the banner of the New Economic Policy or NEP (1970–90). They wanted greater control over the nation's economic resources, both to increase Malay economic power as well as to expand their political base. Targets were set so that by 1990, Malay corporate ownership would be 30 per cent, non-Malay

40 per cent, and foreign 30 per cent in contrast to 1.9 per cent, 37.4 per cent, and 60.7 per cent respectively in 1970 (*Mid-Term Review of the Second Malaysia Plan*, henceforth *MTR SMP*, 1973: 86–7, Table 4.9). To effect this change, the political élites embarked on the rapid expansion of the state enterprise sector and the creation of a Malay bourgeoisie.

In the interventionist phase, the Malay leaders, while hoping that the Chinese and the foreigners would participate in national growth and employment creation, also wanted to regulate them to meet their politico-cultural goals. Conflicts, compromises, and hard bargaining inevitably resulted among the main entrepreneurial groups.

The main units of analysis are the state (including state enterprises), domestic Chinese capital, and multinationals. Our concern is how their respective roles and alliances were shaped and constrained by ethnic contention—in particular, of the type that arises when there is a split between political and economic power. The major tasks are to investigate why the liberal economic policies of the 1960s failed, to examine the capacities of the state to pursue economic and political goals that might go against established economic groups, to determine how the major entrepreneurial groups participated in the economy, and to evaluate the overall economic and political outcomes of the state's policies.

Our study can be situated among those sociological works that have tried to go beyond the simplistic dependency view of economic development by incorporating key internal variables, such as the role of the state and cultural traditions, in determining national economic outcomes. In particular, recent studies on the interplay of the state, local private capital, and multinationals in such places as Brazil, Taiwan, and South Korea provided the major impetus for this analysis (Evans, 1979; Gold, 1981; Lim Hyun-Chin, 1982). These studies have added sophistication to the sociology of development by taking into account the more successful economies in Latin America and East Asia.

Yet, because these studies have focused on relatively homogenous societies, they are not helpful in illuminating economic processes in multi-ethnic societies. The omission of ethnic structures in theoretical models and analyses of development has meant that we have had a less than complete view of the broad drama of contemporary development processes.² We know that ethnically homogenous states are the exception rather than the rule, and in as many as 30 per cent of all countries, the largest ethnic group does not even constitute the majority of the population (Stone, 1985: 87).

The impact of ethnic divisions on development choices and processes is not unique to Malaysia. To illustrate the point, let us briefly consider Sri Lanka, Zimbabwe, and Trinidad. They are all multi-ethnic societies where the majority group wields political power but is relatively weak in the economy. In Sri Lanka, the Sinhalese comprise 74 per cent of the 16 million population while the minority Tamils comprise 18 per cent (see Report of the Committee for Rational Development in Tambiah, 1986: Appendix 3). In Trinidad, the Black majority comprise 42.8 per cent of the 1.2 million population while the East Indians comprise 40.1 per cent, Whites 1.2 per cent, Chinese 1.0 per cent, and Mixed 16.3 per cent

(Hintzen, 1985: 110). In Zimbabwe, Blacks comprise 95 per cent of the 8 million population, followed by Whites (4 per cent), and Asians (1 per cent). The Whites and East Indians in Trinidad, and the Whites in Zimbabwe are much more entrenched in the private sector than the majority group. In Sri Lanka, where the private sector is very weak, the Tamils are slightly over-represented in small businesses and the professions.³

Table 1.1 provides data on government expenditure, public deficit, and manufacturing output for the above countries. As a yardstick, the average figures for each country's income group, as defined by the World Bank, are also shown. In all of them, central government expenditure in 1983 was significantly higher than the norm in their respective income categories. All the countries, with the exception of Trinidad, also had higher budget deficits than the group average. Trinidad's high oil and natural gas revenues in relation to population size appear to have put its public finances in better shape. The data suggest that there are strong pressures on the state to over-strain national resources, as might occur when the state is made to play a central role in sponsoring the mobility of the majority group. As for manufacturing, which is used as a proxy for national effectiveness in upgrading the economy, there are also some parallels. In 1984, manufacturing's share of GNP was below the group norm in Sri Lanka, Malaysia, and Trinidad. In fact, there was a shrinkage in the manufacturing share in Sri Lanka and Trinidad between 1965 and 1984. Only in Zimbabwe was manufacturing well developed, but this can be explained by the open policy toward foreign investment during the period of White rule. There are constraints, it appears, to forging an effective entrepreneurial alliance for development because of ethnic considerations.

TABLE 1.1
Comparative Data on Selected Ethnic Societies

Country	Government Expenditure/GNP (Per Cent)		Government Surplus/GNP (Per Cent)		Manufacture Share/GNP (Per Cent)	
	1972	1983	1972	1983	1965	1984
<i>Low Income</i>						
Sri Lanka	25.4	33.6	-5.3	-11.0	17	14
Group Average	18.2	16.3	-4.3	-6.6	14	15
<i>Lower Middle Income</i>						
Zimbabwe	—	36.3	—	-6.9	20	27
Group Average	16.8	24.4	-2.4	-4.7	15	17
<i>Upper Middle Income</i>						
Malaysia	32.7	41.0 ¹	-9.8	-15.9 ¹	10	19
Trinidad	—	31.0 ¹	—	3.3 ¹	19	13 ²
Group Average	21.3	26.9	-3.3	-6.2	22	25

Source: World Bank, 1986: 184-5, 222.

Notes: ¹1982 figure.

²1981 figure.

This single-case study on Malaysia aims to bring out the relationship between ethnicity and development more fully. Although the analysis dwells on state bargaining capacities, private sector power, and the role of multinationals, these cannot be abstracted from the society's ethnic social structure and the nature of group mobilization. No claim is made that the Malaysian case is directly applicable to other ethnically divided societies. It would be sufficient if the analysis points to the need for sharper analytical distinctions in the sociology of development, and serves as a useful benchmark for studying other ethnic societies, especially those where economic and political power are controlled by different ethnic groups. These countries include Guyana, Sri Lanka, Trinidad, Fiji, Zimbabwe, and perhaps Lebanon.

The Limits of Rational Economic Models

Two contrasting rational models of economic development can be identified: the market model of the neo-classical economists and the 'broker state' model of the dependency theorists. Both approaches contain implicit prescriptions regarding what the ideal or most rational set of policies or actions might be for successful development. Although they contain antithetical views on the proper role of the state, they share the common weakness of abstracting away from the complex social and political structures of Third World nations. The fact is, however, that political leaders are usually faced with multiple and contradictory goals and demands, including assuaging powerful groups—class, ethnic, and religious—and anxieties over questions of relative power in society, as well as their foremost concern of securing their own political power and prestige in the polity (Clapham, 1985: 91). Leaders are also not adverse to using the state to build their own economic fortunes. It is not surprising, then, that rational models are seldom realized in practice or, if so, are realized for very brief periods only.⁴

Deepak Lal, a research administrator in the World Bank, strongly reaffirmed the role of the market economy in Third World development in his recent book, *The Poverty of Development Economics* (1985). He attacked the '*dirigiste* dogma', as manifested in the works of Albert Hirschman and Gunnar Myrdal, for advocating the replacement of the market by various forms of government control. Lal faulted the *dirigistes* for seeing state intervention as a superior and necessary method to promote development in lieu of the market. Strong criticisms were levelled at state enterprises, import-substitution industrialization, controls on foreign investment, industrial licensing and other state policies with the argument that they had not led to better outcomes than in societies where decisions were market-determined.⁵

The reasons Lal provided for the continued existence of the *dirigiste* state were intellectual confusion and the patronizing attitude of policy-makers, bureaucrats, and scholars toward the people of the Third World. On the intellectual plane, he states (1985: 103):

The empirical assumptions on which this *dirigisme* was based have been belied by the experience of numerous countries in the post-war period. The most serious