THE NEW ECONOMIC POLICY AND REDISTRIBUTION IN MALAYSIA: A MODEL FOR POST-APARTHEID SOUTH AFRICA?

Gillian Hart

Prior to 1990, South Africa was typically viewed as *sui generis* and totally exceptional. Since then, the pendulum has swung to a search for models from elsewhere in the world that post-apartheid South Africa might emulate. Malaysia has recently become a leading candidate. Few societies are as sharply defined in terms of racial categories - in this case, Malays, Chinese, and Indians - and still fewer have undertaken massive redistribution along racial/ethnic lines. The New Economic Policy, launched in 1970 with the purpose of increasing Malays' share of the economy, has gone a long way towards accomplishing its goals. Concurrent with racially-defined redistribution, the Malaysian economy has grown rapidly. In the face of this apparently dazzling success, it is not surprising that South Africans are increasingly being exhorted to 'look to Malaysia' for solutions.

There are, in fact, some real dangers in the way Malaysia and other exemplary cases are being held up as models for South Africa. The invocation of 'comparative models' and 'international experience' is often a means by which allegedly superior knowledge is used to preclude debate. These representations can also be quite misleading, particularly when used to push a particular policy agenda. For example, in emphasizing the dangers of state intervention, the World Bank's *Economic Work Program on South Africa* (1992) holds Malaysia up as a case of redistribution via market mechanisms. This neo-liberal interpretation neglects the heavy involvement of the Malaysian state in the economy, and the way in which relations between different capitalists and the state have shaped the outcomes of the New Economic Policy. More generally, the decontextualized and ahistorical invocation of comparative cases and 'international experience' is readily subject to abuse.

For Malaysian experience with the New Economic Policy to contribute constructively to South African debates, an historically-informed and contextualized understanding is essential. This article is an attempt to situate Malaysia in relation to South Africa not as an exemplary case, but as a divergent manifestation of an historically-integrated set of processes having to do with the social construction of race in relation to economic and class dynamics. As in South

Africa, the 'making of race' in colonial Malaya was closely bound up with labour and land - including land reservation legislation in 1913. One of the key consequences of the New Economic Policy is that it has played into and reinforced these colonially-constructed racial categories.

There are also important parallels (as well as some sharp differences) between the NEP and ethnic redistribution in South Africa in the post-1948 period. Although occurring at very different moments in the history of the global economy both illustrate that, under certain conditions, a heavily interventionist state can effect redistribution along ethnic/racial lines within the context of existing structures of property rights - but with quite contradictory and problematic outcomes. In the Malaysian case, these include the creation of an ethno-nationalist capitalist class engaged in rentier forms of accumulation, consequent heavy reliance on foreign investment, tight controls on labour, and a rural elite that lays claim to massive subsidies.

In short, I shall try to show how situating Malaysia's experience with the NEP within its historical context and in relation to South Africa provides a set of lenses through which South African debates can be brought into sharper focus.

Land, Labour, and the Making of Race in Colonial Malaya

Driven by tin mining and rubber production, British colonial rule in Malaya expanded rapidly in the last quarter of the 19th century through strategies that bear a rather striking resemblance to those in Natal in the middle of the 19th century. As in Natal and many other parts of the British empire, colonial officers and planters sought solutions to the labour supply problem by importing huge numbers of indentured labourers from India and China. Malay peasants did not form part of the colonial workforce; as in Natal where 'the fundamental inability of the colonial state to confront and destroy the existing mode of production amongst African producers in the 1850s... was the reality behind the policy of creating African reserves in the colony after 1846' (Richardson, 1986:134; see also Marks, 1978), the Malay peasantry was relegated to a system of land reservations.

The Malay Reservations Enactments of 1913 prevented non-Malays from acquiring land in reserved areas (Lim, 1977; Kratoska, 1983). In essence the reservation system was part of a pact by which, in return for extracting resources with immigrant labour, the British undertook to preserve the status and privileges of the Malay sultans and territorial chiefs, and to ensure a peasant base of support. The Reservations Enactments were accompanied by a great deal of rhetoric about the creation of a 'virile yeoman peasantry'. In fact, restrictions on the cultivation of rubber in reservation areas - motivated by planters' efforts to contain competition - placed limits on the development of an indigenous capitalist farming class in a manner rather reminiscent of the 1913 Natives Land Act in South Africa (Bundy, 1979).

Three outcomes of the colonial land and labour system are particularly crucial to understanding subsequent developments. First is the construction of racial difference, or what in Malaysia is termed the 'ethnic division of labour' (Lim Teck Ghee, 1984). Hirschman (1986) has pointed out that the fairly substantial Chinese population in pre-colonial Malaya was in the process of becoming assimilated into Malay society. The colonial system basically operated so as to create and entrench ideologies of racial difference (Alatas, 1977).

Second, the 'ethnic division of labour' which associated Malays with rice farming, Indians with rubber production, and Chinese with tin mining, was in fact cross-cut by increasing differentiation. Over the course of the colonial period, the Malay aristocracy was increasingly drawn into the colonial state as a sort of bureaucratic bourgeoisie. Far from being transformed into a prosperous yeomanry, large segments of the Malay peasantry suffered increasing immiseration; by the late colonial period, the Malay reservation areas were riven by indebtedness and tenancy. Differentiation among the Chinese took the form of the emergence of an urban capitalist class engaged in tin mining and trading, along with an increasingly militant working class on the mines. The large majority of Indians were impoverished plantation workers, although a small professional and trading class did take shape over the course of the colonial period. This cross-cutting race-class differentiation is crucial to understanding both the conditions and the consequences of the NEP.

A third element of the colonial period that continues to reverberate today is a set of repressive labour practices put in place by the colonial state in the 1940s in response to strikes in the tin mines (Stenson, 1970).

The Sources and Context of State-Sponsored Redistribution

The pressures that led to the NEP grew out of the class-race divisions that developed during the colonial period, the form of the post-colonial state, and model of economic growth that prevailed during the 1950s and 1960s. Since independence in 1957, Malaysia has been governed by an alliance comprised of UMNO (the United Malays National Organization), the MCA (the Malaysian Chinese Association) and the MIC (the Malaysian Indian Congress). UMNO represents what Jomo (1986) terms Malay 'administocrats' - the descendants of the Malay pre-colonial ruling class who had been drawn into the colonial administration - while the MCA articulates the interests of Chinese capitalists whose capacity to mobilize much beyond the Chinese business community is quite limited. Thus, as Jomo (1986) observes, the popular characterization of the post-colonial state in terms of 'politics for the Malays, the economy for the

Chinese' is somewhat misleading in that Malays with significant political power comprise only a small minority, while only a small proportion of Chinese have significant economic assets.

In the period following decolonization (1957-69), the Malaysian state assumed what was possibly the most marked *laissez-faire* position in the post-colonial world towards both foreign and domestic capital. Government initiatives to encourage and/or regulate industry were minimal, and intervention focused primarily on the rural-agricultural sector. Many of the benefits of infrastructural and agricultural interventions were, in fact, captured by British plantation companies which also lobbied successfully against tariff protection and other measures to stimulate local industry. Rapid economic growth during this period was accompanied not only by increasing inequality, but also growing poverty particularly in the northern rice-growing regions (see, for example, Snodgrass, 1980; Mehmet, 1986).

The immediate impetus for the NEP came from race riots and killings that erupted in Kuala Lumpur in 1969, following an election in which the ruling coalition's support eroded quite sharply. In the aftermath of the riots, parliamentary rule was suspended and military rule imposed until early-1971. The lifting of military rule coincided with the launching of the New Economic Policy in conjunction with the second Malaysia five-year plan (1971-5).

Although the NEP is typically portrayed as a response to the 1969 riots and underlying ethnic inequality, it was also driven by the emergence of a nascent ethno-nationalist capitalist class (Shamsul, 1986). The interests of aspiring Malay accumulators were strongly articulated in two 'indigenous economic congresses' (*Kongeres Ekonomi Bumiputera*) held in 1965 and 1968 - strikingly reminiscent of the Afrikaner *Ekonomiese Volkskongres* of 1939 described by O'Meara (1983). Particularly at the 1968 congress, prominent Malays roundly denounced *laissez-faire* capitalism, and called for more direct and active state intervention on their behalf. In addition, just as the 'poor white' problem in South Africa formed a major element in the pressures for state-sponsored redistribution in the post-1948 period, so too the poverty of rural Malays was a major element in the legitimation of state-sponsored redistribution.

In short, the pressures that culminated in the New Economic Policy in 1970 are strongly reminiscent of those in pre-1948 South Africa; in both instances the emergence of a nascent ethno-nationalist capitalist class took place along with intensifying rural poverty. It is important to bear in mind, however, that these rather similar pressures took shape at very different moments in the history of the global economy. State-sponsored redistribution in South Africa coincided with the post-war surge in import substitution industrialization and, as Seidman (in press) has shown, the character of the labour force and the eventual emergence of social movement unionism was shaped in decisive ways by the form of industrialization. The NEP coincided with the early stages of offshore production in export processing zones and, as discussed more fully below, the state moved quickly in the early-1970s to establish Malaysia as one of the prime sites of export production in electronics and textiles, with a workforce composed heavily of young women whose capacity to organize remains tightly circumscribed.

The other reason why timing in relation to the international economy has been so important is that the NEP also coincided with the OPEC oil price rise. Since Malaysia is an oil exporter, the surge in government revenues played a decisive role in enabling what was essentially a redistribution from incremental income rather than a reallocation of existing resources and property rights.[1]

As in post-1948 South Africa, state intervention increased dramatically. The Fifth Malaysia Plan document (1986) explains the changing role of the state in the context of the NEP as follows:

> The role of the public sector in the economy saw a shift from that of a traditional provider of services to one of direct participation in the field of commerce and industry as well as agriculture, transport, and communications. The last fifteen years saw a rapid expansion of Government-owned corporations and trust agencies set up to accelerate the process of restructuring of society. A number of public-owned corporations were also established to meet the needs of economic growth and industrialization, including heavy industries, which demanded huge capital outlays and involved high risks as well as long gestation periods. The expanded role of the public sector in the economy, therefore, resulted in the rapid growth of public expenditure, particularly that of development expenditure. During the Fourth Plan period [1981-1985], development expenditure increased three times compared with that of the Third Malaysia Plan, 1976-1980 and eight times compared with that of the Second Malaysia Plan, 1971-1975 (Fifth Malaysia Plan 1986:13).

As a percentage of GNP, public development expenditure rose from around 8% in the late-1960s to 25.6% in the Fourth Plan period. The data for public development expenditure do not include allocations to off-budget agencies or non-financial public enterprises discussed below. To characterise Malaysia as a case of market-led growth (eg World Bank, 1992) is misleading, to say the least.

The New Economic Policy: Patterns of Redistribution and Growth

The official statement of the NEP specifies two 'prongs', worded as follows: (1) to reduce and eliminate poverty irrespective of race, and (2) to restructure Malay society so as to correct economic imbalance and eliminate the identification of race with economic function. Official data on trends in poverty, income distribution, and asset ownership over the course of the NEP are the subject of great contention.[2] Although the precise numbers are quite debatable, several patterns are quite clear. In this section I shall outline briefly the pattern that emerges from these official statistics - as well as some of the key debates - before turning to a discussion of some of the underlying dynamics.

Although poverty alleviation was framed in non-racial terms, in practice it has focussed primarily on Malays, more than 80% of whom lived in rural areas in the late-1960s. According to official figures, the incidence of poverty among rural Malays was 65% in 1970, compared with 49% for the population as a whole. A key element of the NEP has been massive spending not only on agriculture and rural infrastructure, but also on education and social services in rural regions. Although relatively large farmers, wealthy contractors, and brokers of state resources who form the political base of support for the ruling coalition have appropriated many of the benefits, absolute living standards of the poor Malay peasantry have in general risen significantly. By 1987 official estimates were that the incidence of rural poverty among Malays had been halved, and that the overall poverty incidence had fallen to 17%.

The reduction in rural poverty is a consequence both of the sheer volume of spending, along with quite broadly-based increases in agricultural productivity and in educational levels. As discussed more fully below however, this strategy of massive state spending within an unreformed agrarian structure has meant that the state is now politically locked into a system of agricultural and other rural subsidies that systematically flow out of rural regions.

The 'restructuring' prong of the NEP was comprised of a quota system for Malays in education, employment, and government contracts, along with measures to restructure the ownership of corporate equity holdings. The goals for asset restructuring were stated very explicitly. According to official figures, as of 1969 Malays accounted for 1.5% of all share capital of limited companies, versus 62% for foreign interests, 23% for Chinese and less than 1% for Indians. A key goal of the NEP was to increase the equity share of Malays to 30% by 1990; Chinese and Indians were to have their share increase to 40%, while foreigners' shares would fall to 30%.

The quota system operated in the private as well as the public sector. For example the Industrial Coordination Act of 1975 stipulated that 30% of the equity of firms producing for the domestic market had to be set aside for Malays, the enforcement of employment quotas for Malays in export as well as domestic industries, and a requirement that firms use Malay distributors for a minimum of 30% of turnover. Employment of Malays also expanded through a proliferation of parastatals in the 1970s, as well as direct employment in the bureaucracy.

While employment quotas have undoubtedly expanded jobs for Malays, many of the new industrial jobs have been in low-wage industrial sectors (see below). As far as educational quotas are concerned, the racially-based system that takes no account of ability to pay has operated strongly to the benefit of wealthy Malays.

It is in the sphere of asset restructuring that the capacity of strategically-placed Malays to capture the benefits of redistribution is most clearly evident. A particularly innovative mechanism of asset redistribution has been a mutual fund programme entitled *Amanah Saham Nasional* (ASN) or National Unit Trust Scheme which was set up to purchase at cost the assets of *Permodalan Nasional Berhad* (PMB), the National Equity Corporation and sell them to the wider Malay community. PMB in turn is one of the key state enterprises involved in massive corporate takeovers by the Malaysian state in the 1970s; it also acquired at par at least 30% of the equity of companies floated on the stock exchange. As Jesudason (1989:115) has observed, ASN is 'a brilliant strategy that simultaneously kept the state managerial stratum in control of the companies, spread the profits to the wider Malay community, and kept the shares in Malay hands, since an individual could only buy and sell through ASN'. The tax-free rate of return on investment in ASN, subsidized through off-budget sources, has consistently been several points above savings and fixed deposit rates. By 1985, 43% of eligible Malays had invested a total of M$1.9 billion in ASN shares (US$1=M$2.4 in 1985). However, 85% of those invested $500 or less, while about 1.3% of eligible Malays owned 75% of ASN shares (Jomo, 1990:160).

The capacity of strategically-placed Malays to capture and control resources and opportunities extends far beyond the distribution of ASN shares. There has emerged over the course of the NEP a class of rentier capitalists who use their preferential access to subsidies, licences, contracts, and so forth to operate in close alliance with wealthy Chinese through so-called Ali-Baba arrangements. Elements of this rentier class also ally themselves with foreign capital in exchange for directorships, joint ventures, and other benefits.

It would be surprising if the official data on trends in income distribution over the course of the NEP reflected more than a fraction of the actual patterns of concentration in the upper income strata. These data do, nevertheless, reveal a clear pattern of disproportionately rapid income growth for the wealthiest 5% of Malays whose income, according to official figures, grew by 143% between 1970 and 1984 compared with a median of 122% for Malays and 77% for non-Malays. For both Malays and non-Malays there have been tendencies towards income concentration, with mean income growth substantially higher than median.

The most contentious set of figures are those on trends in the racial distribution of assets. According to offical estimates, Malay ownership of corporate assets was between 18-19% in the late 1980s, well short of the NEP target of 30%; non-Malays increased their shares to 57% while those of foreigners fell from 62% to 25%. Malay nationalists invoke these figures as evidence for the need to extend the NEP, while the Malay Chinese Association (MCA) has contested them vehemently. The MCA maintains *inter alia* that Malay-owned shares acquired under NEP quotas were being valued at par instead of at market rates, and also that the value of Malay-held land was undervalued because of the Reservation Enactments. There is little question, though, that however one calculates asset ownership, it became heavily concentrated over the course of the NEP.

Changing Patterns of Economic Growth and Industrial Policy

This fairly remarkable redistribution took place within the context of a rapidly growing economy. However, both the pattern and the pace of economic growth varied and changed over the course of the NEP. During the 1970s increasing commodities prices were a major determinant of high growth rates. By the early 1980s, the breathing space afforded by oil revenues vanished. Malaysia was confronted by declining prices of the main export commodities and a massive fiscal crisis as the federal deficit grew to 19% of GNP in 1981 - one of the highest in the world at the time. The state responded with heavy foreign borrowing, which rose nine-fold between 1980 and 1981. Although the World Bank and International Monetary Fund pushed their conventional restructuring package, Malaysia did not accept that package and the conditions that it would impose, but went ahead with its own version of adjustment (Bruton, 1992:311). In essence, this austerity programme amounted to a sharp reduction in direct development expenditure, but spending on state-owned and controlled enterprises was largely maintained (Bruton, 1992:311). Malaysia's vulnerability to fluctuating commodity prices was again manifest in 1985, when there was a further sharp decline in commodities prices and the economy actually contracted by 1% and grew by only 1.2% in 1986.

The economic crisis of the early to mid-1980s prompted a retreat from the heavy industry drive that the state had launched in 1980 to produce intermediate industrial goods and consumer durables for the domestic market.[3] Many of these industries were incurring heavy losses and, faced with a continuing financial drain, the state began backing off its commitment to the combined NEP-heavy industries strategy. In 1988 Malay managers heading the major state- owned heavy industry subsidiaries were replaced by private sector executives (many of them from Japan), and the Finance Minister announced a list of 60 public enterprises which the government was evaluating to determine whether they should be 'closed down, rehabilitated, or privatized'.

By the end of the 1980s there was a more general retreat from NEP-driven regulations and quotas, and a rising rhetoric of privatization.[4] In practice, the coalition in control of the state has often maintained effective control over 'privatized' enterprises by sale of equity to quasi-state enterprises. In addition, many critics have pointed out that the major beneficiaries of privatization have typically been those with close links to the ruling party, UMNO.[5] As in other parts of the world, the mechanisms and beneficiaries of privatization reflect pre-existing structures of privilege and power. More generally, what took place in the late-1980s was a redefinition of the relationship between the state and different fractions of capital, rather than simply a shift from the state to the market.

Since 1988 the economy has attained annual growth rates of 7-9%, driven in large part by a massive surge in Japanese and Taiwanese investment in electronics. Although the liberalized regulatory regime and relatively low labour costs have played a role, exchange rate appreciation and backdoor access to international markets have also been major factors. The share of manufactured goods in total exports grew from 22% in 1980 to 49% in 1988, and Malaysia is now the world's third largest producer of electronic components, and the largest assembler/exporter of semi-conductors.

Although recent industrialization has moved at a breakneck pace, many observers point to its fragility. The new wave of investment has brought in large numbers of small and medium-sized firms from Japan and Taiwan that are more vulnerable to cost overruns, currency swings, and operating pressures than the corporate giants (*Far Eastern Economic Review*, March 28, 1991:51). Much of the foreign investment is concentrated in a very narrow range of industries - for instance, 80% of Japanese investment is in electronics (*Far Eastern Economic Review*, March 28, 1991) with relatively weak linkages to domestic industries. Many of the consumer electronics and appliance firms bring in their own suppliers and subcontractors, and contribute little to the development of domestic capacity for innovation and skill formation.

A close correlate of weak linkages into the national economy is that local labour is tied into low value-added, low wage assembly that tends to perpetuate tight controls on labour. Although foreign investment is not simply a matter of cheap labour, the state has consistently acted to ensure attractive conditions for foreign capital by containing labour organization. Since the 1970s, national unions have been prohibited in export industries through the Registrar of Trade Unions' discretionary power to withhold union registration. Subsequent legislative amendments have prohibited strikes on questions of dismissal or reinstatement of workers, controlled affiliation of unions with international labour bodies, and empowered the Minister of Labour to ban a union without giving reasons

(Missen, 1986:92). Labour restrictions are backed up by the Internal Security Act, which bears an uncanny resemblance to its South African counterpart.

A key question is why this growth model has become entrenched in Malaysia, and what its relationship is to the political imperatives of racially-defined redistribution. To address this question, we need to look more closely at relationships between different capitalists and the state.

The Logic and Dynamics of Rentier Accumulation

The heavy and growing reliance on foreign investment, and the associated structural weaknesses, are reciprocally linked with rentier forms of accumulation - in other words, a strong tendency towards unproductive investment by domestic capitalists, and their failure to develop into an industrial capitalist class. The origins of rentier accumulation lie in the race-class divisions that developed during the colonial period. What is significant about the NEP is the way it has played into these divisions. In short, the NEP has not only entrenched colonially-constructed racial/ethnic categories, but has done so in ways that reinforce rentier forms of accumulation - and hence ongoing reliance on foreign investment.

The relationship between the state and different branches of foreign capital provide some important insights into this process. In the early stages of the NEP, the state moved quickly and decisively to take over major segments of mining, plantation, and financial capital. By the early-1980s, the state had taken over majority assets and management of all of the major plantation companies established in the colonial period - Sime Darby, Guthrie's, Boustead, Highland and Lowlands, Barlow, and Harrisons and Crosfields - and controlled in the vicinity of 60% of corporate shares in the mining and plantation industry. It had also gained control of over 77% of the local banking industry and 50% of the total banking industry, and held significant shares in 31 of the 36 insurance companies.

At the same time, there was a concerted move to attract industrial capital. This process began in the late-1960s with the Industrial Incentives Act which granted exemptions from company tax, relief from payroll tax, investment tax credits, accelerated depreciation allowances and export incentives, as well as some tariff protection and exemption from import duty. Efforts to attract foreign capital accelerated in the early stages of the NEP. In the early-1970s the level of industrialization in Malaysia was very low relative to the level of per capita income. Particularly after the launching of the NEP, there was a powerful imperative to industrialize and generate industrial employment. At the same time, however, the architects of the NEP were concerned to contain the development of a powerful Chinese industrialist class. Foreign capital was seen as easier to control than domestic Chinese capitalists.

The Industrial Coordination Act (ICA) of 1975 illustrates clearly how relationships between different capitalists and the state worked out in practice. The key provision of the ICA was that all industries with share capital greater than M$100,000 or more than 25 employees would have to obtain a licence, and were subject to NEP quota requirements. The detailed provisions gave the Minister of Trade and Industry enormous discretionary power and control over virtually every aspect of a company's operations. The ICA evoked an outcry from foreign and non-Malay business interests, as well as a decline in foreign and domestic private investment. In 1977 the government introduced a set of amendments that exempted foreign companies producing for export from many of the provisions of the ICA. Concessions to domestic capital were also made in response to the vociferous opposition of the Associated Chinese Chambers of Commerce and Industry of Malaysia, but these were relatively minor. In the late-1980s the NEP equity restructuring requirements were relaxed to some extent, but many observers maintain that these and other restrictions continue to undermine the development of domestic industrial capital.

Those least subject to NEP constraints are major Chinese capitalists who, as mentioned earlier, operate in alliance with strategically-placed Malays to gain access to state patronage and rentier opportunities. These relationships between and among different capitalists and the state go a long way towards explaining why, instead of industrial investment, a high proportion of domestic capital is channelled into commercial property and residential real estate, as well as speculative activities and other unproductive forms of resource deployment - including investment in ensuring access to resources and opportunities (Jomo, 1986; Shamsul, 1986; Jesudason, 1989).

The logic and dynamic of rentier accumulation also has an important regional and spatial dimension. The main political challenge to the ruling coalition comes from the orthodox Islamic groups based mainly in the northern rice-growing regions. Massive agricultural subsidies have been pumped into these regions, along with large expenditures on infrastructure and other measures to encourage non-agricultural diversification. Even though some of these areas have experienced quite substantial agricultural growth, this has not translated into regional diversification. Essentially what has happened is that much of the agricultural surplus has been funnelled out of the region and into urban real estate, speculation, and so forth. At the same time, the rural party bosses who form the political base of support of the ruling coalition in the countryside are in a position to demand a continuing flow of agricultural and other subsidies. Agricultural mechanization has meant that wage labour within the region has been sharply curtailed. My own research in one of these regions reveals a pattern of intensifying circular migration; men and young women from relatively poor households with small landholdings have left the region to take up construction and low wage industrial jobs in urban areas, while older women have assumed responsibility for farming and holding on to land as a form of social security. These weak linkages between agriculture and industry in rural regions both reflect and reinforce the logic and dynamic of rentier accumulation in the larger economy and society, and the particular ways in which Malaysia has become incorporated into the increasingly competitive global economy (Hart, 1993).

Although the pattern of foreign investment-led growth operates to the advantage of strategically-placed groups and classes, it has also generated various tensions and pressures from within. One source of pressure comes from nationalist groups who are pushing to clamp down on foreign investment and extend NEP benefits. For example, in 1992 the Foreign Investment Committee, a powerful panel created in 1974 to ensure that foreign and domestic investment proposals comply with national policy aims, issued a set of proposals for clamping down on the terms of foreign investment (*Far Eastern Economic Review*, March 5, 1992:52). These proposals include limiting foreign investment to 30% of joint ventures from the outset, reinstating the requirement of 30% Malay-owned equity that had been relaxed in the late-1980s, and requiring companies doing business in areas where Malays have a strategic stake to sell up to 50% of their equity to Malays. The Third Bumiputera Economic Congress in January 1992 likewise called for enforcement mechanisms to ensure that the 30% ownership rule is met, thereby openly contesting key provisions of the New Development Policy.

In recent years there has also emerged a technocratic critique of state sponsorship of a rentier class through subsidies and patronage. According to this view, the state should discipline domestic capitalists to meet performance criteria of efficiency and productivity, expand skills, and pursue reduction of income inequality regardless of race (Kamal and Zainal, 1989). A key element in the sub-text of this critique is the irrationality of restrictions on domestic Chinese capitalists, particularly in view of Malaysia's heavy and growing reliance on investment by Taiwanese capital.

From a South African perspective, what is particularly striking about these debates is that the voice(s) of labour remain heavily muted. A recent issue of the *Far Eastern Economic Review* (July 22, 1993:19), reporting on government pressure on a union leader following his airing of union restrictions at an International Labour Organization conference in Geneva, made the following quite revealing observations:

> Labour issues are sensitive because the low cost of labour is considered the country's key competitive advantage. The

> government's fear is that foreign scrutiny of labour conditions will fuel demands for higher wages, and erode the country's advantage... G. Rajasekaran, executive secretary of the Metal Industries Employees Union, points out that monthly wages paid to production workers in the electronics industry range from M$350 (US$140) to as low as M$240, compared with as much as $930 in Singapore. 'Our wages are still far behind. Many companies are prepared to pay higher wages, but the government asks us to keep them down,' Rajasekaran says.

Whether and under what conditions Malaysian workers will come to play a more direct political role remains an open question. The recent appeal to COSATU by independent Asian trade unionists - including a prominent Malaysian labour organizer - to 'demand a radical restructuring of the ICFTU's operations in Asia as a precondition to their affiliation' (*SA Labour Bulletin* May/June, 1993:81) underscores the repressive conditions in Malaysia and elsewhere in Asia.

Concluding Observations

Part of my purpose in this article has been to contest the invocation of a Malaysian 'model' as a case for South Africa to emulate. Quite apart from some of the more problematic aspects of Malaysian experience that are typically excluded from such accounts, the very notion of a model that can somehow be mimicked in a voluntaristic and decontextualized fashion is deeply problematic. What the NEP does demonstrate is that a highly interventionist state can indeed redefine the conditions of access to resources and opportunities along racial/ethnic lines - a lesson that also emerges from South African experience in the post-1948 period. Late 20th century South Africa confronts a very different configuration of social forces than earlier in its history or in Malaysia - including a highly organized and mobilized urban working class. It is also very differently situated in an increasingly integrated global economy.

Rather than a model, Malaysia serves as a set of lenses which can help to clarify the possibilities and limits of transformation in South Africa. One of the key questions that Malaysian experience poses to South Africans is why racially-defined systems of labour repression have produced such radically different outcomes. Some of the elements of labour and political quiesence in Malaysia alluded to in this paper include powerfully entrenched systems of rural patronage in which gender plays a central role (Hart, 1991), the pattern of industrialization, and the forms of relations between capital and the state. The related set of questions is whether the dynamics of labour and community mobilization that crystallized in South Africa in the context of a relatively closed economy can be sustained in a post-apartheid era marked by increasing capital mobility.

NOTES

1. By 1980 crude petroleum exports had become the chief foreign exchange earner. In addition to stepping up oil production, the state came into direct conflict with oil companies, all of them foreign-owned. Through the Petroleum Development (Amendment) Act of 1975 the state attempted to take control over the downstream activities of oil companies by requiring the companies to issue a special class of management shares which would carry the voting tights of 500 ordinary shares. The companies reacted violently, accusing the state of nationalization without compensation, and Exxon suspended operations in Malaysia for nearly a year. The controversy resulted in a fall in foreign investment, and the state was forced to drop the management share idea. It did, however, obtain a substantially more favourable production sharing arrangement. See Gale (1981) and Jesudason (1989).
2. There is a huge literature on income distribution and poverty in Malaysia, including Anand (1983), Bruton (1992), Faaland et al (1990), Hirschman (1989), Jomo and Ishak Shari (1986), Jomo (1990), Mehmert (1986), and Snodgrass (1980). See also the Government of Malaysia Plan documents, the most recent being the Sixth Malaysia Plan published in 1991. See Manning (1993) for a full summary of some of the official data.
3. In 1980 the state launched HICOM, the Heavy Industries Corporation of Malaysia, set up under the direction of the Prime Minister's Economic Planning Unit 'to plan, identify, initiate, invest, implement and manage projects in the field of heavy industries' - including cars, iron and steel, cement, motor cycle and general use engines, and petrochemicals produced through joint venture arrangements with private (largely foreign) capital. For example, HICOM joined with Mitsubishi to produce Malaysia's 'national car', the Proton Saga. Total public sector investment allocated to heavy industry projects in the Forth Malaysia Plan (1981-6) was M$6.4 billion, roughly equal to the entire government development budget for all social programs including education, health, housing, and welfare.
4. The liberalized regulatory regime introduced in 1986 encompassed exemption from NEP equity restructuring requirements to companies worth less than M$25 million and employing less than 75 full-time workers, allowing foreign companies to own up to 100% of any new venture providing at least 50% of output is exported and the remainder does not compete with goods already manufactured locally, simplified bureaucratic procedures, a reduction in corporate tax (to 35%), and a rescinding of the 5% development tax.
5. For example, in 1986 the Finance Minister ordered one of the largest private banks, United Malayan Banking Corporation, to provide guarantees for a loan that enabled Hatibudi, an UMNO-controlled company, to acquire United Engineers (Malaysia) which was then awarded the contract for construction, maintenance, and operation of the North-South Highway, one of the largest public works contracts in Malaysian history.
6. The corporate take-overs were engineered by two key public enterprises (PMB and Pernas, *Perbadanan Nasional* or National Corporation) in conjunction with Rothschilds and Sons of London. Although the 'Outline Perspective Plan' which laid out the NEP strategy gave no indication of involuntary divestment of foreign companies, the logic for takeovers became increasingly compelling. On the one hand was the rising influence of Malay nationalists pressing for asset transfers; on the other, the mining and plantation sectors were providing neither technology expertise, new markets, nor industrial diversification. Further, instead of being ploughed back locally, profits were being paid out to foreign shareholders or being used to subsidize subsidiaries in other parts of the world. The early takeovers of tin mining were accomplished fairly easily but the state's move into the plantation sector became increasingly acrimonious. Discussions of this process can be found in Bowie (1991), Jesudason (1989), Jomo (1986, 1990), Lim Mah Hui (1985), David Lim (1983), Spinanger (1980), Government of Malaysia Plan documents, and various issue of the *Far Eastern Economic Review*.

REFERENCES

Alatas, Syed Hussain (1977) - *The Myth of the Lazy Native* (London: Frank Cass).

Anand, Sudhir (1983) - *Inequality and Poverty in Malaysia* (New York: Oxford University Press).

Ariffin, Rohana (1989) - 'Women and trade unions in Malaysia', in *Journal of Contemporary Asia*, 19(1).

Bowie, Alasdair (1991) - *Crossing the Industrial Divide: state, society, and the politics of economic transformation in Malaysia* (New York: Columbia University Press).

Bruton, Henry (1992) - *Sri Lanka and Malaysia: the political economy of poverty, equity, and growth* (New York: Oxford University Press).

Bundy, Colin (1979) - *The Rise and Fall of the South African Peasantry* (London: James Currey).

Faaland, Just, et al (1990) - *Growth and Ethnic Inequality: Malaysia's New Economic Policy* (London: St. Martin's Press).

Gale, Bruce (1981) - 'Petronas: Malaysia's National Oil Corporation', in *Asian Survey*, 21(11).

Hart, Gillian (1991) - 'Engendering everyday resistance: gender, patronage and production politics in rural Malaysia', in *Journal of Peasant Studies*, 19(1).

Hart, Gillian (1993) - 'Regional growth linkages in the era of liberalization: a critique of the new agrarian optimism' (Geneva: International Labour Organization).

Hirschman, Charles (1986) - 'The making of race in colonial Malaya: political economy and racial ideology', in *Sociological Forum*, 1(2).

Hirschman, Charles (1989) - 'Development and inequality in Malaysia', in *Pacific Affairs*, 62(1).

Kratoska, Paul (1983) - '"Ends that we cannot foresee": Malay Reservations in British Malaya', in *Journal of Southeast Asian Studies*, 14.

Jessop, Bob (1982) - *The Capitalist State* (Oxford: Martin Robinson).

Jesudason, James (1989) - *Ethnicity and the Economy: the state, Chinese business, and multinationals in Malaysia* (Singapore: Oxford University Press).

Jomo Kwame Sundaram (1986) - *A Question of Class: capital, the state, and uneven development in Malaysia* (Singapore: Oxford University Press).

Jomo Kwame Sundaram (1990) - *Growth and Structural Change in the Malaysian Economy* (London: Macmillan).

Jomo Kwame Sundaram and Ishak Shari (1986) - *Development Policies and Income Inequality in Peninsular Malaysia* (Kuala Lumpur: Institute of Advanced Studies, University of Malaya).

Kamal Salih and Zainal Yusof (1989) - 'Overview of the New Economic Policy and the framework for the post-1990 Economic Policy', in *Malaysian Management Review*, 24(2).

Lim, David (ed) (1983) - *Further Readings on Malaysian Economic Development* (Kuala Lumpur: Oxford University Press).

Lim Mah Hui (1980) - 'Ethnic and class relations in Malaysia', in *Journal of Contemporary Asia*, 10(1/2).

Lim Mah Hui (1985) - 'Contradictions in the development of Malay capital: state, accumulation, and legitimation', in *Contemporary Asia*, 15(1).

Lim Mah Hui and William Canak (1982) - 'The political economy of state policies in Malaysia', in *Journal of Contemporary Asia*, 11(2).

Lim Teck Ghee (1977) - *Peasants and their Agricultural Economy in Colonial Malaya, 1974-1941* (Kuala Lumpur: Oxford University Press).

Lim Teck Ghee (1984) - 'British colonial administration and the "ethnic division of labour" in Malaysia', *Kajian Malaysia*, II.

Lubeck, Paul (1992) - 'Malaysian industrialization, ethnic divisions, and the NIC model: the limits to replication', in Richard Appelbaum and Jeffrey Henderson (eds) - *States and Development in the Asian Pacific Rim (Newbury Park CA: Sage Publications).*

Marks, Shula (1978) - 'Natal, the Zulu royal family and the ideology of segregation', *Journal of Southern African Studies*, 4(2).

Mehmet, Ozay (1986) - *Development in Malaysia: poverty, wealth, and trusteeship* (London: Croom Helm).

Missen, Geoff (1986) - 'Wage labour and political economy in Malaysia', in Terrence McGee (ed) - *Industrialization and Labour Force Processes: a case study of peninsular Malaysia* (Canberra: Australian National University, School of Pacific Studies).

O'Meara, Dan (1983) - *Volkskapitalisme: class, capital, and ideology in the development of Afrikaner nationalism, 1934-1948* (Cambridge: Cambridge University Press).

Ong, Aihwa (1987) - *Spirits of Resistance and Capitalist Development: factory women in Malaysia* (Albany NY: State University of New York Press).

Richardson, P (1978) - 'The Natal sugar industry in the nineteenth century', in W Beinart et al (eds) - *Putting a Plough to the Ground* (Johannesburg: Ravan Press).

Shamsul Amri Baharuddin (1986) - *From British to Bumiputera Rule* (Singapore: Oxford University Press).

Snodgrass, Donald (1980) - *Inequality and Economic Development in Malaysia* (Kuala Lumpur: Oxford University Press).

Spinanger, Dean (1980) - *Regional Industrialization Policies in a Small Open Economy: the case of West Malaysia* (Kiel: Institute for World Economics).

Standing, Guy (1989) - 'The growth of external labour flexibility in a nascent NIC: the Malaysian labour flexibility survey' (Geneva: International Labour Office).

Stenson, MR (1970) - *Industrial Conflict in Malaysia* (London: Oxford University Press).

Tan Pek Leng (1983) - 'Women factory workers and the law', in Evelyn Hong (ed) -*Malaysian Women: problems and issues* (Penang: Consumers Association of Malaysia).

World Bank (1992) - 'Economic work program on South Africa' (Draft discussion document).