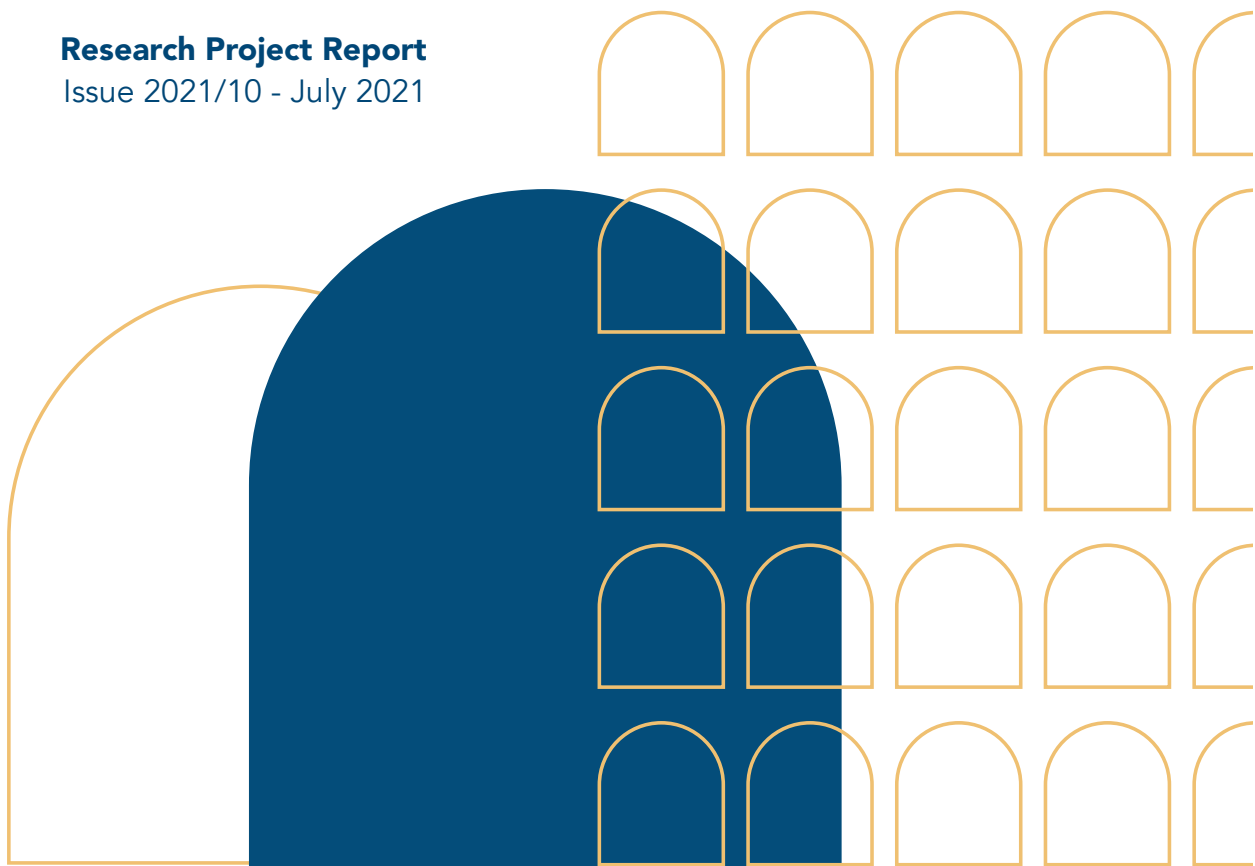


The Developmental State Experience in Malaysia: Lessons for Libya?

Kriengsak Chareonwongsak

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The Developmental State Experience in Malaysia: Lessons for Libya?¹

Kriengsak Chareonwongsak²

Executive Summary

In order to speed up the socioeconomic development process in Malaysia, in 1971 the country changed direction from a laissez-faire approach to a developmental state (DS) approach, a term used to describe countries that implement state-led policies or interventions to achieve rapid economic growth and structural change. The Malaysian DS experience, also known as the New Economic Policy (NEP), had four key objectives: to increase the economic growth rate; to reduce poverty and inequality; to restructure the economy among ethnicities; and to restore national unity. The lessons this experience provides can be considered relevant to meeting similar conditions in other countries experiencing a transitional phase in their national redevelopment, of which Libya is a prime example.

Various social, economic and political factors – including long-standing ethnic divides, economic inequality among the Malay, Chinese and Indian segments of the population and a lack of political representation for the ethnic groups – in the late 1960s cumulated in constituting a major national security risk and serious obstacles to development. This is what led the Malay elite to shift its policy to the DS model and enact the NEP in 1971.

The NEP was a very loosely defined programme implemented in a piecemeal fashion over a period of twenty years. It was a dynamic set of policies that were continually revised to take into account changing external circumstances and the programme's successes and failures. Besides the policies and programmes that were implemented, in order for the government to participate directly in economic development other tools were also used to help achieve its goals, such as newly established public agencies, state-owned business enterprises, regulatory acts, specific committees, de-concentration and affirmative action.

After twenty years of implementation, the NEP succeeded in reducing poverty from 50% in 1970 to 19% in 1991 and restructured Malaysian society by correcting economic and social imbalances and reducing the identification of race with economic function. The factors that contributed to this success were strong leadership at the national level, oil resources and revenue from oil exports that were able to finance the developmental state model and political opportunities with regional actors.

However, the process of restructuring Malaysian society resulted in unintended negative results such as a policy design built on racial discrimination to the benefit of the Malays, who were previously marginalised. Other failed outcomes were an increasingly powerful oligarchy, an undermining of meritocracy in the civil service and a persistent culture of subsidies which was difficult to sustain in the long run.

1 This research project report is part of a series of publications prepared in the framework of the 'Dialogue Platform for Peace and Stability in Libya'. The project aims to establish a platform for dialogue and exchange between Libya's major political forces, Libyan and international researchers and key actors in the international community on key policy issues for Libya's future.

2 Chairman of the Nation-Building Institute (NBI), Senior Fellow at Harvard University, President of the Institute of Future Studies for Development (IFD) and Academic Dean, University of London Thailand Centre EMFSS Programmes led by the London School of Economics and Political Science (LSE). He was previously an advisor to the Thai Prime Minister and Ministers, a Member of Parliament and Vice Chair of the Economic Development Committee of the House of Representatives.

Introduction

In 1971, in order to speed up the socioeconomic development process in Malaysia, the country changed direction from a laissez-faire approach to a developmental state approach, a term used to describe countries that implement state-led policies or interventions and are able to achieve rapid economic growth and structural change.³ Before 1970, as a consequence of British colonial rule and Malaysia's development strategy that was based on a laissez-faire approach to industrial development, Malaysian society was ethnically divided between Malays, Chinese and Indians, and control of the Malaysian economy also was divided highly unequally among these ethnic groups. In order to address these issues, there was debate regarding whether the state should allow development to be led by market mechanisms (the laissez-faire approach) or whether the state should be allowed to intervene more in economic activities (the developmental state approach) in order to achieve state goals, and if so how much of a role the state should play.

Malaysia adopted the developmental state approach by enacting the New Economic Policy (NEP) in 1971, with the objective of reducing poverty and eliminating ethnic divisions by restructuring employment by sector and occupation and restructuring to allow Malays to have a greater share in the ownership and control of wealth.

With the NEP, the state came to play a more extensive and authoritative role using more direct forms of intervention, such as through state enterprises and various committees that were set up. As a result, by 1990 the NEP had contributed to an increase in the economic growth rate, a reduction in poverty and inequality, economic restructuring between ethnicities and a restoration of national unity.

Malaysia's experiences could provide valuable lessons for stakeholders in countries with a low level of economic development that wish to restructure their economies from lower-value to higher-value economic activities in order to become more prosperous, equitable and sustainable. This would include countries experiencing internal conflict or that are in transition periods, such as Libya and many others. Adopting a developmental state approach to development could be a part of the solution.

Libya has been undergoing a transition phase and experiencing internal conflict since the overthrow of President Muammar Gaddafi in 2011. By learning from Malaysia's policy guidelines according to the developmental state approach and understanding the factors contributing to the NEP's successes and failures, Libya can learn from the mistakes Malaysia made and design appropriate policies that will help the country achieve its goals better and faster.

Therefore, the purpose of this article is to explain the context and approach of the developmental state model which was used by Malaysia to drive the country forward economically and address ethnic conflict. Moreover, the achievements and obstacles arising from implementation of the NEP will be analysed. These lessons are relevant for discussions on the possibility of a developmental state model in Libya.

However, as Malaysia was still a developmental state after the NEP, in this article only the period 1971-1990 of the NEP is described. This is because it was a transition period, which is an important stage, and it offers useful lessons for countries that are considering adopting the developmental state approach.

The article is organised as follows. The first section examines the context of Malaysia before the developmental state model was chosen as the most applicable. The second section explains why Malaysia adopted this model and how consensus on choosing this model was reached. The third section surveys

³ The term developmental state has various definitions. Chalmers Johnson is credited with being the first person to conceptualise it. For Johnson, the developmental state is a state that focuses on economic development and implements the policies necessary to accomplish this objective (Leftwich, 1995). Castells (1992) defined the developmental state from another perspective: a developmental state is a state that promotes and sustains development which is a combination of high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy. Another definition by Routley (2012) defines a developmental state as a state that has developmental structures and performs developmental roles. These types of states have a developmental vision and are able to use their capacity to work effectively towards economic development in targeted areas.

the details of the developmental state in Malaysia between 1971 and 1990. The fourth section analyses the achievements and obstacles in the implementation of the developmental state in Malaysia, and the fifth is the conclusion.

1. Malaysia Before Adopting the Developmental State Model

One turning point in the history of Malaysian economic development is the transition from a laissez-faire ex-colonial post-independence state (in 1957) to a developmental state in which the state began to intervene highly in the economy following the implementation of the NEP in 1971.⁴ This transition was the result of an accumulation of various factors over a long time. Ethnic divisions were coupled with a lack of good social and economic management without political representation of each ethnicity, leading to economic inequality, especially for indigenous people. The Malays were poorer and had a lower standard of living than the Chinese and Indian populations. These problems required the state's attention and needed to be addressed because the longer the problems existed the more divided the country would be and the more inequality would exist. This situation was a national security risk and a barrier to the future development of Malaysia. These were the reasons for Malaysia's decision to shift its policy to the developmental state approach in order to address these problems when the situation was favourable.

Analysing the social, economic and political factors in Malaysia's situation from 1957 to 1970 will further enhance understanding of its motivation to change its policy to the developmental state approach. Each factor is explained in detail in the following sections.

The Social Aspect: Diversity with Ethnic Divides

In 1957, Malaysian society was ethnically divided as a consequence of British colonial rule⁵ and the 1957 Merdeka Constitution, which provided Malays with more privileges than the other ethnicities.⁶ While the Malay elite served as civil servants, the British intended to keep the ordinary Malays (49 % of the population) in the traditional agriculture sector and did not allow them to sell their land to foreigners in order to conserve their traditional way of life and reduce the chance that they would oppose British power.⁷ The Malays also lacked motivations to enter new industries such as tin mining and rubber because they did not put as high a value on merchants as on political leaders, their lands were poor in tin and owing to limits on their property rights the yields of the rubber industry could not compensate for the yields of traditional agriculture. As a result, the Malays were excluded from new economic activities, which were allocated to the Chinese and the Indians. Despite the hardships of production without technology, both the Chinese and the Indians earned more income than the Malays since the British put much importance on their commerce with western countries. The Chinese and the Indians also benefited from being traders in the global economy, unlike the Malays, whose production was mainly for domestic consumption.

In the area of culture, the British established a school to teach English to the children of the Malay elite and schools that taught in Malay for the common Malays. The British were not interested in providing education for the Chinese and the Indians. Therefore, these two ethnic groups had to establish their own schools to teach their children. The education systems of the three ethnicities were completely

4 B. Mandla, "BEE and Malaysia's NEP: A comparative study," *Master's thesis*, the University of Stellenbosch, Stellenbosch, South Africa 2006.

5 P. Buhra, "นโยบายเศรษฐกิจใหม่ (ค.ศ. 1971-1990) กับปัญหาการสร้างเอกภาพระหว่างประชากรเชื้อชาติต่าง ๆ ในมาเลเซีย [The New Economic Policy (1971- 1990) and problems of building unity among ethnic populations in Malaysia]" *Master's thesis*, Thammasat University, Bangkok, Thailand, 2000.

6 A. Tulyasak. "ความไม่เท่าเทียมทางสังคมและชาติพันธุ์ในมาเลเซีย (กรณีศึกษา นโยบายภูมิบุตรากับคนจีน) [Social and Ethnic Inequality in Malaysia (Case study of the Bumiputera Policy and Chinese community)]," *Prachatai*, 21 May 2014: <https://prachatai.com/journal/2014/05/53364>

7 C. A. Lockard and Z. B. Ahmad. "The impact of British rule," *Britannica*, n.d.: <https://www.britannica.com/place/Malaysia/The-impact-of-British-rule>

separate, allowing each to firmly maintain their own culture and almost never fuse together.⁸

The Malays were resentful of the Chinese, who were often wealthier. The Chinese were also jealous of the Malays, who were given more favourable social rights under the Merdeka constitution, for example Islam as the national religion, Malay as the national language and scholarships for their children etc.

The Malaysian government of the UMNO party, which represents Malays, tried to solve the problems in various ways, such as by allowing a political party representing the Chinese to join the government as a coalition partner in order to reflect the importance of the Chinese. However, this was not enough. The discontent of each ethnic group continued to accumulate and eventually led to severe racial conflict between the Malays and the Chinese.⁹

The Economic Aspect: Growth with Discrimination and Inequity

The government of Malaysia was focused on investing in infrastructure, agriculture and rural development. These strategies worked well to strengthen the overall economy. However, the social and economic balance of Malaysian society was not a priority and it was not managed well enough.¹⁰

Before the election in 1969, the bureaucratic Malays, who were middle class, wanted greater economic roles and interests but this was not possible because of the strength of the Chinese business network. Malays were essentially barred from accessing areas of business that were already controlled by the Chinese. Chinese business practices made it difficult for Malays to find work or establish business relationships with Chinese firms. Promises made by Chinese business leaders to assist the Malays were not realised in reality. There was no strong lever to pry open the Chinese company structure and organisation.¹¹

The Malaysian economy was highly inequitable among the ethnic groups: in terms of geographical location, type of economic activity and level of livelihood.¹² The Chinese and (non-Bumiputera) Indians were much better off than the Malays (Bumiputera).¹³

- There was a higher proportion of the Malay population in rural areas than in urban areas;
- There were more Malays in the relatively poorer states and occupations;
- There was a higher proportion of the Malay workforce in low-productive traditional agriculture and a lower proportion of them in high-productive modern industry and commerce;
- Lower positions in industries and enterprises were typically held by Malays;
- Malays had property rights over only about a third of the agricultural land;
- Malays had a significantly lower share of the ownership, control and management of industrial and commercial enterprises;
- Malays had a much lower standard of living.

8 P. Pittaya, “ในมาเลเซีย ปัญหาชนชาติ จีน-มลายู-อินเดีย นำสู่จลาจลครั้งรุนแรงในปวศ. [In Malaysia, ethnic conflict between the Chinese, Malays and Indians led to the most violent riots in history],” *Matichon Weekly*, 1 October 2016: https://www.matichonweekly.com/scoop/article_9840

9 Tulyasak, op.cit.

10 Office of the Prime Minister, “The fourth Malaysia plan (FMP),” *Asia Pacific Energy*, accessed 1 March 2021: <https://policy.asiapacificenergy.org/sites/default/files/4th%20MP.pdf>

11 J. V. Jesudason, “Chinese business and ethnic equilibrium in Malaysia,” *Development and Change*, Vol. 28, Issue 1, 1997, p. 122-123.

12 M. R. B. Saniman, “The role of the New Economic Policy (NEP) in building a United Malaysian Nation in diversity,” *bigdogdotcom*, 2008: <https://bigdogdotcom.wordpress.com/2008/08/10/the-role-of-the-new-economic-policy-nep-in-building-a-united-malaysian-nation-in-diversity/>

13 In Malaysia, it is generally considered that all Malays are Bumiputeras. This official definition is widely used and it covers ethnic Malays and other indigenous ethnic groups such as the Orang Asli in Peninsular Malaysia and the tribal people in Sabah and Sarawak. (*What is Bumiputera*, n.d.)

The Political Aspect: Group Interests

It was not only income that divided the Malays from the other ethnicities but also the roles of the political parties. The United Malays National Organisation (UMNO) represented the Malays, the Malaysian Chinese Association (MCA) represented the Chinese and the Malaysian Indian Congress (MIC) represented the Indians. Each political party acted solely for the benefit of its own ethnic group and there was a lack of working together for the benefit of the country. For example, the MCA convinced the UMNO to give them the main control over national economic policy. The MCA then used its power to support large and small Chinese capitalists, such as by using the party's influence to channel government construction contracts to them. In return, Chinese capitalists supported the MCA in its political activities.¹⁴

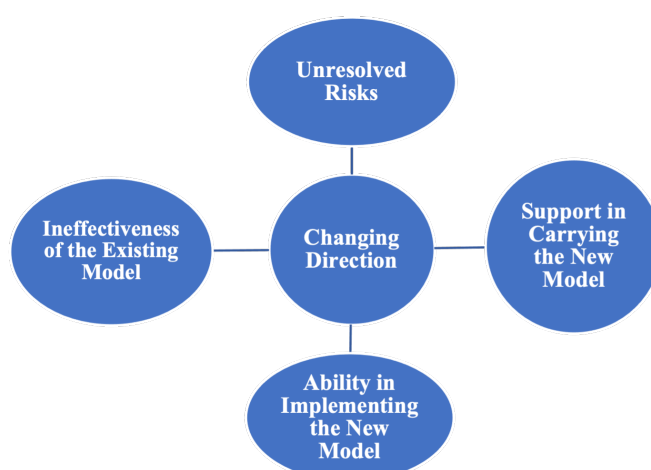
Toward the end of the 1960s, the UMNO and its non-Malay political allies found themselves in a difficult, more ethnically-polarised situation. In May 1969 following a general election that year, the tenuous social balance between ethnic groups broke down into vicious rioting.¹⁵ This was quickly and effectively met by a declaration of a state of emergency, which vested all power in a National Operations Council (NOC) headed by the then Deputy Prime Minister Tun Abdul Razak. Civil order was quickly restored and the NOC spent the next year and a half laying the political and institutional basis for what it saw as a viable and prosperous future multi-ethnic Malaysia. The NEP was born and presented in the Second Malaysia Plan (SMP) in early 1971 when the country returned to parliamentary rule. The NEP was further elaborated in the SMP mid-term review in 1973.¹⁶

2. The Adoption of the Developmental State Model in Malaysia

Why Malaysia shifted its policy from a laissez-faire approach to the developmental state approach, in which the government had a more active role in the economy, can be explained by four factors. First, there were unresolved national security risks, both internal and external. Second, the existing policy approach was ineffective in dealing with these unresolved risks. Third, the Malaysian government was able to implement the new approach as it had a competent public sector. Fourth, the government had both internal and external support in implementing the new model.

As Figure 1 illustrates, these 4 factors can be used as a framework to consider whether a country will change its direction of development.

Figure 1: Factors Affecting Malaysia's Shift of Policy Direction by Kriengsak Chareongwonsak



14 JV Jesudason, op.cit., p. 123.

15 M. E. Vethamani, "The Malaysian Albatross of May 13, 1969 Racial Riots," *Sun Yat-sen Journal of Humanities*, Issue 49, 2020, p. 19-41: https://rpb17.nsysu.edu.tw/var/file/173/1173/img/3788/2-19-41-Malachi_The-Malaysian-Albatross-of-May-13.pdf

16 P. Buhra, op. cit.

Unresolved National Security Risks

Stable countries that are not challenged by risks are likely maintain their policy approach. But when a country faces unresolved risks which hinder national security and development in the present and future the government must try to find a solution. Many states adopt a developmental state approach when state survival is threatened.¹⁷ Such threats, both internal (such as internal unrest, economic inequality, social imbalance, etc.) and external (such as a threat from a communist insurgency), can provide incentives for cooperation among the elite.¹⁸ Malaysia's decision to adopt the developmental state model was partly the result of efforts to address the risks it faced at the time.

- 1. There was of risk of unresolved interracial conflicts that had previously resulted in violent events leading to even further violence.** After the 1969 riots, a desire to improve the position of the indigenous community and to resolve the inequality in society that was a cause of the riots led to an increase in the state's direct economic role under the NEP.¹⁹ This was consistent with an increase in the demand from younger UMNO supporters for the state to play a greater role in advancing Malay interests, such as pursuing more vigorous policies which would uplift the Malays economically.²⁰
- 2. The government had to cope with a communist insurgency, or Second Emergency, which started after the racial riots on 13 May 1969.** The Communist Party of Malaya (CPM) was formed in 1930. Its main aim was to transform the country into a communist republic. Even though the First Malayan Emergency was declared over in 1960, the communist movement remained active. The CPM's strategy was to weaken the nation by manipulating sensitive issues, including economic and racial ones.²¹

The Malaysian leaders had to tackle the nation's problems along with fighting the danger of communism. However, during Tun Razak's government (22 September 1970 to 14 January 1976), Malaysia did not use the traditional approach of employing strong armed forces to strengthen stability. Razak explained his counterinsurgency strategy as:

"...the primary task of armed forces is to fight the communists, but at the same time they must also help implement the government development plan. This is part of the fight against communists. Defence and development go hand in hand".²²

Therefore, it can be said that the adoption of the NEP allowed the state to play a greater role in managing the economy as part of the government effort to tackle communist insurgency.

Ineffectiveness of the Existing Model

Countries with unresolved national security risks may choose not to adopt a developmental state approach if the existing approach is considered enough to manage the risks. However, for Malaysia this was not the case.

Before the 1969 race riots, the development strategy focused on the laissez-faire approach to industrial development and selective interventions in agriculture and rural development that benefited Malays,

17 R. F. Doner, B. K. Ritchie, and D. Slater. "Systematic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective." *International Organisation*, 59, 2005, p. 327-361.

18 L. Routley, "Developmental states: A review of the literature," *ESID Working Paper No. 03*, 2012, p. 1-60.

19 J. Brown, "The role of the state in economic development: Theory, the East Asian experience, and the Malaysian case. Asian Development Bank's Staff Paper No.52." *adb*, accessed 9 March 2021: <https://www.adb.org/sites/default/files/publication/28148/es52.pdf>

20 Jesudason, op.cit. 122-123.

21 A. Y. A. Wahab and W. H. Wan Teh, "Counterinsurgency through KESBAN: Tun Razak's administration. Proceedings of the 7th International Conference on Humanities and Social Sciences "ASEAN 2015: Challenges and Opportunities," *libarts*, accessed 8 March 8 2021: <http://fs.libarts.psu.ac.th/research/conference/proceedings-7/4/4.4-Counterinsurgency%20Through%20KESBAN.pdf>

22 M. Z. Yadi, "Malaysian emergencies: anthropological factors in the success of Malaysia's counterinsurgency," *Master's Thesis Naval Postgraduate School, Monterey, California*, 2004: https://calhoun.nps.edu/bitstream/handle/10945/1295/04Dec_Yadi.pdf?sequence=1&isAllowed=y

as was shown by a rice and palm oil plantation intervention.²³ However, the poverty rate among rural Malays remained high and there were several incidents of racial conflict between Malays and Chinese, which finally led to the 1969 riots.

The Malaysian government saw that the existing choice (the laissez-faire approach to industrial development and selective interventions in agriculture and rural development) was ineffective in achieving the intended economic and social equality, because the Chinese business network was very strong and Chinese capitalists cooperated with Chinese politicians to implement policies that benefited the Chinese people.

Therefore, with political change the UMNO Party came to greater power, coupled with a younger group of leaders in the UMNO who gained ascendancy and set about intensifying Malay political hegemony, rebuilding support for the party and greatly strengthening the Malays' economic position. The NEP was announced, which allowed the government to have more power to control and intervene more directly in the economy.

Ability to Implement the New Model

One factor necessary for the emergence of a developmental state is a capable bureaucracy with embedded autonomy,²⁴ which Malaysia had.

- 1. As a result of the 1969 election, the UMNO party gained more power and the MCA was unable to balance it.** Only 13 MCA members were elected, 14 fewer than in the 1964 election, so the UMNO was able to form a government without the need for a coalition with the MCA, giving it the power to fully manage the economy and enact the NEP, which would help address the inequality in status between Malays and other ethnicities. The MCA therefore lost its role in economic policy management and cooperation in running the country that it had played since becoming a coalition partner of UMNO and MIC since independence in 1957.²⁵
- 2. The Malaysian government had a competent public sector.** The reason why the Malaysian state was able to use its power to promote prosperity was that the government tended to get the fundamentals of its macroeconomic policy right.²⁶ This is because the British left Malaysia with a relatively strong central government²⁷ and a small but highly effective civil administration that was, and is, committed to basic macroeconomic stability.²⁸

Support in Implementing the New Model

The NEP announced in 1970 was supported both internally and externally. Most of the political parties agreed with it in principle. People supported it, as could be seen from the fact that the governing parties that supported the NEP were returned to office. Meanwhile, internationally, there were countries that led the way of the developmental state approach so that Malaysia had guidelines to follow.

1. Internal Support: Political and Majority Support

In Malaysia, the government bureaucracy systematically determines most policy inputs and outputs

23 M. T. Rock, "Southeast Asia's democratic developmental states and economic growth." *Institutions and Economies*, Vol. 7, Issue 1, 2015, p.23.

24 Routley, op.cit, p. 1-60.

25 P. Buhra, op.cit.

26 Rock, op.cit., p. 23-51.

27 Slater, D., *Ordering power*, Cambridge: Cambridge University Press, 2010, p. 74-93.

28 Salleh, I. M. and Meyanathan, S. D., *The lessons of East Asia: Malaysia - growth, equity, and structural transformation*, 1993, Retrieved 9 March 2021: <http://documents1.worldbank.org/curated/en/786241468756617972/pdf/multi0page.pdf>

before proposals are made available to the public for debate and discussion.²⁹ For the government to formulate policies and plans to develop important sectors of the economy, to deal with urgent serious national issues and to make timely decisions on critical issues arising from the implementation of development policies and plans, there is an institutional framework and work procedures. The NEP was also created by this institutional framework.

- First, a special body was established to discuss the socio-economic problems facing the country and advise the government on the best policies to address them. The National Consultative Council (NCC) was established to specifically look into improving racial relations and it became known for coming up with the NEP.³⁰
- Second, the Cabinet considered the reports prepared and submitted by this body (at the time called the National Operations Council, NOC), which was a 'temporary government' replacing the democratically-elected government.
- Third, the Cabinet-approved parts of these studies were integrated into the country's (draft) development plans and presented to the parliament for debate.
- Fourth, the above bodies were disbanded after the completion of their assignments (the NOC along with the NCC was dissolved in 1971).

There was little resistance to the NEP in principle. Apart from the Pan Malaysian Islamic Party (PAS), no Malaysian political party explicitly opposed it. Even PAS's opposition was founded on the ideological premise that national unity cannot be accomplished solely by material means, such as economic redistribution, but a shared spiritual commitment is required. As a result, with the exception of PAS, there was almost no clear opposition to the NEP's redistributive objectives.³¹ Public participation in policy-making was quite minimal in the country, as the nature of the Malaysian state was more parliamentary, one-party, soft-authoritarian and corporatist.³²

In the process of formulating the NEP, it was accepted by the majority. The fact that the coalition of parties (the Alliance, and then its expanded successor, the National Front) that formed the federal government, which was fully committed to the NEP, was voted back into power with large majorities in all general elections from 1970 is a clear and strong indication of this support.³³

2. External Support: The success of the economic policies of East Asian countries

This factor might be considered indirect support. Successful examples in East Asian countries gave the Malaysian government the courage to adopt and put similar policies into practice. For example, Japan's development system was established in the mid-1950s and was focused on the government's substantial involvement in the industrialisation process. The process began with Japan, which provided a kind of development roadmap that many East Asian countries followed in some way, and which spread throughout Asia.

In the 1970s, Malaysia started to emulate the four Asian Tiger economies (South Korea, Taiwan, the former British Crown Colony Hong Kong and Singapore) by committing to a shift away from mining and agriculture towards a manufacturing-based economy. Moreover, when Mahathir Mohamad came into

29 K. L. Ho, "Dynamics of policy-making in Malaysia: The formulation of the New Economic Policy and the National Development Policy." *Asian Journal of Public Administration*, Vol. 14, Issue 2, 1992, p. 204-227.

30 UiHua. "Tun Razak started this group to unite Malaysia in 1969." *cilisos*, 2017: <https://cilisos.my/the-committee-that-made-the-rukunegara-disbanded-in-1971-but-why-do-people-want-them-back-now/>

31 S. K. Jomo, "Whither Malaysia's New Economic Policy?" *Pacific Affairs*, Vol. 63, Issue 4, 1990, p. 469-499.

32 R. Mahalingam, "An integrated model to analyse policy process: A case study of Malaysia's National Biotechnology Policy," *Master's thesis*, the Universiti Sains Malaysia, Penang, Malaysia, 2010: http://eprints.usm.my/42308/1/RAVI_MAHALIN-GAM.pdf

33 Economic Planning Unit, "Malaysia: 30 years of poverty reduction, growth and racial harmony." *World Bank*, 1 May 2004: <http://documents.worldbank.org/curated/en/839661468758680322/Malaysia-30-years-of-poverty-reduction-growth-and-racial-harmony>

power in 1981 he was also influenced by these policy lessons from East Asian countries.³⁴

There were a number of factors in Malaysia's experience that influenced the adoption of the developmental state approach. However, to be successful, there are several additional factors that need to be considered. In the case of Malaysia, there were both successes and errors, indicating areas that should be improved. How Malaysia implemented the developmental state, the results and the lessons learned are analysed in the following section.

3. The Developmental State in Malaysia between 1971 and 1990

For the reasons mentioned in the previous section, the government announced the New Economic Policy (NEP) in 1971. The design of the NEP was based on 'the expanding pie theory,' which was supposed to be a win-win situation.³⁵ It meant that the NEP had to be implemented in the context of a rapidly and continually expanding economy. This would generate the necessary employment and business opportunities for all Malaysians, including the poor. It would also make possible a greater share of the gains for Malays in the modern economy, particularly in commerce and industry, without depriving the other races of their existing economic functions and wealth or their rightful share of the expanding economic pie.

However, the components of the NEP were not actually new. Most public policies prior to the NEP were also already focused on building national unity, reducing poverty, restructuring society and expanding the economy. However, the NEP differed from past public policies in two important ways:³⁶

1. National unity was given more attention as it was specified to be the goal of national development and nation-building and was therefore to be given priority over any other issues. In this context, national unity was defined as a situation in which loyalty and dedication (of the diverse elements in the Malaysian population) to the nation should override all other loyalties.

Considering that national unity could not be the main objective of the business and civil sectors, and that neither had sufficient manpower, financial resources, let alone a general overview of the situation, then only the state could take the lead on this matter. It was considered reasonable for the state to act as the leader in driving, planning and guiding development.

2. The state was responsible for playing a much bigger direct active role in economic and business activities in the new growth areas that were selected in the effort to create a Bumiputera commercial and industrial community and in generating economic growth by working closely with the private sector and persuading it to actively participate in correcting economic imbalances. This is an important element in a developmental state.

The Objectives and Targets of the NEP

The NEP was a long-term plan. Based on two main objectives, it was intended to be achieved in a 20-year period (1971-1990).

The first objective was to reduce and eventually eradicate poverty. It was reached in 1990, when 19 % of the population only was considered poor, compared to an estimated 50 % in 1970.³⁷

The second objective was to speed up the restructuring of Malaysian society in order to correct economic and social imbalances and reduce and eliminate the identification of race with economic function. This objective had two aspects. First, employment was to be restructured by sector and

34 M. Lajciak, "East Asian economies and their philosophy behind success: Manifestation of social constructs in economic policies." *Journal of International Studies*, Vol. 10, Issue 1, 2017, p. 180-192.

35 K. K. Khoo, "The New Economic Policy: A historic note." *Malaysian Journal of Economic Studies*, Vol. 46, Issue 1, 2009, p. 97-206.

36 Economic Planning Unit, op.cit.

37 Brown, op.cit.

occupation, eliminating the ethnic division of labour that had been created in colonial times and remained quite evident in 1970. Second, the ownership and control of wealth was to be restructured. Specifically, Malays were to hold 30 % of corporate sector assets by 1990, compared to 2 % in 1970, Chinese and Indian Malaysians were to hold 40 % and the foreign share was to plummet from 65 % to 30 %.³⁸

In order to make Malays and other indigenous people full partners in all aspects of the economic life of the country, the NEP was not only focused on these two particular objectives, but also had broader goals such as a modernisation of rural life, a rapid and balanced growth of urban activities and the creation of a Malay commercial and industrial community. It was expected that these activities would eventually contribute to national unity.

The Implementation of the NEP

The NEP was a very loosely defined programme implemented in piecemeal fashion over a period of twenty years. It could be considered a dynamic set of policies that were continually revised to take into account changing external circumstances and the programme's own successes and failures. It was then operationalised and incorporated as the 2nd-5th Malaysia Plans, as is illustrated in Annex 1-3.³⁹

Besides the policies and programmes that were implemented, in order for the government to participate directly in economic development other tools were also used to help achieve the goals such as newly established public agencies, state-owned business enterprises, regulatory acts, specific committees, de-concentration and affirmative action etc.

1. Public Agencies

Public agencies are entities with a certain degree of autonomy from the government's central bodies (departments and ministries) which are responsible for providing public services on behalf of one of the central bodies.⁴⁰ They are used by the state to intervene in economic activities to achieve many aspects of state goals.

East Asian developmental state countries have been effective in developing and transforming their economies using a small number of responsible agencies. More often than not, there has only been one major agency (for example, Japan's MITI) that has always been the most dominant and successful throughout the industrialised era.⁴¹ Malaysia has used a similar method. Many public agencies were set up during the period 1971-1990 (Annex 4).⁴²

For example, the Sarawak Land Development Board (SLDB), set up in 1972, and the Sarawak Land Consolidation and Rehabilitation Authority (SALCRA), set up in 1976, played important roles in the process of agricultural transformation. The rapid expansion of oil palm cultivation in Sarawak was the result of SLDB and SALCRA operations.⁴³

38 D. R. Snodgrass, "Successful economic development in a multi-ethnic society: The Malaysian case. Harvard Institute for International Development (HIID) and Institute of Strategic and International Studies in Kuala Lumpur (ISIS Malaysia)." *Earth*, accessed 10 March 2021: <https://www.earth.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>

39 R. Makita, "Rural Development Administration for Poverty Eradication in Malaysia." *OECD Journal of Development Assistance*, Vol. 3, Issue 2, 1998, p. 245-323.

40 B. Rigaud. Agency, in L. Côté and J.-F. Savard (eds.), *Encyclopedic Dictionary of Public Administration*, assessed 2 June 2021: https://dictionnaire.enap.ca/Dictionnaire/17/Index_par_mot.enap?&by=word&id=5&lng=en

41 H. H. Pham, "The Developmental State, the evolving international economic order, and Vietnam," *Doctoral thesis*, The University of Birmingham, Birmingham, England, 2012.

42 Makita, op.cit., p. 245-323.

43 R. B. Dadzie, "Economic development and the developmental state: Assessing the development experiences of Ghana and Malaysia since independence," *Journal of Developing Societies*, Vol. 29, Issue 2, 2013, p. 123-154.

2. State-Owned Enterprises (SOE)

A SOE is a business enterprise where the state has significant control. With an SOE, the state can be a player able to get involved directly in the economic system and not only be a facilitator or a regulator. Under the NEP, the state was able to engage in business and implement policies to achieve state goals through SOEs. For example, SOEs under the stewardship of Tengku Razaleigh Hamzah (minister of finance in the mid-1980s) used state resources to buy into, buy out or start companies that were pivotal to securing Malay control of the critical sectors of the economy.⁴⁴

The early NEP period was the prime time for state agencies, banks and funds that sought and held equity in trust for the Bumiputera. This can be seen from the increase in the number of public and state-owned enterprises, from 22 in 1960 to 109 in 1970, to 656 in 1980 and to 1,014 in 1985.⁴⁵

3. Regulatory Acts and Specific Committees

The state became a determined regulator of business. Its regulatory powers were strengthened through the Industrial Coordination Act (ICA) of 1975 and the establishment of the Foreign Investment Committee (FIC) to ensure compliance with the NEP's restructuring requirements. The ICA gave the Minister of Trade and Industry tremendous discretionary powers over licensing, ownership structure, ethnic employment, product distribution quotas, local content and the pricing of products.⁴⁶

The Petroleum Development Act (PDA), which went into effect on 1 October 1974, is another example. Under the PDA, all the states had to give up their rights to any petroleum resources found on their territory and allow Petronas complete control, exclusive rights, powers, liberties and privileges in mining, exploiting and acquiring Malaysian petroleum both onshore and offshore.⁴⁷

4. De-concentration

The Malaysian development process at the time was based on the concept of de-concentration. This is a term used to describe the process whereby a central organisation transfers some of its responsibilities to lower-level units within its jurisdiction. It is the weakest form of decentralisation, as decision-making authority and management responsibilities are redistributed among different levels of the central government but local administration is still under the supervision of central government ministries.⁴⁸

According to the 1957 Federal Constitution, Malaysia has a federal structure with power divided between the federal, state and local tiers. Since it was granted independence, the federal government has tended to become more centralised. The development process, underscored by the implementation of the New Economic Policy (1971-1990) supported the expansion and consolidation of the federal government.⁴⁹

For example, in 1965, local council elections ('third vote') were suspended and then removed entirely with the 1976 Local Government Act, following which local councils have been constituted through state appointments. Furthermore, fiscal administration was also centralised since the federal government has exclusive jurisdiction and influence over the allocation of construction funds to state and local governments.

44 B. T. Khoo, "Managing Ethnic Relations in Post-Crisis Malaysia and Indonesia: Lessons from the New Economic Policy? Identities," *Conflict and Cohesion Programme*, Issue. 6, 2004, p. 1-17: [https://www.unrisd.org/80256b3c005bccf9/\(httpauxpages\)/22e1e0e487e13a1f80256b6d005786b7/\\$file/khoo.pdf](https://www.unrisd.org/80256b3c005bccf9/(httpauxpages)/22e1e0e487e13a1f80256b6d005786b7/$file/khoo.pdf)

45 S. K. Jomo, K. B. Teik and C. Y. Tan, "Vision, Policy and Governance in Malaysia." *PSD Occasional Paper*, Issue 10, 1995, p. 1-37: <http://documents1.worldbank.org/curated/en/326901468756919470/pdf/multi0page.pdf>

46 J. V. Jesudason, *Ethnicity and the economy: The state, Chinese business and multinationals in Malaysia*, Singapore: Oxford University Press, 1989.

47 "About Petroleum Development Act," accessed 15 March 2021: <https://www.petronas.com/mpm/about-mpm/malaysia-petroleum-management/about-pda>

48 Decentralization Thematic Team, "What is decentralization?" *Ciesin*, accessed 12 March 2021: http://www.ciesin.org/decentralization/English/General/Different_forms.html

49 F. Loh, "Centralised federalism in Malaysia: Urgent need to decentralize," *Aliran*, accessed 18 March 2020: <https://aliran.com/aliran-csi/centralised-federalism-in-malaysia-urgent-need-to-decentralise/>

At the same time, the federal government also partially decentralised power to local authorities and responsible agencies. With the 1976 Local Government Act and Planning Legislation, local authorities were given the power to be primary agents of government in both local planning and service provision, such as telecoms, healthcare and so on, with the exception of education and the police.⁵⁰

5. Affirmative Action (or Positive Discrimination)

Affirmative action (or positive discrimination) refers to a set of policies and practices seeking to benefit particular groups based on their gender, race, sexuality, creed or nationality in areas in which they are underrepresented, such as education and employment.⁵¹

The NEP policies were seen as pro-Bumiputera, or more specifically pro-Malay, the largest indigenous ethnic community. The main aim was to increase Bumiputera ownership from a level of about 2% of total capital in 1970 to at least 30% by 1990.⁵²

Because most business was in the hands of the Chinese, Chinese business practices prevented the Malays from entering businesses they controlled. Without state intervention, increasing Bumiputera ownership was very difficult. Therefore, the government announced the NEP, which gave the Malays and other indigenous groups a wide range of help, including:

- Setting aside at least 30% of share capital in companies that planned to grow to the Bumiputera;
- Fulfilling the Bumiputera ownership quota being made a requirement for setting up new companies, especially those in the manufacturing sector;
- Setting quotas, for example 30% Bumiputera participation in construction projects;
- Utilising price discrimination, for example, a price/cost discount was granted to Bumiputera businessmen bidding for construction projects;
- Subsidising training programmes for Bumiputera businessmen, etc.⁵³

Roles of the Private Sector under the NEP

Conceptually, a developmental state is a state that implements state-led policies or interventions and is able to achieve rapid economic growth and structural change. In practice, this does not mean that the state totally replaces all private companies. The role of business is still to produce goods and services to meet the needs of the market, but under the state's guidance according to national strategies. The state can intervene in the economic system in various ways and may have both positive and negative impacts on the business sector.

Therefore, although the Malaysian government played an important role in driving the economy according to the developmental model, the government did not ignore the promotion of the private sector in the economy.⁵⁴

50 M. Norris, "Local government reform in Malaysia.," *The IDS Bulletin*, Vol. 10, Issue 4, 1979, p. 47-51.

51 Stanford Encyclopedia of Philosophy, "Affirmative Action," *Stanford*, assessed 1 June 2021: <https://plato.stanford.edu/entries/affirmative-action/>

52 S. K. Jomo, "The New Economic Policy and interethnic relations in Malaysia," *UNRISD's Identities, Conflict and Cohesion Programme Paper*, Issue 7, 2004, p. 1-23: <https://www.files.ethz.ch/isn/45937/7.pdf>

53 Inter-Regional Inequality Facility, "Affirmative Action – Malaysia," *Overseas Development Institute*, accessed 1 June 2021: <https://cdn.odi.org/media/documents/4078.pdf>

54 P. S. Morrison, "Transforming the periphery: The case of Sarawak, Malaysia. in R. Watters and M. T. McGee (Eds), *Asia-Pacific: New geographies of the Pacific rim*, London: Hurst and Company, 1997, p. 302–317.

At that time, businesses that were positively affected were businesses that the government wanted to promote, such as manufactured exports and high technology businesses, especially in the agriculture sector. Investment allowances, tax exemptions and credit subsidies were among the incentives implemented to support manufactured exports. Free trade zones were created to attract foreign direct investment (FDI) and they were particularly successful in the electronics sector.

Not only did the government provide incentives but it also worked together with the private sector and the social sector on some projects. For example, to promote more private sector investment in high technology agriculture, the 'Permanent Food Park' project was launched. The government specified available lands while the federal government provided basic facilities as part of the Permanent Food Park initiative. Through the scheme, Malaysian people can rent land as long as they participate in the development of fruit and vegetable production.⁵⁵

However, some businesses may be negatively impacted by state intervention. In the case of Malaysia, the negatively impacted businesses were businesses in the control of Chinese or foreigners. These businesses faced disadvantages and higher costs of doing business. It was more difficult to compete with the Malay businesses. As the NEP's goal was to restructure the economy to increase Bumiputera ownership and employment, affirmative action was adopted such as price discrimination in bidding for construction projects and subsidising training programmes for Bumiputera businessmen, etc. Therefore, it was clearly impossible to implement the NEP without adversely affecting Chinese interests.⁵⁶

4. Successes and Failures of the NEP: Lessons for Libya?

After its implementation, the NEP constructively contributed to building up and driving Malaysia forward. There were both successes and failures, and lessons that can be learned for the possible implementation of the DS model in countries undergoing political crisis and stalled national development, such as Libya.

Successes

- 1. Poverty and inequality were reduced.** The percentage of households living in poverty in all ethnic groups decreased from 49.3 % in 1970 to 17.1 % in 1990. Between 1970 and 1990, the real mean income of the bottom 40% of society rose from \$76 to \$176. Extreme poverty, identified as households earning less than half the poverty threshold, was reduced to 4% of total households in 1990.⁵⁷ The NEP was successful in reducing not only poverty but also income inequality across ethnic groups.⁵⁸
- 2. The economy was restructured.** Compared to the period before the NEP, Bumiputera wealth ownership rose from 2.4 % to 19.3 % in 1990, while Chinese, Indians and other Malaysians controlled 46.8% of the wealth, exceeding the target, and foreign ownership was reduced to 33.9 %. Moreover, the number of Bumiputera working in industries such as mining, manufacturing, construction and utilities increased dramatically. Bumiputera representation also rose in vocational and technical fields, and at the administrative and management levels.⁵⁹
- 3. A large Bumiputera middle-class was created.** A strong indicator is that the Bumiputera participation in the eight prized professions rose from 4.9 % in 1970 to 29 % in 1990.⁶⁰

55 Dadzie, op.cit.

56 P. K. Heng, "The New Economic Policy and the Chinese Community in Peninsular Malaysia," *The Developing Economies*, XXXV-3, 1997, p. 269.

57 A. Zubedy, "The NEP – The good and the bad. Malaysia Today," *Malaysia Today*, accessed 12 March 2021: <https://www.malaysia-today.net/2012/06/21/the-nep-the-good-and-the-bad/>

58 E. T. Gomez and K. S. Jomo, *Malaysia's political economy: Politics, patronage and profits*, New York: Cambridge University Press, 1999.

59 Zubedy, op.cit.

60 Jomo, op.cit.

- 4. National unity was restored to a greater extent than before.** The NEP was instrumental in making this possible. Malaysians of all races are now much more economically and socially intertwined compared to the past. Businesses are no longer restricted to members of specific ethnic groups as they once were. Furthermore, before the NEP, businesses not only employed people from their own ethnic groups but they also limited employment to those within their clans. There is now more intermingling even within racial groups.⁶¹

Factors Contributing to the NEP's Success

In addition to the internal factors that Malaysia had prior to or at the time of the announcement of the NEP in 1971, such as a competent government and political and public support (as described in section 3), the success of the NEP was influenced by other factors that occurred after its first announcement:

- 1. The quality of national leadership was a crucial factor.** This was particularly so during the NEP. Dr. Mahathir Mohamad, the Malaysian Prime Minister from 1981-2003, was the leading figure. Not only did he support the NEP through affirmative action to give the Bumiputera an economic stake in the country commensurate with their indigenous status and share of the population but he also emphasised that this should ultimately lead them to a more modern outlook and the ability to compete with the other races in the country as well.⁶²
- 2. The discovery of oil resources and the expansion of oil exports gave the country more finance for national development.** Governments may not be able to play an important role and intervene much in the economy if there are budget constraints. In the case of Malaysia, however, oil discovery at that time contributed indirectly to the success of the NEP. There were major oil discoveries in 1973 and 1974 off the coasts of Terengganu, Sabah and Sarawak, which led to a significant expansion of the oil industry.⁶³ Revenue from petroleum was a significant contribution to gross foreign-exchange receipts and to government revenue.⁶⁴
- 3. Regional economic developments played a large role.** In the mid-1980s, which was near the end of the NEP and during the 5th Malaysia Plan (1986-1990), as a result of the Plaza Accord the Japanese Yen strongly appreciated, leading to higher production costs and less exports from Japan. Japan had to find a new production base with lower costs. As a result, the production base was moved outside Japan, which caused tremendous economic growth in Asia, especially among the four new industrialised countries (Singapore, South Korea, Taiwan and Hong Kong) and the ASEAN 4 countries (Thailand, Malaysia, Indonesia and the Philippines). Malaysia benefited greatly from this situation as FDI in the late 1980s came primarily from Japan following the Plaza Accord and FDI as a share of GDP rose from 1.3% in 1987 to 8.7% in 1992.⁶⁵

61 Zubedy, op.cit.

62 J. H. Drabble, "Economic History of Malaysia," *Encyclopedia*, accessed 8 March 2021: <https://eh.net/encyclopedia/economic-history-of-malaysia/>

63 C. Lee, "Globalisation and economic development: Malaysia's experience." ERIA Discussion Paper Series, no. 307, 2019, p.1-42: <https://www.eria.org/uploads/media/discussion-papers/Globalisation-and-Economic-Development-Malaysia-Experience.pdf>

64 R. J. G. Wells, "Petroleum: Malaysia's New Engine of Growth?" *The World Today*, Vol. 38, Issue 7/8, 1982, p. 315-318.

65 P. Chukiathajorn, and N. Thaiprasert, "ผลกระทบจากวิกฤตเศรษฐกิจของประเทศญี่ปุ่น และเอเชีย ที่มีต่อการเคลื่อนย้ายการลงทุนทางตรง จากประเทศญี่ปุ่น สู่ 4 ประเทศในอาเซียน และ 3 ประเทศอุตสาหกรรมใหม่ [Effects of Japan's and Asian economic crises on Japanese foreign direct investment in ASEAN4 and NIEs3]." *Chiang Mai University Journal of Economics*, Vol. 18, Issue 1, 2014, p. 21-43.

Failures of the NEP and Lessons Learned

Although the NEP had broad and positive impacts on Malaysia, there are also criticisms of failure of the NEP's implementation, which include important issues:

- 1. The benefits of the NEP were not always directed to those who truly deserved them as the policy design was based solely on racial discrimination and ignored the important dimension of economic class.** The NEP failed to help many non-Bumiputeras, such as the Indian poor from rural estate communities, who deserved to benefit from the policies. According to NEP statistics, non-Bumiputeras' wealth share increased to 46.8% in 1990. However, 44.9 % of this 46.8% belonged to the Chinese, 1% to the Indians and 0.7 % to others. What happened resulted in the suffering of the rural Indians, who are one of the main groups that are still in poverty today.⁶⁶

Another failure of the NEP was that it helped some Bumiputeras who did not deserve to benefit from the policies, as Bumiputras of both high and low economic standing were entitled to the same benefits. The inability to distinguish between those who should be helped and those who shouldn't not only prevented people from benefiting fully but also created an illusion of success. The policy could be seen to be successful but it actually did not succeed as intended.

The lesson from this is that the devil is in the details. In order to use a limited budget effectively and reach goals it must be clear who are the targets of the policy. In order to avoid creating other problems when solving one problem, a careful action plan is necessary. In addition, appropriate indicators must be set in order to guide, control and monitor policy implementation.

- 2. The NEP could be accused of creating an oligarchy.** During the implementation of the NEP, the state employed the power to support businesses and people that were close to the government by giving tax breaks, government grants and other favourable incentives like the property gain tax.⁶⁷

The solution to this issue is that the determination of strategic industry must be done on the basis of careful research. It should not be used for the benefit of specific groups. Chareonwongsak (2004) provides an example of a study that gives a definition of a country's strategic industries.⁶⁸

- 3. The NEP undermined the meritocracy in recruitment and promotion in the civil service.** Because in the 1970s and 1980s there was a higher proportion of non-Malays in the important ministries and in critical posts than there is now, the NEP favoured more employment of Malays in the public sector. Besides the low salaries, which was a factor that discouraged the Chinese from joining the civil service, the preference for employing Malays undermined the meritocracy in the recruitment and promotion in the civil service.⁶⁹
- 4. The NEP seems to have created a subsidy mentality in society.** This is because the programme provided the Malays with many subsidies so that people have come to expect free education abroad, a slot in the civil service and heavily subsidised housing and car loans.⁷⁰

The solutions to the problem of undermining meritocracy and creating a subsidy mentality in the society may be fixed by clearly defining that policies such as the NEP will be temporary and not be made permanent. When the situation gets better, subsidies and aid have to be gradually withdrawn phase by phase. In this way, the poor will be helped out of poverty and the policy objectives can be achieved without creating undesirable mentalities and practices.

66 Zubedy, op.cit.

67 "Oligarchy and Ethnocracy in Malaysia," 4 October 2013: <https://monsoonsstorms.wordpress.com/2013/10/04/2/>

68 K. Chareonwongsak, ยุทธศาสตร์การพัฒนาศักยภาพในการแข่งขันของภาคการผลิตไทย [*Strategies for Enhancing Competitiveness of the Thai Production Sector*], Bangkok, Thailand: Thailand National Defence College, 2004.

69 K. M. Khalid and M. Z. Abidin, "Technocracy in economic policy-making in Malaysia," *Southeast Asian Studies*, Vol. 3 Issue 2, 2014, p. 383-413.

70 Bakri Musa, cited in T. Fuller, Criticism of 30-Year-Old Affirmative-Action Policy Grows in Malaysia, *New York Times*, accessed 7 March 2021: <https://www.nytimes.com/2001/01/05/news/criticism-of-30yearold-affirmativeaction-policy-grows-in-malaysia.html>

Annexes

Annex 1: Economic Development Strategies in the 2nd-5th Malaysia Plans

2nd Malaysia Plan (1971-1975)	3rd Malaysia Plan (1976-1980)	4th Malaysia Plan (1981-1985)	5th Malaysia Plan (1986-1990)
<ol style="list-style-type: none"> 1. Poverty eradication 2. Restructuring society 3. Stimulation of investment and consumption 4. Promotion of exports 5. Employment generation through economic growth in key sectors: agriculture, services, manufacturing and wholesale and retail trading 	<ol style="list-style-type: none"> 1. Ethnic balance in employment 2. Expansion of education and training facilities 3. Use of public enterprises to achieve ethnically balanced employment 4. Establishment of trust funds for Malays 	<ol style="list-style-type: none"> 1. Structural adjustment of government expenditure 2. Structural transformation of the economy by diminishing the role of agriculture and raising the contribution of the manufacturing, construction, banking and financial sectors. 	<ol style="list-style-type: none"> 1. Efficient use of resources 2. Minimisation of government assistance 3. Privatisation 4. Export-led manufacturing 5. Increase domestic savings 6. Promotion of foreign investment 7. Revitalisation of the agricultural sector with the National Agrofood Policy

Annex 2: Poverty Eradication Strategy in the 2nd-5th Malaysia Plans

2nd Malaysia Plan (1971-1975)	3rd Malaysia Plan (1976-1980)	4th Malaysia Plan (1981-1985)	5th Malaysia Plan (1986-1990)
<ol style="list-style-type: none"> 1. Employment generation 2. Increase income and productivity 3. Modernisation of rural life 4. Improvement of living conditions for the urban poor 5. Reduction of inequality in income distribution 6. Creation of commercial and individual communities for Malay occupational employment 7. Expansion of education and training facilities 	<ol style="list-style-type: none"> 1. Targets of anti-poverty programmes clarified 2. Improvement in welfare and quality of life for both the rural and urban poor 3. Promotion of the agricultural and industrial sectors to generate income and employment 4. Increase Malay participation in the ownership and control of wealth in modern sectors; reduce employment in the traditional agricultural sector 5. Identification of the poor as target groups 	<ol style="list-style-type: none"> 1. Introduction of the concept of the extreme poor 2. Employment generation in the manufacturing and service sectors 3. Improvement in productivity and income 4. Revitalisation of agriculture by commercialisation 	<ol style="list-style-type: none"> 1. Increase productivity and income 2. Improvement in the quality of life 3. Employment generation in the manufacturing and services sectors

Annex 3: Major Programmes in the 2nd-5th Malaysia Plans

2nd Malaysia Plan (1971-1975)	3rd Malaysia Plan (1976-1980)	4th Malaysia Plan (1981-1985)	5th Malaysia Plan (1986-1990)
<ol style="list-style-type: none"> 1. Land development, consolidation and rehabilitation 2. Provision of complementary infrastructure and services inputs 3. Modernisation of fisheries through the provision of subsidies and facilities 4. National rubber price stabilisation 5. Provision of basic facilities and amenities 6. Employment expansion in the manufacturing and construction sectors 	<ol style="list-style-type: none"> 1. Irrigation & drainage for paddy cultivators 2. Replanting for rubber smallholders 3. Replanting, rehabilitation & intercropping with other crops for coconut smallholders 4. Subsidised distribution of engines, nets & gears, relocation & promotion of aquaculture & offshore fishing for fishermen 5. Improvement of basic facilities, promotion of small-scale industries and security of tenure for new village residents 6. Land settlement schemes for agricultural labourers 7. Special settlement schemes for Orang Asli 	<ol style="list-style-type: none"> 1. IADP* 2. Irrigation and drainage 3. Rubber replanting 4. Land rehabilitation and consolidation 5. Crop diversification and livestock integration 6. Modernisation of small-scale fisheries 7. Land development schemes with the block system 8. Provision of agricultural support services 	<ol style="list-style-type: none"> 1. Group farming 2. Rural urbanisation 3. Establish rural growth centres 4. Promotion of off-farm employment

Annex 4: Newly-established Development Institutions in the 2nd-5th Malaysia Plans

2nd Malaysia Plan (1971-1975)	3rd Malaysia Plan (1976-1980)	4th Malaysia Plan (1981-1985)	5th Malaysia Plan (1986-1990)
<ol style="list-style-type: none"> 1. Muda Agricultural Development Authority (MADA): 1970 2. Fishery Development Authority of Malaysia (LKIM): 1971 3. Southeast Pahang Development Authority (DARA): 1971 4. Southeast Johor Development Authority (KEJORA): 1972 5. Kemubu Agricultural Development Authority (KADA): 1972 6. Sarawak Land Development Board (SLDB): 1972 7. Farmers' Organisation Authority (FOA): 1973 8. Central Terengganu Development Authority (KETENGAH): 1973 9. National Tobacco Board: 1973; Rubber Industry Smallholders Development Authority (RISDA): 1973 	<ol style="list-style-type: none"> 1. Sarawak Land Consolidation and Rehabilitation Authority (SALCRA): 1976 2. Southern Kelantan Development Authority (KESEDAR): 1978 	<ol style="list-style-type: none"> 1. Kedah Regional Development Authority (KEDA): 1981 2. Jengka Regional Development Authority (JENGKA): 1983 3. Penang Regional Development Authority (PERDA): 1983 	None

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