



Title	Affirmative Action and Development : The Case of Bumiputera Policy
Author(s)	Kawamura, Michiya
Citation	国際公共政策研究. 2013, 18(1), p. 141-162
Version Type	VoR
URL	<a href="https://hdl.handle.net/11094/50275">https://hdl.handle.net/11094/50275</a>
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## Affirmative Action and Development: The Case of Bumiputera Policy

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### **Abstract:**

Since independence, Malaysian government has implemented both affirmative action and developmental policy. Both policies are similar in that the government has taken a strong initiative to encourage a targeted group or sector, yet different in that the former has been conducted at the cost of overall economic growth, while the latter aimed at economic surge.

In order for Bumiputera policy to be succeeded, the preferential distribution to Malays should be approved by other ethnic groups and additional measures should be taken to raise Malays' skills and abilities, without hampering economy growth. However, it has rarely been successful. A more viable alternative would have been to select the second most promising industries where there are many Malays and raised their abilities there to move into more promising sectors.

Now that Malays have become richer as a whole, though ethnic disparity still remains, more indirect encouragement of Malays is needed.

**Keywords** : Affirmative Action, Malaysia, Ethnicity, Developmental policy, Bumiputera policy

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## 1. Bumiputera Policy at the Turning Point

Malaysia is a multi-ethnic society composed of Bumiputera<sup>1)</sup> (Malays and other indigenous people) 65.9%, Chinese 25.3%, Indians 7.5%, and others 1.3% in 2005 (Ninth Malaysia Plan: 238). Historically, Bumiputera policy, a kind of affirmative action, has been implemented with the aim of improving Malays' economic disadvantage compared to Chinese and Indians.<sup>2)</sup> It is a peculiar type of affirmative action in that Malays rule politically but need to be supported economically.

However, there are many countries like this across the world. Though indigenous people have the political power in many post-colonial Asian and African countries, European residents still lead the national economy, and Chinese and Indian immigrants transferred as labourers by Europeans enjoy higher living standards than indigenous people. Most indigenous people except for a few political leaders remain poor and socially excluded. Under these circumstances, an affirmative action like Bumiputera policy can be a principal measure to address the problem.

There are many positive and negative comments on Bumiputera policy. Some praise it for having corrected economic disparity using strong leadership, without any major ethnic riots as have occurred in present Britain and France (Suzuki 2010; Ye 2003). Yet others criticize it for having strengthened the authoritarian regime advantageous for Malays while paying little attention to political and social fairness among ethnic groups (Jomo 1986; Munro-kua 1996; Means 1996).

Recently, even Malays have come to think of revising the policy. The former Prime Minister Mahathir bin Mohammad, once a strong promoter of the policy, admitted that it ended in failure as it made Malays dependent on the government and thus remaining poor and less competitive than Chinese and Indians (New Straits Times, August 7, 2002). The present Prime Minister Najib Razak also suggested a gradual diminishing of the policy for fear that redistribution with preference given to a specific group would distort the market's efficiency and render Malaysia incompetent in the world economy (Damondaran 2009). However, if a loosening of the policy were actually implemented, many Malays would raise objections,<sup>3)</sup> fearing that they would fall into poverty again because of their poor job, research and management skills.

Has Bumiputera policy been an adequate measure to correct economic disparity after all? What should be done with it in the future? In order to answer these questions, this article describes how Bumiputera policy has worked in modern Malaysian history.

1) Bumiputera means 'sons of soil' and includes many indigenous people such as the Orang Asli in Peninsular Malaysia, the Kazadan in Saba and the Iban in Sarawak in addition to Malays, who constitute most of the Bumiputera population.

2) The government sets its main target on Malays, taking little care of other Bumiputera.

3) The Malay Consultative Council, an alliance of NGOs led by the independent parliament member Ibrahim Ali, adopted a resolution calling for continuing Bumiputera policy and met with Prime Minister Najib to appeal for it (Onozawa 2010: 58).

## 2. What is Affirmative Action?

Affirmative action means preferential treatment for members of an economically disadvantaged group, mainly by giving them special quotas for entering university, obtaining employment and undertaking public projects if they run a company.

Some criticize affirmative action because it aims at group equality, which is often harmful to individual rights.<sup>4)</sup> Chandran Kukathas says group equality brings about the improper situation in which a poor person cannot be supported just because he belongs to a rich group, while a rich person can receive assistance just because he belongs to a poor group (Kukathas 1992: 123). Group treatments, however, are sometimes required to promote equal opportunities among individuals.

Institutional protection for individual liberty and equality is not enough for life to be sustained. Social capitals<sup>5)</sup> are indispensable, including respect for rights and personalities, circumstances in which people can afford to develop basic skills, knowledge and common sense, disclosure of important information and social networks helpful to hedge risks in social life. However, some groups lack in them because they have been too culturally discriminated to have opportunities to develop them (Clark 1965). Because social capitals are different from normal capitals in that they are socially shared and not to be obtained by individuals, they must be compensated to disadvantaged groups as a whole.

The most serious problem suffered by culturally discriminated groups is a vicious cycle between their lack of opportunities and bad reputation. Members of a discriminated group have such few opportunities that they are less equipped with skills, knowledge and competitive minds. Thereby, a ‘statistical discrimination’ appears. It is not statistically wrong to regard most of them as lacking skills and knowledge just because they belong to the group, so people often neglect looking at who individuals in the group really are. In turn, members of the disadvantaged group are likely to give up studying and training because they can see in advance that others will not recognize their abilities as an individual. This, in turn, makes the group less competent, and statistical discrimination is strengthened.<sup>6)</sup>

In order to avoid this situation, they must be given opportunities, encouraged to develop skills and knowledge and helped to change the reputation of their group as a whole. Special quotas on admission, employment and contracts are supposed to be effective for this purpose. However, as long as affirmative action is taken from an individualistic viewpoint, limitations must be imposed. When the reputation of the

4) Some liberal theorists approve of affirmative action as long as it helps to promote equal opportunities among individuals (Dworkin 1977: 239; Kymlicka 1996: 142). Other liberals disapprove on the grounds that disparity should be corrected from an individualistic viewpoint considering income, age and physical handicaps, regardless of group membership (Barry 2001:12-13).

5) Bourdieu defines this concept as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition” (Bourdieu 1985: 248), and Baker defines it as “a resource that actors derive from specific social structures and then use to pursue their interest” (Baker 1990: 619).

6) Fryer, Goeree and Holt (2005) show that this vicious cycle actually happened in their classroom experiment.

group improves and statistical discrimination diminishes to a certain level, preferential treatments should be gradually diminished.

It is important to note that preferential treatments do not always improve skills and knowledge effectively (Holzer and Neumark 2000: 558). There are two significant conditions for such improvements.

First, the scale and context of preferential treatments should be appropriate. If a treatment is too preferential to the ethnic minority, the group comes to rely on it so much that they cannot study or work eagerly or will not run their companies with serious risk-taking (Bates and Williams 1996). A proper scale of treatment must be found such that the group is neither spoiled nor neglected.<sup>7)</sup> Furthermore, special treatment should be approved by other ethnic groups. Without stable political circumstances and economic growth, they cannot easily make a compromise on quotas. In a depression, they are apt to be discontent with the burden they have to bear to treat other groups preferentially, but in an economic boom, the total growth of the economy will compensate for the burden, and they will not have to protest (Tobin 1965).

Second, preferential treatments need to be followed by certain kinds of social cooperation to effectively counter the disadvantages minorities face. Minority students who are given admission priority are likely to fail in class and feel inferior if they are not supported after entering a university. The same can happen in the workplace. In order to avoid these failures, special classes are needed for minorities to improve their academic achievement, and their skillfulness should be checked periodically in the workplace (Holzer and Neumark 2000: 558).

Social cooperation is also needed to support lower members who do not directly benefit from preferential treatments. Entering university and obtaining employment under special quotas are confined to the upper members of the group (Fishkin 1983). However, there are still some role model effects. Mahathir said, 'With the existence of the few rich Malays at least the poor Malays can say that their fate is not entirely to serve the rich non-Malays' (Mahathir 2008: 63). Yet the role model effect cannot work well unless there is a social bond between the rich and poor. Without it, the poor often suspect that the upper members will abandon their group after they achieve economic success (Austen-Smith and Fryer 2005). However, if there is a tight bond, and these upper members return to their group, they can serve as role models, teach skills and knowledge and provide jobs if they have established firms in the area.<sup>8)</sup>

After all, affirmative action should not end with treating minorities preferentially. A certain scale of redistribution that is effective to develop the abilities of disadvantaged members and acceptable for other ethnic groups, and certain kinds of social cooperation including continuous support after redistribution and tight bond between the upper and lower members of the minority group are indispensable.

7) But referring to Fryer and Loury (2005:149), this accommodation is rather difficult.

8) In addition, they can bridge the cultural border. See Granovetter (1973) and Putnam's definition of bridging social capital (Putnam 2000: 22).

### 3. Affirmative Action and Developmental Policy

If economically supported people are rather dominant in politics, as in Malaysia, how does this affect affirmative action?

Political dominance is helpful to meet the two conditions mentioned above. Political power enables the economically disadvantaged to take the initiative to reach an agreement on the scale and the method of affirmative action among different groups. And with their political dominance, the disadvantaged can afford to form various political and social support for affirmative action to be more effective.

Yet political dominance is also unfavourable for meeting these conditions. The dominant group has such freedom to set the scale of preferential treatments that they could even abandon serious efforts to accumulate skills and knowledge. Also, affirmative action is often affected by other policies because dominant ethnic elites have to implement both at the same time. If they fail to fulfil other policies by concentrating solely on affirmative action, their leadership becomes unreliable and the political situation unstable. It also becomes difficult for them to set a proper scale of preferential treatment and to take effective aftercare of it. Thus, it is necessary to clarify the relations between affirmative action and other policies. Among these policies, developmental policy is the most important.

This type of policy, supposedly effective to catch up with developed countries, has been adopted by many East Asian countries including South Korea, Taiwan, Singapore, Indonesia and Malaysia. It is a policy such that a state powerful enough to suppress the freedom of its citizens sets economic development as a top priority and takes positive measures to encourage it (Johnson 1982; Haggard 1990; Murakami 1992).<sup>9)</sup>

Developmental states do not believe that free market is the best way to develop economic growth. They protect and promote specific industries or corporations until they become fully competitive in the market.<sup>10)</sup> The industries are those that have the potential to grow rapidly in the future or are technology-oriented, taking charge of diffusing their inventions to the many affiliated sectors that they lead.

However, this leads to a dilemma between economic growth and social stability. An opportunistic claim often arises, which states that the government should immediately redistribute the outcome of growth without reinvesting it because the nation can hardly wait for the larger profit the reinvestment will bring in the future. According to Huntington and Nelson (1976), if elites implement developmental policy boldly without paying much attention to human rights or free elections, the result will be a prosperous economy with social instability because the outcomes of development are not widely or equally distributed to the people (the technocratic model). On the other hand, if the government allows its people generous political participation, it

9) Concerning this point, it is often said that efficient bureaucratic technocrats autonomous from specific interests took an important role (Johnson 1982; Haggard 1990; Murakami 1992).

10) Details of industrial policies implemented in East Asia NIEs are shown in Vogel (1991). Japanese industrial policy is intensively studied in Komiya, Okuno and Suzumura (1984).

can maintain social stability because the people's claims will be addressed, but it cannot maintain the consistency of its policies needed for economic growth (the populist model).

In order to avoid this dilemma, developmental states must carry out two different redistribution policies (Evans 1995; Trezzini 2001). One is growth-oriented irrespective of particularistic interests, and the other is rather conciliatory in that the state, having a channel to hear and respond to the people's claims, takes measures to diminish the gap between the rich and poor by promoting education across the country, improving rural infrastructures, carrying out paternalistic labour protection and redistributing the outcome of growth to people in low growth industries (Campos and Loot 1996). The sole aim of these measures is to maintain social stability; thus, modernization of the low-growth sectors is not fully attained, and citizens' claims are often suppressed if they represent the possibility of disturbances.

Developmental policy is not always successful.<sup>11)</sup> Targeted industries may be mistakenly selected by the government and may consequently consume investments in vain. Developmental policy should be implemented only if state intervention is surely regarded as more effective than the market in that the targeted industries can be clearly specified, and the market by itself cannot organize the collaboration of many firms for large research and investment. Though it is often difficult or even impossible to judge correctly whether developmental policy is effective, it is comparatively easy in a case such as the 'flying geese pattern' in East Asia, in which Japan runs first, new industrial economies such as South Korea, Taiwan and Singapore come next, and Thailand, Malaysia and Indonesia follow them (Akamatsu 1962). According to the production theory<sup>12)</sup> that Vernon (1966) popularised, 'As the product matures and its production technology become routine, marketing and production costs—largely materials, capital and unskilled labour—become crucial in cost calculation, and consequently its production site is likely to be shifted outside its national territory' (Kasahara 2004). However, the more a developing country catches up with developed ones, the more difficult it is to select the next target. Therefore, developmental policy should be regarded as a transitional measure, and the state should gradually yield the role of encouraging development to the market.

Developmental policy resembles affirmative action in that the state takes a positive role to encourage a certain industry or ethnic group. It is not necessarily impossible for the developmental state, having a wide range of discretionary powers, to manage to carry out both policies consistently. If affirmative action succeeds in correcting economic disparity and leading to political stability as a result, it will also contribute to the implementation of developmental policy.

However, these policies do not always strengthen each other. Affirmative action and promoting part of developmental policy have essentially different targets. The latter tries to accumulate capital and technology

11) Many economists admit the effectiveness of the East Asian industrial policy, but they are still skeptical of the protection of a specific industrial sector by government (World Bank 1993; World Bank 1997).

12) However, there is an argument that "the experience of the Southeast Asian economies has been very different from that predicted by product cycle theory" (Bernard and Ravenhill 1995).

in promising sectors, while the former tries to develop the skills, knowledge and credibility of the disadvantaged ethnic group, usually in less developed sectors. Affirmative action is also different from conciliatory part of developmental policy, because the latter aims not so positively at promoting the disadvantaged group as the former, only trying to weaken the discontent of the disadvantaged. Thus, unless these demarcations are properly recognized, affirmative action is likely to resonate with the conciliatory policy and become a measure to protect the vested interest of the disadvantaged.

Therefore, it is important for Malays to maintain the essence of affirmative action firmly without being affected by conciliatory policies so that they may use their political power effectively to correct economic disparity.

#### 4. Malaysia's Experience

##### (1) From Independence to the May 13 Incident

The constitution of Malaysia,<sup>13)</sup> established shortly after independence, includes articles that refer to the Malays' political dominance and economic disadvantage. Their dominant status is confirmed by Article 3, which recognizes Islam as the state religion, Article 32, which states that the supreme head of the state shall be elected from among sultans, and Article 152, which establishes Malay as the national language. The correction of economic disparity among ethnic groups is prescribed in Article 153, which states that Malays shall be given quotas on positions in civil service, public scholarships and business licences. The article also prohibits the deprivation of any non-Malays' rights. Thus, the first Prime Minister Abdul Rahman (in office 1957-1970) did not carry out redistribution for Malays that was so lavish as to distort free market economy, and his period in office was approximately characterized as *laissez-faire* (Jesudason 1989: 47).

While tin, rubber and wood products had been leading industries for a long time in Malaysia, Malaysia began to promote manufacturing before other East Asian countries. As a result, manufacturing surpassed agriculture in the mid-1980s (Table 1). At first, import-substituting industries such as textile and food processing began to develop with the support of the Pioneer Industries Ordinance (1958) and the Pioneer Industries Act (1965), which encouraged the founding of new companies.

Throughout the 1960s, the Malaysian economy recorded an average annual growth rate of 5.98% (Figure 1), slightly higher than other East Asian countries in the same period. This was because capital-intensive foreign manufacturers and small-to-medium Chinese companies that engaged in wholesales, construction and finance performed well in the *laissez-faire* economy (Jesudason 1989: 62-4).

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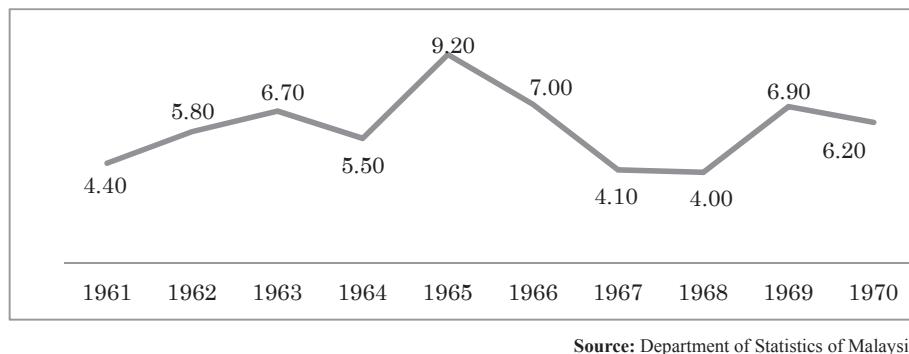
13) The constitution prescribes almost as many details as law in Malaysia because more authoritative and compulsory rule than law is required for uniting different ethnic groups into a nation.

Table 1. Gross domestic product by industry of origin (%)

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005
Agriculture, forestry, livestock and fishing	38	34	33.6	32.5	22.2	20.8	18.7	10.3	8.7	8.2
Mining and quarrying	6	5	7.2	5.4	4.6	10.4	9.7	8.2	6.6	6.7
Manufacturing	9	11	12.8	19.3	20.5	19.7	27.0	27.1	33.4	31.4
Construction	3	5	3.8	4.4	4.5	4.8	3.5	4.4	3.3	2.7
Electricity, gas and water	1	2	2.6	2.5	2.3	1.7	1.9	3.5	3.4	4.1
Transport, storage and communications	4	3	3.8	7.2	6.5	6.4	6.9	7.4	8.0	8.8
Wholesale and retail trade, hotel and restaurants	16	16	13.7	15.0	12.6	12.1	11.0	15.2	14.9	14.7
Finance, insurance, real estate and business services	1	2	2.0	9.9	8.2	9.0	9.7	10.4	11.8	15.1
Government services	n.a.	n.a.	n.a.	14.9	13.0	12.2	10.7	7.1	7.0	7.6

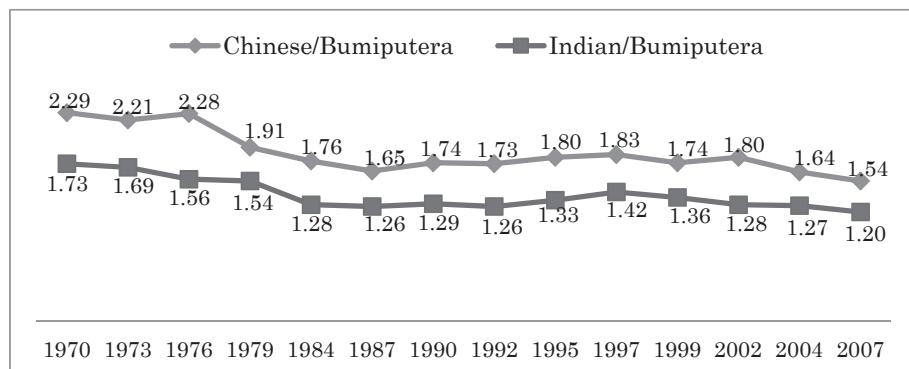
n.a.: not available

Sources: Government of Malaysia. *First Malaysia Plan* (MP1). p.37; MP2. p.31; MP4. p.11; MP6. p.20; MP8. p.35; MP9. p.50; *Mid-term Review of third Malaysia Plan* (MTR3). p.3; MTR6. p.28.



Source: Department of Statistics of Malaysia

Figure 1. Growth Rate of GDP 1961-70



Source: calculated from MP9, p.11, MP4, p.53, MP5, p.99, MTR9, p58.

Figure 2. Inter-Ethnic Income Ratio

Although the Malays' employment rate improved with the progress of industrialization,<sup>14)</sup> their income level remained low. The Chinese/Bumiputera income ratio was around 2.1% (Figure 2). The number of new firms founded by Malays was still lower than that by Chinese and Indians. Thus, economic disparity remained largely unchanged in this period.

Most affirmative measures were carried out only in education. The United Malays National Organization (UMNO), the leading party of the ruling coalition, emphasized that Malays should occupy leading positions in public sectors. In addition to admission and scholarship quotas for Malays, the UMNO tried to make Malay the dominant language in public education so that Malays could survive severe competition to obtain public positions (Ishii 1999: 52-3). It should be noted here that not skills and knowledge obtained in school, but the academic career itself was crucial (Ishii 1999: 53). Thus, these measures did not raise Malays' economic performance, but ended in securing their political positions. In this atmosphere, the government decided in 1962 that only Malay and English were permitted as languages of instruction from middle school onward, and Chinese and Tamil could be used only in elementary school.

Malays, Chinese and Indians, except for those in the upper class, grew discontent with this system. Chinese and Indians were losing positions in education and politics that were crucial for their cultural identities, while Malays could not develop their skills, knowledge and income with all their political prestige.

The growing discontent was reflected in the outcome of the 1969 general election, in which the ruling coalition, including the UMNO, Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC), was defeated with less than two thirds of the total seats<sup>15)</sup> (Table 2). Taking advantage of this result, opposition supporters marched in demonstration for the expansion of non-Malay rights, and the UMNO supporters' hostility also grew in response. Eventually, the most disastrous ethnic riot in Malaysian history broke out on 13 May 1969.

Table 2. Seats in Parliament by leading political parties

	1959*	1964*	1969	1974	1978	1982	1986	1990	1995	1999	2004	2008
Ruling Parties (%)	71.2	85.6	64.1 (63.6) <sup>#</sup>	87.7	84.4	85.7	85.5	70.6	84.4	76.7	90.4	63.1
UMNO	52	59	51	61	69	70	83	71	89	72	109	79
MCA	19	27	13	19	17	24	17	18	30	28	31	15
MIC	3	3	2	4	3	4	6	6	7	7	9	3
PAS	13	9	12	14	5	5	1	7	7	27	7	23
DAP	—	1	13	9	16	9	24	20	9	10	12	28
PKR	—	—	—	—	—	—	—	—	—	5	1	31

\* The Parliament elections were held only in Peninsular Malaysia in 1959 and 1964.

# The elections in Saba and Sarawak were postponed to 1970 because of the May 13 incident in the peninsula. The figure in parentheses is the total result including Saba and Sarawak.

Source: Washida (2008: 174-6).

14) Malays' employment rate for total population rose from 48.2% in 1957 to 51.8% in 1970 Ishii 1999: 48).

15) The constitution of Malaysia, which prescribes more details than ordinary constitutions, has to be revised frequently. Because more than two-thirds approval is required for constitutional revision, it is crucial whether ruling parties can gain this number of seats in the election. Ruling parties have been successful except for in 1969 and, most recently, in 2008.

## (2) New Economic Policy (NEP) before Mahathir administration

Abdul Razak, inaugurated as the second Prime Minister shortly after the riot, began to force rigorous preferential treatments for Malays instead of conceding to non-Malays. He took equality of living standard more seriously than the cultural and symbolic equality Chinese and Indians demanded.

For this purpose, the NEP was established in 1971 with the following goals: (1) to correct economic imbalance so as to reduce the identification of race with economic function and (2) to eradicate poverty, irrespective of race (Mid-Term Review of Second Malaysia Plan: I). The NEP, especially goal (1), meant that affirmative action began to be seriously implemented in the economy as well as in education.

However, the NEP had limited effects. Its most salient aspect was not the raising of skills and knowledge, but the restructuring of wealth ownership. For example, the Industrial Coordination Act (ICA), enacted in 1975, prescribed that every manufacturing firm must obtain a government licence and aimed at supporting Malay businesses and employment by giving them preferential licences. Above all, the ICA stated that a new company should not be founded without 30% of its share being held by Malays (including government trust agencies and state enterprises<sup>16)</sup>), and Malays were also targeted to own at least 30% of total corporate capital by 1990. Emphasizing wealth ownership sometimes caused the ‘Ali Baba’ phenomena; that is, Malays without sufficient management skills nominally owned companies that were actually administrated by Chinese.

The government paid little attention to promoting promising indigenous companies, as other developmental states in East Asia did. Import-substituting industries such as textile and food processing had matured, and electric machinery,<sup>17)</sup> the leading export industry, had begun to flourish with foreign firms in Free Trade Zones<sup>18)</sup> (Table 3). Malaysian firms outside the zones had little linkage with foreign manufacturers,<sup>19)</sup> and high technology was confined in the zones (Bernard and Ravenhill 1995: 206). One presumed reason for this is that good linkage would be profitable only for Chinese enterprises that had already been equipped with a certain level of technology and management, and it would broaden the gap between Malays and Chinese (Fong 1990: 176).

Because foreign enterprises had continuously been a dominant factor of economic growth since the 1960s, Malays’ acquisition of foreign firms based on the ICA proceeded cautiously so as not to hinder growth. Most foreign corporations bought out were in labour-intensive sectors such as production and sales of raw commodities like Sime Darby or in government-affiliated sectors such as construction and finance (Jesudason 1989: 91-2). Foreign manufacturers were excluded from the target because they were more suitable than

16) PERNAS and PNB are well-known examples of governmental holding companies.

17) Electrical Machinery expanded from 1.1% of industrial value added in 1963 to 10.9% in 1978 and 21.1% in 1986 (Fong 1990: 153). The Investment Incentive Act (IIA) passed in 1968 prompted this expansion.

18) The Free Trade Zones Act was legislated in 1971.

19) According to a survey of 167 large firms in 1985, the second highest reason for not offering subcontracting to small firms is “lack of quality” (16.9%), next to “sufficient self-production capacity” (25.4%) (Fong 1990: 176).

Table 3. Exports of major commodities (%)

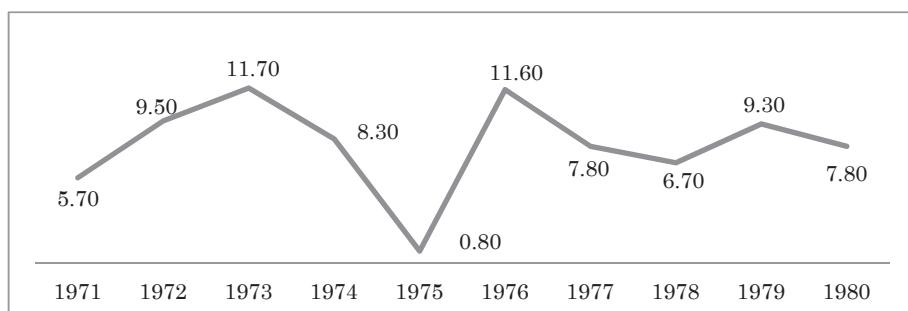
	1970	1975	1980	1985	1990	1995	2000	2005
Food	6.3*	6.4	3.6	4.3	4.3	4.4	1.7	2.0
Rubber	33.4	21.9	16.4	7.5	3.8	2.2	0.7	1.0
Tin	19.6	13.1	8.9	4	1.1	n.a.	n.a.	n.a.
Crude oil and petroleum products	6.9	10.5	24.5	25.6	14.8	4.9	5.8	8.4
Timber and timber-based products	16.3	11.4	13.5	10.3	8.9	5.4	2.7	2.1
Machinery	1.6*	6.2	11.5	18.7	35.7	55.1	62.5	54.0

\*provisional figures of 1971

Sources: Department of Statistics Malaysia. *Yearbook of Statistics Malaysia (YSM) 1971*. p.39, 41; *YSM1978*. p.49, 51-3; *YSM1982*. p.24, 26-8; *YSM1985*. p.190, 192, 195-6; *YSM1993*. p.156, 165-8; *YSM1998*. p.167, 176-8; *YSM2003*. p.192, 201-3; *YSM2008*. p.189, 197-8.

Malays for controlling technology-intensive industries. This was overall a wise judgment, but also unwise in that billions of dollars were spent to buy slow-growth sectors (Jesudason 1989: 98). The acquisition of foreign firms, though unhelpful to develop Malays' skills and knowledge, contributed to the increase of Malays' income and created positions for new officials managing public enterprises. It mitigated the fears of Malay economic marginality (Jesudason 1989: 97).

In education, affirmative action was strengthened without succeeding much in developing skills and knowledge. In 1977, in public education from middle school onward, instruction languages began to be integrated into Malay, and it was fully accomplished in 1980. However, this did not bring sufficient accumulation of knowledge based on the Malay language. The government established the National Translation Agency to proceed with the translation of books from English or other languages into Malay, but 'Unfortunately, the translation process progressed at a slow pace' (Gill 2005: 252). Among the books, science textbooks were the most serious matter. Most of those translated in Malay could not correctly deliver English textual usage and expressions (Sugimoto 2005: 91). Thus, the traditional situation remained that Malay students were inclined to succeed in the humanities and social sciences while Chinese and Indians students took to the natural sciences.



Source: Department of Statistics of Malaysia

Figure 3. Growth Rate of GDP 1971-80

Table 4. Enrolment in tertiary education (degree course) by ethnic group in local and overseas institutions

	1970	1975	1980			1985		
	total	total	overseas	total	overseas share (%)	overseas	total	overseas share (%)
Malays	3048	8600	5,194	18804	27.6	6034	29875	20.2
Chinese	3752	5373	11,533	18381	62.7	13406	24647	54.4
Indian	559	846	2,676	3928	68.1	3108	5581	55.7
Total	7677	15008	19510	41454	47.1	22684	60522	37.5

Sources: MP4. p.351-2; MP5. p.490-1; MTR3. p. 203.

Table 5. Occupation and profession by ethnic group (%)

	Bumiputera	Chinese	Indian		Bumiputera	Chinese	Indian
Administrative & Managerial				Accountants			
2005	37.1	55.1	7.1	2005	20.8	73.6	4.4
1995	36.1	54.7	5.1	1995	16.1	75.2	7.9
1985	28.0	63.0	5.0	1985	8.6	83.3	6.0
1975	28.1	58.8	7.3	1975	7.7	73.8	8.2
Engineers				Doctors			
2005	46.0	47.6	5.4	2005	36.7	29.9	26.6
1995	38.1	55.2	5.2	1995	33.4	32.1	32.0
1985	27.0	65.5	5.3	1985	18.0	40.3	38.2
1975	7.5	76.1	10.5	1975	4.4	48.7	38.7
Lawyers							
2005	38.0	37.1	24.1				
1995	29.0	43.3	26.6				
1985	16.4	53.3	24.5				
1975	12.8	50.7	35.2				

1975, 1965: Peninsular Malaysia only.

Sources: MP4. p.59-60; MP7. p.82-4; MP9. p.334-5; MTR5. p. 66-7.

English was still the most important language in the workplace because communication needs to be quick and easily understood by colleagues, employers and clients around the world (Gill 2005: 255). Chinese and Indians who had studied in English-speaking countries took advantage of this because they could not easily enter domestic universities due to special quotas for Malays (Ishii 1999: 98). Though Malays comprised 63.1% of the total national university students in 1980 (Sugimoto 2005: 193), they could hardly find advantageous workplaces except in the civil service, which was the largest employer of Malay graduates (Gill 2005: 255).

The most successful thing government had done during this period was to recover political stability. The UMNO revised the ruling coalition to form the Barisan Nasional (National Front) in 1973, including Gerakan (based mainly on Chinese), and PAS (Malay Islamic party based in rural areas, withdrawn from the BN in

1978) in addition to MCA and MIC. The UMNO established a consultation system in the BN in which it paid much attention to Chinese and Indians without conceding leading positions to them (Suzuki 2010: 269). Through this process, the UMNO could manage to force them to accept the NEP. Though it was disadvantageous for them, a significant number still considered it better to keep open a negotiation channel even at large cost and try to obtain as much profit as possible through it than to directly pursue equal rights (Tan 1995).

The UMNO established not only a consultation regime, but also a repressive one by revising the Seditions Act in 1970, which prohibited public argument on sensitive issues such as the status of Malay as a national language, the powers and status of the sultans, Malays' special rights and non-Malays' citizenship rights. With such soft and hard lines together, the NEP was firmly established, and thus, Malaysian politics were stable throughout the 1970s.

### **(3) Mahathir Regime before the East Asian Financial Crisis**

In terms of manufacturing, which plays a principal role in industrialization, Malaysia had been taking almost a laissez-faire approach, not protecting indigenous enterprises until they gained sufficient competitiveness, as other developmental states had done. However, the fourth Prime Minister Mahathir, inaugurated in 1981, embarked on raising indigenous manufacturing, and this was the beginning of authentic developmental policy in Malaysia.<sup>20)</sup> The Malaysian economy in this period had faced the problem that Malays had not yet obtained sufficient skills and knowledge, while their rising wage caused by economic growth drove the labour-intensive industry in the corner. In response, Mahathir planned to promote the domestic heavy industry with many affiliated firms and diffuse high technology to them. The state-owned Heavy Industry Corporation of Malaysia (HICOM) was established in 1980 and included cement plants, ironworks and the national auto maker PROTON.

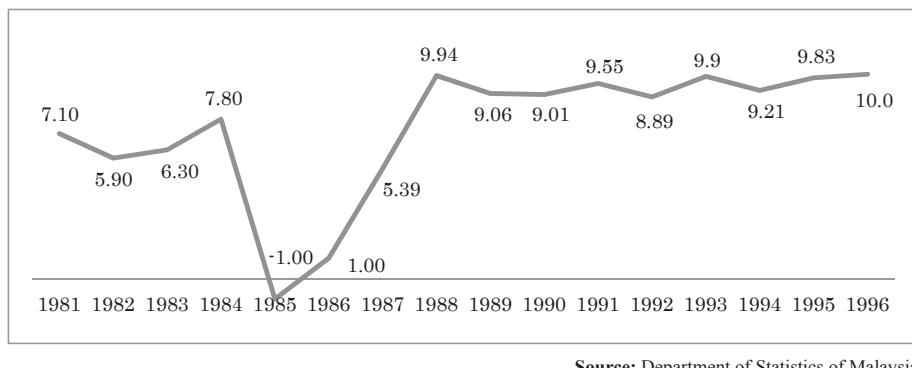
Yet Mahathir's developmental policy was deeply affected by the logic of affirmative action. Though authentic developmental policy should promote promising industries regardless of the ethnicity of their owners, the companies that were actually targeted were exclusively those owned by Malays. There were many objections which stated that for Malays to be competitive, 'it would be better off to start in small, purposeful steps rather than make a quantum leap' (Jesudason 1989: 118), but Mahathir rejected these claims. As a result, companies established under his rapid promoting plan were large but inefficient, relying on the government's support. In the end, they were not so different in character from the non-manufacturing foreign companies bought out by Malays in the 1970s.

Thus, heavy industrialization could not stop the decline of the Malaysian economy that had been occurring

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20) With the "Look East Policy", Mahathir recommended to learn about authentic developmental policy from Japan and other East Asian countries.

since the introduction of the ICA in 1975 (Figures 3, 4). As long as raw materials such as rubber, tin and petroleum continued to have a high price in the international market, the pursuit of Malay-oriented heavy industrialization could be afforded. However, once the price plunged in the mid-1980s, the Malaysian economy dropped sharply, eventually to record a negative growth rate in 1985 (Jesudason 1989: 98; Yasuda 1988: 164).



Source: Department of Statistics of Malaysia

Figure 4. Growth Rate of GDP 1981-96

When the resources to be redistributed are insufficient, affirmative action brings about political instability. Thus, the late 1980s became rather turbulent. In 1987, after Mahathir won the presidential election by a small margin, his rival candidate Razaleigh Hamzah withdrew from the UMNO accompanied by many members, and the UMNO split. Also in 1987, many Chinese were arrested under the Internal Security Act (ISA), including those who marched against the appointment of a Chinese teacher who could not speak Chinese to the position of principal at a Chinese elementary school.

In order to overcome these situations, the government weakened preferential treatments for Malays and took more competition-oriented measures suited for the international economy. Already since 1983, many public corporations had begun to be privatized for the purpose of reducing government expenditure and promoting their efficiency (Muthu 2002: 83). The Malaysia International Shipping Corporation (privatized in 1994), Malaysia Airline (1994), and PETRONAS are famous examples of such privatization. Malays' buying out of foreign companies also slowed under the Promotion of Investment Act in 1986, and the linkage between foreign and indigenous firms was pursued without excluding non-Malays in particular. Small-to-medium firms, most of which were Chinese, were removed from the stipulation of having 30% shareholding by Malays (Fong 1990: 177). This was based on the political decision that 'even the decrease of Malays' shareholding ratio must be admitted, if the economic efficiency can be improved through the competition between Bumiputera and Chinese small-to-medium firms' (Yasuda 1988: 172).

Table 6. Ownership of share capital of limited companies by ethnic group (%)

	1970*	1975	1980	1985	1990	1995	2000	2004
Bumiputera	1.9	9.2	12.5	18.5	19.3	20.6	18.9	18.9
(individuals & institutions)	n.a.	3.6	5.8	11.3	14.2	18.6	17.2	17.2
(trust Agency)	n.a.	5.6	6.7	7.2	5.1	2.0	1.7	1.7
Chinese	37.4	37.5	44.6	48.2	45.5	40.9	38.9	39.0
Indians				0.9	1.0	1.5	1.5	1.2
Foreigners	60.7	53.3	42.9	24.0	25.4	27.7	31.3	32.5

\* Peninsular Malaysia only.

Sources: MP4. p. 62; MP5. P.107; MP6. p.14; MP7. p.86; MP9. p.336; MTR2. p.87.

In education, human resources based on the Malay language were pursued a little less, and English- and Chinese-language educations were strengthened. The government permitted English to be used in advanced science and medicine classes in 1994 because it could not neglect the usefulness of English as a language of science and international business (Sugimoto 2005: 133-4). The government also issued a Chinese education plan in 1988 and announced in 1996 that Chinese classes should be compulsory in all elementary schools by 2000 (Sugimura 2000: 133-4). This was because the government wanted to take advantage of having 35% of its population who spoke the same language as the huge market of China (Sugimoto 2005: 136) and to utilize Chinese human resources who were more equipped with science and technology skills than their Malay counterparts (Lee 1999: 91).

Based on these policy changes, the UMNO tried to make another political reconciliation, and as a result, Wawasan 2020 (Vision 2020) was issued in 1990. It emphasized the concept of ‘Bangsa Malaysia’—every Malaysian should have equal opportunity irrespective of ethnicity—and aimed at Malaysia becoming a developed country by 2020. Major ethnic leaders could manage to agree on it, and the political turbulence of the late 1980s was alleviated.

After the introduction of development policy with less ethnic preference and the political re-stabilization, the Malaysian economy rose again (Figure 4.). This was partly because Japanese factories making machinery for export had moved to Malaysia owing to a stronger yen led by the Plaza Accord in 1985. Taking advantage of this economic surge, the government again undertook large public projects such as the Multimedia Super Corridor,<sup>21)</sup> which began in 1996.

In this period, Malaysian policy came much closer than before to being developmental, as in other East Asian countries. The state took positive measures to protect promising firms without necessarily excluding Chinese or Indian ones until they grew enough to compete in the market. Affirmative action was a little marginalized, working as a conciliatory measure to support developmental policy instead of positively correcting ethnic

21) This project envisaged to build a huge high-tech zone with an optical fiber telecommunications infrastructure and to create two new cities, Putrajaya, the new capital city, and Cyberjaya, the IT city where advanced enterprises are to be agglomerated (Abbott 2004: 82).

disparity. Since the nature of Malaysian affirmative action had always been redistributive rather than promotive, the disparity would not be corrected once the redistributive ratio had been loosened. Thus, the Chinese/Malay disparity would not improve after it had diminished from more than double in the 1970s to about 1.7% in the mid-1980s (Figure 2).

#### (4) The East Asian Financial Crisis and Afterward

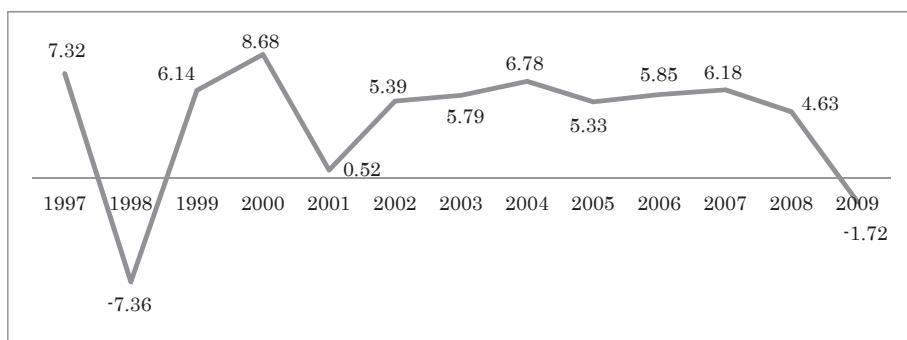
Though Mahathir had begun to pursue a more efficient economy, inefficient policies still remained. Privatization of public enterprises, in particular, had brought about the nexus between UMNO executives and Malay or Chinese conglomerates rather than fair competition. Its original objective was to give shares of public enterprises to a few promising entrepreneurs to encourage their competition and thus make the Malaysian economy more efficient, but in order to avert the risk involved in their business, each entrepreneur sought connection to a particular political leader (especially Anwar Ibrahim, Daim Zainuddin and Mahathir) to protect their enterprise by offering political funds; the rivalry between leaders led to the sectionalism of the UMNO (Gomez 2003, 2004).

Table 7. Ownership of top 20 firms listed on the Kuala Lumpur Stock Exchange

Company	Activity	Main Shareholder
1. Telekom	Telecommunication	Government
2. Malayan Banking	Finance	Government
3. Tenaga Nasional	Power Producer & Distributor	Government
4. Petronas Gas	Gas Production	Government
5. Resort World	Gaming	Lim Goh Tong
6. Malaysia int. Shipping Corp	Shipping	Government
7. Sime Darby	Plantations/ Diversified	Government
8. Commerce Asset-Holding	Finance	Government
9. Genting	Gaming	Lim Goh Tong
10. YTL Corp	Construction	Yeoh Tiong Lay
11. Public Bank	Finance	The Hong Lay
12. Rothmans of Pall Mall	Cigarette Manufacture	Foreign
13. YTL Power International	Power Production	Yeoh Tiong Lay
14. RHB Capital	Finance	Rashid Hussain
15. United Engineers	Construction/ Diversified	Halim Saad
16. Renong	Construction/ Diversified	Halim Saad
17. Berjaya Sports Toto	Gaming	Vincent Tan
18. Magnum Corporation	Gaming	(Unclear)
19. PROTON	Car Manufacturer	Government
20. Kuala Lumpur Kepong	Plantations	

Source: Gomez (2003: 87)

The East Asian financial crisis in 1997 made this problem more serious. A vast amount of short-term foreign investments was flowing into the rapidly growing economy of East Asia, but it was immediately brought back altogether once signs of stagnation appeared. Owing to this, many Asian corporations fell into default. The IMF recommended structural reform to these countries, saying that restructuring free and fair markets and correcting nepotism and state patronage would reverse the fleeing of capital and put the economy back on a growth trajectory. However, Mahathir rejected the IMF solution, fearing that it would also demand giving up developmental policy and Malay privileges. Instead, he denounced foreign investors' selfishness as the cause of the crisis. He restricted the capital overflow to maintain domestic investment and increased export competitiveness by cutting ringgit down to dollar. As a result, the Malaysian economy shortly overcame the crisis to grow steadily<sup>22)</sup> (Figure 5).



Source: Department of Statistics of Malaysia

Figure 5. Growth Rate of GDP 1997-2009

However, Mahathir's actions also had a bad result: large firms that depended on their connection to politics could not recover from their poor performance. As long as Mahathir insisted that foreign investors' selfishness was the cause of the crisis, he could not let his cherished companies bankrupted because of their inefficiency. Thus, he bailed out privatized companies such as Bumiputera Bank, the DRB-HICOM group (a heavy industry conglomerate), Malaysia Airline, and the LENON group (a conglomerate of construction and others companies), but this sponsorship made it all the more difficult for them to correct their inefficiencies.

Because Malaysia had become similar to developed countries, and the East Asian economy as a flying geese pattern had changed much with globalization, diversified demand, the rapid growth of China and the stagnation of Japan, it became difficult for bureaucrats to select promising industries to be supported by government.<sup>23)</sup> Selection through market competition was becoming more effective than state intervention.

22) To Malaysia's response to the crisis, "some prominent international economists and financial analysts also gave their approval, however grudging" (Case 2005: 292).

23) In spite of this situation, telecommunication enterprises have recently been targeted for encouragement (Salazar 2004).

This was one of the reasons for the struggle between Mahathir and Anwar, who argued that more neo-liberal policies were suitable to overcome the crisis.

After being ousted by Mahathir in 1998, Anwar led the ‘reformasi movement’, criticizing authoritarianism and nepotism to advocate democracy and economic freedom. This movement gathered not only Chinese and Indians who were disadvantaged by Malay privileges, but also many Malays because ‘elite-level bailouts now diminished mass-level prospects, with grievance over the government’s having drawn on worker savings in the Employees’ Provident Fund (EPF) swelling into an acutely felt sore point’ (Case 2005: 294). For many Malays, the existence of rich Malays who were favoured by the government no longer meant a hope for future benefit, but rather inequality.

In the latest general election in 2008, PR (Pakatan Rakyat, the People’s Front), the opposition alliance between PAS, DAP (the Chinese socialist-oriented party) and PKR (The People’s Justice Party led by Anwar) won more than one-third of the seats, dealing as serious a blow to the ruling coalition, as in 1969. However, the aims of PR are obscure. Though opposition parties can all agree on democratization that eliminates the UMNO’s authoritarianism and clientalism, there is still disagreement in that PKR based on middle Malays and DAP on middle Chinese are both market-oriented, whereas PAS, desiring to build an Islamic state, insists on state intervention to redistribute wealth to poor Malays in the rural areas.<sup>24)</sup>

The government is also fluctuating. Though it once rejected neo-liberal policies by ousting Anwar to maintain developmental policy and affirmative action, it also recognizes that free market is indispensable for economic growth. The New Economic Model for Malaysia (NEM) issued in 2010 shows this fluctuation, saying that ‘the excessive focus on ethnicity-based distribution of resources has contributed to growing separateness and dissension’ while still holding the concept of Bumiputera’s special rights and noting ‘the design of effective measures that strike a balance between the special position of *bumiputera* and legitimate interests of different groups’ (NEAC 2010: 89).

## Conclusion

How should Malaysian policies be judged in terms of the two conditions for effective affirmative action? Have they been able to set an adequate scale of quota for Malays without evoking Chinese and Indian hostility? Have they been able to establish a social cooperation scheme in order for the quotas to lead to Malays’ raising their skills, knowledge and credibility?

In the former point, Malaysia has been rather successful. The scale of quota has been varied time to time to accommodate economic circumstances. With all its nepotism, corruption and quasi-democratic regime, it has

24) However, according to one explanation, “anti-PAS sentiment is diminishing even among Chinese because they come to think that PAS will neither take power by itself nor build an Islamic state” (Shinozaki et al. 2008: 88).

flexibly constructed the consultative scheme to respond to non-Bumiputeras' opinions. Therefore, disastrous ethnic conflicts such as the civil wars in post-colonial Africa and race riots in the present European countries have been avoided. However, as the 2008 general election shows, people now demand a more democratic and transparent procedure. To meet this demand, anti-democratic laws such as the ISA should be lifted, with the awareness that a difference of opinion should not lead to serious confrontation, which Malaysia has avoided so far. It is also important that both ruling and opposition parties should make clear their opinions on economic growth and ethnic disparity once again, and on the basis of these opinions, seek to revise their affiliation to form a more transparent government.

With regard to the latter point, Malaysia has been unsuccessful throughout its history mainly because of the difficulty of demarcation between developmental policy and Bumiputera policy. Ruling Malays, essentially, should have produced a flying geese pattern also in the domestic economy. That is, while promoting the most promising industries irrespective of ethnicity to lead to rapid growth, they should have tried to select the second most promising sectors that held many Malay firms and employees and made it easier for them to step up to more promising sectors by developing their skills and knowledge under the governmental support.

However, the Malays' status as a political majority had become an obstacle to taking such a roundabout way. Eager to gain immediate results, they paid more attention to superficial outcomes such as ethnic ownership than to education and training. Therefore, when they noticed that such preferential treatments were stifling economic growth, the principal policies they made involved loosening the preferential ratio, with little attention to changing the policies into more promotive ones.

Bumiputera policy produced two distinct types of Malays. One type consists of many unskilled employees who, though becoming richer than before, still have a lower standard of living than Chinese and Indians. The other consists of a few rich business executives who rely on their connection to the government to avert the risks involved in their business. Less attention was paid to raising Malays categorisable between these two types, that is, encouraging matured employees who are willing to spin out to establish their own companies and to gain skills, technology and credibility through their business experiences.

In addition, the government should have taken greater charge of policies such as promoting technology transfer by intermediating foreign and domestic firms, guaranteeing the quality of goods Malay small-to-medium firms produced and lending moderate amounts of money so that successful repayments would increase their credibility. It was also important to intermediate Malay-based and English- or Chinese-based knowledge more tightly in school curricula so that Malay employees could work well in firms where English or Chinese was dominant. Although these may seem to be rather roundabout methods, if they had been implemented, they should have corrected the disparity swiftly and effectively.

However, because these policies were not actually implemented sufficiently, the economic disparity among ethnic groups remains wide, and special treatments have become vested interests for Malays and jeopardize

flexible implementation of other economic policies. Yet with Malaysia being richer than before, the government can now afford to take roundabout policies. In addition, since the economic situation has changed, more market-oriented policies are needed, and state intervention such as Bumiputera policy is becoming more harmful to economic growth. Therefore, all special quotas not followed by any particular social cooperation should be abolished in principle, and roundabout and promotive policies should be implemented more intensively.<sup>25)</sup> In response to this, business executives who rely on political connections and many Malays who have a less competitive spirit may feel discontent, but the feeling must be overcome with strong leadership based on a more transparent will formation.

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25) We can find the same inclination in the New Economic Model for Malaysia in 2010, but it is rather eclectic, with its principle obscured.

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