Malaysia’s development strategies
Governing distribution-through-growth

Greg Felker

Malaysia’s economy grew at an average annual rate of almost 6.5 percent from 1961 to 2011. With sustained growth came profound structural change, transforming a post-colonial commodity exporter into one of Asia’s newly industrialised countries (NICs) (Table 11.1). Yet, Malaysia fits uneasily into the conceptual terms that inform much of the literature on comparative development strategies. The country’s heavy reliance on trade and foreign investment appears exemplary of a broadly liberal, outward-oriented economic regime, yet the government has intervened extensively to direct the course of growth. Economic policies have promoted private sector competitiveness while simultaneously pursuing a far-reaching programme of inter-ethnic socio-economic redistribution. Finally, despite extraordinary continuity in political leadership since independence, the focus of development policy has changed dramatically several times in response to major political or economic crises.

What explains Malaysia’s seemingly paradoxical development trajectory – state interventionism amidst deep integration into global markets, growth-focused policies permeated by distributional politics, and sustained growth across multiple policy shifts? Katzenstein (1985: 29–30) famously argued that the economic policies of small states are best understood as efforts to satisfy, simultaneously, the demands of international economic competitiveness and domestic political legitimation. At several junctures in Malaysia’s history, external shocks have induced downturns that precipitated reforms aimed at reviving growth momentum (Figure 11.1). Domestic political pressures have likewise motivated far-reaching policy

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interventions to shape the economy’s distributional outcomes. The metaphor of a pendulum swinging between market-driven liberalisation and politically motivated interventions captures important aspects of the crisis-and-recalibration dynamic that recurs across Malaysia’s economic history. What the image does not explain is why and how Malaysia has managed the relationship between growth and distributional imperatives more or less successfully over five decades.

The proximate reasons for that ‘gyroscopic’ proclivity are two-fold. First are Malaysian leaders’ political incentives and capacities to re-equilibrate the balance of development goals when disruptions put them into short-term conflict. Just as important, though, are the ways that development strategies per se have reconciled growth and distributional imperatives, and even rendered them complementary over time, in a pattern of ‘distribution-through-growth’. The country’s political regime, organised around a hegemonic Malay party with an attendant coalition of other ethnic parties, fostered among governing elites a relatively encompassing and long-term interest in the economy. Thus, the constant factor amidst Malaysia’s shifting development strategies has been efforts to foster growth in ways that preserve the state’s central governance role to superintend the distribution of economic advantages.

### Development strategy from independence to New Economic Policy

Gereffi (1990) compares NICs’ development trajectories in terms of sequential choices among strategic options defined by their focus on particular leading industries or sectors, as well as on either domestic or export markets. The most successful East Asian NICs, such as South Korea and Taiwan, used protectionist policies to launch industrialisation that focused temporarily on serving the domestic market (import-substitution industrialisation, ISI), but soon compelled those industries to venture into export markets, or export-oriented industrialisation (EOI) (thus moving from primary ISI to primary EOI). This

![Figure 11.1 GDP per capita and annual growth, 1961–2011](image)
quasi-m商antilist cycle was later repeated with more capital-intensive and high-technology goods (a move from secondary ISI to secondary EOI), and eventually with information-intensive services.

Many surveys of Malaysian development follow similar chronological schema by dividing the country’s economic history into discrete phases marked by changes in the focus of development policy. The dozen years following independence in 1957 are often described as an era of laissez-faire policy, during which Malaysia’s growth continued to depend upon the activities that had made it one of the British Empire’s most profitable colonies, notably the export of commodities like rubber and tin. Primary product exports accounted for 85 percent of total exports and 40 percent of GDP upon independence in 1957, and remained high, at almost 80 percent and 30 percent, respectively, by 1970. Macroeconomic policy likewise remained conservative in the 1960s. Independent Malaya opted to retain a currency board system inherited from the colonial state up through 1967, when the link to the British pound was replaced with a US dollar peg. Controls on foreign investment were minimal, and foreign corporations continued to dominate the plantation sector. Public expenditures rose with a steadily growing development budget, but fiscal balance remained a hallmark of economic policy-making, especially as new streams of revenue were derived from export taxes. Both foreign enterprises and businesses owned by ethnic Chinese Malayans were allowed to prosper with minimal attempts to control their growth.

The newly independent government did, of course, make certain adjustments to the colonial-era policy framework in an effort to advance development. A primary import-substitution industrialisation programme was launched following the advice of a 1955 World Bank mission, and comprehensive development planning in a five-year cycle began in 1966. In comparative perspective, though, these measures were decidedly modest, especially when compared with the statist-nationalist and socialist programmes pursued across much of the developing world during the same period. The 1957 Pioneer Industrial Ordinance, for example, rejected broad-front tariff protection as the means to nurture new manufacturing industries, and instead relied on tax holidays to induce investment. Effective rates of protection did rise across a number of consumer products and other manufacturing industries which relied on imported inputs for final assembly, yet overall tariff protection remained lower than in other developing economies (Lim 1992). Moreover, the chief beneficiaries of primary ISI were, yet again, foreign-owned and ethnic-Chinese Malayan businesses.

That Malaya’s ruling elites sought to build upon, rather than dismantle, the colonial-era commodity-export economy owed less to liberal ideology, however, than to the constraints of domestic and external political-economy factors. As part of the country’s negotiated independence from Britain, local elites forged a consociational political arrangement that enshrined Malay political pre-eminence and in exchange pledged to maintain the broadly free-enterprise economic system in which ethnic Chinese businesses accounted for the bulk of domestically owned capital (Jesudason 1989; Bowie 1991). This essentially conservative political settlement was motivated in large part by challenges to the state-inFORMATION from the non-violent left and the Malayan Communist Party’s armed insurrection (Slater 2010: 74–93). External pressures and actors were equally important in precluding a decisive break with colonial-era economic policies. So long as the survival of the new state hinged on its continued protection by the former colonial power, any broad effort to displace British and other foreign investment interests was unlikely. Asia’s wider Cold War conflicts also provided an economic inducement to policy continuity. The Korean War boosted rubber and tin prices through the mid-1950s, fuelling both economic expansion in Malaya and, in particular, rapid growth in public revenue from export taxes (Stubbs 2005: 78–82).
The first major turning point in Malaysia’s development history came in the wake of the 13 May 1969 ethnic riots. A reconstituted ruling coalition promulgated the New Economic Policy (NEP) as a two-decade long project of national social engineering, with the overarching goals of alleviating absolute poverty and eliminating the identification of socioeconomic status and occupation with ethnicity or race. These goals were to be realised amidst an expanding economy, with the focus of growth policy shifting from agriculture to the manufacturing and commercial sectors. Manufacturing grew swiftly, at rates of 25 percent per annum during the 1970s. However, rising prices in global commodities markets, together with ongoing diversification into oil palm and petroleum, spurred a simultaneous expansion of the primary sector, which accounted for over 60 percent of exports through the early 1980s (Table 11.2).

Federal and state governments expanded agencies charged with fostering bumiputera entry into commerce and industry through contracting and franchising programmes. The flagship of this effort was Perbadanan Nasional (Pernas) and, subsequently, Permodalan Nasional (PNB), which pooled Malay investment capital to acquire and develop new bumiputera commercial enterprises. Also backing the growth of state-owned enterprises (SOEs) was the rise of government-owned banks and finance companies to dominant positions in the financial sector.

The NEP’s inter-ethnic restructuring mission, and the expansion of the government’s economic role that accompanied it, were responses to powerful domestic political pressures arising from a changing Malaysian social structure. Throughout the 1950s and 1960s, income disparities between the major ethnic groups rose, despite the national economy’s steady growth. Malay out-migration to urban centres and the rapid expansion of education resulted in growing urban unemployment, and generated pressure on the government to increase opportunities for the ethnic majority in commerce and manufacturing. Bumiputera Economic Congresses in 1965 and 1968 gave voice to these demands, and following the 1969–71 state of emergency, the Second Malaysia Plan 1971–75 articulated the goal of using state intervention to ensure Malay participation in the ‘modern’ urban and corporate sectors.

While domestic politics drove expanded state intervention, external factors also exerted an important influence on NEP-era development strategy. In a delayed echo of earlier nationalisations throughout the post-colonial world, the government soon moved to Malaysianise the largest plantation and mining corporations through targeted share acquisitions. The Petroleum Development Act 1974 mandated partial foreign divestment and shared managerial control over petroleum exploration and extraction with the national oil company, Petronas. Despite this pressure on foreign enterprises in the primary sector, though, rising state activism did not mark a broad turn towards a more inward-looking or nationalist development strategy.

**Table 11.2 Structure of merchandise exports by sector, 1965–2010 (%)**

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<th>Sector</th>
<th>1965</th>
<th>1980</th>
<th>1995</th>
<th>2010</th>
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<tr>
<td>Agricultural raw materials</td>
<td>50</td>
<td>31</td>
<td>6</td>
<td>3</td>
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<tr>
<td>Food</td>
<td>11</td>
<td>15</td>
<td>10</td>
<td>12</td>
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<tr>
<td>Fuel</td>
<td>5</td>
<td>25</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Manufactures</td>
<td>5</td>
<td>19</td>
<td>75</td>
<td>67</td>
</tr>
<tr>
<td>Ores and metals</td>
<td>29</td>
<td>10</td>
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Malaysia’s development strategies

Rather, new sources of externally driven growth bolstered the push for domestic economic and social restructuring. Booming commodity-export revenues, including new oil production, fuelled the expansion of public budgets devoted to the creation of a bumiputera commercial and industrial community.

Equally significant, however, was the rapid growth of export-oriented industrialisation, a development thrust first signalled in the Investment Incentives Act 1968. Though the NEP’s planners did not initially regard export-focused foreign direct investment (FDI) as central to the new development agenda, the sector’s growth gained momentum following the Free Trade Zone (FTZ) Act 1971 and successful experimentation with FTZs in Penang, Malacca, and Johor. The influx of FDI in labour-intensive industries like textiles and semiconductor assembly enabled the rapid expansion of Malay manufacturing employment envisioned by the NEP. Khoo (2012a: 34–6) observes that the emergence of a new global division of labour in manufacturing occasioned a coincidence of interests between Malaysia’s newly activist state and international capital, as large corporations from the US, Japan and Europe sought low-cost locations for labour-intensive assembly and re-export.

The Mahathir era: strategic shifts on the road to ‘NIC-hood’

Official development strategy took two sharp turns during the 1980s. Upon becoming prime minister at the beginning of the decade, Mahathir Mohamad launched an ambitious secondary import-substitution industrialisation programme. He and many observers believed that, despite continued growth, import-dependent, low-value-added FTZ-based export-processing industries could not lead a genuine industrial transformation. Impressed with the development strategies of Asia’s first-generation NICs, Mahathir proclaimed that Malaysia would ‘Look East’ and emulate Japan and South Korea by forging state–business corporatism under the banner of a ‘Malaysia, Inc.’ policy. He directed a state-owned Heavy Industries Corporation of Malaysia (HICOM) to launch large, capital-intensive projects in cement, fertiliser, steel, petrochemicals, and most famously, production of a national automobile, Proton (Jomo 1994). Most of these projects took the form of joint ventures with Japanese partners who supplied technology, and were supported with subsidised credit and significant tariff protection. The second oil shock of 1979 provided new revenues to finance the large investment budget, but commodity prices soon levelled off, and external public debt more than quadrupled from 1979 to 1984.

In 1985, moreover, a sharp drop in oil and other commodity prices combined with a cyclical downturn in electronics to throw Malaysia into recession. GDP shrank by 1.1 percent, a negative turnaround of 8.9 percentage points from the previous year’s 7.8 percent growth rate. With balance of payments and fiscal deficits climbing, Mahathir was compelled to seek renewed private investment. On the domestic front, his administration relaxed enforcement of the NEP’s equity-sharing provisions, and heavy industry projects were scaled back and their management teams replaced with foreign and local private sector figures. Meanwhile, the government signalled a renewed commitment to export-led manufacturing growth in the Promotion of Investments Act 1986, which extended the liberal ownership and tax provisions of the FTZs across the manufacturing economy. Rather than moving Malaysia toward higher value-added ‘secondary EOI’, the Act (together with a significant currency depreciation) aimed at drawing more investment into existing assembly-based export industries.

Though initially something of a strategic retreat to ‘primary EOI’, the new investment policies nonetheless met with striking success. In the wake of the 1985 Plaza Accord between
the United States and Japan, which led the Japanese yen to appreciate sharply, a tide of FDI from Japan and other East Asian NICs, as well as North America and Europe, washed into Malaysia. In the leading electronics sector, major investments in consumer and industrial production augmented the upgrading and expansion of established semiconductor test and assembly operations. By the mid-1990s, successive years of nearly 9 percent GDP growth seemed to ensure Malaysia’s transition to NIC status. The economy was hailed internationally as an exemplar of a pro-globalisation development model organised around the pursuit of systematic national competitiveness through private investment-led growth (World Bank 1993: 310–11). Mahathir codified the new national strategy in 1991 in a manifesto titled ‘Vision 2020’, which projected a two-decade pathway to status as a fully developed economy fuelled, aspirationally, by the growth of national entrepreneurship and technological innovation.

As Khoo (2006, 2012b), Gomez and Jomo (1997), and Jomo (2003) detail, the vicissitudes of economic policy in Mahathir’s first decade in power were closely linked to domestic politics. His development strategies arose largely from his own complex vision of a capitalist transformation that would instil the discipline necessary to empower the bumiputera community while simultaneously cultivating a broader Malaysian nationalism (Case 2000). Yet, their implementation also involved an effort to marginalise a rival faction of the ruling party with support in the branches of the state bureaucracy that had expanded to administer NEP programmes. While investing in new state-backed industrial projects, Mahathir simultaneously sought to cull the sprawling population of state and federal SOEs through privatisation and the corporatisation of the state’s infrastructural agencies. Private business, involving prominent figures from the country’s major ethnic groups, was encouraged to grow through a range of formal consultation bodies as well as through networks of exchange that dealt in contracts, share allocations, and political finance (Gomez 2002).

Mahathir’s ideological and political ambitions moulded Malaysia’s boom era, but external forces played a crucial role in shaping his development thrusts. As Khoo (2006: 46) noted of the mid-1980s pivot, ‘At one time FDI was enlisted in support of the NEP’s objectives; this time a sacrifice of (some features of) the NEP’s restructuring drew FDI in order to combat recession.’ The strategy that emerged entailed a growth pattern that Jayasuriya (2003) termed ‘embedded mercantilism’: a foreign-dominated, internationally competitive export sector married to a domestic political economy in which non-tradeable sectors (finance, construction, infrastructure, property development) were shaped by quasi-corporatist or clientelist interventions. This growth pattern was enabled by the unexpected dynamism of the previously shallow and low-value added manufactured export sector. Finding Malaysia a conducive site in which to produce for global markets, multinationals upgraded their technology through process automation, invested selectively in deepening production of components and sub-assemblies, and engaged in limited production-related design.

A decade of rapid expansion came to a spectacular end in late 1997, when the Asian Financial Crisis (AFC) drove Malaysia into recession along with other regional economies. Though less exposed to foreign creditors than Thailand or Indonesia, Malaysia’s private financial sector had run up considerable leverage via the liberalised stock market while major corporations had taken on high debt loads to finance government-sponsored infrastructure mega-projects. As the prospect of a financial collapse loomed, the government initially and inconsistently experimented with austerity measures, but in a decisive and controversial move, Mahathir imposed controls on the capital account on 1 September 1998. Insulated from further capital flight, the government used monetary and fiscal policy tools to refl ate the economy (see She, this volume), and set lending targets to pressure the banking system to
assist corporate debt restructuring and finance continued consumption spending. Special-purpose government entities bought bad debts from major corporations and banks, injected capital into the financial system, and renationalised major failing conglomerates, including some of those privatised to bumiputera investors just a few years before.

Many observers viewed Malaysia’s heterodox crisis response as the beginning of a new, more inward-focused, even ‘semi-autarchic’ development strategy (Khoo 2006: 186–89). Just as with the NEP era’s interventions, however, Mahathir’s post-AFC policies sought not to withdraw Malaysia from its engagement with global investors and markets, but to restructure the domestic economy while selectively recalibrating its international linkages. Even as Malaysia’s financial system was temporarily quarantined, foreign export manufacturers were exempted from the restrictions on foreign currency transactions. In fact, the government removed remaining restrictions on foreign equity ownership in the manufacturing sector. Moreover, just as in the crisis of the mid-1980s, measures to refresh FDI-led EOI led to a quick recovery via another cyclical boom in global electronics markets.

That same cycle’s downturn in 2001, however, together with China’s rise as the premier host for export-oriented manufacturing, prompted a new round of alarmed projections that Malaysia’s FDI-led model would lose steam in the new millennium. Even before the crisis, Mahathir had launched efforts to prompt a new transition in Malaysia’s growth strategy, this time focused on information technology, spearheaded by a high-profile Multimedia Super Corridor project. Following his retirement, the succeeding Abdullah and Najib administrations broadened efforts to nurture new growth sectors. These included information technology industries like software, media production, and business-process outsourcing; biotechnology and green technology that could add new value to old primary sector output; and value-added service industries such as Islamic banking, international education, healthcare, and tourism. Though large sums have been invested, these strategic policies have met with mixed or incremental results; meanwhile, FDI-led export manufacturing remains the pillar of Malaysia’s development. Fears that Malaysia would see a sharp fall-off in FDI in the face of regional competition have proved unfounded, as multinational corporations have built production networks integrating Malaysian operations with affiliates in China, Vietnam, and other locations. Though reasonably steady, however, foreign investment has arrived at lower average levels in the new millennium than in the boom years.

**Growth, distribution, and governance – pendulum swings and gyroscopic continuity**

As the history narrated above shows, Malaysia’s development features a pattern in which recurrent political and economic crises prompt sudden shifts in development priorities. Its record is thus hard to portray in terms of a coherent strategic sequence, much less as a singular development ‘model’. Though rapid growth has often followed policy change, this often seemed less the result of technocratic foresight than of the partly fortuitous coincidence of international economic forces and shifting domestic political exigencies. Alongside sustained growth, moreover, is a record of costly policy failures (Gomez and Jomo 1997; Gomez 2012). Nonetheless, the fact that Malaysia’s policy-makers have proved able, over nearly six decades, to respond to crises, adapt to changing international constraints and opportunities, and find new growth formulae points to important continuities in the political economy of the nation’s development.

Hal Hill’s (2012) comprehensive survey argues that the oscillations of official development agendas should not obscure the continual importance of competent macroeconomic
management and relative international openness. In his assessment (2012: 13), ‘openness has always placed a discipline on political excess and policy error . . . The presence of a large export sector with a fundamental imperative of international competitiveness . . . requires at least reasonably efficient government operations, infrastructure and financial services’. Yet, the history recounted above suggests that the reverse causation was at least as important, as Malaysia’s successive development strategies provided the policy and political conditions for FDI-led EOI to flourish.

In this regard, the adaptive capacity underpinning Malaysia’s development is the product of political factors more than the discipline of market forces, whether external or domestic. A general precondition is the Malaysian state apparatus’s relative capacity or strength, something often noted in comparative studies of Southeast Asia (Slater 2010: 7–10). Abdul Rahman (2008, 2012) analyses the sources of the Malaysian government’s relative proficiency in formulating and executing development policy, highlighting its institutional mechanisms for mobilising revenue, executing detailed planning, and implementing funding and regulation of growth priorities via a relatively competent civil service. Though the bureaucracy as a whole has been suffused with the NEP’s inter-ethnic restructuring mission, key economic policy institutions have been reformed periodically to check inefficiency and upgrade their technical capacity. At the same time, the efficacy of state institutions and developmental interventions has been subject to persistent and trenchant criticism (Hill 2012: 27–31).

A broader point concerns the relationship among politics, institutions, and development strategy. Many of the turning points in Malaysia’s development policies have involved simultaneous introduction of new policy-making institutions, from the Department of National Unity that formulated the NEP and the various state economic agencies that implemented it, to Mahathir’s HICOM and public–private consultative councils, to the supra-ministerial National Economic Action Council that devised the heterodox response to the AFC, to Najib’s vesting a Special Task Force to Facilitate Business (PEMUDAH) with power over his signature development initiatives.

**Malaysian development as ‘distribution-through-growth’**

The focus of explanation must therefore go beyond institutions as necessary factors to the strategic imperatives animating Malaysia’s political leadership. A key starting point is the recognition that, more than a question of economic policy, development strategies have been central to the political regime’s legitimation, and specifically to the maintenance of the hegemony of the ruling coalition and its dominant party, UMNO. That political project explains the state’s pervasive and detailed efforts to manage the distribution of wealth, income, and professional opportunity in Malaysian society. In this vein, many excellent studies of Malaysia’s political economy emphasise the effects on economic policy of one or both of two forms of distributional politics. First are the ethno-nationalist motivations for the NEP and its successor policies, and second is the way that practices of patronage and rent-seeking, which have played a growing role in maintaining UMNO rule, have shaped economic policy. The salience of these distributional pressures has often been cited as the chief reason for the failures of Malaysian industrial policies (Jesudason 1989; Hasli and Jomo 2007; Rasiah and Schmidt 2010: 9; Lee 2012).

The question then becomes why and how Malaysia’s leaders have restored a balance between these imperatives when crisis has put them into seemingly intractable conflict. A common approach frames this question as one of managing the contradictions between the two imperatives, with policy priorities oscillating between them, pendulum-like, over time.
In this telling, the shift from early post-independence liberalism to the NEP era’s socio-economic restructuring reflected the rise of ethno-nationalist politics, which demanded a focus on previously neglected distributional problems that growth had not ameliorated (Khoo 2006: 175). Likewise, the policy turns of the 1980s represented Mahathir’s effort to rebalance priorities towards growth, first via an East Asian-style interventionist strategy and subsequently by liberalisation in line with the prevailing forces of globalisation (Stafford 1997). In the crucible of the AFC, the pendulum swung yet again towards distributional goals, this time the maintenance of the state’s ability to distribute patronage to favoured business clients as a foundation of UMNO’s power and legitimisation as the defender of inter-ethnic equity (Khoo 2006: 189–91). Current debates explicitly posit that preoccupations with inter-ethnic wealth distribution inhibit the reforms of governance, educational institutions and service sector industries that are needed if Malaysia is to enhance its competitiveness and escape from the ‘middle-income trap’ (Henderson and Phillips 2007; Woo 2009; World Bank 2011; Nelson 2012).

While tension between growth and distributional goals is evident in each of the crisis turning-points in Malaysia’s development history, the ‘pendulum’ pattern is less an explanation than a restatement of the question of why and how Malaysia’s rulers have harmonised these ostensibly conflictual imperatives across several decades and major policy shifts. This ‘gyroscopic’ quality of Malaysia’s development has much to do with the extraordinary continuity in political leadership across nearly six post-independence decades. A hegemonic party-state regime like Malaysia’s creates political incentives for leaders to pursue ‘distribution-through-growth’, rather than to maximise either short-term distributional pay-offs or growth-promoting liberalisation that would limit the state’s discretionary power to shape the economy’s distributional patterns.

Three interrelated themes emerge as this analysis is applied to Malaysia’s development history. The first is that economic policy-making has not simply balanced specific growth-promoting policies, state agencies, and economic sectors against other policies and industries that serve ethnic or patronage distributional politics, a pattern seen in ‘bifurcated states’ (Doner and Ramsay 1997: 249). Rather, Malaysia’s interventionist state has crafted development strategies in which growth and distributional purposes are inextricably intertwined and simultaneously pursued. Second, the disjunctures in Malaysia’s development history have typically involved a selective layering of new policies onto old ones, rather than clean breaks with prior strategies. Crisis-response measures have been abrupt and politically fraught, yet most significant reforms have been implemented in a comparatively selective or incremental way, often by applying new policies to particular sectors or new projects while exempting established interests temporarily. Third, and following on these points, changes in economic strategy have not been matched with deep changes in governance, with periods of market-based reforms aimed at restoring growth alternating with interventions focused wholly on redistributing wealth or income. Instead, government leaders have maintained the state’s superintending role in national development throughout the country’s history, even while shifting the specific forms and tools of policy intervention.

Thus, for example, while the early post-independence period is usually described as involving a laissez-faire economic strategy, the ruling Alliance in fact used strategic developmental interventions to consolidate the coalition’s political position. Tun Razak, as minister of national and rural development, substantially revamped the institutional mechanisms for Malay rural development that had been instituted in the late colonial period. The development of FELDA estates, which packaged infrastructure and credit facilities for smallholder agricultural development, presaged the NEP’s expansion of bureaucratic regulation in
the commercial, petty manufacturing, and construction sectors. The Rural and Industrial Development Authority, forerunner to MARA (Majlis Amanah Rakyat, Council of Trust for Indigenous People), expanded its programmes into urban areas starting in 1959, focusing on providing loans to Malay contractors and small enterprises, and on business training. The growth of Maybank during the 1960s reflected government efforts to integrate the Malay community into the modern financial sector, a mission even more overtly espoused by the establishment of Bank Bumiputera in 1965. The pattern of political–business patronage later blamed on NEP-era statism was also evident in the Alliance period (White 2004: 392–98). Thus, economic policy during the Alliance period was imbued with developmental and distributional logics, even if these took a quite different form than the more expansive statist-nationalist programmes prevailing across the contemporaneous developing world.

The post-1969 reconfiguration of Malaysia’s political regime – from an inter-ethnic elite partnership to ‘coercive consociationalism’ (Mauzy 1993) – indisputably reflected ethno-nationalist pressures; these found expression in the NEP’s state-led socio-economic restructuring agenda. Jesudason (1989: 117–23) argues that the Malaysian state quickly became ‘overburdened’ by its distributional commitments. Against the backdrop of ethno-populist pressure, however, the government’s efforts to maintain high growth rates become analytically important. The NEP’s signature documents, especially the Mid-Term Review of the Second Malaysia Plan, explicitly framed social restructuring within a context of a new commitment to growth. The controversial Industrial Coordination Act and Petroleum Development Act were both amended within a few years when negative impacts on investment rates became clear. Most importantly, as noted above, the NEP’s interventionist mission was matched by the embrace of FDI-led export-production, initially segmented in the FTZs in order to protect established industries serving the domestic market (Stafford 1997).

A similar pattern of policy layering and recalibration of state interventionism is evident across the Mahathir era’s major strategic shifts. Though the heavy industries thrust was ostensibly an emulation of East Asian statist-nationalism, the pillars of Malaysia’s prior development strategy – FDI-reliance and the promotion of bumiputera enterprise – were reconfigured rather than jettisoned. Notably, the heavy industry projects relied on joint-venture partnerships between state-enterprise and multinational business, with communal political motives evident in the exclusion of domestic ethnic-Chinese capital (Bowie 1991). The sudden near-bankruptcy of state-led development in 1985–86, however, appeared to place Malaysia’s rulers in a terrible bind between the demands of ethno-nationalist legitimation and the need to revive private sector investment. The government announced the ‘temporary abeyance’ of the NEP’s restructuring goals in 1986, with Mahathir observing that, ‘[t]he government will slow the redistribution of wealth whether we like it or not, now that there is no growth at all.’

Many accounts heralded a turn towards the market and a new priority on growth at the expense of state-orchestrated distributional politics (Stafford 1997; Bowie and Unger 1997: 93–4). While symbolically significant, though, the 1986 liberalisation measures remained incremental and selective, and did not herald a broad-front ‘retreat of the state’ from efforts to shape the pattern of investment and distribution of wealth. The SOEs of the heavy industries programme were revamped rather than abandoned, while government-linked companies in telecommunications, finance, transportation, and property development took on new service-provision roles supporting the booming foreign-dominated export sector. FDI policy itself deployed new incentives and infrastructure, in the form of high-technology parks and skills-development agencies, targeted at encouraging more capital- and technology-intensive production (Felker and Jomo 2007). Mahathir’s privatisation policy became the means of
Malaysia’s development strategies

cementing networks between top state and party officials and a class of established and new business tycoons (Jomo 1995). In short, Malaysia’s boom-era commitment to globalisation and private sector-led growth involved a layering of new policies on old in pursuit of the long-standing commitment to ‘distribution-through-growth’.

The power of the state’s distributional role became suddenly more obvious to international observers in the wake of the AFC. Mahathir’s bold, market-defying response was widely regarded as a hard swing of the policy pendulum, with distributional politics now paramount at the expense of the systemic liberalisation required for restoring growth. Notwithstanding the prime minister’s acid condemnation of global financial investors, however, it soon became clear that the government’s post-crisis strategy involved incremental change rather than a decisive break in the established pro-globalisation growth model. The National Economic Recovery Action Plan of 1998 resisted a ‘fire sale’ approach that would liquidate entire swathes of the insolvent corporate establishment, yet the government did broker the sale of several major industrial projects. Even as capital controls impinged on global portfolio investors, the government opened new opportunities for FDI in a range of service industries. Meanwhile, ethnic share-holding quotas were relaxed to permit ethnic-Chinese Malaysian investors’ acquisition of major bumiputera corporations, while other major Malay-owned conglomerates were renationalised by the Finance Ministry’s investment arm. These measures belied a widely held view that the state’s bumiputera corporate clients had effectively captured the policy agenda and hobbled the prospects for growth-seeking reforms.

Upon taking the reins of government in 2003, the Abdullah administration initially signalled a departure. He cancelled several infrastructure ‘mega-projects’ and pledged to subject the roster of government-linked corporations to performance-based management discipline as a prelude to gradual privatisation. Yet, the promised retrenchment of the government’s economic role failed to arrive (Case 2005). Rather, Abdullah’s development programme simply reorganised the pattern of government intervention to orchestrate infrastructure investment in support of FDI-led growth, primarily through new public authorities’ administration of investment incentives and infrastructure development in regional ‘economic corridors’.

A similar policy dynamic unfolded after the 2009 leadership transition. Najib Razak’s signature initiatives pledged broad economic liberalisation and government reform in order to complete Mahathir’s Vision 2020 project of elevating Malaysia to high-income status. The Government Transformation Programme (GTP) pledged to revive the efficiency and responsiveness of public services, while the Economic Transformation Programme (ETP) aimed to stimulate private investment by privatising government-backed corporations, ensuring fairer competition, and refocusing the development budget on investments in skills and technology. Through consultations with the business sector, the ETP identified a large number of specific investment projects aimed at upgrading Malaysia’s key industries. Much like the policies issued in earlier phases of Malaysia’s development, however, these plans comprise an array of selective interventions to be implemented at the state’s discretion. Calls for broader changes to NEP-inspired bumiputera preferences met with opposition from within the ranks of the ruling party, UMNO. By the 2013 election, the two headline development programmes themselves had become objects of political controversy. The ruling coalition’s diminished electoral support suggested that efforts to harness the new development thrusts to bolster regime legitimacy had not paid dividends. The response from international observers and investors was mixed. Malaysia sustained inflows of FDI during a downward global trend after the Great Recession of 2008 (though capital outflows grew even faster), and the country’s position in international indexes of competitiveness and governance quality ticked upwards.
Conclusion

Malaysia’s changing development strategies reflect adaptive responses to changing domestic politics and international conditions, rather than unique strategic foresight or nimble policy sequencing. Yet, neither these strategies’ content, nor their implementation successes and failures were predetermined by crisis exigencies. Key to Malaysia’s development record has been the government’s ability to shift its economic policies to restore growth while preserving its powers and practices of discretionary intervention. That ability relied on the state’s relatively strong institutions and policy capacity, which have enabled Malaysia’s leaders not only to adopt new strategies, but to do so selectively.

Despite change over time, therefore, Malaysia’s development strategies reflect an enduring political logic by which policy-makers have integrated growth and distributional goals. Even in the context of a pluralistic society in which politics revolves around representing and responding to the demands of societal interests, the drive to maintain the ruling coalition’s quasi-monopoly over a semi-democratic regime has given Malaysia’s leaders comparatively encompassing and long-term interests in economic affairs. Alongside more prosaic and short-term distributional politics, therefore, the promise of development and claims of credit for its achievement have remained vital to the perennial quest for legitimation. This imperative, rather than either the demands of market competition or the rise of liberalising social coalitions, explains the ‘gyroscopic’ quality of Malaysia’s efforts to find new growth formulae in the wake of successive crises while preserving an interventionist governance system in which state agencies actively shape investment opportunities and rewards.

Whether the Malaysian state’s adaptive capacity can engineer a new round of growth, by escaping the middle-income trap, is the focus of vigorous academic and policy debates. According to many observers, the need to shift from production- to innovation-based growth holds profound implications for Malaysia’s development strategies in general and its system of economic governance in particular (Nelson 2012). From a liberal perspective, only a reduction in the state’s overbearing economic presence and an increased role for free competition can stimulate gains in economic efficiency needed for Malaysia’s next stage of development (Hill 2012; Lee 2012; Menon 2012).

The development pattern recounted in this chapter, however, cautions against any hasty conclusion that Malaysia has reached a juncture at which incremental policy layering is insufficient to sustain growth. Some observers thus argue that the missing element in Southeast Asian NICs’ upgrading agenda is not freer and more competitive markets, but more effective state policy interventions and institutions to support the growth of innovation capabilities among local industry (Doner 2009; Rasiah 2010: 90). In Malaysia, the Najib administration’s policy agenda signals an effort to undertake this latter route, reforming the public sector and liberalising selectively while continuing to assert the state’s central role in guiding development through new strategic investments. Apart from the merits of its content, therefore, the approach itself suggests instead that the Malaysian state retains its ambition to manage ‘distribution-through-growth’ (Gomez 2012: 78–80).

Finally, though, Malaysia’s current strategy is being pursued in a political environment far different from that of earlier programmes. Today, a more assertive civil society and a more sceptical private sector mean that the credibility of government initiatives is more directly important to their success. In this view, the Economic Transformation Programme confronts a central paradox in pledging to trim the state’s role in favour of private sector leadership, but relying on detailed, centrally coordinated projects to engineer a new growth model. Asia’s
other industrialising economies have seen a variety of reform trajectories, some involving the retreat of state interventionism and others its renovation (Walter and Zhang 2012; D’Costa 2012). In Malaysia, contestation surrounding the political regime and the quality of governance has overshadowed the specifics of initiatives to reform the public sector and prompt industrial upgrading. As in several of Asia’s most successful NICs, then, the emergence of a new democratic dispensation may be integral to the Malaysian state’s effort to reinvigorate its governance capacity, and thereby enable novel strategies to address emergent development challenges and opportunities (Nelson 2012: 56).

Notes
2 Jesudason (1989: 56) writes that ‘Malaysia was among the few newly independent countries to keep intact the large Western stake in the economy and to solicit foreign capital to enter into the anticipated growth sector, manufacturing.’
3 The act initially allowed 100 percent foreign ownership in projects exporting more than 80 percent of their output, and that qualifying ratio was later relaxed.

Bibliography


