Part II

Economics
Overview

Meredith L. Weiss

The Malaysian economy presents a variable mix of state management and free market activity, and of consistent growth (with the occasional notable downturn) and areas of chronic inefficiency. Both priorities and constraints have shifted over time, from ethnic equilibration, to rent-seeking/distribution, to upwardly mobile competitiveness. A predominantly agricultural society, with a clear congruence between ethnicity and occupational sector and a high level of foreign ownership, Malaysia is now over two-thirds urban, with a large and growing multiracial middle class. However, Malaysia struggles with issues of distribution, of sustainability (environmental and otherwise), and of balancing economic rationality, social desirability and partisan exigency, given the government’s heavy reliance on redistributive policies and performance legitimacy.

Greg Felker kicks off the section by exploring the paradoxes of Malaysian economic development: liberalism mixed with state direction, targeting both efficient growth and politically expedient distributional rules. He details a seemingly ‘gyroscopic’ pattern of vacillating between openness and intervention, which reveals short-term, partial responses to crises layered atop an underlying continuity. The common thread since the early days of independence, Felker suggests, has been a pattern of selective intervention to channel benefits in such a way as to consolidate political dominance, largely through ethnic-oriented disbursements, but also per broader clientelist networks. Felker characterises this approach as one of ‘distribution-through-growth’, in which these potentially competing objectives are approached symbiotically and in tandem.

Xiaoye She traces this same tension in her discussion of fiscal and monetary policies. In both policy domains, the state has been challenged to adjust in light of overarching economic and institutional changes, as well as domestic and global financial crises and other shocks. Throughout, monetary policy, managed by the largely independent Bank Negara Malaysia (Malaysia’s central bank), has been easier to reform than politically volatile fiscal policy, although neither domain is immune to political influence.

Hwok-Aun Lee homes in on those political imperatives with his careful assessment of the bases for, progress of, and strengths and weaknesses of affirmative action policies in Malaysia. However warranted and valuable as part of a broader programme of socio-economic development and transformation, Lee argues that these policies may easily drift – and
arguably have drifted – off-course, as by missing the mark in improving education such that all may achieve the same standard, or by skewing employment patterns and equity ownership in sub-par directions. Most importantly, he suggests, the policies should aim at achieving their own superfluity, as the surest indicator of success, yet Malaysia’s seem securely entrenched.

Among the goals of affirmative action was creation of a Malay middle class. Abdul Rahman Embong notes that this class has indeed expanded, although not just among any one ethnic group. He situates the Malaysian middle class within a larger, global phenomenon of middle-class growth, especially across Asia. To a large extent, this class status is defined in terms of consumption, in terms of producers’ perspective on a burgeoning market and of members’ aspirations, alike. Yet both the size and the economic security – and hence, class stability – of this population segment may be overstated. Given unaffordable (or inadequate affordable) housing, rising debt, decreased subsidies and impending new taxes, reaching, maintaining and reproducing a middle-class lifestyle has become all the more difficult in Malaysia. Household debt in particular, already at unsustainable levels, is rising and of especial concern, given the centrality of consumption to the middle-class way of life.

Yet the Malaysian state has more than one set of tools at its disposal to stave off discontent. Helena Varkkey characterises Malaysia as a rentier state, which uses rents from abundant natural resources (palm oil, timber, petroleum, etc.) to stabilise politics by ‘buying off’ both elites and masses. The result is sustained Barisan Nasional (BN, National Front coalition) dominance and avoidance of the destabilising ‘resource curse’, as well as reasonably widely distributed economic advantage (for instance, via the programmes Lee details to help the rural Malay poor), but also the coalition’s real dependence on these resources as founts of patronage for currying support and precluding potential challenges.

Indeed, there may be a fine line between redistribution and buying (or selling) favour. In his chapter, Jeff Tan explores the multiple meanings of, and distinctions between, rent-seeking and money politics. While commonly approached in terms of individual actors, these phenomena have fundamentally political bases. Spanning state–business relations as well as electoral dimensions, the distribution and capture of rents distort political decision-making on all sides, in ways more complex than conventional discussions suggest: class and cronyism overlay seemingly ethnic patterns, for instance, and dynamics of state capture (e.g. by businesses in search of rents) cross-cut efforts at political capture by bureaucrats and politicians. A nuanced analysis of rent-seeking and money politics, Tan suggests, including political capacity or will to address sources of inefficiency or skew, requires attention to underlying social relations (particularly class analysis), the relative power of patrons and clients, state capacity, and the sequence of policy initiatives.

Amarjit Kaur brings us back to more concrete, but still politicised, policy processes with her discussion of labour migration. Ethnic and nationalist concerns have prompted restrictions on immigration since independence, even as the need for workers forces relaxation; stringency on paper has not always held up, given irregular flows and ad hoc arrangements. Policies on labour and migration have shifted with changing economic conditions, international precedents and security concerns, but include guidelines for recruitment of both skilled expatriates and low-skilled migrants, and at least some level of regulation of working conditions (both contract terms and living arrangements) for migrant workers, with enforcement through both government and quasi-governmental channels. Meanwhile, labour broadly has been expected and pressured to accede to larger development, security, stability objectives; downward wage pressure and similar effects have arguably pushed Malaysian trade unionists to find common cause between domestic and migrant labour.
Adnan A. Hezri suggests that Malaysia’s record on environmental sustainability has been perhaps less erratic and politicised, though still falling short. Starting with forest management under the colonial administration and continuing through ever more comprehensive structures and policies, Malaysia has a record of striving for sustainable development. However, more needs to be done in terms of renewable energy, enforcement of environmental impact assessments and generally adapting to the reality that Malaysia is no longer so resource-abundant as it once was. More broadly, he suggests, Malaysia must develop a more comprehensive policy framework and institutional infrastructure if it is effectively to combat climate change, build a green economy, and incorporate environmental concerns in all domains.

The final two chapters in the section focus in on rural and urban development, respectively. Eric Thompson leads off by painting a picture of rural transformation that extends well beyond agriculture, to encompass economic, political, and social change against a backdrop of (or as part of) overall urbanisation and an increasing urban bias. His chapter offers both an overview of prevailing dynamics and a trenchant critique of a literature that focuses overly much on the Malay community, on the one hand, neglecting Orang Asli, Chinese, Indian, and immigrant populations, and on only certain dimensions of rural life (for instance, giving politics noticeably short shrift in recent years), on the other hand. A range of government schemes to extend land ownership and support or extend cultivation of particular food or cash crops (e.g. rice, palm oil), as well as the more general expansion of education, public sector employment, and information and communications technology (ICT) penetration, have had generally positive effects in terms of alleviating poverty and fostering social and geographic mobility. The results for income inequality, however, are more mixed.

Yeoh Seng Guan takes the other side of this coin, exploring Malaysia’s rapidly growing urban population. Affirmative action programmes promoting especially Malay social, economic, and geographic mobility since the 1970s, as well as initiatives to promote inter-ethnic cohesion and both Western and non-Western (e.g. Islamist) cultural flows, have transformed the urban landscape. Adding to that remaking have been both conscious government policies to develop new areas, as with the Iskandar Malaysia project in Johor, or to develop specific urban and other zones (as articulated in periodic Malaysia Plans and other enactments), and less planned, more organic shifts. Among the latter, too, have been ideational and cultural flows, including towards new spatial hierarchies or differentiation, as consumption, production, and residential habits shift.
This page intentionally left blank