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Meredith L. Weiss

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Jeff Tan
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Rent-seeking and money politics in Malaysia
Ethnicity, cronyism and class

Jeff Tan

This chapter raises three questions: what is the relationship between rent-seeking and money politics? What drives rent-seeking and money politics? How do these drivers affect the contestation for, and allocation of, rents? To answer these questions we first examine the meaning of, and relationship between, rent-seeking and money politics, and how both are manifested in Malaysia. We then critically review the dominant discourses on rent-seeking and money politics in Malaysia, which centre on ethnicity, cronyism (political patronage) and political business. These approaches offer insights into the practice of rent-seeking and money politics based on political capture by state bureaucrats or politicians, and focus on the relationship between patrons and their clients. However, the idea of political capture is centred on individual (political) actors and does not clearly identify the political basis of power or underlying changes in wider social relations which shape the allocation of rents, and which are manifested in ethnic politics and cronyism. An analysis of class and changing social relations draws from, and builds on, insights offered in the wider literature to offer an alternative explanation of rent-seeking and money politics in Malaysia. This analysis centres on changes in class formations and social relations related to the Malay middle class which led to the introduction of the New Economic Policy (NEP) and privatisation as the main vehicles for rent distribution and hence capital (wealth) accumulation.

Rent-seeking and money politics

Both rent-seeking and money politics broadly involve the use of money to influence political decisions. Rent-seeking generally refers to business seeking to secure the state allocation of economic rents through legal (e.g. lobbying) or illegal (e.g. bribery) means. ‘Rent’s are typically defined as excess returns or windfall gains otherwise absent in competitive markets. Money politics is described as ‘the use of money in the political arena to secure control over the state in order to influence the distribution of state-generated economic rents’, with the focus usually on political funding by business (Gomez 2002a: 3; 1991). The terms ‘rent-seeking’ and ‘money politics’ may thus describe the process of state capture by business, and the subsequent redistribution of resources to favoured individuals usually through patronage relationships or patron–client networks. As money politics also refers to the electoral process,
in the form of ‘vote-buying with funds raised from the private sector’ (Gomez 2002a: 15), we need to distinguish between rents for votes (in elections or political party leadership contests) and rents for business.

‘Money politics’ in Malaysia covers ‘a range of practices whereby the benefits of state economic sponsorship and protection are channeled to individuals, groups and private companies associated with the ruling political parties, in particular UMNO [the United Malays National Organisation]’ (Loh and Kahn 1992: 2). However, rather than powerful economic interests typically seeking to influence the allocation of rents through state capture, money politics in Malaysia refers to the political capture of the state by politicians and bureaucrats, with the allocation of rents initially controlled by an autonomous state, and subsequently by political parties and individual political leaders. In other words, money politics in Malaysia is distinct from rent-seeking conceptually and in terms of the direction of influence. From the literature we can identify three dominant discourses on rent-seeking and money politics in Malaysia. These centre on the overlapping categories of ethnicity (ethnic politics), cronyism (political patronage) and political business.

Ethnicity

The ethnic politics approach attributes policy changes (and failure) to changes in the balance of power between ethnic groups. Here, the breakdown of the ‘consciational’ framework (Jesudason 1989) or changes in the ‘communal settlement’ (Bowie 1991) provide one ethnic group with the upper hand, leaving the state unconstrained to act. Thus, the threat to the ‘communal bargain’ and Malay ‘special rights’ led to ‘race riots’ in 1969 and increased state intervention under the NEP in 1971. Although its aim was to eradicate poverty irrespective of race and restructure society to eliminate the identification of race with economic function, the NEP is mainly associated with the second objective, and in particular the creation of Malay capitalists or a Bumiputera Commercial and Industrial Community (BCIC).

Rents to this end included licences, contracts, concessions, preferential lending (at low interest rates) and share allotments (at below market prices), and guaranteed high-return investments (see e.g. Jesudason 1989; Jomo 1995; Searle 1999; Chin and Jomo 2000). In the (interim) absence of Malay capitalists, the government created state enterprises and acquired shares in well-managed, profitable companies to facilitate Malay ownership and provide managerial training. Rents here took the form of state protection from competition, the socialisation of risks, easy access to finance and unconditional subsidies (Jesudason 1989; Gomez and Jomo 1997).

An ‘ethnic imperative’ to increase group ‘capacity’ and economic control entailed an efficiency trade-off, constraining rational economic policies and economic growth (see e.g. Lim 1985; Bowie 1988, 1991; Jesudason 1989; Bruton 1992). As a result, the NEP is associated with public and private sector inefficiency, rentier behaviour, Malay dependence on the state, an inefficient and fragile Malay bourgeoisie, business failure and more generally, the failure of Malaysia’s import-substituting industrialisation (ISI) policies (Jesudason 1989; Kamal 1989; Bowie 1990; Bruton 1992; Khoo 1995; Rasiah 1998). The state was able to ignore rational economic responses as it was unconstrained by social forces, including the weak private sector, and financed by its considerable resources, in particular oil revenues (Jesudason 1989).

We can identify several related problems with the ethnic analysis of rent-seeking and money politics. First, the approach views the state as inherently predatory, with bureaucrats and politicians acting in their own interests, especially when unchecked by the private sector.
As the state is unconstrained and free to act, there is no rent-seeking (i.e. state capture), with the starting point being political capture. This premise is associated with the predatory state model and based on public choice theory assumptions about ‘politically autonomous state elites [extracting] surplus from society in order to enrich themselves and their supporters’ (Felker 1998: 88). As such, it assumes rather than explains state motivation.

Without an analysis of the state itself, the ethnic approach is unable to answer the question: political capture by whom and why? State motivation cannot be understood without an examination of the state’s relationship with society, given that power does not exist in a vacuum and state power must be grounded in its connections with society. In the case of an ethnic imperative, this analysis would at least entail examining the relationship between the state (in this case, bureaucrats and politicians) and the Malay community on whose behalf the state was acting. Second, as the creation of Malay capitalists under the NEP favoured certain individuals and segments of the Malay community over others, ethnic redistribution invariably involved cronyism (political patronage), which serves to dilute ethnicity as the primary reason for rent allocation under the NEP.

This brings us to the third problem: the conflation of appearance with underlying cause. Ethnic discontent can be seen as a manifestation of class interests (Singh 2001), where the Malay ruling class promotes ‘its own class interests as the common interest of all Malays’ (Lian and Appudurai 2011: 64; Jomo 2004). Thus the impatience and anger of emerging Malay businessmen ‘manifested itself within UMNO and was expressed in communalist terms’ (Azeem 2012: 2). Class interests can be identified from the demands and threats of political instability made at the 1965 and 1968 Bumiputera Economic Congress (Puthucheary 1984; Lim 1985; Ho 1988; Jesudason 1989), and confrontation in UMNO between ‘liberal accommodationists’ and hardliners (or ‘Young Turks’ and ‘ultras’) over direct state intervention (Heng 1997). Ethnic identity and conflict are thus intricately linked to the survival and displacement of elites (Singh 2001), with the NEP allowing UMNO to re-energise Malay support (Case 2009) following the electoral setback which precipitated the 1969 riots.

Cronyism

The political patronage approach expands on ethnic politics by examining the influence of political factors on rent allocation and identifying the main beneficiaries of ethnic redistributive rents through cronyism and money politics. Money politics is associated with political capture, which forms the starting point of the analysis. As with the ethnic politics approach, patrons (politicians and bureaucrats) hold the balance of power over clients (business) in the allocation of rents, with political power used to create a capitalist class (Hirschman 1998). Under the NEP, the government was able to centralise redistribution without state capture due to a unified party elite under a strong leadership which had the support of a large Malay middle class and rural populace (as a result of bureaucratic expansion and rural development) (Leong 1991, cited in Felker 1998: 90). This centralised patronage allowed UMNO to control resources, providing benefits to its supporters and strengthening party loyalty (Jesudason 1989; Crouch 1992; Khoo 1992; Felker 1998). The government was also able to strengthen and insulate the state’s planning and economic agencies (such as the Economic Planning Unit), with bureaucrats controlling resources through the management of state assets, initially with minimal private business influence on economic policies (Felker 1998; Leong 1991, cited in Felker 1998: 90).

As a result, almost all Malay businessmen, regardless of type, were created either by the state or with crucial state support (Jomo 1993b). The literature identifies two types of Malay
businessmen emerging from the NEP: those connected with the state, and those created by the state and supported through state patronage. While the latter were heavily dependent on the state, which remained in control (Ho 1988), the former comprised a small but powerful Malay ‘bureaucratic-capitalist elite’ (or bureaucratic trustees), which emerged to capture rents and create distributional coalitions and opportunities for self-enrichment, and which exercised considerable influence over policy (Jomo 1986; Mehmet 1988; Bowie 1991; Bruton 1992; Jomo and Tan 1999).

The nature and beneficiaries of patron–client relationships changed with the introduction of privatisation and the replacement of centralised rent allocation with personalised patronage. Privatisation served as the main vehicle for the allocation of rents ‘by which former state managers and senior bureaucrats made the transition to the private sector’ (Doraisami 2005: 253), benefiting a group of big businessmen and former state-owned enterprise managers closely connected to the new political leadership. Most new Malay capitalists also continued to ‘retain, cultivate and ultimately rely on their connections with top UMNO leaders to secure continued patronage while, in turn, providing financial and other backing for their political patrons’ (Jomo and Gomez 2000: 296). Clientelism here was thus ‘symbiotic or reciprocal, with both businesses and the state elite (powerful politicians and bureaucrats) serving as patrons as well as clients to the other depending on the matter concerned’ (Jomo and Gomez 2000: 296).

Privatisation provided captive markets for large state and privatised enterprises, while Malay contractors and smaller businessmen benefited from a range of contracts and licences mainly centred on construction and infrastructure privatisation (see e.g. Rasiah 1998; Tan 2008, 2012). Government contracts or tenders (known as ‘Class F’ projects) were restricted to Malay contractors and businesses while ‘approved permits’ (licences to import cars) were issued only to Malay businessmen (Chin 2009). As was the case with ethnic politics, these rents offered protection from market competition, which minimised risks and diluted incentives, while the speed of asset acquisition undermined learning-by-doing (Jesudason 1989; Gomez and Jomo 1997). In this case, the failure of indigenous entrepreneurship and import-substitution industrialisation policies is associated with ersatz or crony capitalism (see e.g. Yoshihara 1988; Rasiah 1998, 2001; Jomo and Gomez 2000; Chin and Jomo 2000, 2001; Jomo and Hamilton-Hart 2001).

The political patronage approach shares the same analytical starting point, assumptions and problems with the ethnic analysis approach. In both cases, political capture by bureaucrats and politicians remains largely under-theorised and divorced from an analysis of state–society and wider social relations. As such, the basis of power underpinning political capture is largely assumed rather than explained, with the political process of rent-seeking and money politics reduced to an elite-level, individual-centred analysis.

**Political business**

This brings us to the political business model, which examines the links between politics and business through the ‘exchange relationship between a ruling party or politicians and specific business interests’ (Wedeman 2002: 36). The model seeks to elaborate on and refine the cronyism argument by focusing on the expansion of political party involvement in business and the machinations within the political system, including leader motivation (Gomez 2002a). The aim is to identify the changing pattern of ownership and control of politically well-connected companies and explain the presence of growth policies alongside patronage, unproductive rents and corruption, thereby providing an alternative account to
developmental state theories which centre on the relationship between state (bureaucracy) and capital (Gomez 2002a).

The underlying explanation focuses on state–business linkages through political party ownership or control of major enterprises, with politicians distributing rents through the state, and where political funding by business is central in influencing the distribution of rents through factions loosely based around political leaders (Gomez 2002a). Money politics is manifested in: (1) the use of UMNO's easy access to funds from business by influential leaders to consolidate their power; and (2) the considerable increase in the number of politicians entering business as a result of access to state rents (Gomez 2002a: 10). The political business model thus reinforces the idea of political capture centred on UMNO's hegemony, where 'politicians still have an inordinate influence over the corporate sector' and where 'capital is still very subservient to the state' (Gomez 2002a: 10; 2002b).

This model is represented in a flow chart with political capture as the starting point. The control by political leaders over government and the state provides rents for clients. These rents are typically used for unproductive wealth accumulation (such as share-for-assets swaps, reverse takeovers, and mergers and acquisitions), creating a politically linked 'new rich' with access to substantial funds, some of which are channelled back as political funds to government (Gomez 2002a: 4). A central feature of political business here is a conglomerate-style business expansion, facilitated by the capture of financial sector rents through the banking system and government promotion of the stock market (Gomez 2002a; see also Rasiah 1998; Chin and Jomo 2001).

The political business model then seeks to explain a shift in rent allocation related to the high degree of autonomy of the political leadership, which allowed Prime Minister Mahathir Mohamad to 'selectively distribute government-created rents' by picking winners (Gomez 2002b: 83). This ability contributed to a change in the nature of political business, from a form that was institutionalized, involving a state-sanctioned policy of developing and distributing rents to the indigenous community, to one conducted through government leaders on a personalized basis to select individuals.

(Gomez 2002b: 83)

The result was heightened party factionalism, the increased use of rents to cultivate party grassroots support, and the use of money to secure votes in UMNO elections, which further increased the ties between business and politics. Rents for grassroots support typically involved development funds for various road-building and renovation projects distributed among Malay ‘Class F’ contractors, with mid-ranking UMNO office-bearers given priority (Case 2008).

The roots of political business can be traced back to the establishment of the three main ethnic-based political parties – UMNO, the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) – and their involvement in business to increase membership. Political party involvement in business, in particular UMNO, increased considerably from the 1970s through the ownership and control of major private and public-listed companies (Gomez 1991, 2002b). UMNO incorporated Fleet Holdings in 1972 as the party’s own holding company to establish its financial independence from its Chinese-based coalition-partner, MCA (see e.g. Yusoff 1990; Bowie 1991). This development shaped the nature of patronage, which centred on party needs as well as the interests of individual leaders (Gomez 2002b). UMNO’s expansion into business thus aimed to establish the party’s economic
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dominance and finance intra-party/leadership contests by securing votes through the allocation of contracts to supporters.

With growing intra-party conflict, control of UMNO’s corporate assets subsequently shifted from the party to individual UMNO leaders through proxies (see Gomez 1991). The combined effects of the NEP and UMNO’s political dominance also transformed wider rent-seeking and money politics. Malay businessmen began capturing key posts in the UMNO hierarchy as a means to secure positions in government for greater access to state rents, while Chinese businessmen bypassed MCA to cultivate direct links with individual UMNO leaders in order to secure state rents (Gomez 2002a, 2002b). The latter was also in response to Malay competition, as a result of the NEP and privatisation rents, in sectors of traditional Chinese dominance (construction, transportation, distribution and retail trade) (Heng 1997).

The political business model tells us about the nature of rent-seeking and money politics in Malaysia, and how these are characterised by the relationship between politics (namely, politicians) and business. However, the model largely describes the mechanisms of rent-seeking and money politics rather than providing an explanation of the underlying factors driving these processes. The problem here is that the term ‘political business’ is not concisely defined or distinguished. The term is used to describe and discriminate between different forms of state–business relations, which vary depending on context, and is therefore not fundamentally different from the concepts of political patronage or money politics upon which the model is based. This is reflected in the model of political business itself, which generally elaborates on the process of political capture and patronage.

The focus on political capture in the political business model offers an individual-centred analysis of a social problem, leaving the question of the political basis of power largely unanswered. Although the influence of individual political leaders is analysed, the nature of the patron–client relationship and balance of power between patron and client are assumed rather than explained. The corresponding individual-centred solutions based on ‘political will and independence from capital’ (Gomez 2002a: 18; see also Jomo and Hamilton-Hart 2001; Teh 2002) imply that clients (businesses) do exert influence over patrons (political leaders). The balance of power is thus unclear given that access to rents depends on the influence of the leader (Gomez 2002a: 7–8), but political funding by business is central in influencing the distribution of rents through factions and by capturing key UMNO posts (Gomez 2002b). This circular reasoning may arise from an ambiguity in the wider literature on the direction of influence between patron and client (see e.g. Jomo and Gomez 2000) related to a lack of clarity about the different types of clients and, hence, their different relationships to patrons.

The underlying concern about patronage, unproductive rents and corruption associated with political business reveals a misreading of the development process and specifically the process of capital accumulation, where the emergence of a capitalist class has historically involved the creation and transfer of economic rents through political patronage (see e.g. Tan 2010, 2011). The issue, then, is less about the existence of policies promoting growth alongside patronage, unproductive rents and corruption, but rather, the factors that drive the creation and allocation of productive and unproductive rents. In the case of Malaysia, the threat of political instability necessitated rents for an emerging Malay middle class. These rents included both productive (learning) rents and unproductive rents (e.g. political transfers). The analysis of the political drivers of rent-seeking and money politics which moves beyond individual explanations and solutions necessitates an analysis of underlying social forces and social relations.
Class

A class analysis seeks to identify the drivers behind rents, rent-seeking and money politics by examining how changes in class formations and social relations influence policy. It locates the issue of political power associated with political capture by individual politicians within an analysis centred on class (social relations), of which ethnic politics, political patronage and political business are manifestations. It thus incorporates insights offered in the ethnic, political patronage, political business and wider literature into a framework centred on class interests. Central to this analysis is the state, whose motivation can neither be examined outside of society nor reduced to individual politicians or leaders. Rather, state motivation will depend on the nature of the state’s relationship with society, and in particular the balance of power between the state and segments of society to which it is connected. At the same time, state survival will invariably entail policies to promote growth which also maximise returns to state elites. This ‘growth imperative’ necessary for capital accumulation will often be in contrast to a ‘redistributive imperative’ required for political stability (and manifested in a variety of ways, including ethnic claims). Both imperatives involve rents, and the balance between growth and redistribution invariably shapes the type of rents, their distribution, and their impact.

The discourse on state–society relations is not new and is central to the idea of state capacity in the statist literature on the developmental state. Unlike public choice theory, the statist literature views learning rents (e.g. subsidies, protection) as necessary for technological catching-up, with the state assumed to be benevolent or developmental and the problem being state capture rather than political capture. State capacity to implement long-term policies promoting economic growth is thus equated with state autonomy and insulation from private vested interests, to avoid state capture (Haggard 1990; White and Wade 1988; Johnson 1982). The idea of the state being (completely) autonomous from society is, however, neither realistic nor desirable. The concept of ‘embedded autonomy’ is a rudimentary attempt to address this by stipulating the importance of an autonomous bureaucracy, insulated enough to be able independently to formulate and implement policy, but also connected to productive groups in society (Evans 1995).

A more sophisticated elaboration of state–society relations is offered by the neo-institutionalist approach which views political insulation as ‘an obstacle to effective policy making’ as it ‘prevents the exchange of information necessary to design and monitor policies effectively’ and ‘raises business uncertainty about future government policy’ (Felker 1998: 87–88). Networks or linkages between state and business actors thus ‘allow state and business elites to negotiate consensus on goals, foster business confidence by lowering the perceived risks of predation or arbitrary policy changes and generate pressures for accountability on personalistic patronage networks’ (Felker 1998: 88). However, this approach largely avoids the politics and asymmetric power relations in patron–client relationships which affect the types and allocation of rents, and pattern of rent-seeking.

A more instructive approach is to examine how the relationship between patrons and clients shapes state–society relations and hence state motivations and policies. The nature of patron–client relationships (in terms of its influence on economic decisions) depends on: the objectives and ideologies of the patrons and clients; the number of potential clients and their degree of organisation; the homogeneity of clients; and the institutions through which patrons and clients interact, including their degree of fragmentation (Khan 1998). The direction of influence between patron and client in Malaysia can be clarified by distinguishing among different types of client and, hence, their potential relationships with patrons.
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From the literature, we can identify three potential types of clients: Type A businessmen seeking rents through patronage; Type B businessmen who join UMNO at different levels to access state rents; and Type C bureaucrats and politicians who enter into business. Each type of client will have a different relationship to the patron and some may even act as both patron and client. Type A businessmen represent typical business clients pursuing rents. The direction of influence here will depend on the size of the political contribution to the patron and the patron’s financial dependence on the client, amongst other factors. The influence of Type B businessmen will depend on their position in the party hierarchy, the degree of contestation for party positions, and related to this, their ability to mobilise political support (and funds) for their patron in exchange for rents. Type B businessmen may thus act both as client and as patron to smaller clients whom they reward financially or economically.

Type C businessmen represent both the early generation NEP ‘bureaucratic-capitalist elite’ and subsequent politician-in-business that characterised the privatisation period. The former included state enterprise managers and ‘administocrats’ (administrator-aristocrats), whose influence depended in part on their positions within UMNO and their relationships with the political leadership (see e.g. Popenoe 1970). The latter group were the product of the NEP and included former NEP-trained state-owned enterprise managers who emerged either as outright businessmen or UMNO trustees whose support in leadership contests was crucial. Invariably, these three typologies are somewhat crude, as they are often fluid and likely to overlap: a businessman may start as a Type A client, then decide to contest UMNO elections, thereby evolving into Type B. Nonetheless, this simple typology of clients provides a framework to understand the direction of influence between patron and client and thus the nature of rent-seeking and money politics.

More importantly, patron–client relationships can only be properly understood in the wider social context, namely, the increase in the size, organisation and influence of the Malay business class, itself the outcome of a growing Malay middle class since independence (e.g. teachers, religious figures, lower civil servants, businessmen, and politicians in business) (Neuman 1971; Lim 1981; Jomo 1999). Demands for economic redistribution were made through the Associated Malay Chambers of Commerce, Kuala Lumpur Petty Traders Association, and UMNO, and at the 1965 and 1968 Bumiputra Economic Congress (Toh and Jomo 1981, cited in Puthucheary 1984; Tan 1982; Lim 1985; Ho 1988; Jesudason 1989; Searle 1999). The Alliance Party’s failure to secure a two-thirds parliamentary majority in the 1969 elections provided UMNO with the tactical mobility and strength to introduce the NEP with the crucial support of UMNO MPs and legislators now comprising Malay vernacular teachers, former government clerks, local party cadre, and small businessmen (Neuman 1971; Goh 1971; Ahmad 1985). Not surprisingly, the NEP incorporated the very same demands made by the Malay middle class and specifically by Malay businessmen (see Tan 2008).

Corporate restructuring under the NEP to increase Malay share ownership, along with state efforts to control the ‘commanding heights’ of the economy, such as plantations and tin mines, fostered a growing number of Malay businessmen and a powerful group of former state managers increasingly active in business (Jesudason 1989). The late 1970s saw the emergence and transformation of the Malay bourgeoisie from primarily directors—not owners—of large corporations (before the mid-1970s) to Malay millionaires (Lim 1985). By the 1980s, Malay businessmen—including professional and trustee Malay executive directors—were an increasingly important element in the Malay political elite (Searle 1999). This shift reflected the changing composition of UMNO leaders, from politicians and ‘administocrats’ to a combination of politicians and businessmen (Ho 1988; Leigh 1992), and UMNO membership from schoolteachers and other local leaders to businessmen and university-educated
professionals produced by the NEP (Crouch 1992; Searle 1999). ‘Middle-class elements’, including a younger, more professionally trained managerial cadre, were able to completely take over UMNO by the early 1980s (Jomo 1999; Milne and Mauzy 1999).

The changing composition of the Malay middle class, and changing patron–client relationships, reshaped the internal politics within UMNO local branches. Increasing economic patronage changed the nature of the patron–client relationship, transforming local UMNO representatives into political patrons. Elected members of parliament who were previously political patrons, providing political support in return for economic benefits, greatly increased their control of the district development machinery, allowing them to distribute development benefits and purchase continued support (Shamsul 1986). Malay businessmen became an important force in the internal politics of UMNO through the party’s extensive patronage network (Khoo 1992; Crouch 1992; Aziz 1997), increasing bitter factional struggles for nomination, and outbreaks of violence at UMNO branch and division meetings after 1984 (Shamsul 1986). Although factions were already present in all levels of UMNO (Ahmad 1985), the rise of money politics was closely related to, if not a direct result of, the NEP (Shamsul 1986).

The conflict was between two factions and over the choice of the NEP or privatisation as the vehicle to redistribute rents. The NEP faction comprised small and medium Malay businessmen, and the ‘bureaucratic class’, concentrated primarily at the branch level of UMNO and within various Malay chambers of commerce. This group was heavily dependent on access to patronage and favoured continued state intervention under the NEP. It was thus the most affected by the government’s response to the 1980s recession, which included the tightening of credit, austerity measures, centralisation of assets, and the suspension, restructuring or shelving of state enterprises (see e.g. Malek 1986; Searle 1999).

The privatisation faction involved a coalition of political and business elites and included an NEP-trained ‘Malay rentier-business cadre’ who stood to benefit disproportionately from greater business opportunities afforded by privatisation, and whose political support was crucial (Jomo 1993b; Felker 1993). These rents included significant implicit subsidies in privatisation contracts which were difficult to capture under the NEP where state ownership and bureaucratic control restricted rents mainly to broad-based subsidies and cheap credit (Tan 2008). Privatisation provided this faction with opportunities for rent capture, at the expense of the NEP faction, through its close connections with the political leadership. Privatisation thus presented a segment of the political leadership with opportunities to reward its supporters and secure support at party elections (see Gomez 1990, 1991).

This analysis of changing social relations suggests that the state allocation of rents depends largely on its capacity, which is shaped by the nature of patron–client networks and the relative power of patrons and clients. This analysis of state capacity allows us to examine another aspect of rent-seeking related to the wider process of late industrialisation and state attempts to create a BCIC. The statist literature on Malaysia highlights the poor quality of state intervention, with rent management characterised by the absence of objectives, performance standards and disciplinary mechanisms (enforcement) (see e.g. Rasiah 1998, 2001; Alavi 1998, 1999; Felker 1998, 1999; Chin and Jomo 2000, 2001: 102, 129; Jomo and Hamilton-Hart 2001: 83; Jomo and Gomez 2000; Rasiah and Ishak 2001). This approach usually equates state autonomy with state capacity, where the efficacy of rents is compromised by state capture or political capture (see Gomez 1991).

In the absence of an analysis of social forces, however, the solutions to weak rent management and rent-seeking tend to be largely institutional and technical (Alavi 1998; Felker 1998, 1999; Rasiah 2011). Ethnic and crony explanations are similarly inadequate, given
government attempts to discipline bureaucrats and inefficient state enterprises (Tan 1984; Bruton 1992; Felker 1993, 1999). These policy adjustments became more difficult after the early 1970s with the emergence of state bureaucrats who entrenched themselves and resisted discipline (Bruton 1992). Despite official recommendations to halve levels of protection to improve efficiency and international competitiveness, the government continued to provide high levels of protection for inefficient import-substituting industries and even increased protection, irrespective of productive capabilities and without performance conditions (Bruton 1992; Alavi 1996, 1998; Jomo and Tan 1999; Jomo and Edwards 1993; Rasiah and Ishak 2001).

Privatisation in this context represented the political leadership’s attempts to shift power away from the bureaucracy by centralising economic authority in the Prime Minister’s Department and elevating links between political and select business leaders (Leigh 1992; Felker 1999). The support of the privatisation faction facilitated the shift to narrow and personalistic policy networks in order to bypass formal bureaucratic channels, enabling politicians to take over control of state-held assets from technocrats and bureaucrats (Shamsul 1986; Felker 1999; see also Gomez 2002a, 2002b). It also allowed the government to rein in state enterprises and streamline regulation, and to discipline the bureaucracy for greater efficiency, particularly in economic regulation (Felker 1999).

New forms of state intervention, including re-regulation, aimed to achieve different industrial (and technology) policy objectives (Jomo and Tan 1999), with economic liberalisation allowing ‘political elites to de-bureaucratise policy-making and draw business into greater consultation within clientelist channels at the apex of the political party and government system’ (Felker 1999: 104). The government was thus increasingly unwilling to subsidise broadly, focusing more narrowly on a small group of entrepreneurs through the management of key government-linked projects to overcome distributional constraints and inefficiencies (Felker 1993).

Despite this, privatisation failed to improve the government’s disciplinary capacity (Tan 2008), with business exercising increasing political leverage over government controls as a result of increasing involvement of the Malay elite in business (McVey 1995). Here, the personalisation of patronage and centralisation of authority was itself an outcome as well as a driver of changing patterns of rent-seeking associated with changing social relations. Personalised patron–client relationships involving vested party and individual interests led to moral hazard, making it difficult to discipline clients, particularly given the degree of competition and conflict in UMNO. The more intense the competition, the more dependent the patron was on the client for support, and the more personalised the patron–client relationship became. Mahathir’s increasing authoritarianism to reassert central control may thus also be seen as a reflection of political weakness rather than strength.

Conclusion

By incorporating the insights from the literature centred on ethnicity, political patronage and political business, a class analysis allows us to better answer the three questions posed at the start of this chapter about the relationship between rent-seeking and money politics in Malaysia, the drivers of rent-seeking and money politics, and the impact of these on the contestation for, and allocation of, rents. The dominant discourse here is premised on a definition of money politics as the political capture of the state by politicians and bureaucrats. Rather than focus on individual actors to explain social processes, a class analysis examines the wider social and political context to help explain the actions of both patrons and clients.
This approach entails distinguishing between different types of client – regular businessmen, businessmen in politics, and politicians/bureaucrats in business – in order to identify the nature of their relationship with patrons and hence the direction of influence which determines whether state capture or political capture occurs. This will be shaped by various factors, most notably the degree of political contestation related to changes in class formations and social relations.

Here, an emergent Malay middle class pushed for, and benefited from, rents under the NEP. The subsequent rapid growth of, and differentiation within, this class increased competition for, and heightened conflict over, the distribution of rents, resulting in changes in the nature of patronage, pattern of rent-seeking, and ultimately, the introduction of privatisation as a vehicle for rent distribution and capital accumulation which favoured a new Malay business class. The difficulties the government faced in promoting a BCIC can be traced back to these social changes which constrained the state’s disciplinary capacity needed to manage rents effectively. While unproductive (redistributive) rents (e.g. in captive markets or non-tradeable sectors) may have been necessary to ensure political stability, even potentially productive rents for learning were dissipated as political leaders were unable or unwilling to discipline those on whose support they depended. In this context, competition and liberalisation only pushed the private sector, including previously productive firms, into other unproductive sectors related to construction, real estate and finance, which provided rents in relatively captive markets.

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