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## The politics of affirmative action: Ethnicity, equity, and state-business relations in Malaysia

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WIDER Working Paper 2022/104

**The politics of affirmative action: ethnicity,  
equity, and state–business relations in Malaysia**

Edmund Terence Gomez\*

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**Abstract:** Malaysia provides for interesting paradoxes. Poverty was reduced by adopting a horizontal perspective to policy planning through affirmative action targeting one ethnic group lagging economically in society. However, outcomes of affirmative action include growing wealth and income disparities, a problem this policy was supposed to address. Furthermore, the government has not been able to dictate the pattern of enterprise development despite a variety of state–business relations to shape the evolution of Malay-owned enterprises. This study assesses the efficacy of horizontal-based policy instruments to redress ethnic inequalities and wealth disparities. It focuses on how politics influenced policy implementation through state–business relations and highlights how inequalities are structurally shaped but ethnically expressed, provoking different responses between and within ethnic groups about affirmative action. The results ascertain whether social cohesion is best pursued through vertical-type policies that address structural factors contributing to socioeconomic inequalities, thereby allowing communities to transcend class and ethnic differences.

**Key words:** politics, horizontal-based policies, enterprise development, affirmative action, state–business relations

**JEL classification:** D63, D72, D73, D74

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## 1 Ethnic inequities and state–business relations: targeting horizontal inequalities

The implementation of vertical-based policies has been given as the reason for racial discord in multi-ethnic societies. Policies of this nature tackle socioeconomic inequities from a universal perspective, addressing the plight of individuals in need regardless of their ethnic background. The proposed alternative is that a horizontal perspective to policy planning is required, one that targets ethnic groups in most need of help<sup>1</sup> and is plainly visible through the adoption of affirmative action.<sup>2</sup>

When industrialized Southeast Asian economies adopted a highly interventionist developmental state model, a core dimension of policy planning was the promotion of active state–business cooperation, with the government steering resources to private firms to nurture domestic enterprises and generate employment.<sup>3</sup> In these state–business relations (SBRs), where interactions were shaped by public goals and development objectives, the centrality of politics or political processes must be noted.<sup>4</sup> Inevitably, the mode of public governance and state intervention in an economy, as well as the manner of promulgation and implementation of policies, have a major bearing on how inequalities are resolved.

This study assesses new ethnic and economic inequalities emerging from affirmative action-based endeavours to resolve socioeconomic inequities. It explores the impact of politics on the efficacy of affirmative action as well as associated policy instruments to redress ethnic inequalities in multi-ethnic Malaysia. Horizontal-based policies targeting specific groups have had positive and negative outcomes. Inter-ethnic inequalities have been reduced, but these strategies have exacerbated intra-ethnic inequities and reinforced group identities, exacerbating a sense of exclusion among minorities as well as the disenfranchised among members of the targeted group. Implementation of affirmative action has also led to the concentration of wealth in the hands of political and business elites. Crucially too, Malaysia’s persistent use of horizontal-type policies coupled with its form of governance, under a single dominant party from the 1950s until 2018, have shaped how SBRs have been created. In a strong state, dominated by hegemonic political elites who have had enormous influence over regulatory institutions and public enterprises, SBRs have been employed to implement horizontal-type policies that have targeted a huge segment of the population but have largely served vested interests. What is clear is that institutions remain in place even after one set of political elites is replaced by another following a power shift or regime change. However, how institutions and SBRs are employed by different hegemonic political leaders varies significantly. Meanwhile, external factors, specifically watershed economic events such as the Asian financial crisis in 1997, the 2008 global financial crisis, and the Covid-19 health pandemic in 2020, have compelled ruling elites to reshape the country’s political economic system to sustain growth.

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<sup>1</sup> Horizontal inequalities are defined as inequalities between culturally defined groups such as ethnic, religious, or caste-based groups (Stewart 2008).

<sup>2</sup> For a multi-country assessment of affirmative action from a horizontal perspective, see Gomez and Premdas (2013). See Lee (2021) for a comparative study of implementation of affirmative action in Malaysia and South Africa. Faaland et al. (2003) and Gomez and Saravanamuttu (2013) offer in-depth reviews of the outcomes of affirmative action in Malaysia.

<sup>3</sup> Studies of industrial policy in East and Southeast Asia stress the importance of an interventionist state with a well-structured institutional framework to foster the development of domestic entrepreneurial enterprises. See Amsden (1989), Johnson (1982), Wade (1990), and Woo-Cumings (1999).

<sup>4</sup> Leftwich (2008) stresses this point because the central focus in state–business relations-related research is on economic growth. See te Velde (2010) and Sen (2013) for an assessment of the links between SBRs and economic development in emerging economies.

This study therefore focuses on one key question: how have state elites constructed and reconstructed affirmative action-based programmes that racialize ethnic identity, as well as SBRs, to consolidate political and economic powers that benefit them?

This question is addressed through a historical review of the politics of affirmative action. Specific attention is devoted to the employment of a variety of SBRs, implemented within a highly interventionist development model by a strong state, where such nexuses are central, presumably to redistribute wealth, create a new breed of ethnic entrepreneurs, and industrialize the economy.

## **2 Through the years: affirmative action, SBRs, inequitable development**

### **2.1 1957–80: addressing post-colonial inequities, introducing affirmative action**

In colonial Malaya the mode of capital accumulation by the British was based on control of the financial sector and use of land for access to under-soil (primarily tin) and above-soil (first rubber, then palm oil) resources. Since control of land was important, the British moved to curb Malay participation in the emerging capitalist economy. It was of little concern to the British if Chinese migrants, who were expected to return home, established small-scale formal and informal enterprises in urban and rural areas, which led to their ubiquitous presence in the economy (Puthucherry 1960). As changes in the composition of the population occurred following mass migration from India and China to feed employment in the rubber plantation and tin mining sectors respectively, this affected the organization of inter-ethnic relations spatially and in the economy.

When colonial rule ended in 1957,<sup>5</sup> political power was granted to the Alliance, comprising three race-based parties: the United Malays National Organization (UMNO), Malaysian Chinese Association (MCA), and Malaysian Indian Congress (MIC). The MCA, led by Chinese tycoons, funded the Alliance during elections as a means to protect their business interests. UMNO, the hegemonic party in the Alliance, was controlled by Malay elites who protected the interests of British enterprises to prevent the Chinese from increasing their ownership of corporate wealth. Power and property were seen to be separately held, though the nexus between the two remained closely intertwined within the state.

As a result, little structural change occurred. One decade later Malaysia was still characterized by a social structure, predicated on an ethnic division of labour, where groups were confined to particular occupations and industries, while more than 60 per cent of the population remained mired in poverty. The Malays, Chinese, and Indians, by and large, lived and worked in separate geographic and economic spheres. Mass impoverishment of rural Malay folk resulted in feelings of dispossession. Malay under-representation in tertiary education and upper occupational positions, as well as in ownership and control of corporate equity, was stark. Little had also changed in terms of British domination of the corporate sector, though the Chinese were perceived to control the economy, a view seen as the root cause of the 1969 riots.

The riots led to the inauguration of the 20-year New Economic Policy (NEP), a social engineering project to reconstruct an economic system fraught with perpetuating these gross inequities. The key remedy was extensive state intervention in the economy through a variety of public institutions

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<sup>5</sup> Malaya achieved independence in 1957, while Malaysia was formed in 1963 to include Singapore and the Borneo states of Sabah and Sarawak. Singapore left the federation in 1965.

to eradicate poverty and to redistribute the wealth more equitably which, if achieved, would unify a nation torn asunder by the riots. The NEP extended an opportunity to the government to rectify old wrongs, eradicate injustices, extend benefits, and provide special preferences to establish a level playing field for all ethnic groups in the long term. There was a clear need for an affirmative action-type endeavour, with the NEP to end in 1990 as government leaders were worried that long-term implementation of ethnic-based preferences might divide the nation (Ooi 2013).

The two primary goals of the affirmative action-based NEP were to eradicate poverty and achieve inter-ethnic economic parity between the Bumiputeras<sup>6</sup> and other ethnic groups. UMNO moved to redesign the political order to execute the NEP. The Barisan Nasional (National Front), a multi-party coalition, was formed by UMNO to co-opt most opposition parties as part of the new government, enhancing its hegemonic influence within government (Mauzy 1993).

The NEP devoted considerable attention to education when the policy was introduced. Well-equipped residential schools were established to provide high-quality primary education to poor students from rural areas. However, a major objective of the NEP, which in due course became its principal component, was that Bumiputeras should own 30 per cent of corporate equity by 1990. Malaysia's method for redistributing wealth equitably was to create an institutional architecture comprising a complex ensemble of statutory bodies, foundations, trust agencies, investment enterprises, a sovereign wealth fund, and a multitude of companies with a presence in a wide array of industries. This multi-institutional state–business framework served to accumulate corporate equity on behalf of the Bumiputeras through a plethora of NEP-related programmes. The phenomenal growth of the state apparatus, through different forms of SBRs, was justified on the grounds that it aided the process of 'trusteeship' (Mehmet 1986). This institutional architecture, which encompassed a diverse range of public enterprises, was also created and employed in different ways in all thirteen states in the Malaysian federation.

The government's corporate presence grew substantially in the first decade of the NEP as public institutions began acquiring 20 to 50 per cent of equity in companies for investment purposes, while laws were introduced to advance the 'indigenization' of corporate stock.<sup>7</sup> This SBR, led by a 'bureaucrat capitalist class' (Jomo 1984), was referred to as 'distributional coalitions', cartel-like networks acting in collusion to concentrate wealth (Mehmet 1986). Of these public enterprises, the government's Minister of Finance Inc. holding company,<sup>8</sup> the Khazanah Nasional sovereign wealth fund,<sup>9</sup> and the Permodalan Nasional (PNB) Bumiputera-based savings and investment fund<sup>10</sup> are now among Malaysia's leading corporate equity shareholders through intricate shareholding mechanisms (Gomez et al. 2017).

While nurturing Bumiputera enterprises, the government asserted that they would complement, not replace, non-Bumiputera firms in the economy. Although it was not explicitly mentioned, the

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<sup>6</sup> Bumiputera means 'sons of the soil'. The term is employed in reference to the Malays, the largest ethnic group who predominate in the states in the peninsula. In Sabah and Sarawak, Bumiputeras include other ethnic groups where Malays are not in the majority (Maznah 2005).

<sup>7</sup> The Industrial Coordination Act, as well as monitoring institutions like the Capital Issues Committee, were introduced to ensure implementation of the NEP (Jesudason 1989: 136–47).

<sup>8</sup> MoF Inc. was incorporated as a statutory body to hold all government assets at Independence in 1957. It remains as the government's primary holding company (Gomez et al. 2017).

<sup>9</sup> Khazanah is owned by MoF Inc.

<sup>10</sup> PNB functions as an investment fund manager. The dividends generated from its investments are transferred to Bumiputera unit trusts holders. This institutional system, comprising an investment fund and individually owned unit trusts, has served as a major—and successful—mechanism for redistributing corporate wealth to Bumiputeras.

government devoted much attention to reducing foreign ownership of Malaysian equity.<sup>11</sup> As it turned out, by the mid-1980s, Chinese ownership of corporate equity had indeed grown, while foreign presence had diminished appreciably (see Table 1).

Table 1: Ownership of share capital (at par value) of limited companies, 1969–2018 (per cent)

	1969	1970	1975	1980	1985	1990	1995	1999	2004	2006	2008	2011*	2015*	2018*
Bumiputera individuals & trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.9	19.4	21.9	23.4	16.2	16.9
Chinese	22.8	27.2	n.a.	n.a.	33.4	45.5	40.9	37.9	39.0	42.4	34.9	34.9	30.7	26.3
Indians	0.9	1.1	n.a.	n.a.	1.2	1.0	1.5	1.5	1.2	1.1	1.6			
Others	–	–	–	–	–	–	–	0.9	0.4	0.4	0.1			
Nominee companies	2.1	6.0	n.a.	n.a.	1.3	8.5	8.3	7.9	8.0	6.6	3.5	4.5	7.8	11.9
Locally controlled firms	10.1	–	–	–	7.2	0.3	1.0	–	–	–	–	–	–	–
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	32.5	30.1	37.9	37.2	45.3	44.9

Note: n.a. – not available. \* Figures in 2011, 2015, and 2018 indicate combined volume for all non-Bumiputeras.

Source: author's compilation based on Malaysia (2006, 2019, 2021).

However, when public enterprises ventured into banking, property, and construction, sectors where the Chinese had a major presence, this led to non-Bumiputera discontent with the NEP. In response to this form of state-directed wealth accumulation, novel forms of inter-ethnic business ties emerged. Large-sized Chinese firms began appointing prominent Malay ex-bureaucrats and politicians as members of their boards of directors. These directors had equity ownership but played no role in management, though they helped to secure access to the state or bypass bureaucratic red tape (Jesudason 1989). ‘Ali-Baba’ ties were formed among small and medium-scale enterprises (SMEs), where government contracts obtained by the Malays were implemented by the Chinese. Ali-Baba relations did not impede economic growth as the contracts were completed. However, this form of SBR undermined the quality of goods and services that were produced and exacerbated the practice of selective intra-Malay patronage by UMNO as well as rent-seeking by business groups. During the two NEP decades, numerous non-Bumiputeras emerged as key figures in the corporate sector.<sup>12</sup> Meanwhile UMNO cabinet members dispensed rents to divisional and branch leaders to consolidate their position in government, further reinforcing the view that party membership was a means to get rich quick.

## 2.2 1981–2003: enter Mahathir, altering affirmative action

When Mahathir Mohamad was appointed prime minister in 1981, he shifted public policy in an extremely pro-business direction, leading to additional forms of SBRs. Mahathir also altered the purpose of wealth redistribution to pursue his primary intent of creating globally recognized Malay corporate captains, nurtured through his significant reshaping of how public institutions were to be employed, with an emphasis on intra-Bumiputera selective patronage. This policy shift was one that was driven by Mahathir, with little endorsement by members of his cabinet. This re-interpretation and execution of the NEP, facilitated by further concentration of power in the office

<sup>11</sup> The government focused on acquiring foreign companies that had a huge presence in key sectors of the economy. Shakila and Khadijah (2012) provide a review of these acquisitions.

<sup>12</sup> Studies that have traced the rise of these well-connected Bumiputeras and non-Bumiputeras following implementation of the NEP include Jesudason (1989), Gomez and Jomo (1997), Gomez (1999), Searle (1999), and Sloane (1999).

of the prime minister, led to a serious fracture between Mahathir and senior UMNO leaders in 1987 (Shamsul 1988).

Privatization, for Mahathir, was the best method to quickly create these corporate captains.<sup>13</sup> Yet privatization was at odds with the collective or group-oriented goals of affirmative action, specifically the extra-economic criteria for inclusion and reducing poverty through education. Mahathir's contention was that equality could only be attained when Malaysia had an equal number of Malay and Chinese millionaires, a goal to be achieved by picking winners among Bumiputeras in whom corporate wealth would be concentrated.<sup>14</sup> These new corporate captains, not the state, would control the commanding heights of the economy and help nurture Bumiputera-owned SMEs through subcontracts and joint ventures.

Mahathir further justified selective intra-ethnic preferential treatment on the grounds that no Malay had control of large companies in 1981, ten years after the NEP was introduced, even though the government had managed to increase the volume of corporate equity held in the name of Bumiputeras to 12.5 per cent (see Table 1). For Mahathir, since creating Malay-owned conglomerates was the core objective of affirmative action, a shift in focus from institutions to individuals was imperative. This marked the beginning of a patronage system in business that was to become a central feature of Malaysia's political economy.

Mahathir created a tripartite link between the government, private businesses, and financial institutions to aid the rapid rise of well-connected conglomerates. These business empires were controlled through a myriad of holding companies that had liberal access to huge loans from government-owned banks. A hive of privatizations from the late 1980s resulted in a 'new rich' by the mid-1990s. The leading Malay corporate captains were reputedly closely aligned to Mahathir, even subservient to his dictates as to how their business groups were to function in the economy. The nature of Mahathir's SBRs was later described as 'personalized politics' (Hwang 2003). Personalized SBRs of different UMNO leaders became a trend as party members ventured into business, with rents from their patrons in government (Gomez and Jomo 1997).

A plurality of UMNO 'warlords' eventually emerged, deeply factionalizing the party (Weiss 2016). Among the politicians who moved between the worlds of politics and business, a phenomenon in the 1990s that has become commonplace, was Ahmad Zahid Hamidi who secured the post of UMNO president in 2018. Zahid was active in business before going on to serve as an elected representative. There were also periods in his political history when he was playing a key role in the corporate sector while serving as a parliamentarian.

When the 1997 Asian currency crisis erupted, the Malaysian economy's rapid slump deeply undermined the new rich, leaving them severely over-leveraged. A rapid breakdown of a new and apparently thriving SBR had occurred. As members of the new rich in control of conglomerates were bailed out through the renationalization of their firms, there was a return to the old structure where public enterprises, now collectively called government-linked companies (GLCs), re-emerged as key actors in the corporate sector. What had not changed was that the same political elites retained control of these GLCs through positions they held in government, but reforms were necessary to ensure they functioned well so as to contribute to the rebuilding of the economy.

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<sup>13</sup> Khoo (1992) discusses Mahathir's 'grand vision' to industrialize Malaysia while nurturing Bumiputeras conglomerates. For a review of the implementation of privatization under Mahathir, see Tan (2008).

<sup>14</sup> For Mahathir's articulation of this vision, see Gomez (1994).



When GLC reforms were introduced, the focus was on ‘government-linked investment companies’ (GLICs), enterprises that had vast ownership and control of publicly listed firms.<sup>15</sup> This reform would eventually lead to the emergence of a professional, or managerial, class of Bumiputeras.<sup>16</sup> This turn of events, with the emergence of these professional Bumiputeras who now controlled Malaysia’s leading quoted firms, would lead to a reconfiguration of SBR practices and how state-generated rents were to be distributed. GLCs dispensed rents through procurement processes and subcontracts targeting politicians in business and well-connected businesspeople. Meanwhile the number of GLCs at the federal level as well as those in the thirteen state governments was growing exponentially as they were ideal tools of governing politicians for the practice of patronage, ostensibly to rectify socioeconomic injustices. There was little public knowledge of how GLCs in the federal and state governments were being employed. There was no reform of this now unwieldy GLC ecosystem, even with clear evidence that they had become a huge drain on the state’s resources.

As for Mahathir’s endeavour to create Malay corporate captains, he admitted before he retired in 2003 that affirmative action-based patronage in business had failed, leading also to a ‘crutch mentality’.<sup>17</sup> As for the non-Bumiputeras, specifically the Chinese, Mahathir argued that they had increased their ownership of corporate equity because they had been forced to compete during the implementation of affirmative action.

### **2.3 2003–09: reforms without real change**

Abdullah Ahmad Badawi came to power as a reformer, promising to include all Malaysians in his development policies while tackling the deeply entrenched cronyism and rent-seeking that had emerged through the abuse of a patronage system sanctioned by affirmative action. Abdullah’s other major policy shift was in the form of the SBRs he promoted. Unlike Mahathir’s interest in cultivating Malay-owned conglomerates, Abdullah made a concerted effort to support SMEs, which constitute 98.5 per cent of Malaysia’s corporate sector. What Abdullah did not change was the government’s longstanding agenda to groom Bumiputera enterprises, and he remained committed to privatization.<sup>18</sup>

Abdullah used the government’s vendor system to tie SMEs to GLCs and multi-national companies (MNCs). Introduced in the 1980s, these initiatives—the Vendor Development Programme (VDP), Industrial Linkage Programme (ILP), and Global Supplier Programme (GSP)—serve to help SMEs emerge as manufacturers and suppliers of machinery, equipment, industrial components, and food supplies. Abdullah extended these programmes to other areas of the economy including agricultural biotechnology, ICT, and halal products. Through these vendor programmes, the government now expected not just the GLCs but also MNCs to forge partnerships or joint ventures with Bumiputera SMEs. These partnerships with MNCs were to assist Bumiputera SMEs to go global by gaining access to foreign markets. These MNC–SME links

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<sup>15</sup> By the government’s classification, there were seven GLICs. Gomez et al. (2017) offer an in-depth study of these GLICs.

<sup>16</sup> Gomez et al. (2017) provide a profile of this new professional Bumiputera class who now manage a huge segment of the corporate sector through their control of Malaysia’s largest GLCs.

<sup>17</sup> Mahathir used this term in a speech entitled ‘The New Malay Dilemma’, delivered at the Harvard Club of Malaysia dinner on 27 July 2002. For an assessment of this speech, see Gomez (2009).

<sup>18</sup> In the *Ninth Malaysia Plan, 2006–2010* (Malaysia 2006), the only strategy document issued by Abdullah during the six years he served as prime minister, his development vision and social reforms were clearly outlined. This plan was then seen as one with novel ideas to change the way the Malaysian economy was to be developed.

also aimed to enhance productivity and encourage competition, which spurred innovation and upgrading within sectors.

Abdullah's persistence with this vendor system, but without reforms, went against his commitment to include non-Bumiputeras in his development plans. When Mahathir initiated the VDP through the Proton national car project, Bumiputera SMEs were to serve as suppliers of component parts to increase their involvement in manufacturing and heavy industries. The VDP failed to create a new pool of Bumiputera SMEs in the automobile industry, while alienating Chinese SMEs with a long presence in this sector (Gomez 2012).

Abdullah was aware of this but saw these vendor programmes as a vital policy instrument for channelling rents to many Malay enterprises in different sectors. For example SMEs were tied to MNC hypermarkets such as Tesco, Nestle, and Carrefour, which had to apportion space for locally produced goods in their domestic and foreign outlets. These ties were important as retailing, dominated by small firms, had been losing customers to hypermarkets after the government had relaxed foreign ownership of the distributive trade sector in the mid-1980s. These concessions were captured primarily by Bumiputera firms (Gomez 2012).

The outcomes of ethnically based vendor programmes in the automobile and other sectors supported criticisms of the government's now persistent endeavour to link the cultivation of entrepreneurial SMEs with the practice of selective patronage. Abdullah, however, lacked the political will to liberalize equity ownership to forge productive MNC-SME links as there was limited support for such liberalization within UMNO.

#### **2.4 2009–18: market-friendly affirmative action?**

In the general election in 2004, when the then new prime minister Abdullah pledged real change, this contributed to Barisan Nasional winning 94 per cent of the seats in parliament. In the 2008 general election, because of Abdullah's failure to fulfil his promises, the Barisan Nasional lost the popular vote in the peninsula and, for the first time ever, its two-thirds majority in parliament.<sup>19</sup> For the first time too, opposition parties took control of five of Malaysia's thirteen state governments (Chin and Wong 2009).

The response of Abdullah's successor as prime minister, Najib Razak, was to introduce his primary slogan, '1Malaysia', stressing a national—not ethnic—identity to usher in a new era of inclusiveness. For Najib, this meant that his government would be race blind and affirmative action programmes would cease. Najib admitted that the education system was producing human capital ill-equipped for the modern economy, hardcore poverty had not been eliminated, and basic infrastructure in rural areas had to be created. His government disclosed that there were a 'bottom 40 per cent' in society who were in 'dire need' of public assistance (Malaysia, 2010b). This bottom 40 per cent constituted about 12 million Malaysians.

Another issue contributed to this attempt to change the way affirmative action was being implemented. When Najib became prime minister in 2009, he was confronted with a profound economic downturn precipitated by a global financial crisis in 2008. This economic crisis exposed serious structural problems that the government had to address, specifically the poor quality of

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<sup>19</sup> Abdullah took responsibility for his coalition's dismal performance in the 2008 election, recognizing that the electorate had sent a clear message that it expected a new form of governance (Ufen 2009).

technological development, the country's high dependence on foreign capital to generate growth, and the ineffectiveness of big business to drive industrialization.

Clearly, broader political and economic factors, not the desire of political elites to reduce horizontal-type policies, had resulted in a shift in policy direction. Within a span of about a year, Najib released a slew of government plans to tackle these problems.<sup>20</sup> These plans stressed the need to create a more efficient and coordinated strategy linking the state and business that focused resources on prioritized goals. Although the GLCs had a dominant presence in the economy, the private sector was to drive growth, aided by continued privatization.

However, when Najib's race-blind approach was questioned by UMNO, apparently because it side-lined Bumiputera concerns, affirmative action was recast by him as one that would be 'market friendly' (Malaysia 2010c). Najib's change of stance on affirmative action did not help his government to deal with the problems exposed by the 2008 economic crisis because, to address these problems, the government had to inspire domestic investor confidence.

UMNO's backlash to Najib's reforms left him confronting a conundrum: how was he to implement inclusive economic plans based on 1Malaysia while persisting with horizontal policies? On the one hand, the government contended that affirmative action was still imperative since the volume of Bumiputera-owned corporate stock had 'remained stagnant'. On the other hand, the government admitted that affirmative action had led to 'rising discontent', a colossal brain drain,<sup>21</sup> and widening intra-Bumiputera wealth and income disparities (Malaysia 2010a).

The government went on to introduce a range of public assistance programmes targeting vulnerable groups, though most were short term in nature. The most prominent of these plans was *Bantuan Rakyat 1Malaysia* (BR1M, or 1Malaysia People's Assistance), a cash-transfer programme for low-income individuals and families, regardless of their ethnicity. BR1M was introduced in 2012, just before the 2013 general election, allowing the opposition to claim that these cash transfers were to secure the electoral support of members of the bottom 40 per cent, particularly those in rural constituencies. And, indeed, during this general election, when the Barisan Nasional lost further significant support, it was UMNO's primary support base—rural Bumiputera-majority constituencies—that helped Najib retain power (Saravanamuttu 2016). Najib's response to what he saw as little support for him by non-Bumiputeras was to introduce another affirmative action measure, the Bumiputera Economic Community (BEC) policy.

The BEC had provisions to enhance Bumiputera equity ownership, even though Najib had made an important disclosure in 2009. Of the RM54 billion worth of equity that had been allocated to Bumiputeras since 1971, only RM2 billion was still held by them (The Edge Markets 2009).<sup>22</sup> This was why, four decades after the NEP had been introduced, Bumiputera equity ownership then amounted to only 19.4 per cent (see Table 1). What Najib did not mention was that much of this wealth had been invested in assets such as property. Moreover, a Bumiputera middle class had emerged with a presence in all key professions (Saravanamuttu 2013: 339). Electoral trends in

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<sup>20</sup> These plans included the 'Government Transformation Plan', the 'New Economic Model for Malaysia, Parts I & II' (NEM) (Malaysia 2010b), and the Tenth Malaysia Plan, 2011–2015 (10MP) (Malaysia 2010c). There was, however, no mention in these plans of institutional reforms to curb corruption and rent-seeking, two problems that Najib had pledged to address when he took office.

<sup>21</sup> In 2021, 1.7 million Malaysians were working abroad, 54 per cent of them in Singapore (Malay Mail 2021). A huge number of these Malaysians were classified as highly skilled.

<sup>22</sup> The exchange rate for the Malaysian ringgit in September 2021 was US\$1=RM4.21.

elections in 1999, 2008, and 2013 indicated that many of this new urban-based Bumiputera middle class were now supporting the opposition (Saravanamuttu 2016).

To implement his BEC policy, the most important instruments Najib had at his disposal were the GLCs, tools he could also use to expand his sphere of dominance over the corporate sector. Najib had come to realize the volume of corporate wealth under his control through the GLCs, which then constituted an estimated 42 per cent of total market capitalization of all quoted companies. Cabinet ministers, through their federal ministries, also controlled a vast number of quoted and unlisted GLCs that did a variety of things, including developing strategic economic sectors, redressing spatial inequities by developing rural areas and industries, and financing research and development (R&D) to drive industrialization.

Studies that traced ownership and control of companies by just four large cabinet ministries indicated the huge volume of corporate wealth in the hands of the executive arm of government (see Figure 1).<sup>23</sup> A colossal state–business ecosystem had emerged, comprising an assortment of institutions, collectively called GLCs. Many of these GLCs were subsequently implicated in major scandals,<sup>24</sup> the most notorious of which was 1MDB, a sovereign wealth fund controlled by Najib.<sup>25</sup> These scandals indicated an expropriation of state resources by UMNO leaders, permitted by the concentration of power in the office of the executive.

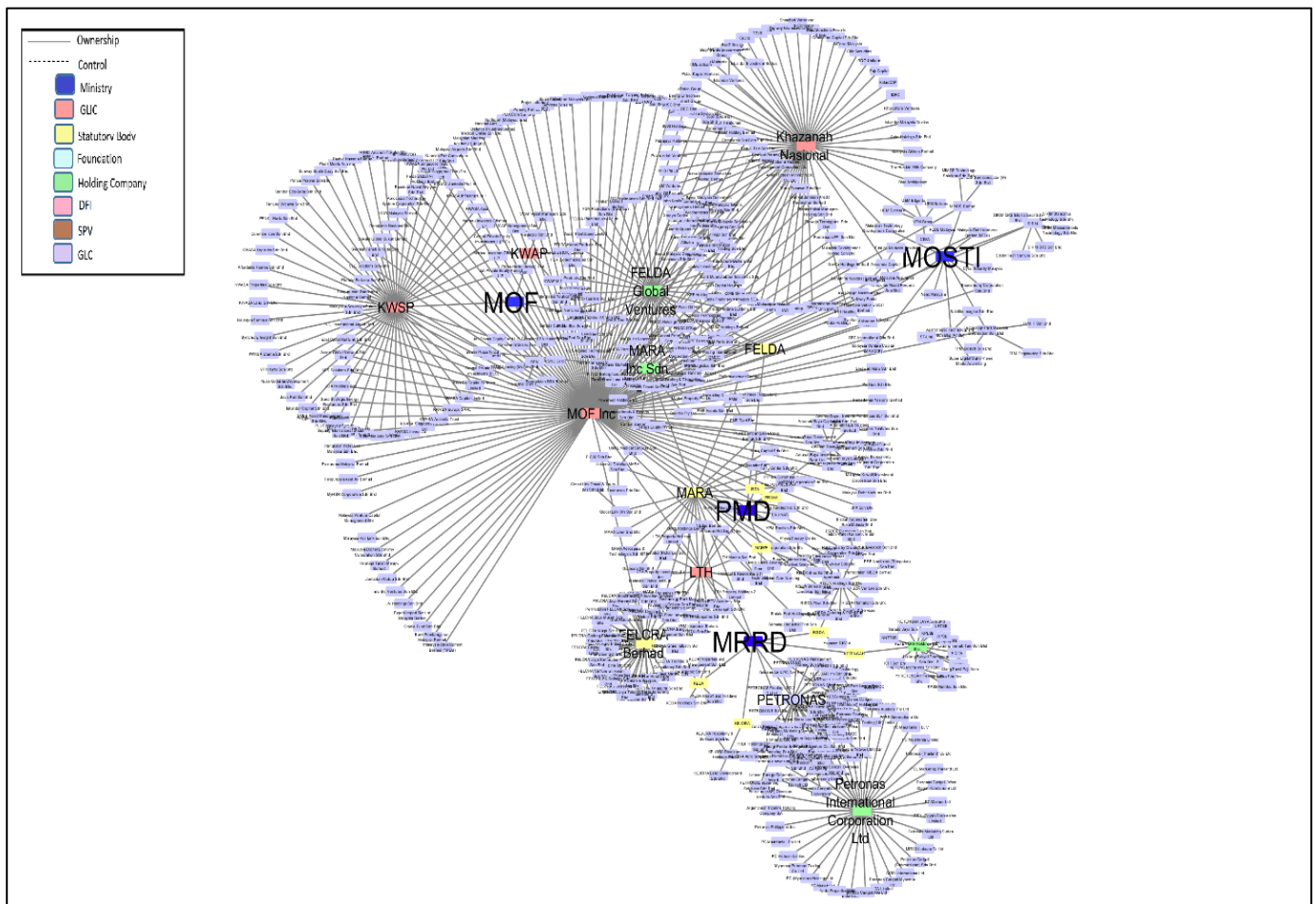
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<sup>23</sup> These were the Prime Minister’s Department (PMD), Ministry of Finance (MOF), Ministry of Rural & Regional Development (MRRD), and Ministry of Science & Technology (MOSTI).

<sup>24</sup> UMNO leaders were implicated in these scandals. The most prominent cases were Tabung Haji, introduced to help poor Muslims perform the haj; Felda, a once highly successful land reform scheme; and Mara, initiated to support Bumiputeras through education and business schemes. These three institutions were created between the mid-1950s and early 1960s to help under-privileged Bumiputeras.

<sup>25</sup> In 2015 it was revealed that RM2.6 billion (then about US\$700 million) had been channelled into Najib’s personal bank account, allegedly from 1MDB. Najib claimed this money was a donation from the Middle East to finance the Barisan Nasional during the 2013 general election. The 1MDB scandal revealed serious abuse of this GLC, with foreign funds flowing into the political system (Wright and Hope 2018).

Figure 1: Overview of control of GLCs by ministries



Source: re-drawn from figures in Gomez et al. (2018: 22, 25, 27, 29, 31).

Although these scandals revealed colossal accumulation of wealth by politicians, there is little public knowledge of these GLC ecosystems, described as a ‘shadow economy’ (Gomez 2019). Political elites actively encouraged the creation of this shadow economy, at the federal and state levels. State governments ruled by opposition parties had also used the GLCs under their control in a similarly covert manner to provide directorships to party members, while also deploying them to muster the support of key constituencies within the electorate. Inevitably, there was no political will by any party to expose and reform this shadow economy.

## 2.5 Regime change, regime continuity

In May 2018 Barisan Nasional unexpectedly lost power in the 14<sup>th</sup> General Election. This unprecedented regime change was the result of intra-Malay political elite feuds (Gomez and Mohamed Nawab 2019). One consequence of this elite feuding was that, for the first time in history, a general election was being contested by five Malay-based parties, i.e. UMNO and its break-away Parti Pribumi Bersatu Malaysia (Bersatu), the Islamic-based Parti Se-Islam Malaysia (PAS) and its splinter Parti Amanah Nasional (Amanah), as well as Parti Keadilan Rakyat (PKR), outwardly a multi-racial organization but one largely seen as representing the interests of urban middle-class Malays and led by former UMNO Deputy President Anwar Ibrahim. In the Borneo state of Sabah, an UMNO faction broke away to form Parti Warisan Sabah. Except for PAS, the leading opposition parties combined forces with their longstanding political foe Mahathir, ex-President of UMNO but now in Bersatu, even declaring him their de facto leader in a quickly

forged opposition coalition, Pakatan Harapan (Alliance of Hope). Pakatan included the multi-racial Democratic Action Party (DAP) which had much Chinese and urban support. Malaysia had not witnessed the coming together of such a diverse number of prominent Malay leaders and rather strange bedfellows, long at loggerheads over how to govern the country, to take on the Barisan Nasional.

During the campaign Pakatan leaders argued that they could trigger a Malay electoral swing to unseat the unpopular prime minister, which was imperative for creating a meaningful consociational system where parties collectively fashioned a ‘New Malaysia’, one ruled by a democratic and accountable government. Pakatan also pledged that its policies would be needs based and that well-entrenched unproductive state–business networks within the GLC ecosystem, referred to as a ‘monster’ by Mahathir, would be dismantled (Gomez 2019).

Yet Mahathir, as Pakatan’s prime minister, proposed no reform of the GLC ecosystem that had contributed to grand-scale corruption. And although Pakatan had pledged to adopt a stance of racial neutrality in policy planning, just months after coming to power, in September 2018, a Congress on the Future of Bumiputeras & the Nation was convened where Mahathir stressed the need to reinstitute the practice of targeting Bumiputeras. Mahathir’s primary concern was Pakatan’s immediate need to consolidate power, not to institute appropriate long-term socioeconomic reforms.

The following month when Pakatan released its first public policy document, the ‘Mid-Term Review of the Eleventh Malaysia Plan’ (Malaysia 2018), targeting Bumiputeras was emphasized. When Pakatan launched its ten-year roadmap in 2019, the ‘Shared Prosperity Vision 2030’ (SPV), its three objectives were strikingly like those of the NEP.<sup>26</sup> The key authors of the SPV were reputedly closely associated with Mahathir’s Bersatu party, led by Muhyiddin Yassin.

The SPV aimed to deal with serious structural problems, including acute wealth and income inequities, regional disparities between the industrialized south and under-developed north and east of the peninsula, the inadequate focus on rural industries, and the underwhelming 9 per cent contribution of SMEs to gross domestic product. Despite this, the longstanding emphasis on cultivating Bumiputera-owned SMEs remained in place. Since Pakatan had little rural Bumiputera support, public initiatives continued to target this ethnic group. What was visibly absent was a coherently structured industrial plan to cultivate entrepreneurial private firms.

Pakatan’s desire to retain power, having captured it unexpectedly, undoubtedly took precedence over the reforms Malaysia urgently required. The coalition was confronted with a dilemma like that faced by UMNO: if real change was to be instituted, this necessitated policy reforms that possibly undermined its capacity to draw Bumiputera support. In fact Pakatan leaders faced criticisms from UMNO that their focus on a ‘New Malaysia’, devoid of racial preferences, was undermining poor—particularly rural—Bumiputeras from escaping poverty. The Pakatan government did not help its cause when it reduced universal-type subsidies, which benefited the B40, to trim the national debt.

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<sup>26</sup> The SPV’s objectives were development for all, which entailed restructuring the economy; addressing wealth and income disparities, where no one would be left behind, and nation building, to create a united, prosperous, and dignified nation.

## 2.6 2020–21: UMNO's return

In March 2020, when Pakatan suddenly fell from power, its unexpected collapse occurred after a huge faction from Mahathir's Bersatu party broke away to combine forces with UMNO and PAS. This new Perikatan Nasional coalition, underpinned by the notion of Malay-Muslim hegemony and led by Bersatu's Muhyiddin, stressed the Bumiputera Agenda.

Bersatu's decision to leave the multi-racial Pakatan was not entirely surprising. In December 2018 Bersatu leaders had openly declared their intent to persist with the practice of Bumiputera patronage. At its first convention after securing power, when Muhyiddin declared that 'Bersatu should not be apologetic to champion the Bumiputera Agenda', his statement was enthusiastically supported by members, suggesting an element of opportunism, even self-interested rent-seeking, in the party. UMNO leaders had made similar arguments to justify horizontal policies which they promptly abused to transfer government-generated rents to party members, to the detriment of poor Bumiputeras.

This power shift, widely seen as a coup, was overshadowed by a global health pandemic that led to a shutdown of the economy and the introduction of a movement restriction order. Perikatan announced its control of a 'government ecosystem', which was to be used to save an economy under siege (*Focus Malaysia* 2020). This was an admission that Malaysia's longstanding highly interventionist state had at hand a multitude of GLCs in all economic sectors. The prolonged Covid-19 pandemic led to a series of stimulus packages, along with the introduction of a GLC reform plan to ensure they were well employed in the economy.<sup>27</sup>

However, the GLCs were also extensively used to consolidate Muhyiddin's control over the political system. Given the fragility of his coalition, as it had a very slim majority in parliament, Muhyiddin moved to accommodate parliamentarians who had hopped over to the Perikatan by creating one of the largest cabinets in history. To entice other MPs to stay with him and lure more to his coalition, Muhyiddin offered them lucrative GLC appointments.

Moreover, despite the economic crisis, the government declared its intent to implement policies in an ethnically defined manner, aided by financially well-endowed GLCs. This contributed to large amounts of money flowing through opaque channels into the economy. Public initiatives to deal with the pandemic continued to privilege GLCs and curb private enterprises, domestic and foreign, from competing fairly in the market.

In August 2021 Muhyiddin was abruptly replaced as prime minister by UMNO's Ismail Sabri Yaakob. In Ismail's inaugural address to the nation, he declared his intent to create a *Keluarga Malaysia* (Malaysian Family). This was a vital call, as only through a compact comprising the government, business, and the people could solutions be found to deal with the debilitating economic and health crises. Much was thus expected of the '12<sup>th</sup> Malaysia Plan 2021–2025' (12MP) (Malaysia 2021), the government's five-year strategy to lead the country out of this unprecedented dual crisis, while resolving longstanding social inequities. One 'priority area' of the 12MP was 'achieving an equitable outcome for Bumiputera'. Soon after the 12MP was released in September 2021, strong protests, tinged with a sense of injustice and utter despair, were voiced about the hollowness of Ismail's pledge to create a *Keluarga Malaysia*.

This persistence with horizontal-type policies was shocking as the 12MP's listing of equity distribution figures between 1970 and 2018 revealed that the volume of Bumiputera-owned shares,

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<sup>27</sup> This reform plan, entitled *Pekukuh* (or strengthen), however, focused only on the GLICs.

though reaching its highest point of 23.4 per cent in 2011, had since fallen appreciably to 16.9 per cent, a figure lower than in the 1980s (see Table 1). The situation was equally alarming among non-Bumiputeras; their total equity of 26.3 per cent in 2018 was less than what was owned by them in 1970. Although this fall was particularly steep between 2006 and 2018, a massive 16 percentage points, the 12MP drew no attention to this steadily declining volume of equity owned by all Malaysians. Meanwhile the volume of equity owned by foreigners had increased substantially, by nearly 20 percentage points, since its lowest point in 1990.<sup>28</sup> What was not disclosed was the volume of equity owned by the GLCs, despite their huge presence in the economy.

### **3 Affirmative action, SBRs, policy outcomes**

#### **3.1 SBRs, politics, institutions**

SBRs of different sorts, shaped by horizontal-type policies, have been persistently employed by dominant race-based parties to consolidate power. What allowed these leaders to shape their own SBRs, created to serve horizontal-type policies or developmental objectives, was the enormous autonomy the strong state had from domestic capital. These SBRs have resulted in a vast government ecosystem that allows political elites to have enormous control over the corporate sector. While these SBRs serve to implement horizontal policies to advance Bumiputera enterprises, this process has remained shallow and weak. Widespread criticism of a deeply embedded dependency syndrome among Bumiputeras in business has not hampered the continued introduction of horizontal-type programmes, regardless of the government in power.

There were, however, fundamental differences between UMNO leaders when employing SBRs. These differences were principally in terms of their views of how SBRs were to function within the corporate sector. Table 2 lists the differences between Mahathir and Najib, two prime ministers who actively used diverse types of SBRs in their forms of state intervention through horizontal policies, ostensibly to serve the interests of all Bumiputeras, as well as in development plans to attain their industrialization goals.

Both prime ministers had noted that their control of numerous businesses allowed them to exert considerable influence over UMNO as well as the electorate, specifically those in rural constituencies. Under Najib, control of these enterprises further served as a source of political financing, while patronage could be dispensed to UMNO members through appointments as directors of GLCs. These issues inevitably had an important bearing on electoral outcomes, within UMNO, and during general elections—a situation that still prevails. There was a fundamental difference between these two prime ministers in terms of a cohesion between politics and business elites. Mahathir groomed business elites who were subservient to him. Under Najib he had direct control over a vast range of GLCs, indicating a concentration of political and economic power in the office of the executive. How horizontal-type policies were implemented was determined by how these different SBR forms evolved.

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<sup>28</sup> Equally disconcerting was that the government continued to allow the use of nominee companies, a method for shielding the beneficial owners of corporate equity from the public eye. There had been a palpable increase in the volume of equity owned by nominee companies over the past decade.



Table 2: Differences in SBRs under Mahathir and Najib

Prime Minister	Mahathir Mohamad	Najib Razak
State–business ties	Used privatization and the stock market to develop conglomerates. Heavy control over well-connected Malay firms by politicians in power.	Used covert shell companies. No fences between government and personal interests. No clear links with well-connected firms; more a source of political funding.
Business development mode	First diversified conglomerates; later focused approach. Realized with greater diversification, firms more likely to depend on political links and rents to develop.	Businesses mixed and meandering; emphasis on GLCs. Sold lucrative state assets (e.g. power plants) to private firms in return for political funding.
Businesses style	Transactional and market-driven; captured key sectors (plantations, mining, banks); early movers in emerging sectors (health; logistics).	Not market focused; philanthropic (donations to United Nations); property speculation and film-making abroad.
Policies and SBRs	SBRs and policy strategies tightly linked (NEP; heavy industries and car sector to nurture Malay SMEs; privatization to create conglomerates).	No clear link between SBRs and policy strategies which were constantly subjected to change (market-friendly affirmative action; Bumiputera Economic Community or BEC).
Ownership & control pattern	Ownership of firms widely held—allowed private firms to emerge. Did not use GLCs to control firms (but used for bailouts when necessary).	Focus on GLCs—ownership tightly held through Ministry of Finance. GLCs abused financially by politicians in power but were also required to expand abroad and emerge as key players in Southeast Asia. Not driven by clear development policy agenda.

Source: author's compilation.

The outcomes of these diverse forms of intervention which employed different SBR methods had important implications. The state's desire to enforce affirmative action through a variety of SBRs eventually stymied domestic investments, while entrepreneurial Bumiputera-owned firms still have no presence in the industrial sector or among Malaysia's leading quoted enterprises (see Table 3). Bumiputerans had no presence in the industrial sector even with substantial government support. In fact no top 20 Malaysian enterprise was in this sector, a serious indictment of the government's intent to create globally recognized industrial firms. Privatization was persistently listed as a major policy, but the government still had majority ownership of half of the top 20 firms. Indeed eight of the top ten enterprises were GLCs that also had come to dominate the banking sector. Seven of the top 20 firms were Chinese-owned, reflecting the continuing presence of members of this ethnic group in the economy, despite racial preferences.<sup>29</sup> However, no group of companies under the control of one family or individual dominated the top 20. In the presence of a strong state, it has been imperative for capitalists to link up with influential politicians.

Table 3: Top 50 publicly listed companies in 2018

Ranking	Company	Owner
1.	<b>Malayan Banking</b>	PNB
2.	<b>Tenaga Nasional</b>	Khazanah
3.	Public Bank	Teh Hong Piow
4.	<b>Petronas Chemicals Group</b>	Petronas
5.	<b>Sime Darby</b>	PNB
6.	<b>IHH Healthcare</b>	Khazanah
7.	Maxis	Ananda Krishnan
8.	<b>Axiata Group</b>	Khazanah

<sup>29</sup> For a history of the development of Chinese-owned companies in Malaysia, see Gomez (1999).

9.	<b>Petronas Gas</b>	Petronas
10.	<b>CIMB Group Holdings</b>	Khazanah
11.	Digi.Com	Foreign
12.	<b>MISC</b>	Petronas
13.	Genting	Lim Family
14.	Hong Leong Bank	Quek family
15.	IOI Corporation	Lee family
16.	Genting Malaysia	Lim Family
17.	Kuala Lumpur Kepong (KLK)	Lee Oi Hian & Lee Hau Hian
18.	<b>Petronas Dagangan</b>	Petronas
19.	<b>Telekom Malaysia</b>	Khazanah
20.	Hap Seng Consolidated	Lau Cho Kun
21.	RHB Capital	EPF
22.	PPB Group	Robert Kuok
23.	Nestle (M)	Foreign
24.	YTL Corporation	Yeoh family
25.	Hong Leong Financial Group	Quek family
26.	Westports Holdings	G. Gnanalingam & Ruben Gnanalingam
27.	Astro Malaysia Holdings	Ananda Krishnan
28.	<i>AMMB Holdings</i>	<i>Azman Hashim &amp; EPF</i>
29.	British American Tobacco	Foreign
30.	YTL Power International	Yeoh family
31.	<b>Gamuda</b>	PNB
32.	<b>IJM Corporation</b>	PNB
33.	<b>Malaysia Airport Holdings</b>	Khazanah
34.	<b>Sapura Energy (formerly known as SapuraKencana Petroleum)</b>	EPF
35.	IOI Properties Group	Lee family
36.	<b>SP Setia</b>	PNB
37.	Fraser & Neave Holdings	Foreign
38.	Genting Plantations	Lim family
39.	<b>Dialog Group</b>	EPF
40.	Batu Kawan	Lee Oi Hian & Lee Hau Hian
41.	Hartalega Holdings	Kuan Kam Hon & Kuan Kam Peng
42.	<i>MMC Corporation</i>	<i>Syed Mokhtar Shah</i>
43.	Malakoff Corporation	EPF
44.	Top Glove Corporation	Lim Wee Chai
45.	<b>BIMB Holdings</b>	LTH
46.	AirAsia	Tony Fernandes & Kamarudin Meranun
47.	Sunway	Cheah family
48.	Lafarge (M)	Foreign
49.	Press Metal	Koon Poh Ming & Koon Poh Keong
50.	Alliance Financial Group	Foreign

Note: GLCs are in bold, Bumiputera-owned firms in italics.

Source: author's compilation based on Gomez et al. (2018: 117-122, 164-165).

A key lesson from Table 3 is that institutions matter. Institutions remain in place even when a new government comes to power, but the form of governance and types of SBR vary, as indicated in Table 2. Of related importance is the ensuing problem of 'institutional capture', arising from new forms of power relations. What is evident is that a well-embedded structural framework had emerged that allowed politicians to exploit institutions in various ways to serve vested political and

economic interests. In this structural framework, the necessity of articulating the need for targeted race-based policies is imperative, even when the business elites benefiting from state patronage are non-Bumiputeras. Horizontal policies then serve as a mechanism for retaining patronage-based networks and consolidating power bases.

The government offered numerous reasons for not exercising transparency during the disbursement of rents. These included the need to expedite industrialization, advance domestic enterprise, and ensure ethnic coexistence through fairly equitable distribution of the wealth generated. The state's stress on targeting companies for selective patronage along ethnic lines tempered its choice of the winners, while the need to channel these rents to well-connected businesspeople showed a clear abuse of affirmative action. However, as Table 3 indicates, this emphasis on according preferential treatment to one community during the pursuit of heavy industrialization had undermined the development of domestic companies in this sector.

### 3.2 Politics, horizontal policies, rights

While horizontal policies treat targeted groups as homogeneous, not all members have equal access to their incentives. If incentives are extended without accompanying strategies that give all members similar chances, then the policy shifts the competition from one between members of different ethnic groups to one between members of a single ethnic group (Brubaker 2004). Over time class divisions among targeted groups become increasingly pronounced and the best-off within these communities utilize the incentives, while those with less resources are left behind.

Intra-group solidarity may mitigate conflicts that arise from this inequality but can create or exacerbate tensions across subgroups. Following major economic crises in 1986, 1997, 2008, and 2020, one contentious issue was that of intra-Bumiputera property rights. Critics within UMNO who questioned the policies of the prime minister were removed from the party. In 1987 then Trade Minister Razaleigh Hamzah was manoeuvred out of UMNO for questioning the practice of selective patronage in business and heavy industrialization that had alienated Malays in rural areas who remained mired in poverty. In 1998 Anwar Ibrahim, then Finance Minister, Deputy Prime Minister, and UMNO Deputy President, was sacked from these posts for questioning the prime minister's selective bailout of well-connected firms following the currency crisis. There was no reform of politics, even after major political unrests, such as the *reformasi* (or reformation) that erupted after Anwar's expulsion from UMNO.

Since the politics of the state had not changed even after economic crises, this undermined the creation of a level playing field in the economy where non-Bumiputeras could invest without fear of expropriation of their firms through horizontal policies. After Razaleigh and Anwar were ousted from UMNO, most Bumiputeras and non-Bumiputeras in business aligned with them subsequently lost control of their assets to enterprises linked to the state. While competition between ethnic groups for scarce resources was seen as a reason for social tensions during the 1960s, by the 1980s and 1990s it was elite feuding in UMNO that had contributed to political crises which spilled over into mainstream society, seen particularly in the 1990, 1999, and 2018 general elections.<sup>30</sup>

Racialized discourses, coupled with patronage-based policies linked to the notion that the state is a 'protector' of the Bumiputeras (Chandra 1979), have evidently served well to subordinate, even

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<sup>30</sup> When Razaleigh and Anwar were ousted from UMNO, they formed opposition coalitions that severely reduced the Barisan Nasional's majority in parliament and control of state governments. Razaleigh subsequently returned to UMNO's fold, while Anwar is now opposition leader in parliament.

disorganize, poor Malays. However, such discourses can work against politicians in power when they are seen to have failed to deliver the promised concessions or structural changes. This is most evident in the number of Malay-based parties that now participate in electoral contests.

Malays in the peninsula had voted against a government that they saw as not having delivered on its promises, particularly to alleviate poverty, indicating that policies increasingly matter (Saravanamuttu 2016). The middle class in urban industrialized states has punished the government for renegeing on its pledge to reduce corruption, practise a transparent and accountable form of governance, and cease racialized forms of politicking (Chin and Wong 2009). After Barisan Nasional registered its then worst electoral results in the 2008 general election, its dismal performance was seen as a message from the electorate that it had had enough of racialized politics, the poor quality of state intervention, and flagrant corruption, a point Najib acknowledged in 2009 when he took office as prime minister. In the 2013 general election, when Barisan Nasional fared even more badly than in 2008, the coalition registered huge defeats in urban middle class constituencies and obtained just partially more support than the opposition in the Malay heartland states. Barisan Nasional lost the popular vote, obtaining only 49 per cent of electoral support nationally, but secured national victory only because of Malaysia's deeply gerrymandered electoral system (Ostwald 2013). UMNO no longer had cross-class, cross-ethnicity, and cross-regional support, with an appreciable plummeting in popular support in the most industrialized states where a majority of the middle class is situated (Gomez and Mohamed Nawab 2019). However, race-based positions involving affirmative action have not necessarily declined, particularly among poor Bumiputeras who fear that the removal of horizontal policies will not help them alleviate themselves out of poverty.

#### **4 Conclusion**

This review of horizontal policies, introduced to correct socioeconomic inequities through an expanded state apparatus, draws attention to the crafting of diverse SBRs that have contributed to capital accumulation by political elites and the well connected. The incapacity of businesses to shape policies—they are hardly monolithic, devoid of organizational power, and riven by competing SBRs controlled by different politicians—allows political elites to dictate the pattern of capital development. This assortment of SBRs, simultaneously executed and shaped by different modes of state intervention, have contributed to new intra-Bumiputera class disparities while undermining domestic investments by non-Bumiputeras.

New SBRs are introduced with each regime change, reflecting also the political and economic objectives of the prime minister. Mahathir was fixated with conglomerates, Abdullah preferred SMEs, and Najib favoured GLCs. Malaysia's three governments since the 2018 election have rigorously employed GLCs that function within a structural framework originally conceived in 1970 when the NEP was introduced. This framework has grown to a point where it is now unclear how many GLCs operate within it, allowing politicians in the federal and state governments to exploit them through innumerable methods to serve vested political and economic interests.

Short-term horizontal policies like affirmative action have been preserved and have evolved in the long durée as an avenue for politicians to secure unfettered access to state resources to consolidate power. An outcome of long-term implementation of horizontal policies is the practice of claimed identities to secure the incentives that come with them. Affirmative action programmes by a state intent on applying selective targeting has contributed to rent-seeking, corruption, and economically debilitating patronage. Although these programmes have generated intra-ethnic inequities, they have been retained, ostensibly because inter-ethnic wealth inequities remain unresolved. Yet even

after a concerted attempt to promote ethnic capital as a redistributive mechanism, this has not led to the rise of Bumiputera enterprises that can aid the de-racialization of society.

One can argue that these outcomes of horizontal-type policies would not have occurred had the state been more democratic, accountable, and transparent. Recent Malaysian history has shown, even with the rise of democracy, that this is not the case. State governments have long been controlled by opposition parties that claim to govern in a democratic manner. UMNO leadership changes, as well as a change of government, have done little to rein in unproductive forms of affirmative action-based patronage, despite the need to deal with this problem to draw domestic and foreign investments. And between 2003 and 2020, all Malaysian prime ministers explicitly or tacitly acknowledged, at one time or another during their administration, that they were aware that racial preferences should be discarded. However, all prime ministers have lacked the political courage to implement radical reforms.

The only time when the state was not able to dictate the pattern of policy implementation was during economic crises, as seen during the serious recession of 1986, the Asian currency crisis of 1997, and the global financial crisis of 2008. On these occasions, the government was forced to scale back affirmative action and liberalize ethnically based ownership regulations in key economic sectors to draw domestic and foreign investments. However, even on these occasions, the government subsequently back-tracked on these reforms. Crucially too, there have been few or no attempts to reform bureaucratic institutions to improve transparency and accountability during implementation of the policy in a manner that can inspire investor confidence. Among the key reforms regularly proposed by different regimes, specifically during crises, is a review of how Malaysia's huge GLC ecosystem functions in the corporate sector, since these enterprises are responsible for the implementation of affirmative action-based initiatives. What is evident is that for effective bureaucratic and GLC reforms to occur and for these affirmative action plans to be seen as credible, there has to be one fundamental reform—devolution of power to key institutions, providing them with the autonomy to act without favour. Other reforms include the need for federal—and state-level—arrangements that serve to accommodate a plurality of views by ethnic communities.

Since policies of old have returned to the fold following economic crises, ethnic-based affirmative action programmes continue to bypass entrepreneurial non-Bumiputera companies. Affirmative action in business, whether targeting large enterprises or SMEs, has resulted in serious wastage of resources. Through various vendor development programmes, the government has tried to create a market for Bumiputeras within existing supply chains (electrical & electronics and manufacturing sectors) and industries (hypermarkets), targeting the SMEs. These SMEs have failed to secure a presence in these areas, in the process depriving entrepreneurial non-Bumiputera firms from availing themselves of these opportunities and growing from them. Such ethnic bypassing, though long critiqued (Jomo 1990; Maznah 2005), has gone unheeded, even by state governments not under UMNO's control.

Since SMEs comprise a huge segment of the economy and are a critical source of job creation and entrepreneurial ventures, the practice of mixing social and business policies must cease. While Malaysia has well-formulated SME programmes,<sup>31</sup> this mix of policies to create Bumiputera capital and redistribute corporate equity does not create an environment for productive entrepreneurship. Moreover the question of property rights, involving ownership as well as control of an enterprise,

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<sup>31</sup> See, for example, the 'Ninth Malaysia Plan' (Malaysia 2006) where a whole range of institutions and programmes were introduced to aid the development of SMEs.

is fundamental as SMEs prefer a secure, transparent, and accountable administrative—and legal—infrastructure that supports risk-taking and novelty-seeking entrepreneurial activities.

Clearly too, a political system cannot indefinitely defend and enforce a property rights system that allows for appropriation of wealth by the government for transfer from one ethnic group to another. The outcomes of such a stance are clear: a narrowing base of productive enterprises; a massive brain drain; poor volume of domestic investments in R&D; and huge dependence on foreign investments for growth. In terms of equity ownership, by the government's own tabulation, the volume owned by all ethnic groups is falling rapidly.

These downsides notwithstanding, affirmative action programmes have had positive outcomes. Malaysia has a good record of reducing poverty. The Bumiputera middle class has expanded, while their number of professionals in all sectors of the economy have increased appreciably. Affirmative action programmes that provided the poor with high-quality primary education contributed to the rise of a new independent Bumiputera middle class.

What lessons then can be drawn from Malaysia, as implementation of affirmative action can obviously emerge as a double-edged sword? Policy modifications are imperative with a focus on needs-based, not ethnically defined, programmes. This will ensure that those with high income or from the middle class have no access to the policy. Affirmative action must focus on providing sound education, targeting the recipients early in life. Affirmative action in business has undoubtedly undermined the development of entrepreneurial domestic firms. However, the nurturing of domestic firms based on entrepreneurial capacity, as seen in the developmental state model, has led to the rise of major enterprises in East Asia (Amsden 1989; Wade 1990). Failure cannot be justified on the grounds that there is a need to support fledgling Bumiputera firms, while outsourcing must be effectively monitored to ensure productive employment of rents. How institutions, particularly the GLCs, are formed and deployed matters. The credibility of public institutions is important. An accountable, well-designed, and well-coordinated institutional architecture can be created that fosters effective SBRs, to the extent that it promotes authoritative allocation and reduces rent-seeking during implementation of policies.

Another key lesson is that affirmative action's focus on ethnicity has had dire outcomes in the political arena because long-term implementation of the policy has reinforced ethnic identities in a manner that hinders social cohesion. The existence of affirmative action can determine how individuals and groups identify themselves in politics. If the policy is perceived to be a path to greater economic opportunities, voters are more likely to consider their ethnicity salient and coalesce around affirmative action. For many voters of the targeted group, a party's support of affirmative action is a litmus test of support. Candidates risk losing votes from a huge segment of the electorate if they criticize the policy, let alone advocate its abolition. This suggests that an elite class can racialize identity by subordinating one group over another to consolidate political and economic power.

The challenge, thus, is not just about how to rectify economic inequities; there is a political dimension that needs to be addressed. Old and new patronage-based SBRs coexist in an increasingly unstable political environment. New inequities, as well as the corresponding increase in the powerlessness felt by disaffected and marginalized groups, have resulted in increasing discontent with the political system. There have been consistent admissions by different prime ministers of the need to refine, amend, or possibly replace the race-based targets of affirmative action. There have been pressing calls for reforms that dispense with identity-based patronage through an obsolete and much abused structural framework. While the government has recognized that a transparent and accountable type of polity is now required, along with the need to liberalize ethnically based ownership regulations, it has not acted to inspire trust in investors that their

investments will be protected in the long term. Development is not of an inclusive form, even though all prime ministers have voiced this as their primary objective. The state is clearly an institution fraught with contradictions, its neutrality undermined by capture by political elites, a reason why its affirmative action programmes and development plans have led to serious inequities.

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