

**Title:** POLITICAL ECONOMY OF DEVELOPMENT: THE MALAYSIAN EXPERIENCE  
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**Speaker:** YAB Tun Daim Zainuddin

***Assalamu alaikum Warahmatullah and a very Good morning to everyone.***

Let me start by thanking the President, Professors and Senior Staff of University Tun Abdul Razak (UNIRAZAK) for inviting me here today to share my thoughts on some rather weighty subjects - our economic history as a nation, and how the economic development of Malaysia has been shaped by sociological factors, political environment and government policy.

I have chosen the topic '*Political Economy of Development -The Case of Malaysia*' for a few reasons. First, I think Malaysia has a lot to offer in helping other communities understand the nature and dynamics of governing positive change in a plural society, and its implications on the democratisation of a nation's economic and social development. Secondly, I believe democracy has no meaning if the fruits of economic development are not able to be shared justly by the citizens of a democratic nation.

I think it makes a lot of sense for me to start this review of our economic history at the beginning of our journey as a nation - the early years following our independence from the British. I will also touch on the British experience here, and the conditions that came about from their involvement in the Malay States, so as to provide some historical context to the circumstances faced by our nation at its birth, and their influence on the development policies conceived by our government following Merdeka. The economy that our nation's founding fathers took over in 1957 was predominantly an agricultural one. The majority of our population at that time resided in rural areas. It was also in the rural areas that the incidence of poverty was the greatest.

Our first democratic government recognized that lifting the rural population out of poverty and deprivation would be key - not only to improve the standard of living of the majority, but also to foster political stability and social harmony. I don't think anyone here, or any development economist or economic historian for that matter, would argue that the economic development of a nation is largely unaffected by social discord and political instability or that the two are not tightly intertwined. As the economic and political history of many nation states have since testified, those with governments that had the foresight and wisdom to conceive economic development policies that were inclusive; that systematically attempted to address inequity and poverty among its citizens; and that then had the gumption and political will to ensure the steadfast and effective implementation of these development policies, have typically benefited from sustained, if not rapid, economic growth and development.

Our nation's founding fathers I believe were keenly aware of this. The focus of our first democratic government in 1957 was therefore to reduce the incidence of poverty among our rakyat. This naturally meant focusing on improving the lot of those in the rural areas. This gave birth to the Rural Economic Development programme aimed at improving the yield of our lands so that poverty could be alleviated, and opportunity for betterment of living standards afforded to the rural poor. At that time everyone was aware of the acute social and economic divide between the urban minority and rural majority.

Once the productivity of our lands was improved, the issue to be further addressed was how to best market and sell the products of the land. At the core of our nation's economic development policy in the early years were therefore these measures to strengthen the commercial and microeconomic underpinnings of our economy. FELDA or Federal Land Development Authority was established to provide a systematic resettlement of the rural landless to own a new plot of agricultural land for specific cash crop cultivation. This scheme saw the opening up of remote agricultural lands in states such as Perak, Pahang and Johor for the mass cultivation of rubber and oil palm. And RISDA or the Rubber Industry Small Holders Development Authority was established to assist the holders of small rubber estates. Another agency called MAJU IKAN or Lembaga Kemajuan Ikan Malaysia was also set up to assist our fishermen in marketing their daily catch from the sea. FAMA or Federal Agricultural Marketing Authority, for example, was established by the government during this time to tackle the problem faced by our rural population of marketing and selling their rural and agricultural produce.

I think it is only logical and expedient that our government first focused on the making the most out of the fertile soil and rich metal and mineral resources of our country, as a means of securing economic development and political stability post-Merdeka. In terms of the economic history of our nation immediately pre-dating Merdeka, it was of course largely influenced and driven by the British. By recalling what had transpired under the governance of the British colonial administration, we can clearly see how the economic development policies of the British for the Malay States had a significant impact on the social constitution and microeconomic structure of the independent Malaya. These were the conditions that our founding fathers had I suppose, 'inherited', from our former colonial masters. Some of these socio-economic conditions were to later bubble and surface as contributing factors to key turning points in both our nation's political history and our economic development policies.

So to address my later discussion on our economic history, post-Merdeka, let me now go back further into our economic history, and back into the times when the British held sway in the Malay States to give us some sociological and microeconomic context to the policies and progress made by our post-independence governments.

Since the occupation of Penang in 1786 by Sir Francis Light, British interest in the Malay Peninsula had been more about the economics of the commodities trade rather than politics. Increasing trade between Europe and the East, particularly China, placed the Peninsula in a strategic gateway position. Their eventual interventionist policies towards the Malay States were merely to bring about peace and political stability in the Peninsula. This became an increasing priority as the British direct investment in producing and/or harvesting commodity products of the Malay States intensified throughout the 1800s. So it was clear that for the British, the protection of their economic interest was the driving force rather than a desire to govern.

In order to exploit our natural resources such as rubber and tin, the British encouraged the influx of cheap labour from India to work in their rubber estates and from China to work in the various tin mines especially in Perak and Selangor.

While the import of Indian labour was organized by the British, most of the Chinese came on their own, attracted by dreams of wealth and fortune from the tin mines. The Chinese arrived here poor but being industrious and financially connected, managed to prosper within a short period of time. In 1890, Yap Ah Loy known as Kapitan Cina of Kuala Lumpur was reported to be the richest man in Malaya, owning mines, plantations and shops.

Malaya's banking and insurance industries were owned and operated by the Chinese from the beginning. More than that even among the Malay Sultans in their dealings with the Chinese business – some became indebted to Chinese bankers, thus giving the Chinese, political as well as economic leverage.

The British allowed the Malays to monopolise positions in the police and local military units as well as a majority of administrative positions open to non-Europeans. The British regarded the Malays as amiable, but unsophisticated and rather lazy, incapable of self-government, although making good soldiers under British officers. They regarded the Chinese as clever but dangerous.

I have touched on the Malaysian part. Let us now look at recent history.

### **Economic Growth and Development**

The recent fall of governments in Tunisia and Egypt that sent serious ramifications to the whole region and the world, has a very important political economy perspective. Here in Malaysia, the 2008 general election where the Barisan Nasional lost a significant number of parliament seats and its majority in several states, has spurred a vigorous debate on the nation's political economy. The Malaysian society now demands greater commitment on good governance, transparency, and greater accountability, in order to curb mismanagement and corruption. Democracy as I said earlier, will be less meaningful if the fruits of economic growth and development are not equitably shared by the society. Therefore, inclusive growth in which economic benefits are shared equitably by the rakyat and all the regions in Malaysia is an important lesson in political economy.

This fact is widely accepted by international bodies, such as the United Nations and the World Bank, and is reflected in our achievements of the Millennium Development Goals.

However we cannot rest on our laurels. In 1970, South Korea per capita income was 40% lower than Malaysia's but in 2009 there is more than three times of ours. In the seventies we used to beat them at soccer, and now, their football team is playing in the World cup. They have hosted the Summer Olympics Games. We have so far only managed to host Commonwealth Games.

### **Malaysian Political Economy**

What made Malaysia, as a plural society, tick throughout these years? Many other countries with similar history and social composition have not experienced the success that we had but instead they encountered setbacks or even failures. The answer I like to give is that our founding fathers have always believed in the importance of the sharing of political power. The party that ruled on attaining Independence, namely the Alliance, then, was based on the sharing of political power between the three major ethnic groups of the country. Now the same party, the National Front or the Barisan Nasional, is still ruling the country but on an expanded membership basis.

The other answer is the importance attached to economic and social development so as to create opportunities for the betterment and advancement of the people, especially in ensuring that the low income group can partake effectively and benefit from economic development. That development agenda is still a high priority although some reorientation is needed to suit the current times.

There are several compelling matters that make it necessary for Malaysia to see its economic and social development within the context of its political economic perspective:

First is its political structure as a Federation; Second, its population composition along ethnic line; and third the special position of the Malays and the Bumiputras who constitute the majority of the population.

The first issue of Malaysia, as a Federation of Peninsular Malaysia, Sabah, and Sarawak determines the various aspects of the Malaysia's political economy. The three regions have somewhat different history and levels of economic and social development. Malaysia has to balance between the needs of the Peninsula which account for the bulk of the national population and the needs of Sabah and Sarawak which have sparsely distributed population. Rural roads, schools and basic health facilities and hospitals, as well as power, constitute the major demand of the people in Sabah and Sarawak. Meeting these demands is a challenge for government budgetary objectives.

Even within the Peninsula, the bickering and competition by states for development projects, especially those funded by the Federal Government, as well as for private investments are quite obvious.

The second issue relates to the ethnic composition of this country and its ramifications on economic and social development efforts. Barisan Nasional whose members are ethnic-based political parties such as UMNO, MCA and MIC, champions the interests of the ethnic groups they represent. Thus ethnic concern is always considered in the formulation of many public policies.

This is even more so in the field of economy. The Chinese community which dominates the urban areas and commercial activities will remain contented if their economic position is not dented by any change in the given global economic scenario or by the implementation of any public policy. However they are concerned about their economic position with the introduction of public policies to expand the Malay economic participation and entrepreneurship as envisaged under the New Economic Plan (NEP). Similarly, the Indian community is also asking for a bigger share in the economy. These are quite legitimate concerns and need to be addressed in the context of equitable growth, which are being addressed in the New Economic Model.

These ethnic aspirations and expectations about economic growth and development have become an important factor in Malaysian public policy formulation. The NEP while attempting to assist the Malays and Bumiputras acquire socioeconomic improvements, also aim to expand and modernize the economy so as to benefit all ethnic groups too.

The Malays and Bumiputras are politically dominant as they constitute about 60% of the population. A political party that is insensitive to this group and does not address its plight cannot hope to rule Malaysia within the foreseeable future. Although the Constitution has accorded them with special privileges, their economic position is still very weak.

The Government had used its influence and power to bring about social and economic programmes to ensure economic convergence and equalization between the major races and between the rural and urban population as well between regions. There have been limited success and the process will still take a long time before significant convergence in income and other economic achievements is achieved.

While the above three aspects form the major elements of public policy in Malaysia for at least four decades, the future issues that will influence the political landscape of Malaysia remain a guess. There is now a call for ONE Malaysia. In addition to the traditional concerns of improving quality of life and the need to narrow economic imbalances, the new voters are asking for greater transparency and better governance as well as zero corruption. In the rural areas, people are asking for social amenities and facilities especially those in Sabah and Sarawak where basic infrastructure is still inadequate.

## The New Economic Policy

Let me touch on the New Economic Policy (NEP) which has been the punching bag whenever the nation's economy performed badly, although it may not be the cause of it. The NEP aims to achieve national unity through the eradication of poverty and restructuring of society. The latter strategy was a form of social engineering to ensure that there exist a Bumiputra Commercial and Industrial Community that own and manages at least 30% of corporate equity. It is a policy that promotes economic growth that is accompanied by better distribution or equity.

Some forms of NEP exist elsewhere. In the US it is called 'affirmative action' programme wherein the major thrust is to assist the very low income sections of the community. In a way it resembles our policy for eradication of poverty. In some places it can be equated with the objective of reducing regional imbalances and thus assisting the low income regions to attain a higher speed of economic development.

Thus there is nothing wrong with efforts to eradicate poverty and to reduce social and economic disparities. It is a noble social engineering exercise and we should not be apologetic about it. The implementation of the NEP benefits every community either directly or indirectly through spillover effects and overall rise in income levels. In fact what happens in the Middle East now is the result of public policies that do not address social and economic imbalances and the inability of those in power to create democratic institutions and social organizations that ensure greater transparency and good governance.

There were some objections to the formulation of the NEP in the beginning. There were those who believed in traditional economics which let market forces address imbalances while the Government focuses on meeting basic needs only. The other school of thought closely identified, with Jus Faaland, recommended a more direct policy intervention and corrective measures to reduce economic imbalances.

In this regard, the late Tun Abdul Razak, who was the Deputy Prime Minister then and assisted by personalities such as Tun Ghazali Shafie, advocated for a more direct involvement of the public sector to correct the economic imbalances. Hence the target for restructuring of society whereby the Bumiputra commercial and industrial community was to be created and targeted to own and manage at least 30% of corporate equity was accepted by the society and incorporated in the Second Malaysia Plan 1971-1975. As they say the rest is history.

I shudder to think what would be our social and economic imbalance if we do not have a policy like the NEP. What would have been the incidence of poverty now when it was about 49% in 1970. And what would be the percentage of Malay and Bumiputra equity compared to the position in 1971 when it was just about 2 percent. In addition what would be the percentage of the Malay professionals compared to other communities. Now the Malays and Bumiputras owned about 21.9% of corporate equity but still below the target of 30% originally set for 1990.

The period after 1980 could be seen as a march towards Vision 2020, vis-a-vis industrialisation and attainment of advanced nation status. The government of Tun Dr Mahathir started this phase of economic and social development by accelerating privatisation projects, especially major infrastructure of our country. Many privatization projects were awarded to companies that adhered to the principle of equity-sharing between Bumiputra and non-Bumiputra investors. Many capital intensive businesses that were awarded to the Bumiputra investor to lead and develop, especially large infrastructure projects such as the North-South Highway under PLUS, needed government support since the Bumiputra community's foundation in business was still weak. They did not have a good network of contacts in business, unlike the more established non-Malay businessmen. Even if these projects were given to Bumiputra companies the bulk of the work was still given to the experienced non-Bumiputra companies. The benefit of these developments and projects would still trickle down to them. Whatever angle looked at, there was no deprivation of non-Bumiputras from sharing in the spoils of economic development during this period in our economy's history, where the push was to equip our country with the basic infrastructure for growth, and to further our progress upwards in the economic value chain.

From 1980 until now, we have certainly made remarkable progress as a nation. Our economy has deepened and broadened its base. Through this period our government through its policies has not marginalized any ethnic group but has made significant progress in narrowing the economic divide.

We could not deny that the NEP has achieved some successes. The overall poverty incidence has been reduced from about 49 percent in 1970 to 3.8 percent in 2009. The income disparity between Bumiputras and Non-Bumiputras declined throughout 1970 till 2009; the ratio between Bumiputra and Chinese was reduced from 1:2.29 in 1970 to 1:1.38 while between Bumiputras and Indian from 1:1.77 to 1:1.10 for the same period.

Nevertheless, I would postulate here that the most successful part of the NEP is the human capital development among the Bumiputras. The Malays and Bumiputras have now acquired double digit percentages of their involvement in the professions such as medicine, engineering, law and accountants. The objective is not only to address the quantity issue, but also the contribution to productivity and value creation as the professional Bumiputras professional are gainfully employed in the private sector and contribute to its development.

Some people are negative about the NEP by saying that it has benefited mainly the Bumiputras. This must be corrected. The impact of the NEP on the Chinese business community has not been negative. Rather, majority of them had reaped benefits greater than their bumi counterparts. For example, till 2009, no bumiputra has ownership of the top 10 firm listed on the Bursa Malaysia. Most top 100 manufacturing companies are still Chinese-owned.

The measures by the Government to address poverty and imbalances create benefit and opportunities to all. Initially the projects benefited contractors and suppliers. The rural development projects benefit owners of supply chain and service providers, as overall productivity and income rise. The rise in output also allows manufacturing and processing activities to take place. The training of Bumiputras allowed skill formation and thus enhance productivity all round.

I like to pose two important theoretical questions here. First, has greater equity been achieved at the expense of economic growth? Second, has the NEP contributed to significant reductions in interethnic inequality, which is an important concern in Malaysian political economy? Let me leave these questions to the academicians to explore. There may be many more interesting questions to be examined on the NEP given that many have questioned its relevance at the moment. The issue of sharing the benefits of economic growth and development to ensure significant reduction in economic disparity will remain relevant in this country for decades to come.

### **New Economic Model**

The Government has just launched the New Economic Model or NEM, in March 2010 with the objective of achieving high income by 2020, given that Malaysia has been straddling in low middle income group a little too long. NEM is predicated upon three thrusts namely high income, sustainability and inclusiveness. NEM will promote a strong and competitive private sector and an efficient public service, as well as greater role of innovation and creativity to create the high value and income, essential for doubling of income by 2020. In so doing the element of liberalization will undoubtedly be important to achieve the per capita income level of USD15,000 by 2020 from now estimated at about USD7,000.

I am happy to note that the NEM does not absolve itself of the objective of distribution. Under the thrust of 'Inclusiveness', it focuses on development policies and programmes for the lowest 40% of the population, irrespective of ethnicity. Even the target of assisting Malay entrepreneurship continues to be adopted. However the approach needs to be adjusted where it will be market friendly and transparent.

One Malay based NGO (PERKASA) has championed the cause of Malay economic interest and had challenged the many assumptions and bases of the NEM especially on the issue of Malay and Bumiputra equity ownership and participation in commerce. Certainly there is a need for more dialogue and communication on the model so that the people can enhance their understanding of the model and how the Bumiputras can benefit from liberalization of the economy. Certainly the Malay professionals now are more prepared to face more competition as long there is clear public policy on economic growth that is consistent with fair distribution.

I like to join the debate on the NEM. My main concern however, given my business background, is the need to develop and conceptualize the new model of Malay and Business entrepreneurship which should be encouraged and promoted within the next ten years or so. In the past, we had used instruments such as licensing, price margin preferences, government procurements, APs (permit for imports), in addition to financial assistance, in order to assist Bumiputra entrepreneurs. Has this model brought about sustainable entrepreneurship? I think the answer is, perhaps, no. Now that the government finances are not strong, such dependence on the public sector is no longer tenable. A new and fresh approach towards the development of Malay or Bumiputra entrepreneurship has to be explored and developed that has currency and relevance in these challenging times.



There is a critical need to ensure a Malay and Bumiputra entrepreneurship group that is more sustainable and less dependent on government support. The group must be competitive and capable of meeting the challenges of the market place. I think this agenda is an unfinished business and the Government must strive towards finding a sustainable entrepreneurship model for the Bumiputras that will carry the flag of the community into 2020.

### **Accountability and Governance**

Moving forward, the rising concern for accountability, transparency and good governance will be important and will remain to be so in the years to come. As societies become politically mature and the degree of urbanization reaches developed country proportions, the articulation of such concerns becomes the order of the day.

However we still have social imbalances due to our social and economic history and the different factor endowments that we all have been blessed with. Thus total or complete meritocracy in its classical sense as espoused by this new concern cannot be practiced here. There is still no level playing field yet. But we must move towards meritocracy and transparency over time if we want to be a developed country.

This issue is relevant to us in two contexts. First, is the need to assist the low income group and the traditional sectors of the economy. It is here that the authority has to balance between the needs for equity and efficiency. The latter may demand open competition and transparency in awards of tenders. The second is the need to ensure accountability of public actions and expenditures so that mismanagement can be reduced to the minimum or wiped out completely.

These concerns can be addressed by several means. There is no harm in assisting those sections of the society who have been traditionally been associated with low technology, low skills, and low productivity as well as poor infrastructure. These groups should be given handicaps that they deserve but it must be done with clear and transparent criteria. Thus scholarships and subsidies as well as margin preferences must be given to them. However the exercises must be undertaken with transparency and accountability and can withstand rigorous public scrutiny.

A more modern approach is to establish a good economic regulatory regime which supports competition and fair trade practices. Malaysia has recently passed the competition law that defines the rights and obligations of players in the market place.

## Conclusion

Ladies and Gentlemen, I have outlined the importance of giving due consideration to the political economic imperatives in the process of Malaysian economic and social development. Unless we take it seriously, our nation can be exposed to social and political instability and the consequence can be disastrous. We cannot afford it. Malaysian development experience, through good times and bad times, has never compromised on political and social stability. Even under pressure by the IMF, during the financial crisis in 1997/1998, we undertook unorthodox measures by mounting capital controls and pegging the Ringgit to the dismay of many currency traders and speculators. I believe that, as a sovereign nation, we should not lose our control of public policy instruments in order to protect the living standards of our people.

So much of the past. What about the future? I dare say that we have a bright future, brighter even, if, yes, IF, young people like all of you here, dare to dream the impossible, and bold enough to reach for the stars.

The present Federal government is doing precisely that; continuously improving on development strategies, constantly finding new measures to help improve our overall living standards and most importantly reaching for even higher civility in distributing prosperity among the people.

I would like to share with you one of my deepest concerns about the world we live in today. In the rush to modernize and create comfort for ourselves, we seem to have forgotten to give proper attention and emphasis to one aspect - which is preservation of the environment. The impact of economic development on the environment - what economists among you would refer to as 'externalities', if unmanaged and not taken seriously as our collectively responsibility to address, is severe.

Global warming, the lack of attention by human beings on our environment has resulted in pollution, a thinning ozone layer and plundered forests. All this has been committed in the name of economic progress. In Malaysia we too have been somewhat guilty of this, and of late, we are being increasingly reminded as individuals that the price we are paying is very high. Of course the government has its role in promoting and educating the rakyat on how to better care for the environment, and to invest in its future. But this type of change needs not only political resolve but the individual will of all of us. It is already a crisis that we are facing now. To the young people - architects, developers, engineers, social scientists, natural scientists, doctors, lawyers - when you graduate, you must remember that one of the most important things to include in your life and future plans is to do our best to take care of the environment. Conserve energy, not pollute and nature will not destroy us. This is shared goal, a common goal to bind us all. It is a collective investment that I urge all of you here to make.

Thank you for finding the time to listen to my views and thoughts.

*Terima Kasih.*