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Malaysia's Protracted Affirmative Action Policy and the Evolving Bumiputera Commercial and Industrial Community

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Abstract

This paper examines the evolution of the Bumiputera Commercial and Industrial Community (BCIC) in the context of Malaysia's protracted affirmative action from 1971 to the present. It explores, on one hand, how the state has responded to the demands of different Malay pressure groups and, on the other, to external shocks arising from economic globalization. These external factors have compelled the state to deregulate and liberalize its economic policies which run contrary to the goal of promoting the development of a BCIC. The paper argues that affirmative action has made immense progress in restructuring Malay society, leading to the emergence and consolidation of a Bumiputera entrepreneurial community. The current policy aim is to integrate the BCIC into national and regional supply chains with continuous state support. This paper concludes that Malaysia's future rests, not in the existing "ethnic by-pass" practices of a BCIC, but on a new paradigm of "ethnic inclusiveness" that requires trust building between the various ethnic groups as well as the effective integration of the BCIC into national and regional supply chains.

Keywords: Affirmative Action, Malay, Bumiputera, State, BCIC

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Introduction

This paper examines the evolution of the Bumiputera Commercial and Industrial Community (BCIC) in the context of Malaysia’s protracted affirmative action drive. The policies covered in this study include the: *laissez-faire* policy (1957-1970); New Economic Policy (NEP 1971-1990); National Development Policy (NDP 1991-2000); National Vision Policy (NVP 2001-2010); as well as the New Economic Model (NEM) and the Economic Transformation Programme (ETP) introduced in 2010.

A review of the existing literature on the development of the BCIC revealed, with a few exceptions, the general failure of past efforts to create a dynamic Bumiputera entrepreneurial class. Amongst early studies on the topic, Tham Seong Chee (1977, p. 255) argued that most Malays were drawn to business because of the availability of facilities, however, they did not believe that entrepreneurship could enhance their social mobility. Malays who ‘made it’ as businessmen and company directors usually came from an affluent background, notably the aristocracy or senior ranks of the public service. In contrast, there were very few rags-to-riches success stories (Tan 1982, p. 305; Lim 1985, p. 54). Mehmet (1986, p. 157) argued that the NEP gave rise to cartel-like networks promoting self-enrichment through rent-seeking.

Literature on the emergence of Malay tycoons in the 1980s and 1990s argues that this was almost entirely due to strong state patronage. Jesudason (1989) argued that the Malaysian state patronized the development of Bumiputera tycoons and very few Malay tycoons were real entrepreneurs who started their own businesses. In addition, they spent lavishly, had a ‘quick rich mentality’ and mismanaged their finances. Furthermore, they tended to enter the same saturated markets, further undercutting their ability to survive (Jesudason 1989, pp. 102-108, 195). Their wealth accumulation thus resulted from patronage and access to political power (Jesudason 1989, p. 105) and almost all were either created by the state or at least had crucial state support (Jomo 1993, p. 19). Similarly, Crouch (1996, p. 217) argued that most Malay businessmen wanted state intervention to preserve their special privileges and that while the NEP succeeded in bringing Malays into business it failed to stimulate the development of an independent entrepreneurial class. Gomez and Jomo (1999) contended that such Bumiputera capitalists were rent-seekers rather than genuine entrepreneurs, regarding their activities as unproductive and a hindrance to economic development. Yoshihara (1988) termed this “ersatz capitalism”.

Searle (1999) offers a contrasting view of the developmental potential of the BCIC, arguing that “Malay capitalism is a complex amalgam of state, party and private capital but a core of productive investment and entrepreneurial activity is emerging from within the cocoon of state/UMNO-support patronage networks and rent-seeking activity” (p. 17). Despite the prevalence of rent-seeking, he contends that there was an important transformation taking place in the evolution of the Malay capitalist class as some proxy capitalists had built on initial support and become more independent of state patronage (pp. 153, 174).

More recent studies on the development of the BCIC have showed some positive findings. Lim (2000, p. 453) argues that the BCIC has emerged, but is not yet a dynamic class, as many small-scale entrepreneurs face formidable obstacles. The paper also cites political intervention as a critical factor in undermining market rationality and contends that the Malays do not seem to possess cultural values compatible with economic rationality. Abdul Rahman Embong's (2002) study shows that, in the 1990s, the NEP created a Malay middle class and a class of Bumiputera capitalists. Chin (2004; 2007; 2010) argues that a well-qualified Malay entrepreneurial class has emerged among small and medium enterprises (SMEs), especially those involving inter-ethnic partnerships. These partnerships have led to the transformation of the unhealthy Ali-Baba 'partnership' [1] into class-based Chinese-Bumiputera partnerships in the post-NEP era.

Insights from this literature raises several questions regarding internal and external factors that have affected state performance over the past four decades. What are the economic policies adopted and strategies used to develop the BCIC at different periods of Malaysia's economic development? Why did the state prioritize such policies and strategies? What are the impacts from protracted affirmative action? Why isn't the state capable of doing away with affirmative action? How did the state reconcile demands for protection of the Bumiputera entrepreneurial class with the imperatives of economic globalization?

With these questions in mind, we examine how the state has formulated its economic policies over the past four and a half decades, in response to changing internal and external factors. Internal factors refer to the economic demands/pressures of different Malay groups which include nationalists, the middle class, business elites, and recently by a powerful non-governmental organization, Perkasa.[2] External factors refer to external shocks (mid-1980s world economic recession, 1997/98 Asian financial crisis and the 2008 global financial crisis)

[1] Where a Bumiputera 'investor' provides the license and/or listing requirements for a Chinese entrepreneur, but otherwise remains a silent partner. Ali is a common Malay name, while Baba is a slang Malay term for the Chinese.

[2] Perkasa is a Malay nationalist organization that has great influence over 76 Malay NGOs throughout Malaysia.

and the forces of globalization that compel the state to deregulate and liberalize its economic policies.

Through a critical examination of the literature, we provide an account of how the BCIC has evolved at different phases of Malaysia's economic development. The past four decades of protective measures have gradually slowed down Malaysia's economic growth, prompting the state to deregulate 27 services and financial sub-sectors in 2009. These sub-sectors are politically important due to their significant Bumiputera participation. The government also introduced the NEM and the ETP in 2010 that aim to rely heavily on "private sector-led" growth to counter further slowing down of economic growth. In critically examining the 'private investment-led" growth strategy and the Bumiputera agenda outlined in the NEM and the ETP, we argue that the state is promoting a BCIC beyond Malaysian borders by supporting an integrated supply chain. In addition, the re-engineering of GLCs under the ETP will mainly benefit Bumiputera-owned private companies and integrate the BCIC into regional supply chains.

Tracing the Incipient of 'Malay Bourgeoisie' in Post-Independent Malaysia

After independence in 1957, the Alliance Government adopted a *laissez-faire* economic policy to promote private-led economic development, aimed at encouraging foreign direct investment (FDI). This was coupled with a short-lived import substitution industrialization (ISI) drive that was unable to generate significant employment (Snodgrass 1980, p. 209). In the late 1960s, the government shifted to export-oriented industrialization (EOI). The state acted largely as a facilitator to attract FDI through the enactment of the Industrial Incentives Act 1968, which offered incentives. Under the EOI, both the state and FDI "found common interest in a relatively early phase of a 'new international division of labour'" (Khoo 2012, p.

35). Laissez-faire coupled with EOI helped the newly independent country achieve substantial economic growth, with an average annual GDP growth rate of 5.8 per cent in Peninsular Malaysia during 1957–70 (Khor 1983, p. 2). This period created opportunities, mainly favouring foreign investors and, to a lesser extent, helped the emergence of Malaysian Chinese capitalists (Lim 1983, p. 248). Under the *laissez-faire* policy, Chinese capital was developed further, but Malays improved their economic position only marginally and were nonetheless at the periphery of mainstream economic development. As indicated in Table 1, Malays had limited participation in all sectors of the economy at that time. The highest participation was in banking and insurance (3.3 per cent), which was probably due to the establishment of Bank Bumiputera in 1965 by the state. As of 1970, Bumiputera (Malays and other indigenes) collectively owned only 1.9 per cent of the share of capital of listed companies, whilst foreigners (mainly British capitalists) continued to own a significant stake of 60.7 per cent and the Chinese 22.5 per cent.

Table 1: Ownership of Share Capital of Listed Companies, by Ethnic Groups and Sectors, Peninsular Malaysia, 1970

Sector	Ethnic Group (%)				Total[1]
	Malay	Chinese	Indian	Foreigners	($000)
Agriculture, forestry and fisheries	0.9	22.4	0.1	75.3	1,432,400
Mining and quarrying	0.7	1.8	0.4	72.4	543,497
Manufacturing	2.5	22.0	0.7	59.6	1,348,245
Construction	2.2	52.8	0.8	24.1	58,419
Transportation and communications	2.5	43.4	2.3	12.0	81,887
Commerce	2.2	30.4	0.7	63.5	605,164
Banking and insurance	3.3	24.3	0.6	52.2	636,850
Others	2.3	37.8	2.3	31.4	582,516
Total	1.9	22.5	1.0	60.7	5,288,978

[1] The total includes share capital ownership by Federal and State Governments and Statutory Bodies and other Malaysian residents (individuals and nominees, and locally controlled companies), amounting to about $734 million. In this Table, the ethnic-group shares in each sector exclude these two groups.
Source: Malaysia 1973, p. 83.

In terms of income, majority of the Malays were poor. In 1957/58, the incidence of poverty was 59.6 per cent in rural areas and 70.5 per cent among Malays (Ikemoto 1985, p. 358). In 1956, the Federal Land Development Authority (FELDA) schemes were launched to reduce chronic rural poverty, mainly to help the landless poor rural Malays and open up employment opportunities. Thus, one important aspect the post-independent government had to deal with was the issue of Malay poverty and their participation in modern capitalism. To this end, Malays were granted "special rights"[3] such as employment quotas in the public service, land reservation, and the award of scholarships, licenses and permits. Economic development for the Malays was enshrined in the Constitution in which "the Malay Special Rights programme represented the first legal action to create a Malay bourgeoisie"[4] (Lim 1985, p. 40). As a result of this, the number of urban Malay swelled during the late 1960s, due to the expansion of the civil service, increasing manufacturing activities, and the emphasis on education (Tan 1982, p. 325). However, although Malay elites dominated and controlled the administrative system, they did not have corresponding economic power (Chan and Horii 1986, p. 11). The special rights accorded to the Malays were supposed to provide incentives for their participation in modern capitalism. However, they

> "Served only to prevent Malays with potential from being directly involved in business and industry. Licenses and permits to the Malays did not mean much since in practice trade and industry continued to be largely in the hands of foreigners and

[3] The origin of Malay protection policy could be traced to British colonial rule when the Malay Land Reservation Enactment was enforced in 1913 in Selangor prohibited land ownership by ethnic groups other than Malays in large agricultural lands of the country (Horii 1991, p. 286). The Alliance Government introduced some protection measure for the Malays as incorporated into the Federal Constitution of Malaysia in1957 (see Chan and Horii 1986, pp. 13-14).

[4] Early studies on the growth of the Malay petite bourgeoisie mainly served policy-makers. See Harold K. Charlesworth (1974), Chee Peng Lim, et al. (1979), Abdul Ghani Othman, et al. (1980) and Fauzi Yaacob (1981). There were two Ph.D. thesis on Malay entrepreneurship: Oliver Popenoe (1970) and Abdul Aziz Mahmud (1977).

the non-Malays. In fact, the 'special rights' had no value to most Malays in rural areas as they were (and still are) in poverty" (Osman-Rani 1990, p. 3).

For their part, the Malay petite bourgeoisie were faced with inadequate capital, skilled labour shortages, which in turn impeded their success (Lim 1985, pp. 43, 50). Due to these constraints, ambitious Malay businessmen, politicians and bureaucrats turned to economic and political ethno-nationalism in the first Bumiputera Economic Congress (BEC) in 1965. This was a significant milestone that marked a turning point in the development of Malay capitalism. The demand for a more active role by the state in support of Malay commercial expansion continued and was the reason behind the organization of the second BEC in 1968.

In response to the first BEC, the government established the first Malay commercial bank, Bank Bumiputera, in 1965 to: provide Malays with increased capital; distribute shares to Malays and Malay interests and break Chinese dominance of the banking industry (Toh 1982, pp. 142, 162; Searle 1999, p. 36; Snodgrass 1980, p. 53). In 1966, the central bank, Bank Negara, seized the opportunity and took over Malayan Banking Berhad, a Chinese-controlled bank facing difficulties (Ranjit 1987). In the same year, the Rural and Industrial Development Authority (RIDA) - which had been established in 1950 by the colonial government to cultivate a Malay petite bourgeoisie and look after rural development - was replaced with Majlis Amanah Rakyat (MARA) or Council of Trust for Indigenous People and given greater resources. In 1967, a secretariat for the Associated Malay Chambers of Commerce was established. In 1968, at the second BEC, the Selangor Malay Chambers of Commerce criticized the lop-sided distribution of directorships of large corporations. In addition, there were conflicts between small Malay contractors and Perbadanan Nasional Berhad or National Corporation (Pernas); as well as Malay timber merchants and the State Economic Development Corporations (SEDCs) (Lim 1985, p. 50). These struggles marked the beginning of an intra-ethnic conflict within Malay society.

To recapitulate, prior to the BEC, the first two strategies used to develop a Malay industrial and commercial bourgeoisie were: protection through the imposition of Malay quotas on business licenses, employment and education; and assistance in the form of credit, training and business premises channeled through state-owned enterprises. There was no direct intervention, as the state only encouraged Malays to accumulate capital through these two strategies. Nevertheless, the first and second BECs in 1965 and 1968 marked the transition from a facilitative role to direct state intervention for the Malays and Malay interests (Horii 1991, p. 290). The state's direct intervention from late 1969 onwards through public enterprises characterizes a major change from *laissez faire* to a developmentalist role, namely to address the "Malay dilemma" through creating a new business and managerial class by modernizing Malay society (Abdul Rahman 1996, pp. 69-70). This policy was nationalist-capitalist, in response to the pressure from the Malay elites and rising middle class.

The New Economic Policy and the Making of BCIC

The New Economic Policy is perceived as an inevitable but crucial response to the racial riots of May 1969. However, tracing the incipience of the Malay bourgeoisie shows that the ideology of the NEP was already in existence in the late 1960s – before the event in 1969. It was the new Malay middle class that had pressured the government for greater state intervention in favor of the Malay community. Thus, the NEP was a response to the ethno-nationalist pressures of the ambitious Malay middle class who successfully tied their claims to the racial riots and legitimized them in this manner (Shamsul 1986). Furthermore, "the rural development programmes of the 1960s, awash with funds, were really the NEP before the NEP" (Shamsul 1997, p. 248).

The twin strategies of the NEP were to facilitate national unity through the eradication of poverty and the restructuring of society. The former envisaged steps to reduce the incidence of poverty from 49 per cent in Peninsular Malaysia in 1970 to 16 per cent in 1990. The latter envisioned efforts to achieve 'inter-ethnic parity' in education, occupations and corporate wealth ownership. The NEP also anticipated a rise in the Bumiputera share of corporate equity from 2.5 per cent in 1970 to 30.0 per cent in 1990. One of its goals was to promote the emergence of a BCIC within a generation. Thus, the NEP is believed to have been primarily intended to redistribute Malaysia's wealth among the various ethnic groups, and particularly between the Chinese and the Malays, to achieve inter-ethnic economic parity. The NEP is therefore more about distribution, specifically inter-ethnic redistribution, than promoting growth (Jomo 1994, p. 16). The NEP is also "a form of Malay economic nationalism" (Shamsul 1997, p. 251) as it aimed "…to safeguard and promote the political and economic power of the Malay community" (Searle 1999, p. 12) and is about the politics of business as evident in the restructuring of the corporate sector (Chan and Horii 1986, p. 69).

Public Enterprises, Nationalisation, Regulations and the Nascent BCIC

Since 1971, the government played a direct role in the accumulation of wealth on behalf of the Malay community. Two major strategies were used to achieve the restructuring of society in terms of wealth distribution. Firstly, public enterprises and state economic development corporations (SEDCs) were used to promote the development of a Malay capitalist class, including a class of managers and business executives. Following 1969, the numbers of public enterprises proliferated to promote the development of a BCIC in line with the second prong of the NEP (Toh 1982, pp. 132, 143). Secondly, preferential policies and government regulations such as the Industrial Coordination Act 1975 (ICA) and the controversial Petroleum Development Act 1974 (PDA) tend to favor Bumiputera businesses (Chan and Horii 1986, pp. 25, 28).

These enterprises were developed to accelerate Bumiputera participation in commerce and industry, monopolizing strategic sectors of the economy and accumulating wealth on behalf of the Bumiputera community through purchasing and holding shares of corporate companies. They were funded by the federal and state governments and by institutions which mobilize Malay savings, such as the Pilgrimage Fund, Armed Forces, Police Cooperative and Pemodalan Nasional Berhad (PNB) or National Equity Corporation. While this strategy gave the state enormous power to directly accumulate wealth, it was not without costs as it crowded out private investments and overburdened the public sector by increasing both operating and development expenditures (Lim 1985, p. 55; Chan and Horii 1986, p. 37).

In 1978, a scheme was announced to divest the shares of state enterprises to Malay individuals. Examples of large state enterprise involved in the divesting of shares to Malays and Malay interests were the Malaysian Industrial Development Authority (MIDA), Malaysian International Shipping Corporation Bhd. (MISC), Tourist Development Corporation Bhd. (TDC), Urban Development Authority (UDA), Petroliam Nasional Bhd. (Petronas), Muda Agricultural Development Authority (MADA), Malaysian Rubber Development Corporation Bhd. (MARDEC), and the various SEDCs (Tan 1982, p. 178; Toh 1986, pp. 143-150). Among the more prominent public enterprises were the Pernas, PNB and Food Industries of Malaysia Bhd. (FIMA).

To achieve the second prong of the NEP, nationalism was used by the state to make known its intention to take over foreign enterprises in strategic sectors of the economy without affecting private investment. Thus, the nationalization of foreign controlled companies marked the first phase of corporate restructuring. The nationalization of large foreign companies by Pernas and PNB during the 1970s and early 1980s in the plantation, agriculture and commercial business sectors included Sime Darby, Guthrie Corporation, Highlands and Lowlands, London Tin and Harrisons Malaysian Estates (Tan 1982, p. 179; Toh 1982, pp. 144-146, 147; Chan and Horii 1986, pp. 60-68). Acquisition was perceived as the best way for the Malays to expand their share of the economy. The second stage of corporate restructuring involved securing the control of local, mainly Chinese-owned, companies, to conform to NEP requirements. PNB, which was established in 1978, was allocated RM1.5 billion under the Fourth Malaysia Plan to buy shares for Bumiputeras in corporations, then resell them to individual Bumiputeras in the form of unit trusts (Lim 1985, p. 55; Chan and Horii 1986, pp. 109-134). These acquisitions indicate the enlargement of the state sector and the broadening of its role in the national economy.

Conversely, the implementation of regulatory measures such as the PDA, ICA, Capital Issues Committee (CIC), and the Foreign Investment Committee (FIC) promoted rent-seeking activities, created opportunities for wealth accumulation among the well-connected Bumiputeras (Chan and Horii 1986, pp. 25-28, 43-48; Gomez and Jomo 1999, pp. 41-42) and resulted in unhealthy Ali-Baba 'partnerships' (Nonini 1983; Jesudason 1989; Heng 1992).

By the late 1970s, state ownership had become dominant in the banking, plantation and mining sectors (Lim 1985, p. 37). The restructuring of ownership of share capital in

Bumiputera public listed companies was tremendous – entailing a huge increase from a mere 2.4 per cent in 1970 to 12.5 per cent in 1980. On the other hand, foreign ownership dropped significantly during the same period from 63.4 per cent to 42.9 per cent (Table 2) because of the state's nationalization of foreign-owned assets. As of the mid-1970s, prominent members of the Malay bourgeoisie were largely directors of large corporations and most were not the founders or owners of the companies on whose boards they sat. The description of the new breed of Malay bourgeoisie emerging in the 1970s was aptly captured as follows:

> "Most of them are either politicians or aristocrats or have close connections with such people… and they made dramatic leaps into a corporate world through an initial windfall obtained from state concessions… Without political connections and state patronage it is unlikely they could have succeeded today… Lacking capital, know-how and market connections, all invariably end up in joint partnerships with either foreign and/or Chinese capital, creating a symbiotic relationship between Malay and non-Malay bourgeoisie" (Lim 1985, p. 54).

State-Capital Alliance and the Emergence of Malay Billionaires

The nationalist-capitalist model of distribution was unsustainable in a small domestic economy with increasing debt and shrinking government revenues - particularly with petroleum prices tumbling after 1981. The development of the BCIC accelerated in the 1980s and 1990s under the leadership of then Prime Minister Mahathir Mohammad, when he adopted the state-capital alliance model for Malaysia. In contrast to the state ownership model, Mahathir's policies to develop Malay entrepreneurs inclined towards developing large enterprises. Bumiputera ownership of share capital in public listed companies increased to 19.3 per cent in 1990 and 21.9 per cent in 2008 (Table 2). Many prominent Malays who owned large enterprises emerged as domestic conglomerates under Mahathir's 'Malaysia Incorporated', Look East Policy, Privatization, and Heavy Industrialization (HI) policies.

Table 2: Ownership of Share Capital (par value) of Listed Companies, Malaysia, 1970-2008 (RM million)

Ownership Group	**1970**		**1980**		**1990**		**2004**		**2008**	
	RM	%	RM	%	RM	%	RM	%	RM	%
Bumiputera	122.0	*2.4*	4,050.5	*12.5*	20,877.5	*19.3*	100,037.2	18.9	127,407.6	21.9
Individual & Institutions	81.3	*1.6*	1,880.1	*5.8*	15,322.0	*14.2*	-	-	-	-
Individual	-	-	-	-	-	-	79,449.9	15.0	109,982.6	18.9
Institution	-	-	-	-	-	-	11,890.7	2.2	10,811.0	1.9
Trust Agencies	40.7	*0.8*	2,170.4	*6.7*	5,555.5	*5.1*	8,696.6	1.7	6,614.1	1.1
Non-Bumiputera	1,438.9	*28.3*	14,442.9	*44.6*	50,754.0	*46.8*	214,972.8	40.6	213,355.5	36.7
Chinese	1,382.9	*27.2*	w.i.	w.i.	49,296.5	*45.5*	206,682.9	39.0	203,092.1	34.9
Indians	55.9	*1.1*	w.i.	w.i.	1,068.0	*1.0*	6,392.6	1.2	9564.6	1.6
Others	0.0	*0.0.*	w.i.	w.i.	389.5	*0.3*	1,897.3	0.4	698.8	0.1
Foreigners	3,218.4	*63.4*	13,927.0	*42.9*	27,525.5	*25.4*	172,279.6	32.5	220,530.8	37.9
Nominee	305.1	*6.0*	w.i.	w.i.	9,220.4	*8.5*	42,479.1	8.0	20,547.2	3.5
Total	**5,084.4**	***100.0***	**2,420.4**	***100.0***	**108,377.4**	***1 00.0***	**529,768.7**	**100.0**	**581,841.2**	**100.0**

Source: Malaysia 1976, p. 99; Malaysia 1984, p. 112; Malaysia 1986, p. 125; Malaysia 1993, p. 67; Malaysia 1996, p. 86; Malaysia 2010c, p. 403.

The NEP was displaced from the centre of the nationalist-capitalist model when Mahathir suspended the NEP's restructuring requirements in September 1986. This was accentuated when a National Development Plan was formulated in 1990 to succeed the NEP (Khoo 2012, p. 29). The commitment to redistribution continued with greater emphasis on growth, industrialization, modernization and the private sector. Inter-ethnic distribution remained an emphasis especially by politicians and the enlarging business elites allied to them. Nevertheless, the shift to growth was clear to sustain inter-ethnic wealth distribution (Jomo 1994). This policy was influenced by "an increasingly assertive executive and a more politically influential rentier business community" (Gomez and Jomo 1999, p. 179). In other words, there was a power shift from the 'administocrats' to a combination of politicians and businessmen that shaped economic policies towards their advantage (Leigh 1992, pp. 119-120, cited in Searle 1999, p. 13).

A study by Chan and Horii (1986, p. 81, Table 2.9) showed that by 1984 Bumiputeras owned or controlled 31.2 per cent of the ownership of share capital and had surpassed the NEP target. Bumiputeras and Bumiputera institutions clearly held strategic or controlling stakes of four economic sectors, including finance (53.9%), hotels (100.0%), oil palm (60.0%) and mining (90.0%) (Chan and Horii 1986, p. 83, Table 2.10). This indicated that Bumiputeras already controlled strategic sectors of the economy. In other words, the restructuring of society in terms of wealth distribution had been successful.

Malaysia's industrialization strategy incorporated elements from Singapore's experience as well as from Japan and Korea. During the 1980s, this led to a new plan to accelerate the development of technology, skills and numerous spin-offs (Jomo 1994; Khoo 1995, p. 119). However, the policy framework for the development of the country's largest ethnic group remained in place. Jesudason (1989) argued that Malay political elites preferred to collaborate with foreign capital as a way to constrain Chinese wealth accumulation through policies of 'ethnic by-pass'. This preference was also due to the limited entrepreneurial abilities of the Malay entrepreneurs who emerged under the aegis of the NEP. For example, the Heavy Industries Corporation of Malaysia (HICOM) collaborated with foreign companies to develop a variety of industries, ranging from steel and cement production to the manufacturing of a national car. To finance these initiatives, the government resorted to massive external borrowings, mainly from official Japanese sources (Gomez and Jomo 1999, p. 78).

From 1985-1986, due to heavy borrowing to fund HICOM, as well as an unprecedented world recession, Malaysia's economy experienced deep turbulence. The recession wiped out many of Malaysia's first generation of Bumiputera entrepreneurs (Searle 1999, pp. 134-135). In the second half of the 1980s, the government responded to the recession by liberalizing and deregulating the NEP to attract more foreign investment (Yasuda 1991, p. 346; Rasiah 2001, p. 346). New policies included the lowering of tariffs and the loosening of ownership conditions for both manufacturing and financial sectors. External market conditions were favorable with: the appreciation of the currencies of Japan and the East Asian NIEs; the withdrawal of Generalized System of Preference (GSP) privileges in February 1988; and rising protectionist pressures in developed countries' markets against these countries. These raised relative production costs and forced a massive redeployment of investment and production, especially labor-intensive operations to Malaysia, Southeast Asia and China. The combination of internal and external factors caused the share of FDI in gross domestic investment in Malaysia to rise from 10.7 per cent in 1980-1990 to 24.6 per cent in 1991-93 (Rasiah 2001, p. 48).

At the level of SMEs, the government relaxed the requirements of the ICA[5] to encourage private investment. The government also amended the National Land Code to allow foreign ownership of the real estate sector, as well as other policies which favored foreign investment, especially in the export-oriented manufacturing sector. As a result, the ownership share of foreign residents rose to 32.4 per cent by 1992 from 25.4 per cent in 1990.

[5] Under the ICA, business firms with more than RM 100,000 in shareholders' funds and more than 25 workers were required to ensure that Bumiputera (an umbrella term for the Malays and other 'indigenous' groups) made up 30 per cent of the workforce and held 30 per cent of equity. In 1977, the ceiling for mandatory Bumiputera share equity was raised to RM 250,000 in shareholder funds and RM 500,000 in fixed investment. By 1986, this requirement was further relaxed and raised to RM 1 million (Jesudason 1990, pp. 136,141) and again in 1990, to RM 2.5 million for all companies with fewer than 75 workers.

The privatization[6] of public enterprises to achieve the NEP targets was unsustainable in the long term. Mahathir, however, argued that privatization served as a policy tool for the promotion of Bumiputera capitalism. This fitted in with his redistributive plans to transform Malay businesspeople into an internationally competitive industrial community (Gomez and Jomo 1999, pp. 80, 81). Through privatization of government assets at discounted prices and government deployment of rents to political party-owned companies and Malay individuals with strong political ties, share swaps through the aggressive promotion of stock markets, and monopolies, the 1980s and 1990s witnessed a rapid development of several large conglomerates controlled by UMNO and individual Malays who were well-connected to political elites.

UMNO-owned corporations included the Fleet Holdings Sdn Bhd, Renong Bhd, and Koperasi Usaha Bersatu Bhd (Searle 1999, pp. 104-116). Several Malay billionaires emerged during this period. Among them were Azman Hashim, who controlled the Arab Malaysian Banking Group; and Wan Azmi Wan Hamzah, who controlled the R.J. Reynolds and Land & General Groups. Wan Azmi collaborated with the Chinese-owned listed plantation conglomerate, KL Kepong Bhd, to venture into large property development projects. The results of their collaborations were favorable and productive (Gomez and Jomo 1999, pp. 120, 138-147). Tajuddin Ramli was another billionaire who controlled Technology Resources Industries Bhd (TRI), Malaysian Helicopter Services Bhd (MHS) and Malaysia Airlines Bhd (MAS). Tajuddin acquired a 32 per cent stake in MAS from Bank Negara for RM1.79 billion when MAS was privatized. Tajuddin also benefitted substantially in the telecommunications industry through his ownership of Celcom Sdn Bhd, which gave him a monopoly of the cellular telephone network sector (Gomez and Jomo 1999, pp. 94, 95, 148-152). Halim Saad,

[6] Privatization was announced by Mahathir Mohammad in 1983 and the Privatization Master Plan was released in February 1991.

who controlled Renong Bhd and UEM, together with his wife collectively-owned almost RM2.4 billion worth of corporate stock (Gomez and Jomo 1999, p. 50). Yahya Ahmad who controlled HICOM Holdings Bhd, Diversified Resources Bhd and Gadek Bhd benefitted from the government's divestment of a 32 per cent stake in HICOM in 1995. HICOM owned a majority stake in Proton. In 1993, Yahya Ahmad was estimated to own corporate stocks worth RM1.95 billion (Gomez and Jomo 1999, pp. 90, 94, 119). Mokhzani Mahathir, the son of former Prime Minister Mahathir Mohamad, also benefitted from the privatization of healthcare support services in 1994 through his ownership in Tongkah Holdings Bhd (Gomez and Jomo 1999, p. 96).

Notwithstanding this, there were some Malay capitalists who had 'ersatz' origins regarding how they accumulated capital and benefitted from rents but had nonetheless proven themselves to be successful businessmen. One example is Shamsuddin Kadir of Sapura Holdings Sdn Bhd in the telecommunication industry (Gomez and Jomo 1999, pp. 51, 72-74; Searle 1999, pp. 170-174). Today, Sapura is a major player in the oil and gas sector. It subsequently merged with Kencana Petroleum and formed a new entity – Sapurakencana Petroleum Berhad. Managed by Shamsuddin's son, the corporation has a global presence. Another successful Malay entrepreneur is Mokhzani Abdul Rahim, a private capitalist who, together with a Malaysian Chinese partner and investment from PNB, successfully acquired the Kentucky Fried Chicken (KFC) franchises in Singapore and Malaysia and listed KFC Holdings in November 1988 (Searle 1999, pp. 160-164).

The development of BCIC over the 1980s and 1990s was broad-based. Bumiputera successfully increased their presence in wholesale from 2.5 per cent in 1970 to 11.1 per cent in 1995. Over the same period, Bumiputera had stronger growth in retail, increasing from 13.0 per cent to 31.7 per cent (Malaysia 1986, p.: 114; Malaysia 1996, p. 515).

The Asian Financial Crisis, BCIC and Inter-ethnic 'Smart Partnerships' among SMEs

The Asian Financial Crisis was an acid test of the rapid growth of the Malay (also Chinese and Indian) capitalists and conglomerates. A majority of the Malay conglomerates faced severe loan-gearing problems. Halim Saad, Tajudin Ramli and Mirzan Mahathir were among those individuals whose corporate stock values had shrunk drastically. Halim Saad's UEM was bailed out by the Malaysian government. Renong, an UMNO linked holding company, had accumulated debts of between RM20-28 billion (Gomez 2002, pp. 101-102). It was reported that the BCIC was vulnerable, and that government backing was needed due to the protracted economic crisis (Abdul Razak, 1998). As the financial crisis deepened, the government relaxed its regulations to allow selected Chinese businessmen to help bail out some nearly-bankrupt Malay businessmen (*Far Eastern Economic Review,* 19/2/1998, cited in Gomez and Jomo 1999, p. 196).

The government also introduced several pre-emptive measures to shore up the resilience of the financial sector and the financial system. These included the establishment of two new institutions: Danaharta, the national asset management company, to acquire and manage non-performing loans (NPLs) of banks; and Danamodal, a special purpose vehicle to revitalize and restructure the banking sector by purchasing NPLs from banks and recapitalizing them. A corporate debt restructuring committee was set up to guide the recapitalization process and preserve and facilitate debt restructuring of viable companies. To stabilize the financial market, the government adopted temporary capital controls on September 1, 1998 to restrict the outflow of funds and insulate the economy from external risks and vulnerabilities. This policy marked a retreat from economic liberalization. At the SME level, the government instituted special funding for SMEs to sustain their operations, improve productivity, and facilitate expansion and diversification (Chin 2003, pp. 113-114).

Two decades of building the BCIC had failed to achieve a high standard of development where the Malay community would be capable of competing with the other ethnic communities in the country on an equal playing field. The Vision 2020 unveiled in February 1991 set the goal for Malaysia to achieve the status of a 'fully developed country' by 2020, mainly by accelerating industrialization, economic growth and modernization. The Sixth Malaysia Plan (1991-1995) and the NDP (1991-2000) explicitly shifted the economic development policy from the NEP's emphasis on inter-ethnic redistribution to growth (to support the private sector and privatization), and were accompanied by a perceived lesser role for the public sector (Jomo 1994). These economic policies also showed a significant shift towards encouraging inter-ethnic business partnerships. The Sixth Malaysia Plan was set up to develop competitive and resilient Bumiputera SMEs. The vendor scheme, franchise development programme, joint-venture scheme, capable indigenous construction contractor programme and special rural entrepreneur development programme were developed to enable Bumiputera SMEs to participate in the manufacturing (especially in telecommunications equipment and motor vehicles), construction (especially in highways and new townships) and modern services sectors (in telecommunication) (Malaysia 1996, pp. 75-77).

One important component of the NDP to keep Malaysia internationally competitive was to restructure industries to produce more technologically sophisticated and better-quality goods that were integrated with the markets of developed countries. In line with this strategy and in order to advance the BCIC, the government encouraged and provided assistance to

Bumiputera entrepreneurs to venture into strategic sectors such as aerospace, automotive, machinery and engineering, petrochemical and telecommunications (Malaysia 1996, p. 13). To enable the transfer of entrepreneurial skills to Bumiputeras, entrepreneurs were encouraged to establish joint ventures with non-Bumiputeras or foreign investors. These joint ventures were expected to serve as vehicles for the transfer of technical and managerial know-how to Bumiputera partners. Initiatives were taken to achieve this goal through institutionalized ‘genuine partnerships’ between different ethnic groups with the support from various government ministries, a consortium of banks, and ethnic-based business chambers. This strategy resulted in many successful joint ventures involving Malay and Chinese entrepreneurs at the SME level (Chin 2004; 2010).

The development of the BCIC at the SME level took a centre stage after Abdullah Ahmad Badawi became the Prime Minister in late 2003. Abdullah probably saw the increasing intra-ethnic wealth gap within the Malays following the past three decades of wealth redistribution that focused on large enterprise development. Developing Bumiputera entrepreneurial SMEs was a rational way to restructure society and eradicate poverty. Abdullah established the National SME Development Council (NSDC) in 2004 to support SME growth. The BCIC agenda under Abdullah was to expedite the development of self-reliant, sustainable and competitive Bumiputera entrepreneurs and the creation of strong Bumiputera SMEs enhanced through the creation of linkages and clusters among Bumiputera enterprises, between Bumiputeras and non-Bumiputeras, and between GLCs and Bumiputera enterprises (Malaysia 2006, p. 349).

NEM, Further Liberalization and Deregulation

Following the 2008 global financial crisis, the Malaysian government immediately responded by implementing its first stimulus package of RM7 billion on 4 November 2008 to strengthen national resilience and maintain economic growth. At the height of the economic contraction, the Malaysian government unveiled the biggest ever stimulus package of RM60 billion for 2009 and 2010.

The New Economic Model (NEM) was introduced in 2010 as a direct response to uncertainties related to the Crisis. The ‘new’ approach of NEM to economic development emphasizes the importance of social aspects such as social cohesion and stability, inclusiveness and greater equality. The original spirit of NEM is actually making a shift, back to the *laissez-faire* system of the 1960s. The major challenge of inclusive growth is to strike a balance between the Malays and the legitimate interests of other ethnic groups. The principle of inclusiveness as embedded in ‘market-friendly affirmative action programmes’ was perceived as bringing dynamism to the economy. This made Malaysia an attractive-FDI destination, while maintaining the essence of affirmative action in the country. The policy takes into consideration the needs and merits of the applicants and the removal of rent seeking activities (Malaysia 2010, p. 24).

However, the new approach of inclusiveness in fostering equal and fair economic opportunities has been perceived as a challenge to Malay rights by certain Malay non-governmental organizations. Despite its policy commitments, the government appears incapable of overcoming strong resistance from them and has decided to reintroduce the NEP’s 30 per cent Bumiputera equity goal without an expiry date. This could reinforce Bumiputeras’ dependency syndrome (Chin 2012, pp. 23-26).

Economic growth with redistribution is so important for the government that it sees a need to carry on with the NEM policy. To achieve high economic growth, the government has identified policy measures to re-energize the private sector, create a competitive domestic economy and enhance the sources of sustainable growth. The measures include liberalization, deregulation, and effective enforcement of competition law that will be in line with international standards (Malaysia 2010a). This will unleash the growth potential in the services sector and be more competitive in a highly globalized environment. To achieve this, Prime Minister Najib Razak announced the liberalization and deregulation of eight sectors covering 27 service and finance sub-sectors[7] on 30 June 2009 at the Fifth Malaysia Investment Conference (*The Star*, 30 June 2009). In 2012, 18 more sub-sectors were liberalized including the approval of 100 per cent foreign ownership of fund management companies. These major policy changes, in addition to the strategies to enable Bumiputera businesses to expand beyond Malaysia, are embedded in the NEM.

Given the limitations of the state-led growth with distribution policy, the Malaysian government has taken a more market-friendly approach to further liberalize and deregulate its economic policies. The liberalization of the services and financial sub-sectors are necessary to internationalize Malaysia's financial services sector and its capital market. The government has fully liberalized foreign ownership in the wholesale segment of the fund management industry to allow qualified and leading fund management companies to establish their operations in Malaysia. For the retail segment, foreign shareholding limits on unit trust management companies have been raised to 70 per cent from the previous level of 49 per cent. Foreign shareholding limits on stock broking companies were increased from 49 per

[7] The eight sectors are Computer and Related Services, Health and Social Services, Tourism Services, Transport Services, Sporting and other recreational services, Business Services, Rental/Leasing Services without Operators, Supporting and Auxiliary Transport Services. For more details on the 27 sub-sectors, visit http://myservices.miti.gov.my/web/guest/autonomous.

cent to 70 per cent. Also, the Foreign Investment Committee (FIC) guidelines covering the acquisition of equity stakes, mergers and takeovers was immediate repealed, but this deregulation does not include strategic sectors (PMO 2009). These deregulations are viewed as rational measures that would enable greater internationalization of Malaysia's capital market. The government has taken the lead in listing more of its entities as assets to provide greater opportunities for domestic and international investors to invest in Malaysia.

One of the major policy changes under the NEM was the repeal of the 30 per cent Malay equity requirement for Malaysian companies seeking public listing, which has been enforced since the implementation of the NEP in 1971. However, this change only applies to Malaysian companies seeking listing on Bursa Malaysia and with a condition that Bumiputera investors are offered 50 per cent of the public shareholding spread.

'Private investment-led' Growth, GLCs, Ekuinas and Internationalization of the BCIC

Over the past decade, GLCs have dominated strategic sectors and crowded out private investments in Malaysia. The government recognizes that production networks have become increasingly transnational and regional integration would therefore be the way forward for Malaysian companies. To put Malaysia on the path of regional integration, the ETP was launched in late 2010, which represents one component of the National Transformation Programme (NTP) and envisions to push Malaysia towards becoming a high-income country.

The ETP relies heavily on 'private investment-led' growth with the government acting as a facilitator. In contrast to the state-led model of previous decades, the private sector will take the lead role in making investment and employment decisions. Private investment - as defined in the ETP - refers to investments from GLCs as well as the traditional private sector. This will account for 92 per cent (RM1.3 trillion) of the overall investment in the

NKEAs[8], while public funding accounts for the remaining eight per cent. This is a significant increase from the 37 per cent share of private investment in 2008 and is consistent with the targeted growth rate in private investment of 12.8 per cent in the Tenth Malaysia Plan (2011-2015) as well as the longer-term target of 12.2 per cent growth from 2011 to 2020. Of the 92 per cent share, about 73 per cent or RM953 billion is expected to come from domestic sources. Apart from domestic sources of capital, 27 per cent will be sourced from FDIs, amounting to a total of RM358 billion over 10 years until 2020 (Malaysia 2010b, p. 85).

A big portion of the private investment-led growth comes from GLCs. The financial sector would serve as an important catalyst for growth. One of the important policy measures is to revitalize Malaysia's capital markets through the listing of companies with the government committed to the listing of its assets. This policy measure takes into consideration the existence of Malay corporate leaders that are capable of managing and leading large GLCs at the regional level. Several Malaysian GLCs with strong regional presence are Maybank (banking), CIMB (banking), IHH Healthcare (healthcare), Sime Darby (plantations) and Axiata (telecommunications).

Besides raising capital from the market by listing government entities, the transformation of GLCs brings major changes to the Malaysian economy and society. First, the GLC transformation programme under the ETP aims to build regional and global champions to overcome the crowding out of private sector investment. The ETP aims to reduce the role of government in business and to divest non-core businesses to the private

[8] NKEAs receive prioritized Government support including funding, top talent and Prime Ministerial attention. In addition, policy reforms such as the removal of barriers to competition and market liberalization will be targeted at the NKEAs. The 12 NKEAs are: Greater Kuala Lumpur/Klang Valley, Financial Services, Oil, Gas and Energy, Rubber & Palm Oil, Wholesale & Retail, Tourism, Electronics & Electrical, Business Services, Education, Communications Content & Infrastructure, Healthcare and Agriculture. Of the 12 NKEAs, 11 are industry sectors and one –Greater Kuala Lumpur/Klang Valley – is a geographical sector.

sector. From the GLCs' recent divestment of non-core assets, it appears that they were still investing in new sectors during the divestment programme under the ETP. With a number of acquisitions in the private finance and property development sectors (Jacobs 2011), it is becoming more of a diversification rather than a divestment programme. The influence of GLCs continues to be both widespread and pervasive. The GLCs' share is approximately one-third in the aggregate (irrespective of the measure of firm presence employed) and that they control more than half of the industry share of operating revenue or income in utilities, transportation and warehousing, agriculture, banking, information communications, and retail trade (Menon and Thiam 2013).

Second, the GLC transformation programme reveals the role of the state in acquiring private-owned entities in strategic sectors. The Malayan Sugar Manufacturing (MSM) corporation and power assets from privately-owned companies have been acquired and situated under the 1Malaysia Development Berhad (1MDB) – a GLC that has been reported to incur huge borrowing and debts. The divestment of some non-core businesses from GLCs such as Pos Malaysia and Proton has also raised questions on whether rent-seeking remains a common practice under the NEM. While rent-seeking activities have been identified as the cause of draining resources as well as hindering the move towards an inclusive, high income and sustainable society, the government appears unable to overcome this challenge.

Third, the ETP adopts an offensive strategy in strengthening Malaysia's financial sector by encouraging Malaysian financial institutions to tap external markets for their continued growth as well as developing regional banking champions (Malaysia 2010b, pp. 231-233). Malaysia's statist-nationalist banking policy status quo made it resilient to pressures of globalization (Cook 2008, p. 69). Malaysia's two major state-owned banks –

Maybank and CIMB - engaged in a series of merger and acquisitions of foreign banks during the protracted 2008 global financial crisis. As the two largest financial institutions in Malaysia, they are rapidly expanding their international investment banking operations and increasing their presence beyond Malaysia's borders.

Fourth, the spirit of NEP remains and is clearly stated in the concluding part of the NEM. This time the strategy to continue the expansion of the BCIC is beyond Malaysia's border through forming synergy with the growing stable of GLCs and Bumiputera champions. The BCIC agenda is integral to the whole of Malaysia's economic transformation programme by integrating Malaysia into the global supply chain to create scale. This is expressed in the NEM in the following way:

> "Integrating the country's supply chains that are sub-scale is one of the key components to achieve NEM's objectives. The reason the Bumiputera Commercial and Industrial Community (BCIC) has not taken root is that the current delivery supply chain is not integrated with the rest of the local as well as globally connected and competitive supply chains. Joining and developing an integrated national supply chain is thus a prerequisite for a vibrant BCIC. Successful Bumiputera firms need to be highlighted as champions, whose partnerships with the business community at large, including the GLCs, will raise the performance of the entire BCIC. This cannot be done in isolation and integration of the existing fragmented supply chain is essential, with every community having a role to play. The real danger to Malaysia is that if growth does not become top priority, our supply chains will be marginalized or worse, by-passed". (Malaysia 2010a, p. 12)

Fifth, the restructuring or reengineering of GLCs is perceived by the government as capable of braking worsening intra-Bumiputera income disparities by providing individual Bumiputeras of high caliber the opportunity to buy out successfully restructured non-core assets of GLCs. This strategy is recognized as viable for the achievement of the macro-level

Bumiputera equity ownership target. In this context, a new private equity fund management company called Ekuiti Nasional Berhad (Ekuinas) was established in September 2009 to realize the objectives of the NEM. It was given the mandate to create the next generation of leading Malaysian companies by undertaking private equity investments in high potential local businesses. Its investment targets include high potential Bumiputera and non-Bumiputera companies, and the acquisition of Malaysian companies, non-core GLC assets, public listed companies, multinational corporations and trust foundations (Ekuinas Annual Report 2013). The modus operandi of Ekuinas is identical to PNB's with government commitment for huge funding to achieve its objectives.

Conclusion

Over the past four decades, the government has managed to develop the Malaysian economy by drawing from available resources in the context of a protected economy and with relatively little pressure from civil societal groups. Over the course of time, the government responded to the increasingly liberalized global economy and three external shocks through deregulation and liberalization of economic policies while maintaining its affirmative action as key to its redistribution policy.

Beside external pressures, the concept of inclusiveness and level playing field adopted as the fundamental economic approach for economic growth under the NEM Part I were strongly protested by Malay NGOs - though welcomed by the Associated Chinese Chambers of Commerce and Industry of Malaysia, which is pro-business (Chin 2012). The government considered the demands of the protesters and continued with affirmative action with no expiry date in sight. This may indicate that the ethnic paradigm continues to shape the country's economic policies while satisfying the aspirations of the BCIC elites. There is thus a need for strong political will and leadership to shift the old ethnic paradigm to a more sustainable multi-ethnic economic paradigm. This view is also shared by scholars such as Anthony Milner, Abdul Rahman Embong and Tham Siew Yean (2014) as the best way forward for Malaysia to develop a harmonious and competitive economy.

The development of the BCIC has comes at a huge cost as it is building on a wrong paradigm by focusing on a single ethnic group. Since 1971, the protracted affirmative action framework has caused capital flight, as it constrained the domestic economy and posed economic and political risks. Private investment in the aftermath of the 1997-98 Asian financial deteriorated due to GLCs crowding out private entrepreneurs (Malaysia 2010, pp. 45-47). The continued prevalence of GLCs' ability to exercise market power and their special access to government and regulatory agencies limited the entry of new private firms (Menon and Tham 2013). Conversely, Malaysia's strong state-guided approach to industrialization that embraced redistribution policy and an immigration policy that encouraged the import of unskilled and low skilled foreign labors have caused slow upgrading of the country's electronics industry and contributed to the underdevelopment of SMEs (Henderson 2007).

The extended affirmative action has caused a continuous and further increase in the exodus of human capital. Most recently, a World Bank report estimated that the Malaysian diaspora stood at one million with non-Bumiputera over-represented in the brain drain. Major factors mentioned in the report were the lack of meritocracy and unequal access to educational opportunities. These trends are likely to intensify in the absence of mitigating actions (Lee 2011) and will post a challenge to the current economic transformation efforts and the realization of a developed nation by 2020.

While the affirmative measures have successfully reduced inter-ethnic disparity, they have exacerbated intra-ethnic inequality, especially within the Malay community. The interlocking ownership used among the Bumiputera business groups as a strategy to have more effective control of equity ownership had a long term effect in creating inequality in the distribution of corporate wealth, concentrated on a few Bumiputera institutions and a highly selective group of Bumiputera individuals and families (Chan and Horii 1986, pp. 97, 101). The NEP's transformation of the Malay society has generated new intra-ethnic tensions and conflicts (Jomo 2004; Khoo 2004). Most recent studies showed that horizontal inequalities in Malaysia were reduced without greatly lowering vertical inequalities: interethnic income disparities have substantially narrowed, with the Chinese-Malay mean household income disparity ratio having declined from more than 2.0 in 1970 to 1.4 in 2009. Nonetheless, the distribution of wealth between different vertical layers of society has hardly changed. The share of the bottom 40 per cent of households in total household income was 14.3 per cent in 2009, similar to 1990 (United Nation Country Team Malaysia, 2011, pp. 19, 20).

State patronage continues to play a vital supportive role in the emergence of Malay billionaires and conglomerates under an ever expanding BCIC structure. However, there have been a number of cases of large Malay-owned enterprises that exemplify the "ethnic inclusiveness" paradigm through their collaborative efforts with foreign and/or local non-Malay partners. Conversely, genuine or smart inter-ethnic partnership in the SMEs also enlarged Bumiputera participation in entrepreneurial activities. Inter-ethnic partnership not only helped to enlarge the BCIC but has also helped to bridge the inter-ethnic divide and also reduce disparity among the Malays. Such a paradigm should therefore be further nurtured as a new approach that would allow for greater synergy and sharing of expertise between the different ethnic groups in the country that builds on trust.

We conclude that there is a need for strong political will to further liberalize the Malaysian economy by adopting the NEM's original goals of inclusiveness and greater equality for the benefit of all ethnic groups. "Private investment-led" growth that heavily depends on GCLs will continue to have a crowding out effect on private capital investment. Moreover, the current market-friendly affirmative action that centers on a single ethnic group to satisfy the BCIC elites will continue to keep private domestic investments at bay.

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