Trends in Southeast Asia

Malaysia’s Bumiputra Preferential Regime and Transformation Agenda: Modified Programmes, Unchanged System

Lee Hwok-Aun

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2017 no.22

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MALAYSIA’S BUMIPUTERA PREFERENTIAL REGIME AND TRANSFORMATION AGENDA: MODIFIED PROGRAMMES, UNCHANGED SYSTEM

LEE HWOK-AUN

ISEAS YUSOF ISHAK INSTITUTE
FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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Malaysia’s Bumiputera Preferential Regime and Transformation Agenda: Modified Programmes, Unchanged System

By Lee Hwok-Aun

EXECUTIVE SUMMARY

• Malaysia has employed an extensive, constant and embedded Bumiputera preferential regime for several decades, but in recent years, the Bumiputera Economic Transformation Programme was introduced, aimed at building capable and competitive Bumiputera businesses, and reaching out to disadvantaged Bumiputera students.

• Official rhetoric and public discourse recurrently — and erroneously — maintain that need-based and merit-based affirmative action have replaced ethnicity-based programmes. I propose a systematic framework for integrating need-based selection (prioritizing the disadvantaged or limiting benefits to the already empowered) and merit-based selection (cultivating capable and competitive policy beneficiaries) as enhancements of the Bumiputera preferential regime, taking into account specific conditions and implications from three main policy spheres: higher education, high-level employment, and enterprise development.

• I then evaluate the extent need-based and merit-based selection have been incorporated into the regime. Need-based selection remains under-utilized in higher education and wealth ownership to target the disadvantaged and facilitate inter-generational upward mobility, and in enterprise development as a means to curb rent-seeking and facilitate graduation.

• Merit-based selection has gradually expanded, but can be much more widely applied in all policy spheres, especially in enterprise
development. Effective utilization of need and merit considerations bolsters Bumiputera empowerment, and lays foundations for graduating and exiting from overt Bumiputera preference.

- Formulating transitions away from the current Bumiputera preferential regime will require a systematic approach, integrated with programme-specific analysis.
Malaysia’s Bumiputera Preferential Regime and Transformation Agenda: Modified Programmes, Unchanged System

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INTRODUCTION

Malaysia’s Bumiputera preferential regime is extensive, constant and embedded in the country’s political-economic system, but has also changed and somewhat resurged in the past decade. Programmes of massive scale and reach, in higher education, SME support, procurement and contracting, and wealth ownership, remain exclusively Bumiputera or they overtly apply ethnic preference. At the same time, a few new programmes, under the Bumiputera Economic Transformation Programme (BETR), strive to select disadvantaged Bumiputera students in educational assistance, and to incorporate more competitiveness and capability-building into Bumiputera enterprise development schemes. The coexistence of these fluid and selective interventions within a cemented and comprehensive system, and the entrenchment of ethnic preference alongside efforts to incorporate need and merit into selection processes, underscore the importance and timeliness of an examination of the overall policy regime and recent developments.

The need for systematic analysis of this vast web of policies, and intermingling of old and new, is also motivated by the incoherence and imprecision in the discourses surrounding this subject. Notions of “need-based”, “merit-based”, or “market-friendly” affirmative action have proliferated since 2010. The New Economic Model, Tenth and Eleventh

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1 Lee Hwok-Aun is Senior Fellow at the ISEAS – Yusof Ishak Institute, Singapore. The author gratefully acknowledges the helpful comments of two anonymous referees.
Malaysia Plans, and the Bumiputera Transformation Roadmaps, have all mainstreamed these slogans (NEAC 2010, Malaysia 2010, Malaysia 2015, Teraju 2012, Teraju 2017). However, proposals for these ostensible alternatives lack a methodical framework for thinking about affirmative action, and fail to distinguish between the imperatives and practical implications of preference based on ethnicity, need and merit. The promises were muddled and overstated from the beginning; they never amounted to a comprehensive overhaul, in spite of the rhetoric and popular reception. Nonetheless, the projection of nebulous “need-based” and “merit-based” policies without any practical specifics or transition plans was widely received as a template for all-encompassing transformation.

This undermines the possibility for a rigorous and systematic transition away from the existing mode of Bumiputera preferential treatment, perhaps unwittingly allowing the issue to become parochial, polarized and ossified. The imagined spectre of sweeping “shock therapy” reforms triggered backlashes from Malay nationalist groups, to which the government responded with a renewed — and selective — Bumiputera agenda. Gaps in systematic analysis also pervade public and academic discourses, largely sustaining the narrative that reforms towards need-based affirmative action were “hijacked” by special interest groups that secured the retention of the ethnicity-based regime, even reinvigoration in the form of the Bumiputera Agenda Action Council (Majlis Tindakan Agenda Bumiputera, MTAB) and the agenda’s driver Teraju (Unit Peneraju Agenda Bumiputera), respectively established in June 2010 and February 2011.\(^2\) Such interpretations, while partly correct, overlook the fact that the backlash and reactions were focused on specific state largesse, particularly public procurement, while the vast bulk of Bumiputera policies have remained intact throughout the past decades and have not been touched by reform rhetoric.

A more coherent and systematic approach conceptualizes Bumiputera policies with ethnicity as the principal mode of preferential selection,

\(^2\) The MTAB was converted to the Bumiputera Economic Council (Majlis Ekonomi Bumiputera, MEB) in November 2013, with Teraju as its secretariat.
but potentially complemented and enhanced by incorporating two modes of selection: (1) need or socioeconomic status; (2) merit or capability. Participation and access also vary across the major spheres of intervention — higher education, high-level employment, enterprise development and wealth ownership — necessitating specific analyses. Broader and more effective incorporation of need and merit — to enhance ethnicity-based policies — are vital for Malaysia to empower the Bumiputera community, facilitate upward mobility, and broadly reform the current regime of overt ethnic preferential treatment.

This article examines the embedded institutions, ongoing changes and future prospects of Malaysia’s Bumiputera preferential regime, framed by three research questions and concomitant gaps in the literature:

1. **How can need-based and merit-based selection be incorporated into Bumiputera policies?** I present a systematic framework for mapping the ways that ethnicity-based Bumiputera preferential programmes can be enhanced by integrating need and merit factors, which in turn help Malaysia transition away from the present policy regime.

2. **To what extent and effect have Bumiputera preferential programmes incorporated need and merit into selection processes?** This involves evaluation of:
   (a) The application of need as selection criterion in the allocation of opportunities, to enhance Bumiputera empowerment by targeting the more disadvantaged within the community (primarily in higher education), and to limit repeat beneficiaries or rollback preferential treatment for economically empowered Bumiputeras (mainly in enterprise development);
   (b) The selection of policy beneficiaries based on capability and competitiveness, for the purpose of demonstrating success and imbuing greater confidence in the community, ultimately laying the groundwork for genuine reforms. This applies predominantly to the enterprise and employment spheres.

3. **What are the plans and prospects for transition or exit from the Bumiputera preferential regime?** This section considers the current
state and future outlook of Malaysia’s progress in graduating out of Bumiputera preferential treatment and phasing out overtly ethnicity-based programmes.

The paper proceeds as follows. The next section sets out terms and definitions, and is followed by an overview of the Bumiputera preferential regime and its vast web of programmes in the spheres of education, employment, and enterprise, to help us identify and systematically differentiate the recent, novel interventions from the enduring, embedded institutions. I then address the first research question, presenting a systematic framework that recognizes ethnicity as the fundamental backbone of Bumiputera preference but incorporates need-based and merit-based selection to enhance the regime on a methodical, programme-specific basis. This exercise lays the groundwork for unpacking the second and third questions. I evaluate the extent to which need and merit have been incorporated into the Bumiputera preferential regime, and assess the prospects and make some proposals for systemic reform.

DEFINITION, CONTEXT, METHOD

This study applies the term Bumiputera preferential regime to denote three defining features of the programmes in focus: they are centred on ethnicity, utilize preferential treatment, and constitute an extensive, multi-sphere regime. This regime concurs with “affirmative action” in international comparative work, which is generally distinguished by a particular problem at hand and the consequent policy objectives and instruments. According to international scholarship, affirmative action principally addresses a population group’s under-representation in esteemed and influential positions — chiefly, higher education, employment, enterprise, and wealth ownership — due to discrimination, disadvantage or various forms of exclusion (ILO 2007; Lee 2014; Weisskopf 2004). Affirmative action seeks to promote the beneficiary group’s upward mobility and representation in the upper echelons, utilizing preferential selection, whether through quotas, targets, or outreach methods (Sabbagh 2012). The policy is, in principle, a temporary intervention that aspires to
effectively empower a group, eventually making preferential treatment unnecessary and redundant.

Importantly, need-based assistance benefiting low-income and disadvantaged households, for the purpose of poverty alleviation and equitable income distribution, and through provision of basic goods and services or work and income regulations, are fundamentally different from affirmative action, which is based on identity traits such as ethnicity, race, caste, or gender. Need-based considerations can be applied, to the extent that affirmative action seeks to also promote inter-generational upward mobility and equitable distribution within the beneficiary group. The role of merit-based selection in affirmative action is primarily in enhancing the selection of beneficiaries within the designated group, so that those who fill the positions are capable and poised to excel visibly and effectively, thereby contributing to the community’s esteem and confidence.

Malaysia’s regime, arguably the most extensive in the world, is authorized by the Constitution and compelled by political pressures and socioeconomic imperatives. Article 153 permits preferential treatment, “as may be necessary”, to safeguard the “special position” of the Malays and natives of Sabah and Sarawak, subsequently termed the Bumiputra, in the allocation of scholarships, public sector employment, training and licensing. Ethnic preference was established at Malaya’s independence in 1957 and through Malaysia’s formation in 1963, but it was massively expanded from 1971 under the New Economic Policy, driven by the beneficiary group’s demographic majority and political dominance, alongside socioeconomic disadvantage. This fusion of constitutional authorization, political vested interest, and socioeconomic impetus has sustained and entrenched the regime, seemingly permanently and intractably. However, recognizing that ethnic preference is premised — in legal and policy terms — on the necessity for such measures, lays the groundwork to consider phasing out the programmes when they are no longer necessary — essentially when the Bumiputera population is sufficiently empowered, equipped with capabilities and imbued with confidence.

Malaysia’s Bumiputera preferential programmes operate in the following spheres:
1. **Higher education**: predominantly in colleges and universities, but also the secondary and post-secondary levels as entry routes to such higher education institutions, through admissions policies and financial sponsorship (especially scholarships and bursaries);

2. **High-level employment**: preferential recruitment and promotion, particularly into prominent roles and decision-making positions (professionals, supervisors, management), in the public sector and government-linked companies (GLCs);

3. **Enterprise development**: promotion of participation in corporations and SMEs, in the GLCs and private sector, through ownership, procurement and licensing, and financial or business support (loans, grants, training and advisory services);

4. **Wealth and property ownership**: ownership of property and assets, including housing, equity and unit trust funds, partly for effective control over companies, with some outreach of investment funds to ordinary Bumiputera households.

Due to space constraints, this article focuses on the first three and omits the fourth. Policy and academic discourses on Malaysia’s Bumiputera policies rarely conceptualize the policy objectives and instruments in an integrated framework, frequently omit differentiations between the spheres of intervention, and inadequately specify the modes of selection pertinent to each sphere.

This study fills a few gaps in the literature. First, the approach will be programme-focused and systematic — probing specific policy spheres while recognizing their part in an encompassing regime. In contrast, existing studies focus on one policy domain, such as education (Sato 2005; Lim 2013), SMEs (Chin and Teh 2017), or large corporations (Gomez 2017), while others approach the subject in broad, non-specific terms, without differentiating the policy spheres and thereby omitting important distinctions in mechanisms, outcomes and implications (Zainal Aznam 2012). Second, Malaysia’s contemporary developments are simply unexplored; much has changed since studies covering ethnic inequality and redistributive policies were published (Snodgrass, Zainal and Ishak 2003; Jomo 2004; Lee 2005; Lee 2012). Third, across the board, previous empirical work centres on policy outcomes — ethnic representation,
ethnic proportions in education, employment and ownership, and inter-
ethnic income inequalities — but pays scant attention to the actual
administration, in terms of policy objectives, selection mechanisms, and
intent to reform.

This paper’s analysis, being focused on policy implementation and
selection processes, is qualitatively oriented. Accordingly, I draw on
original interviews with key persons in implementing agencies and major
stakeholder organizations. Empirical policy outcomes are also pertinent,
particularly for evaluating the scale of policy. For this portion, I refer to
annual reports, public documents and statistical publications.

BUMIPUTERA PREFERENTIAL REGIME:
BASED ON ETHNICITY, ENHANCED BY
NEED AND MERIT

A brief overview of the regime, spanning the various spheres and modes
of intervention, demonstrates the magnitude of Bumiputera preference
and the complexities of reform. The programmes benefit millions for
whom abrupt or aggressive removal of assistance will be disruptive. The
variety of interventions demand that critical analysis and policy reforms
must address programme specificities within a systematic framework.
Table 1 provides a panoramic view of well-established Bumiputera
preferential programmes and those newly formed under the Bumiputera
Economic Transformation (BETR), administered or overseen by the
transformation agency Teraju. These BETR measures are significantly
distinct from previous interventions, in more strenuously targeting
disadvantaged Bumiputeras for educational support and selecting

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3 Persons from the following public agencies and stakeholder organizations were
interviewed, face to face or through correspondence: Teraju (Bumiputera Agenda
lead agency), Yayasan Peneraju Pendidikan Bumiputera (Bumiputera education
foundation), Malay Contractors Association Malaysia (PKMM), Malay Chamber
of Commerce Malaysia (DPMM), Ministry of Higher Education’s Research
Planning and Policy Coordination Division, National Economic Advisory
Council (NEAC), Malay Economic Action Council (MTEM).
**Table 1: Bumiputera preferential regime: Embedded institutions and recent developments (Teraju administered programmes are official and direct components of the BETR)**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Basic features and notable recent developments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher education</strong></td>
<td></td>
</tr>
<tr>
<td>• MRSM colleges</td>
<td>• 90% Bumiputera quota since 2000 (previously 100%)</td>
</tr>
<tr>
<td>• Matriculation colleges</td>
<td>• 90% Bumiputera quota since 2003 (previously 100%)</td>
</tr>
<tr>
<td>• Asasi programmes (pre-university foundation)</td>
<td>• Administered by universities; most programmes exclusively Bumiputera, but some do not apply ethnic quotas</td>
</tr>
<tr>
<td>• University admissions</td>
<td>• Quota system since 1970s; official “meritocracy” since 2002, but pro-Bumiputera preference via quotas in matriculation and Asasi</td>
</tr>
<tr>
<td>• MARA higher education institutions</td>
<td>• Exclusively Bumiputera: Universiti Teknologi MARA (UiTM), GiatMARA and other skills training institutes</td>
</tr>
<tr>
<td>• MARA education sponsorship</td>
<td>• Exclusively Bumiputera</td>
</tr>
<tr>
<td>• Public Services Department (JPA) scholarships</td>
<td>• De facto proportional ethnic quotas</td>
</tr>
<tr>
<td>• Funding and support for disadvantaged Bumiputeras</td>
<td>• <strong>Teraju/BETR:</strong> Yayasan Peneraju Pendidikan Bumiputera, focusing on technical and vocational programmes</td>
</tr>
<tr>
<td>• <em>Jelajah Pendidikan</em> (Explore Education) Bumiputera</td>
<td>• Quasi-government initiative providing a second chance to enter higher education for disadvantaged Bumiputeras and those unsuccessful in previous applications. Started in UiTM in 2010, extended to public institutions from 2016.</td>
</tr>
<tr>
<td><strong>High-level employment</strong></td>
<td></td>
</tr>
<tr>
<td>• Public sector employment</td>
<td>• Preferential selection largely redundant (predominance of Malays among candidates); since 2013, equitable representation — increasing non-Malays — is a transformation objective</td>
</tr>
<tr>
<td>• GLCs</td>
<td>• De facto Bumiputera preference, especially in top management</td>
</tr>
<tr>
<td>Programme</td>
<td>Basic features and notable recent developments</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| **Enterprise development**        | - Public procurement: Quotas, points handicaps for Bumiputera contractors; *BETR*: “Carve out and Compete” Bumiputera reservation for megaprojects, Bumiputera Economic Empowerment Units within each government ministry to coordinate policy and promote Teras-certified companies  
  - Government-linked Companies (GLCs): GLC Transformation (2006–2015), committed to Bumiputera preferential procurement, vendor development  
  - Competitive, high growth enterprise: *Teraju/BETR*: Teras (selection of high-performing Bumiputera companies), coupled with Teras Fund and Dana Mudahcara (partial grant or collateral for loans), SUPERB grant for your entrepreneurs, INSKEN Entrepreneurship Institute, Bumiputera Facilitation Fund for economic corridors  
  - Private equity: Ekuinas: Controlling stakes in Bumiputera private enterprise  
  - Public listing of companies: *Teraju/BETR*: Skim Jejak Jaya Bumiputera to facilitate listing  
  - Capitalization: *BETR*: MARA’s The Baron for equity growth, effective control  
  - SMEs and microfinance: Loans and support for Bumiputeras running small and micro firms (MARA, *Tekun Nasional*), SMEs primarily in retail and distribution (*PUNB*), Bumiputera programmes within SME Bank and SME Corp, and *Amanah Ikhtiar Malaysia* (microfinance) | **Notes:**  
  a. MRSMs, or MARA Junior Science Colleges, are secondary-level institutions.  
  b. Teraju is secretariat for the Bumiputera Economic Council and the Bumiputera Economic Transformation Programme, and oversees: Teras (Syarikat Bumiputera Berprestasi Tinggi) for high-performing companies, SUPERB (Skim Usahawan Permulaan Bumiputera) for young start-ups, Skim Jejak Jaya Bumiputera for public listing, Yayasan Peneraju Pendidikan Bumiputera (YPPB) for education assistance.  
  c. Ekuinas is a state-owned private equity firm.  
  d. MARA (Majlis Amanah Rakyat, or Council of Trust for the People) operates numerous training, upscaling and upgrading programmes.  
  e. Tekun also designates Indians as beneficiaries in some of its programmes.  
  f. National Entrepreneurship Corporation Ltd. (Perbadanan Usahawan Nasional Berhad, *PUNB*), which has partnered with Teraju to set up Prosper Teras.  
  g. Bumiputera Economic Empowerment Program (finance and advisory services, SME Corp), Equibumi (financing for taking over divestments or public listing, SME Bank), Tunas Usahawan Belia Bumiputera (TUBE, entrepreneurship and self-employment for young adults, SME Bank).
more capable and competitive firms in various enterprise development programmes. However, the BETR must be placed in its proper context, as a segment of a much broader system.

It is crucial to maintain this comprehensive, panoramic and systemic perspective. The resurgence of pro-Bumiputera rhetoric accompanying the BETR, which stirs populist sentiments besides presenting policies and reporting on progress, equates Bumiputera empowerment with the selective BETR initiatives while neglecting the larger scheme within which the BETR resides. Reactions in popular and academic discourses have reproduced this narrow and partial perspective while employing the language of system-wide change, omitting the vast network of programmes that pre-exist the BETR and continually consume the bulk of resources dedicated to Bumiputera development. Indeed, it is precisely the measures beyond the official BETR orbit that demand more critical scrutiny, given their further reach and insulation from the transformation agenda.

While the regime is fundamentally based on ethnicity and continually operates within that structure, Malaysia has become wedded to notions of reform, articulated as need-based, merit-based, market-friendly affirmative action. This rhetoric is starkly unclear about how ethnicity, need and merit actually relate to each other, and although there has not been official denunciation of ethnicity-based affirmative action, unqualified presentation of need-based and merit-based affirmative action have been taken to mean that Malaysia will replace ethnicity-based affirmative action with these supposed alternatives. This belief that systemic change was under way is reinforced by an impression that change was thwarted by a Malay nationalist backlash, to which the Najib administration conceded by launching the Bumiputera economic empowerment programme and reneging on the promise of ending ethnicity-based affirmative action. This position presumes that the reform agenda was credible and held out prospects for genuine reform.

However, Malaysia’s affirmative action reform agenda was conceptually flawed; it lacked coherence and viability from the start. The notions of affirmative action reform, from being ethnicity-based to need-based, merit-based, market-friendly and transparent, were muddled and disconnected. These ideas were elevated to public consciousness
and virtually acquired nationwide consensus, following the launch of the New Economic Model (NEM) in March 2010. The report, written in the aftermath of the 2009 Global Financial Crisis, strove to stimulate private investment, promote competition and innovation, and confound rent-seeking. Policy pronouncements decried the problems of patronage and corruption and invoked “market-friendly affirmative action”, while a shift of emphasis to the bottom 40 per cent of households underpinned the notion of need-based affirmative action. The appealing promise of need-based, merit-based affirmative action was widely and enthusiastically approved, fuelling expectations of a gravitation away from ethnicity-based affirmative action. However, the slogans merely signalled selective policy modifications; they fell far short of a systemic replacement of ethnicity-based affirmative action.

Upon closer examination, the proposed alternatives falter in their claims to represent systemic change or transformation. Need-based and merit-based preferences, as explained above, apply to different policy objectives — and can complement and reinforce ethnicity-based affirmative action — but emphatically do not amount to any systemic replacement. Indeed, the NEM, and all subsequent transformation blueprints or roadmaps, propagated these slogans while remaining silent on the myriad programmes maintaining quotas and preferential treatment, notably matriculation colleges, MARA, PUNB, Tekun, and procurement by government and GLCs. These Bumiputera preferential programmes are firmly intact, because need-based or merit-based selection do not offer systemic replacements. In official policy, expanding merit-based elements of selection entailed more competitive selection of opportunities still reserved or preferentially allocated for Bumiputeras, particularly in government contracting. The NEM makes no explicit commitment

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4 Author’s correspondence with Nungsari Ahmad Radhi, NEAC member, 29 August 2017.
5 The commitment to more transparent affirmative action is procedural and not substantive, signifying more specification and disclosure of selection criteria but fully retaining the option of ethnicity-based affirmative action.
that merit-based policies would eliminate Bumiputera reservation or preference. In theory and practice, the implication was more competitive selection within exclusively Bumiputera programmes.

To be fair, the NEM showed cognizance that selection procedures matter, and need and merit considerations are inter-related rather than monolithic. It proposed to shift the emphasis of affirmative action to “opportunities rather than outcome” and asserted that “remaining quotas should be progressively phased out”. On affirmative action in “enrolment”, the NEM recommended a “hybrid approach … using the ethnic quota but taking into account the need and merit of the applicants”, implying that need and merit can both factor into the selection process and that ethnic preference cannot be hastily eliminated (NEAC 2010, p. 137). It also alluded to, inter alia, transition plans, an Equal Opportunities Commission, and a Transformation Fund for distressed firms. In contrast, the Economic Transformation Programme launched in September 2010 parked the Bumiputera agenda under a vague strategic initiative of “Narrowing Disparity”, limiting its dealings to medium and large enterprise development with no consideration of the education and employment spheres.

All the above proposals lacked policy specifics and programmatic details, and failed to foresee and mitigate the real and perceived anxieties in the Malay community towards the prospect of reduced opportunity, thus making the agenda vulnerable to be exploited by political opportunists. Yawning policy gaps were easily filled and exploited by Malay nationalist groups, who stigmatized the proposed reforms as menaces to the community. Notably, the NEM paid scant attention to small Bumiputera contractors, a backbone of government procurement and political support, and came across as drastically disrupting their vested interest. The reforms, received akin to “shock therapy” rather than a graduation process, amplified the resistance.

It is paramount for us to construct a systematic framework for thinking about ethnicity, need and merit. A point on terminology is also appropriate. Need-based affirmative action, merit-based affirmative action or market-friendly affirmative action are misnomers. Continued usage of these terms obfuscates the role of need, merit, and market-
oriented selection in complementing and enhancing — *not* systemically replacing — ethnicity-based affirmative action. Indeed, this paper adopts the term Bumiputera preferential regime and eschews “affirmative action” to minimize confusion.

Table 2 presents a schematic on how need and merit considerations can be factored into selection processes, to enhance Bumiputera preferential programmes and enable further reform. Expanding need-based selection has the effect of facilitating inter-generational upward mobility and engendering more equitable distribution of benefits. These apply especially in education, where students of disadvantaged backgrounds can be granted preferential treatment, regardless of ethnicity, in university admissions and for award of bursaries.

Granting preferential access based on socioeconomic disadvantage also rests on the principle that persons should not be penalized for circumstances not of their choosing. This is eminently applicable to school leavers seeking university admission, who are just graduating out of being dependants and for whom family background and schooling quality were basically not matters of choice. The case for granting preference based on socioeconomic disadvantage may be applied in the employment sphere, but within greater limits — arguably, only at initial entry or first job application. Compared to students, labour market participants can be conferred much less preference based on background circumstances beyond their control, and they are also independent adults who should compete on their own merit. In addition, it is practically unreasonable and infeasible for employers to collect and evaluate information on applicants’ socioeconomic background in selecting recruits or promoting employees. Attempts to foster a more ethnically representative workforce can scarcely rely on preference for the disadvantaged; to achieve that objective, ethnicity must substantially factor into selection processes.

Need-based considerations hold vastly different ramifications when it comes to enterprise development. The objectives here are to provide opportunity for companies to grow; there is a heavy onus on beneficiaries to be productive, and to acquire capability and independence. Need-based preferences on a pro-poor basis, therefore, are improper — and
Table 2: How need and merit can enhance Bumiputera preferential programmes and help transition away from overt ethnic preference.

<table>
<thead>
<tr>
<th>Policy sphere</th>
<th>Need – two distinct ramifications:</th>
<th>Merit: preference with respect to capability and competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Preference for economically disadvantaged</td>
<td>• Limits/sunset clauses on repeat beneficiaries/economically empowered</td>
</tr>
<tr>
<td>Higher education</td>
<td>• Effective mechanism for ethnic group empowerment and inter-generational upward mobility</td>
<td>• Scholarships can reward and promote achievement, with funding proportionate to financial need</td>
</tr>
<tr>
<td></td>
<td>• Family background is logical and practical selection criterion, regardless of ethnicity</td>
<td></td>
</tr>
<tr>
<td>High-level employment</td>
<td>• Possibly applicable to fresh graduates, at recruitment stage</td>
<td>• Important to demonstrate competency and capable leadership, especially in public sector and GLCs</td>
</tr>
<tr>
<td>Enterprise development</td>
<td>• Maximum quantum/repetition of benefits, or requirements to upscale or graduate</td>
<td>• Imperative that beneficiaries are capable and competitive, graduate out of assistance</td>
</tr>
</tbody>
</table>

Source: Author.
downright detrimental, because favouring lower-earning companies will likely misallocate opportunities to less capable recipients. However, applying the need principle conversely — i.e. limiting assistance for those who do not “need” it or have benefited enough — we can devise limits on repeatedly receiving rewards — e.g., by setting a maximum number of times contractors can win contracts at a scale level, beyond which they must move up to a higher category.

Merit-based considerations pervade our consideration of Bumiputera preferential regime, but we must remain circumspect and precise about the policy implications. In higher education, it is important to provide opportunity and reward for students based on achievement or potential. However, this project may sit in tension with the pursuit of equitable distribution, because higher academic attainment is highly correlated with higher income and general socioeconomic privilege. Compromise, noted in Table 2, can take the form of scholarships with competitive selection, but with funding proportionate to financial need. In the employment sphere, particularly in appointment to important administrative and leadership positions, merit clearly enhances ethnic group empowerment. In the specific case of Malaysia’s public services and GLCs, selecting the more capable Bumiputeras increases the chances for successful occupation of high-level positions. The further objective is to demonstrate capability and build confidence in the community, which are prerequisite conditions for rolling back ethnicity-based preference.

The imperative of selecting qualified and capable beneficiaries, and monitoring progress, are perhaps greatest in enterprise development compared to the other policy spheres in our consideration. Allocation of opportunities and rents here entail delivery of goods and services and development of managerial capability; thus, the social implications and the requisite experience or learning proficiency are exceedingly high. Disbursement of contracts, licenses, credit and financial assistance can be effective instruments for cultivating enterprise, capability and resourcefulness, or can gravitate towards rent-seeking and dependency. Beneficiaries of preferential access to opportunities and rents should all the more be induced or compelled to graduate out of government assistance.
INCORPORATING NEED AND MERIT TO ENHANCE BUMIPUTERA PREFERENTIAL PROGRAMMES

We now turn to assessment of the extent need and merit have been incorporated into selection processes of the Bumiputera preferential regime. This section also presents information on numbers of beneficiaries, available opportunities or expenditures, to weigh the relative magnitude of programmes that have basically not changed and remain exclusively and overtly pro-Bumiputera, against programmes that have incorporated need-enhanced and merit-enhanced selection. Table 3 outlines the salient points of this assessment.

Higher Education

Interventions begin at the secondary level, most significantly the MARA Science Colleges (MRSMs), which reserve 90 per cent of places for Bumiputera students. This policy has been sustained, and these colleges continue to expand, now numbering 49 and producing 7,967 graduates in 2015. MRSMs reportedly raised the non-Bumiputera quota in 2004 from 10 per cent to 30 per cent in 5 of 17 colleges, and in recent years increasingly sought to enrol students from low-income backgrounds. Selection into MRSMs is competitive, but enrolment of high-income and middle-income urban Bumiputeras is often a point of contention. Such entrants, who then become primed for scholarships to study abroad, enjoy socioeconomic advantages compared to the disadvantaged predominantly rural population that these colleges originally intended to serve. Hence, there is substantial scope to make socioeconomic disadvantage and rural background more salient in MRSM selection, and to consider competitive scholarships with variable funding amounts referenced to household income, rather than prohibiting the relatively

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### Table 3: Outcomes and prospects of Bumiputera preferential programmes

<table>
<thead>
<tr>
<th>Policy sphere</th>
<th>Outcomes of Bumiputera empowerment: How effective and equitable?</th>
<th>Prospective/proposed reforms and exit options</th>
</tr>
</thead>
</table>
| Higher education    | - “Meritocracy” in university admissions: illusory, detracts from academic rigour and ultimately disserves Bumiputeras  
                      | - Admissions system inadequately accounts for socioeconomic disadvantage, is excessively partisan  
                      | - Diversity lacking in many universities and higher education institutions                                                                                                         | - Pre-university must be rigorous to effectively equip Bumiputeras, as precondition for removal of overt ethnic preference  
                      |                                                                                                                                                                                | - Shift to applying equal access and equitable representation as a dual principles, with decentralized admissions, autonomous institutions and systematic consideration of socioeconomic disadvantage  
                      |                                                                                                                                                                                | - Set up prestigious scholarships with funding amount corresponding with financial need                                                                                       |
| High-level employment | - Public sector is Malay dominated and difficult to diversify, but holds potential for grooming capability  
                         | - GLCs more ethnically diverse; professionalized leadership demonstrates ability, builds confidence                                                                             | - Fair employment to legislate against unfair discrimination and provide guidelines for pursuing affirmative action and diversity                                                                 |

*continued on next page*
Table 3 — cont’d

<table>
<thead>
<tr>
<th>Policy sphere</th>
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<th>Prospective/proposed reforms and exit options</th>
</tr>
</thead>
</table>
| Enterprise development | • Bulk of funding and opportunity disbursed remain embedded, not designated for reform  
• Teraju programmes strive to cultivate capability and competitiveness, but resources limited and operations more selective than systemic  
• Programs with mass outreach are not effectively cultivating capability, competitiveness and confidence                                                                                                                   | • Exert more pressure to increase competitiveness and scale, apply limits to repeat benefits, conditions for graduation  
• Greater coordination, overcoming political and bureaucratic resistance to rolling back preference and replicating merit-enhanced selection  
• Reform to make programmes more effective, as precursor to broader reform, especially in pre-university, contracting, SME support  
• Redress socioeconomic disadvantage more systematically, especially in education  
• Focus on empowerment, reforms, readiness to roll back preferential treatment  
• Empowered Bumiputera elites are positioned to demonstrate graduation from preferential assistance  
• Fundamental shift needed to multi-pronged pursuit of equality and fairness, balanced with equitable representation and diversity                                                                                                      |
| Overall                | • Programmes with mass outreach are not effectively cultivating capability, competitiveness and confidence  
• Inadequate incorporation of need to enhance Bumiputera preference where pertinent, and as precursor for broader systemic reforms  
• Lessons from recent achievements — especially GLC Transformation and new ventures under BETR — can potentially be harnessed as replicable examples                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                          |

Source: Author.
privileged from participating. Such reforms can be transitioned towards a system with less overt ethnic preference, although ethnic diversity should remain a guiding principle.

The situation of entry programmes and admissions practices for higher education is complex (Tan and Santhiram 2017). While an official stance of “meritocracy” has been in place since 2002, this reform is illusory. Malaysia’s meritocratic selection counts applicants’ academic scores regardless of ethnicity. However, there are differences in pre-university study on which academic performance is judged, with Bumiputeras predominantly attending matriculation colleges or Asasi programmes, where 90 per cent or all places are reserved. Most non-Bumiputeras continue to attend Form Six, taking the Malaysian Higher Education Certificate (STPM). Academic results from both programmes are placed on par, but it is widely believed, and empirically corroborated, that matriculation is easier, and hence its graduates enjoy a substantial advantage. In 2014, matriculation colleges enrolled 17,000 on the science syllabus, compared to 6,000 in the STPM. A study of first-year students in a Universiti Kebangsaan Malaysia engineering programme observed that 95 per cent of Bumiputera students entered from matriculation or foundation studies, 29 per cent of non-Bumiputeras (with 71 per cent entering through Form Six/STPM). Expectedly, the study also found disparities in student preparedness for the first semester mathematics course. Strikingly, students who had scored an A in matriculation mathematics fared considerably worse than those with an A in STPM mathematics (Haliza et al. 2009). Wan and Cheo (2012) also find differentials in the scholastic ability of STPM and matriculation university entrants.

Formally, socioeconomic disadvantage or equitable representation have minimal bearing on higher education admissions. The fuller version

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7 Matriculation programmes operate in 15 matriculation colleges and 2 MARA colleges, while Asasi offered in various universities. Among the Asasi programmes, 6 are reserved for Bumiputera (including UiTM, Asasi Sains UM, Asasi Universiti Islam Malaysia) and 5 are open to all, including Asasi Islamic Studies UM, Asasi UPM, Asasi UKM (Higher Education Department 2017).
of meritocracy in university admissions evaluates academic results (90 per cent of the weightage) and extra-curricular activities (10 per cent). A small portion of places is allocated for disadvantaged students (UNESCO 2015), and some preferential measures for the Orang Asli are in place. Entry into technical and vocation programmes, however, include a socioeconomic background component, with weightages of 75 per cent for academic attainment, 10 per cent for co-curricular activities and 15 per cent for socioeconomic status (equated with household income). In 2010, UiTM introduced a programme for disadvantaged Bumiputeras unsuccessful in their university applications, or unable to pursue higher education due to economic difficulties, offering 5,000 pre-diploma places. In 2016, a quasi-government initiative expanded this to Jelajah Pendidikan Bumiputera (JPB), with all public higher education institutions participating. Notably, the itinerary is politically tinged; JPB plotted visits to over 50 parliamentary constituencies, and some of the offer letters to study programmes were presented by political leaders. This entry route has clearly burgeoned. It exceeded the initially targeted 37,000 placements in 2016, and the government expects to surpass the 55,000 target in 2017, mostly in technical and vocational colleges.

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8 Since 2013, public universities have been required to reserve 100 spots for students who do not meet the academic criteria but come from low-income families and socioeconomically disadvantaged circumstances — income below RM1,000 per month, single parents, families with disabled members. This policy does not apply to competitive disciplines, such as medicine and engineering (UNESCO 2015, p. 93).

9 Applicants from Peninsular Malaysia’s indigenous Orang Asli population, who constitute 0.7 per cent of Malaysia’s population, are offered admission once they meet minimum requirements, bypassing competitive selection against other applicants. This preferential scheme also excludes demanding academic programmes such as medicine (Author’s interview with Dr Ahmad Nazri Sulaiman, Research Planning and Policy Coordination Division, Ministry of Higher Education, 18 July 2017).

10 Author’s interview with Research Planning and Policy Coordination Division, Ministry of Higher Education officials, 18 July 2017.
but also universities. Among new registrants at Universiti Kebangsaan Malaysia (UKM) in August 2017, about one-tenth entered through JPB.  

While admissions mechanisms maintain a degree of access to all groups and the “meritocracy” brand is continually propagated in self-affirmation, the system clearly under-equip Bumiputeras for the rigours of higher education, and fails to broaden need-based criteria as an indispensable element of the national agenda to redress inequality of opportunity regardless of ethnicity. The 2012 main mid-year public university intake consisted of 71 per cent Bumiputera, 19 per cent Chinese and 4 per cent Indians. In particular, Malaysia’s public universities have seen declining Chinese enrolment in public universities in recent years, although their acceptance rate remains higher. Integrating merit and need more systematically and progressively also applies to the Public Services Department (JPA) scholarships, which have abided by approximate ethnic quotas in recent years. Over 2008–10, 55 per cent of recipients were Bumiputera, and about 60 per cent in 2011–12. This programme reportedly operates on meritocratic grounds, yet annually triggers complaints from top-scoring students, invariably non-Bumiputeras, who are not awarded. Although funding for these scholarships has drastically dwindled in recent years, they continue to signal priorities and hence should seek better means for striking a salutary balance of excellence and equity.


12 The number of Chinese students offered admission during the main, mid-year intake, was 9,500 per 41,300 total admissions in 2011 (23 per cent of the total), 9,000 per 38,500 in 2012 (23 per cent), and 8,000 per 42,000 in 2013 (19 per cent) (“MCA kecewa ramai pelajar Cina gagal masuk IPTA”, Sinar Harian, 20 July 2013, <http://www.sinarharian.com.my/mca-kecewa-ramai-pelajar-cina-gagal-masuk-ipta-1.182508>.

Education institutions and opportunities under MARA are reserved for Bumiputeras, underpinned by the agency’s formidable RM3.91 billion operational budget in 2015. GiatMARA currently operates 231 training centres, with an intake of 21,700, while MARA Skills institutes and MARA High Skills Colleges produced 6,073 graduates. Universiti Kuala Lumpur, providing degree-level technical education, conferred degrees or diplomas on 5,961 graduates. MARA also maintains six Professional Colleges, and most voluminously, the Universiti Teknologi MARA which, with its enrolment of about 140,000, accounts for 35 per cent of total public university enrolment (MARA 2015).

Scholarships, bursaries and other forms of academic sponsorship bolster Bumiputera representation in higher education. In 2015, 106,154 students were considered to be under MARA education sponsorship. Little is disclosed about the selection processes. The general lack of formalization of socioeconomic background may derive from the likelihood that low-income households substantially receive benefits. Nevertheless, these processes can surely be systematized to more effectively facilitate upward mobility and lay groundwork for less ethnic preferential selection and increased assessment based on socioeconomic disadvantage. In the scholarship programmes, competitive selection of Bumiputeras continues to be important for building capability and confidence, but this requires long-term plans for transitioning to schemes that pursue excellence alongside diversity.

The BETR’s programme in the education sphere, Yayasan Peneraju Pendidikan Bumiputera (YYPB), targets Bumiputeras from disadvantaged backgrounds and difficult circumstances and strives to change the mindset of beneficiaries, by inculcating more self-belief, aspiration, and leadership qualities. YPPB identifies sectors and skills and pursues quality of outcomes beyond academic grades, rather than adding to the existing large pool of educational financing.14 It funds students to attend technical and vocational programmes in various institutions

14 Author’s interview with Raja Azura Raja Mahayuddin, Chief Executive, YPPB, 19 July 2017.
and provides room and board, weaving in the values and mindset aspect through supplementary programmes and the added contact in residence. In the years since its inception (2012–16), YPPB has helped enrol 14,000 students and utilized RM260 million of grants. Its mission and operational strengths warrant consideration for expansion and replication — for Bumiputera empowerment to more effectively facilitate intergenerational upward mobility — and for extension to a broader base, particularly the Indian community.

**High-level Employment**

This policy sphere basically applies to the public sector and GLCs, given the absence of regulation in private sector employment, except for broad indication of preference for companies with Bumiputera employees in public procurement. The public sector and the “G20” top GLCs employ 1.6 million and 225,000 nationals, respectively, accounting for about 15 per cent of total employment of Malaysian citizens. Malay quotas of between 75–80 per cent have been reported for specific ranks of officials, mostly in authoritative corps, such as the Administrative and Diplomatic Service (PTD), police, judicial and legal services, and customs services. These would constitute less than 15 per cent of the public service employment. There are no specific quotas for professional and technical services, but non-codified ethnic preference is clearly practiced (Lim 2013).

As noted above, the scope for incorporating need-based preference is very limited; family background can possibly factor into initial entry to employment, but beyond that, it is vital that promotion and especially appointment to decision-making and administrative positions be based on competency and capability. GLCs’ employment profile reflects their adherence to Bumiputera empowerment. Overall, the G20 workforce is 79 per cent Bumiputera, 10 per cent Chinese, 8 per cent Indian, and 3 per cent others, and in executive positions, 73 per cent Bumiputera, 19 per cent Chinese, 6 per cent Indian, and 2 per cent others (PCG 2015). The G20, emerging from the GLC Transformation Programme, have visibly demonstrated dynamism, competitiveness and regional presence of corporations helmed by Malay professionals. The challenge remains,
however, to leverage on these achievements in the GLCs widely, and to impact on the private sector.

The government has expressed concern towards the under-representation of non-Malays in the public sector; the Government Transformation Programme commits to ethnic representativeness in the First GTP Roadmap, covering 2010–12 (Pemandu 2010; Pemandu 2012). Despite the GTP Roadmap 2.0 being more reticent on this front, we can observe some efforts towards diversifying the government workforce, although they are still far under-represented. This issue is most acutely felt among Sabah and Sarawak indigenous peoples. Of course, policy shifts here are targeted at rebalancing the overwhelming share of Malays, but this does provide an opening for formulating and implementing policies that balance merit and diversity.

Enterprise Development

Bumiputera penetration into private enterprise faces higher hurdles; programmes to promote Bumiputera commerce and industry have progressed slower than education and employment, and with multiple

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15 From 1980 to 2003, Chinese representation in the civil service fell from 29.7 per cent to 8.2 per cent, while that of Indians declined from 9.8 per cent to 5.2 per cent. Available recent reports show further decline in 2014, with Chinese comprised 5.2 per cent while Indians 4.1 per cent (“Lack of non-Bumis in civil service must be addressed”, Free Malaysia Today, 9 May 2015 <http://www.freemalaysiatoday.com/category/nation/2015/05/09/lack-of-non-bumi-in-civil-service-must-be-addressed/>. The public services draw a small but relatively well-qualified stream of Chinese applicants. The share of Malay, Chinese and Indian among recruits in 2008 was 78.6 per cent, 4.4 per cent and 4.5 per cent; in 2011: 71.0 per cent, 8.0 per cent and 5.4 per cent (Woo 2015). In 2015, Chinese comprised 1.7 per cent of total applicants, but 4.1 per cent of total appointments (Author’s calculations from Public Services Commission open source data (downloaded from data.gov.my).

setbacks and fluctuating outcomes. The hub of this agenda shifted from State Economic Development corporations in the early 1980s to heavy industries in the early 1980s, followed by massive privatization in the late 1980s until the Asian Financial Crisis — all of which made some strides but ultimately floundered. Chin and Teh (2017) assess this chequered record of the Bumiputera Commercial and Industrial Community, noting that it continues to be state reliant. In 2010, SMEs contribute to around 30 per cent of Malaysia’s GDP; Bumiputera SMEs contributed only 13 per cent. The government targeted raising this to 20 per cent in 2020 (Pemandu 2011, p. 226). By 2015, Bumiputera SMEs remained in the minority, numbering 247,900 out of 645,100 (38 per cent of the total), and among them, 88 per cent are classified as micro, 11 per cent small, and only 1 per cent medium (compared to 70 per cent, 26 per cent, 4 per cent of non-Bumiputera SMEs). Bumiputera-controlled companies account for 25 per cent of the 800,000 registered companies in Malaysia (Teraju 2012, p. 56).

Various programmes operate on a large scale to promote Bumiputera micro and small business, in line with the concentration of Bumiputera firms at these levels. MARA’s programmes mostly constitute training for entrepreneurship, skills and technological absorption, and funding for renovation, upgrading and business growth. MARA reports that, in 2014 and 2015, its programmes groomed 103,500 entrepreneurs and provided financing for 21,100 ventures. MARA’s Strategic Transformation 2011–2020 aspires to take enterprise development to the next level, beyond dispensing opportunity and funding. However, the extent that this spurs capability and competitiveness remains to be seen. PUNB provides SME support to a large pool, but evidence suggests a considerable distance to go in cultivating truly dynamic enterprise. PUNB has 2,222 companies in its registry (excluding Prosper Teras, of which data are unavailable), with the majority in the Prosper Runcit scheme (1,741). Automotive workshops and petrol stations or gas distributors constitute the two largest sectors — constituting 12 per cent and 11 per cent of the total.17 From 1992 to

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mid-2016, Tekun disbursed financing to 473,982 entrepreneurs totalling RM4.29 billion. Tekun, as a microfinance scheme, is constrained in terms of innovative and technological capacity. However, there is limited evidence of beneficiaries being induced towards higher competitiveness. Tekun is also mired in heavy losses and debt, with a former CEO on trial for corruption. On the whole, SME support through these channels is not as impactful as desired, with substantial scope for building capability through selection and monitoring processes.

Malaysia’s public procurement system is a heavyweight within the Bumiputera preferential regime — and a fiercely contested channel of business opportunity and political patronage. The number of contractors grew from about 2,000 contractors in 1972 to 41,000 by 2010. There was exceptionally high growth in the early 2000s, with 6,500 and 8,200 class F contractors registered in 2002 and 2003 respectively, in response to government allocations of small projects in parliamentary constituencies. Government construction projects awarded to local contractors amounted to RM23.8 billion in 2015 and RM41.4 billion in 2016 (CIDB online data). This scale of disbursements affords the state considerable leverage for enterprise development.

However, public procurement has lacked attention to dynamic reforms or equitable distribution. Preferential access to contracts has not achieved its objective of grooming Malay business, and in some ways stifles the process. Out of 41,000 contractors licensed under the Ministry

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20 One needs to search quite far back to find policy initiatives targeted at government contractors. In 1993, a Credible Bumiputera Construction Contractor Programme (Program Kontraktor Binaan Bumiputera Berwibawa) was introduced, through which 236 contractors upgraded management and technical capabilities and delivered on 1,221 projects worth RM3.6 billion (Malaysia 1996, p. 76).
of Finance, 94 per cent are Bumiputera. Among these contractors, 75 per cent were in the smallest G1 class (formerly F), which are reserved for Bumiputeras, require only RM5,000 minimum of paid-up capital, and are eligible for projects below RM200,000 in value. This predominance in the smallest class contrasts with the industry on the whole; in CIDB’s registry, 44 per cent of contractors at level G1. The concentration of small operators is perpetuated by lack of upgrading; only 47 out of 29,000 (0.2 per cent) of class F contractors upgraded to a higher class (REFSA 2011).

Bumiputera contractors’ political partisanship is marked; the Malay Contractors Association (PKMM) is formally aligned with the ruling Barisan Nasional coalition. UMNO connections have been intertwined with the contracting system, although recent changes — particularly, e-procurement, competitive tenders, and balloting for small contracts — have brought more integrity and transparency to the system.21 Some limits on allocation of contracts and requirements to upgrade, have been proposed through internal channels in the past, to no avail.22 Under the BETR umbrella, MARA has devised Skim Pembiayaan Kontrak Ekspres (SPiKE) to provide financing of up to RM1 million for G1–G5 contractors. 18,200 contractors received SPiKE support in 2013–15, amounting to RM1.25 billion (MARA 2014 and 2015). The efficacy of these measures is unclear. Teraju has also extended assistance to public procurement contractors, but contractors seem quite unaware or disinclined to participate.23

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22 The PKMM suggested in early 2000s that contractors should be limited to 1–2 contract renewals, for a maximum of 6–9 years, at G1 level. The contractors would need to upgrade to G2 to receive further preferential treatment. However, the suggestions met with resistance, particularly from politically influential members (Author’s interview with Kamarudin Mohd Saleh, General Manager, Malay Contractors Association, 21 July 2017).

23 Interview with Kamarudin Mohd Saleh.
The focus of BETR’s initiatives directly administered by Teraju has been on grooming independent and competitive Bumiputera companies, amidst limited resources and fiscal constraints. Teraju’s mainstay is the Teras programme which screens companies based on commercial merit and potential, and formally disqualifies GLC subsidiaries. The ETP also expressly designates “Bumiputera champions” distinct from the GLCs, and exhorts them to contribute to Bumiputera empowerment through vendor development (ETP 2012). Bumiputera Economic Empowerment Units (Unit Pemerkasaan Ekonomi Bumiputera, UPEB) located in every government department and coordinated by Teraju, facilitate communication and serve as liaisons between Teras companies and the bureaucracy.

Teraju’s mission declared in 2011 was to identify 1,100 high-performing Bumiputera companies by 2016. While launching the BETR2.0 in 2017, Teraju reported that in the first five years (2011–16), 1,014 were endorsed by Teras and thus qualify for various opportunities. RM332 million was provided by Teraju as collateral to banks, which multiplied to RM3.14 billion in loans to Teras companies. The “Carve Out and Compete” programme’s showcase Mass Rapid Transit (MRT) interventions saw 372 companies securing contracts worth RM10.5

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24 Teraju started with minimal budget and human resources, in the context of fiscal constraints in general, and the immense funds already committed to existing Bumiputera development agencies. It was also tasked to devise new ways of pursuing this agenda, rather than more expenditure and largesse (Author’s interview with Husni Salleh, CEO, Teraju, 3 August 2017). Concurrently, the biggest complaints registered by members of the Malay Chamber of Commerce members are the shortage of contracts and lack of transparency in the allocation process (Author’s interview with Nizam Mahshar, Secretary-General, Malay Chamber of Commerce, 17 July 2017).

25 The criteria for qualifying as a Teras company are: (1) ≥RM10 million per annum for last three years; (2) profitable for last three years; (3) ≥60 per cent Bumiputera ownership and Bumiputera CEO or managing director; (4) not a GLC or MNC subsidiary; (5) at least three star SCORE rating by relevant certifying body; (6) good credit rating.
billion, or close to 50 per cent of the total. A further RM54.2 billion of opportunities in thirteen mega projects have been identified. In three years of operations (2014–17), the SUPERB grant for young entrepreneurs has awarded RM62.5 million for project development to 125 winners, through competitive selection (Teraju 2017). MARA’s The Baron initiative reports the facilitation of forty corporate entrepreneurs, after expenditures of RM148 million (MARA 2015).

Overall, the shift in policy orientation and operation — focusing on capability and competitiveness, relying less on government funding, and reaching outside the GLC orbit — is significant. The challenges in this sphere of Bumiputera empowerment remain steep, in effectively cultivating these abilities and replicating successes on a broader scale. In some ways, Malaysia has gone back to some basics, with acknowledgment that fast-tracking attempts of the past have fallen short, and that there is still a long way to go, to shift to a higher gear of professionalism and dynamism, to ingrain competition as the norm rather than referral or connection, to accumulate capital and acquire track records that facilitate credit access, and to institute proper accounting and governance structures. In the further quest to roll back ethnic preferential treatment, it is also essential for Bumiputera enterprise to be independent and innovative. The shortfall is most acute here. Even Ekuinas, a private equity fund geared for more robust, dynamic efforts, has invested in rather brownfield projects in education and services franchising, rather than more cutting-edge ventures.

26 Lists of balloting and winning contractors are publicly available <http://www.mymrt.com.my/en/bumiputera-participation>. While it is unclear whether the reports are independently scrutinized, the disclosure is a commendable act of transparency.

27 These assessments were expressed by a few key informants in the author’s interviews: Husni Salleh, CEO of Teraju, 3 August 2017; Erhanfadli Azrai and Anas Alam Faizli, CEO and member of the Malay Economic Action Council (MTEM), 18 July 2017; Nurhisham Hussein, General Manager, Economics and Capital Markets, Employees Provident Fund, 21 July 2017.

28 Author’s interview with Kamal Salih, founding Managing Director, Malaysian Institute of Economic Research, 21 July 2017.
EXIT PROSPECTS AND TRANSITION PLANS

Consideration of policy exits and transitions begins with general and explicit declarations of intent to roll back Bumiputera preferential treatment. As discussed above, profession of need-based, merit-based and market-friendly affirmative action do not constitute systematic and coherent alternatives. Credible reform initiatives must recognize the existence of Bumiputera preferential treatment and specify how these selection mechanisms will be amended or removed. Expectedly, such commitment is exceptional; the NEM and transformation programmes are unclear about the long-term trajectories of affirmative action. The Eleventh Malaysia Plan, within the scope of a major “Bumiputera economic community” development agenda, stated the intention of graduation from special treatment, but limited to government procurement (Malaysia 2015). The BETR has placed emphases on target setting and delivery, not timelines or graduation clauses. The BETR2.0 professed to strengthen the Bumiputera Agenda over ten years, while focusing on initiatives and results over the coming five years, 2017–21 (Teraju 2017). Contemporary rhetoric surrounding National Transformation 2050 (popularly known as TN50) implies that pro-Bumiputera programmes might be phased out by then, but the government remains diffident towards this prospect, even while recognizing the undesirability of maintaining ethnic preferences in perpetuity.

Consistent with the framework and analysis presented here, reforms and exit paths will need to be programme-specific and systematically integrated. Mere declaration of time limit, such as the NEP’s twenty-year window (1971–90), is inadequate. Policy spheres must be analysed separately, with robust attention to how need-based and merit-based selection can enhance Bumiputera empowerment and make broader reforms palatable and possible. This complex state demands national deliberation over time horizons and milestones, whereby overt ethnic preferences are rolled back after a certain passage of time or arrival at some threshold achievement, or a combination of both.
Higher Education and High-level Employment

Education, as a policy sphere that develops capability, potentially facilitates upward mobility and largely precludes acquisitive behaviour (degrees cannot be traded for profit), holds out immense potential for Bumiputera empowerment. The utilization of need-based and merit-based selection, however, has fallen short in various ways. Continued adherence to “meritocracy” in admissions without acknowledgement of pre-university ethnic quotas that must at least qualify the label, beyond an issue of factual error is a practice that ultimately disserves Bumiputeras — and undermines systemic reform.

A transition path includes the following. First, the rigour of matriculation and university entry programmes must be raised, to effectively equip Bumiputeras for higher education — and as a precondition for removal of overt ethnic preference. Second, allocation of benefits and financial support, and admissions processes, can be premised on equal access and equitable representation as dual principles rather than the current indirect ethnic preferences. The need for more applicant information to be weighed likely overstretches the capacity of the existing centralized system; a more systematic and sustained consideration of socioeconomic disadvantage in selection processes thus entails more decentralized admissions and autonomous institutions. Allocation of opportunity must also be delinked from partisan politics. Third, alongside the incorporation of need-based selection, which facilitate more equitable distribution of benefits and inter-generational upward mobility, scholarships to induce and reward achievement will continue to have their place. To this end, Malaysia can set up prestigious scholarships with funding amounts corresponding with financial need, rather than preclude middle- and high-income households from participating.

In the employment sphere, merit-based selection processes are complex and punctuated by perceptions of discrimination, while the scope for need-based selection is limited. The lack of legislation overseeing fair labour practices is a major omission, and an obstacle to pursuing equality and diversity in the public and private sectors. Moving forward entails fair employment legislation, to frame and
regulate unfair discrimination — lending clarity to the application of merit and group representation — and provide guidelines for pursuing affirmative action and workplace diversity. Towards incorporating more need-based selection, preferences for disadvantaged new labour market entrants, or for first-in-family graduates, may be considered and formally encouraged, where appropriate.

**Enterprise Development**

While recent years have seen more effort in building capability and competitiveness of Bumiputera firms, this shift is not systemically integrated to the vast web of interventions granting preferential access to funding and contracts. Policy options will vary, in line with specific conditions in public procurement and vendor development, compared to funding and credit facilitation. For inclusion in the Trans-Pacific Partnership Agreement (TPPA), Malaysia negotiated a schedule for opening access to public procurement for foreign companies, which at least set a precedent in making some concessions and relinquishing preference, even though the TPPA’s future remains uncertain. International treaties, however, cannot provide sufficient impetus for systemic change, basically because foreign capital targets large projects, whereas the needed reforms affect investment and procurement at all levels. Indeed, Malaysia secured vast latitude to continue prosecuting the Bumiputera preferential regime.29

The solution will have to be nationally driven. In general, a blend of pressure and inducement must be formulated that stimulates competitiveness, innovation and upscaling, applies limits to repeat

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29 The deal opens public procurement to open foreign competition for projects above RM300 million, a threshold that would slide to RM100 million in twenty years, but preserves 30 per cent Bumiputera carve-out in government procurement, Petronas’ exclusive rights to petroleum and policy autonomy, performance and national requirements and foreign equity limits for certain sectors (e.g., retail, automotive), and operations of specific entities, e.g., Teraju, Ekuinas, MARA. GLCs can apply preferences on up to 40 per cent of annual budgeted purchases (PwC 2015, pp. 33 and 246).
benefits, and stipulates conditions for graduation. Emphatically, the scope and scale of regime-wide reform demands implementation of sufficient magnitude and authority. Teraju has been designated this role, but is under-resourced, and lacks authority to replicate success, overhaul underperformance and overcome territorialism. The myriad public bodies implementing Bumiputera empowerment largely operate in isolation, maintaining parochial tendencies. Monitoring through KPIs achieves more standardization than synergy and dynamism. Political and bureaucratic resistance persists towards incorporating more merit-based selection, rolling back preference and replicating merit-enhanced selection. Nonetheless, empowered Bumiputera elites and competitive firms are positioned to demonstrate, visibly and constructively, graduation from preferential treatment.

CONCLUSION

An overarching finding from the preceding analysis is that Bumiputera preferential programmes with mass outreach are not effectively cultivating capability, competitiveness and confidence, although some BETR initiatives are pushing further in this direction but with limited resources and scope. This article has proposed a systematic framework for analysing how need-based selection and merit-based selection can enhance Bumiputera empowerment, taking into account important differences across the four main policy spheres. The more effectively the regime cultivates Bumiputera capability and competitiveness, inculcates independence and confidence and promotes of upward mobility, the brighter the chances for the community to truly graduate from overt ethnic preferential treatment. Applying this framework, my investigation of the Bumiputera preferential regime finds some evidence that need and merit are incorporated into selection processes, but there are many

30 Teraju CEO Husni Salleh describes how “stakeholder management is very complicated … [like] treading a thin line. We want delivery, but also to straighten them up and expose them to rules and discipline” (Interview with author, 3 August 2017).
gaps, omissions and shortfalls. Various lessons can be derived from the ongoing initiatives, particularly the GLC Transformation Programme and new ventures under BETR, but whether these are analysed and replicated remains to be seen, and it is unclear whether the disparate operations of government agencies, with vested interests and uncoordinated operations, can be overcome.

Reforms fundamentally must set out to make programmes more effective, as precursor to broader reform. Moving forward entails redressing socioeconomic disadvantage more systematically, especially in education, and focusing on empowerment and readiness to roll back preferential treatment in all spheres, while being continually vigilant against rent-seeking. The country might gain from a paradigmatic shift to a multi-pronged pursuit of equality and fairness, balanced with equitable representation and diversity. In other words, the discourse should revolve more around the issue of fairness and opportunity, and redress unfair advantages that arise from structural privilege or political patronage, instead of pursuing ethnic proportionality in every sphere. Graduating from preferential treatment is imperative, and Bumiputeras who are sufficiently empowered and eminently positioned must lead by example.

REFERENCES


MALAYSIA’S BUMIPUTERA PREFERENTIAL REGIME AND TRANSFORMATION AGENDA: MODIFIED PROGRAMMES, UNCHANGED SYSTEM

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