

THE NEW ECONOMIC POLICY AND THE UNITED
MALAYS NATIONAL ORGANIZATION
—With Special Reference to the Restructuring of
Malaysian Society—

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INTRODUCTION

IN 1990, Malaysia duly completed its twenty-year New Economic Policy (NEP) which was launched in 1971. Though the NEP has been described as an “economic” policy, its contents and implementation processes show that it went far beyond the scope of economic policy packages. In fact, policies in such noneconomic areas as education, language, culture, and religion have been formulated and implemented in close relationships with it.

Consequently, the NEP has exerted major influences not only on Malaysia’s economy but on Malaysian society as a whole. From the point of view of the NEP’s stated objective, namely, “to lift up the economic and social status of Malays,” the NEP has achieved signal successes, such as the creation of a Malay middle class and Malay entrepreneurs, most notably the new Malay business groups.¹

A number of both positive and negative evaluations have been made about the NEP, which has had such a major impact on Malaysian society.² These studies generally identify two basic characteristics of the NEP.

This paper is part of the fruits of the research and investigation I conducted in Malaysia in 1991–93 as a visiting research fellow at the National University of Malaysia (Universiti Kebangsaan Malaysia—UKM). I wish to express my gratitude to the Institute of Developing Economies for sending me out as its research fellow, the National University of Malaysia for accepting and helping me, and the UMNO Research Bureau and the New Straits Times Research Centre for giving me the opportunity to use their valuable archives.

¹ The new Malay business groups emerged conspicuously from the second half of the 1980s through the 1990s. The representative Malay business groups which emerged in the second half of the 1980s were the AMDB group (headed by Tan Sri Azman Hashim), Sapura group (Tan Sri Shamusuddin Abdul Kadir), Antah group (Tuanku Naquiyuddin and Tuanku Imran of Negeri Sembilan royal family), and Melewar group (Tunku Abdullah and Tunku Iskandar of Negeri Sembilan royal family). They were followed in the 1990s by the Mofaz group (Mohamed Fauzy Abdul Hamid), DRB group (late Tan Sri Yahaya Ahmad), and Taiping group (Dato’ Suleiman Manan). See Torii (1994).

² The following ten works can be cited as the most representative: Snodgrass (1980), Tan Loong

The first characteristic cited by these studies concerns the factor of ethnicity which underlies it. The Malaysian government accorded preferential treatment to Malays and other indigenous people with regard to higher educational opportunities and participation in government-supported business projects in order to achieve one of the NEP's goals, i.e., "restructuring Malaysian society." Since the NEP was designed to benefit Malays preferentially, it has been characterized as a "Malay-first policy" (Horii 1990, p. 3; 1991, p. 282) or "(a development process) was driven powerful ethnic sentiments and patterns of ethnic political mobilization" (Jesudason 1989, p. 1). I will call it an "ethnicity-oriented policy."

The second characteristic emphasized by some studies pertains to its "political" nature. These studies make the point that political factors had a larger impact than economic ones on the formulation and implementation processes of the NEP.

These studies have much in common in terms of their understanding of the NEP in spite of the different modifiers, namely, ethnic and political, which are used to describe its nature. They share the understanding that the NEP partially restricts the full play of economic rationality as well as the market mechanism and equal opportunity principles in favor of Malay-first ethnicity principles coupled with political favoritism.

Existing studies thus have analyzed particular policies under the NEP as well as the process of its overall implementation, using the ethnicity factor as the chief referent. Jesudason's work (1989) is recognized as a synthesis of numerous studies conducted along this line of reasoning.³

Quite a few studies have also taken the NEP's "political nature" as the key reference point. However, few concrete analyses are available which go into the details of the NEP policies and policy-making process from this point of view.⁴ Most studies in this category merely depend on Milne's works, and particularly on his major work, "The Politics of Malaysia's New Economic Policy" (1976). In his paper, Milne analyzed Malaysian political processes up to 1975, the year in which the NEP was put into practice on a full scale, focusing on the political relations between the Malay and the Chinese political party. One of the points at issue in Milne is that the Chinese political party lost most of its influence on the economic policy-making processes, following the 1974 resignation of Malaysian Chinese Association (MCA) President Tun Tan Siew Sin from his post as Minister of Finance, and

Hoe (1982), Tan Tat Wai (1982), Mehmet (1986), Ho (1988), Jesudason (1989), Faaland et al. (1990), Bowie (1991), Jomo (1994), and "Special Issue: An Analysis and Appraisal on Malaysia's New Economic Policy, 1971-90," *Developing Economies* 29, no. 4 (1991).

³ Works preceded Jesudason's book (1989) are Snodgrass (1980), Tan Loong Hoe (1982), Tan Tat Wai (1982), and Ho (1988).

⁴ Bowie's work (1991) is exceptional in that it undertakes political and economic analysis of part of the NEP implementation period.

that in the period since then economic policy-making has definitely shifted to the United Malays National Organization (UMNO).

Milne analyzed the political processes of the NEP mainly from the point of view of an inter-ethnic political game with the UMNO and the MCA as main players. It is certain that his analysis brought to light a portion of the political processes involving the NEP. However, the limitation of his analysis seems to be that as a result of devoting most of his pages to UMNO-MCA political relations, he did not pay much attention to examining the NEP implementation process from within the UMNO, the main implementing body of the NEP.

An examination of the NEP objectives reveals clearly that it is the expression of Malay economic nationalism of the UMNO, with conservative Malays at its core. Since 1974, the UMNO has monopolized all major cabinet economic posts, such as Minister of Finance and Minister of Trade and Industry. The NEP implementation process has seemingly been inseparable from intra-UMNO political processes. It is therefore important to examine its implementation processes from within the UMNO.

The purpose of this paper is to examine the NEP implementation process by focusing on the UMNO as its implementing body. Concretely, I will look in detail at the UMNO leaders' economic visions, debates within the party over the NEP, and the dynamics of intra-party power struggles that resulted in the adoption of particular economic policies. To do so, I will use official UMNO documents, including annual reports, conference papers, and speeches given by its leaders.

The NEP, as I mentioned earlier, involves a broad range of activities. It is therefore impossible to exhaustively examine UMNO debates on all of the areas it covers. This paper, therefore, focuses on the process of the restructuring of Malaysian society, with special emphasis on the role of the UMNO in the restructuring of equity ownership in the corporate sector. This is not to say, though, that during the two decades of the NEP the Malaysian government consistently pursued its goals. Looking at the NEP's individual goals, it is obvious that the same policy goal was understood differently at different times in terms of its content. The government's emphasis also shifted from one goal to another. However, I believe that the Malaysian government, throughout the NEP period, maintained the issue of equity ownership restructuring high on its priority list. In order to enhance the economic and social position of Malays, the Malaysian government selected the restructuring of "equity ownership" as the most appropriate method for promoting capital accumulation by individual Malays. The goal set here was to increase equity ownership share of Malays to 30 per cent. From this was born the jargon, "30 per cent solution," and this formula came to have far-reaching effects, serving as a guideline in other areas of Malay-first policies (Khoo Boo Teik 1995, p. 104).

The Malaysian government created two major institutions to promote equity ownership restructuring. The first was based on the Industrial Co-ordination Act

(ICA) of 1975, which contained measures to compel individual enterprises in the industrial sector to live up to NEP requirements. The second was aimed at increasing the share of equity ownership held by Malay individuals. In concrete terms, three agencies were established for this purpose: Yayasan Palaburan Bumiputera (YPB, Bumiputera Investment Foundation), Permodalan Nasional Berhad (PNB, National Equity Corporation), both established in 1978, and Amanah Saham Nasional Berhad (ASNB, National Unit Trust Scheme), which was set up the following year. This paper gives a relatively large space to the period leading up to the introduction of these two institutions, focusing analysis on the intra-UMNO political processes related to the NEP implementation around the time of their introduction, as the ICA in particular was an important as well as effective measure for achieving various NEP goals.

This paper consists of six sections. Section I outlines the characteristics of the NEP and its implementation process, showing that the enactment of the ICA coincided with the upheaval of Malay economic nationalism, and then goes on to set forth the periods of the NEP. Section II casts light on intra-UMNO policy evolution and dynamics involving the views of Tun Abdul Razak Hussein, during the period up to 1973, the year in which the NEP was put into full operation. Section III analyzes transformations in Malay society during the period from 1973 through the enforcement of the ICA, an era of the culmination of Malay economic nationalism. Section IV deals with revisions to the ICA and the process of establishing systems to expand Malay equity ownership under Tun Hussein Onn, who succeeded Tun Razak after the latter's death. The fifth section discusses two consecutive NEP amendments made under Datuk Seri Dr. Mahathir Mohamad. The conclusion looks at the interaction between the Malay politics of the UMNO and economic policies under the NEP and the National Development Plan (NDP), which succeeded the NEP; the impact of Malay economic nationalism on the NEP implementation process; and the impact on economic policies of changes in the UMNO's support base.

I. THE NEP IMPLEMENTATION PROCESSES AND THE ESTABLISHMENT OF NEP ENFORCEMENT SYSTEMS

A. *NEP and Malay Economic Nationalism*

The NEP set out two major goals. The first was the eradication of poverty irrespective of race (or ethnic group) and the second was the restructuring of Malaysian society. The second goal consisted of four concrete objectives, namely, restructuring employment patterns, restructuring ownership in the corporate sector, creating a bumiputera commercial and industrial community, and creating new growth centers in rural areas.

The basic idea which integrated these goals and objectives was to lift up the economic positions of the bumiputera, and particularly the Malays at its core, whose economic positions were historically inferior, to bring them abreast of Chinese and other ethnic groups in Malaysia.⁵ This basic idea was manifested, among other places, in the clear description of the two objectives of the restructuring program, namely, the restructuring of employment patterns and the restructuring of ownership in the corporate sector.

The objective of restructuring employment patterns was to “ensure that employment in the various sectors of the economy and employment by occupational levels will reflect the racial composition of the country” (Malaysia 1973, p. 9). This meant that by 1990, the racial composition of employment in each occupation ought to be changed to correspond to the racial composition of the country. This compositional change was prescribed for all industries.

This policy was specifically intended to encourage preferential employment of bumiputera in professional occupations and modern industrial sectors. The employment structure which originated in the colonial period had confined Malays to rice farming, fishing, and other specific occupations, and the NEP aimed to enable them to be employed in higher grade industries and more professional occupations. This objective certainly reflected the forceful Malay nationalist demand that Malays, who were held back during the colonial period, now be allowed to occupy their legitimate place in society. In order to attain this goal, the government intervened in labor markets and introduced an ethnic quota system into higher education.

With regards to the other objective of social restructuring, the restructuring of ownership in the corporate sector, the NEP stipulated, as shown in Table I, that the share of capital ownership held by bumiputera be raised from 1.9 per cent in 1970 to 30.1 per cent by 1990. Concomitantly, the share of foreign capital was to be reduced from 60.7 to 29.8 per cent and that of other Malaysian (e.g., Chinese and Indian) capital to grow from 37.4 to just 40.1 per cent.⁶

B. *NEP Development and Periodization*

The NEP was published in 1971 in the form of the *Second Malaysia Plan, 1971–1975* (Malaysia 1971). However, the concrete target figures of the Second Malaysia Plan were not disclosed until 1973, with the publication of the *Mid-Term Re-*

⁵ Bumiputera is a Malay word meaning “sons of the soil.” As Prime Minister Tunku Abdul Rahman once stated in parliament, this term has no legal definition. In the 1980s, then Deputy Prime Minister Mahathir suggested that a legal definition of the word would be worked out, but so far no definition has been made public. The term “bumiputera” is effective in distinguishing Malays and indigenous peoples as the NEP target groups from Chinese, Indians, and other immigrant population. As to problems involving the term, see Tan Chee Beng (1993).

⁶ Here are identified the workings of two nationalisms, one Malaysian nationalism against foreign capital and the other Malay nationalism against non-Malay capital.

TABLE I
OWNERSHIP OF CAPITAL SHARE (AT PAR VALUE) OF LIMITED COMPANIES BY OWNERSHIP GROUP, 1970–90
(%)

Ownership Group	Actual 1970	Target 1990	Actual				
			1971	1975	1980	1985	1990
A. Malaysian residents	39.3	70.2	38.3	46.7	57.1	74.0	74.9
(1) Bumiputera	1.9	30.1	4.3	9.2	12.5	19.1	20.3
1. Bumiputera individuals	*		2.6	3.6	5.8	11.7	14.0
2. Trust Agencies ^a	*		1.7	5.6	6.7	7.4	6.3
(2) Other Malaysian residents	37.4	40.1	34.0	37.5	44.6	54.9	46.2 ^b
1. Chinese	22.5		*	*	*	33.4	44.9
2. Indian	1.0		*	*	*	1.2	1.0
3. Others	*		*	*	*	1.3	0.3
4. Nominee companies	*		*	*	*	7.2	(8.4) ^b
5. Locally controlled companies	*		*	*	*	11.8	**
B. Foreign residents	60.7	29.8	61.7	53.3	42.9	26.0	25.1
(1) Share in Malaysian companies	n.a.		32.9	31.3	24.0	16.2	n.a.
(2) Local branches	n.a.		28.8	22.0	18.9	9.8	n.a.
Total (Million ringgit)	100.0 (5,289)		100.0 (6,564)	100.0 (15,084)	100.0 (32,420)	100.0 (77,964)	100.0 (109.8) ^c

Sources: Malaysia (1973, 1981, 1986, 1991a).

Note: * and ** indicate "unclassifiable" and "deleted from statistics," respectively.

^a PNB, Pernas, MARA, UDA, and other bumiputera trust agencies which accumulate capital on behalf of bumiputera individuals.

^b The percentage of share capital owned by nominee companies in 1990 is not included in the subtotal of the share of "other Malaysian residents."

^c 1990 total only, in billion ringgit.

view of the *Second Malaysia Plan, 1971–1975* in 1973 (Malaysia 1973). The period from 1971 through 1990 can be periodized as follows using the rise and fall of Malay economic nationalism as the referent:

- (1) 1971–73: The inception of the NEP.
- (2) 1973–75: The rise of Malay economic nationalism.
- (3) 1976–84: The adjustment of Malay-nationalism-based policies and establishment of NEP's equity redistribution systems.
- (4) 1984–90: Readjustment and change of NEP policy.

The first period was a preparatory one for the NEP. The core of the NEP was formulated by Tun Razak and his inner group following the May 13 Incident (an ethnic riot on May 13, 1969), but exactly how it was going to be implemented, and what aspects would be emphasized, remained unclear for some time. Nor did Tun Razak himself say much about it publicly. The NEP was not put into full practice because the UMNO included within it Tunku Abdul Rahman and others who were against rapid Malayization.

In the second and subsequent periods, Mahathir Tengku Razaleigh Hamzah and other NEP proponents gained strength and took control of the party and the government. The NEP then was put into full force. Malay economic nationalism culminated in the institution of the Petroleum Development Act (PDA) in 1974 and the Industrial Co-ordination Act (ICA) in 1975.

The third period, 1976–84, covers the whole term of office of Malaysia's third Prime Minister Tun Hussein Onn (January 1976–July 1981) and the period until mid-1984. In the latter period, Mahathir Mohamad assumed the prime ministership, consolidated his political base, and hammered out his own brand of policies. In this period, under the Tun Hussein–Mahathir regime, systems to expand the equity ownership shares of individual bumiputera were introduced while the NEP was subjected to partial adjustment.

The period from mid-1984 was one of readjustment for the NEP. Mahathir issued a memorandum on his new policies entitled "New Government Policies," making it known that his were distinctly different from previous policies.⁷ Readjustment eventually became a policy shift in the face of the long-term economic stagnation beginning in the second half of 1984 as well as changes in the international economic environment. The Mahathir-led government has introduced new strategies such as privatization, relaxation of restrictions on foreign direct investment, and other elements based on market principles, into the NEP.

C. Characteristics of the NEP Implementation Process and the Significance of the ICA

The most salient feature of the mode of implementation of the NEP was, as Tun Razak himself enunciated, the government's "direct involvement or participation in economic activities" in such forms as direct intervention into the market by state administrative agencies and the establishment of joint ventures using state funds. All existing studies agree that state intervention in the economy was the most important characteristic of the NEP.⁸

The second characteristic was that under the NEP the area of state intervention was expanded from agriculture and rural development as in the 1960s into the industrial and commercial sectors. Emphasis was placed on the fostering of bumiputera enterprises and entrepreneurs in the commercial and industrial sectors.

The third characteristic, which reflected the first, was the establishment of systems for the creation of individual Malay shareholders as a means to achieve the

⁷ Mahathir, having assumed the premiership in July 1981, in 1983 announced new policies in rapid succession, including "Malaysia Incorporated policy" and "privatization policy." These were integrated into New Government Policies, which was distributed to senior government officials in June 1983 (Jomo 1989, pp. 1–3).

⁸ See, for example Jesudason (1989) and Bowie (1991).

goal of restructuring equity ownership in favor of Malays. This program was carried out in two stages—the introduction of the PDA in 1974 and ICA in 1975, and the establishment of the PNB and ASNB in 1978.

The ICA and PDA are considered by all to be representative of Malaysia's state intervention measures. The ICA aimed to strengthen state control over Chinese as well as foreign capital. The PDA was intended to establish unitary state control over oil resources. Since Yasuda (1991) has carried out detailed analysis of the ICA's structure and texts, I will limit myself here to giving a sketch of the ICA's characteristic features with a view to identifying its significance.

The ICA made it mandatory for all enterprises above a certain size, upon applying for a manufacturing license, to present to the government (Ministry of Trade and Industry) written information which concretely and exhaustively detailed their business and productive activities. The government's intent was to use the manufacturing license as leverage to get applying enterprises to reorganize themselves to comply with NEP requirements.

The ICA in fact possessed strong enforcement powers which previous legislation and policies lacked. Let us consider the situation before the introduction of the ICA. At that time, Malaysia had two methods to raise the equity share of Malays. One was to make it mandatory for any enterprise making fresh investments in manufacturing to allocate a certain percentage of its stock shares to Malay investors, in exchange for investment incentives. In concrete terms, this system worked as follows. First, enterprises investing in manufacturing and accorded tax relief under the Pioneer Industries Act of 1965, had to give a certain percentage (10 per cent when the act was enforced⁹) of their local stock issues to Malays (Snodgrass 1980, p. 211; Jesudason 1989, p. 54). The allocated shares were purchased by the National Investment Company (set up in 1961) and Lembaga Urusan Tabung Haji (LUTH, Islamic Pilgrims Management and Fund Board), and were then transferred to MARA Unit Trust Sdn. Bhd. (set up in 1967), subsidiary of Majlis Amanah Rakyat (MARA, Council of Trust for the Indigenous People) which divided them into "unit trust" units and sold them to Malays as a means to increase Malay shareholders. But it is believed that this formula failed to achieve its desired ends (Jesudason 1989, p. 54).

The second method was used by the Bumiputera Participation Unit, a government agency established in April 1973 as part of the Ministry of Trade and Industry. In this formula, enterprises receiving investment approval from the Ministry of Trade and Industry were required to issue 30 per cent of their stock specifically for bumiputera. The shares were firstly withheld by the bumiputera agencies and then transferred to bumiputera individuals.

⁹ At first the allocation rate was 10 per cent but it was later raised to a maximum of 15 per cent (Kaide 1971, p. 450).

The difference between the first and second methods was that the first was applicable only to pioneer industry companies while the second applied to all companies and did not entail investment incentives. It is said that the second method was mainly aimed at expanding equity participation by bumiputera in non-listed enterprises (Gale 1982, pp. 44–45).

Comparing these two methods with the ICA, it is clear, first, that the ICA applied to all manufacturing enterprises above a certain size in terms of fixed assets and number of employees, irrespective of whether or not they were entitled to investment incentives. Second, manufacturing licensing was directly linked with an enterprise's observance of the NEP goals, and thus the ICA acquired greater powers of enforcement than previous measures. It applied to broader areas of business activities, prescribing ethnic rules not only for capital structure but also for composition of employment in various occupational categories as well as the promotion of bumiputera companies as distributors.

II. THE NEP IMPLEMENTATION PROCESSES AND UMNO, 1971–73

A. *Prime Minister Tun Razak's Perception and Policies in 1971–73*

On September 22, 1970, Tun Abdul Razak Hussein replaced Tunku Abdul Rahman, becoming Malaysia's second prime minister. Tun Razak had acted as the chairman of the National Operations Council (NOC) which was set up under the Emergency (Essential Powers) Ordinance aimed at settling the tense ethnic situation following the May 13 Incident. In this capacity, Tun Razak was the top official responsible for the creation of political and economic systems required by the post-riot situation. The NOC and the Department of National Unity (DNU), a government agency under the direct control of the NOC, undertook to formulate the NEP as an economic policy and to introduce new post-riot political systems with a national ideology, "Rukunegara" (literally "pillars of the nation")¹⁰ Under these circumstances, the first three years of Prime Minister Tun Razak's rule represented a period of transition in which he would carry the systems he had organized through the NOC into the country's constitutional parliamentary democracy.

Politically, in June 1970 the NOC prohibited public discussion on what later became termed the "sensitive issues," namely, (1) the special positions of Malays and natives of Borneo (later Sabah and Sarawak), (2) the status of the Malay language as the national language, (3) citizenship, and (4) sovereignty of the rulers. This decision was legalized on July 30 the same year by the Emergency (Essential Powers) Ordinance. This removal from the arena of public discussion, including

¹⁰ For NEP creation processes in the DNU, refer to Heng Pek Koon's paper in this issue, Faaland et al. (1990), and Puthcheary (1990).

the legislature of the “sensitive issues” was integrated into the constitution through amendment of the Constitution (Amendment) Act of 1971 when Parliament reconvened in February 1971, as the basic element of the post-riot political system.

How were the economic policies related to the NEP handled? The phrase “New Economic Policy” was first used by NOC Chairman Tun Razak in his speech titled “Malaysia’s New Economic Policy,” delivered on July 1, 1969.¹¹ However, the specific contents of the policy were not disclosed until Tun Razak’s press conference on May 27, 1971 except for a gist given by Tan Sri Ghazali Shafie (then Minister with Special Functions) in reply to interpellations in Parliament in March 1971. Later in the same month, the government issued the *Second Malaysia Plan, 1971–1975* (Malaysia 1971). Though it presented “eradication of poverty” and “restructuring society and economic balance” as its two major objectives, it did not specify concrete policies, nor set quantified goals.

What were Tun Razak’s own NEP concepts and ideas for its implementation at this stage? Let us inquire into this.

At the May 1971 press conference, Tun Razak explained that one of the major objectives of the NEP was to “set up commercial and industrial enterprises among Malays and indigenous people.” Referring to the means of NEP implementation, he said, “the government will take a direct and positive role in setting up commercial and industrial enterprises, to be held in trust for and eventually transferred to Malays and other indigenous people.”¹² It should be noted that even at this early stage, Tun Razak referred to “direct government intervention,” which would later become the major feature of the NEP. He did not, however, have much to say beyond that concerning the contents of the NEP.

From reading Tun Razak’s speeches from the time of this press conference through 1973, we cannot get a clear idea about how he was planning to design concrete individual policies for NEP. Nor can we identify his image of a restructured Malaysian society.

The first speech he made after the said press conference was delivered at a seminar held on August 6, 1971 by the Economic Bureau of UMNO. In this speech, he attached utmost importance to sustained economic growth, the function of Perbadanan Nasional Berhad (Pernas, National Trading Corporation) and a newly established public enterprise, Urban Development Authority (UDA), and made two points. The first point concerned (Tun Razak’s) “call to Malays and other bumiputera to change their attitudes and values so as to benefit from the tremen-

¹¹ “Malaysia’s New Economic Policy,” speech by Tun Abdul Razak Hussein, in a broadcast to the nation on July 1, 1969.

¹² Tun Razak’s press conference on the Second Malaysia Plan, May 27, 1971 (*Malaysian Digest*, May 13, 1971).

dous opportunities offered by the Second Malaysia Plan” (my translation).¹³ His second point was about the shortage of manpower, especially skilled and semi-skilled young personnel.

It is noted that up to this point in time, Tun Razak had made no reference to employment or equity ownership restructuring, the two important elements that would soon afterwards be incorporated into the *Mid-Term Review of the Second Malaysia Plan, 1971–1975* (Malaysia 1973). This suggests that at that time Tun Razak himself had no mature picture of the NEP.

The policies the Tun Razak government put into force before the end of 1973 can be grouped into two categories. The first comprised policies for the expansion of public enterprises and trust agencies. This package provided for the establishment of a series of public enterprises such as Food Industries of Malaysia (FIMA, established in 1971) (see Table II). In addition, the government intervened in the economy by enlarging the arena of activities of existing public bodies such as the State Economic Development Corporations (SEDCs), MARA, and Pernas. These public enterprises not only conducted their own business but also took over existing companies, through their subsidiaries and associated companies, and set up and managed joint ventures with foreigners and non-Malays.¹⁴

The second category included policies to actively attract foreign investment for the sake of promoting rapid economic growth. The first policy in this category introduced incentives for foreign investment in specific industries, and was based on the Investment Incentives Act, 1968. Firms in the electronics industry in particular were accorded tax-free privileges for ten years, which was two years longer than for other industries.¹⁵ Also, the Free Trade Zone Act was enforced in 1971. These measures were intended to encourage foreign investment. At a glance, these policies would seem to contradict the NEP goal of restructuring equity ownership in favor of bumiputera, but in fact they did not. There are three main rationales behind them. First, the NEP implementation process needed to coincide with economic growth. Without expanding the economic pie, some particular ethnic groups

¹³ “Ucapan perdana menteri semasa merasmikan seminar Biro Ekonomi UMNO Malaysia di Dewan al Malik Faisal Universiti Kebangsaan Malaysia, Petaling Jaya, pada 6 HB ogos, 1971” [The prime minister’s speech at the seminar of Economic Bureau of UMNO Malaysia, Petaling Jaya, August 6, 1971], in *Ucapan-ucapan Tun Haji Abdul Razak bin Hussein, 1971* [Collection of Tun Razak’s speeches, 1971], ed. National Archives and Prime Minister’s Department (Kuala Lumpur: Department of Government Printer, 1971), pp. 339–47.

¹⁴ Data arranged in time sequence concerning the subsidiaries and associated firms of public enterprises is not disclosed. But by going through fragmentary data available from the government, it can be learned that subsidiaries and associated companies were established most frequently in the five years from 1971. SEDCs have under its wing 76 associated companies (not including subsidiaries); Pernas, 14 subsidiaries and 49 associated companies; and MARA, 10 subsidiaries and 12 associated companies.

¹⁵ The special preferential measure for the electronics industry was valid only between 1971 and 1973 (FIDA 1971, pp. 31–32).

TABLE II
LIST OF MAJOR PUBLIC CORPORATIONS UP TO 1974

A. Established before NEP	
(1) Before 1965	<ul style="list-style-type: none"> • Rural Industrial Development Authority (RIDA) • Federal Land Development Authority (FELDA) • Malay(sian) Industrial Development Finance Berhad (MIDF)
(2) After 1965	<ul style="list-style-type: none"> • Bank Bumiputra Malaysia Berhad • Federal Land Consolidation and Rehabilitation Authority (FELCRA) • Majlis Amanah Rakyat (MARA) • Malaysian International Shipping Corporation (MISC) • Perbadanan Nasional Berhad (Pernas) • State Economic Development Corporations (SEDCs) • Federal Agricultural Marketing Authority (FAMA)
.....	
B. Established after NEP started	
(1) 1971	<ul style="list-style-type: none"> • Lembaga Padi dan Beras Negara (LPN) • Pahang State Agricultural Development Corporation (Pahang-SADC) • Southeast Pahang Development Authority (DARA) • Urban Development Authority (UDA) • Food Industries of Malaysia (FIMA) • Malaysian Rubber Development Corporation (MARDEC)
(2) 1972	<ul style="list-style-type: none"> • Selangor State Agricultural Development Corporation (Selangor-SADC) • Southeast Johor Development Authority (KEJORA) • Komplex Kewangan Berhad • Rubber Industry Smallholders' Development Authority (RISDA)
(3) In or after 1973	<ul style="list-style-type: none"> • Central Terengganu Development Authority (KETENGAH); 1973 • Petroleum Nasional Berhad (Petronas); 1974

Source: Revised and supplemented in Paul Chan Tuck Hoong, "The New Economic Policy and Restructuring of the Corporate Sector," in *The Impact of the New Economic Policy on Malaysian Economy*, ed. Paul Chan Tuck Hoong and Kenzo Horii, JRP Series No. 56 (Tokyo: Institute of Developing Economies, 1986), p. 38, Table 1.15.

Note: All of the SEDCs in Peninsular Malaysia except Perlis (1973) were founded before the end of the 1960s: Selangor (1964), Penang (1965), Terengganu (1965), Pahang (1965), Johor (1966), Kedah (1967), Kelantan (1967), Melaka (1967), Negeri Sembilan (1967), and Perak (1967); those founded in or after 1971 are Sabah (1971) and Sarawak (1972).

might have felt a "sense of deprivation in the process" (Malaysia 1973, p. 1). The second rationale was that the labor-intensive manufacturing sector first needed to be strengthened in order to absorb the otherwise idle young rural labor force, in line with the NEP employment restructuring goals. This was considered a first step for shifting the Malay labor force into modern industries and professional jobs. The third rationale behind these policies was that the free trade zones (FTZs) were similarly desirable, as operations of the foreign companies located in FTZs would not

affect the domestic economic order as long as the guest foreign firms imported raw materials and semi-finished products from abroad, processed and assembled them within FTZs, and exported the whole product abroad.

B. *Establishment of the Economic Bureau of UMNO*

One important step Tun Razak took during the 1971–73 period was the restructuring of the UMNO organization. Following his assumption of the premiership, he assumed the UMNO presidency at the party's Twenty-second General Assembly held on January 22, 1971 and he thus officially took the reins of both the government and the ruling party. Then he set out to reorganize the party structure to adapt it to the post 1969 general election situation and to facilitate the implementation of the NEP. The party restructuring had two main pillars (Funston 1980, pp. 235–37).

The first was the centralization of power in the party center. For this purpose, the party charter was revised at a Special Assembly held on May 8–9, 1971. The term of office of the Supreme Council (Majlis Tertinggi) members was extended from one to three years and the power to choose party candidates for elections was given to the Supreme Council¹⁶ (*Straits Times* [Singapore], May 10, 1971).

The second pillar of party reorganization was the establishment of functionally specialized party organs. It is true that even in the 1940s the UMNO had a few specialized groups under it.¹⁷ But this time, Tun Razak advocated the new idea of “government with the party” (*kerajaan berparti*) as the basis of restructuring.¹⁸ The concept behind this was that, “The strength of government agencies should be based on the party.” In other words, he wanted to strengthen the ties between the government and the UMNO. With this in view, the UMNO established seven bureaus directly subject to it. They were the Bureaus of Politics, Finance, Education, Labor and Labor Union, Religion, Culture, Social and Welfare, and Economics. They were all directly under the Supreme Council.

¹⁶ As UMNO was originally formed as a coalition of various Malay organizations, its central leadership did not have strong powers. The charter amendment was supported by just 180 votes, with 175 against it. Many assembly delegates felt that the charter amendment should require two-thirds of the votes, but Tun Razak rode roughshod over the opponents.

¹⁷ In 1946, UMNO established Jabatan Iktisad/Ekonomi (Department of Economy), attached to the party center, along with Jabatan Ugama (Department of Religion) and three other departments (Ramlah Adam 1978, p. 37; Malek 1994, pp. 114–15).

¹⁸ Tun Razak was already advocating this idea in September 1970, but as of now I have not succeeded in identifying exactly when it was first publicly proposed. In the original language this concept is “*kerajaan berparti*” or “*dasar parti dengan kerajaan*” [policy of the party with the government]. See UMNO (1971) and “Dasar parti dengan kerajaan: Ucapan perdana menteri dan yang di pertua UMNO Malaysia di perhimpunan agung UMNO Malaysia di Hotel Merlin” [Policy of the party with the government: Speech at the General Assembly of UMNO, January 23, 1971, Hotel Merlin, Kuala Lumpur], in *Ucapan-ucapan Tun Haji Abdul Razak bin Hussein, 1971* [Collection of Tun Razak's speeches, 1971], ed. National Archives and Prime Minister's Department (Kuala Lumpur: Department of Government Printer, 1971), p. 38.

With the exceptions of the Bureau of Politics, which dealt with constitutional issues and elections and the Bureau of Finance, which was responsible for party finances, all of the other bureaus handled economic issues in the broad sense, and so were more or less involved in the NEP. The Bureau of Labor and Labor Union, for instance, took responsibility for bumiputera's participation in employment. In this paper, however, I will limit my discussion to the role of the Bureau of Economics as my concern here is to clarify the process of policy evolution and the role of the party with regard to the NEP implementation.

The purpose of the Bureau of Economics as stated on its founding was "to research and submit suggestions to the Supreme Council in order to develop national economy" (my translation) (UMNO 1972, p. 54). The bureau was first headed by Ghafar Baba (Minister of National and Rural Development at the time of his assumption of the bureau directorship) and composed of fourteen members.¹⁹ Some like Ghazali Shafie and (later Tan Sri) Musa Hitam, were drawn from the UMNO leadership, and others were from public corporations such as Federal Agricultural Marketing Authority (FAMA), government bureaucracy, academic circles, and business groups²⁰ (UMNO various years).

From 1971 through 1974, the bureau held economic seminars as mentioned earlier, but its activities and contents did not go beyond the policy framework prepared by the government. In 1973, for example, the mid-year of the Second Malaysia Plan, the bureau (1) proposed that the budget for MARA's educational and training programs be increased (it succeeded in getting it doubled) and (2) asked for, and obtained, increased MARA loans for bumiputera enterprises (UMNO 1974, pp. 15–16).

In those days, thus, the bureau's activities were confined within the existing government policy framework, and apparently failed to venture beyond it. It was concerned with increasing the amount of loans to bumiputera, matters pertaining to the issuing of taxi licenses, improvement in occupational training, and other matters, all concerns which had already been expressed at the first and second Bumiputera Economic Congress (Kongres Ekonomi Bumiputera) in 1965 and 1968, respectively. The bureau had yet to produce new policy initiatives capable of orienting government policies.

C. *Conflicts within the Tun Razak Government on Policy Orientation*

The party restructuring process, including for instance the reorganization of the Bureau of Economics, gradually began to shape UMNO's intra-party setup in the

¹⁹ The bureau at first had fourteen members but the personnel strength was cut temporarily to eleven in 1973 and then re-increased to fourteen.

²⁰ Business circles were represented by Rais Saniman of Bank Bumiputra Malaysia Bhd. and academia by two professors from the National University of Malaysia and University of Malaya.

early 1970 as it carried out the NEP, but Tun Razak himself, as earlier mentioned, failed to articulate much regarding the ways the NEP was to be implemented.

In the 1971–73 period, the UMNO leadership, including Tun Razak himself, lacked a coherent policy on NEP enforcement. In addition, the implementation of the NEP was delayed by the fact that there was no consensus within the UMNO's top leaders on the methods and processes of implementation. Consensus was not easy, particularly because the Tun Razak government was born as the result of a compromise between the Tun Razak group and the preceding ruling group under Tunku Abdul Rahman.

When Tun Razak came to power, the UMNO leadership was divided into four major groups.²¹ The first consisted of Ex-President Tunku Abdul Rahman and those close to him. The second was headed by Dato' Harun, whose constituency was the UMNO youth wing (Pemuda). The third and fourth groups can be characterized as subgroups of the Tun Razak group, but they can also be considered as two full-fledged groups, as they had different power bases. One was composed of people who had no power base of their own within the party and whose intra-party positions were maintained by their personal closeness to Tun Razak. One might call them the Tun Razak inner group. Datuk Abudullah Ahmad, Khalil Akasah, Abudullah Majid, and Wahab Majid belonged to this group.²² The other Tun Razak subgroup included relatively young UMNO members who were opposed to Tunku Abdul Rahman's ethnic conciliation policy, especially *laissez-faire* economic framework and adamant on a more articulate Malay-first policy. They included Mahathir Mohamad, Tengku Razaleigh Hamzah, Musa Hitam, and Dato' Hamzah Abu Samah.²³

The point of divergence among the four groups was economic policy toward Malays. In other words, they disagreed over how the NEP's Malay nationalism would be translated into concrete policies.

The members of the Tun Razak inner group, of course, were the most articulate exponents of Malay nationalism. As for the other groups, Dato' Harun stressed the importance of job creation for Malay youth as a means of solving the Malays' economic backwardness. In terms of concrete policy matters, the sharpest antagonism existed between the Tunku Abdul Rahman group and the young members of the Tun Razak group. The presence of conflicts between them was visible from 1971 through 1973.

²¹ I largely depended on Crouch (1980) for the analysis of the factional composition of the Tun Razak government and also depended on Lim Yoon Lin (1977) and Subky Latiff (1978).

²² Personal relationships of these group members only: Abdullah Ahmad served as Tun Razak's political secretary beginning in 1963; Khalil Akasah came from Tun Razak's native state Pahang, and Abudullah and Wahab brothers acted as Tun Razak's press secretaries at different periods.

²³ Hamzah is from Pahang State and personally associated with Tun Razak's brother-in-law, but had a solid support base within the party. On the UMNO political spectrum, he was located somewhere in between the group of the young and the Tun Razak inner group.

In January 1971, Minister of Trade and Industry (later Tan Sri) Khir Johari, who belonged to the Tunku Abdul Rahman group, dwelled on the importance of the standardization among the states of rules concerning the requirement of ethnic quarter system for employees. He also suggested the possibility of making legislation requiring factories and hotels to employ enough Malays to make up at least 50 per cent of total employees at each unit (*Straits Times*, January 12, 1971). At the UMNO General Assembly in June 1972, he said that though a resolution calling for the reservation of 50 per cent of new stock issue for Malays and bumiputera had been tabled at the assembly, the government "has no intention of making legislation to compelling companies to allocate 50 percent of share" (*Straits Times*, June 28, 1972).

These two statements are interesting because they indicate that in the early 1970s, even the Tunku Abdul Rahman group was looking favorably about the possibility of forcing individual companies to abide by the NEP goals, as demonstrated by Khir Johari's January 1971 statement. The idea of using the individual company as the unit of control was later adopted in the ICA.

Another interesting point connected with Khir Johari's 1971 and 1972 statements is that even though he was agreeable to using legislation for the attainment of NEP goals, he would do so only on the issue of the employment of Malays, and not on the equity ownership issue. This indicates that the Tunku Abdul Rahman side, which favored ethnic conciliation, was willing to go along with the Tun Razak side as far as Malays' employment was concerned, but would oppose legislative steps on the equity ownership issue.

On the second issue, Tengku Razaleigh, a member of the Tun Razak group and then the president of the Associated Malay Chambers of Commerce (now Malay Chambers of Commerce and Industry of Malaysia), favorably discussed the possibility of introducing legislation for equity ownership restructuring at a Bumiputera Economic Seminar in April 1973 (*Straits Times*, April 8, 1973).

Judging from these three typical statements by UMNO leaders, the situation over the NEP in the early 1970s can be outlined as follows: shared understanding existed among the UMNO leaders about the need to promote the employment of Malays through legislation, but the group of relatively young leaders who supported Tun Razak were hoping to go further, toward legislative measures to increase the equity share held by Malays.

By quoting statements by Khir Johari and Tengku Razaleigh, I do not intend to argue that they represented a new phase in the evolution of the NEP. I quoted them simply to show two things: first, that the ideas that would lead to the adoption of ICA in 1975 had already been proposed at the UMNO General Assembly in the early 1970s, and second, that conflicts persisted among UMNO leaders until 1973 over the way to implement the NEP.

It is true that pro-Tun Razak tendencies increased their influence within the

party following the introduction of the NEP. But before 1973, Tunku Abdul Rahman supporters still maintained a major influence within the party. This is indicated by the fact that Khir Johari, who belonged to the Tunku Abdul Rahman group, stayed on as Minister of Trade and Industry. The outcome of the UMNO's Supreme Council (SC) elections also attested to the magnitude of the Tunku Abdul Rahman group's influence. In the SC election of 1971, Musa (from the young pro-Tun Razak group) garnered the largest number of votes, and Tengku Razaleigh was also elected, placing eighth on the SC election list. Ghazali Shafie, a member of the core group of NEP promoters, was also elected, with the second largest number of votes. In the 1972 SC election, Mahathir was elected, gaining the greatest support despite the fact that he had just been readmitted into the party. But in both elections, Tan Sri (later Tun) Sardon Jubir, who was affiliated with the Tunku Abdul Rahman group, was elected to the party's No. 3 position, the vice presidency. Contrary to the 1971 SC election, in 1972 Ghazali Shafie failed to win the vice presidency. This showed that support for the NEP and Tun Razak's control were not yet solid within the UMNO at that time.

III. ENACTMENT OF THE ICA AND UMNO, 1973–75

A. *Changes in Tun Razak's Recognition*

Let us begin by looking at changes that occurred in Tun Razak's thinking toward the NEP. In 1973, there was a change in his speeches. At the Bumiputera Economic Seminar held by the Bureau of Economics, UMNO in April that year, he gave a more detailed account of the contents of NEP than that in his 1971 speech.²⁴ He raised three concrete issues. First, he proposed that in order to overcome the shortage of managerial staff at bumiputera companies, a Bumiputera Executive Corporation be set up to create capable bumiputera executives. Second, he proposed the establishment of a new special bureau, as part of the Ministry of Trade and Industry, to conduct research and evaluation with a view to helping bumiputera participate in government-approved projects (in the manufacturing and hotel businesses). Third, he suggested that the Ministry of Trade and Industry conduct research to allow bumiputera to gain a 30 per cent share of marketing and retail activities (Malaysia, NA and PMD 1973, pp. 86–94).

In 1975, he presented a future vision of a restructured Malaysian society which would arrive in 1990, when the NEP goals were scheduled to be accomplished. He said that the restructured society he envisioned would be "a society with a middle

²⁴ This seminar was held for three days, beginning April 4, 1973, jointly by the Implementation, Coordination, and Evaluation Unit of the Prime Minister's Department (which was organized on June 30, 1971 to evaluate the progress of the Second Malaysia Plan) and the Associated Malay Chambers of Commerce.

class, like in Switzerland, Holland, and Japan.”²⁵ The middle class he had in mind of course was Malay. One of the drafters of the NEP, Tun Razak, now had a clear vision of a restructured future society.

Tun Razak himself thus began to talk about post-restructuring society in addition to concrete policies under NEP. The second proposal he made at the 1973 seminar developed, as mentioned in Section I, into the establishment of the Bumiputera Participation Unit of the Ministry of Trade and Industry.

However, as can be seen from his 1973 speech, his emphasis was on the restructuring of employment, including human resource development and bumiputera participation in trade and marketing. He did not mention equity ownership restructuring at all. At the same 1973 seminar, though, Tengku Razaleigh presented a demand on behalf of the Malay private sector that the equity ownership restructuring process be accelerated. Discrepancies between Tun Razak’s and Tengku Razaleigh’s views were already fully visible. We will discuss this in the following section.

B. *The Private Sector and the Progress of the NEP*

As mentioned in Section II, in 1973 Malay leaders, and particularly those in the private sector, began to be openly raise criticism concerning the way the NEP was being enforced. Following the April seminar which I mentioned earlier, at another seminar in October, Tengku Razaleigh (1973) expressed dissatisfaction with the slow pace of NEP progress in the private sector.²⁶ Talking about the process of implementation of the NEP in the private sector, he pointed out that while the Second Malaysia Plan had achieved its objectives in the public sector on schedule, the responses from and achievements in the private sector in the three previous years had been disappointing.

And what was the government’s perception of the situation? The Federal Industrial Development Authority (FIDA, later the Malaysian Industrial Development Authority, MIDA), the government agency responsible for investment policy, observed in its *Annual Report* that “the participation of bumiputera was satisfactory” (FIDA 1974, p. 11). There was indeed a serious perception gap.

This gap between the FIDA *Annual Report* and Tengku Razaleigh appeared partly because they were talking about different things. The FIDA was talking about its target group, namely, those “approved private companies which had received investment incentives,” whereas Tengku Razaleigh was discussing unsatisfactory NEP progress from the point of view of approved manufacturing compa-

²⁵ Speech at the Twenty-sixth General Assembly, held on June 21–22, 1975, Kuala Lumpur.

²⁶ This seminar was organized by the Malaysian Institute of Management entitled “The Role of Universities in Management Education for National Development in Malaysia,” October 8, 1973, Kuala Lumpur.

nies which did not enjoy tax relief from investment incentives as well as private companies, mostly in the nonmanufacturing sector. But UMNO itself was reportedly strongly dissatisfied with the NEP's progress, even for the companies which had been afforded incentives.

In 1975 the UMNO Economic Bureau (with which I will deal later) raised the problem of "weak bumiputera participation in the manufacturing sector." The bureau ascribed this weakness to the fact that "most industrial licenses and pioneer industry statuses were given to foreign-owned companies, not to bumiputera companies" (my translation) (UMNO 1976, pp. 2-3). As a solution to this problem, it proposed that manufacturing licenses and Pioneer Industry Status should be given first to bumiputera companies, which would then seek out joint-venture partners from among non-bumiputera firms. The proposal as such was not adopted, but the ICA would later provide for far more comprehensive measures for the achievement of NEP goals, including those the bureau proposal was concerned with.

The ICA was thus advocated by the UMNO's young Turks against the backdrop of the growing dissatisfaction voiced within Malay society, and particularly its private sector, with the slow pace of NEP enforcement. During this process, the office of the Minister of Trade and Industry was also passed on in 1974 from Khir Johari, a Tunku Abdul Rahman group member, to Dato' Hamzah Abu Samah, who belonged to the Tun Razak group and was precisely in charge of legislation of ICA as Minister of Trade and Industry.

C. *The Role of the Young UMNO Leaders after 1975*

The power of the young UMNO leaders culminated with the election of the UMNO central leadership held on June 21, 1975. The focus of attention in this election was the election of the party's No. 3 post, the vice presidency. The result was the successful election of Tengku Razaleigh and Mahathir, signifying the victory of the group that had been acting as the main enforcers of the NEP.

Table III shows the intra-party careers and public offices held by the young leaders from 1971 through 1975. Before the framework of the NEP laid out specific target figures, they had been involved in practical work at the FIMA, Pernas, and other public enterprises. One sees that as their positions gradually rose within the party, by 1975 they had been assigned one after another to important party and government posts.

Among them, Tengku Razaleigh is worthy of special mention as he came to assume vital posts in promoting the NEP. He became one of the top leaders of the party while serving as the president of Petroliam Nasional Berhad (Petronas, National Oil Corporation) and the president of the Malay Chambers of Commerce and Industry of Malaysia. Tengku Razaleigh was performing a triple function as the top spokesperson, policymaker, and policy enforcer for Malays.

Inside the party, in September 1975 Tengku Razaleigh replaced Ghafar Baba as

TABLE III
CHANGING POSITIONS OF YOUNG LEADERS OF TUN RAZAK'S GROUP, 1971–75

Name (Birth)	As of End 1971	As of End 1973	As of End 1975
Mahathir Mohamad (1925–)			
Public office	— ^a	Chairman of FIMA	Minister of Education
Position in political party	— ^b	Member of Supreme Council	Vice president
Tengku Razaleigh Hamzah (1937–)			
Public office	Chairman of Bank Bumiputra; Chairman of Pernas ^c (1970–)	Chairman of Pernas	Chairman of Petronas
Position in political party	Member of Supreme Council; Treasurer of UMNO	Member of Supreme Council; Treasurer of UMNO	Vice president ^d (1974.7–)
Musa Hitam (1934–)			
Public office	President of FELDA ^e	Deputy Minister of Trade and Industry	Minister of Primary Industry
Position in political party	Member of Supreme Council; Deputy head of Youth Movement	Member of Supreme Council	Member of Supreme Council
Tun Hussein Onn (1922–90)			
Public office	Minister of Education (1970–)	Deputy prime minister	Deputy prime minister
Position in political party	Member of Supreme Council (1969–)	Deputy president	Deputy president

Sources: Compiled from *Who's Who in Malaysia and Singapore*, Vol. 1, *Malaysia* (Kuala Lumpur: Who's Who Publications), various issues; UMNO (various years); and other sources.

^a He lost his seat in the 1969 general election. After the election, he went back to his home town, Alor Setar of Kedah in order to spend his time writing on Malay's problems, and later this writing was published as "Malay Dilemma" (Mahathir Mohamad, "Watashi no rirekisho" [My personal history], *Nikkei shimbun*, November 14, 1995).

^b He was expelled from UMNO for "breach of party discipline" on September 26, 1969, but officially returned to UMNO in March 1972.

^c Tengku Razaleigh took office as the chairman of Pernas in 1970.

^d Tengku Razaleigh took office as the vice president of UMNO following Tun Hussein's promotion to the deputy president in July 1974.

^e Musa Hitam assumed the office of the president of FLDA (presently FELDA).

the director of the UMNO Economic Bureau.²⁷ He thus walked into the strategic position of promoting the NEP. In his new position, he carried out a reorganization of his office (UMNO 1976, p. 2). In the process, he mentioned four new objectives for this bureau, as follows: (1) to research on the national economy as a whole; (2) to research the economic situation of Malays in national economic development; (3) to research the implementation process of the Malaysian development plan from the viewpoint of Malay's values; and (4) to study proposals on economic issues for the UMNO General Assembly. Organizationally, he set up four committees (*jawatankuasa*) under this bureau, including the committee for study on the NEP implementation (*jawatankuasa untuk mengkaji pelaksanaan Desar Ekonomi Baru [DEB]*), chaired by Dr. Agoes Salim, the former research director of the Department of National Unity) and the committee for the study of the gap between the agricultural sector and industrial sector (*jawatankuasa untuk mengkaji jurang keseimbangan sektor pertanian dengan sektor perindustrian*). The bureau was greatly streamlined compared to what it had been in the early 1970s.

IV. AMENDMENT OF THE ICA AND INTRODUCTION OF NEW SYSTEMS, 1976–84

A. *Amendment of the ICA under the Tun Hussein Government*

Tun Razak died suddenly in January 1976 and was succeeded by Tun Hussein. The NEP implementation process under Tun Hussein can be divided into two phases. The first was a process of adjustment of its implementation, through the amendment of the 1975 ICA. The second was a process whereby the ultimate ownership of bumiputera equity was shifted from public enterprises and trust agencies such as UDA, MARA, SEDCs, and Pernas to bumiputera individuals. This latter process involved the establishment of a system of ownership transfer to individuals through the unit trust scheme.

Let us first examine the adjustment of the ICA's implementation. The ICA was instituted in 1975, but because of strong opposition from business circles especially Chinese business circle and multinational companies, its enforcement was postponed to May 1976. As early as the second half of 1976, the government was compelled to consider revising it to limit its scope of application. As shown in Table IV, it was revised twice, in 1977 and 1979.

The law was revised on two major counts. One amendment was to weaken the powers conferred upon the Minister of Trade and Industry. The second, which was

²⁷ Some of the existing studies, including Gill's, claim that Tengku Razaleigh assumed the Economic Bureau directorship in 1971, but this date is wrong (e.g., Gill 1986, p. 81; Khoo 1992, p. 48). Since 1971, Tengku Razaleigh has been a member of the bureau but not the director.

TABLE IV
AMENDMENTS OF ICA, 1975–79

	1975	1977 Amendment	1979 Amendment
I. Contents of ICA			
Power to grant manufacturing licenses	Minister of Trade and Industry	Licensing officer ^a	Same as 1977 amendment
Right to complaint over refusal to issue a license	Not mentioned	Possible to complain to Minister of Trade and Industry	Industrial Advisory Council
Conditions for issuing a license	On a product-by-product basis	On a series-of-product basis	Same as 1977 amendment
II. Contents of attached condition			
Exemption condition for application for license	Shareholder's fund of less than 250,000 ringgit ^b and 25 full-time paid employees	Shareholder's fund of less than 500,000 ringgit and 25 full-time paid employees	Same as 1977 amendment

Sources: Compiled from Yasuda (1991); "Marēshia"[Malaysia], in *Ajia dōkō nempō, 1976* [Yearbook of Asian affairs, 1976] (Tokyo: Institute of Developing Economies, 1976); "Malaysia as a 'Profit Centre'," *Asean Business Quarterly* (2d quarter 1979), pp. 29–36.

^a This new post was created by the amendment of 1977.

^b According to the original contents of ICA, 1975, exemption condition for application for a license were as follows: shareholder's fund of less than 100,000 ringgit. But this condition was amended by the government itself before April 1976.

made in the law's attached conditions, was to make more liberal the definition of applicable companies. These revisions were made against the backdrop of business opposition, which was particularly strong among Chinese and foreign companies, as pointed out by Heng Pek Koon in her analysis (including this issue). Another contributing factor was the drastic decline of investment and other signs of deteriorating economic performance which hit Malaysia in 1975 (Jesudason 1989, pp. 141–47).

Business opposition and unfavorable economic conditions were major extra-UMNO factors which contributed to the amendment. However, it is important to note that significant political changes had also occurred within the UMNO itself to influence the mode of NEP implementation.

First, Prime Minister Tun Hussein himself was in favor of adjustment. He proposed that in the achievement of NEP goals, the actual economic situation had to be taken into consideration. Speaking in Parliament in July 1976, he stated that the NEP's mandatory bumiputera equity ownership ratio would not be uniformly applied to individual companies. This statement came as a revision of the ICA-stipulated goal of forcing a broader range of companies to live up to NEP requirements.

Also to be noted was the worsening of the post–Tun Razak intra-party struggle. The youth wing led by Dato' Harun, together with the Tunku Abdul Rahman group, made a fierce comeback, forcing Tun Razak inner group members such as Datuk Abdullah Ahmad and Abdullah Majid to leave party and government posts. They were eventually arrested on charges of attempting to form a united front with communists. The demise of the Tun Razak inner group gradually weakened the Malay nationalist influence within the UMNO. At this stage, I cannot give concrete cases of the Tun Razak inner group's mode of direct involvement in policy-making processes. However, it is clear that Tun Razak heavily used his inner group to achieve his objectives. He would preferentially pick and put into practice proposals presented by the inner group members. Moreover, the Tun Razak inner group members were certainly strong Malay nationalism exponents. In fact, Abdullah Ahmad, a member of this group, later advocated "Malay dominance in Malaysian politics."²⁸ Considering this, it would not be far-fetched to argue that the process of elimination of the Tun Razak inner group from the UMNO leadership was closely linked with the watering down of the NEP's Malay nationalist components.

B. *The Growing Share of Equity Ownership by Malay Individuals*

After creating NEP enforcement systems in the manufacturing sector under the ICA, the UMNO proceeded to tackle the next task—raising the equity ownership share of Malay individuals.

As Table I illustrates, the equity ownership share of bumiputera (mostly Malays) rose from 4.3 per cent in 1971 to 9.2 per cent in 1975. This represented an extremely rapid pace of bumiputera capital accumulation considering that in the same period the total value of equity in Malaysia grew by 130 per cent, from 6,564 million ringgit to 15,084 million ringgit. However, this does not mean that bumiputera individuals accumulated so much capital. It was public enterprises such as Pernas, MARA, and UDA that actually accumulated the capital, as bumiputera trust agencies on behalf of bumiputera individuals. These trust agencies represented 5.6 per cent points of the 9.2 per cent bumiputera capital ownership share in 1975.

It was the UMNO Economic Bureau that officially raised the issue of transfer of equity ownership to bumiputera individuals. The bureau convened the Economic Seminar in 1976,²⁹ and this issue was taken up in the report³⁰ prepared by the

²⁸ On August 30, 1986 Abdullah Ahmad delivered a speech titled "Issues in Malaysian Politics" in Singapore (Abdullah Ahmad 1988).

²⁹ This seminar was held on May 8–9 in commemoration of the thirtieth anniversary of the founding of the UMNO. This is the first seminar organized by UMNO herself. The aim of this seminar is to gather opinions on the NEP from all divisions (UMNO 1977, p. 3).

³⁰ "Kajian Rancangan Malaysia Kedua menjelang Manjang Malaysia Ketida" [Study on the Second Malaysia Plan in the face to the Third Malaysia Plan], a paper submitted to the seminar. This paper is the only working paper (*kertas kerja*) prepared by the UMNO Economic Bureau.

bureau's committee (as I mentioned earlier), *jawatankuasa untuk mengkaji pelaksanaan DEB* (headed by Dr. Agoes Salim, the former research director of the Department of National Unity).

On the basis of this report, Dr. Agoes Salim, in his speech to the 1977 UMNO General Assembly, made a case for stock transfers from bumiputera trust agencies to bumiputera individuals (*New Straits Times*, July 1, 1976). The UMNO assembly accordingly passed a resolution calling for the establishment of agencies to promote individual bumiputera equity ownership. Yayasan Pelaburan Bumiputera (YPB) was organized in 1978 as the first such agency. In the following year, YPB's implementing arms, Permodalan Nasional Berhad (PNB) and Amanah Saham Nasional Berhad (ASNB, National Unit Trust Scheme), were established. A system of equity transfer to bumiputera individuals was thus completed.³¹ Under this system, stock shares of well-performing companies already obtained by the government and public corporations would be transferred to the state-owned holding company, PNB. Following this first stage of transfer, the PNB would sell unit trust through its subsidiary ASN, exclusively to bumiputera individuals. This would complete the second and final stage of equity transfer.

C. *Economic Policies under Mahathir and Tengku Razaleigh*

Following Tun Razak's death, Tun Hussein decided not to immediately hold an UMNO leadership election. He chose to stay on as the acting president, and appointed Mahathir to the second highest UMNO post, the deputy presidency. The Tun Hussein–Mahathir leadership succeeded in settling the intra-party dispute. In the general election of July 1978, the ruling coalition, Barisan Nasional (BN, National Front), won a landslide victory. With this achievement as a backdrop, the Tun Hussein–Mahathir group held UMNO leadership elections at the General Assembly convened in September that same year. Tun Hussein and Mahathir were elected the president and deputy president, respectively, and they firmly established their leadership position inside the party. Tengku Razaleigh and Musa Hitam were also elected vice presidents, the third highest post in UMNO.

For some time following 1978 under Tun Hussein, two UMNO leaders, Mahathir and Tengku Razaleigh, were in charge of economic policies. In 1978 Mahathir became Minister of Trade and Industry, replacing Dato' Hamzah Abu Samah, who had held the post when the ICA was introduced. Mahathir took charge of carrying out adjustment policies to revitalize domestic and foreign investment, which had been sagging since 1975. He revised the ICA in 1979 and in October of the same year introduced a new package of investment incentives involving reductions of corporate tax for enterprises that had fulfilled the NEP targets.

In the meantime, Tengku Razaleigh took charge of economic policies as Minis-

³¹ For the outline of the system, see Sieh Lee Mei Ling (1983) and Horii (1991, pp. 296–300).

ter of Finance in 1976, slightly earlier than Mahathir's accession to Minister of Trade and Industry. The two economic leaders evidently had different approaches to the NEP. The difference came out into the open when the Petroleum Development Act was up for amendment. While Tengku Razaleigh insisted that oil resources and oil-related industries be kept under unitary government control and management, Mahathir made a case for liberalization. In the end, Mahathir won and the law was amended accordingly. As shown by this case, intra-UMNO conflicts over the basics of the 1975 policies were becoming ever sharper.³²

V. READJUSTMENT AND POLICY CHANGE UNDER MAHATHIR, 1984–90

A. *Readjustment and Policy Change under the NEP*

Mahathir became Prime Minister in 1981. Though he proclaimed his new policy, "Look East," in December of that year, he did not go much further than implementing Tun Hussein policies and reiterating a "new direction" in policy management in anticipation of the general election in 1982. This is why I consider the early period of Mahathir's rule to be an extension of the Tun Hussein period.

It was only in the *Mid-Term Review of the Fourth Malaysia Plan, 1981–1985*, released in March 1984, that Mahathir made clear his own policy orientation and came out with his "NEP readjustment strategy" (Malaysia 1984, pp. 13–14). The report, while pursuing the strategic goal of restructuring Malaysian society through sustained economic growth, emphasized the need to carry out a readjustment of the strategy in consideration of Malaysia's economic environment and in order to overcome the government's fiscal difficulties (Malaysia 1984, pp. 13–17). The readjustment measures centered on cuts in government subsidies, a shift to private-sector-led economic growth facilitated by privatization policy, and an upgrading of local industries in the context of outward-looking industrialization. Mahathir proposed "Look East" and the idea of "Malaysia Incorporated" (February 1983), based on the idea of government-business collaboration as a way to attain his objectives.

These first-stage readjustment steps were spurred by the economic recession that took hold of Malaysia in the second half of 1984 and lasted for one and a half years. In the midst of this economic difficulty, a series of second-stage measures easing restrictions on foreign investment had to be taken. They were taken in rapid succes-

³² A number of studies have recently investigated the difference in economic management between Mahathir and Tengku Razaleigh, many of them revisiting the 1977 analysis, *Business International, Malaysia to 1980: Economic Outlook for Business Planners* (Hong Kong, 1977). See Khoo Khay Jin (1992), Khoo Boo Teik (1995, Chap. 4, especially pp. 136–43), and Case (1995, pp. 88–107).

sion, in 1985, 1986, and 1988.³³ In the same vein, the ICA was revised twice, in 1985 and 1987, to drastically ease the obligations companies had to fulfill to obtain manufacturing licenses.

B. *The Political Environment Surrounding Economic Policies*

Mahathir took two bold political steps to facilitate economic readjustment. First, in the 1982 general election, he replaced about 45 per cent of the UMNO candidates both for the Dewan Rakyat (lower house) and state legislative assemblies in an effort to rebuild the basis of his regime (Means 1991, p. 87). New candidates were preferentially selected from among professionals at universities and other institutions of higher education, companies showing good performance, and government offices. In the UMNO leadership election held following the general election, a number of new recruits were elected as members of the Supreme Council and even as a deputy vice president. Mahathir thus succeeded in strengthening his support base both in the government and the party.

Second, in the cabinet reshuffle following the 1984 UMNO General Assembly, Mahathir transferred Tengku Razaleigh from Minister of Finance to Minister of Trade and Industry and appointed Tun Daim Zainuddin, from the business world, in his place.³⁴

It is interesting to note that during this process, the initiative on economic policy making moved from Tengku Razaleigh to Mahathir and Tun Daim. It is most symbolic that the restriction liberalization measure of 1985 was announced by Tun Daim, and the 1986 measure by Mahathir himself, rather than by the Ministry of Trade and Industry (then headed by Tengku Razaleigh), which was traditionally in charge of foreign investment.

This is how Mahathir consolidated the basis of his political power. With his strong political leadership thus entrenched, he was able to effectively display his personal initiative to readjust the NEP in response to the changing economic environment.

CONCLUSION

The New Economic Policy underwent successive phases of transformation, and its Malay nationalist hue, which was thickest in its 1975 ICA, gradually thinned away. The Tun Hussein government gave the first adjusting touch to it; Mahathir made

³³ The ceiling share of foreign investment in joint-venture companies was raised in 1985 in proportion to the ratio of export to output value. In 1986, the export share requirement was drastically eased so that a foreign-invested company with 50 per cent of its produce exported could be 100 per cent foreign-owned (in 1985, the minimum export share was 80 per cent).

³⁴ Tun Daim was Minister of Finance until 1991. He is currently an economic advisor to the federal government, playing an important role in Mahathir's economic policy making.

his own readjustment and then in 1986 ventured to change its basic orientation in a drastic way. Through this two-staged metamorphosis, the NEP was brought into gear with Malaysia's changing economic conditions and its international environment.

However, the issue of how the Malay nationalism which underlied the essentially Malay-preferential NEP should be translated into actual political processes was always a crucial and sensitive problem that the leaders of the UMNO, as a Malay party, had to handle very carefully in order to maintain their power base. The UMNO leaders since Tun Razak have always faced a dual policy orientation. On the one hand, they have had to show UMNO members tangible achievements on Malay nationalism. On the other hand, they have had to take deregulatory measures and respect economic principles in order to ensure sustained economic growth, since growth alone can create conditions for the fulfillment of Malay nationalist aspirations. They have always struggled to strike a proper balance between the two requirements. Tun Hussein's ICA adjustment efforts and Mahathir's policy adjustment up to 1986 are cases in point. In fact, most of the deregulatory benefits of Tun Hussein's adjustment, such as eased foreign investment restrictions, were in fact given to export-oriented companies and not to companies producing for the domestic markets, despite the fact that it was all too clear that the latter sector mattered greatly in reshaping the domestic economic order. On the other hand, Mahathir's policies for heavy and other key industries such as the national car project in fact gave preferential treatment to bumiputera companies up to 1986. It is easy to show this attitude of Mahathir in the process of promoting heavy industries. The Malaysian government aimed to strengthen the role of bumiputera companies as supporting industries under the national car project (PROTON: Perusahaan Otomobil Nasional Sdn. Bhd. [National Automobile Industry]).³⁵

As the result of the two decades of NEP implementation, the equity ownership share of bumiputeras improved to 20.3 per cent, according to government statistics used in Table I. Though this fell short of the target figure of 30 per cent, the achievement is still impressive considering that Malaysia's total stock value rose 3.7 times from 528.9 million ringitt in 1970 to 109.8 billion ringitt in 1990. Bumiputera's equity ownership in absolute value thus rocketed 22 times from 100.49 million ringitt to 2,228.94 million ringitt. The result is the emergence in Malaysia of a Malay middle class and new Malay entrepreneurs.

Reflecting these changes in Malay society, the National Development Policy (NDP) of 1991, NEP's follow-up plan, follows a new approach to the enhancement of the economic position of Malays in society. In terms of equity ownership restructuring goals, the NDP does not have any numerical targets for achievement within its term. "While there will be no specific quantitative targets set to be achieved

³⁵ Concerning the results of PROTON project up to 1990, see Torii (1991, pp. 409–11).

during the OPP2 (1991–2000) [Second Outline Perspective Plan], the target of a least 30 per cent bumiputera participation will continue to guide the strategy for the restructuring of the corporate sector” (Malaysia 1991b, p. 115). The issue of the equity ownership ratio has fallen on the priority list. Instead, high priority has been given to the creation of a “Bumiputera Commercial and Industrial Community” (BCIC). It is worth noting, however, that inter-ethnic collaboration is being recommended as one of the strategies for creating the BCIC. This may reflect the changing Malay mentality: Malays are now positively accepting the notion of Ali-Baba joint ventures (Ali for Malays and Baba for Chinese).³⁶ Formerly, Ali-Baba companies were understood to be joint ventures which were in practice managed by Chinese who had “sleeping” Malay partners. But recently, the term has come to mean inter-ethnic joint ventures managed by Malays and Chinese as equal partners.

As Shamsul pointed out in this issue, the base of UMNO’s support has changed drastically. I could call it a change “from a teacher and farmer’s party to an entrepreneurs’ and civil servants’ party.” The point I wish to emphasize is that these changes can be explained step by step. First, after the mid-1980s, the occupational composition of the members of the delegation to UMNO’s General Assembly changed gradually. In the 1981 General Assembly the share of school teacher reached 40 per cent as a single majority group. But this share fell to 32 per cent and 19 per cent in the 1984 and 1987 General Assemblies, respectively. In contrast to this change, the share of entrepreneurs or businessmen and civil servants increased, reaching 25 per cent and 23 per cent, respectively, of total number of delegates in the 1987 General Assembly (Shamsul 1988, p. 180).

As the second step, these changes have reflected the composition of UMNO’s national leaders. In the first General Assembly of the 1990s, held on November 4–6, 1993, we could see the changes as the result of two Supreme Council elections. The first result of the election in the Central Supreme Council showed that about 34 per cent of the members of the Supreme Council were civil servants (both federal and state governments) and teachers at institutions of high education (not the same as primary school teachers as before). And three members of the total (thirty-two) were private businessmen.³⁷

³⁶ The Third Bumiputera Economic Congress, held for three days from January 10, 1992, adopted a resolution positively evaluating the concept of Ali-Baba companies. Prior to this congress, the first positive statement about Ali-Baba by Malays in the 1990s came from the Johore Bumiputera Economic Congress, which was held prior to the third congress by the Johore branch of the Malay Chambers of Commerce and Industry of Malaysia.

³⁷ According to my own survey of various sources, the occupational composition of Supreme Council members is as follows: 2 medical doctors (6 per cent), 11 civil servants (34 per cent) [5 federal government persons (16 per cent) and 6 state government persons (18 per cent)], 11 teachers (34 per cent; but 7 of them from high educational institutions), 3 private businessmen (9 per cent), 1 journalist (3 per cent), and 4 others. This total number of 32 persons excludes those who were appointed by President Mahathir. “Occupation” in this survey means the occupation before entering into the political arena.

The results in the Central Supreme Council of UMNO Youth (Pemuda) were more interesting. As far as I could determine the occupation, more than half of them (total number, seventeen) were originally businessmen or entrepreneurs.³⁸ These changes in UMNO at all levels, from supporters to leaders, will have very strong impact on future policies under NDP.

Mahathir's policy is to encourage Malay companies to grow on the basis of the principles of the market and of free competition. Whether this policy will fully follow economic principles or again be subjected to the "logic of politics" as it was during the NEP period, remains to be seen. Here is the challenge the UMNO must face in the 1990s.

³⁸ I have gathered the occupational information about nine members, but at this moment cannot point out the basic character of their businesses.

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