

**➔ MALAYSIA:
RAISING THE CAPACITY OF MARGINALIZED GROUPS TO
FACILITATE CLASS MOBILITY**

In a Nutshell

One of Malaysia's strengths is its ethnically diverse society, consisting of the majority Malays and indigenous groups (Bumiputera), as well as Chinese, Indians and others. Capacity development interventions have arisen from the need to advance Malaysia's standing as a new state, but also to address ethnic imbalances inherited from colonial rule.

Two priorities have been clear. The first involved increasing wealth among the Bumiputera so they could be entrepreneurs in their own right. The second sought to raise the number of Bumiputera in higher education so they could have a chance at class mobility. These initiatives have enabled hitherto marginalized ethnic groups to participate in mainstream development while contributing significantly to the transformation and relative peace and prosperity of their country.

The Story

Malaysia is today a middle-income country, and the world's 17th largest trading nation. Despite periodic economic downturns, it has achieved impressive growth, with poverty dropping from 49.3 per cent in 1970 (a figure that refers to peninsular Malaysia only) to 7.5 per cent in 1999. A multi-ethnic middle and business class has emerged, and while some tensions exist among Malaysia's different groups, as a society it upholds a culture of tolerance and accommodation.

Early on, during the period 1957-1969, capacity development in Malaysia was left mainly to individual and private initiative. As a result, equity ownership remained in the hands of foreigners and the Chinese, and income inequalities worsened despite economic growth. In higher education, Malays comprised less than a quarter of the students despite making up more than half the population. As tertiary education was considered a principal means for social mobility and entry into middle-class jobs, Malays could only occupy a small proportion of middle-class occupations.

Frustrations boiled over in the 1969 ethnic clashes in Kuala Lumpur. Consequently, capacity development for ethnic Malays became an urgent national priority, with the launch of the New Economic Policy (NEP) marking the beginning of active state intervention. The NEP had a two-pronged objective of eradicating poverty irrespective of ethnicity and restructuring society to level the economic playing field. It chose to focus on shifting wealth to the Bumiputera and increasing their numbers in higher education.

To address equity in terms of economic participation, the government established a number of state-owned enterprises, one of the most significant and successful being the National Equity Corporation. Placed under the jurisdiction of the Bumiputera Investment Foundation and chaired by the Prime Minister, it served as an investment house and fund manager for Bumiputera investors. The government provided it with large grants and interest-free loans. Within a few years, the corporation successfully took over a number of foreign-controlled conglomerates involved in sectors regarded as nationally strategic. It also acquired sizeable stakes in a number of public listed companies.

This acquisition of corporate wealth was transferred to Bumiputera individuals and institutions by means of a unit trust scheme, Amanah Saham Nasional (ASN), launched in 1981. By the end of 1982, ASN had attracted 1.1 million Bumiputera unit holders. By 1990, the number had increased to 2.44 million with investments in 60 companies listed on the Kuala Lumpur Stock Exchange. That year, ASN was replaced by Amanah Saham Bumiputera (ASB), which has been equally popular, attracting 4.7 million investors by December 1997. ASB's parent company has grown from a relatively small investment house in 1978 to become the largest and most successful unit trust fund manager in Malaysia today.

However, the NEP objective of 30 per cent Bumiputera ownership of corporate wealth has not been met, with the figure remaining at 19 per cent as of 1990. Increasing the number of units per investor so that participation becomes more equitable remains a major challenge.

The NEP's other focus, on education, was no less important. A fifth to a quarter of total public sector expenditure flows to education, with a large portion devoted to tertiary schooling. While before 1969, there was only one university, the University of Malaya, with Bumiputera comprising only a quarter of the student population, there are now 11 public universities and seven public university colleges, as well as eight private universities and almost 500 private colleges. To ensure a more equitable representation of students of various ethnic groups, the government has reserved 60 per cent of the seats in the public institutions for Bumiputera. At the same time, scholarships, bursaries and loans have been disbursed by the government to deserving students – particularly Bumiputera – to study in universities overseas.

In recent years the government has set up the National Higher Education Fund to further expand accessibility to higher education. This loan fund is available not only to students in public universities but also to those in private institutions. It has enabled more Bumiputera children to obtain a university education, which is swelling their ranks in professional and managerial positions.

Results and Critical Factors

Many governments have tried reservation and quota policies to create a level playing field among citizens of different races, ethnicity and creeds. The record of such actions has been mixed, which leads to the conclusion that selective reservations must be left to individual governments to decide. In Malaysia too, there is the recognition that the government needs to finely balance the accordance of equal opportunities to Bumiputera with the possibility of disaffection among other groups. Some key issues include:

- Active state intervention in the economy and society on behalf of the generally more disadvantaged Bumiputera – especially through capacity development initiatives targeting equity in economic participation and improved educational opportunities – has brought the Bumiputera into mainstream development and contributed significantly to the transformation and relative peace and prosperity of Malaysia.
- Although present day conventional free market wisdom favours shifting all economic activity to the domain of the private sector, state capitalism cannot entirely be discounted because it plays a role in the realm of political economy – which pure market forces are unable to factor in.
- That Malaysia has been able to maintain ethnic peace is indicative of the fact that its own leadership has struck the right balance and may need to uphold it until this kind of guidance becomes unnecessary.

Further information

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