

## THE NEW ECONOMIC POLICY AND THE CHINESE COMMUNITY IN PENINSULAR MALAYSIA

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### INTRODUCTION

**R**ACIAL rioting in May 1969, and the government's subsequent implementation in 1971 of the twenty-year New Economic Policy (NEP) to address the root causes of interethnic tensions, traumatized Peninsular Malaysia's Chinese community. The NEP, with its preferential treatment of Malays and its apparent assault on Chinese economic, educational, and cultural interests, led many Chinese to question whether they had a viable future in the country. However, when the NEP drew to a close, both the Malay and the Chinese political and business leadership appeared essentially satisfied with its results. The policy succeeded in its highly ambitious twin goals of social restructuring across racial lines and poverty reduction mainly within the Malay community. More fundamentally, when the policy drew to a close in 1991, racial tensions in Malaysia had been dramatically ameliorated.

Quite remarkably, the structural changes in Malaysia's political economy produced by the NEP were not accompanied by political or economic instability. During the NEP's life span, the country's average annual growth rate was 6.7 per cent (Malaysia 1991b, p. 21). Malaysia emerged as one of the most successful economies in Southeast Asia by the late 1980s. The expanding economic pie clearly made it easier for Chinese to accept preferential treatment of Malays, including Malay domination of Malaysian politics and the bureaucracy. At the same time, it enabled an expanding Chinese middle class to participate as active partners in Malaysia's extraordinary economic advance.

This paper evaluates the role of the Malaysian Chinese community in the evolution of the NEP, particularly as reflected in the varying policies and responses of the largest Chinese political party, the Malaysian Chinese Association (MCA), the leading opposition party, the Democratic Action Party (DAP), as well as Chinese business and educational interest groups. The discussion examines the following four stages of the NEP's evolution: (1) its origins and early years, (2) implementation and impact, (3) recasting and liberalization, and (4) replacement by the National Development Policy (NDP).

It is argued that while the NEP was conceived by the United Malays National Organization (UMNO) and imposed on the Chinese, the UMNO leadership was, however, pragmatic enough to liberalize the NEP in its latter stages, in the face of widespread Chinese alienation and falling foreign investments during the recession of the mid-1980s. Unable to fund costly NEP programs due to shortfalls in public revenues, the Malay political leadership proved more receptive to Chinese calls for a rethinking of the NEP. With deregulation and privatization as new NEP priority after 1986, domestic Chinese and foreign investments rebounded, thus revitalizing the Malaysian economy. The NEP's successor policy, the NDP, with its commitment to growth- and income-raising policies, emphasis on deregulation, and greater accommodation of Chinese educational and cultural aspirations, drew widespread endorsement from the Chinese community. At the same time, Prime Minister Mahathir Mohamad's articulation of his vision to achieve fully industrialized nation status for Malaysia by the year 2020 gave much hope to the Chinese community. They were persuaded that so long as safeguarding Malaysia's global competitiveness remained a key objective of the UMNO leadership and the NEP-spawned bumiputera (sons of the soil, i.e., Malay) business elite, the exclusionist and chauvinistic forces of Malay economic nationalism that inspired the NEP in 1971 would be held at bay.

#### I. FORMULATING THE NEP: THE CHINESE INPUT

Since the NEP was conceived to advance Malay economic well-being and narrow the income gap between Malays and Chinese, it was hardly surprising that the UMNO leadership kept Chinese input in its formulation to a minimum. Small though it was, the Chinese bureaucratic and political input was nevertheless critical to safeguarding Chinese interests throughout the NEP's life span. Chinese bureaucratic inputs were orchestrated by Tan Sri Dato' Thong Yaw Hong, Director-General of the Economic Planning Unit in the Prime Minister's Department. Politically, MCA president Tun Tan Siew Sin, in his position as Finance Minister (a post which he had held since 1959), continued to use the power of his office to protect Chinese business interests. It was not until after his retirement in April 1974 that the NEP was fully institutionalized with the promulgation of the Industrial Coordination Act (ICA), which required non-Malay businesses to comply with equity-restructuring objectives.

#### II. THE NEP'S RATIONALE REGARDING ECONOMIC DEVELOPMENT AND NATION BUILDING

Following the May 1969 racial rioting, the National Operations Council (NOC) led by Tun Abdul Razak Hussein addressed the political and economic problems that

lay at the root of the tragedy. The solutions were presented to the Malaysian people when parliamentary rule was restored in February 1971. Constitutional amendments were passed to restrict “communal politicking” which allegedly had produced racial polarization in the mid-1960s. UMNO control over the political system was strengthened and all major opposition parties, except the DAP, joined an enlarged government coalition, the Barisan Nasional (BN or National Front) to work toward the restoration of racial harmony.

Economic reforms focused on restricting the scope of laissez-faire capitalism and allowing greater state intervention to advance Malay welfare. The NEP was conceived as the centerpiece of UMNO’s economic reforms. Its twin objectives—reduction of poverty irrespective of race, and restructuring of Malaysian society to eliminate identification of race with economic function—were contained in the Second Malaysia Plan and formally presented to Parliament in July 1971.

The NEP’s rationale regarding economic development and nation building reflected two contending ideological strands within the UMNO: a hard-line strand which approached economic development from the perspective of exclusivist Malay economic nationalism, and a liberal, accommodationist strand that emphasized nation building based on fair play and cooperation of Malays and non-Malays. UMNO hard-liners, “Young Turks” and “ultras” such as Mahathir and Syed Nasir Syed Ismail, strongly supported demands made by the first two Bumiputera Economic Congresses (held in 1965 and 1968) which called for intensive state-interventionist actions to correct the economic imbalance between Malays and non-Malays. They faulted the liberal, accommodationist leadership of Tunku Abdul Rahman, for allowing MCA leaders to hold the cabinet portfolios of finance, trade, and industry, and for allowing the Chinese to do business without restriction. Not only did MCA president and Finance Minister Tan Siew Sin fend off Malay economic nationalist pressures in the urban sector, but he also successfully won a major battle in the agricultural sector when he prevailed upon the Tunku Abdul Rahman to sack his Agriculture Minister Abdul Aziz Ishak for attempting to replace Chinese-owned rice-milling enterprises with state-owned co-operatives (Heng 1988, pp. 258–59).

By 1970, income and sectoral imbalances between Malays and non-Malays had become disproportionately high. Malays formed the majority of the poor, accounting for 74 per cent of all poor households in Peninsular Malaysia (Malaysia 1991b, p. 32). The Malay population was predominately rural (63.4 per cent compared to the Chinese proportion of 26.1 per cent), while Chinese formed the majority of the urban population (58.7 per cent compared to the Malay proportion of 27.4 per cent) (Malaysia 1973, p. 25). Malay monthly mean household income was \$178.7, compared to the Chinese income of \$387.4, and per capita Malay income per month was \$34, compared to the Chinese income of \$68.<sup>1</sup> The poverty incidence among

<sup>1</sup> The currency cited here is the Malaysian ringgit (dollar).

Malay households was 65 per cent, compared to 26 per cent for Chinese households (Malaysia 1971, p. 5). Finally, the Malay share of corporate equity was a mere 2.4 per cent, compared to the Chinese share of 34.4 per cent. However, significant though Malay-Chinese economic imbalances were, it was foreign, particularly British, interests that dominated the Malaysian economy, owning 63.3 per cent of corporate equity (Malaysia 1976, p. 184).

Under the NEP, state-interventionist policies would be implemented to raise Malay income through poverty reduction policies in the rural sector, through expansion of employment opportunities in the urban sector, and through raising Malay share of corporate wealth from 2.4 per cent to 30 per cent by 1990. The Chinese share would be allowed to grow to 40 per cent and the foreign share would be reduced to 30 per cent (Malaysia 1976, p. 184). These goals clearly represented a victory for the forces of Malay economic nationalism. The government would no longer allow the unrestricted play of free market forces, and MCA influence on economic policy would be stopped.

However, the NEP also contained elements which reflected the more liberal viewpoints of top-ranking British-educated UMNO leaders such as Tun Razak and Tan Sri Ghazali Shafie. Having imbibed liberal democratic principles during their tertiary education in Britain, these men were committed to principles of fair play and justice as a framework for governance in multiethnic Malaysia. Former Prime Minister Tunku Abdul Rahman, the strongest adherent of this liberal cause, had opted for a gradualistic Malay special rights policy during the 1960s. He consistently emphasized that he would not condone a special rights policy of "robbing Peter to pay Paul," one that allowed Malays to benefit at the cost of the Chinese (Abdul Rahman 1977, p. 243). Although Tun Razak was obviously more sympathetic to the concerns of Malay economic nationalists, he was also a leader guided by liberal instincts who tempered the exclusionist demands of Malay economic nationalists. It was Tun Razak who specifically inserted the phrase, "the government will ensure that no particular group or community will feel any sense of deprivation or loss," into the official declaration of the NEP (*Malaysian Business*, October 16, 1986, p. 15).

The NEP was drawn up by two divisions attached to the Prime Minister's Department, the Economic Planning Unit (EPU) and the Department of National Unity (DNU). As the EPU was headed by a Chinese, Tan Sri Thong Yaw Hong, and staffed by several senior Chinese economists, the DNU was created by Tun Razak to draw up the first draft of the new policy under the direction of Tan Sri Ghazali Shafie and Dr. Agoes Salim. The DNU was committed to policies that emphasized the correction of structural imbalance in income, employment, and ownership between Malays and non-Malays. In contrast, the EPU, an institution set up in 1961 to formulate and review economic policies, had always stressed economic growth over other priorities (Faaland, Parkinson, and Saniman 1990, pp. 28-37).

After the DNU produced the first draft of the NEP, non-Malay participation was allowed. The Chinese input came from the EPU and the National Consultative Council (NCC), a multiracial forum comprised of sixty-five members representing federal and state governments, political parties, and functional groups. It had no formal powers and its function was to act as a surrogate parliament during the period of NOC rule to secure ratification and consent for NOC policies (Means 1991, p. 10). It was not Chinese representatives in the NCC but senior Chinese bureaucrats in the EPU who were able to make changes to the original NEP document.

According to Thong, the DNU document contained “extreme interventionist measures” which would have severely undermined Chinese business interests.<sup>2</sup> As head of the EPU, he introduced major revisions to safeguard non-Malay interests, including the critically important sentence: “It [the government] will spare no efforts to promote national unity and develop a just and progressive Malaysian society in a rapidly expanding economy so that no one will experience any loss or feel any sense of deprivation of his rights, privileges, income, job or opportunity” (Malaysia 1971, pp. v–vi). The principles expressed by that sentence—the UMNO’s commitment to national unity, to growth, and to fair play—provided legitimate ammunition for Chinese political and business leaders to present their case against perceived injustices arising from the NEP, as discussed later on. Thong also introduced a critical second revision which extended the scope of poverty eradication to benefit all ethnic groups, and not primarily Malays.

After the sobering lesson of the race riots, the Chinese political and business leadership had little choice but to accept the NEP. While the Chinese were understandably worried about the negative impact of the NEP, they also believed that the NEP would not overly damage their interests. This assumption stemmed from two factors: the assurance that restructuring would take place within a context of economic growth, and the belief that the UMNO leadership would not apply extremist solutions to the problem of social and economic restructuring. Although UMNO leaders regarded the closing of the Malay-Chinese income gap as the sine qua non for national unity, their very concern about the need for national unity worked to the advantage of the Chinese since it could not be achieved in the face of widespread Chinese alienation and discontent.

Initial Chinese fears that the NEP would be divisive were calmed by assurances from UMNO leaders. For instance, speaking in support of the Second Malaysia Plan on August 2, 1971, Ghazali Shafie stated: “It is wrong, and indeed mischievous, for anyone to read into the Plan that it is intended only for Malays at the expense of non-Malays” (*Star*, October 4, 1986). More importantly, the country’s constitution and the Rukunegara, the nation’s new national ideology promulgated

<sup>2</sup> Tan Sri Thong Yaw Hong, interview by author, May 3, 1996.

in August 1970, guaranteed protection of non-Malay interests. The Rukunegara was devised by the NOC to serve as a post-1969 framework "for creating a basic consensus on communal issues by establishing principles that could be invoked to restrain the more extreme demands of ethnic chauvinists" (Means 1991, p. 12). The inclusive and accommodationist outlook of the Rukunegara's chief architect, Ghazali Shafie, was clearly reflected in the following objectives: to achieve greater national unity; to maintain a democratic way of life; to create a just society in which the wealth of the nation would be equitably shared; to ensure a liberal approach to the country's rich and diverse cultural traditions; and to build a progressive society oriented to modern science and technology (Means 1991, pp. 12-13). During the NEP period, the safeguards contained in the Second Malaysia Plan and the Rukunegara provided a legitimate framework for Chinese leaders to protest against the NEP.

### III. IMPLEMENTATION AND IMPACT OF THE NEP: CHINESE RESPONSES

The Chinese community in Peninsular Malaysia, comprising 35.8 per cent of the population in 1970 (Malaysia 1973, p. 24) was, and still remains, a predominantly urban population. About one quarter of Chinese households, the majority of which lived in the New Villages created during the early 1950s, had incomes below the government-designated poverty line (Malaysia 1976, p. 5).

In 1970, Chinese economic activities were concentrated in the construction sector (52.8 per cent of fixed assets), followed by transport (43.3 per cent of fixed assets) and commerce (30.4 per cent of fixed assets). However, a relatively small number of foreign multinational companies dominated the manufacturing, mining, and agricultural sectors. In terms of fixed assets in the corporate industrial sector the Chinese share of the total value of fixed assets was only 26.2 per cent compared to the 57.2 per cent share of foreign ownership, but Malays and Indians accounted for only 1 per cent. The Chinese share of noncorporate fixed assets exceeded 92 per cent, but the value of assets accounted for by the noncorporate sector was small, making up only 12.6 per cent of the total of fixed assets. Chinese ownership of total acreage in the corporate agricultural sector (mainly rubber and oil palm) was 25.9 per cent, compared to the foreign share of 70.8 per cent (Malaysia 1973, p. 11).

An analysis prepared by the MCA gave a more detailed breakdown of the Chinese role in the urban sector for the year 1970. In the construction industry, for projects valued at \$100,000 or more, Chinese firms accounted for 88.5 per cent of fixed assets, and 84.7 per cent of the value of construction output. In addition, they employed 89.6 per cent of the workforce. In the commercial sector, Chinese firms accounted for 66 per cent of total turnover in wholesale and 81 per cent of retail trade, and employed 62 per cent and 76 per cent of the wholesale and retail

workforce respectively. In the manufacturing sector, Chinese firms accounted for 32.5 per cent of total fixed assets, compared to 51 per cent and 0.9 per cent owned by foreign and Malay firms respectively. Chinese firms absorbed 57 per cent of all full-time paid labor, while foreign firms took in 33 per cent of the total. Chinese workers made up 61.3 per cent of the full-time labor, while Malays accounted for 28.7 per cent of the total (Lew 1974).

When the NEP was first conceived, the Chinese were most concerned over the erosion of their economic position. However, it soon became clear that the new policy affected more than just their economic interests. The NEP's impact on the Chinese community and Chinese responses to it can be divided into four phases. In the first period, from 1971 to 1975, the impact on Chinese business was relatively light. In the second phase, from 1976 to 1985, Chinese economic, educational, and cultural interests were widely affected and Chinese dissatisfaction was widespread. In the third phase, from 1985 to 1986, the government took steps to liberalize some of its more stringent regulations. In the fourth and final phase, from 1987 to 1991, Chinese political and business leaders played an active role in the formulation of the NEP's replacement policy, the NDP.

#### A. *The First Phase, 1971–75: Early Years of the NEP*

The NEP's impact was relatively light in the first few years primarily because the policy was not fully institutionalized until after the enactment of the Industrial Co-ordination Act in 1975, a delay which can be attributed largely to the role of MCA president and Finance Minister Tan Siew Sin.

According to Just Faaland, the Harvard-based economist who helped formulate the DNU document, the Second Malaysia Plan's weakness was its failure to set specific numerical targets to reduce economic imbalances (Faaland, Parkinson, and Saniman 1990, pp. 75–76). This oversight was rectified in 1973 when the Outline Perspective Plan (OPP) established an equity ownership ratio of 30:40:30 for Malay, non-Malay, and foreign interests respectively (Malaysia 1973, p. 85). However, an effective restructuring mechanism was not enacted until the passage of the ICA in 1975. This legislation, viewed unanimously by Chinese business interests as the most draconian of all NEP measures, originally required non-Malay manufacturing firms with more than \$100,000 in shareholders' funds and employing more than twenty-five workers to divest at least 30 per cent of their equity to Malay interests. They were also required to incorporate into their workforce a number of Malay employees to reflect the Malay proportion in the country's population, at least 50 per cent (Jesudason 1989, pp. 135–37).

The ICA was passed only after Tun Tan Siew Sin resigned as Finance Minister. Although Tan Siew Sin publicly backed the NEP, he had strong misgivings about it. As Finance Minister enjoying the support of Prime Minister Tun Razak, Tan Siew Sin was able to delay the passage of the ICA until ill health led to his resigna-

tion from office.<sup>3</sup> The MCA leader's success in moderating the impact of the NEP between 1971 and 1974 was facilitated by the presence of strategically placed senior Chinese bureaucrats in the EPU and Finance Ministry. Thong Yaw Hong, who penned critical safeguards for non-Malay interests in the Second Malaysia Plan, remained as EPU Director-General several years into the NEP. Another top-ranking Chinese bureaucrat during that period was Tan Sri Chong Hon Nyan, who became the Secretary-General of the Treasury in 1972. Chong later became MCA Secretary-General and Minister of Transport during the Tun Hussein Onn administration.

B. *The Second Phase, 1976–85: The Anxious Years*

Implementation of the ICA after 1976 brought difficult times for the Chinese community. Despite reassurances of UMNO leaders like Tun Razak and Ghazali Shafie that the NEP was not an anti-Chinese policy, it was clearly impossible to implement the NEP without adversely affecting Chinese interests. The equity-restructuring provision of the ICA enabled the UMNO to implement the NEP's second "prong"—that of correcting income and employment imbalances between Malays and non-Malays—more vigorously than its first "prong" of poverty eradication. NEP policies to enhance Malay income, employment, and ownership of equity in all economic sectors not only undermined Chinese economic interests, but also sharply eroded their educational and cultural position. A New Educational Policy was implemented in 1971 to make Malay the main medium of instruction in all state-run educational institutions, from primary schools to universities. A National Cultural Policy to promote Islamic values and Malay culture was also instituted. At the same time, Chinese political participation became increasingly marginalized as the UMNO leadership consolidated its control over the political process.

Chinese political leaders, both in government and in the opposition, initially expressed only a cautious endorsement of the NEP. They were particularly concerned that it would not be implemented in the spirit of "give and take." For instance, when the MCA endorsed the NEP at its annual general assembly in 1972, the party also passed resolutions calling for the NEP's proper implementation, safeguards for the principle of free enterprise, and minimal state intervention in the private sector (MCA 1972, pp. 21–22). When opposition leader Lim Kit Siang spoke in support of the NEP during the parliamentary debate on the Second Malaysia Plan in July 1971, he stressed that the NEP's restructuring goals should not be targeted primarily at the Chinese since "real wealth of the country [was] not in the hands of the Chinese" (Lim 1978, p. 55). The DAP leader also emphasized that the NEP

<sup>3</sup> This information was obtained during the author's interview with Tun Tan Siew Sin held on February 20, 1986.



goal of poverty reduction should also benefit the Chinese New Village population, as well as the large numbers of impoverished Indian rubber estate workers (Lim 1978, pp. 78, 88).

Chinese political, business, and educational leaders were all united in complaining that implementation of the NEP had far exceeded its original intent and scope. The DAP, which had captured the largest block of Chinese votes in the 1969 General Election by championing the concept of “Malaysian Malaysia” and racial equality (Vasil 1972), was the NEP’s most vociferous critic. The DAP accused it of creating new injustices and inequalities that undermined rather than promoted national unity. In a collection of speeches published in 1978 entitled *Time Bombs in Malaysia*, Lim Kit Siang highlighted numerous alleged shortcomings of the NEP. Among other points, he charged the NEP of: failing to improve the welfare of the rural and urban poor, both Malay and non-Malay; heightening racial polarization by its large-scale discrimination against non-Malays; increasing class polarization by “breeding a parasitic Malay rich exploiting the Malay poor,” spawning corruption and “money politics” in the UMNO; hindering economic efficiency and encouraging bureaucratic waste; lowering standards of education, particularly at the tertiary level; and neglecting the rights of workers and other less-privileged groups in the country.<sup>4</sup>

While the DAP was the most vocal critic of the NEP, it was the MCA and the Gerakan Rakyat Malaysia (Malaysian People’s Movement, referred to as Gerakan) that had the political influence to persuade the UMNO leadership to modify the policy in the late 1980s. The MCA, with an extensive nationwide organization including 2,700 branches and 640,000 members in 1995 (MCA 1995, p. 11), played a far more significant role in mobilizing and representing Chinese opinion against the NEP than the Gerakan, which to this day, remains a regional party based in Penang and Perak.

Having accepted the NEP rationale that economic advancement of Malays was a precondition for political stability, the MCA found itself on the horns of a dilemma. It had to demonstrate good faith in supporting a policy which harmed Chinese interests. At the same time, it had to compete with the Gerakan and the DAP for the Chinese vote by effectively addressing Chinese grievances resulting from the NEP. MCA presidents after Tan Siew Sin—Tan Sri Lee San Choon (1974–83), acting president Dr. Neo Yee Pan (1983–85), Tan Koon Swan (1985), and Datuk Dr. Ling Liong Sik (1985–present)—focused on the strategy of questioning the constitutionality of the NEP by raising the issue of “deviation,” i.e., that the NEP’s implementation had unconstitutionally impinged on the legitimate rights of non-Malays as guaranteed in the nation’s constitution. The constitutional safeguard protecting

<sup>4</sup> Some scholarly works on the NEP have made similar critical observations. See, in particular, Mehmet (1986).

non-Malay interests with regard to the exercise of Malay special rights, Article 153 (1), had been added at the insistence of MCA leaders, particularly Tan Siew Sin, during the time of the independence negotiations between the UMNO and MCA leaders (Heng 1988, pp. 235–36). The article reads: “Nothing in this Article shall empower Parliament to restrict business, or trade solely for the purpose of reservations for Malays.”

The MCA organized numerous seminars on the NEP to receive Chinese public feedback. These included: a “Chinese Mental Revolution” seminar in 1972, a forum on “Chinese Economic and Education Rights” in 1973, an Economic Congress in 1974, a Third Malaysia Plan forum in 1976, a seminar on “The Chinese Dilemma and National Unity” in 1978, a conference to evaluate the position of the Chinese community in 1979, a seminar on the “Challenges of the 1980s” in 1980, a conference entitled “Towards a New Economic Era” in 1983, and a seminar on “Development Strategy for New Villages” in 1986. In 1988, the party produced a report on “Deviations in Implementation of the New Economic Policy” which formed the basis of its “Malaysian Unity Plan,” released in October 1989, the MCA blueprint of a policy to replace the NEP.

#### 1. *The MCA-led Chinese corporatization movement*

The MCA Economic Congress of 1974, held a year after the UMNO First Economic Congress (Bumiputera Economic Seminar), laid the foundations for a communally based corporatization strategy to meet the challenge posed by the NEP to Chinese business interests.<sup>5</sup> The MCA leadership felt that Chinese enterprises were too small and undercapitalized to compete effectively with large state enterprises such as the State Economic Development Corporations (SEDCs), Pernas (Perbadanan Nasional Berhad or National Trading Corporation, established in November 1969), and Permodalan Nasional Berhad (PNB or National Equity Corporation, established in 1978), which were aggressively acquiring assets on behalf of Malays. In the early 1970s, 77 per cent of Chinese firms in the manufacturing sector were small family-owned sole proprietorships or partnerships. Fixed assets of Chinese manufacturing businesses averaged \$148,000 per firm, compared to an average of \$1.26 million for foreign firms (Lew 1974). Speaking at the 1974 Congress, MCA leader Lew Sip Hon proposed that small family-owned Chinese firms be consolidated into large corporations which would be listed on the Kuala Lumpur Stock Exchange (KLSE). He also pointed out that bigger Chinese firms, unlike small family-owned units that relied solely on family members to conduct business, would be able to absorb many more Malay employees, thus contributing to the restructuring target of Malay employment in the urban sector.

Lew’s recommendations were also echoed by Neo Yee Pan, who became acting

<sup>5</sup> For a more detailed discussion of this topic, see Heng (1992).

president in 1983. Neo urged Chinese businessmen to “break away from their traditional family business practices and collectively effect the formation of big corporations” in order to withstand competition from businesses operated by a “vast government machinery” (Neo 1974). At the same time, Neo argued that Chinese entrepreneurs had to adopt the “right attitude in business in the context of the New Economic Policy” by forging more “Sino-Malay corporations as one way to ensure that Malaysians would achieve their long term goal of owning 70% of the total share capital assets.” In the event, it was the latter strategy, based on forging Chinese-Malay joint ventures, that accounted for the successful performance of the post-1969 generation of Chinese entrepreneurs, or Sino-capitalists. The MCA, however, neglected this strategy, choosing instead to focus on promoting communally based corporatization, a policy that ended in failure (see Heng 1992).

In 1975, MCA president Lee San Choon launched Multi-Purpose Holdings Berhad (MPHB) to raise capital for investments from the Chinese community. By the early 1980s, MPHB, under the management of Tan Koon Swan, had grown to become the largest Chinese-owned business listed on the KLSE, operating a diverse spread of activities in real estate, plantations, trading, finance, manufacture, shipping, and gambling. MPHB remained under MCA control, with 40 per cent of its equity held by the MCA Youth Cooperative Society (Koperatif Serbaguna Malaysia, or KSM). With the exception of a few leading Malaysian Sino-capitalists like plantation magnate Tan Sri Lee Loy Seng, who served as a company director, MPHB failed conspicuously to attract the support of Chinese business leaders.

For the MPHB mixing politics with business was the wrong formula for economic success. UMNO opposition to Chinese political efforts at pooling Chinese economic resources on a communal basis to compete with NEP business institutions had prevented MPHB from successfully acquiring crucial assets, as exemplified by the company’s failed attempts to take over United Malayan Banking Berhad (UMBC), at the time the country’s third largest bank. At the same time, the fortunes of MPHB were unfortunately tied to the vicissitudes of MCA politics, and MPHB’s top management became seriously demoralized when managing director Tan Koon Swan engaged in a bitter and protracted struggle with Neo Yee Pan for the top position in the MCA. Finally, while Tan was responsible for the company’s early rapid success, he was equally responsible for its demise. Under Tan, MPHB grew and diversified too quickly, relying heavily on bank loans to finance asset acquisitions. Tan was also believed to have had feathered his own nest at the expense of MPHB, channeling some \$23 million of MPHB funds in an attempt to save a Singapore-listed company he owned, Pan-Electric (Gomez 1994, p. 209). Tan’s questionable business practices finally landed him on the wrong side of the law in Singapore. He was indicted and jailed for criminal breach of trust in December 1985, ironically only a few weeks after he defeated Neo to become MCA presi-

dent. When Ling Liong Sik succeeded Tan as president, he sold off the MCA's shares in MPH to Kamunting Corporation, a family business controlled by Datuk Lim Ah Tam and his son Lim Thian Kiat.

During the late 1970s and early 1980s, the MCA also incorporated several investment holding companies controlled by the party at the state level. The most prominent of these were Matang Holdings (Johore), Aik Hua Holdings (Selangor), Panwa Holdings (Pahang), and Peak Hua Holdings (Perak). The MCA corporatization initiative also led to the formation of several holding companies owned by Chinese dialect associations. These included Ka Yin Holdings (controlled by the Hakka Federation of Ka Yin Associations), Hok Lian Holdings (owned by the Hokkien Association), and Grand Ocean Development Berhad (owned by the Hainanese Keng Chew Association in Selangor). The most important Chinese business association, the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM), incorporated its own holding company, UNICO. These holding companies have failed to emerge as active corporate players in Malaysia, thus underlining once more the ineffectiveness of the MCA's "communally based pooled resources" policy to advance Chinese business interests.

## 2. *Chinese private sector responses: Sino-Malay joint ventures*

The NEP objective of dramatically raising levels of Malay employment and equity ownership in private sector urban industries struck at the very heart of Chinese business interests. After failing to get a liberalization of ICA provisions in 1977, Malaysian Sino-capitalists concentrated on developing strategic linkages with Malay political patrons and business partners.

In late 1976, the two leading Chinese business lobby groups, the ACCCIM and the Federation of Malaysian Manufacturers (FMM), which is mostly comprised of Chinese manufacturers but also includes some Malay and foreign representation, pressed for a repeal of the ICA. Lacking the support of foreign MNCs represented in the Malaysian International Chamber of Commerce and Industry (MICCI), the ACCCIM abandoned that objective to press for a liberalization of the ICA to exempt more non-Malay businesses from its equity-restructuring requirements (Jesudason 1989, pp. 136–42). Supported by the MICCI on this issue, the ACCCIM and FMM succeeded in obtaining an amendment of the ICA in 1977. However, the changes made—excluding firms with less than \$250,000 in shareholders' funds and fewer than twenty-five workers from the need to apply for a manufacturing license, and freeing firms with less than \$500,000 in fixed investments from the equity condition—still fell far short of Chinese expectations (ACCCIM 1978).

By the late 1970s, Chinese businesses faced severe Malay competition in sectors where they have traditionally been strong: construction, transportation, and distribution. In the retail trade sector, for example, the establishment of new Malay firms

increased at a faster rate than Chinese ones, growing from 3,311 to 32,800 between 1971 and 1981, compared to the Chinese increase from 18,957 to 55,417 (Malaysia 1986, p. 114). Licenses in printing, petrol service stations, air and shipping transportation, logging, saw-milling, mining, rubber dealing, timber export, and vehicle import were either solely or predominantly reserved for Malays (ACCCIM 1978; Jesudason 1989, p. 132). Government contracts for construction projects were likewise heavily slanted in favor of Malay companies. At the same time, there was widespread perception that Malay government officials responsible for approving business permits and licenses were growing increasingly inflexible and uncooperative in their dealings with the Chinese business community.

Unable to apply institutional pressure on the UMNO, either through their political parties or business interest groups, Chinese entrepreneurs were left to their own devices to cope with the NEP. Malaysian Sino-capitalists saw little to gain by supporting the MCA-led corporatization movement, both because the MCA had become a marginalized political force and because the new holding companies had little intrinsic appeal. They chose instead to bypass the MCA and forge direct ties with influential patrons from the Malay power center. By inviting UMNO leaders, senior bureaucrats, top military brass, and members of royal families to participate in their businesses as minority shareholders, Sino-capitalists were able to surmount bureaucratic obstacles presented by the NEP. Well-connected Malay patrons serving as company directors opened doors to licenses, permits, contracts, and other business opportunities regulated by the state.

As seen above, the MCA had recommended the establishment of joint ventures as a means for Chinese businesses to deal with the NEP. The ACCCIM gave the same advice, several years before the MCA. As early as December 1969, it proposed setting up a unit trust funded by member donations to finance Sino-Malay joint ventures (Jesudason 1989, p. 130). Little transpired from either the MCA or ACCCIM proposal mainly because the efficacy of such a strategy obviously depended on successful cultivation of personal ties between individual Chinese entrepreneurs and their partners.

Chinese entrepreneurs who did well under the NEP were those who had quickly and shrewdly discerned that the ICA's equity-restricting requirement could in fact be used to their advantage. The NEP had made available a vast new pool of Malay capital which Chinese entrepreneurs could tap when forming joint ventures. Four major sources of Malay capital were: (1) state agencies such as Pernas, PNB, and Peremba Berhad, the investment arm of the Urban Development Authority (UDA); (2) UMNO-controlled corporations, such as the Fleet Group, incorporated in 1977; (3) institutional funds such as Lembaga Urusan Tabung Haji (LUTH or Islamic Pilgrims Management and Funds Board) and Lembaga Tabung Angkatan Tentara (Armed Forces Funds Board); and (4) private sector capital held by the new class of Malay millionaires such as Tun Daim Zainuddin, Tan Sri Azman Hashim, Tan Sri

Wan Azmi Wan Hamzah, and Tan Sri Rashid Hussein, as well as royal entrepreneurs such as Tunku Imran ibni Tuanku Ja'afar of Negri Sembilan.

By adapting to the NEP and turning the ICA's restructuring requirement into an asset, innovative Chinese entrepreneurs successfully expanded their fortunes or built new ones. Chinese tycoons representing the first group of "old money"—businesses that were established before the NEP but grew even bigger during the NEP—included Tan Sri Robert Kuok Hock Nien (Perlis Plantations, Federal Flour Mills, and Shangri-La Hotels Malaysia), Tan Sri Lim Goh Tong (Genting), Quek Leng Chan (Hong Leong Industries and Hume Industries Malaysia), and Tan Sri Loh Boon Siew (Oriental Berhad). Prominent members of the second group, Chinese "new money"—businesses that emerged during the NEP—included Tan Sri William Cheng Heng Jem (Amalgamated Steel Mills), Datuk Loy Hean Heong (MBf Holdings), Tan Sri Khoo Kay Peng (MUI), Tan Sri Vincent Tan Chee Yioun (Berjaya), Lim Thian Kiat (Kamunting), Tan Sri Yeoh Tiong Lay (YTL Corporation), Dick Chan Teik Huat (Metroplex), and Tan Sri Teh Hong Piow (Public Bank).<sup>6</sup>

Compared to the "old money" entrepreneurs, the relationship of the new Chinese tycoons with UMNO leaders was generally more intimate and complex. Apart from being more dependent on Malay political patronage, the investments of these tycoons were more closely integrated with Malay capital, an interdependent and complementary relationship which in turn has advanced the wealth of both Chinese and Malay partners. At the same time, the heavier dependence of these Chinese tycoons on Malay patrons meant that their fates were likewise more vulnerable to the fluctuating fortunes of their political and business patrons. For example, when Tengku Razaleigh Hamzah failed in his challenge to displace Mahathir as UMNO president in April 1986, his departure from UMNO politics led to a decline in the fortunes of Razaleigh ally, Khoo Kay Peng.

A third identifiable Chinese business group was the "declining money" group: businesses which were built during the prewar period but declined during the NEP period. The majority of businesses in this group were found in the tin and rubber industries. They included some of the country's oldest and most illustrious family firms, built by men such as Low Yat, Loke Yew, Cheong Yoke Choy, H. S. Lee, Tan Chay Yan, and Lau Pak Khuan. Unlike the NEP Chinese millionaires, the heirs who inherited prewar wealth either chose not to or failed to adapt effectively to the new political and business environment of the NEP. Deterred by the requirement to dilute their capital and management base with Malay inputs, many chose to forsake corporate growth in order to retain complete control and ownership of their businesses.

The ICA requirement to set aside a 30 per cent equity share for Malay sharehold-

<sup>6</sup> For background information on some of these entrepreneurs, see Hara (1991) and Heng (1992).

ers in businesses with more than \$250,000 in shareholders' funds likewise prompted many smaller Chinese entrepreneurs to remain small. They preferred to incorporate many separate small companies to escape the strictures of the NEP than consolidate their businesses into a large operation which would come under the purview of the ICA. In 1985, the ICA was amended to exempt companies with \$1 million in shareholders' funds and fifty full-time workers from having to apply for manufacturing licenses from the Ministry of Trade and Industry (Malaysia 1986, p. 215). By 1990, the exemption level was raised to \$2.5 million in shareholders' funds and seventy-five full-time workers (MCA 1990, p. 25). This wind-fall enabled many Chinese entrepreneurs who wanted full control over their businesses to transform their enterprises into medium-sized companies.

It can be argued that Chinese fears regarding an erosion of business control in enterprises that include Malay capital and management have largely been unfounded to date. Sino-Malay joint ventures, at first disparagingly referred to as "Ali-Baba" enterprises, were usually arrangements where the minority Malay shareholders, "Ali," received generous fees for securing business deals in which access to high-ranking political and bureaucratic power-holders played a crucial role, while the Chinese partners, the "Baba," retained control over the enterprise, made policy decisions, and took charge of day-to-day business operations. While such arrangements between Chinese entrepreneurs and Malay "rentier capitalists" persist, they have become less common as more Malays gain experience and confidence in running businesses. In the last phase of the NEP, increasing numbers of Sino-Malay joint ventures were set up with Malay partners who play active and meaningful roles in the businesses.

The impact of the NEP fell unevenly on different social classes within the Chinese community. Chinese entrepreneurs made progress as a group, although larger companies did better than smaller ones. The biggest winners were the big conglomerates owned by "new money" Sino-capitalists. Smaller businesses came under greater competitive pressures and suffered from lower profits. In the wholesale and retail trade, for example, the number of Malay-owned firms increased by ten times and their turnover by almost forty times during the period 1971–81; by contrast, Chinese-owned firms managed to increase their numbers by less than three times and their turnover by only five times (Malaysia 1986, pp. 114–15). But Chinese small businesses were protected from state and Malay encroachments to some extent, "because they belonged to the tight nexus between Chinese customers, retailers, and wholesalers" (Jesudason 1989, p. 163).

The Chinese urban and rural working class fared worst under the NEP. The Chinese New Village population, which by 1989 had reached 1.8 million, making up one-third of the rural population, derived minimal benefit from poverty eradication policies (MCA 1989, p. 24). Overcrowding, inadequate infrastructure, and poor sanitation were acute problems. Land resettlement programs and agricultural sub-

sidies administered by the Federal Land Development Authority (FELDA) and the Federal Land Consolidation and Rehabilitation Authority (FELCRA) were targeted primarily at Malay rice farmers and rubber and oil palm smallholders.

As a result of the NEP's uneven impact, among the Chinese income disparities have widened. However, despite fears to the contrary, the economic position of the community as a whole did not erode. While the mean monthly Malay household income rose from \$172 to \$931 during the NEP period, the figures for Chinese households rose from \$394 to \$1,582 (Malaysia 1991b, p. 45). According to Faaland, Parkinson, and Saniman (1990, p. 229), the average income inequality gap between Malays and non-Malays stood at a ratio of four to seven in 1990 (indicative of non-Malays having a standard of living 75 per cent higher than Malays), about the same as it was in 1970.

Despite the fact that, economically the Chinese advanced overall during the NEP, there was widespread antipathy toward the policy, particularly in the mid-1980s when the country suffered from recessionary conditions. Chinese frustration arose from the wide spectrum of the NEP's scope, which affected noneconomic interests, and from its implementation by Malay bureaucrats perceived by the community to be high-handed and unsympathetic. One of the most alienating aspects of the NEP pertained to the issue of education: "No single question looms as large or is as worrying in the minds of the Malaysian Chinese as education" (MCA 1988, p. 59).

Chinese education at the primary school level is state-supported. Under the NEP, Chinese National-Type Primary Schools (which use Mandarin as the main medium of instruction, but which also teach in Malay and English) received disproportionately smaller state funding than state schools teaching in Malay. For example, in 1984 these Chinese schools, which accounted for 27.3 per cent of total primary school enrollment, received only 3.4 per cent of the total allocation provided to primary schools (Ling et al. 1988, p. 60). Consequently, these schools suffered from shortages of teachers and textbooks, overcrowding, and poor facilities. The plight of these schools remains a source of great concern for Chinese parents, an overwhelming majority of whom send their children to such schools. For example, in 1988, 85 per cent of the total Chinese primary school student population was enrolled at these schools (Ling et al. 1988, p. 99).

At the level of tertiary education, Chinese grievances centered on sharply decreasing access to local universities and technical colleges. For example, between 1970 and 1980 Chinese enrollment in three universities (Universiti Malaya, Universiti Kebangsaan Malaysia, and Universiti Sains Malaysia) dropped from 48.9 per cent of total enrollment to 26.5 per cent, whereas the Malay share rose from 40.2 per cent to 66.2 per cent during the same period (Ling et al. 1988, p. 68). While several MARA (Majlis Amanah Rakyat or Council of Trust for the Indigenous People) Junior Colleges had been established to educate an almost entirely



bumiputera student body, the Chinese were granted permission to establish only one higher institution of higher learning, Tunku Abdul Rahman (TAR) College, which was established through the political intercession of MCA presidents Tan Siew Sin and Lee San Choon. Efforts by the DAP and the two leading Chinese educational interest groups, the United Chinese School Committees Association of Malaysia (UCSCAM) and the United Chinese School Teachers Association (UCSTA)—known collectively as the Dong Jiao Zong—failed to gain UMNO permission to establish an independent college, Merdeka University, where Chinese would be used as a medium of instruction (Kua 1985, pp. 158–80). The disbursement of government scholarships for overseas studies likewise overwhelmingly favored Malay applicants. For example, of the successful candidates for such scholarships between 1980 and 1984, 96.1 per cent were bumiputera and 3.9 per cent were non-bumiputera (Ling et al. 1988, p. 73).

Strongly grounded in the Confucian tradition that bestowed the highest societal recognition to educational attainment, the majority of Chinese parents in Malaysia were deeply frustrated at the lack of access to higher education for their children. As an immigrant community, Malaysian Chinese placed the highest premium on educational attainment as a vehicle for upward social mobility. Lacking adequate financial and institutional backing from the state, the Chinese devised their own solutions to overcome the educational obstacles presented by the NEP. Middle-class families financed their children's education in schools and universities overseas, mostly in the United States, Britain, Canada, Australia, and New Zealand. A much smaller group of students, mostly graduates from private Chinese secondary schools, studied in Taiwan and Japan. Lower-income families saved by living more frugally or borrowed to pay for their brightest children to be educated at the MCA-run TAR College or foreign colleges.

The Chinese community took advantage of "twinning programs," in which Chinese entrepreneurs teamed up with educators to establish colleges affiliated to universities mainly in the United States, Britain, and Australia. Students enrolled in these programs studied at the local colleges for the first two years before proceeding to the twinned universities to finish their studies. By dramatically cutting the cost of an overseas education, the twinning program enabled more Chinese students from lower-income families to study abroad, thus becoming more competitive in the job market in Malaysia. The success of this program is evident in the establishment of several private colleges to meet a rapidly rising enrollment. In 1980, 27 per cent of the total student population studying at the tertiary level was enrolled in various twinning programs. In 1985, for every student enrolled in state-run universities (predominantly Malay), there was another enrolled in local private colleges (almost all Chinese) or abroad (about equal numbers of Malays and Chinese) (MCA 1990, pp. 63, 77). Student enrollment in private colleges more than doubled between 1986 and 1990, increasing from about 15,000 to 35,600. (In 1990,

14 per cent were registered for degree courses, 46 per cent for diploma courses, and 40 per cent for certificate courses, mainly in the fields of accountancy, commerce, law, engineering, electronics, computer science, and business management [Malaysia 1991a, pp. 166–67].)

The earliest and most successful of the twinning programs was Kolej Damansara Utama, set up by the See Hoy Chan Group, controlled by the Teo family whose corporate vehicle on the KLSE is Paramount Corporation. Other colleges funded by Chinese entrepreneurs include Sunway College (operated by Datuk Jeffrey Cheah's Sungei Way Holdings) and the Higher Education Learning Programme (HELP, established by Tan Sri Wen Tien Kuang's Selangor Properties). For Chinese entrepreneurs, this line of business was doubly rewarding; not only did it reap healthy profits, but it also provided an essential service to the community.

Two other major areas of Chinese grievance stemmed from the heavy bias against Chinese in public sector employment and land resettlement schemes. Chinese leaders pointed out that the sectoral restructuring of the NEP flowed only one way. State policies moved Malays into the urban economic sector and tertiary education, sectors where they were underrepresented, but failed to move Chinese into sectors where they were underrepresented.

As discussed earlier, the NEP had provided scant relief to Chinese New Village households, two-thirds of which (1 million people) were still living below the government designated poverty line in 1983 (Malaysia 1986, p. 91; Ling et al. 1988, p. 93). The MCA leadership claimed that the NEP "systematically denied fair access to land" to the non-Malay rural poor. For example, Malay settlers made up 96 per cent of the total number of farmers and smallholders who benefited from land settlement and consolidation schemes. Large numbers of the Chinese rural poor had little choice but to remain as illegal squatters in the countryside (MCA 1988, p. 21). In a report examining the problems faced by the Chinese New Village population, the MCA stated that the New Villages had been left outside the mainstream of the country's economic and social development since their creation in the early 1950s. The report listed the handicaps faced by New Village residents such as lack of access to land and viable employment opportunities, and state neglect of education and other social facilities (Ling et al. 1988, pp. 92–93).

In public service employment, the Chinese likewise derived few benefits from the NEP. The Malaysian government is the country's largest employer. For example, in 1985, public sector employment accounted for about 15 per cent of total employment. Between 1970 and 1985, three quarters of new public service jobs went to Malays. Among bureaucrats holding, the most senior government jobs, 80 per cent were Malays and 6.3 per cent were Chinese (Ling et al. 1988, p. 29; Malaysia 1986, p. 102). The heavy preponderance of Malay bureaucrats in all branches of the civil service, including the police and armed forces, drew a sharp ethnic line between those who governed and those who were governed. Malay civil servants

who implemented NEP policies often appeared partisan and insensitive to Chinese concerns, thus exacerbating racial polarization during the NEP period.

An additional aspect of the NEP which widely alienated the Chinese was the National Cultural Policy, first conceived at a National Cultural Congress convened by Malay academics and politicians in 1971. The meeting recommended that the government should foster a Malaysian national culture based on indigenous (bumiputera) culture, Islamic concepts, and "suitable elements from other cultures" (Kua 1987, pp. 88–89). However, when the policy was implemented, it ignored non-Malay cultural traditions and propagated only Malay and Islamic elements. The Ministry of Youth and Culture, the custodian of the policy, implemented a number of measures deemed highly hostile to Chinese cultural interests. The Chinese lion dance, decreed an unsuitable component of Malaysian national culture, was banned from public performances without official authorization. Unprecedented restrictions were applied to the usage of Chinese characters on Chinese business and public premises. Pressures on Chinese to conform with Islamic dietary norms increased as Malay officials sought to ban the sale and preparation of pork in markets and restaurants patronized by Malays (Kua 1987, p. 89; MCA 1988, pp. 94–95).

A final major negative impact of the NEP on Chinese interests was the erosion of Chinese electoral representation in the country's executive and legislative institutions. The consolidation of UMNO power over the political process after 1969 took many forms. Constitutional amendments introduced in 1971 made it difficult, if not impossible, for Chinese parties to question the concept of Malay special rights that undergirded the NEP's ideological construct. The MCA was marginalized from the political center when the UMNO took away the finance, trade, and industry cabinet portfolios from the party after Tan Siew Sin left the cabinet.

Most significantly, electoral constituencies were redrawn, resulting in under-representation of the Chinese vote. As the MCA put it:

The past two decades have seen the erosion of [the] one man one vote principle through gerrymandering which has produced a lop-sided weightage in favour of rural constituencies which are predominantly Malay against urban constituencies which are predominantly non-Malay . . . The under-representation of urban voters is so serious that in some areas one rural vote is equal to more than three urban votes, whilst a ratio of 1:2 in favour of rural voters is common in many state and parliamentary constituencies. (MCA 1988, pp. 101–2)

In 1969, the number of Malay majority seats broadly reflected the number of Malays in the total population: 58 per cent of seats compared to 55 per cent of total population. By 1986, the Malay weightage bias had become disproportionately large: 70 per cent of seats compared to 56.5 per cent of population. In contrast, the Chinese, who formed 32.8 per cent of the population in 1986 formed a majority of

voters in only 20 per cent of parliamentary constituencies (Ling et al. 1988, pp. 27–28)

Although the NEP had not significantly eroded the Chinese economic position (with the exception of the New Village population), widespread discontent and frustration toward the policy prevailed within the community. When the country's economy sunk into a recession in the mid-1980s, Chinese alienation grew stronger, resulting in unprecedentedly high levels of Chinese out-migration and capital flight.

### C. *The Third Phase, 1985–86: Recasting and Liberalization*

In early 1986, in a radio interview in Australia, Prime Minister Mahathir Mohamad signaled his intention to liberalize the NEP. His announcement was followed by a number of measures which made the NEP more accommodative of non-Malay and foreign interests: further liberalization of the ICA and the implementation of the Industrial Masterplan in late 1986, the establishment of the National Economic Consultative Council (NECC) in December 1988, and the announcement of the Privatization Masterplan and Vision 2020 in February 1991. Finally, in June of 1991, Mahathir unveiled the National Development Policy (NDP), which was to replace the NEP.

The recasting of the NEP after 1986 was, in effect, a retreat from state-interventionism to a greater acceptance of policies shaped by market forces. The change in direction was the result of the following closely related factors: (1) structural changes in the Malaysian economy which made the country more vulnerable to recessionary pressures emanating from the global economy; (2) falling foreign and local private sector investments; (3) declining public revenues; (4) perceived racial polarization; and (5) sustained Chinese political pressure for reforming the NEP.

In the process of redressing economic imbalances between Malays and Chinese, the NEP wrought fundamental structural changes in the Malaysian economy. To generate the economic surplus to finance NEP policies, the government gave top priority to the promotion of the manufacturing sector, emphasizing export-oriented industrialization over import-substitution industrialization. Foreign investments and technology were actively sought, and Malaysia successfully attracted large numbers of foreign MNCs, especially American and Japanese companies.

To the UMNO leadership, foreign investors brought several benefits. They contributed capital and technology for joint ventures with Malay-controlled state enterprises; they provided mass employment for the new urban Malay workforce; and they made Malays less dependent on private sector Chinese capital. Given the NEP's inherent anti-Chinese bias and the desire of the Malay economic nationalists to constrain Chinese capital, this last consideration was by no means unimportant (Jesudason 1989, pp. 167–68).

Stimulated by foreign investments, the manufacturing sector expanded rapidly,

rising from a 13.9 per cent share of GDP in 1970 to 19.1 per cent in 1985. At the same time, the share of agricultural sector to GDP declined from 29 per cent to 20.3 per cent during the same period (Malaysia 1986, p. 11). The value of exports of manufactures grew by 14.3 per cent per annum, overtaking the value of agricultural export after 1982 and mineral exports after 1984 to become the largest contributor to export earnings. The increase in manufacturing export revenues came mainly from electrical machinery, home appliances, computer devices, textiles, clothing, and footwear (Malaysia 1986, p. 50).

The emphasis on export-oriented industrialization both widened and deepened the linkages between the Malaysian economy and the global economy, but the resulting integration made the country more vulnerable to recessionary pressures from the international economy. Thus, when economic growth slowed down in the United States and Europe in 1984, demand for Malaysian manufactured exports and primary commodities weakened. In 1985, Malaysia experienced an unprecedented negative GDP growth rate of -1 per cent (Malaysia 1989, p. 13).

Integration of the Malaysian economy into the global economy also compelled Malaysia to remain competitive in the external market place if it wanted to sustain strong economic growth. The recession of 1985-86, which resulted in a sharp decline in foreign investments and public revenues, forced the UMNO leadership to rethink the NEP. At the same time, the economic inefficiency of numerous state-owned enterprises, already a cause of concern in a more buoyant economy, became critical.

Heavy public sector expenditure had been pivotal in sustaining the rapid growth of the economy from 1975 to 1985. Public investments constituted about 40 per cent of total investments in the early 1970s, increasing to 50 per cent in 1982. By 1985, it had grown to 55 per cent, thus exceeding the proportion of private investments in the economy. The exploitation of Malaysia's oil resources by Petronas (Petroliam Nasional Berhad or National Petroleum Corporation, established in 1974) had made possible large increases in government revenues. With a 50 per cent reduction in the price of oil and weak demand for manufactured exports, public revenues dropped sharply. In 1987 public spending was cut back to about \$7.9 billion, 40 per cent below the 1984 peak of \$12.6 billion. The shortfall in public revenues could not be made up by private funds since both foreign and local private investments had dropped during the recession. Gross private capital formation, averaging \$11.8 billion per annum during the 1981-85 period, contracted to \$9.8 billion in 1986 (*Bank Negara Annual Reports* cited in MCA 1990, pp. 27-28).

Faced with the country's worst economic crisis since independence, the UMNO leadership could no longer afford the luxury of subsidizing losses incurred by NEP-mandated state enterprises. Nearly all of Malaysia's thirteen State Economic Development Corporations (SEDCs) had suffered losses in the mid-1970s. In 1984, the SEDCs' aggregate losses (\$346.8 million) from 125 subsidiary firms ex-

ceeded the aggregate profits from 103 subsidiary firms (Jesudason 1989, p. 100). Due to the lack of public accountability of Malay bureaucrats, and the inexperience of the otherwise politically well-connected managers appointed to run these enterprises, a number of large-scale financial scandals occurred. The most serious of these were the Bank Rakyat scandal in the mid-1970s, which involved fraud and embezzlement of more than \$100 million, and the Bank Bumiputra Finance debacle which lost \$1.2 billion in bad loans made to a Hong Kong property company. The recession also threatened the viability of Mahathir's heavy industrialization projects, notably the joint venture established in 1980 between the Heavy Industry Corporation of Malaysia (HICOM) and the Mitsubishi group to manufacture a "Made in Malaysia" car.

Given its inability to finance NEP projects from public revenues and foreign investments, Malaysia's UMNO leadership was forced to reconsider the role of local Chinese private sector capital and to regard Chinese private sector capital and entrepreneurial talent in a more positive light. In the mid-1980s, however, Chinese discontent with the NEP had become extremely widespread. Chinese political leaders, both in government and the opposition, as well as business and education leaders stepped up their criticisms of the NEP.

A contracting economy inevitably exacerbated racial tensions. Malays began to fear that the NEP targets would not be met while Chinese grew even more pessimistic about their future prospects in the country. During the 1985–87 recession, Chinese capital flight and out-migration increased significantly, caused as much by hard-nosed economic calculations as by sociopolitical alienation arising from the NEP (Heng 1992, pp. 131–32). Malaysian Chinese money moved out primarily to seek higher profit margins from more lucrative overseas enterprises, but Chinese capital flight and the "brain drain" were also caused by the impact of the NEP. An MCA report captured the deep pessimism of the Chinese community during this period:

The Malaysian Chinese and other non-Malays are fearful that the era ahead will see for them and their children even more diminished opportunities . . . The feelings of deprivation and loss being felt by the Malaysian Chinese and other non-Malays have been accentuated by a deep sense of political disaffection as a result of what they see as political emasculation . . . It appears that the restructuring of Malaysian society and the building up of a Malaysian nation are to be through the sacrifices borne solely by the non-Malays, even at the cost of their cultural identities . . . The spirit of the non-Malay communities is low, its mood dark . . . [the] inevitable result could well be that the interaction between the Malay and non-Malay communities will be further limited, giving rise to a siege mentality, with racial conflicts as the outcome and national unity as the casualty. (MCA 1988, pp. 3–4)

The above report reflected the findings of an MCA task force to monitor and study "deviations" in the implementation of the NEP. The task force was guided by

the MCA's think tank, the Institute of Strategic Analysis and Policy Research (INSAP), comprised of academics, economists, business leaders, management consultants, and lawyers. In 1989, INSAP released a Malaysian Unity Plan (MUP) containing the MCA's proposals for a new policy to replace the NEP. The MUP recommended that the new policy should, first and foremost, be based on interethnic consensus, and be guided by the objective of overcoming the "racial divisiveness and acrimony stirred up by deviations and shortcomings of the past." The government was advised to minimize its role in the economy, for state interventionism had created "structural and institutional bottlenecks that have stifled economic efficiency and growth." The MUP also highlighted the need for greater deregulation in Malaysia if Malaysia were to remain competitive in an increasingly interconnected world: "The rapid changes taking place in the global economy require the government to allocate its resources efficiently and to reward productivity and excellence if the country is to remain competitive. In the post-1990 period, policies of state intervention and restructuring have to be replaced by new policies that reward risk, hard work and enterprise, irrespective of race" (MCA 1989, p. 1).

According to the MUP, by late 1989 the degree of bumiputera share equity ownership sought by the NEP had been attained. What was needed, the MUP argued, was a fairer distribution of resources and opportunities in areas where Chinese were underrepresented: in education, in civil service employment, in land settlement, in cultural and religious expression, and in political representation. In order to "ensure that no deviation takes place contrary to the intent and spirit of the policy," the MCA called for a system of checks and balances which would be enforced by a multiracial watchdog commission and a Race Relations Act (MCA 1989, p. 9).

The MUP's recommendations for growth strategies included the following: rationalization and privatization of the public sector; development of human resources through greater state funding of educational institutions, especially for non-Malays; upgrading and deepening of the industrialization process; development of science and technology, particularly in new "sunrise" industries such as genetic engineering, biotechnology, and information technology; expansion of the services sector in areas such as risk management, financial and commodities trading, reinsurance, research and consultancy, and telecommunications and information services; promotion of small- and medium-scale enterprises; and development of the New Village economy through infrastructure development and greater access to land (MCA 1989, pp. 11–26).

Chinese political pressure for reforming the NEP from within the BN government came also from the leadership of the Gerakan. As early as 1984, the party urged that a more liberal national economic policy replace the NEP upon its expiration in 1990. The party claimed that the bumiputera equity target had been reached: "Our own rough estimate shows corporate share ownership by bumiputerans far

exceeds the 30 per cent target in plantation agriculture (45 per cent) and mining (50 per cent), while it is more than double the target in the banking and finance sector” (*Malaysian Business*, October 16, 1986). Gerakan president Dr. Lim Keng Yaik also criticized the NEP for its “top-down planning” and rigid bureaucratic control, its failure to address the issue of urban poverty, and its neglect of the welfare of Chinese New Village residents and the Indian plantation labor force. Like the MCA, the Gerakan believed that the NEP had “not brought the people and the country any closer to the broader goal of national unity,” but had in fact intensified ethnic polarization “with Malaysians becoming even more mindful of their own ethnic background because of the distinct division made between Bumiputeras and non-Bumiputeras” (*New Straits Times*, August 27, 1984).

The political climate of increasing racial polarization in the mid-1980s was further complicated by a struggle for leadership within the UMNO. Mahathir had faced a serious challenge to his leadership from Tengku Razaleigh, which he only narrowly managed to survive. His rule became increasingly authoritarian as he maneuvered to neutralize his opponents and consolidate his position. In the midst of his problems, the Ministry of Education decided to install non-Mandarin-speaking Chinese administrators as principals of Chinese primary schools. This move incurred the collective wrath of the MCA, Gerakan, DAP, the Dong Jiao Zong, and the Chinese guilds and associations, which, in a rare display of common cause, sponsored a “Chinese Unity” mass meeting on October 11, 1986 to protest the decision. The UMNO Youth, in turn, decided to counter with a “Malay Unity” rally. In late October, Mahathir acted swiftly to diffuse the dangerously high level of racial tension by launching “Operasi Lalang,” under which 119 people were arrested. Those detained under the Internal Security Act included not only “racial instigators” from the MCA, DAP, Dong Jiao Zong, and UMNO, but also political opponents and critics of Mahathir from other political parties, environmental groups, and citizens’ action groups. Mahathir explained to Parliament that the arrests were necessary to forestall a recurrence of the racial rioting of May 1969 (Khoo 1995, p. 285). Although Mahathir’s justification might well have been an expedient for temporarily locking up his opponents, it nonetheless confirmed the widely held perception that Sino-Malay relations and national unity were becoming frayed in the mid-1980s.

After reconsolidating his hold over the UMNO, Mahathir dealt with the tasks of repairing interethnic relations and restoring investors’ confidence. His immediate priority was to stop the precipitous decline in foreign investments, which fell from a 30 per cent share of total investment in manufacturing in 1980 to 22.7 per cent in 1984 and 17.8 per cent in 1985 (Jesudason 1989, p. 186). The recession had made foreign investors more critical of the ICA and more reluctant to invest in Malaysia. At the same time, the investment climate in East and Southeast Asia had become very competitive. Cheaper labor costs in countries like China, Thailand, and In-



Indonesia diverted foreign funds from Malaysia. By liberalizing the NEP and deregulating the economy, Mahathir could achieve two objectives simultaneously: woo back foreign investors and restore Chinese political and economic confidence in their government.

New guidelines announced in June 1985, allowed foreigners to retain up to 80 per cent of equity ownership in firms exporting 80 per cent or more of production, but they did not spur the desired inflow of foreign capital. In December 1985, the government relaxed the ICA to stimulate local Chinese investments in manufacturing. The new amendment gave firms automatic approval if shareholders' funds were below \$2.5 million and 30 per cent of equity had been reserved for Malays. The equity requirement was waived for firms with shareholders' funds of less than \$1.5 million. In September 1986, Mahathir finally decided to let foreign firms retain 100 per cent equity ownership if they exported 50 per cent or more of their production or sold at least 50 per cent of their product in the country's free trade zones. Foreign firms producing for the domestic market were also exempt from the ICA if they employed at least 350 full-time workers reflecting the racial composition of the population. This last round of liberalization succeeded in renewing foreign investors' interest in Malaysia. In the first six months of 1987, the proportion of foreign paid-up capital in the manufacturing sector rose from 28 per cent to 47.2 per cent (Jesudason 1989, pp. 188–89). During 1988–90, GDP growth rate averaged 9.1 per cent per annum, the highest recorded since independence (Malaysia 1991a, p. 8).

D. *The Final Phase, 1987–91: Replacement by the New Development Policy*

In December 1988, Mahathir announced the establishment of the National Economic Consultative Council (NECC), a 150-member multiracial and widely representative body, to work out a consensus on recommendations for an economic policy to replace the NEP after 1990. The inspiration for the NECC has been attributed to MCA president Dr. Ling Liong Sik (Mauzy 1991, p. 3; Jomo 1994, p. 29). When asked about his role behind the establishment of the NECC, Ling informed that he had indeed forwarded a list of issues the MCA wanted the UMNO to act on (interview by author, May 1, 1996). The MCA "wish list" included a request for Mahathir to form a multiracial committee comprised of representatives from all BN member parties to draw up a new policy, as well as quick action to make good on the UMNO leadership's long-standing promise to increase non-Malay access to state-funded tertiary education. Fortunately for Ling, Mahathir was a lot more accommodating of Chinese interests in 1988 than when he first became prime minister in 1981. By the late 1980s, Mahathir had become a convert to the virtues of free enterprise (Khuo 1995, chap. 4), an outlook which close confidante and former Finance Minister Tun Daim Zainuddin encouraged.

Ling Liong Sik believed that a post-NEP policy based on interethnic consulta-

tion was essential for restoring Chinese confidence in the BN government. In early October 1988, Ling announced his decision to take an extended unpaid leave from his cabinet duties. He implied that his leave would be indefinite should the prime minister fail to resolve the long-standing issues presented by the MCA. According to Ling, the UMNO leadership had promised in 1986 to redress major Chinese grievances by increasing non-Malay representation in tertiary education, public sector employment, and land settlement schemes. For Ling, the review of the NEP had "become an increasingly frustrating and painful process" because the UMNO had not fulfilled any of its pledges to the MCA. Before departing to begin his leave, Ling stated that all the BN component parties should "sit down and agree on a common database on vital aspects such as the ethnic share of corporate sector, educational opportunities, land ownership, participation in land development schemes, and public and private sector employment" (*Star*, October 2, 1988).

The timing of Ling's departure was precipitated by the UMNO's exclusion of the MCA from discussions convened by the party to examine the NEP's replacement policy (*Far Eastern Economic Review*, December 15, 1988). Determined to push for a Chinese voice this time around, Ling succeeded in achieving his objective by staging, in effect, a de facto boycott of the cabinet.

#### IV. RECOMMENDATIONS OF THE NECC: DEPAN

The NECC's report, the Economic Policy for National Development (Dasar Ekonomik Untuk Pembangunan Negara, or DEPAN), was officially released in February 1991, a few months before the Second Outline Perspective Plan (SOPP) and the Sixth Malaysia Plan, both of which documented the contents of the post-NEP policy, the NDP. While some scholars were skeptical that DEPAN had much of an impact on the NDP (Jomo 1994, p. 49), the Chinese political leadership (with the exception of the DAP who pulled out of the NECC deliberations), as well as the business community, appeared largely satisfied with the outcome of both DEPAN and the NDP.

A comparison of the MCA's Malaysian Unity Plan and DEPAN reveals a considerable overlapping of objectives.<sup>7</sup> The chairman of the MCA think tank INSAP, Yong Poh Kon (a successful businessman who heads his family firm, Selangor Pewter), played a particularly significant role in the NECC, helped by Fong Chan Onn and Lim Teck Ghee, both academics from the Universiti Malaya. Thong Yaw Hong, who had played such a crucial role in advancing Chinese interests in 1971 and who had since retired from public service, also served on the NECC.

Key Malay representatives included the UMNO delegation led by Datuk Abdullah Ahmad Badawi and prominent public figures such as: Ghazali Shafie,

<sup>7</sup> Jomo (1994) contains a comprehensive summary of DEPAN's recommendations.

who helped conceive the NEP; Datuk Dr. Kamal Salih, head of the Malaysian Institute of Economic Research (MIER); Datuk Dr. Noordin Sopiee, head of the Institute of Strategic and International Studies (ISIS), and a leading banker, Datuk Malek Merican. The moderate political outlook and liberal economic convictions of both Kamal Salih, who served as rapporteur for the NECC, and Malek Merican swayed the balance against the hard-line Malay economic nationalists represented by Datuk Abdullah Ahmad and Syed Hamid Albar, thus making it possible for a Sino-Malay consensus to emerge.

The recommendations of DEPAN were categorized under six headings: poverty eradication, restructuring society, the national and international economy, human resources development, data and information, and national unity. The last category—the need to achieve national unity and strengthen interethnic relations—was emphasized as the topmost priority of the new policy. DEPAN approached the subjects of poverty eradication, social restructuring, and human resource development in a more evenhanded manner than the NEP. It highlighted the need to address the issue of absolute poverty, as well as to narrow intra-ethnic and interethnic income gaps.

Evaluating the results of social structuring, DEPAN indicated that while the target of 30 per cent Malay equity ownership had not been reached, the NEP was deemed successful in achieving its objectives, especially regarding higher levels of Malay representation in the urban work force. In 1990, official statistics showed that Malays had achieved a 20.3 per cent share of corporate equity, compared to 46.2 per cent for non-Malays and 25.1 per cent for foreigners. The remaining 8.4 per cent was categorized under nominee companies (Malaysia 1991b, p. 49). The designation “nominee companies” represented a significant concession to the MCA because previously the term “other Malaysians” had been used, implying Chinese ownership. For their part, Chinese leaders believed that the 8.4 per cent was really a part of bumiputera equity, since many nominee companies had been established by high-ranking UMNO leaders who valued anonymity in their business dealings.

DEPAN documented the substantial progress made by Malays through sectoral and occupational restructuring. Under the NEP, the Malay employment share had risen in all sectors, achieving a statistical majority in utilities, transport, and public services. However, the report called for greater Malay representation in the private sector, especially in the better paying and more senior positions. At the same time, it recommended greater access for non-Malays into the areas where they were underrepresented, notably public service employment.

One of DEPAN’s most significant achievements, at least from the Chinese perspective, was its recommendation to de-emphasize share ownership proportions by race and to exclude numerical targets in the new policy. The presence of Malay moderates had enabled the Chinese representatives to overcome the demand by

Malay hard-liners to raise the Malay equity target to reflect the Malay proportion of the population, i.e., at least a 50 per cent share.<sup>8</sup> Instead of focusing on restructuring and redistribution, DEPAN emphasized that the new policy should concentrate on growth-oriented policies to create absolute wealth. At the same time, the new policy should also concentrate on upgrading the quality of bumiputera entrepreneurship to enable Malays to become less dependent on government subsidies and protection. It also argued for a greater Malay role in the economic development of the private sector, pointing out that NEP “trust agencies” had been plagued by problems such as inefficiency, nepotism, favoritism, abuses of office, and lack of professionalism (Jomo 1994, p. 37).

The emphasis on the development of a more resilient Malay private sector, to trim public sector involvement in the economy and to promote policies of growth over policies of income distribution, reflected the thinking of the new NEP-created class of highly successful and self-confident Malay professionals and entrepreneurs. Kamal Salih, for example, authored a MIER report in 1988 urging the government to pursue policies aimed at doubling Malaysia’s per capita income by 2000. He argued that if Malaysia wanted to become a newly industrialized country, it had to roll back state interventionism and put in place a more competitive, growth-oriented framework for the 1990s (Kamal Salih 1988). Malek Merican had called for policies that would foster growth, competition, profit, and self-reliance at an UMNO-sponsored seminar held to discuss the “New Economic Policy after 1990” in March 1987. He had also argued, much to the delight of Chinese leaders, that the NEP was a basic cause of the slowdown of economic growth because “the advantage given to the bumiputras had caused non-bumiputra Malaysians and foreigners to shy away from investing in the country” (*Star*, March 28, 1987).

Thus, by the time the NEP drew to a close, a new Malay professional and entrepreneurial class with strong ties to the UMNO had emerged, one which saw the Malaysian state both as competitor and protector. The biggest beneficiaries of state action during the NEP, the “UMNOputera,” now urged deregulation, seeing in the privatization of state enterprises a rich source of business opportunities. These entrepreneurs had become important allies of Chinese business interests and it was the shared interests of the new Sino-Malay entrepreneurial class in Malaysia that the new policy sought to address.

#### V. CHINESE PROSPECTS UNDER THE NEW DEVELOPMENT POLICY

Although the NDP unequivocally upholds the principle of Malay special rights, unlike the NEP it eschews numerical targets and emphasizes growth- and income-

<sup>8</sup> Yong Poh Kon, interview by author, July 23, 1991.

raising policies over income distribution programs. The NDP is also more strongly committed to human resource development and will offer greater education opportunities to non-Malays than was the case with the NEP. This is evident in significantly larger government disbursements for Chinese education interests outlined in the Sixth Malaysia Plan. For example, TAR College will benefit from a tenfold increase in government funding (a total of \$20 million) under the Sixth Malaysia Plan (compared to the Fifth Malaysia Plan), and the allocation for Chinese primary schools will be doubled to \$40 million (Ling 1995, pp. 38–39). However, the Chinese realize, at the same time, that greater attention will still be paid to the upgrading of Malay professional and entrepreneurial manpower.

Finally, the NDP espouses a strong commitment to national unity, which it calls “the ultimate goal of socioeconomic development, because a united society is fundamental to the promotion of social and political stability and sustained development” (Malaysia 1991b, p. 3). While most non-Malays realize that the attainment of national unity within an UMNO-dominated state will not ultimately translate into political and social equality between Malays and non-Malays, they are quietly optimistic that their prospects under the NDP will be bright indeed. They draw hope from Mahathir’s “Bangsa Malaysia” (Malaysian nation) concept, first enunciated when he unveiled his policy to attain fully industrialized nation status for Malaysia by 2020, the Vision 2020 plan. The Malaysian prime minister declared that he wanted to see “a nation at peace with itself, territorially and ethnically integrated, living in harmony and full and fair partnership, made up of one ‘Bangsa Malaysia’” (*New Straits Times*, March 2, 1991). Chinese political observers were particularly struck by the unprecedented usage of the term, for Malay leaders had previously employed the word *bangsa* within a chauvinistic Malay nationalist context to denote the Malay race or Malay nation (“Bangsa Melayu”). By including non-Malays within the *bangsa* concept, Mahathir appeared to be breaking from the exclusivist conventions of Malay political and economic nationalism.

Reacting to Mahathir’s announcement, MCA president Ling stated: “The National Development Plan (NDP) aims to create a single Malaysia race to be known as Bangsa Malaysia . . . It is envisaged that ultimately, the nation will be made up of one single race: Bangsa Malaysia” (Ling 1995, p. 37). While Ling translated “bangsa” to mean race, which was not what Mahathir had in mind given the lack of biological assimilation between Malays and non-Malays, his interpretation of Mahathir’s statement serves to highlight the MCA’s belief, one also shared by the Gerakan, that Mahathir will accept a greater political, economic, and cultural role played by non-Malays in the post-NEP period.

But most of all, the Chinese in Malaysia are optimistic that the UMNO leadership will remain committed to sustaining Malaysia’s competitiveness in the global marketplace. As long as export-oriented and growth-oriented policies remain in place, the effectiveness of the potential of Chinese capital resources, dynamic

entrepreneurial skills, and the extensive internal and external business networks of Malaysian Sino-capitalists will be maximized by the Malaysian state, enabling the Chinese community in the country to reap ever greater rewards in the years ahead.

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