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The Way Forward?:
The Political Economy of
Development Policy Reform in Malaysia

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The dominant ideas in development economics have changed considerably over the four decades of its existence. Similarly, the influence of theory on policymaking has also changed, not only with new ideas, but more importantly, with the ideological preferences of those with power and influence, especially at the national and international levels.

During the eighties, development economics — which has emphasized market failures and other welfare reasons for judicious state intervention to ensure greater equity and efficiency — was under seige from the intellectual assault of market neo-conservatives in control of the major international economic institutions such as the World Bank and International Monetary Fund, and supported by the dominant ideologies of Thatcherism and Reaganomics at the global level. Political economy, rejected in the seventies as an unsophisticated nineteenth century approach of the political Left, re-emerged in the hands of the Right as the main weapon in this assault. The collapse of the Soviet Union and allied East European regimes and the marketization of the remaining economies still claiming to be in the socialist camp only seemed to prove the worst claims of the generally politically conservative economic liberals of the late twentieth century.

By the early nineties, however, the pendulum seems poised for a return to the centre. Reagan was replaced by Bush, who was in turn defeated by Clinton with his ambiguous commitment to revive the US economy through selective state interventions. Thatcher was succeeded by Major, who is in danger of going the way of Bush for his handling of the economy. Reflecting its new found influence internationally, the Japanese Government funded a massive World Bank study of the so-called Asian miracle economies to emphasize the crucial role of the state in late industrialization and rapid growth. Meanwhile, various regimes in different parts of the world seem to be in trouble due to abuses of power and the role of the state in the allocation and appropriation of economic rents, broadly understood as extra incomes attributable to market 'imperfections' of various types.

All this, if nothing else, invites critical review of economic theory and policy orthodoxies, both old and new. The eighties' assault on development economics has left it in a state of malaise, from which it does not seem about to recover. However, for much of the world, developing or otherwise, these issues are not merely questions of academic interest. Countless lives actually depend on them.

Malaysia, however, is more fortunate in that these issues are not quite matters of life and death, except perhaps for some politicians. But considering the fragility of the nation, and arguably, much of the economy, there is a great deal at stake. And as with so much else, we cannot afford to gamble. The following critical review of the political economy of development policy reform in Malaysia straddles the interface between economic development theory and Malaysian experience to suggest how one might inform analysis of the other, in order to identify lessons and challenges for Malaysia's way forward.

Since the late colonial period in the fifties, and especially during the seventies, the Malaysian state has been interventionist on a broad range of fronts. To ensure regime stability, resources have been allocated to support the broad-based 'consociational' ruling coalition of interests primarily organized along ethnic lines. Thus, it can be said that the multi-ethnic ruling coalition has been supported by a set of differential entitlements which it has appropriated and determined for itself. The first such set, negotiated among the ethnic political elites in the mid-fifties on the eve of independence in 1957, subsequently proved to be unacceptable to both the Malay and non-Malay masses in Peninsular Malaysia, resulting in the electoral rejection of the ruling Alliance in the May 1969 general election.

A gerrymandered political system and Emergency powers ensured the retention of Alliance rule under new leadership, which then defined a new social pact (ostensibly in the interest of 'national unity', defined primarily in inter-ethnic terms), or set of entitlements, usually referred to as the New Economic Policy (NEP). The NEP had, as its cornerstone, an official redistributive commitment to poverty reduction and inter-ethnic near-parity in wealth and modern sector employment, i.e. to bring the politically hegemonic Malays on par with the apparently economically dominant Chinese. This was complemented by new official legitimation efforts in the form of a national ideology (the Rukunegara) and the broadened Barisan Nasional ruling coalition in which UMNO's supremacy was enhanced.

Soon after Mahathir Mohamad became Malaysia's fourth prime minister in mid-1981, he introduced his own statist development agenda, emphasizing East Asian style modernization and heavy industrialization. By the mid-eighties, however, brewing fiscal and debt problems, exacerbated by recession due to declining private investments, primary commodity price collapses and deflationary policies at both international and national levels, precipitated Malaysia's deepest economic and, arguably, political crisis since the sixties. These crises either pushed or helped — depending on one's interpretation — Mahathir and his new Finance Minister Daim to introduce various liberalizing economic policy reforms, then justified as temporary measures to deal with the unprecedentedly severe recession of 1985–6. The sustained economic boom since then, heavily based on East Asian investments in export-led industrialization throughout the region since the endaka (yen appreciation), and his political success against his opponents have probably encouraged and also helped him to consolidate and deepen the new policy direction. This is clear from his February 1991 inaugural speech to the Malaysian Business Council — entitled 'The Way Forward' — to achieve 'developed country' status by the year 2020 as well as subsequent documents including the *Privatisation Masterplan*, the *Second Outline Perspective Plan, 1991-2000*, and the *Sixth Malaysia Plan, 1991–1995*. Vision 2020 incorporates all the uncontroversial desiderata of the NEP and the Rukunegara, while adding a couple more — a caring society and environmental concern — in keeping with the times. However, it's main appeal lies in its espousal of rapid growth, modernization and industrialization, in an apparent reversal of the single-minded inter-ethnic redistributive emphasis of the NEP. The study of political economy helps us to critically understand the development making policy process, particularly the complex dialectics of efficiency and equity, private and public domains, the market and the state.

CLASS

States seem to enjoy varying degrees of autonomy from the dominant class, which would preclude a simple instrumentalist view of the state (Miliband 1969; Hua 1983). This does not mean, however, that societal forces, including class and class fractional interests, have not influenced and constrained the state. In the absence of a strong bourgeoisie, or capitalist class, many post-colonial states have been led by Kaleckian 'intermediate regimes', dominated by petty bourgeoisies — or middle classes —of white collar professionals and small businessmen inclined to be populist, nationalist and hostile to foreign capital. In Malaysia, the post-colonial dominance of the state by the Malay petty bourgeoisie has also involved a hostility to the ubiquitous and generally ascendant Chinese Malaysian capital.

The role of the educated petty bourgeoisie in leading the populist, nationalist masses in most struggles for national independence ensured their pre-eminence in post-colonial intermediate regimes. The limited educational opportunities under colonialism further ensured the capture of the state apparatus after independence by the educated petty bourgeoisie because of the dearth of 'qualified' personnel. One does not have to view them as the vanguard of a petty bourgeoisie aspiring to become a state bourgeoisie, or even as the instrument of an ascendant nascent bourgeoisie. Leading elements among them may well have been influenced by Western social democratic and economic nationalist ideologies, and may also have been disdainful or suspicious of their own business communities and foreign investment for a variety of reasons.

In Malaysia, ethnic political mobilization exacerbated economic and cultural suspicions to fuel such sentiments among the dominant Malay petty bourgeoisie which inherited the state machinery and gained political ascendance in the ethnically gerrymandered political system that emerged with independence. Furthermore, for many who desired the emergence of a 'Bumiputera commercial and industrial community' with the NEP, public sector expansion was to be a temporary phenomenon until private Malay accumulation could take over.

Nevertheless, with the accumulation of considerable assets in the public sector, supported by politicians, managers and other interested parties, it was generally assumed that such resources would be retained for disposal by the Malay-dominated state. Hence, it has been argued, the state sector was considered 'safe' as long as economic performance was acceptable since there were no serious class or other systemic elements threatening it. And in so far as the public sector was considered self-perpetuating, there has been concern for sustainability, which is not however tantamount to a strategy for class self-preservation.

It can be argued that the presumption of the existence of a state bourgeoisie is problematic because there is little evidence of a strategy for class reproduction and defence of class interests. Instead, so-called state bourgeoisies are characterized by mobility since their wealth and power are not personally owned and therefore not inter-generationally transferable. But class privileges derived from political power or influence can certainly be retained and enlarged by appropriating percuniary benefits and other advantages through official means of resource allocation. However, in so far as members of the state bourgeoisie cannot really retain their privileges inter-generationally, they do not seek to reproduce themselves as a class.

This is different from personally retaining class privileges for the duration of one's tenure, which may ensure inertia and thus, the long term preservation of privilege. Hence, while seeking to preserve personal privilege — which may also ensure longer term preservation of such privilege — the state bourgeoisie is generally also committed to capturing resources which may be deployed for the inter-generational transfer of privilege and advantage, e.g. scholarships for children and other family members to privately appropriate resources for the personal accumulation of 'human capital'.

The ruling petty bourgeoisie tends to use the state and public enterprise to promote its own (class) interests, including personal wealth accumulation, thus qualifying as a statist — rather than state — bourgeoisie (Jomo 1986). In this view then, there is no real antagonism between the public and private sectors. Thus, since the state is also committed to create conditions suitable for indigenous private capital accumulation, its subsequent disengagement from direct intervention, with the diminution of the public enterprise sector, may be desired for the further development of the politically dominant indigenous petty bourgeoisie, rather than be perceived as inimical to its interests.

Hence, the recent international pressures for and trend towards privatization, encouraged by various multilateral institutions, may actually serve as a windfall, accelerating a process desired by such petty bourgeoisies desiring to transform themselves into bourgeoisies, albeit of a rentier, rather than of an entrepreneurial type. Thus, while a state bourgeoisie — which identifies its interests entirely with the fate of the public sector — may be threatened by changes undermining state power and prerogatives, a statist bourgeoisie or petty bourgeoisie, who uses the state for ultimately private wealth accumulation, is quite capable of using state policy changes, including privatization, to its own advantage.

It has been suggested that this process of economic liberalization has been sustained by the failure of state intervention — rather than by evolving class interests — since the petty bourgeoisie does not really need public enterprise to further its interests and the state is not more far-sighted than the private actors in whose name it rules. However, this suggestion is flawed as such clairvoyance need not be ascribed to the state for a class perspective to be valid. The suggestion also contradicts many of the class-inspired critiques which emphasize the short-termism of public institutions and the often counter-productive nature of state interventions for private accumulation. There are states and there are states. Just because some states cannot or fail to develop real private sectors does not mean that all states are institutionally incapable of doing so.

Undoubtedly, the problems of state intervention, particularly for personal accumulation by the ambitious ruling petty bourgeoisie, have been very considerable. This has encourage the shift favouring more private accumulation. However, the earlier reliance on state intervention can be seen in the context of the need for state legitimation of, and resource mobilization for accelerated capital accumulation, best achieved through public sector expansion. Consequently, the blatant private appropriation of public assets and state resources would delegitimize the intermediate regime and its populist, nationalist pretensions, reducing it to a predatory state. Hence, mimicry of market mechanisms, e.g. privatization, and subsequent asset exchange and transformation become important options for legitimizing and protecting the conversion of public into private wealth. The development of such mechanisms may, in certain circumstances, actually serve to reduce some kinds of rent-seeking or corruption, but does not alter the fact of rent appropriation or capture by the politically influential.

In theory, for example, contracting out government services is supposed to inject all the virtues of the market — competition, innovation and flexibility — into the public domain, but in practice, when too many public services are contracted out, there are just not enough public officials and just too little sense of public service to ensure accountability, efficiency and honesty in a system dominated by providers, and not the citizens whose interests have been invoked. Thus, government by contract combines the inefficiencies of the public sector with the worse aspects of the private sector.

THE STATE

State intervention has been reflected in various plans, regulatory efforts, tariffs and other trade restrictions, substantial control of the financial sector as well as other efforts to restrict or bypass private — foreign and especially Chinese Malaysian — enterprise. However, many of these efforts have actually been contradictory and even counter-productive, reflecting their different motives and multiple objectives, as well as personal interests, poor conceptualization and implementation. Nevertheless, the political organization and administrative competence of a government have been suggested as the decidedly most important explanatory variables of differing economic performance over the last two centuries (Reynolds 1986). For the Northeast Asian late industrializing economies of Japan, South Korea and Taiwan, it has been suggested that 'embedded autonomy' — in which politicians reign, but technocrats rule (Johnson, 1982), where government organs are relatively insulated from societal pressures — has been central.

Implicit in competing perspectives are different views of the state. An old divide has been between those who see the state as primarily the instrument of particular social interests and those who emphasize that the state is largely autonomous of such interests. These approaches have different implications for the presumed logic of state actions, with implications for the role, determinants, nature, scope, degree and beneficiaries of state intervention.

The now much criticized benevolent perspective of the state — implicit in much thinking supportive of planning, public enterprise and other state intervention — is that the state is peopled by altruistic, competent and far-sighted individuals who would mobilize and deploy scarce economic resources as well as conceptualize and implement policies to achieve sustained growth and general welfare improvements.

One crucial problem, of course, is the assumption of the continued existence of selfless, altruistic, devoted and enlightened public officials who resist opportunities to abuse the powers derived from their control over state intervention and the public sector. Another problem has been the inability to efficiently — and equitably — conceive of and implement strategies and modes of state intervention and public sector growth.

The malevolent ('predatory') view — recently popularized by public choice theory, the new political economy and some varieties of the new institutionalism — regards the state as essentially a collection ('mafia') of self-interested individuals primarily concerned with extracting rents in the form of economic resources. To legitimize such resource extraction ('plunder', 'looting'), the state is obliged to perpetuate certain myths about its *raison d'etre* and actions.

The autonomous-malevolent view then argues that the cumulative strength of powerful extensive state machineries will eventually result in the abuse of the public interest, with the state exploiting its powers to extract more resources from the disorganized public while rewarding organized interest groups — 'distributive coalitions' (Olson 1982) — allied to the state's executive leadership. Property rights and entitlements are then designed to maximize the power and wealth of powerful individuals and interest groups, and to reward the faithful for their loyalty and support. The predatory view of the state and state intervention, almost by definition, implies short-termism in natural resource extraction, with its obvious negative implications for resource conservation and ecological balance.

What then is the relationship between state intervention and economic inefficiency? Directly unproductive profit-seeking (DUP) involves pursuing opportunities for profit without enhancing the productive forces of the economy. Most microeconomic analysis of this phenomenon has focussed on the role of the government in creating such opportunities through regulation of economic activity, though there is no analytical reason why such analysis of directly unproductive profit-seeking cannot be extended to 'distortions' due to unequal access to information, differential transaction costs or even poor operation and regulation of markets such as the stock exchange. The dominance of the (unproductive) financial sector in the less regulated Anglo-American capitalist systems, with its consequent domination over manufacturing, contrasts with the subordination of finance to industry in the judiciously more regulated Japanese and German economies. Similarly, there is little reason to presume that deregulation in Malaysia would ensure that investible funds would be more attracted to industry or agriculture, rather than finance, real property or construction, as has been the case (Tan 1993).

However, the rentier nature or origins of income does not mean that such income will necessarily be subsequently deployed unproductively. Scale economies or other considerations may well determine that a perfectively competitive situation will be sub-optimal, in which case the question arises of how best to distribute or allocate such rents. Rather than insist on competition in such circumstances in a vain search for efficiency, which would effectively dissipate the rent through the expenditure of rent seeking costs, the state could instead allocate such rents in such a manner so as to accelerate and direct the capital accumulation process, e.g. in favour of industrialization. Hence, for instance, 'effective protection conditional on export promotion' policies have been used in Northeast Asia to push import-substituting industries to export through the use of conditional incentives. It is not the existence of rents in themselves which should always be the focus of concern, but rather their distribution or allocation and deployment for productive purposes. In many circumstances, the existence or attraction of rent capture may well be the most effective incentive to encourage productive investment or economic activity, e.g. technology development.

Rent-seeking behaviour is therefore a subset of the broader analytical concept of directly unproductive profit-seeking, involving all types of rents and not merely those due to state intervention. Hence, state ownership of natural monopolies or natural resources may actually pre-empt, rather than encourage rent-seeking behaviour in such instances. Nevertheless, most recent analytical attention has focussed on rents attributed to state intervention, with economic resources expended to gain privileges due to public policy, e.g. licences, permits, tariffs, discounted credit, etc.. If such bidding is fully competitive, the gains from privilege should be totally off-set by bidding expenses, with no net gain to the economy. Interventionist states are therefore presumed to have a tendency to encourage rent-seeking. The best entrepreneurial and managerial talent, as well as the economic resources they are in a position to mobilize and deploy, may thus be diverted from directly productive activities in pursuit of rents. And after rent-seekers have secured their privileged claims to rents, they are likely to resist efforts to dismantle the regulations creating them.

State agencies tend to pursue their own typically expansionist interests, even at the expense of other state agencies, with state economic planners mediating among various lobbies. Since they tend to be mobile within the state machinery and move among different agencies, managers of public resources tend to favour current to future spending, 'front-loaded' over gradually staggered expenditure programmes, capital-intensive over labour-intensive projects, and short-term planning horizons.

In most societies, classes or class fractions lack sufficient economic and political strength and coherence to completely subordinate the state to their own interests. Hence, states generally enjoy considerable autonomy. The concentration of powers and discretion in the hands of the political executive — at the expense of the bureaucracy, the legislature, the judiciary and the constitutional monarchs — would enhance the significance of this autonomy in operational terms, enabling the executive to make bold initiatives without seeking prior endorsement or support even within the state, let alone society at large.

However, state autonomy, in itself, is no guarantee of economic progress. The principal-agent relationship may be structured in such a manner as to effectively undermine, rather than enhance public enterprise performance. Public enterprise board members are often politicians, political appointees or government officers with varying, though generally limited knowledge and understanding of the enterprise. While nominally representing the owner (the government), they have no personal stake in enterprise performance or profitability. Many may be inspired by a sort of bureaucratic imperative to demonstrate their powers by trying to show that they can exercise control. Enterprise managers may therefore see the government's representatives as interfering, or worse. Views expressed by the owner's representatives are often perceived by others as reflecting political decisions made elsewhere for reasons unconnected to the enterprise.

Yet, with the room for fiscal manoeuvre offered by

Malaysia's rich natural resources, relatively small population and revenue base, wastage and plunder of — not by — the state has been broadly tolerated by an ethnically fragmented population with fundamentally different perceptions of the state. Especially since the NEP, much of the Malay population has been persuaded to believe that they have received enough by way of official patronage in the form of ethnic privilege to secure their political loyalty. Meanwhile, the partially disenfranchised non-Malays — in a heavily gerrymandered electoral system offering few political rights to and opportunities for public dissent — have gained enough from the generally rapidly growing economy, while retaining limited civil liberties (schooling, language, religion, culture, etc.), as well as the options of exit (emigration) and restricted voice (elections, media, etc.) to find the situation — including the state — tolerable.

Many Malaysian politicians and civil servants initially responded to the challenges of independence and the NEP with some commitment and selflessness. Over time, however, policy inertia and drift as well as self-aggrandizing behaviour seems to have set in. But personal predatory behaviour by politicians and bureaucrats do not necessarily add up to a predatory state, in the sense of feeding off and thus, impoverishing a country, its economic resources and human population. However, high levels of resource extraction have been achieved by relatively high tax and savings rates (much of which due to mandatory savings by employees). Since the NEP, increased public expenditure has mainly been achieved through deficit financing — primarily with domestic borrowings, except in the first half of the eighties (Jomo 1990) — implying that state spending has been financed at the expense of future generations.

PROPERTY REGIMES

There is little doubt that in the Malaysian context at least, the legal designation of property does matter. But the key question is not whether it matters, but rather how much it matters. There is little evidence that the change in legal status of former government departments and statutory bodies in Malaysia — as a consequence of corporatization and privatization — has in itself significantly improved enterprise performance. Key enterprise managers are still appointed by the state executive even when the government's ownership share has declined to a small minority. Answering to shareholders, rather than to politicians, does not seem to have had a profound effect on management thus far, perhaps because such large enterprise managements are largely insulated from small shareholders without government influence.

It has been argued that if public enterprises are managed like private assets with hard budget constraints and the possibility of exit in competitive factor markets, there is then no economic advantage in retaining such assets under state control. *Ceterus paribus*, however, it should also be emphasized that there is also no disadvantage in doing so. In so far as public enterprises are generally also set up with redistributive goals, the key challenge is to ensure that this distributional commitment does not compromise enterprise efficiency. Although this distributional role is seldom separated from its economic role in practice, the fact that it can be distinguished in theory raises the possibility of doing this in practice. One major task of public enterprise reform then should be precisely this, i.e. developing operational strategies to ensure that public enterprises' distributional objectives do not subvert their economic efficiency.

It has also been argued that the fact of public ownership generates its own culture — characterized by inefficiency, lethergy and generally poor management — said to be similar across otherwise different systems. The logic of the principal-agent relationship is said to over-ride the significance of culture, class and historical specificity. While this may be true of public enter-prises, it is unclear why this should not also be true of large modern oligopolistic corporations, as Galbraith, Baran and Sweezy and others have observed. In other words, the principal-agent problem is not unique to public enterprises.

Why then is the legal form of the enterprise considered significantly more important as a determinant in this matter? The public enterprise form may well be associated with the principal-agent problem, but surely, the legal form cannot be said to cause or define the problem. If greater accountability can be assured through public enterprise reform, it may well prove to be a superior solution to the principal-agent problem than the mere change of legal form as such, though admittedly, each legal form generally only allows a limited range of options. Admittedly, for example, the consequences of inefficiency, poor management and failure are very different for public and private enterprises, with only the latter facing the threat of exit. Nevertheless, before accepting the need for change in legal form, it first has to be shown why the legal form does not allow the substantive reforms recommended to enhance accountability and efficiency.

Property regimes and rights therefore count, at least in so far as they raise different expectations, and hence criteria for performance evaluation, and owners and managers consequently have to respond to different incentives. Property regimes define the institutional context for transactions, with economic agents having varying degrees of confidence in the rule of law, i.e. that non-arbitrary rules and norms governing such transactions will be observed. While it is presumably the state which enforces the rules embodied in the law, property regimes must also be sustained by widely accepted and hence self-enforcing norms, in order to minimize the transaction costs of monitoring and enforcing contracts.

Conversely, it can also be argued that property regimes, in themselves, do not really matter. Large bureaucracies, both public and private, tend to encourage the blurring and duplication of tasks and responsibilities besides encouraging expenditure. In both situations, neither taxpayer nor small shareholder enjoy effective control, while managements can and do administer self-servingly and inefficiently. Individuals, reluctant to contribute to the costs of monitoring, hope to free-ride the collective benefits of monitoring by others, resulting in no monitoring at all.

It should also be emphasised that economic theory does not suggest that privately owned assets will perform better than state-owned assets in all circumstances. Rather, efficiency is ensured by competition in goods, capital and other markets.

Some public assets may even be more efficiently run than private assets if the government enjoys information advantages about its public enterprises which would not be ensured through mere regulation of private enterprise.

However, recognizing information as a strategic resource, managers and bureaucrats may well withhold information to retain greater power, releasing it only to gain strategic advantages. They may also defraud the government in various ways. Hence, the theoretical information and regulatory advantages between the state and its agents may not be of practical significance.

The significance of the property regime in relation to the principal-agent problem seems to have been underscored by the apparent desire for privatization without changes in management by public enterprise managers themselves, implying that the same managers can run their firms more efficiently simply by virtue of private ownership. But this desire could well simply arise from the perceived opportunities for greater rent capture through privatization by management buy-out (MBO). In Malaysia, for instance, MBOs have involved heavily discounted asset prices to the politically well connected, as in the case of Fima and Peremba just before the 1990 general election (Gomez 1993). Also, this view implies that there are only two simple stark choices, with ownership crucial, whereas there are, in reality, broad spectrums of choice involving different permutations of public and private ownership, control and regulation. In Malaysia, for instance, trade unions in statutory bodies have long advocated greater autonomy and accountability for their managements (see Mustapha Johan and Shamsulbahriah, 1986).

Not all state intervention in markets is, by definition, distorting, and not all distortion is necessarily undesirable in terms of either or both efficiency and equity. Theoretically, there is no reason for public property to be managed inefficiently either. Yet, however, the fact that most public assets are managed inefficiently, and that many interventions by the state cause unintended or undesired consequences has to be dealt with, even though these may be avoidable in theory. Public sector problems attributable to soft budget constraints, poor accountability, lack of competition and 'no exit' are believed to be common to most public enterprises, and desperately need to be addressed, especially by those not ideologically or dogmatically committed to abolishing all state intervention and public enterprises. The alternative is the recently popular conservative market economic agenda reflected in most economic liberalization, structural adjustment and privatization policy packages.

PUBLIC ENTERPRISE

The ideological justifications for Malaysian public enterprise have evolved with the changing nature of the state and the dominant interest groups. Before the fifties, public enterprise — in the form of government departments and agencies as well as statutory bodies — was largely limited to infrastructure and utilities provision. As the counter-insurgency efforts against the communist-led guerrilla war of 'national liberation' shifted from primarily repressive, military methods to 'winning hearts and minds', especially among the Malay peasantry; public enterprises with redistributional objectives were set up in the early and mid-fifties, e.g. RIDA, the Rural Industrial Development Authority, the rubber replanting fund board and FELDA, the Federal Land Development Authority (see Stubbs, 1989; Harper, 1991).

After independence, from the late fifties, other public enterprises were set up to promote new economic activities, especially import-substituting manufacturing, e.g. Malayan Industrial Development Finance (MIDF), Malayan Industrial Estates Limited (MIEL), and the Federal Industrial Development Authority (FIDA), as well as the various state economic development corporations (SEDCs). More public enterprises to promote rural and agricultural development as well as regional development authorities were set up. Also, more public enterprises with an ethnic redistributive agenda were set up from the mid-sixties as political pressure for ethnic redistribution in favour of the Malays mounted, e.g. MARA, Bank Bumiputera, PERNAS.

The momentum of state intervention and sector growth picked up in the seventies as redistributive efforts were sanctioned by the New Economic Policy. Furthermore, windfall oil revenues increased from the mid-seventies into the next decade, enabling the government to meet the Volcker-induced economic recession at the turn of the seventies with increased public spending. This momentum, often simplisticly only associated with the NEP, came to an abrupt halt with the austerity campaign announced soon after the April 1982 general election. However, Mahathir's personal commitment to state promotion of heavy industries sustained the continued growth of certain public enterprises until the mid-eighties, when the worsening fiscal and debt crises forced the government to respond with policy changes. Thus, fiscal pressures, combined with Mahathir's longstanding personal preference for private enterprise (see Mahathir 1976), precipitated the 'great reversal' of the mid-eighties.

INERTIA

It has also been argued that public sectors as a whole cannot be reformed without undermining their 'distributional logic' since the retention of assets under public ownership is a political, rather than an economic decision, although individual enterprises can be made more economically viable. This argument ignores the considerable — and varied — welfare economic arguments for public ownership, e.g. of natural monopolies, by homogenising them and by defining all distributional considerations as normative, and hence political, rather than economic. It also assumes that the condition of the public sector at any point in time is the logical outcome or consequence of state policy or intervention, which in turn simply reflects the unchanging distributional goals or objectives of the policy intervention. Such a view derives from the comparative statics implicit in the underlying neoclassical economic theory assumed, which has very little relationship to the complex dialectical dynamics as well as institutional inertia of political economy in history. Such a static perspective cannot even account for the constantly changing character of public sectors and the possibility of other changes, including those which would facilitate or even encourage greater overall efficiency.

Undoubtedly, many public sector reforms must involve changes at the enterprise level, i.e. the internalization and implementation of broad policy changes, but the very commonalities shared by many public enterprises suggest that broad policy recommendations may be appropriate for the relevant enterprises. And if economic theory does not develop to accommodate such perpectives so crucial for relevant economic analysis, it will necessarily have to be transcended by and give way to meta-economic theory.

In Malaysia, for example, public enterprises have been set up for a variety of different reasons including market failures (e.g. for 'natural monopolies', or due to the long gestation periods required for certain types of investments), collective action problems (e.g. for scale economies in production and marketing, infrastructure provision, export promotion), promotion of particular sectoral or sub-sectoral activity (manufacturing, agriculture, tourism, etc.), ethnic redistribution (e.g. of wealth, employment), and spatial redistribution (including regional or local development and agglomeration economies). While reforms for the public sector as a whole may be limited, there are nonetheless some reforms relevant for the entire sector, just as there are reforms only relevant for particular enterprises. There are also other reforms which, though not relevant for the public sector as a whole, may be relevant for enterprises sharing particular characteristics, which may be described as intermediate-level or meso-economic reforms.

Rational choice theory — which emphasizes revenue maximization, distributional coalitions and rent-seeking — predicts regime-generated change of an incremental, system-sustaining type, tending towards stability within existing arrangements. However, rational choice theory seems to be a poorer predictor of subsequent, deeper and wider policy reforms, e.g. those initiated in both Salinas' Mexico and India under Rao and Manmohan Singh.

Organized interest groups seek and gain rents, eventually acquiring quasi-monopoly status through collusion, which tends to undermine efficiency and incentives (Olson 1982).

Even leaders who come to power with an economic mandate for liberalizing reform have found it hard to give up the considerable powers inherited. For patronage and other purposes, ruling politicians quickly develop strong interests in retaining, if not expanding the public sector. The array of interests which have benefitted from the *status quo ante* may therefore seem so formidable and change therefore so unlikely until we consider the recent collapse of similar alliances in the Soviet Union and Eastern Europe.

In Malaysia, the Ministry of Public Enterprises was established in the seventies to monitor and supervise public enterprise development. There are also other Malaysian government agencies with similar mandates, including the Prime Minister's Department and the Ministry of Finance. However, government officials and public enterprise managers themselves have an interest in maximizing resource flows to the public enterprises. More generally, bureaucrats — who determine the award of contracts and enjoy other discretionary powers liable to abuse in regulatory regimes — are in positions to materially benefit from the powers they enjoy. Together, such elements combine to create a certain expansionary inertia beyond the specific objectives and purposes of particular public enterprises.

Other interests outside the state have also benefitted from the growth of state power including much of the private sector, many of the intelligentsia and perhaps even a significant section of organized labour. In Malaysia, almost all Malay business has either been created by the state, or at least with crucial state support. Import substituting industries enjoy tariffs, tax incentives, supply contracts and various other privileges, while export-oriented industries, especially resource-based industries, benefit from a different set of investment incentives including government credit support, production subsidies, etc.. The substantial banking margins enjoyed by the financial sector, much of the most lucrative business and many of the business opportunities enjoyed by the domestic market-oriented private sector — including import substitution and non-tradeables — are ultimately determined by the state. Although state regulation certainly generates considerable resentment in the private sector, most of this is never public, thus reinforcing the public image of widespread acceptance, even approval. More importantly, rent-seeking costs may be well below the value of state support enjoyed and the actual rents captured, i.e. such costs of 'doing business' may well be considered worthwhile.

After the massive repression against militant unions in Malaya in 1948, public sector workers were among the first who could be unionized under the colonial authorities. Since then, with important exceptions, they have generally been considered more supportive of the state than their private sector counterparts. Especially in the seventies and early eighties, workers in the Malaysian public sector grew rapidly in number and have widely been considered relatively privileged, enjoying remuneration levels and working conditions generally better than their private sector counterparts of comparable productivity, ability and experience. The public sector job and wage freezes since then and clear trends towards increased labour flexibility (e.g. see Standing 1991, Siti Rohani 1993) have significantly reversed earlier trends. However, from the mid-eighties, it appears that while public service employees continue to remain loyal to the government of the day, unions representing statutory bodies have been more independently minded. The government-endorsed Malaysian Labour Organization (MLO) was initiated by the relatively privileged National Union of Bank Employees (NUBE), while its president is also head of the Congress of Unions of Employees of Public and Civil Services (CUEPACS). Meanwhile, the CUEPACS secretary general is bidding to also become secretary general of the Malaysian Trades Union Congress (MTUC) against a more independent and reform-minded coalition led by unions of employees from manufacturing and the statutory bodies.

Like the rest of Malaysian society, the intelligentsia is ethnically segmented, with attitudes towards the role of the state tending to follow ethnic loyalties. Increasing Malay domination of the universities, the media and other spheres of public life has also involved some appropriation of previously multi-ethnic, nationalist, social-democratic and socialist statism and hostility to the private sector. And while an important stream of this discourse has been critical of the state, much of it has accepted statist assumptions, focussing instead on how the state might better intervene.

CHANGE

Through revolutions, coups and elections, regime changes may occur, through which established beneficiaries can be displaced by new interests, who may then use state resources very differently. Alternatively, existing policy may be problematic enough to precipitate economic and political crises, requiring policy reform to retain legitimacy and power. Also external powers, such as powerful and influential foreign regimes or multilateral economic agencies, may be able to exercise sufficient leverage over a regime in order to bring about radical policy reform.

While state institutions may not be mere instruments of class interests, autonomy does not guarantee that they are ahistorically 'rational' maximizers regardless of institutional context. Instead, institutional memory and social context may recommend options which are deemed more appropriate and acceptable.

Earlier statist strategies were generally not imposed from outside, though in many instances, they were inspired by diverse foreign ideas and experiences including Friedrich List, the Meiji Restoration, the Soviet experience, Keynesianism, Roosevelt's New Deal, European social democracy, 'structuralist' development economics and the early planning and import-substitution experiments, especially by intermediate regimes. Statist strategies have not simply been the obvious logical outcome of dominant post-colonial class interests and have had a certain populist and inclusionist appeal, whereas economic liberalization appeals to a narrower, arguably exclusionist social spectrum. In Malaysia, these different constitutiences have critical ethnic dimensions, which makes the dramatic reversal of the mid-eighties all the more remarkable, and the cautious and protracted pace of public enterprise reform quite understandable.

Economic crisis changes the nature of interests resisting reform and allows for strategic breaks. While it is Machiavellian to suggest that the mid-eighties' recession was deliberately exacerbated to create conditions more conducive to reform, it is generally agreed that the unprecedentedly severe (for Malaysia) economic conditions then generated an atmosphere amenable to, and even desirous of radical policy change in the hope of quick recovery. Hence, the timing of some of the most controversial reforms (e.g. those favouring foreign investment) ensured that they met minimal resistance. There is little disagreement, however, that the recent reforms and boom have consolidated support for the Mahathir administration, especially among the previously alienated predominantly Chinese business community, relieved by the increased business opportunities as well as the less arbitrary and dispersed rent payments in the more market-embedded and hence, market-sanctified transactions which have emerged. It might also be suggested that the very market form of these reforms (e.g. privatization, involving the sale of public assets on the stock market) and the limited political resistance to them thus far render them far less susceptible to reversal even if regime change should occur.

While economic liberalization in Malaysia was accelerated by the mid-eighties' economic crisis, in the longer term, it has reduced government spending increases, slowed down the growth of government borrowings, stabilized the foreign debt, deployed more public resources to support private enterprise, encouraged private enterprise, including privatization, and sought to encourage greater public-private sector collaboration.

The Mahathir-Daim economic liberalization strategy has undoubtedly brought about many policy changes favoured by private capital, including:

- reduction of public, especially development expenditure;
- a more streamlined government bureaucracy, more responsive to investment and growth promotion;
- restraint of non-financial public enterprise (NFPE) expansion;
- lower interest rates;

- a depreciated ringgit for export promotion;
- new investment incentives, especially with the Promotion of Investments Act, 1986;
- raising of Industrial Coordination Act (ICA) exemption levels;
- reduced real wage costs, increased unemployment (in the mid-eighties), greater labour flexibility and the availability of cheap migrant labour;
- less emphasis on ethnic redistributional considerations, especially after Mahathir's announcement — during the mid-1980s recession — that NEP requirements had been suspended;
- bureaucratic deregulation;
- privatization of some government enterprises and public projects;
- contracting-out of services, especially at the municipal level.

But there remains a widespread perception that recent government policy changes tend to favour Malay and foreign, rather than domestic non-Malay investors. Although there is little official evidence of such a preference for foreigners in terms of explicit government policies and regulations, this view is widespread, not only among Chinese businessmen, but also among many Malay officials. This is reinforced by a common view that long-term Malay interests are better served by encouraging foreign, rather than domestic Chinese investment.

Also, the reforms thus far have done far less for market and price liberalization as well as other kinds of public enterprise reform. The transition from rapid public sector expansion during the seventies and early eighties to privatization — during the last phase of public enterprise growth for heavy industrialization — was abrupt and not preceded by a phase of failed public enterprise reform, as in some other countries.

As the reforms in Malaysia were staggered over a number of years during the mid-eighties, it is difficult and potentially misleading to attribute causation between the reforms and macroeconomic performance. Supporters of the reforms point to the sustained economic boom since 1987 as evidence of their success. Critics, however, emphasize that the deflationary reforms exacerbated the 1985-6 recession, while the subsequent boom has primarily been due to massive increases in foreign investment from East Asia in most of Southeast Asia and China in the restructuring wake of the 1985 appreciation of the yen and other currencies of the East Asian newly industrializing countries. Some reform supporters would concede the recessionary consequences of public sector contraction, emphasizing these as an unavoidable cost and necessity for the broader restructuring which has taken place.

The voluntarist argument about economic liberalization claims that social and economic structures have retarded and may even obstruct change, but have certainly not determined the course of change, which has been set by heads of governments supported by politically protected 'reform teams'. This argument would find some support in Malaysia, where economic liberalization, especially since the mid-eighties, can hardly be described as a logical or obvious outcome of the preceding growth of state intervention and the public sector under Mahathir's predecessors in the seventies and under Mahathir himself in the early eighties (though only mainly to promote several heavy industries in collaboration with predominantly Japanese partners). To be fair, the counter-cyclical deficit budgets, to over-ride the global recession at the beginning of the eighties, were inherited by Mahathir, and were subsequently abandoned soon after he secured his electoral mandate to rule in the April 1982 elections (see Jomo 1990).

Despite the economic liberalization since the mid-eighties, economic planning and implementation agencies — especially in the Prime Minister's Department (i.e. the Economic Planning Unit and the Implementation and Coordination Unit) — remain powerful, asserting themselves more potently than ever over their reduced turf as the state makes selective concessions to the private sector. To ensure continued political legitimacy — especially among the politically hegemonic Malays — and to retain political dominance, the state continues to be portrayed as the coordinator and supreme arbiter of economic activity in the nation.

With the benefit of hindsight, several observers have pointed out that there has certainly been a certain consistency of thought as far as Mahathir's preference for private enterprise is concerned (e.g. see Mahathir 1976; Khoo 1992). However, while Mahathir — and probably, his then Finance Minister Daim — should be credited with the dramatic policy reversal of the mid-eighties, it is very unlikely that the government could have so successfully created a supportive constituency for the changes among the politically dominant Malay community if not for the successful creation — in the preceding period — of a Malay rentier-business cadre, who were positioned to take advantage of the reforms, which were structured in ways to ensure that they would derive disproportionately greater benefit from them.

It is nonetheless testimony to both Mahathir's commitment as well as the strength of his executive powers that he has been able to overcome resistance to his reforms, both from within the previously very influential and powerful bureaucracy and also from within his ruling party, UMNO. The availability of resource and other rents controlled by the state as well as his own enhanced executive powers have enabled him to reduce such resistance to some of his reform efforts and hence, inevitably, to undermine the entitlements or rent claims of the hegemonic bloc of distributional coalitions, (interest groups) that enabled him to come to and remain in power (Mehmet 1986).

RESISTANCE

The task has been made easier because resistance to reform has been surprisingly weak since beneficiaries and advocates of the policies cannot or will not put up effective, coordinated and coherent resistance. As with other situations encouraging free-riders, rather than directly oppose change and bear the likely considerable costs of doing so, those adversely affected have generally tried to protect and preserve their own privileges while hoping for others to bear the costs of opposing change. It has also been suggested that 'resistance to change' changes with the change sequence itself. During the initial period of mild system-maintaining reform, beneficiaries tend to deny the threat of change, at least as long as they retain access to their privileges and do not feel that they have lost control of the reform process itself. But as the reform process deepens, the ruling coalition fragments unevenly at different moments for apparently different reasons, thus pre-empting the coalescing of coherent, consistent and coordinated resistance until it is too late. Resistance, if and when it does materialize, may not necessarily be due to rear guard actions or sabotage by statist conservatives or others adversely affected by the reforms, but may also be the consequence of contradictions of the economic liberalization policies or the reform process itself.

Certainly then, vested interests have thus far been relatively ineffective in defending their entitlements and in resisting reform because they view it as a collective misfortune and hope that others will bear its costs as well as ensure collective survival while they individually negotiate new deals with the government leadership, as they or their predecessors had negotiated their entitlements in the first place. Since entitlements were originally granted and not won in most instances, they did not develop the organizational strength and resilience as well as experience of struggle and cooperation to better defend their own interests.

In so far as entitlements for the bureaucracy were largely granted by government leaders in need of a cadre to conceptualise and implement policy interventions and manage the expanding public sector, the limitations of bureaucratic resistance can be accounted for. In many cases, incumbent bureaucrats have not experienced a diminution of their formal positions, powers and entitlements, but only of their informal, albeit real status and incomes derived from the discretionary and other powers they once enjoyed more of in a much more bureaucratically regulated environment with less executive hegemony. Hence, they are hardly in a position to publicly complain or explicitly organize resistance on such bases.

Successful politicians, especially from the dominant UMNO, particularly those favoured by the executive, have generally been rewarded — arguably patronized — with various percuniary benefits, usually linked to appointments to and control of ministries, state agencies and public enterprises. Economic liberalization has therefore probably most adversely affected the lower levels of politically-connected Malay businessmen — influential within UMNO primarily at branch level and within Malay business lobbies, and dependent on dispensations from the executive — who have been displaced in favour of a generally younger, more professionally trained and competent managerial cadre answering only to the apex of the political executive and their select group of politically influential, but also somewhat capable and often creative rentier businessmen. While both groups are rentiers, the ascendant group are generally more competent and 'can deliver', whereas even this was often in doubt with many of the former.

Continued regulation and other constraints to competition have ensured the continued existence of political rents, though it is difficult to say whether the magnitude of the rents has changed. However, most observers would agree that there is less wastage and probably greater efficiency at the enterprise level due to greater enterprise autonomy and accountability in recent years. It appears, though, that the concentration of executive powers may have been reflected by a concentration of rents, with less dispersal and arbitrariness in the rent appropriation process. In the hands of a more competent managerial cadre, these surplus rents — i.e. after paying the costs of either ensuring political incumbency and influence, or of trying to gain greater influence to secure an undiminished and, if possible, a greater share of the expanding pie — are more concentrated, and hence more likely to be more effectively deployed to accumulate further rents, thus contributing to more efficient and less wasteful rent accumulation.

Elsewhere in the Third World, the private sector has often been depicted as weak, prone to speculation and profiteering and likely to sell out national interests for personal profit, while state intervention has been deemed necessary to protect the public interests, especially the poor, from private greed, and to undertake what short-termist, incapable, and poorlycapitalized private interests could not until an enlightened, nationalist and far-sighted entrepreneurial community emerged. The only element of this justification frequently heard in Malaysia — though of little relevance in terms of the actual nature of state interventions and public sector expansion — invokes the imagery of the poor Malay (peasant) exploited by the rich Chinese (middleman). Instead, the Malaysian private sector is portrayed as too strong and oblivious of distributional concerns. More rarely, it is portrayed as speculative and short-sighted, but this has almost never been invoked as part of the official rationale for public enterprise. Nor has the issue of foreign collaboration or subordination been emphasized, given the government's own proclivity to encourage or even do the same. The Malaysian authorities have also never claimed that public enterprise expansion was remotely connected to any state socialist initiative. The expansion of public enterprises was always portrayed as the result of state capitalist initiatives for ethnic — rather than class — redistribution purposes. Nevertheless, however, there has been some shift in rhetorical emphasis about public sector priorities, from redistribution — now assumed to be the over-riding objective of state intervention anyway — to profitability, though not cost-effectiveness.

For a long time, the private sector in Malaysia has been portrayed as Chinese-dominated. In fact, however, the commanding heights of the modern corporate sector were foreign, especially British dominated, until the early seventies. The growth of the public sector on behalf of the Malay community during the seventies and the concerted Chinese response to the NEP in the form of greater corporatization (see Gomez, 1991) wrested ownership and control of much of international trade, tin mining and the plantation sector away from foreigners, especially from the mid-seventies until the early eighties. Hence, while most new, especially export-oriented manufacturing and domestically-oriented modern services are controlled by a variety of foreign investors, the extent of their power is grossly understated by official estimates of corporate share ownership. While much of the balance of the generally more profitable 'commanding heights' of the economy (especially finance) appear to be in Malay — including state — hands, most of the rest of the modern corporate sector is probably in Chinese Malaysian hands despite claims to the contrary (see Fong 1989).

Economic liberalization — including greater incentives and other concessions to private, especially foreign investment as well as privatization — is likely to further consolidate this ethnic segmentation of the economy. Despite their varied origins and objectives, the primary justification for state intervention and the public sector since the seventies has been the protection and advancement of Malay economic interests by the Malay-dominated state. Conversely, the argument against greater private sector hegemony through economic liberalization has been ethnic, usually emphasizing the ubiquitous Chinese Malaysian presence, rather than continued foreign domination of the economy, except rather recently, when the influx of new investments from East Asia has focussed attention on the Chinese ethnic affinities of both foreign and Malaysian investors.

It has also been suggested that the formation of a coherent public sector managerial elite, the development of dependent privileged labour organizations as well as enterprise longevity and tradition are likely to result in stronger defence of the public sector and greater as well as more broad-based resistance to reform. In Malaysia, however, although the public sector managerial elite is predominantly Malay, the structuring of the privatization programme to favour Malays, has probably reduced such resistance very considerably. While public sector trade unions and the Congress of Unions of Employees of the Public and Civil Services (CUEPACS) have long been patronized by the government, labour resistance to privatization has been minimized by ensuring that the predominantly Malay, directly employed workers affected by privatization are better off in the short and medium term under the terms of corporatization and privatization. Since corporatization and privatization thus far have mainly involved the profitable public utility monopolies, the employers concerned have been able to afford these conditions, especially with the increases in user charges allowed by the government in conjunction with privatization. Rather surprisingly, despite their long existence, especially compared to other Malaysian public enterprises, longevity does not seem to have significantly enhanced resistance to privatization.

Surprisingly, economic liberalization in Malaysia does not seem to have been considerably slowed down by the parallel political crisis which reached its height during 1986-88. Elsewhere, during the first phase(s) of economic liberalization initiated domestically, the regime tends to seek to achieve change without upsetting the ruling coalition and its allies. Usually, only after being either emboldened by success or compelled by failure in this first phase, the executive moves on to try to reshape its political and hence social base, even reaching out to elements outside the social pact underlying the ruling coalition, e.g. by appealing to consumers (e.g. with anti-inflationary promises), instead of labour. Sustained policy reform therefore depends on breaks and discontinuities. Economic crisis — possibly, but not necessarily due to flawed economic policies and their consequences — may provide such a break as self-interested, incumbent regimes are thus forced to try to change the (explicit or implicit) coalitional basis of their power.

Yet, if the leadership becomes alarmed by the nature or pace of change, or its consequences, it may still abandon the entire process. On the other hand, successful reform may well precipitate further reform with its own momentum. In Malaysia, however, the reform process has been so closely identified with Prime Minister Mahathir and former (1984–91) Finance Minister Daim that the future of the reform process after Mahathir is in grave doubt. While some of the reforms are virtually irreversible (e.g. the sale of public assets on the stock exchange) and others are unlikely to be reversed by his successor (e.g. the end of the soft budget constraints for public enterprises in general), all his likely successors on the horizon seem committed to different populist agendas involving varying statist reforms. While it might be suggested that all aspirants to government leadership in the Malaysian context are obliged to espouse populist rhetoric, especially in light of Malay political culture and economic history, there are good reasons to believe — judging from their political careers — that their populist positions, albeit varied, are nonetheless sincerely held.

CORPORATISM AND NATIONALISM

Despite — or rather, precisely because of — Malaysia's ethnic, religious, cultural, regional and other differences, as well as the nature of Malaysia's decolonization and formation, it has been argued that a progressive nationalist — as opposed to ethno-populist as well as neo-colonial globalist — project (Jomo 1989) is urgently required in Malaysia. However, for the nationalist agenda to be viable in this day and age, it will need to be accompanied by a broadly inclusionist corporatist project. Thus far, however, it has been 'ethno-populism' — promoted by the ethnically based dominant parties of the ruling coalition — which has thrived on ethnic corporatism, which is inimical to and under-mines national corporatism.

A feeble attempt at tripartism — involving government, employers and organized labour — in the first half of the seventies died with Malaysia's supposedly Fabian-influenced second Prime Minister, Tun Abdul Razak Hussein. More recently, since the early eighties, Mahathir has been associated with two different variants of corporatism. On the one hand, he has promoted company-level corporatism, particularly by encouraging in-house or company unions. More importantly, on the other hand, he has been associated with the 'Malaysia Incorporated' concept, popularly understood as an attempt to improve government-business relations, i.e. between the public and private sectors. But neither initiative can be regarded as a truly national corporatist project seeking to involve major segments of the population.

Mahathir's 'Malaysia Incorporated' concept can be interpreted to imply recognition that Japanese, and even NIC economic success, has been due to successful and effective "market-augmenting" state intervention and public sector expansion, rather than the apparently "market-negating" policies said to characterize Malaysian government policy, or the naive submission to market forces, advocated by free market conservatives. However, this is not the official, or even commonly understood interpretation in Malaysia. Instead, espousal of the concept implies recognition of existing problems between the Malay-dominated government and the predominantly Chinese domestic private sector, exacerbated by the NEP and the desire to urgently overcome them in the interest of greater economic growth and dynamism.

Despite official espousal of the 'Malaysia Incorporated' slogan, the emphasis given to selected facets of Japanese corporate culture, particularly industrial relations, has been biased, to say the least. Unlike Japanese employees, Malaysian workers in the private sector — including Japanese controlled firms — have never been assured of job security, let alone life-long employment. While job remuneration tends to reward seniority, wage levels, increments and other percuniary benefits have rarely been enough to secure loyalty from most workers. Various amendments to the labour laws over the years have mainly been at the expense of workers. To this day, there is no minimum wage. Workers have little opportunity to participate in decision-making, let alone control their working lives. Relatively few workers in the modern manufacturing and private services sector are unionized, and the trend has been towards casualization of work, rather than job security, despite generally declining unemployment and increasingly tight labour market conditions. With rising unemployment through the mid-eighties, real wage levels were depressed until the late eighties. Since then, labour shortages — especially of skilled workers — have driven wages up, though officially sanctioned employment of foreign labour continues to serve as a depressant. In such circumstances, it is not surprising that worker loyalty and commitment have been difficult to secure.

Most Chinese Malaysian businessmen do not even dream of government support for their business activities, and hence, espouse a 'second best' preference for minimal government interference, which translates ideologically into support for the free market conservatives. Not surprisingly in these circumstances, there is little evidence, even among the relatively more dynamic Chinese entrepreneurs, of a Malaysian nationalist economic project capable of emulating Taiwan, South Korea or Japan, with the state playing a crucial role in supporting, and sometimes even leading nationalist indus-trialization. Such a possibility is generally considered so far-fetched and inconceivable by most Chinese Malaysian businessmen after years of experience in Malaysia, especially under the NEP, that they would be quite happy if only the government gets and stays out of their way.

However, it is precisely such collaboration which is necessary if Malaysia is going to accelerate and consolidate late industrialization under national auspices, i.e. with its own industrial dynamism, rather than riding on the unreliable backs of transnational corporations investing in the country. After all, in terms of simple national income growth criteria, Malaysia had already crossed the threshold of US$2,000 per capita in 1984. Growth performance since 1987 has been even more impressive. However, growth has long been heavily based on the successful export of raw materials, including some non-renewable natural resources, and a limited range of manufactured items. Domestic industrial linkages have apparently improved since the late eighties mainly due to relatively lower production costs in Malaysia. Recent economic and technological changes have made it attractive for foreign firms to locate more production processes in Malaysia and to source more input supplies from local ancillary firms, often on a just-in-time (JIT) basis, to minimize inventory costs and risks. Many of these parts suppliers are foreign small and medium industries which have relocated in Malaysia.

Unlike Japan, South Korea, Taiwan, and even Hong Kong, Malaysian industrialization has been heavily dependent on foreign capital and technology. And unlike Japan, South Korea, Taiwan and Singapore, the state has only played a supportive, rather than a leading role in Malaysian industrialization. A great deal more needs to be done to develop the sources of industrial dynamism in Malaysia, and this can only be achieved through collaboration between the state and genuine Malaysian industrial entrepreneurs from the domestic private sector in the interest of industrialization under genuine national auspices.

However, corporatism for economic nationalism cannot simply be limited to relations between the public and private sectors, or more specifically, to resubordinate bureaucrats to the behests of private business. Rather, it has to be more broadly populist in conception. Hence, Malaysian economic nationalism must be truly corporatist, securing the crucial support, participation and commitment of organized labour, especially industrial workers.

To achieve this, the state cannot blatantly side with management against labour, as it currently does, ostensibly to lower production costs in the interest of international competitiveness. Rather, it should build on the nascent tripartism espoused, albeit weakly, during the Razak era and embodied in the Code for Industrial Harmony, e.g. by democratizing and strengthening, not weakening, the role of the tripartite National Labour Advisory Council (NLAC). In this connection, it is important to recognize the differences between industrial relations in South Korea and Japan, with the former more blatantly repressive ('bloody Taylorism'), while the latter has been corporatist at the company level, thus ensuring competitive advantage at the workplace (Lazonick 1991). A third alternative for serious consideration is the 'social corporatism' of the Scandinavian social democracies and Central Europe, especially Germany's 'social market' — arguably the most progressive form of Fordism ('mass production, mass consumpiton') sustaining the post-war 'Golden Age'.

To put it bluntly then, there are two choices. Firstly, to rely on continued export-led growth on the basis of repression of cheap labour ('bloody Taylorism'), or secondly, to develop the domestic market as well, by ensuring more egalitarian income and wealth distribution as well as consumption patterns linked to rising productivity, resulting in improved general living standards. The deepening of the domestic market would, for example, encourage consumer electronics and other industries oriented towards the domestic market. With the development of genuine Malaysian entrepreneurship and technological capacity, Malaysia would continue to industrialize and effectively compete internationally with less reliance upon and vulnerability to transnational corporations and international markets.

The Malaysian authorities should not continue to depress wage levels by encouraging or allowing the virtually unregulated inflow of immigrant labour, job insecurity and increased labour flexibility to undermine the bargaining position of workers, especially unskilled and lowly skilled labour. With a well-trained, highly productive and adaptable labour force, Malaysia can progress more rapidly with its relatively small population, boosted by the natural resource abundance we have been blessed with.

Recent renewed interest in the implementation of the 'Malaysia Incorporated' concept as part of Mahathir's Vision 2020 provides a rare opportunity to re-examine and broaden the concept itself to make it more meaningful, balanced and broadly desirable in the pursuit of national unity, rather than to try to move the nation forward solely on the basis of improved public-private sector relations. A broader-based nationalist economic strategy — involving labour and the peasantry more fully in national development efforts — is clearly necessary. Such participation will only be forthcoming if better deals are offered to these two large productive, but disadvantaged groups. Tripartism and generally improved conditions for workers, would go a long way in securing labour support for a nationalist development strategy. Similarly, a comprehensive, progressive agrarian reform would not only raise agricultural productivity, but would also incorporate the peasantry more fully and equitably into the national development process. Such a nationalist vision of development is not only necessary to achieve continued and sustainable progress in the late twentieth century, but would also go a long way towards improving ethnic relations, and hence, the security and stability of the nation.

To return to the themes with which we began this discussion, a useful analogy may well be the traffic situation. As we all know, growth in traffic volume does not, in and of itself, imply a general improvement in human welfare; some would, in fact, argue quite the contrary in certain circumstances. Now imagine the chaos which would reign if the state did not intervene to provide the institutional framework for traffic through provision of relevant infrastructure and by setting traffic regulations. As the prisoners' dilemma in game theory teaches us, individualistic actions in the market are not always the best means for resolving collective action problems. As the Malaysian traffic authorities have discovered, appealing to society's best interests to promote car pooling does not overcome the free-rider problem of those who only want others to sacrifice in the community's and their own interests. Also, demonstrating the superiority of an optimal situation in comparative static terms does not adequately recognize and address problems of how to get there, just as it fails to recognize the nature of the market as a process.

There are also philosophical and practical problems with the market conservatives' utopia and view of humanity. *Homo sapiens* is not *homo economicus*, notwithstanding what many economists might like to believe. (In June 1993, *The Economist* reported that academic economists have a greater tendency than other academics to believe their own — worst — assumptions about human behaviour, and consequently, to act more selfishly, greedily and individualistically than others). People have various social commitments, family ties, religious convictions, ethnic loyalties, patriotic sentiments, psychological needs and moral beliefs, most of which contradict textbook assumptions about *homo economicus*. Some things are not supposed to be bought and sold — e.g. votes, love, etc. — although the existence of money politics and prostitution may be cited as evidence to the contrary. But the very fact that these offend our moral sensibilities and proclaimed public values suggests that society values things not only for their exchange value. Hence, there is a perpetual tension between the two incompatible principles of one-person-one-vote, promised by political democracy, equality and justice, and of one-ringgit-one vote, as suggested by market power and consumer sovereignty. Fortunately, human society, bolstered by universal civic — not market — values, has resisted the market's tendency towards social Darwinism. Hence, for example, most of us believe that all children have a right to education and all people have a right to medical care regardless of their ability to pay. Dogmatic total rejection of the market — which Hayek termed the fatal conceit — failed to recognize the virtue of the market as an information economizer. Conversely, Chakravarthy reminds us that the market can be a wonderful servant, but a terrible master. The market needs a place, but also needs to be kept in place. We are not mere consumers, but also producers and, most importantly, citizens. In other words, to pursue the traffic analogy further, the way forward for Malaysia requires a left turn.

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