

Race in Malaysia

Failing to spread the wealth

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The world's most notorious system of positive discrimination has had only limited success, and hardly any recently. What, if anything, should replace it?

SHOULD Malays, Malaysia's largest ethnic group, receive more special privileges, or fewer? That, in a nutshell, was the focus of debate during the country's recently concluded round of political party conferences. The youth wing of the United Malays National Organisation (UMNO), the ruling, Malay-based party, called for a revival of the spirit of the New Economic Policy (NEP), which first ushered in affirmative action for Malays in 1970. The prime minister and leader of the party, Abdullah Badawi, agreed that the NEP needed fixing, as it had imbued Malays not with the intended spirit of entrepreneurialism, but with an unfortunate proclivity for rent-seeking. But many Malaysians, both Malay and non-Malay, wonder whether the NEP is needed at all.

In Malaysia, as in many South-East Asian countries, the Chinese minority traditionally controlled the lion's share of the economy, while Malays worked as farmers or fishermen. In 1969, resentment at this situation helped to fuel a convulsive bout of race riots. The government of the day (also led by UMNO) settled on affirmative action as a means to defuse racial tensions. Most jobs in the bureaucracy were reserved for Malays, as were the majority of government contracts. Quotas were set for university admissions, allowing Malays to win places ahead of better qualified Chinese and Indians. Companies were supposed to place at least 30% of their

shares in Malay hands. Developers were required to sell a certain proportion of housing and commercial property to Malays, often at a discount—and so on and on.

By some reckonings, the NEP has been a success. For one thing, there have been no more race riots in Malaysia, unlike neighbouring Indonesia, which witnessed anti-Chinese pogroms as recently as 1998. What is more, Malaysia has prospered since its adoption, unlike countries with more heavy-handed redistributive policies. The Malay professional class has grown rapidly from a negligible base: over 30% of lawyers and almost 40% of doctors are now Malay. So, for a time, did the ranks of Malay businessmen: between 1970 and 1990, the Malay share of Malaysian firms rose from 2.4% of equity to 19.3%.

Since 1990, however, the Malay share of equity has stagnated at around 20%, despite all manner of government incentives to raise it (see chart). Blame lies partly with the Asian crisis of 1997, which put a greater share of equity in foreign hands. The rent-seeking prime minister complained of also plays a part: Malays snap up the shares reserved for them in initial public offerings, for example, and then sell them on at a profit. Perhaps the biggest failing of the scheme, however, is the culture of cronyism it has engendered. Earlier this year, when the authorities revealed the list of Malays granted valuable permits to import foreign cars, the main beneficiaries turned

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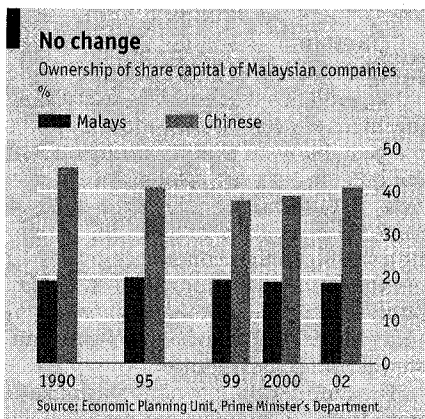
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out not to be struggling Malay entrepreneurs, but former officials at the Ministry of Trade. By the same token, the government of Mahathir Mohamad, the previous prime minister, built up a coterie of Malay tycoons through lucrative concessions, only to see many of them go spectacularly bust during the Asian crisis.

No wonder, then, that disenchantment with affirmative action has grown among Malaysians of all stripes. The NEP, after all, was originally billed as a temporary measure. But when it expired in 1990, it was renamed, but hardly changed. In recent years, Indians have supplanted Malays as Malaysia's most disadvantaged ethnic group, but do not enjoy the same privileges. Poorer Malays, meanwhile, are frustrated with the slim returns from a policy adopted in their name.

Many UMNO members argue that the system of racial preferences only needs a little fine-tuning. They point out that the government is already placing less emphasis on creating Malay captains of industry, and more on promoting professional Malay managers. State-owned enterprises are also trying to foster competition among ▶▶



► Malay firms, by forcing them to compete with one another for contracts instead of clinching them in back-room deals. Other mooted reforms include placing greater emphasis on helping poor Malays specifically and drawing up government contracts in a way that prevents sub-contracting to non-Malay firms.

But a surprising number of Malays, as well as Chinese and Indians, argue that racial preferences should be abolished altogether. In line with western critics of affirmative action, they contend that the NEP has fostered a culture of dependency, and so undermined its supposed purpose of Malay advancement. Non-Malays who are forced to study abroad for lack of university places at home actually get a better education, and feel more of an obligation to make the most of their opportunities.

Anwar Ibrahim, a former deputy prime minister and now a leading opposition figure, argues that all forms of affirmative action should be abolished. Nik Aziz Nik Mat, the leader of Malaysia's biggest Islamic party, agrees: Islam, he explains, frowns on racial distinctions. Even Dr Mahathir, once a fierce proponent of affirmative action, argues that his fellow Malays are becoming too accustomed to leg-ups and hand-outs. Towards the end of his tenure, he abolished the quota system for university places. The results were mixed: the proportion of Malay students rose somewhat overall, but it fell in the most competitive courses, including law and medicine. That drop, in turn, led many UMNO members to demand that quotas be reinstated, and prompted some wags to ask whether it was really the party itself that had become politically dependent on the system of racial preferences. ■