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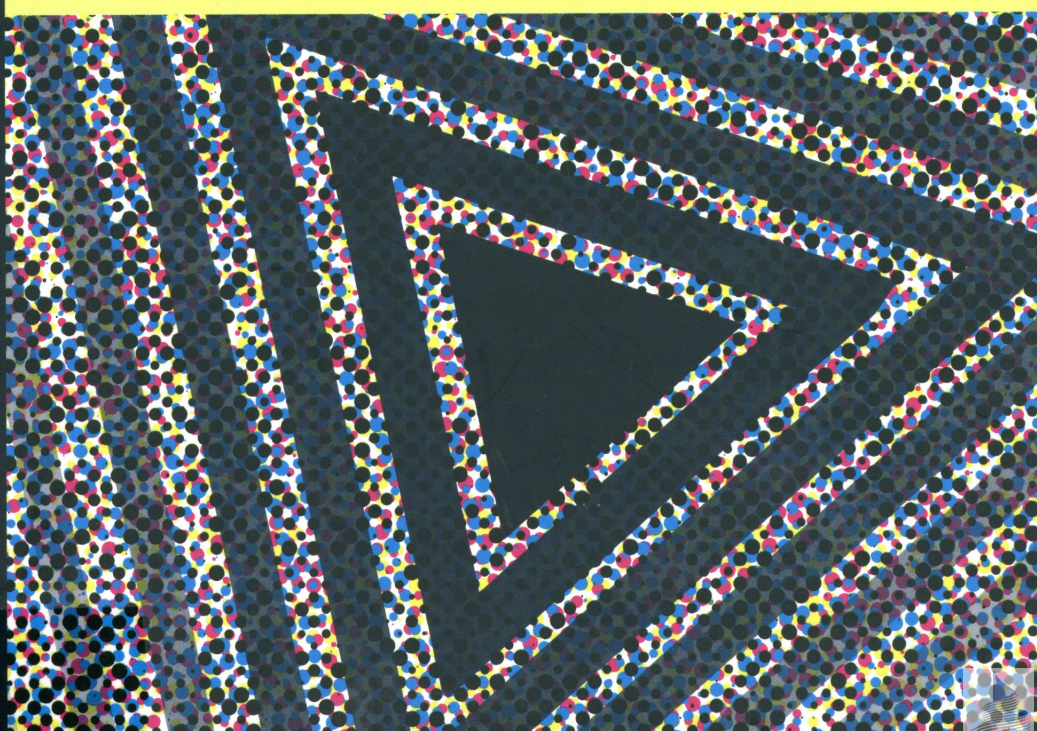
in Its First Decade

The Role of the State in Economic Development, 1971——1980



TOH KIN WOON

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Malaysia's New Economic Policy in Its First Decade

The Role of the State in Economic Development, 1971-1980

Toh Kin Woon

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Foreword

The Legacy of Tun Razak's New Economic Policy

Jomo Kwame Sundaram

It has been a privilege to have worked with Dr Toh Kin Woon since the mid-1970s. When I first moved to work at Universiti Kebangsaan Malaysia (UKM) in early 1977, where Toh was then a department head, his reputation preceded him, as did those of his colleagues Ishak Shari and Halim Ali. I was keen to work in a Malay-medium university connected to the nation's heartland, unlike the older and more prestigious English-medium institutions. Later, after Toh stepped down as department head, he and Ishak turned their attention to begin work on their doctoral theses. Yet, despite this demand on their time, they remained intellectually committed outside of academia. It was an honour to work with them as some other friends and I began publishing a bilingual monthly magazine, *Nadi Insan*, on Malaysian economic, social, cultural and political developments. That they finished their theses in good time, despite the many other demands that we imposed on them, testifies to their diligence and commitment. Ishak went on to publish two major books based on his thesis, but I failed miserably to persuade Kin Woon to revise his work for publication. More than four decades later, I am honoured to write this foreword with the benefit of considerable hindsight.

One may be tempted to dismiss the publication of a decades-old doctoral thesis as an exercise in vanity publishing. However, I believe that this volume represents far more than that. It is an almost

contemporaneous account of how the New Economic Policy (NEP) was critically understood and implemented during its crucial first decade. This was a time in which the work of defining and interpreting the NEP was still evolving and remained contested, and when the political and intellectual climate differed greatly from subsequent decades.

The results of the NEP's first decade may well be seen as the legacy of Malaysia's reformist second prime minister, Tun Abdul Razak Hussein. In UMNO, he had been, from the early fifties, a loyal younger deputy to Tunku Abdul Rahman, and became Deputy Prime Minister later in that decade. Trained in the law in London, he was also influenced by other political currents of the time. While undoubtedly an activist in London, he arrived there after the war as a young adult who had lived through the Japanese Occupation. His lineage was of the Pahang 'aristocracy', sections of which had challenged the sultan's centralisation of power under the British Resident's patronage and protection. The most notable episode was the 1895 Pahang revolt led by Datuk Bahaman, recently memorialised in the public's imagination by the popular film *Mat Kilau*. The film offered, however, an ethno-populist caricature of a richly nuanced history, best exemplified by Jang Aisjah Muttalib's account over half a century ago.

With Tunku widely believed to be 'out of touch' with public opinion, especially among the largely impoverished rural Malay masses, Razak was seen to gently, but nonetheless decisively, nudge out his erstwhile leader following the May 1969 general elections. With the transition protracted, but largely secured, Razak formally succeeded Tunku as Prime Minister in 1971. Soon after, he announced a wide-ranging set of reforms in economic development, social security and cultural policies, moving the country from a 'neo-colonial' to a more 'post-colonial' regime, fraught with the many contradictions that such a transition entails.

Many might note, quite correctly, that Razak passed away in London in January 1976. A power struggle ensued, with many of Razak's 'kitchen cabinet' – who arguably favoured a more nationalist economic policy and progressive domestic and foreign policies – targeted. Some Razak boys were arrested without trial or expelled from the Prime Minister's

Office, if not the country, by former Razak associates and some of the party's old guard who resented their influence. Internationally, it is now acknowledged that Singapore Prime Minister Lee Kuan Yew had a hand in the purge, targeting his long-time antagonist from Singapore, the wily A. Samad Ismail.

While many in Razak's immediate circle were thus eliminated politically, the new prime minister Hussein Onn remained loyal to Razak's policy legacy, trying to implement the largely prepared *Third Malaysia Plan, 1976-1980*. With additional revenue from new oil and gas discoveries at a time of higher petroleum prices, there were fewer constraints on Razak's vision of a more state-owned and led economy. Through these revenues, the government significantly stepped-up public-sector expansion, not only for affirmative action, but also for the nation as a whole.

Following Razak's advice, Hussein appointed Mahathir Mohamad as his deputy. Although not 'close', Mahathir remained outwardly loyal to the Prime Minister although rumours were rife of subtle efforts to erode Hussein's status. In line with Razak's public sector expansion, Mahathir created the Heavy Industry Corporation of Malaysia (Hicom) which took off after he became prime minister in 1981. After a cardiac problem, Hussein gave way to Mahathir in mid-1981, but not before launching the *Fourth Malaysia Plan, 1981-1985*, with his imprimatur. However, it was not long before Mahathir began to announce his own policy priorities including heavy industrialisation, 'looking East', privatisation and 'Malaysia Incorporated', although the latter two only assumed greater significance later. Mahathir's *Operasi Isi Penuh* created more public service jobs, even if largely temporary. However, after the 1982 general elections legitimised his leadership, such job creation was abandoned with his austerity policy, *dasar jimat cermat*. In fact, much of the legacy of Razak and Hussein was to be later reversed during Mahathir's long 22-year tenure as prime minister, with significant shifts in policy occurring in 1986 and after Anwar's sacking in 1998.

Toh's book is therefore significant for offering a detailed and critical account of the NEP's development in the 1970s. This was a decade defined by Razak's policy legacy, albeit amended pragmatically by

Hussein and the civil service. In the decades after, the NEP has arguably been reduced to, and caricatured as, a set of 'pro-Malay' inter-ethnic redistribution measures. This was ostensibly captured by the NEP's second 'prong' of 'restructuring society' to eliminate the 'association of race with economic function', to use the language of the times. Yet, as Toh's book highlights, the early years of the NEP were more nuanced and complex.[1]

Background to the New Economic Policy

The formal declaration of independence (Merdeka) for the Federation of Malaya on 31 August 1957 was preceded by the Reid Commission which sought to design a constitution to protect the interests of colonial, business and Malay elites. Thus, the Alliance coalition – of the United Malays National Organisation (UMNO), the Malayan Chinese Association (MCA), and the Malayan Indian Congress (MIC) – governed the new nation within this new, arguably neo-colonial, legal framework.

The left-wing Malay Nationalist Party, or Pekemam (Parti Kebangsaan Melayu Malaya, also PKMM), set up in late 1945, strived for independence as the Indonesian national movement began its revolution after the Japanese surrender. UMNO emerged in 1946 as a coalition of Malay and Muslim organisations to oppose the colonial Malayan Union proposal. While successfully opposing the Malayan Union, UMNO also saved the Malay sultans from the fate of their cousins across the Melaka Straits and beyond. Following the successful Malayan Union mass protests, the British sought to co-opt UMNO into self-rule arrangements short of independence, a tactic which succeeded until the party began to call for formal legal independence from 1951. Many who led UMNO in later years began their careers in the British-controlled Federation of Malaya and its respective state administrations. The ethno-populist UMNO was said to symbolise 'moderate' Malay nationalism especially

[1] To be sure, not everything which happened from 1976 can be attributed to Razak, including his brother-in-law Hamzah Abu Samah's bid to become party vice-president with his Industrial Coordination Act, which Mahathir spent much effort 'blunting' subsequently.

after it began to call for independence, culminating in the leadership change in 1951.

Pekemam led the Pusat Tenaga Rakyat (PUTERA) coalition to demand, alongside the All-Malaya Council of Joint Action (AMCJA), independence with their 1947 Perlembagaan Rakyat (People's Constitution). After Dato' Onn Jaafar, UMNO's founder president, resigned from the party in 1951, the British initially supported the Independence of Malaya Party (IMP), and later the Partai Negara (PN), both led by him. But with the new UMNO leadership calling for independence from 1951, neither the IMP nor the PN gained much Malay support. Realising they were backing losers, the British embraced UMNO and the Alliance.

Severe repressive measures were taken against the more militant anti-imperialists, especially the radical Malay nationalists associated with Pekemam. Thousands of militant Malay youths associated with Angkatan Pemuda Insaf (API) were arrested without trial in early 1948, even before the British declared the 'Emergency' against the communist-led insurgency. In this climate, even moderate Malay political activists were monitored. The longest-serving Inspector-General of Police (IGP) Tun Hanif Omar acknowledged that, together with the late Kedah Sultan Abdul Halim, also the only two-term Yang di-Pertuan Agong, the young Tun Razak was the subject of British Special Branch surveillance from the time he arrived in London to study law in the late 1940s. This may have been because his 'cousin', Abu Samah, had joined the communist-led Malay underground.

The Alliance government's economic and development policies reflected its origins and character. UMNO's dominance of the Alliance was initially ensured by the stronger mass support it commanded. UMNO claimed to represent the interests of the Malays, by far the largest ethnic community in the new nation. In 1946, it had successfully mobilised Malay mass opposition against the Malayan Union proposal and with the repression of the Malay Left from 1948, UMNO faced little political competition. Through 'patronage' and 'ethnic populism', UMNO advanced its political dominance after independence, and even more so after 1969.

Underlying such 'ethno-populism' and clientelism was rural Malay poverty. While the colonial government protected the interests of foreign, especially British capital, it rarely intervened to directly exploit or displace Malay peasants. From the 1930s, it articulated a protective relationship over the Malays, making paternalistic pronouncements of concern in response to the Asian immigration it had previously encouraged and enabled. This paternalism obscured the colonial role in creating and maintaining Malay peasant impoverishment. After the defeat of the Malayan Union proposal in 1946, the British recovered some ground among Malays with its paternalistic notion of 'special rights', based upon the economic underdevelopment of the community. This again obscured the cumulative consequences for the Malays of colonial policies favouring British capital.

Importantly, a Malay business community did not emerge under colonialism, as the Malay elite with the means to mobilise resources was instead incorporated into the colonial bureaucracy. Unsurprisingly then, the ruling Alliance seemed to accept the formula of 'politics for the Malays, the economy for the Chinese'. This elite formula meant that only a small minority of Malays had political influence, while a small share of Chinese had economic assets for business. More importantly, this caricature ignored the continuing domination of the economy by foreign capital and the continuing influence of big business over political decisions. This 'consociational' elite coalition favoured by the British was, however, ultimately fragile, unstable and plagued with contradictions from the outset.

For the Malay elites, this fragility was due to continuing friction between their economic policies and their ethno-populist rhetoric and promises. In the early years after independence, the Alliance government continued to privilege, protect and serve British capital. Constrained by its own limited economic base and business experience, UMNO leaders were neither able nor inclined to challenge established business interests at the time of independence. The Malay elite remained poorly integrated with the mainly non-Malay local business interests, instead relying on ethno-populism to secure political support and legitimacy.

The first colonial-initiated efforts to promote Malay businesses in

the early 1950s were intended to promote Onn's leadership. But Malay business ownership remained negligible with most enterprises outside of Kelantan actually run by Muslims with Arab and Indian connections who were increasingly deemed Malays. The UMNO-led Alliance government's early efforts to promote Malay capitalism also sought to consolidate support for UMNO. By the mid-1960s, these modest measures were no longer deemed enough as Malay expectations had been raised by independence and UMNO's dominance of the Alliance.

1965 was a watershed year in the development of Malay capitalism. The Majlis Amanah Rakyat (MARA or Council of Trust for the People) was formed by Deputy Prime Minister Tun Razak, to replace and scale up the Rural Industrial Development Authority (RIDA). RIDA was merged with the Malay Secretariat and transferred from the Ministry of Commerce and Industry (then headed by a Chinese minister), to Razak's more powerful Ministry of National and Rural Development. In June, the first Bumiputra Economic Congress, held in Kuala Lumpur, expressed frustration with the Malay economic status quo. The Congress not only identified areas of economic participation, but also proposed measures to achieve inroads for the Malay community. The composition of its steering committee reflected the centrality of elite interests to the congress, with Malay political and bureaucratic elites seeking to advance their interests, ostensibly for the entire Malay community. A Second Bumiputra Economic Congress was held in September 1968, with a third in 1973 and a fourth in 1981.

Despite increased government measures after 1965, actual progress continued to disappoint as the measures remained limited by the Alliance compromise. For much of the population, economic conditions did not significantly improve after independence despite economic growth, employment, schooling and productivity gains. Rural landlessness increased with population growth as government-sponsored land settlement on Felda and similar schemes grew slowly in the 1960s. Meanwhile, sluggish import-substituting manufacturing, plantation and mining employment growth failed to sufficiently absorb the rapidly growing labour force. Ethnic patterns of occupational employment frustrated the unemployed and those hoping for upward mobility, whilst

the apparently Chinese character of ubiquitous petty capitalism appeared impregnable to Malays, who perceived their exclusion as 'racial'. Moreover, as better-off Malays enjoyed higher income increases, poorer households suffered income declines as commodity prices dropped, rubber trees aged and population pressure on the land mounted. Colonial era tendencies exacerbating peasant impoverishment were not significantly reversed or even checked despite the government's avowed commitment to 'rural development' to secure its rural Malay 'vote bank'.

In spite of these disappointments, Malay expectations continued to grow. As preferential government measures enabled more Malays to acquire higher education, those aspiring to be part of the new Malay 'middle class' grew, with academic credentials viewed as a requirement for upward mobility. At the same time, the emergence of more Malay businesses and wealth ownership inevitably increased expectations, aspirations and initiatives as government affirmative action policies spread. This not only deepened and changed the ethno-populist nature of UMNO and Malaysian political and policy discourse, but also served to legitimise capitalism – despite its weak roots in the Malay economy, society and culture – and related aspirations.

By the late-1960s, popular frustrations were mounting. Frustrations at being excluded by non-Malay capitalism were increasingly directed at the UMNO-led Alliance government for not doing enough. This was perceived as being due to the MCA's financial influence in the ruling coalition. The 'Malayness' of the government and the 'Chineseness' of the ubiquitous bourgeoisie and petty bourgeoisie meant class and other frustrations were primarily perceived as ethnic and religious. With the repression of the Left once again from the mid-1960s, such frustrations and accompanying resentments continued to be channelled along ethno-populist lines.

Thus, the first dozen years of post-colonial development culminated in the ugly post-election 'race riots' of May 1969. While the violence may have been premeditated before the election results were known, the first skirmishes apparently followed provocations between elated non-Malay supporters of the urban opposition and UMNO supporters ostensibly defending Malay interests. With the outbreak of riots, parliamentary

rule was suspended and the quasi-military National Operations Council junta, led by Deputy Prime Minister Razak, governed the country until mid-1971. Following the rejection of the Alliance in the May 1969 election, 'Young Turks' within UMNO criticised and put pressure on Tunku Abdul Rahman, the incumbent prime minister, who was held personally responsible for the preceding 'neo-colonial' policies. Under mounting pressure from within UMNO, and apparently in denial about the significance of the events of May 1969, Tunku stepped down as prime minister in mid-1971, to be succeeded by his long-serving, younger deputy Razak. After becoming prime minister, Razak rehabilitated some who had ousted Tunku, and slowly, but surely changed government priorities, programmes and policies.

The New Economic Policy

Malaysia has changed significantly since then. Tun Razak became prime minister after Tunku formally retired, ostensibly as Tunku's nephew, Kedah Sultan Tunku Abdul Halim was to become Yang di-Pertuan Agong, the nation's king. But Razak had effectively been in charge as chair of the National Operations Council, following the state of emergency declared after May 1969. During his premiership, Razak sought to address, as he saw them, the socio-economic and cultural problems of the nation. Largely ignoring the problems of the British-promoted creation of Malaysia, after Brunei and Singapore opted out, he was mainly interested in 'Malayan' problems, especially the peninsula's ethno-populist and neo-colonial legacy.

Razak set up a National Consultative Council which recommended various reforms. The Rukunegara (or National Ideology), National Cultural Congress, New Economic Policy (NEP) and the expansion of the Alliance into the Barisan Nasional (National Front), to now include a number of opposition parties, are all associated with Razak. The NEP was seen as necessary to create the socio-economic conditions for 'national unity' by 'eradicating poverty' and 'restructuring society' to eliminate the identification of 'race' with 'economic function'. 'Restructuring society' was primarily seen in terms of Bumiputera business expansion, wealth accumulation and privileged access to

and upward mobility within, the more lucrative professions. The strengthened position of UMNO, especially of those who stood for more active promotion of Malay capitalism, soon produced new economic policies and programmes. The NEP was launched in association with the Second Malaysia Plan for 1971-1975 and its Mid-Term Review.

Under the NEP, poverty eradication was mainly to be achieved by raising peasant productivity, output and incomes, including by land settlement for the landless, higher agricultural productivity and higher prices for peasants. Increases in employment, and improved working conditions and wages for employees, were expected to complement such efforts. This coincided with rapid employment growth. Through the 1970s, public sector and manufacturing employment, especially for women, grew tremendously as industrial policy switched from import-substitution to export-orientation. Less than a year after announcing the NEP, Razak made a forward-looking speech on social well-being while launching the Social Security Organisation (Socso). He also emphasised tripartism in Malaysian industrial relations, ensuring collaboration among unions, employers and the state.

Systemic constraints limit policy options, however. While the government was able to successfully implement a guaranteed minimum price scheme for rice grown for the domestic market, it was not able to do likewise for rubber, cocoa or palm oil, exported for sale on the international market. Poverty among rice farmers fell to 77.0 per cent in 1975 and 52.7 per cent in 1980. Rice productivity increases were associated with the introduction of high-yielding varieties and double-cropping, besides government and consumer cross-subsidisation of rice prices. However, progress was, and has remained, heavily dependent on government subsidies for fertiliser and rice prices. Nevertheless, rapid economic growth and higher commodity export prices in the 1970s reduced absolute poverty quickly. Meanwhile, increases in commodity prices and productivity on plantations have been primarily appropriated by employers, and are hence less likely to benefit employees.

As the legacy of the 1970s shows, with rising overall incomes, poverty can be reduced despite unchanging or even rising inequality. While the mean household income of the poorest 40 per cent of the

Peninsular Malaysian population rose between 1970 and 1979, overall income inequality was either constant or growing. This inequality has been worsened by increasingly 'regressive' tax incidence and public expenditure, especially from the 1980s.

The NEP's second prong ostensibly sought to erase the identification of 'race' with economic function, e.g., by establishing ethnic employment quotas. This reduced Malay unemployment in the 1970s below that of the labour force as a whole, before it rose above the national average again in the early 1980s. Besides increasing the share of Malays in the working class, it also greatly increased their numbers at supervisory and managerial levels. This rapid growth of a Malay managerial stratum has probably supported incumbent political regimes and their affirmative action policies.

The NEP's second prong was also associated with 'redressing' the inter-ethnic imbalance in the ownership and control of corporate wealth in the country, especially between Malays and Chinese. Before the NEP, Malay capitalism was limited. In 1969, twelve years after independence, Malays and 'Malay interests' owned only 1.5 per cent of the share capital of limited companies in Malaysia at par value, while Chinese and Indians accounted for 22.8 per cent and 0.9 per cent respectively. The Second Malaysia Plan stated that, "At least 30% of the total commercial and industrial activities in all categories and scales of operations should have participation by Malays and other indigenous people in terms of ownership and management" by 1990.

Notably, the restructuring strategy of the 1970s greatly expanded the use of public or state-owned enterprises, ostensibly in trusteeship for the entire Malay community. As envisaged in 1973, of the targeted 30 per cent of shareholdings to be held by Malays in 1990, three-quarters were to be held by 'Malay interests' and only the remaining quarter by Malay individuals. In 1981, Hussein Onn launched the Fourth Malaysia Plan before retiring. It envisaged only 17 per cent of Bumiputra corporate holdings to be held by individuals in 1990. Thus, Malay ownership was to be increased through state ownership on behalf of all Malays. This approach was subsequently replaced by Mahathir who favoured individual Malay wealth ownership and promoted privatisation more generally.

Thus, with the NEP, the state no longer merely supported private capital accumulation, but became a means for capital accumulation on behalf of the nascent Malay bourgeoisie. Joint ventures involving Malay and non-Malay partners (so-called 'Ali-Baba' arrangements), appointing Malays to company directorships, and politically well-connected businessmen securing government contracts, all became means for Malay capital accumulation. Their ascendance through the NEP has also been reflected in the scale and nature of public development expenditure expansion since. So too has there been a changing emphasis between the two NEP 'prongs' since its inception, with focus shifting from poverty eradication to restructuring society after the 1970s.

Besides advancing the economic lot of the Malays, Razak espoused an economic nationalism in two areas. First, he sought to significantly reduce foreign ownership and control of the Malaysian economy, especially by expanding public or state-owned enterprises. Second, he was committed to asserting greater national control over the Malaysian economy, expressed principally in terms of Keynesian-type counter-cyclical spending through dirigiste state intervention and planning. This more interventionist approach was, and remains, especially challenging in the context of Malaysia's open economy – a legacy of the colonial era, but one consolidated in the post-colonial era by policies privileging foreign investment and production for export.

Output and income rapidly grew under the leadership of Razak and Hussein with government spending boosted by petroleum revenues at a time of heightened oil prices. National income almost doubled between 1970 and 1975, and rose more than 150 per cent in the following six years. This brought with it corresponding increases in per capita income as population growth declined slowly. As real output increases were more modest, income increases were undoubtedly boosted by higher commodity prices. These higher prices particularly benefited export commodity producers, while wage earners benefited from higher productivity as unemployment declined rapidly.

By 2000, manufacturing and services were contributing much more to output. Whilst in 1970 they made up half of output, by 2000 this figure stood at 85%. Malaysia has therefore seen a dramatic structural

transformation of its economy in terms of rapid manufacturing and services growth, although agriculture continued to expand in absolute, but not relative terms. Important to this has been migration from rural to urban areas. In 1970, 71 per cent of Malaysia's population lived in rural areas, dropping to 62 per cent in 1980, with many living on the periphery of designated urban conglomerations, as well as industrial zones. Employment statistics also suggest dramatic changes in employment status, pointing to a major increase in wage employment among Malays and other Bumiputeras, as well as Chinese, with a corresponding decline of unpaid family workers as well as own account workers, i.e., the self-employed. The number of wage-earning Malaysians among the working population increased significantly to about three-fifths by 1980.

During this period household incomes also significantly increased for all ethnic groups, including the bottom 40 per cent of the population. Average incomes increased most for the top fifth of households, but major methodological concerns prevent us from drawing strong conclusions about inequality trends for this period. There was a significant reduction in inter-ethnic income and wealth disparities, especially during the 1970s. There were also significant declines in poverty as well as improvements in living standards, not only in urban areas, but also in the countryside, especially in the 1970s. Inter-ethnic disparities have greatly declined in most occupations outside agriculture, where Bumiputeras are more dominant than ever. In sharp contrast, the ethnic Indian share in agriculture, primarily on plantations, declined greatly.

The main bone of contention in NEP discourse has been over wealth ownership. From 1969 until the early 1980s, there was a significant increase in the Bumiputera proportion of share ownership at par value, from 1.5 per cent in 1969 to above 18 per cent in the early 1980s. Since then, the share of individual Bumiputera wealth has risen, while the share held by foreigners fell dramatically, particularly in the 1970s. During the 1970s, Bumiputera wealth was largely held through state-owned enterprises, then termed Bumiputera trust agencies. Yet, following the privatisation policy from the mid-1980s, there has been

a large increase in individual or private Bumiputera wealth ownership. While the Bumiputera share has only risen modestly since then, several studies argue that Bumiputera share values at market prices may well have exceeded 30 per cent many times in recent decades.

During the 1970s, per capita output and income growth were actually very high for many reasons. Although macroeconomic policy became more countercyclical, deficits were not characteristic of this earlier period. Increased oil revenues from the mid-1970s provided much more fiscal space to the authorities. Much less fiscal space has been available since the mid-1980s for various reasons. The regressive changes in tax structure and incidence after 1984 were justified as boosting private investment a la Reaganomics' Laffer curve.

A popular argument put forward about Malaysia since the 1980s has been that redistribution has undermined economic growth performance. However, redistribution during the 1970s was certainly associated with rapid economic growth, with the country enjoying the longest such episode since independence, despite the 1974 setback. Hence, it is difficult to sustain the argument that redistribution has been subverting growth. It is more useful to look at how different types of redistribution measures have influenced growth, rather than just dogmatically generalising that all progressive redistribution is bad for growth in all circumstances. More recently, the conventional wisdom has changed dramatically to recognise that inequality can in fact undermine and slow growth. It is really political patronage and clientelism, along ethnic lines, that have been the main problem in Malaysia. Meanwhile, in the absence of a strong industrial class, financial interests have increasingly influenced public policy.

In conclusion, while Razak is correctly associated with the inception of the NEP, it is unlikely that he would approve of how the NEP has been invoked to justify all kinds of self-serving abuses by those in power. It is also unlikely he would approve of various policies invoking the NEP which serve to undermine 'national unity'. He would probably also have been disappointed by the largely failed privatisation policy to aggrandise politically well-connected Bumiputeras rather than improve the lot of all Malaysians, but especially Bumiputeras. Finally, he would be shocked

to observe the abandonment of development policies in favour of 'neo-liberal' pro-cyclical macro-financial policies favouring foreign capital and which are justified as 'market friendly'.

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The publication, more than four decades later, of Toh's unrevised doctoral dissertation allows readers to revisit the debates and discourses of the time. With the benefit of hindsight offered by many subsequent studies, we are able today to better understand and appreciate how the policymaking of the 1970s was novel and represented significant breaks with the past. Yet, that policymaking and implementation did not occur in a vacuum. It represented new compromises reflecting the post-May 1969 political dispensation, as well as new understandings with powerful and enduring interests, both foreign and domestic. I am honoured and privileged to contribute to a broader appreciation of the significance of Toh's book. While it captures the significant changes and continuities of an eventful decade – still seen as the greatest break in this young nation's history – it also captures the critical reflections and intellectual contestation represented by Toh's pioneering efforts. It is truly an honour to have been able to speak truth to power even as power was shifting and being contested, as happened soon after Tun Razak's untimely passing in January 1976. Yet, by returning us to the hopes and challenges of that decade, Toh's work remains an important and relevant reminder of lessons to be learnt, relearnt and also unlearnt.

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Preface

The New Economic Policy in its First Decade

Toh Kin Woon

This book is based on my thesis submitted to the University of Malaya for the degree of Doctor of Philosophy in 1982. Four decades later it stands as an analysis of the New Economic Policy's impact in its early years, as well as a record of how the New Economic Policy was understood amongst progressive intellectuals in the period – those influenced by a developmentalist perspective popular across the Third World.

The origins of the thesis lie in my intellectual development through the 1970s. Born in the mid-1940s into a poor urban working-class family in Penang, I was exposed from an early age to the poverty and inequality that marked much of Malaysian society. My father was a semi-skilled mechanic at the Penang Harbour Board, with an income that was insufficient to sustain a family of eight. He was, however, a very disciplined and hardworking man who, on top of his main job, worked odd jobs and ran a number of micro-businesses to support the family. Unfortunately, all of his micro-businesses failed. Later, when I was in Upper Form 6, he sadly died as a result of an accident while repairing a leak in the roof of a relative's house. His early departure left my family destitute and without a wage earner. In those circumstances, I had to delay furthering my studies at university. My mother, a hardworking woman who had good cooking skills and three of my four younger sisters – all of whom had to drop out of school – had to work to help support the family.

These life experiences had a profound impact on my intellectual development. I came to understand the lives and difficulties of working people and developed an unhappiness at the struggles faced by working people. Such concerns with poverty alleviation and inequality led me, years later, to write my doctoral thesis on the New Economic Policy.

Eventually, I was able to pursue my university education at the University of Malaya, where I received my B. Econs (Hons) in 1971, majoring in Analytical Economics. A year later, I earned a scholarship to pursue a Master's degree at the University of Leeds in the United Kingdom. I completed my Master's in 1973. It was an exciting time to study the Malaysian economy. In the aftermath of the May 13 riots – caused by the perpetuation of poverty and inequality in the aftermath of independence – the government launched the New Economic Policy, with its twin aims of poverty eradication and removing race-based inequalities. This was to replace the laissez-faire policy that had dominated the first decade of independence and envisioned a more national-oriented and equitable model of economic development. Yet would this be realizable with the political and economic model that underpinned the New Economic Policy?

It was in the UK that I had my first exposure to progressive political economy. The formal course that I followed was dominated by standard neo-classical literature. However, one of the staff members introduced us to alternative progressive perspectives on development. This exposure stimulated my interest in progressive political economy, which I pursued outside of the classroom by attending evening lectures conducted by left-wing groups, where we would read left-wing books, many of which were not available back home in Malaysia.

Upon my return to Malaysia in 1973, I began my career as an academic in the Department of Economic Development and Planning in the Faculty of Economics, Universiti Kebangsaan Malaysia (UKM). Here, I met several like-minded colleagues, notably Abdul Rahman Embong, Ishak Shari and, later, Jomo Kwame Sundaram, with whom I had regular discussions on politics, economics, education and even culture, largely from progressive political economy perspectives. My understanding of progressive ideas became further enriched as a result of my discussions with these fine scholars.

These discussions also led to my growing involvement in political activism. The beginning of the 1970s witnessed the radicalisation of student activism. In Thailand, Prime Minister Thanom Kittikachon was overthrown by a student uprising in 1974. Towards the end of the same year, student protests erupted all over Malaysia in support of peasant protests about falling rubber prices in Baling, Kedah, which had exacerbated rural poverty and caused widespread hunger. In a bid to avert a Thai-style fall of the government, the state in Malaysia responded by taking harsh, violent and authoritarian measures to crush these student protests. Mass detention under the Internal Security Act (ISA) was used to incarcerate many student leaders and academicians, among whom were Syed Husin Ali, Lim Mah Hui, Gurdial Singh and many others. Our group of academics at UKM was targeted as well. One of them, the editor of *Truth* – a monthly which was produced by this group – was detained. Rahman and Ishak had to go into hiding, while I remained out in the open providing much-needed accommodation and transport for our friends on the run. My involvement in struggles of this nature – though not in the front line – enriched my understanding of the nature of the state, including its potential for violence in the name of protecting ruling class interests.

My intellectual development was – fortunately – not disrupted by the state's repression of the progressive political movement. After a time in hiding, Ishak returned to UKM while, shortly after Rahman's departure, Jomo returned from his studies in the United States. He soon joined the same department I was working in, and we became colleagues. Both Jomo and Ishak were very prolific in their research. Ishak researched extensively into rural poverty and the related topic of income distribution. Jomo, on the other hand, wrote many papers on the political economy of the New Economic Policy, which he presented both locally and overseas. I followed Jomo's narratives of the role of the state in development planning, especially its class nature, very closely. I was truly inspired by his deep understanding of the state and how the class interests of the governing stratum influenced the pattern of policy-making. It was this inspiration that led me to seek his advice and help on pursuing a PhD around the big theme of the state, its role and impact

Based upon Toh Kin Woon's 1982 Doctoral thesis — now published for the first time — *Malaysia's New Economic Policy in Its First Decade* offers an account of Malaysia's renowned economic programme in the first decade of its development. Written by an engaged scholar, this book chronicles the genesis and controversies that surrounded the early years of the New Economic Policy, whilst offering an interpretation of the NEP informed by the progressive political economy of the period. Focussing upon issues of employment restructuring, the restructuring of ownership and control, and approaches to poverty eradication, *Malaysia's New Economic Policy in Its First Decade* argues that what underlay the NEP was a particular relationship between class and the state, centred on the rise of a Malay bureaucratic capitalist class. This in turn limited the ability of the NEP to realise a more meaningful restructuring of Malaysian society.

In the years after Toh Kin Woon's thesis the politics of Mahathirism and subsequent development policies — from the National Development Policy onwards — would slowly alter the earlier vision of the NEP. Yet *Malaysia's New Economic Policy in Its First Decade* offers us an opportunity to return to the complex debates of the time, and calls for us to move beyond a narrative about the NEP centred on race, to emphasise the important relationship between class and the state.

Toh Kin Woon received his PhD in 1982 from the University of Malaya and was an Associate Professor in Economics at Universiti Kebangsaan Malaysia (1973–1993). After retiring from UKM, he went into politics, being elected to the Penang State Legislative Assembly for three consecutive terms (1995–2008) and appointed a State Executive Councillor. He later left politics to pursue his political goals through civil society, where his focus was on clean and fair elections and equal treatment for all mediums of education. In pursuit of these goals, he was a member of the Steering Committee of Bersih 2.0 (2009–2018) and National Chairman, LLG Cultural Society (2009–2014). In his home state of Penang, he established the Penang Independent Schools Society, which he chaired from 2007–2021.

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