

GOVERNANCE AND DEVELOPMENT: A PERSPECTIVE ON MALAYSIA'S NEW ECONOMIC POLICY (1971-1990)

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Malaysia gained its independence from Britain in 1957. On the eve of its independence the country was counted among the poor countries; yet it was economically better off than most newly independent countries. Among Asian countries it ranked next only to Japan and South Korea in terms of income per capita. (Emsley 1998) Yet, we find that the specter of eminent ethnic conflict loomed large as a paramount problem facing the newly independent country. The ethnic situation was a direct result of the legacy of centuries of British colonialism, whose main concern was to tap the country's rich minerals potential. Thus, the British imported workers from China to work in the mining industry and from India to work in plantations. Then they encouraged each ethnic group to maintain its own cultural identity and traditions and to remain isolated from the other as well as from the indigenous groups (*Bumiputera*). Presumably, the purpose was to thwart any inter-ethnic cooperation between the three main ethnicities against the colonialists.

The ethnic composition situation was further complicated by the prevalence of huge income disparities between ethnic groups and the association of economic function with race. Thus, Malays and Bumeputeras continued to eke out a living in the traditional rural sector and were, therefore, overwhelmingly poor. Indians continued to work and live in modern plantations and large estates and were; consequently, better off than the indigenous (*Bumiputera*) The Chinese were engaged in business and the professions and, for this reason, lived in the urban centers and enjoyed higher standards of living

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A central hypothesis in development administration is that poor governance is one of the prominent causes of perpetuation of poverty and underdevelopment and vice versa. Governance pertains to the ability of a government to make and implement effective public policies. Africa provides a glaring example of the paramount importance of governance in development. Back in the sixties African countries entertained high hopes of achieving development given availability of natural resources and low population densities; but, as a result of poor governance and lack of political stability, they got bogged down into endless conflicts and sank deeper and deeper in underdevelopment. By way of comparison most Asian countries moved forward dramatically managing to resolve problems that appeared to be quite perplexing, back in the sixties, on their way to development experiencing better and improving governance on their way to development; Malaysia was one of the glaring examples.

Presumably, in any other country Malaysia's complex ethnic situation could have resulted in escalation of communal conflicts. In fact African countries which got caught up in a vicious circle of ethnic violence had a less complex ethnic situation; in most cases it amounted to no more than narrow minded tribalism nurtured by colonialism as part of the policy of divide and rule. But, fortunately for Malaysia, the country's elites, through the politics of compromise, managed to get successfully over this situation by adopting development policies that helped gradually to alleviate problems associated with it and achieve national unity, political stability and resounding success in economic development; in some versions this is referred to as an economic miracle.

The purpose of this paper is to attempt to lay forth a plausible explanation of this achievement so that other developing countries can learn lessons from it.

Ostensibly, pre-independence negotiations between leaders of different ethnic groups in Malaysia had reached an understanding on the acceptance of the political supremacy of Malays and the need to address their economic plight, on the one hand, in return for leaving the economic gains of the non-Malays unaffected and guaranteeing the preservation of their cultures and traditions, on the other hand. The Malay language was also accepted as a national language based on a similar understanding that other communities would also maintain their languages, cultures and traditions. It is important to remember that this flexible understanding formed the basis for the less hostile future relationships between ethnic groups paving the way to political stability and economic prosperity. (Crouch 1996)

A National Alliance composed of Malay and Chinese which was later on joined by Indian elites had continued to rule the country since independence and up to this day. The anti-communist Chinese, of the Malaysian Chinese Association, (MCA) supported mainly by businessmen and professionals, came to join hands with the most predominant Malay party (UMNO) to form the National Alliance, which was later on joined by the Malaysian Indian Congress and other parties to take the name of Barisan National (BN) or the National Front.

The post-independence government, led by Tunku Abdul Rahman, started economic development programmes aiming at speeding up the rate of economic growth while taking into account the need for correction of economic imbalances. The first Malaysian Development plan (1966-1970) was drafted and implemented during this period. But Tunku Abdul Rahman was more compromising than his Malay successors to the premiership; a fact which affected negatively the redistribution orientation of policies during implementation stage. Hence, despite the high rates of economic

growth realized during the period up to 1970, surprisingly, the relative position of the poor from all races had actually worsened while that of the rich improved substantially. (Ahmad 1989) The government was seen by all races as blameworthy.

Policies adopted by the Alliance that were based on elite compromises, relatively disregarding income redistribution, bred resentment among the masses of the three ethnic groups who did not seem to share the standpoints of the elites. Malays resented the slowness in application of programmes aimed at the correction of racial imbalances, as well as the concessions made by their leaders to other ethnic groups in order to ensure the continuity of the Alliance; while other ethnic groups resented Malay rights and Malay supremacy in political life.

During this same period up to 1969, when racial violence went out of control, racial relations were characterized by escalating tensions. During this period Malaysia's development was like that of other developing countries.

Opposition to the Alliance was composed primarily of PAS (Malaysian Islamic Party) among the Malay and PAC (People's Action Party) among the Chinese. Both parties exploited ethnic resentment and contradictions to win temporary political gains at the expense of the Alliance but the Alliance has always managed to secure a majority of votes at the end of the day. In fact ethnic relationships within the alliance were more consequential in public policy formation than opposition embarrassments. It is important to note that the paramount preoccupation of national governments-formed exclusively by this same coalition- was: first, to achieve national unity and integration, and secondly, to speed up the pace of economic and social development and to alleviate poverty and inequality, As already alluded to, policymaking during the first decade of independence focused mainly on rapid economic growth

to the detriment of the other goals of fair distribution of benefits. However, the riots of May 1969 forced the coalition to change course and address the redistribution concerns.

The 1969 riots marked a turning point in Malaysia's history. Thus, on the one hand it represented the peak of the escalation of negative ethnic sentiments; whereas on the other hand, it resulted in adaptation of the structure of governance and reorientation of development policies in favour of more direct government intervention to alleviate poverty and correct imbalances. Racial violence went out of control following declaration of the results of the 1969 elections where opposition parties, using ethnic propaganda to win votes, managed to split the vote with UMNO. Ethnic based processions and demonstrations following elections resulted in unprecedented violence in which hundreds of people lost their lives. The incumbent government of Tun Razak took some measures in the aftermath of the riots that resulted in changing the course of politics and policy in Malaysia; the launching of the New Economic Policy was the most important among such measures (Ahmad 1989)

The basic contention of this paper is that continuity of the political regime and political stability throughout the NEP period, the elite ideology of developmentalism and its control of economic and political variables formed the main explanatory variables behind the success of policies that resulted in social and economic transformation of Malaysia. It was, therefore, thought imperative to place them in perspective.

Approaches to the Study

Explaining the New Economic Policy in Malaysia, like explaining any other development policy in this respect, is amenable to be handled from contending perspectives and theoretical frameworks which are widely employed in public policy studies.

Thus, H. K. Leong adopted a 'statist' approach that represents the most popular approach in the development literature until recently when the concept of governance was broadened to include participation of civil society. Basing his argument on such an approach he contends that policies were made by the organized state bureaucracy; hence, although the influence of group pressures can be identified in Malaysia's policymaking process, in the final analysis the prime minister's office had the final say in policymaking. But since the prime minister, the ruling political party from which he comes and the state bureaucracy were dominated by the Malay ethnic group, development policies were generally geared towards achieving the interest of Malays at the expense of the other ethnic groups. (Leong 1992) But the actual policy outcomes do not appear to support such an extreme view point as will be explained later. In retrospect, while taking into account the prevailing economic and political conditions, the NEP appears to have been the right policy at the right time even for a neutral observer like Faaland (1990). Arguably it came to be in the interest of all groups as it helped enhance standards of living, social equity, economic development and political stability from which every Malaysian had benefited.

Heng Pek Koon, (1997) using a more or less pluralist approach in explaining policy formulation, implementation and evaluation chose to highlight the role of Chinese elites and interest groups in policymaking which was obscured by the previous author. According to his study, at the time when the policy was being drafted, the Economic Planning Unit (EPU) – which was quite influential in policy formulation - was manned primarily by Chinese bureaucrats and headed by one of the leaders of the Chinese community. Meanwhile the other advisory organization The Department of National Unity – was dominated by Malay elites. The first institution was in favour of continuation of the previous *laissez faire* policies that resulted in high rates of economic growth

which should be accompanied by macroeconomic redistribution policies to cushion their income polarization effects and ultimately alleviate poverty. While the other institution advocated direct government intervention to correct ethnic imbalances and address the plight of Bumiputera. (Koon 1997) It must be noted that the actual policy combined both concerns but direct government intervention was chosen in lieu of a slow process of trickle down which might not even materialize. Such a choice, it should be underscored, represented an understandable choice in view of the political violence that preceded it and inspired the government to launch the policy.

Others have expressed the viewpoint that the NEP should be seen as an example of economic growth policy accompanied by equity in the distribution of benefits from which other countries should learn lessons. (Falaand 1990, Emsley 1996) Emsley sought to derive lessons for South Africa which was just coming out of the ordeal of apartheid and was therefore facing an even more precarious situation of ethnic division and disparities in comparison to Malaysia. However, he underscores economic analysis at the expense of political analysis.

But the present paper is more concerned with explaining why political stability and economic success were realized in the face of formidable difficulties? Rather than with the simple question of who makes the policy and whose interests it served? What can other countries, particularly Muslim Countries, learn from the Malaysian Experience? Though handling the other issues is unavoidable the central question is: why had a situation which should have bred conflict and instability resulted in racial harmony, political stability and economic success?

A systems perspective, whose main tenet is to view public policy in terms of an interaction between the political regime and

its social environment, is adopted. According to Jenkins: "public policy is best understood by considering the operation of the political system in its environment and by examining how such a system maintains itself and changes over time". (Jenkins 1993: 33)

If that is the case then public policy as such should be construed as part of the attempts made by regimes to cope with destabilizing factors in the environment and thereby seek to control the environment in order to restore equilibrium and ensure continuity. The latter condition- stability and continuity- is, therefore contingent upon successful policy making. Policymaking provides the link between the political regime and its environment. By the same token stability of political regime has always remained a prerequisite for successful policymaking and implementation. The environment refers to variables in the political setting that may have influences on the policy system's variables.

Policies are the outputs of the political system; hence, it is imperative to provide a reasonable explanation of the political and policy processes and then proceed to explain how they relate to stability and continuity of the regime.

.According to Jenkins the systems approach is not incompatible with other explanatory models of the policy process which help add in details to its broad holistic approach. (Jenkins1993)

Thus, even a cursory glance at the nature of the Malaysian political system and its policy dynamics suggests the suitability of a systems perspective as a theoretical frame of reference when dealing with policy analysis. The resilience, continuity, pragmatism, and persistence that characterize the system leading to success in achievement of goals stand as glaring evidence to the skillful manipulation of variables exercised by the political regime throughout the period since independence and up to the present

that is indicative of a steering approach to policymaking. By and large, achievements were accomplished within the framework of a mainly democratic process avoiding the pitfalls of dictatorship or military rule; that was accompanied by a market driven economic system.

Once a systems perspective is selected as a frame of reference four major tenets must be highlighted. The first basic requirement is the existence of an internally stable and resilient political regime which can exercise control on system variables. The second requirement is responsiveness of the political regime to political demands made upon it which is the most central prerequisite. Failure of regime to cope with political demands can result in its instability or even ultimate breakdown. Third, the political system must control agendas by filtering out dysfunctional divisive issues which threaten the continuity and stability of the system. And, finally, a situational or contingency approach, based on an intelligent manipulation of the pertinent variables of ensuing political situations, in order to enable the realization of the desired long term goals, becomes a prerequisite. It must be realized that there is no such political regime model that can be deemed suitable under all political situations without flexible pragmatic adaptation to the relevant situation.

It is useful to note that the New Economic Policy was probably the most important policy decision ever made by the Malaysian government after independence. It formed the foundation on which subsequent development policies- the New Development Policy and Vision 2020- have continued to stand.

The aim of this paper is to demonstrate that a systems perspective provides a useful explanatory model of political behavior, policymaking and implementation of Malaysia's New Economic Policy (NEP). Furthermore, it can serve as a benchmark

for comparisons; hence lessons can be derived for Muslim countries as well as other less developed countries.

The Political System and Policy Making in Malaysia

William case (1998) had proposed that stability of political regimes is contingent upon elite relations: accommodative cooperative relations or competitive in nature. Competitive, confrontational relations between different elite factions-on ethnic, religious or political grounds- will result in destabilization of their political regimes; whereas accommodative cooperative relationships between members of the elite will lead to the stability of the political regime. It is needless to point out that the Malaysian case adheres most closely to the latter description where elites from different ethnic groups managed to maintain a more or less accommodative course of action steering away from conflict generating choices and pursuing common goals which helped maintain their cooperative attitudes. It was already mentioned that in the wake of independence there was more cause for intensification of conflict than for cooperation; but there were relevant situational factors that inspired members of the governing elite from different ethnic groups to come together in pursuit of the paramount national goals. This elite consociation represents the backbone of political stability in Malaysia.

The political landscape on the wake of independence featured a multiplicity of stakeholders who shared the common goals of achieving economic development and political integration but their aspirations and interests- while by no means incompatible- were definitely in conflict. Ethnic divisions, which coincided with linguistic, religious and cultural divisions, have always stood out as the most important basis of political action and expression in Malaysia. Multi-racial political parties have not been met with much success. For Malay, despite the fact that they enjoyed political

supremacy, they felt economically left out and nurtured a feeling of eminent threat to this political supremacy as well as to their culture posed by other ethnic groups; particularly the Chinese. They demanded rectification and were too eager to wait. Chinese, on the other hand enjoyed economic preeminence both in terms of higher incomes and asset holdings. They showed a desire among their masses to maintain these privileges in addition to maintaining their identity and culture. They also demanded a larger share of political power particularly after the admittance of Singapore into the union at which point they became the largest ethnicity. Indians, who were in extreme minority, could not aspire for much power so they were ready to align themselves with the stronger political groups. They also aspired to maintain their culture, language and traditions and to have a fair share in the benefits of development. Yet, elites of these ethnic groups showed more inclination towards compromise and accommodation of these seemingly incompatible goals.

The Malay elites, enjoyed substantial political power and were determined to use it to promote the interests of their own ethnic group. To maintain their power they had to be elected time and time again in competitive elections. Therefore, they had to continue to gain the support of their ethnic group and remain responsive to it. Malay masses represented the main constituencies of the BN political regimes. By being responsive to Malay masses the power elites, including Chinese and Indian elites, ensured their continuity in power. Responsiveness to demands of other ethnic groups was an imperative for achievement of economic and political stability

PAS poses a real challenge to winning Malay votes as a champion of Islamic and Malay values. The main Chinese party, the Chinese Malaysian Association (MCA) was created by elites to counterbalance the influence of the Communist Party (MCP) which

enjoyed more political support among Chinese masses. They chose to align themselves with UMNO and the Malay elites who showed a compromising attitude and a conservative ideology featuring: a market driven development strategy, commitment to protection of private property, promotion of private enterprise, respect for minority cultures and traditions and protection of privileged Chinese economic interests. The fear of the looming specter of communism was common to all elites. This helped create the National Alliance which continued to lead the country ever since. The Malay Indian Congress (MIC) later on joined the alliance to form the Barisan National which was eventually opened up to include small multi-ethnic political parties

The parties forming BN, in order to insure the continuity of the alliance, have observed a formula for power sharing in distribution of parliamentary seats and senior government jobs and ministries that largely reflected the size of their respective constituencies. As already alluded to, they also had an understanding on the general distribution of power and resources as well as on the development strategy. Disagreements among them on what policies to choose were resolved behind the scenes and the masses were informed only about the final policy outcomes

The power of public policy initiation and adoption has always been in the hands of this coalition of ethnic elites. But, even this obvious assertion disguises the fact that final decision-making has almost always been held by UMNO leadership who took advantage of the 1969 incident to consolidate their political power and impose controls and restrictions. Thus, the political arrangement generally mimicked consociation democracy, but there was no equal veto right between participants.

The point to be emphasized, however, is that the consociation nature of the regime together with its responsive approach to

policymaking are the main reasons explaining political stability and therefore- in association with other reasons- economic success.

The New Economic Policy in Malaysia (1971-1990)

The incumbent government in the aftermath of the 1969 riots, led by Tun Razak, adopted some punitive measures to bring the situation under control. It must be realized that the measures adopted were meant to be a temporary suspension and subsequent adaptation of the Westminster model of democracy to suit the political situation in a country characterized by: an explosive ethnic situation, huge income disparities, high incidence of poverty, ideological threats to the political regime posed by communist and Islamic parties and wide spread violence that might have led to anarchy and civil war. It is needless to point out that the ensuing situation called for a strong political regime capable of exercising firm control. The most salient measures included: firstly, a re-emphasis on the Internal Security Act which restricted basic freedoms of expression and demonstration. Secondly, suspension of elections at the local level for good, as they were blamed for escalating ethnic tensions, but national elections and state elections were not affected; they were resumed after two years of a transitional suspension. Finally, election results were cancelled, a National Operations Council was set up to govern the country and a state of emergency was declared and maintained ever since. Meanwhile, the use of ethnic ticket during elections was disallowed (Ahmad 1989)

In retrospect it seems that those who introduced the measures meant to slam the door shut in the face of possible factors and actors who might help intensify ethnic violence or mean to destabilize the political regime. By so doing they had reestablished control and thereby managed to cope with a difficult situation. This is part of the steering requirement where political actions are determined in

light of the situation rather than by adhering to a particular model of governance. Democracy was eventually restored after the drafting of the NEP albeit with transformed features. Those measures were subsequently used as a mechanism to filter out potentially divisive issues from the system and exercise control on the political environment in such a manner as to ensure regime continuity.

However, the most important outcome of this transitional period was the formulation of the New Economic policy (NEP) as a way of finally settling the grievances that led to the violence. In the following sections the salient phases of policymaking will be reviewed in terms of: agenda setting and problem identification, policy formulation, policy implementation and policy evaluation.

Agenda Setting and Problem Identification

The policy was launched under the previously outlined political circumstances when the NOC Government of Tun Razaq in which UMNO, the main Malay party, reigned almost unopposed. Meanwhile, the other most important party in the coalition, the Chinese MCA, was very much weakened by the result of the 1969 elections in which it was defeated by contending Chinese opposition parties. At first it was reluctant to participate in the NOC government because it attributed its own defeat to the concessions it had made to Malay leaders. (Case, 1996) But in the end it accepted participation despite at a substantially diminished role. In spite of its low share in power it still had considerable influence in economic policymaking through controlling the EPU and participation in institutions that drafted the policy, therefore, it had indirectly influenced policymaking winning concessions for Chinese interests as will be explained later.(Koon 1997)It is fair to state that the NEP and other economic policies accompanying it gave more priority to addressing the plight of the Bumiputera -

particularly Malays- while, at the same time, generally preserving the gains and rights of the other ethnic groups.

Policy agenda was largely set by the Malay dominated Department of National Unity at the prime minister's office, which drafted what came to be widely known as the problem statement and the goals of the NEP. It came out in favour of direct intervention by the government to eradicate poverty and eliminate imbalances. Meanwhile, the other organization, the Economic Planning Unit was composed of think tanks and was responsible for technical drafting and administering implementation of development plans and policies. This institution, which was dominated and led by Chinese, was in favour of continuation of its existing policies aimed at achievement of the highest possible rate of economic growth. However, the EPU also suggested introducing macroeconomic redistribution policies to cushion the income polarizing effects of such development policies. A third organization, the National Consultative Council, was used as a platform for wider participation in the final phase of policy legitimating since there was no parliament. (Koon 1997) In the end the DNU prescriptions prevailed but the Chinese were able to introduce changes which would insure that the NEP policy would not come at the expense of their community.

In terms of problem identification the government, justifiably, attributed the main cause of the riots to the ethnic imbalances that characterized society. Racial economic disparities and the high incidence of poverty among the population as a whole affecting nearly half the population- and Malay in particular- were deemed as deeply rooted in the structure of the economy and its dynamics. A survey conducted by the Department of National Unity disclosed the fact that in the Northern States of the country comprising: Kelantan, Terengganu, Kedah and Perlis income levels were lowest and far below the National average. The main occupations were found to be

traditional peasantry and fishing. Whereas in the western states of: Negeri Sembilan, Selangor, Perak and Penang, where the majority of the population were non-Malays, GDP per capita was highest and well above the National average. This represented the modern sector where: commerce, industry, mining and modern plantations were located. (Emsley 1996) Employment patterns and geographic location of ethnic groups confining Malays to the rural areas and non-Malays to urban centers inevitably resulted in a much higher incidence of poverty amongst the former.

Thus, while Malay represented three quarters of the labour force in the traditional sector their corresponding proportion in the modern sector was only one sixth of the labour force working in low paid jobs. The mean household income for Malays in 1970 was \$172 per month. For Indians it was \$304 while for Chinese the corresponding figure was \$379. The contrast becomes even more pronounced when we compare wealth or asset holdings. About 63.3% of assets were held by foreigners, 34.3% by Chinese in comparison to only 1.6% of assets owned by Malays. (Crouch 1996) Hence it was considered an imperative to rectify such a situation through direct government intervention

The policy was, on the basis of this understanding, geared towards achievement of rapid economic development and restructuring of society through the alleviation of poverty and mitigation of inequalities. Generally speaking, the strategy envisioned mitigation of existing problems through a redistribution of additional wealth created during the course of economic development in favour of the poor who were mainly Malay in rural areas. Agenda- setting and policy formulation was, therefore, inevitably based on Malay perceptions without totally disregarding the interests of their other partners in the Barisan National; but interests of other ethnic groups were rendered subservient to those

of Malay. Malay represented the main constituency of the BN and, by being responsive to their demands and needs, UMNO and Barisan National did not lose an election ever since

The Department of National Unity outlined the nature of the problem as an economic and ethnic imbalance featuring the following:

- 1- The average Malay has a lower standard of living than the non-Malay;
- 2- Malay form a much higher proportion in rural areas than towns;
- 3- Malays populate the relatively poor states and occupations to a higher degree than non-Malays;
- 4- Malays form a higher proportion of the force in low productivity traditional agriculture and a lower proportion of the workforce in high productivity modern Industry and commerce;
- 5- Within given industries and enterprises, Malays- as compared to non-Malays- typically hold lower echelon positions;
- 6- Malays have a significantly lower share of ownership of industrial and commercial capital.(Faland, 1990:39)

As already explained, both policy agenda setting and policy formulation were dominated by the Malay who also dominated the government of the NOC. There is evidence that Policymaking by the UMNO dominated elites coalition had always been done behind closed doors; an arrangement which enabled elites from the three ethnic groups to strike deals and settle their disagreements without inviting any mass media or public attention, thus appearing as a unified front in the eyes of the public. However, only outlines of the final policy outcome, which they had agreed upon, would

be publicly declared. This enabled more rationalized policies to be laid forth; at the same time it enabled the maintenance of the consociation nature of the system.

Policy Objectives

The NEP envisioned two paramount goals that were to be realized in a time span of twenty years from 1971 to 1990; they comprised:

- 1- Reduction and eventual eradication of poverty by raising income levels and providing more productive employment opportunities for all Malaysians irrespective of race;
- 2- Restructuring of the Malaysian society, through correcting economic imbalances, in order to reduce and eventually eliminate the association of race with economic function.

The two goals were seen as the means to promote national unity and integration (Rukunegara) as the state ideology. This will be achieved through a three prong strategy of:

- 1- Eliminating the identification of race with economic function;
- 2- Equalization of equity ownership by increasing Malay equity ownership to 30% of all equity by 1990;
- 3- Creation of a class of Bumiputra entrepreneurs in the areas of commerce and industry. (Emsley 1996: 26)

Policy Implementation

Implementation of NEP was another good example of firm control over political and economic variables as well as responsiveness to political demands. Thus, Goals and objectives

of the NEP were translated into four Malaysian five-year plans starting from the second to the Fifth Plans (1971-1990). Ostensibly, other policies laid forth during this period- such as: rural development, industrialization, education and privatization were either closely associated with the NEP or simply a manifestation of it. The planning machinery was an elaborate one on top of which was a number of ministerial committees under the Prime Minister to which the bureaucratic organization, the EPU, reported. The EPU has been made responsible for plan preparation, monitoring of implementation and correction of deviations. Responsibilities also include: plan reformulation in light of changing national and international economic environment. Thus the planning machinery was able to address the most important policy concerns of: technical efficiency, legitimating and coordination. It had the capacity to effectively exercise these functions.

It should be pointed out that Malaysia's form of planning was indicative planning whereby most of plan targets were expected to be implemented by the private sector through the market mechanism while the government provides policies and incentives for the private sector to insure achievement of targets. Socialist planning was never used as an approach to policymaking.

In terms of policy instruments a comprehensive set of such measures and institutional arrangements, which complemented each other, was laid forth to help realize the goals of the NEP. First of all a rural development program focusing on modernization of agriculture, productivity enhancement and augmentation of human services was directed at the sector where most of the poor reside. Secondly, the main thrust of the policy was to move Bumeputas from the traditional rural sector to the modern urban industrial and services sector. It was assumed that change of occupation and habitat was the real guarantee for poverty alleviation and of eliminating

association of ethnic origin with occupation. But, acquisition of new knowledge and skills was a prerequisite for movement from the rural traditional sector to the urban modern sector. Hence, emphasis on education as well as agricultural and industrial skills training represented the third dimension of the strategy. Finally, equity acquisition in order to restructure wealth ownership was approached through legislation and direct institutional intervention. (Emsley, 1996)

Institutional development went alongside program implementation. Thus, a Federal Land development agency (FELDA) was set up and charged with implementation of the rural development programme. It did so by opening up and developing new lands for the resettlement of rural people in modernized settlements as well as changing agricultural technology and crop patterns. (Koon 1997).

MARA (Majlis Amanah Rakyat) was established as a trust organization whose main purpose was to establish technical colleges and institutes where rural dwellers can acquire necessary knowledge and skills essential for transformation and movement to the urban industrial sector. Malay was to be used as a medium of instruction at all levels of education and quotas for admittance to higher education institutions based on weights of ethnic groups in the population were introduced. Educational policy as envisioned helped develop skills and qualifications essential for modern sector employment. In a sense, education policy, whose paramount goal was national unity and integration, shared the same goal with the NEP. Even though the setting of goals and general features of the educational policy preceded those of the NEP, yet, it can be claimed that its implementation represented the most significant instrumentality of the NEP. Through it, Malays were able to acquire skills that were highly demanded in the urban areas. As they had

no access to capital and lacked badly business skills education was the only door open to them to enter into the modern sector and gradually achieve equality with other ethnic groups. In addition, seen from a broader national perspective, the goals of rapid economic development could not be achieved without a matching expansion of educated and trained manpower to man job vacancies in the modern sector.

In a sense industrialization and encouragement of private sector development policies can be construed as equally instrumental in effecting the goals of the NEP as they had helped create job openings for those who moved from the rural to the urban sector. Quotas were specified for employment opportunities and share of equity for Bumiputera in all private sector firms by virtue of the Industrial Coordination Act 1975. (Koon 1997) Meanwhile, Squatting and other problems of urbanization and rapid industrialization were mitigated through the housing policy and urban poverty alleviation programs.

The objectives of increasing Malay equity holdings and creation of a business class have proved to be more elusive than poverty alleviation and change of occupations. It is useful to remember that equality in terms of wealth distribution is a prerequisite for a lasting ethnic equality. Hence, the creation of Bumiputera businesses and acquisition of equity on their behalf took place mainly under the auspices of government sponsored institutions. Among the earliest such institutions were MARA and Bank Bumiputera whose main objectives were to encourage Malay business development and provide finance. The National Corporation was created in 1969 to help develop businesses in a number of areas and proved to be of much help to business development in various fields. However, the National Equity Corporation, whose main purpose was to purchase equity on behalf of Malay community using government

funds, eventually replaced it. It achieved reasonable success in this field. (Emsley 1996)

The establishment of the Urban Development Authority was of no less importance in Malay business development in cities. Land in urban areas was primarily owned by Chinese; and one of the main goals of the corporation was to reserve land for Malay property development and subsidized businesses. In addition, it helped start transport companies run by Malays. Sufficient funds were earmarked for this purpose.

Inevitably, restructuring of society through the creation of Malay businesses in addition to quotas specified for Malay equity holdings in companies and job provision put a lot of pressure on Chinese businesses inspiring Chinese civil society and political organizations to exert pressures on government through their political party, the MCA. Such pressures resulted in softening the tone of policies to accommodate as much as possible Chinese interests by excluding many businesses from quota requirements and giving Chinese access to government contracts and financial institutions as well as Malay business companies of which they made maximum use. Privatization policy introduced towards the end of the 1980s further relieved the Chinese worries. (Koon 1997) These developments strongly indicate responsiveness of the system to its constituency from different ethnic groups.

Policy Impacts

Having outlined the policy and reviewed its implementation, it is essential to assess policy impacts in terms of the extent of realization of the policy objectives. First of all, the policy was by all means a resounding success as far as poverty alleviation was concerned. GDP growth rates were very high averaging 7% per annum throughout the policy implementation period. The economy was structurally transformed from a traditional agricultural economy

into a modernized one approaching full-fledged industrialization. These developments rather than the programs focused on poverty alleviation caused the incidence of poverty to decline sharply from 49.3% in 1970 to around 15% by 1990. Such achievements sound even more dramatic when we take into account the international recession of the 1980s. Malaysia, being an oil producing country, was not badly affected by oil price hikes which caused the recession.

The problem of identification of race with economic function was immensely mitigated at first by modernizing the rural sector; but the most important reason was, no doubt, the mass movement of Bumiputera from the rural sector to the modern urban sector. Change of occupational structure was made possible through education and training programs, on the one hand, and high demand for employment in the governmental and industrial sectors on the other. According to Crouch (1996), the percentage of Bumiputera in the middle class comprising of professional, technical, managerial and commercial activities rose from 22% in 1957 to 48.1% in 1990. Their employment among the working class experienced a similar rise from 26.5% to 46.5% while their participation in services increased from 39% to around 61%. In the meanwhile Malay employment in agricultural jobs rose from 62% to around 76%. It is useful to bear in mind that the main reason behind alleviation of poverty was more participation by Bumiputera in the secondary and tertiary sectors. Thus, the social structure witnessed substantial changes where identification of race with occupation and geographic location, to which races were confined by virtue of colonialist policies, was largely mitigated though not totally resolved.

In terms of ownership of equity and wealth, the share of Bumiputera was greatly enhanced from a dismal 1.6% to around 20% mainly through trust companies supported and encouraged

by the government in areas of: banking and finance, modern agriculture and mining. It is important to remember that most of the companies and shares purchased were those of foreign companies. Other ethnic groups have similarly increased their percentage of equity holdings at the expense of the percentage owned by foreign companies. Thus, the share of foreigners in equity ownership fell from over 63% to around 25%; meanwhile the share of the Chinese community actually rose from 34% to over 40% of equity ownership. This can be attributed to the reorientation of government policy in the 1980s by Tun Mahathir Administration, from a strategy spearheaded by the public sector towards a strategy of privatization and encouragement of private initiative from which Chinese benefited substantially; thanks to their prodigious financial resources and entrepreneurship.

Yet, it should be remembered that there was no shortage of foreign direct capital inflows; on the contrary it is widely believed that the sizable direct capital inflows- encouraged by both political stability and a favorable investment climate- was one of the most important factors behind what came to be widely recognized as the country's economic miracle.

A final sector that witnessed substantial progress was that of human resource development. The policy program period was marked by a sizable augmentation of human services and satisfaction of basic human needs resulting in a substantial improvement in human resource development indicators. This augmentation was effected through vivid educational, health and housing policies.

Conclusions

The sole purpose of this paper was to put forward a useful explanation of the success of Malaysia's New Economic Policy from which other countries can learn lessons.

The systems perspective is generally useful in explaining all policy-making situations but appears to be particularly suitable for explaining the case under consideration. The basic contention is that the stability of the political regime throughout the period of the policy planning and implementation period, a unique characteristic of Malaysia, serves as the main explanatory variable behind the effective social engineering in the form of enhancement of national unity, racial harmony and economic development that were introduced by the policy.

By way of contrast most Muslim countries achieved miserable failure in poverty alleviation so that today Muslims constitute the bulk of the poor throughout the World. However, almost all countries which registered exceptional success were oil-rich countries; Malaysia being an exception among such countries. (Paramanik: 2007)

However, it should be emphasized, that political stabilization, far from being accidental or natural was actually conscientiously pursued by the country's elite group composed of all sizable ethnic groups. The achievement of national unity (Rukunegara) through adherence to a consociation form of democracy employed by the predominant elite alliance helped position the governing elite in power ever since independence.

By the same token most other Muslim countries failed to achieve national unity as elites preferred policies of confrontation and polarization in place of compromise and accommodation resulting in intensification of social conflict which thwarted any successes in economic development.

The approach to politics adopted represents a steering approach whereby the governing elite adapted to ensuing political and economic situations and sailed flexibly through many political and economic tornados to emerge victorious. In addition, two other

factors can be pointed out as important for ensuring stability. The first factor pertains to the use of certain political control mechanisms introduced in the wake of the 1969 ethnic violence with the intention of thwarting occurrence of further ethnic violence. But such measures were maintained and used widely to control political situations and keep political opposition off-balance. Presumably the political opposition had no hope of dislocating the political regime installed by the governing elite without using the ticket of ethnic issues; but those measures and controls deprive them from using it.

In comparison the failure of democracy in most African countries was due to insistence on adherence to European models of democracy with all their unlimited freedoms. Such freedoms were almost always abused leading to anarchy and military takeover. Two of the three episodes of democracy in Sudan collapsed as a result of abuse of unrestricted freedoms resulting in a collapse of the economic system due to strikes and frequent processions and demonstrations leading to military takeovers.

The other factor concerns the credibility and responsiveness of the Malaysian regime in keeping up the expected level of delivery of benefits to the total population. The alliance has always been dominated by Malay politicians and, for this reason, managed to appeal to the larger part of them by preserving their interests without totally undermining the interests of the other ethnic groups. Through this responsiveness to popular needs of its constituencies it had always managed to secure a majority of votes to enable it to stay in power.

The stability, resilience and continuity of the Malaysian political regime in addition to a favourable investment climate helped attract foreign capital inflows which by its turn facilitated rapid industrialization and economic growth. Economic successes led to further consolidation of the legitimacy of the regime and its

ability to perform. There is no implication that the government must have followed the systems approach as an ideology but it is claimed that they learned through experience to steer flexible courses of action, quietly resolve problems and contingencies, use feedback, learn from mistakes and exercise political control. In systems thinking continuity and progress depend on coping successfully with environmental demands. Lack of ability to cope will always result in instability, systems decay and collapse of policy programs and, eventually, political regime.

Ample evidence can be invoked from the experiences of African countries in support of this speculation pertaining to the alternative path that leads to violence and regime instability as permanent features of most political regimes. Regimes lacked any rationalized policies to enhance national unity, economic growth or equity. In the face of failure to meet increasing political demands they get bogged down into endless violence and counter violence wasting the country's financial and human resources. Perpetuation of poverty was the inevitable result of this alternative model.

The NEP was used by the regime as an axel around which other major policies were skillfully coordinated resulting in a comprehensive policy package that facilitated goal achievement. It continued to be used as a strategy for subsequent development policies

Finally, even with the best political setting the policy being considered would not have succeeded without institutional capacity for efficient policy making, planning and effective implementation that characterized the policy system.

According to Paramanik (2007) institutional inadequacies were a paramount factor behind the failure of most Muslim countries to alleviate poverty.

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