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Abstract

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Malaysia: New Reforms, Old Continuities, Tense Ambiguities

WILLIAM CASE

Of the countries hit by the Asian economic crisis in 1997, Malaysia was the least hurt. The government was thus initially able to reject neo-liberal prescriptions, instead administering capital controls and corporate bailouts. However, despite short-term success, different kinds of foreign investors, top politicians and business elites, and mass-level constituencies gradually forced wide policy swings. Facing contrary pressures, the government fluctuated between 'orthodox' regimens of neo-liberal reforms and good governance agendas on one side and patronage and corrupt practices on the other. This article analyses these fluctuations, then speculates that re-equilibration may have recently have taken place.

I. INTRODUCTION

Among the countries hit by the Asian economic crisis in 1997, Malaysia was hurt least. Its 'mixed economy', featuring globalised enclaves geared to export production alongside protected local markets founded on non-tradeables, had long generated high rates of economic growth and political stability. Its banking sector and corporate structure were better regulated. Its business conglomerates had borrowed less from abroad. To be sure, amid the speculative activities and 'herd' effects that swept the region, Malaysia also suffered downward pressures on its currency and losses of foreign investment. But rather than turning to the International Monetary Fund (IMF), the government rejected neo-liberal prescriptions, instead administering capital controls and corporate bailouts. And while these controls were initially controversial, they were later acknowledged by many analysts as hastening the country's recovery [*Kaplan and Rodrik, 2001*].

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A closer inspection of the period since the crisis, however, reveals a more torturous progress. To be sure, Malaysia avoided the kind of social and economic dislocation that afflicted Thailand, South Korea, and Indonesia. But it later discovered that the crisis had eroded the compatibilities that had existed between its globalised enclaves and protected local markets. More specifically, while the pursuits of foreign direct and portfolio investors, top politicians and local business elites, and mass-level constituencies had earlier reinforced one another, they now diverged sharply, producing new tensions in Malaysia's political economy. In brief, foreign investors and mass-level constituencies now looked critically upon the dealings between politicians and business elites. But when the government began to limit patronage and corrupt practices, it alienated many politicians and the business elites with whom they were allied, without necessarily rekindling foreign investment or mass-level support.

Similarly, prior to the crisis, in sustaining globalised enclaves and protected local markets, the government had charted a fairly even course between statist interventions and market forces, producing 'middling' amounts of corruption and reasonable levels of governance. But after the crisis, in trying to manage new shifts in market conditions and multi-layered political pressures, government policy responses fluctuated widely, veering between new kinds of controls and neo-liberal reforms.

The main aim of this article, then, is to chart these policy swings. It will also demonstrate that their purpose has mostly been to manage the tensions which, after the crisis, set in between foreign investors, local politicians and business elites, and mass-level constituencies in order to restore the country's fundamental posture of globalised enclaves and protected local markets. Though there is much overlap and ambiguity, four policy phases can be identified. In the first, the government gave emphasis to statist interventions, invoking the capital controls and corporate bailouts that cheered those politicians and business elites who were favoured. But in the post-crisis setting, this alienated foreign investors and mass-level constituencies, encouraging the government finally to rescind most of its controls, while removing many of the business elites who had benefited from bailouts.

In a second phase, then, the government turned to market forces, trumpeting neo-liberal reforms and good governance agendas in both public and corporate sectors. But this new market thrust failed to re-energise foreign investors. At the same time, it appeared to alienate many politicians in the country's dominant party, the United Malays National Organisation (UMNO), who sought to resume the patronage and business links through which they had long prospered. Thus, with neo-reforms producing few economic gains, yet testing political loyalties, the government began to abandon them.

In this third phase, UMNO politicians regained some access to patronage, albeit at lesser levels than prior to the crisis. In addition, a new heavily promoted business elite gained sudden prominence, buoyed by a rash of large state contracts. But this risked inflaming mass-level constituents anew, with resentments over patronage and corrupt practices generating support for an Islamist opposition party, *Parti Islam se-Malaysia* (PAS). At this juncture too, leadership change took place, with Malaysia's long-time prime minister, Mahathir Mohamad, succeeded by his deputy, Abdullah Badawi.

Thus, in a fourth phase, presently underway, the government is renewing its reformist commitments, again limiting patronage while decrying corruption. And the results from general elections, held in March 2004, suggest that this most recent neo-liberal tilt, braced by perceptions of Badawi's religiosity, is indeed helping the government to re-energise mass-level support and foreign investment, with voters awarding the government large majorities and fund managers again calling on Kuala Lumpur.

So far, however, while many UMNO politicians and local business elites are probably discontented, they have remained subdued by the size of Badawi's new mandate. But unless the earlier compatibilities between globalised enclaves and protected local markets have finally been restored, the assumptions underlying this analysis would lead us to expect some resistance from politicians – and any new cohorts of Malay business elites – hence blunting Malaysia's reformist progress. Still, during his first half-year in office, Badawi demonstrated much skill in re-equilibrating diverse interests.

II. GLOBALISED ENCLAVES, PROTECTED LOCAL MARKETS

For several decades prior to the crisis, Malaysia's government staked out some globalised enclaves with which to attract foreign direct investors. Yet it also protected local markets in order to promote 'indigenous' Malay business elites. These twin orientations, while seemingly contrary in nature, were separately pursued, yet discretely linked, thereby achieving some productive synergies. In brief, foreign direct investors, geared principally to export manufactures and petroleum extraction, contributed to the economic growth and revenues through which Malay business elites could be funded. In turn, these business elites, by operating in protected local markets, generated 'excessive' profits that gratified foreign portfolio investors and lenders. Further, by making reciprocal payments to UMNO, Malaysia's dominant political party, these business elites helped reaffirm loyalties to the government among top politicians. In addition, their heightened statuses bolstered ethnic pride among wider Malay followings. Politics were thus stabilised in ways that fed back again to benefit foreign investors, whether direct or portfolio in their character. Accordingly, Malaysia's mixed economy, producing rapid growth and stability, enabled the government initially to resist the crisis-induced pressures for reforms that engulfed other countries in East Asia. Let us briefly examine the origins and functioning of this mixed economy of globalised enclaves and protected local markets.

When Malaysia was decolonised in 1957, it was left with reasonably free markets, perpetuating its dependency on British investment and commodity exports. Further, to the extent that local entrepreneurs and non-bureaucratic middle classes began to appear, they remained almost exclusively Chinese, deepening grievances among urbanising Malays [*Jesudason, 1989: Chapter 3*]. Thus, when elections were held in 1969, the dominant UMNO won, but was gravely weakened, with Malay support gravitating to the opposition PAS. At the same time, ethnic Chinese support for UMNO's subordinate coalition partner, the Malaysian Chinese Association (MCA), fell to some new Chinese parties in opposition. The Malays were taken aback by this sudden erosion in UMNO's standing. In turn, the Chinese celebrated, holding 'victory' processions throughout Kuala Lumpur, culminating in a watershed event of ethnic rioting known locally as the 13 May incident [*Von Vorys, 1975*].

In the aftermath of this upheaval, a faction of new politicians gained ascendancy in UMNO, then 'restructured' the economy and political institutions. First, to revitalise the economy, the government began to wield state power in more developmental ways. It thus shifted much foreign direct investment from commodities production into export manufacturing, especially consumer electronics. To this end, free market conditions were perpetuated within globalised enclaves labelled free trade zones (FTZs), characterised by flexible labour markets and low tariffs on the importation of capital goods necessary for re-exports [*Jesudason, 1989: 173–76*]. In addition, the government began to participate in the economy more directly, pursuing concerted policies of import substitution and industrial deepening. A range of state-owned enterprises was thus introduced, geared to steel, cement, paper, and automobile production.

These new patterns of investment, abetted by rising prices of petroleum exports during the 1970s, created the conditions in which the government could also restructure the ownership patterns and occupational profiles associated with its 'plural society' [*Furnivall, 1956*]. To ease the resentments of its Malay followings over their small stakes in the economy's modern sectors, the government unveiled a massive programme of 'reverse discrimination' called the New Economic Policy (NEP). The Malays were then given managerial training through quotas on ethnic hiring, both by new state-owned enterprises and Chinese-owned companies, ownership stakes involving a 30 per cent quota on corporate equity, entrepreneurial experience through a favoured distribution of state contracts, licences, and credit, and new middle-class statuses through ethnic-based discounts on home and automobile purchases.

Foreign direct investors, operating in the FTZs, remained largely insulated from these socio-political pressures, enabling them to compete effectively in global markets. But through direct employment, general economic prosperity, and sundry spillover effects, they helped to buoy new cohorts of Malay executives, professionals, and workers. In addition, they secreted enough corporate taxes, campaign 'contributions', and informal payments that the government gained the resources which, when supplemented by petroleum revenues, funded the promotion of Malay business elites in protected local markets. Through closed tender state contracts, concessions, discounted share issues, and state bank loans, these business elites made their way into non-tradeable sectors, especially infrastructure development, property, and finance [*Gomez and Jomo, 1997: Chapters 4 and 5; Jomo, 2001: 2–4*].

During the 1970s and early 1980s, Malay business elites were initially promoted through state-owned enterprises, later through UMNO's new corporate investments. But after recession in the mid-1980s, state assets were privatised and UMNO holdings were divested to business elites nominally located outside the party. At the same time, these business elites were encouraged to collaborate with the Chinese, some of whom grew to be similarly favoured [*Searle, 1999*]. This promotion was exercised in highly personalist ways, mainly by the prime minister, Mahathir Mohamad, the UMNO treasurer, Daim Zainuddin, and the deputy prime minister and finance minister during much of the 1990s, Anwar Ibrahim. Their motivations appear to have been mixed, Mahathir wishing to nurture a Malay capitalist 'class' while expediting various projects, Daim seeking trustees behind whom he might conceal his family wealth and conflicts of interest, and Anwar trying to entrench his political support [*Gomez, 2002: 108*]. But they all benefited from UMNO's mediation of patronage, summoning a reverse flow of funding from Malay business elites to the party in the form of contributions, donated shares, and friendly takeovers of ailing UMNO-related companies [*Searle, 1999: 149, 158; Jomo and Gomez. 2000: 296*].

But whatever its finer motivations, this promotion of favoured Malay business elites contributed broadly at this juncture to economic growth and political stability. First, in terms of growth, while this promotion has in most accounts been critically dismissed as rent-seeking, clientelism, and 'crony-ism', it was precisely the limits on competition that made possible the speculative profits that draw foreign portfolio investors and lenders to emerging markets. Meanwhile, free market enclaves mostly remained insulated, attracting foreign direct investors geared to more competitive global markets. In this way, we can understand the seeming paradox in

Malaysia of rapid economic expansion paralleled by voracious rent-seeking [*Khan, 2000*].

Second, in terms of political stability, the rise of Malay business elites, far from exacerbating the disparities that trigger social grievances, inspired a broader sense of 'group worth' among the Malays, hence aiding the community in its collective rivalry with the Chinese. As Jesudason [*1989: 10–12*] observes, 'feelings of envy and jealousy might well occur within the group, but within the broader system of inter-ethnic contention for recognition and worth, the less successful might have a stake in defending the *nouveau riche*' [see also *Shamsul, 1997: 240–61*]. Thus, UMNO refreshed its status as an ethnic 'protector', consolidating its Malay followings. What is more, though the Chinese bore much of the cost of this socio-economic restructuring, they appeared to appreciate over time the easing of Malay discontents. And as both communities prospered during the rapid economic expansions of the 1990s, they began to cohere in a new national identity, '*bangsa Malaysia'*, part of the Vision 2020 schedule of full socio-economic development [*Hilley, 2001*].

'Regulated Illiberalism'

Despite the illiberal tenor of Malaysia's local markets, it is wrong to suggest that business dealings went entirely unregulated. As Khoo Boo Teik [*2000: 220*] notes, the country possesses a formal regulatory apparatus by which to enhance governance, especially in banking and corporate organisation. Much of this was set up during the mid-1980s when, confronted by recession, the government began to privatise state assets and contracts, yet bypassed UMNO in order to issue them directly to business elites. Still, the enforcement of regulations remained uneven, producing different implications for Malaysia's mixed economy.

On the one hand, the regulatory apparatus imbued local markets, however illiberal, with greater structure and resilience. Thus, as we will see in the next section, this enabled the government to resist pressures for still greater liberalisation during the crisis. At the same time, while advanced by regional standards, regulation was selectively carried out, with elite-level transgressors only reined in after falling from political favour. Thus, we will see too that with the structure and resilience of local markets limited, foreign investors remained wary after the crisis, helping prompt the government after a hiatus finally to embrace neo-liberal reforms. Let us briefly review Malaysia's selective regulations of business elites prior to the crisis in order better to evaluate the changes that were made afterward.

Malaysia's central bank, *Bank Negara*, gained broad powers of supervision over the banking sector in 1989. Though hardly independent, it was subsequently able to preserve some arms-length relations between privatelyowned banks and corporate interests. Most notably, banks were limited to holding ten percent of the equity in any one company, denying them a controlling shareholding, while bank officials were barred from sitting on any company board of directors [*Economic Analytical Unit (hereafter EAU), 2002: 135*]. Thus, while state-owned banks like Bank Bumiputra, Maybank, and Sime Bank often lent to favoured Malay business elites on highly concessionary terms, private banks never grew so entangled in business conglomerates in Malaysia as they did in many other East Asian countries.

In the corporate sector, the government introduced strict rules during the 1980s on the composition and functioning of company boards. Henceforth, the number of directorships that any one person could hold was limited; one-third of the board members in any listed company had to be independent; and all directors were required to attend accreditation programmes. Companies were required to set up internal audit committees, while reporting standards were strengthened by the government's instituting the Financial Reporting Foundation [*Malaysian Accounting Standards Board, 7 July 2003*]. At the same time, the beneficial holders of equities had to declare their statuses, reducing the abuses associated with 'trustees' and nominees.

Amid this regulatory stringency, what kinds of business practices emerged? It can be shown that in Malaysia many corrupt or unprofessional behaviours were moderated. By regional standards, corruption was generally regarded by international observers to have been kept within bounds [see *Transparency International, 2002*]. Family ownership, risking unprofessional management, intra-group lending, and cross-subsidisation, remained 'well below' the levels found in Indonesia, Thailand, and the Philippines [*EAU, 2002: 135*].

Nonetheless, the tacit immunity granted many Malay business elites ensured that there were wide-scale abuses. In extending their conglomerates, these business elites often restrained their local borrowings, instead relying heavily on equity manipulations. Typically, they took the assets that were privatised to them through closed tendering, then injected them into a listed firm that doubled as a holding company. Enjoying buoyant stock market conditions throughout most of the 1990s, they then stood by as their share prices soared, permitting still more rapid expansion to take place. Acquisitions could also be funded through reverse takeovers, share swaps, bonus and rights issues, while some of the biggest conglomerates turned finally to heavy, but short-term borrowing from abroad [*Gomez, 2002: 101*]. In this way, business elites who were politically promoted avoided much of the regulatory apparatus that had been put in place, enabling them to establish themselves as high-profile owner-managers, quite unaccountable to minority share-holders.

Prominent examples of Malay business elites during this period included Halim Saad, managing director of Renong, a company closely associated with UMNO and involved in infrastructure and construction, and Tajudin Ramli, chairman of Malaysia Airlines and Naluri, involved in transport and communications. Wan Azmi Wan Hamzah, Amin Shah, and the prime minister's son, Mirzan Mahathir, turned respectively to property development, port facilities, and shipping. But even though gaining some specialisation over time [*Gomez, 2002: 100*], these entrepreneurs rashly extended their conglomerates within their respective domains. In this way, they deepened their indebtedness, over-invested, and contributed to the pumping up of large asset bubbles.

III. CRISIS AND CONTROLS

East Asia's economic crisis during 1997–98 has inspired a vast literature, making it unnecessary to rehearse debates here over its origins and impact. But what stands out from the perspective of this analysis is that although Malaysia, like other countries in the region, was burdened by an overvalued currency, current account deficits, and large external borrowings, Stephen Haggard [*2000: 59*] observes that debt remained low as a proportion of GNP, while its maturity structure and service ratios were 'extremely modest' by regional norms. This comparatively benign record can be attributed to the government's having long operated a mixed economy of globalised enclaves and protected, but not unregulated local markets, sustained by a balanced deployment of statist interventions and market forces.

Of course, the crisis affected Malaysia too, with herd effects blinding foreign portfolio investors to the differences between East Asia's national markets. Moreover, Malaysia's concentration of 'institutional power', in narrowing the range of top decisional arenas, precipitated a series of sharp policy reversals and conflicts, further unnerving foreign investors while encouraging speculators [*MacIntyre, 2002*]. In brief, Mahathir joined forces with Daim in recommending stimulus packages and bailouts. In turn, Anwar ordered that bailouts be withdrawn, instead advocating an austerity that amounted to 'an IMF package without the IMF' [*Haggard, 2000: 61*]. In assuming this neo-liberal posture, Anwar appeared to recover some of the youthful ideals that he had once possessed, even if denoted now by his levelling playing fields in business rather than his earlier Islamised notions of social justice. At the same time, these new neo-liberal commitments enabled him to pursue more worldly ambitions, dismantling the networks of local business elites and top politicians in UMNO upon which Mahathir's paramountcy depended.

Several accounts have been offered of the struggles that took place between Mahathir and Anwar after the crisis, involving a leadership challenge, sharp factional tensions in UMNO, and a new social movement for reform [*Jomo, 1998; Case 1999, 2003; Weiss 2001, 2003; Hwang 2003*]. Thus, it is enough to note here that Mahathir worked through the party apparatus, then deployed the judiciary in order rudely to purge Anwar, thereby gaining a free hand with which to respond to the crisis. In brief, availed of the economic resilience that a mixed economy had produced, as well as an administrative capacity derived from regulatory experience, Mahathir was able to avoid the IMF. Instead, he introduced a package of capital controls, the main elements of which pegged the Malaysian currency to the U.S. dollar at a moderately low rate, banned the currency's trade offshore, and prohibited foreign investors from repatriating capital gains that had been made on the sale of local equities [*Beeson, 2000; Haggard and Low, 2000*].

There is no doubt that among the agendas pursued through these controls lay an explicitly political one, insulating the Kuala Lumpur Stock Exchange, for example, from the international fallout over Anwar's purging and the corporate bailouts that were undertaken. But in economic terms, the low ringgit peg also stopped more mundane speculation against currency and stock valuations, while renewing export competitiveness. In addition, the offshore trading ban halted capital flight, allowing reductions in interest rates and business expansion. Thus, local business elites, their planning horizons extended and their operations more easily financed, acclaimed the capital controls. Some prominent international economists and financial analysts also gave their approval, however grudging [*Kaplan and Rodrik, 2001; Asia Times, 1999*].

Further, with the capital controls in place, the government deployed its administrative capacity more deeply, setting up a pair of new state agencies through which to revive the banking system. Briefly, Danamodal undertook the recapitalisation of banks, while Danaharta, a national asset management company, disposed of the banks' collateral that the government acquired. In this way, nearly 75 per cent of the banks' US$12 billion in non-performing loans were resolved by the end of 2001, generating fresh loan stock for local businesses.

However, despite the parallel formation of the Corporate Debt Restructuring Committee, comparatively little was done during this time to undertake equivalent reforms in the corporate sector. Instead, the government resorted to bailouts, the most conspicuous beneficiaries of which were Mirzan Mahathir and Daim's top proteges, Halim Saad, Abdul Rahman Maidin, and Tajudin Ramli [*Haggard, 2000: 162–71*]. Mirzan's indebted shipping interests were bought out by the national petroleum company, Petronas.

Renong's debts were partially met by drawing on the group's only profit-making subsidiary, a government tollway concession, as well as money taken from the Employees' Provident Fund (EPF), the state-run superannuation scheme. Malaysian Resources, a construction and media group headed by Rahman Maidin, also received EPF assistance. Further, when Malaysia Airline System, the national carrier, began to founder, the government purchased the shares held by its chairman, Tajudin Ramli, at pre-crisis rates that greatly advantaged him [*Far Eastern Economic Review (FEER*), *2000: 70–74*].

Accordingly, Malaysia's government, more than its counterparts in Thailand, South Korea, and Indonesia, was able to resist immediate pressures for neo-liberal reforms. Instead, through the recapitalisation of banks (efficiently undertaken) and the provision of bailouts (selectively offered), the government perpetuated key networks of UMNO politicians and local business elites. What is more, the earlier compatibilities between foreign direct investors in globalised enclaves and local business elites in protected markets persisted, with the low currency peg sparking an export-led recovery during 1999–2000.

IV. AFTER THE CRISIS: NEO-LIBERAL REFORMS

It soon became clear that despite Malaysia's economy having displayed greater resilience than those of other countries affected by the crisis, its recovery, though rapid, was only partial. While foreign direct investors remained active in globalised enclaves, foreign portfolio investors had been made wary by the crisis of local business elites and the 'excessive' profits that had been generated through protected local markets [*Jomo, 2001: 137–51*]. Their suspicions had been heightened too by those parts of the capital controls that had hampered their repatriation of capital gains, even if the package had been more broadly sanctioned by many economists. In these circumstances, Malaysia's equity markets, while avoiding collapse, failed to regain their earlier vigour.

Furthermore, the bailouts given to Malay business elites, contrasting with the uncertainties endured by social forces, soon fuelled more mass-level resentments than any sense of group worth. Hence, these business elites, once venerated as '*korporat Melayu*' (corporate Malays), were widely derided now as 'cronies' and 'proxies'. As Jesudason warns, even within a solidary ethnic community, mass-level forbearance of material inequalities is not eternal. Though mass followings may accept inequalities for a time 'because they take the increase of living standards of their peers as a predictor of their future situation .. . . the hope for future benefits must at some point square with the receipt of actual benefits' [*Jesudason, 1987: 11–12*]. But elite-level bailouts now diminished mass-level prospects, with grievances over the government's having drawn on worker savings in the EPF swelling into an acutely felt sore point.

Street protests broke out in Kuala Lumpur during late 1998. The government was able to contain them, but was then confronted by a more disciplined reform movement, one galvanised by resentments over the punishing of Anwar, the bailouts given to Malay business elites, and the broader patterns of corruption to which, because of economic uncertainties and hardship, social forces were no longer inured. Further, the Malay segment of this movement intensified its religiosity, perceiving that social injustices were now so pervasive that they could only be resolved through a deeper Islamisation of state institutions.

This social ferment enabled PAS to make great gains in the general election held in late 1999, with the party capturing upwards of half of the ethnic Malay vote [*Weiss, 2000; Case, 2001*]. Thus, while Malaysia's first-past-the-post system greatly distorted the conversion of popular vote totals into the parliament's 193 seats, PAS nonetheless increased its share dramatically from seven to 27, while UMNO's fell from 88 to 72, ousting a half-dozen cabinet ministers and deputies. In addition, PAS won control over two state assemblies, the traditional 'Malay states' of Kelantan and oil-rich Terengganu. Accordingly, the 1999 election did less to legitimate the UMNO-led government's return to power than to register the rise of PAS.

Thus, foreign portfolio investors and local Malay followings, duly estranged from local business elites, demanded from above and below that the government embrace neo-liberal reforms. Further, during late 2000, foreign direct investment and export markets began also to weaken. In this situation, the government appeared finally to relent. It thus let most of the capital controls package lapse, with only the peg and the offshore trading ban remaining in place. And most of the business elites who had benefited from bailouts were now stripped of their positions and assets. At this juncture too the government began to refurbish its regulatory apparatus, giving new attention to neo-liberal reforms and good governance agendas. Indeed, by mid-2002, a monitoring unit within Australia's Department of Foreign Affairs evaluated Malaysia as second only to Singapore in 'lead[ing] Southeast Asia in corporate governance, with excellent regulations, open, flexible markets and an active community of relevant non-government organisations' [*EAU, 2002: 134*]. Let us trace this policy shift in greater detail.

In mid-2001, Daim Zainuddin, the topmost patron of Malay business elites, was forced from the cabinet by Mahathir. Daim's involvement in the bailouts, especially his arrangements for Tajudin Ramli, had triggered such popular outrage that Mahathir now found it expedient to remove him [*FEER*, *2002d:*

40]. The removal of Daim opened the door also for the ouster of many of his protégés from their corporate positions. With respect to Tajudin, the Securities Commission even blocked his attempts later to salvage such corporate stakes as he retained [*FEER, 2001b: 56*], while police investigations were launched against him for false invoicing.

A year after Daim's removal, Mahathir announced his own resignation as prime minister, to take effect in late 2003. While the crisis had sharply diminished Mahathir's achievements, transposing his image from that of a rapid industrialiser and social conciliator into an electoral liability for his party, he at a stroke recovered some of his earlier standing. In voluntarily resigning, Mahathir belied the opposition's depicting him as a despot clinging interminably to power. One notes too that his resignation was preceded by that of his second son, Mokhzani, from his corporate positions, helping to dampen criticisms of first-family nepotism [*FEER, 2001a*].

As the networks between local business elites and top politicians were dismantled, the government introduced more regularised procedures in both public and corporate sectors, replete with master plans and codes of conduct geared to neo-liberal reforms and good governance. During this period, the government issued in rapid succession the Capital Market Masterplan, the Financial Sector Masterplan, the Code of Conduct for Market Institutions, and the Code of Corporate Governance.

With new doctrines in place, reforms began with state-owned enterprises, most notably the telecommunications and energy utilities, Telekom and Tenaga. By introducing what was now regarded as corporate best practice, the positions of board chairman and chief executive officer were separated [*EAU, 2002: 142*]. Similarly, state agencies that held listed assets, whether to rehabilitate the interests of those Malay business elites who had been ousted, to undertake cross-ethnic redistribution, or to fulfil developmental visions, began in some instances to increase their holdings, then reform their management structures. Through Danamodal and Danaharta, the Employees' Provident Fund, the National Equity Company (PNB, tasked with acquiring equities on behalf of indigenous followings), Petronas (the national petroleum company), Ministry of Finance Inc. and Khazanah Holdings (the government's investment arms), the state came to be the largest holder of listed firms in the region after the governments of China and Singapore [*EAU, 2002: 136*]. Such vast state ownership is often looked upon critically as a wellspring of corruption and inefficiencies. But in the Malaysian case, the re-nationalisation of assets was viewed as an improvement upon the business practices of the prior owner-managers, the Malay business elites.

Danaharta replaced the directors and managers of the firms it acquired with special administrators, rehabilitating these entities before returning them to the market [*EAU, 2002: 139*]. The EPF, holding five percent of the Kuala

Lumpur Stock Exchange's (KLSE) capitalisation through some 70 companies, together with the PNB tried also to improve the governance of the companies in which they invested, setting up surveillance units to monitor managerial performance [*EAU, 2002*]. Finally, in restructuring Malaysia Airlines, the government fashioned a 'special purpose vehicle' in order to isolate, then revive money-losing activities, enabling more profitable operations like international travel and freight forwarding to persist under private ownership in competitive market conditions [*FEER, 2002a*].

The government extended its neo-liberal reforms and good governance agendas into corporate sector dealings. The defence minister, Najib Razak, tipped as a prime ministerial contender, called openly for the better regulation of Malay business elites:

> The efforts to create a new class of *bumiputera* [indigenous] business leaders have fallen short of our expectation, [though] not because it is the wrong strategy. What did go wrong – and it is more evident that there has been a lack of controls placed on these icons of success – is in the management and governance of the companies they lead [quoted in *The Star, 2002c: 22*].

Central to this new regulatory thrust was the Securities Commission which, while formed in 1993 to enforce corporate compliance with listing rules and accountancy standards, was strengthened by the provisions of the new Capital Market Masterplan. It was given force too by the personal interventions of Nor Mohamed Yakcop, the prime minister's special economic advisor [*FEER, 2002b*]. In emphasising executive professionalism over entrepreneurial acquisitiveness, the commission began to impose firewalls between managerial roles and corporate ownership [*The Star BizWeek, 2002: 14*]. Further, in giving new attention to minority shareholders, it began to investigate ways in which they could be given cumulative voting rights [*EAU, 2002: 145*]. A new code on mergers and acquisitions was also introduced, whereby shareholders would be able to consider all takeover offers.

At the same time, the KLSE began to enforce listing requirements which, in the view of some analysts, came to be 'amongst the best in East Asia and similar to London Stock Exchange Rules'. Directors of listed companies were now required to address matters of governance in their annual reports. Where found negligent, listed companies, as well as individual directors could be investigated by the KLSE. By mid-2001, the KLSE had conducted nearly 500 investigations, while taking more than 100 enforcement actions [*EAU, 2002*]. Similarly, new accounting standards, introduced by the Malaysian Accounting Standards Board and recorded in law, were evaluated as exceeding US standards. The audit committees of listed companies had henceforth to be chaired independently, while all committee members were to be trained in the Malaysian Code of Corporate Governance [*EAU, 2002: 144–45*].

Lest one fully equate these new reforms in Malaysia with the tenets of the Washington consensus [*Beeson and Islam, this volume*], one notes the greater emphasis that was also given to Islamic banking and financial instruments. Mahathir himself outlined the ways in which lending practices sanctioned by Islam, replacing the levying of interest charges upon borrowers with a profit-sharing that establishes lenders and clients as partners, may discourage the speculative activities and asset bubbles that featured so prominently in the crisis. Through profit-sharing arrangements, he has argued, lenders have a greater stake in the long-term viability of the ventures in which they take part.

To this end, the government advanced a parallel banking sector based on *syariah* principles. Alongside Bank Islam Malaysia chartered in 1983 and the Interest-free Banking Scheme and Islamic Interbank Money Market introduced during the early 1990s, yet another Muslim banking institution, Bank Muamalat Malaysia, was formed in 1999 [*New Straits Times, 2002a: S1*]. Private banks also began to offer services sanctioned by Islam, while Bank Negara exercised regulatory control through the Syariah Council. As evidence of the probity with which these schemes were seen to administered, Azman Hashim, chairman of a major banking entity, the AmBank Group, observed that half of his customers for Islamic banking facilities were non-Muslims: 'This is good. For us to survive in the long term, Islamic banking must be able to compete with conventional banking and be as good, if not better' [quoted in *The Edge, 2002b: 70*].

Finally, this strengthened regulatory apparatus was complemented by a range of new NGOs, including the Malaysian Association of Asset Managers and the Minority Shareholders' Watchdog Group, geared to the protection of client and investor interests [*The Edge, 2002a: 36*]. Additional groups included the Malaysian Institute of Corporate Governance, the Federation of Public Listed Companies, the Malaysian Institute of Accountants, and a Malaysian chapter of Transparency International.

In acknowledging these new commitments to market reforms and good governance, Moody's, Fitch, and Standard and Poor's upgraded their ratings of sovereign risk in Malaysia during 2001. Foreign portfolio investment began to trickle back in, at least briefly, pushing up the KLSE's valuation by nearly 20 per cent at year's end. In mid-2002, the *Far Eastern Economic Review* proclaimed that '[t]oday, Malaysia's banks are among the best in the region'. It also noted that Danaharta 'could be the first such global agency to turn a profit'. And it quoted the regional head of ABN Amro in Singapore who opined that '[a]part from Korea, Malaysia could be the best-regulated and most transparent market in Asia right now' [*FEER, 2002c: 40*].

In sum, while Malaysia weathered the initial shock of the economic crisis, avoiding the IMF in order to administer capital controls and bailouts, its once robust mixed economy only partially recovered. Foreign portfolio investors had been made wary by the crisis of local business elites and of what they perceived as the government's capricious interventions. Further, their doubts resonated with Malay mass publics who, even if distrusting market liberalisation, seemed to view it as preferable to the on-going promotion of co-ethnic tycoons. Hence, as foreign direct investment and export markets began also stagnate, the government turned finally to neo-liberal reforms and good governance agendas.

V. NEW STATIST INTERVENTIONS

Despite Malaysia's reforms and improved governance, foreign investors mostly remained indifferent. Foreign direct investors were deterred by rising wage rates, coupled with declining export markets for electronics in the United States, especially after 11 September 2001. They fretted too over Islamic resurgence and religious terrorism across much of maritime Southeast Asia. These investors did not abandon Malaysia's globalised enclaves. But they reduced their stakes, retrenching large numbers of workers while shifting many of their activities to China [*BizAsia.com, 2003*].

Foreign portfolio investors also remained guarded, only briefly probing Malaysia's equity markets [*FEER, 2002c: 41*]. As one key example, the world's largest public pension fund, the California Public Employees' Retirement System (CalPERS), with nearly US$2 billion invested in emerging markets, abruptly sold upwards of US$300 million in Malaysian equities in 2002. Sceptical of the government's reforms, CalPERS officials cited the country's having scored lowly in terms of market openness, as well as in three newly specified areas of good governance, namely, transparency, political stability, and acceptable labour practices [*The Star-Business, 2002: 1; see also FEER, 2002c: 41*].

At the same time, to the extent the government reformed local markets, it alienated many politicians in UMNO whose fortunes depended on patronage, as well as their networks with local business elites that facilitated exchanges of payments and 'contributions'. Thus, as Mahathir worked to reduce patronage in his party, he soon encountered resistance. For example, prior to UMNO's holding its assembly election in mid-2000, a process by which party officers are selected, Mahathir banned the campaigning for posts that fuels 'money politics', that is, the promise of government licences, business contracts, overseas holidays, and vulgar cash packets that typically sway delegate sentiments. In addition, after arranging for his own presidency of the party to remain uncontested, he made known the identities of the candidates he preferred for the party's three vice-presidencies. However, with delegates angered by Mahathir's rendering his own post inviolable while trying to rein in their rewards, they rejected his slate in order to elect vice-presidents who were more plainly identified with patronage [*Chin, 2000: 19–23*].

In addition, during preparations for UMNO's divisional elections held a year later, choosing the delegates who would attend the next assembly in 2002, they rebuffed proposals made by Mahathir to limit rent-seeking, in particular, his suggestion that 'rich' aspirants be barred from contesting these elections, while existing divisional heads be prohibited from bidding on state contracts [*The Star, 2001a*]. Thus, as Mahathir reflected on his declining capacity to control party patronage, he lamented, 'I have tried asking nicely, begged and even cried.. . . Money politics is the worst kind of disease which can cause UMNO to rot from within' [*The Star, 2001b*]. His new deputy, Abdullah Badawi, warned too about the causal links between patronage and mass-level resentments: '[t]he perception that UMNO is a corrupted institution has to be changed. UMNO needs to take firm steps to restore its credibility and image so that some people no longer view it with contempt or disgust' [quoted in *The Australian, 2001*].

But with neo-liberal reforms having failed to rekindle foreign investment, yet testing the loyalties of top politicians in UMNO, the government began once again to change tack. Scouring for ideological ballast, Abdullah Badawi now asserted the futility of regulatory improvements, especially amid the inequalities posed by globalisation.

> Developing economies facing imminent economic collapse are roundly condemned, pilloried, and punished by global institutions when they bail out troubled companies. We are accused, among other things, of cronyism and corruption. These same global institutions turn a blind eye to the same practices when large companies in rich nations are bailed out [quoted in *The Star, 2002a: 2*].

Thus, during 2002, the government began to canvass a 'reinvention' of Malaysia's economy [*Pereira, 2002*]. Though never fully specified, this campaign appeared to possess two prongs: a downward shift from global to regional markets, made manifest in an 'ASEAN + 3' secretariat (that is, the ASEAN countries plus Japan, China, and Korea) to be headquartered in Kuala Lumpur, complemented by a renewed promotion of local markets, especially in agriculture, small business, and services [*FEER, 2002–03*]. Meanwhile, the provisions of the 2002 national budget indicated the government's new ambivalence over foreign investment, leaving undiminished what is by regional standards of high corporate tax rate of 28 per cent.

While de-emphasising Malaysia's role in the global economy, the government began likewise to step back from its regulatory apparatus, one whose formal provisions had been approaching international standards. With respect to state-owned enterprises, Tenaga raised fresh doubts over its transparency, refusing to inform investors about large amounts of funding that it had set aside to meet 'contingent liabilities for claims by third parties' [*The Edge, 2002c: 59*]. Petronas, though regarded as better managed than other state-owned enterprises, persisted in issuing only 'abbreviated company reports' [*EAU, 2002: 136*], enabling it to be tapped by the government for 'off-budget' finance. And the EPF, ostensibly a 'pioneer of shareholder activism', declared its lowest dividend in four decades of operation, yet refused to disclose to members the extent of 'paper losses' that had it had incurred during 2002–03 or the equity investments in which these losses were made [*Lim, 2003*].

In the corporate sector too regulations were relaxed. The *New Straits Times* [*2002b: B2*], while closely aligned with the government, assessed the national bourse during this period in the following terms: '[f]or all its rules and regulations, the current KLSE is but a club made up of broking firms'. Collusive practices remained equally entrenched in the accounting profession. Despite the regulation undertaken by the MIA, local accountancy firms were not yet been required to disclose their fee income, profits, or the remuneration of their partners, suggesting that they remain even less transparent than the companies they audit [*The Star BizWeek, 2002: 6*]. Finally, while codes of corporate conduct were still regularly unveiled, including the *Rukun Niaga Malaysia* that targets the under-declaration of business income, the selling of counterfeit goods, and the retailing of products beyond their expiry date, none were formally incorporated into the overarching Companies Act. Instead, it has been left to an NGO, the Business Ethics Institute of Malaysia, merely to 'brief the business community . . . and remind [it] about the need to practice responsible corporate behaviour' [*The Star, 2002b: 23*].

Accordingly, as globalised enclaves were de-emphasised, the protected local markets in which local business elites flourish seemed now to be reconstituted. Most notably, one observes during this period the debut of 'a hitherto obscure, reclusive businessman' [*Gomez 2003: 8*], Syed Mokhtar Al-Bukhary, his personal 'ambitiousness' and 'lavish' contributions to Islamic programmes evidently appealing to Mahathir. Thus, he quite suddenly emerged as the 'fastest rising businessman in corporate Malaysia [with] assets [that] include former state-owned companies that no one without connections could have acquired' [*FEER, 2002e: 43; see also FEER, 2003:*

40–43; The Edge, 2002d: 70–73]. For example, Mokhtar gained control over Pernas, once a government company holding assets in trust for indigenous followings, and Malaysia Mining Corporation, now an infrastructure and utilities conglomerate. His highly diversified interests also extended to port facilities at Tanjong Pelepas, an airport in the southern state of Johor slated to become an air cargo hub, water treatment companies, and a listed independent power producer holding contracts with Tenaga.

However, this renewed protection of local markets, while perhaps placating top politicians and the business elites with whom they were allied, risked reigniting social grievances. This grew more likely amid the continuing aloofness of foreign investors and economic uncertainties, exacerbating intra-communal disparities. Thus, as another round of elections drew closer, the government recollected the ways in which its mass-level constituencies had in the last contest been alienated. Mahathir was also succeeded by Abdullah Badawi late in 2003, a figure whose political requisites and personal preferences now precipitated another tack toward reformism.

VI. RETURN TO REFORM?

With patronage and corrupt practices persisting, even intensifying throughout 2003, the opposition PAS mobilised its followings by fusing its call for political accountability with demands for an Islamic state. The government responded by searching for ways by which to contain PAS's appeal. It began by branding PAS as 'extremist', alluding to the party's calling for holy war after 11 September and US retaliation in Afghanistan. It also stoked suspicions over the party's involvement in terrorism, particularly after the discovery of *Jema'ah Islamiah* cells in Malaysia. Many dozens of PAS members, including the son of the chief minister of Kelantan, were then detained under country's Internal Security Act, permitting indefinite detention without trial. But though these claims may have solidified non-Muslim support for the government's ruling coalition, UMNO's rural Malay following did not appear to have been fully re-energised.

Thus, while seeking to tar PAS with the brush of extremism, the government worked also to limit the competitiveness of elections more tightly. To this end, in collaboration with the country's Electoral Commission, the government carried out a highly partisan exercise in district re-delineation, defying demographic trends in order grossly to increase the parliamentary seats of those states in which it was strongest, while refusing any increase in the northern peninsular states held by PAS [*Sunday Star, 2002*]. Rather, these traditional 'Malay states' were subjected to intricate gerrymandering, diluting the heavily Malay constituencies that were receptive to PAS's Islamicising appeals with ethnic Chinese voters, adjudged at this stage to be more 'reliable' [*Putucheary and Othman, 2003: 44*]. In addition, the government passed amendments to the Election Offences Act, burdening opposition candidates with vastly increased electoral deposits, while rendering their campaigning more vulnerable to severe and quite arbitrary penalties [*Hai, 2003*]. Restrictions on communication and assembly also remained in place, with the government – or constituent parties in the UMNO-led coalition – owning nearly all electronic and print media outlets. Political meetings also remained banned, preventing PAS from holding the mass rallies that served as alternative conduits for mobilisation and fund-raising [*Case, 2004*].

But even while truncating electoral procedures and civil liberties in these ways, what stands out from the perspective of this analysis is Badawi's also returning to neo-liberal reforms. Recognising that renewed grievances over patronage and corrupt practices had invigorated mass-level support for PAS, Badawi suddenly put on 'indefinite hold' several 'mega-projects', including a US$3.8 billion railway electrification contract that Mahathir, just prior to retiring, had snatched back from some Chinese and Indian firms to which it had been awarded, then passed on to Syed Mokhtar Al-Bukhary. Badawi declared too that all sizeable state contracts would henceforth be issued through open tender bidding. He proposed that mutual funds be created through which more Malaysians might be come shareholders, 'to reduce the dominance of tycoons' [*New York Times, 2004a*]. And he gave new force to his reformism by allowing the country's Anti-Corruption Agency (ACA), closely tethered to the Prime Minister's Department, to bring charges against a sitting cabinet member, Khasitah Gaddam, the minister of Land and Cooperative Development, and an ethnic Chinese tycoon, Eric Chia, once the head of the country's national steel maker, Perwaja Steel. Shortly afterward, Shaharin Shahar-udin, a former chief executive officer of PNB, was also charged with fraud, 'rattl[ing] Malaysia's clubby business and political establishment' [*Wall Street Journal, 2004b*]. The ACA was said also to be completing an additional 18 investigations of high-level politicians, bureaucrats, and business elites [*FEER, 2004b: 13*].

Moreover, Badawi displayed new concern over Malaysia's budgetary deficits, which during Mahathir's last year of deficit spending had reached 5.5 percent of GDP, exceeded in Southeast Asia only by the 'chronically troubled Philippines' [*FEER, 2004b: 14*]. Hence, in seeking to restore fiscal balance, Badawi appointed Nor Mohamed Yakcop, regarded as a technocrat 'rather than a political ally' [*New York Times, 2004a*], as his second finance minister. He also oversaw the sale of some RM9 billion in stock that various government investment agencies had acquired upon the demise of Malay business elites, even if only to other state institutions like Petronas and the EPF. At the same time, revenue collection was strengthened, with Badawi ordering that 'wealthy tax dodgers' be targeted, especially big construction firms. In this situation, Lim Kit Siang, the leader of the opposition Democratic Action Party (DAP) opined, 'the new PM's anti-corruption drive is populist and is making it very difficult for us this time around' [*FEER, 2004a*].

Thus, when Malaysia's general election was held in March 2004, Badawi's neo-liberal reforms, braced by his heightened, though 'progressive' Islamic religiosity, enabled the government to regain the mass-level constituencies that it had lost in the previous election. Indeed, the UMNO-led coalition captured 90 percent of parliament's seats, rolling back PAS's advance across the 'Malay states'. At the same time, foreign portfolio investors prepared to return, with 'fund managers ... venturing again to Malaysia to visit companies they have not looked at in years' [*New York Times, 2004a*]. And with electronics and commodities markets also robust, fuelling an 8 percent growth in exports, anticipation mounted of a great stock market surge [*FEER, 2004a: 42; see also Wall Street Journal, 2004a: C16*].

However, if through these neo-liberal reforms Badawi re-energised foreign direct and portfolio investors and mass-level constituencies, how were UMNO politicians and business elites likely to react? While too soon to tell, analysts warn of a powerful 'old guard', 'vested interests', and 'warlords' in UMNO, and they speculate that 'the crackdown [on corruption] seems almost certain to produce a backlash within [the] party' [*FEER, 2004a: 13; New York Times, 2004a*]. At the same time, the prospect of additional investigations and charges 'has unnerved much of corporate Malaysia' [*FEER, 2004a: 14*]. In this analysis, UMNO politicians and the business elites with whom they are allied may have been stayed by Badawi's electoral mandate, but they are merely biding their time.

On the other hand, it may be that for the first time since the crisis of nearly seven years ago, some of the compatibilities between globalised enclaves and protected local markets are being reconstituted, with Badawi shrewdly navigating a middle course between statist inventions and market forces. Thus, while a sitting minister may have been arrested prior to the election, Badawi enlarged his cabinet afterward. He also retained four ministers against whom strong allegations of corruption have been made, including the international trade and industry minister, the works minister, and a minister in the Prime Minister's Department, 'blighted by a scandal over the award of taxi licenses' [*New York Times, 2004b*]. Thus, suggested the DAP leader, Lim Kit Siang, 'if integrity and the perception of integrity are among the indispensable criteria for the selection of cabinet ministers, the first Abdullah cabinet has failed the acid test' [*quoted in Malaysiakini, 2004*].

Further, despite the reformist policy swing, it has been noted that Badawi's son, Kamaluddin, while once a minor player in Malaysia's business scene, has recently emerged as one of the country's wealthiest indigenous business elites. Further, a police investigation into Kamaluddin's listed company, Scomi Group, over alleged involvement in the manufacture of components for Libya's nuclear weapon's programme swiftly cleared the company of any 'wrongdoing', prompting Wan Azizah Wan Ismail, leader of the opposition Keadilan (National Justice) party and wife of Anwar Ibrahim to remark:

> Abusing diplomatic machinery and resources to defend a private company owned by the son of the prime minister is clear proof of how cronyism and nepotism have been shamefully institutionalised ... in Malaysia [*quoted in Wall Street Journal, 2004c*].

It may be too that the margins of Badawi's electoral victory, rather than freeing him to extend his reformist progress, may permit him now to restrain it. In this scenario, he would perpetuate some of the neo-liberal reforms that sustain foreign direct investors and mass-level constituencies. But he would also resume the statist interventions that gratify UMNO politicians and business elites. However, while such artful modulations might make considerable progress toward restoring pre-crisis patterns, there can be no full closing of the circle between globalised enclaves and protected local markets. It remains unlikely that the fifth element in this configuration, foreign portfolio investors, will agree any time soon to provide the final link. Having been made wary by the crisis of the activities that generate rents, bubbles, and excessive returns, they are more likely now to avoid protected local markets and promoted business elites, demanding instead that neo-liberal reforms persist at some level. Nonetheless, during his first months in office, Badawi has shown much skill in returning to an intermediate course of reform, enabling him to bridge the post-crisis contradictions between globalised enclaves and protected local markets in ways that recall some pre-crisis compatibilities.

VII. CONCLUSION

Prior to the crisis of 1997–98, the prosperity and stability of Malaysia's political economy derived from globalised enclaves (geared to export manufactures overseen by foreign direct investors) and protected local markets (inhabited by politicians, principally in UMNO, and the business elites to whom they were allied). Further, these twin arenas co-existed, indeed, gained important compatibilities. Foreign direct investors secreted some surpluses through which to fund UMNO politicians and promote business elites, partnering closely in ancillary networks. Foreign portfolio investors, attracted by the high returns that protected local markets can generate, gave additional impetus to UMNO politicians and business elites. And the general economic growth that resulted placated mass-level constituencies, with ethnic rivalries and Islamist radicalism contained.

In perpetuating these compatibilities, Malaysia's government adopted an intermediate policy course, making artful use of both statist interventions and market forces. Thus, while a sophisticated regulatory apparatus was in place, it was only selectively deployed, extending the political economy's mixed features of reasonable governance and middling corruption. Further, such governance as existed, made manifest in adequate banking regulation and limited corporate indebtedness, enabled Malaysia to avoid the worst of the Asian economic crisis. Indeed, the government's regulatory capacity enabled it explicitly to reject the neo-liberal prescriptions dispensed at this juncture by multilateral agencies and the Western governments to which they were beholden. Instead, the government devised an ambitious set of controls on capital.

Many analysts, even those who were initially critical of these capital controls, later conceded their effectiveness, citing the recovery of Malaysia's economy. But as this paper has demonstrated, the controls merely concealed a new dissociation that had set in between globalised enclaves and protected local markets. Thus, a closer inspection of the recent record reveals tensions in the configurations of foreign investors, UMNO politicians and local business elites, and mass-level constituencies. Specifically, foreign portfolio investors, in reappraising the worth of protected local markets and business elites, failed to reinvest at pre-crisis levels. The enthusiasm of foreign direct investors for globalised enclaves began also to wane. And with the government responding by propping up some local business elites with bailouts, mass-level constituencies encountering uncertainties grew proportionately alienated, hence strengthening opposition parties, especially PAS.

This new dissociation between globalised enclaves and protected local markets was reflected in cleavages between foreign investors and mass-level constituencies on one side and UMNO politicians and local business elites on the other. Thus, however belatedly, the government was pressed finally to let most of its capital controls lapse, then undertake some neo-liberal reforms. Accordingly, the government refurbished its regulatory apparatus, enabling it to pursue good governance agendas in both public and corporate sectors.

But while Malaysia's political economy soon displayed an even greater convergence with the tenets of Western capitalism than those of other countries affected by the crisis, it brought only modest results in the post-crisis environment, leading to two important conclusions. First, Malaysia's regulatory apparatus enabled it initially to resist neo-liberal reforms, yet later to implement them effectively. But either way, in the aftermath of the crisis, foreign investors mostly remained indifferent. As the decision by CalPERS shows plainly, foreign portfolio investors, while once enthralled by protected local markets, have today changed their outlooks. Yet they sometimes fail equally to respond when neo-liberal reforms are put in place. What is more, the ambiguities in the calculations made by foreign direct investors are shown by their shift from Southeast Asia to China, suggesting that governance may not matter so much after all, or at least that its absence can be offset by other kinds of market attractions.

Second, amid the shortfalls of foreign investment that resulted, the swiftness with which neo-liberal reforms were abandoned indicates the resilience of the ties between UMNO politicians and local business elites. In a dramatically altered setting in which the compatibilities between globalised enclaves and protected local markets were eroded, the renewal of patronage and corrupt practices at pre-crisis levels, while perhaps making little difference to foreign investors at this juncture, deeply alienated mass-level constituencies. One is thus struck by the rapaciousness of UMNO politicians even as their actions diminished their party's standing and perhaps political stability. It was during this juncture too that a new member of the local business elite, Syed Mokhtar Al-Bukhary, commenced his extraordinary rise, underscoring the vibrancy of the nexus in Malaysia between politics and business.

However, in Malaysia's latest post-crisis phase, it may be that the earlier compatibilities between globalised enclaves and protected local markets have been at last partly restored. To be sure, the prime ministership of Abdullah Badawi has been strongly identified with neo-liberal reforms, evoking yet another policy turn, this time from statist interventions to market forces within an overall post-crisis record that must characterised as erratic. But while some neo-liberal reforms have indeed been implemented – most importantly, the cancellation of some 'mega-projects' and the insistence on open tender bidding – one notes too the reappointment of cabinet ministers widely regarded as benefiting from patronage and the startling enrichment of new the prime minister's son.

What prevents the full restoration of functionality between globalised enclaves and protected local markets, of course, is the changed outlooks of foreign portfolio investors. No longer looking benignly on the patronage and corrupt practices that once generated high returns, they insist in the post-crisis setting on neo-liberal reforms. But Badawi's seeming ability to rekindle the interest of some of these investors today, even while acting in ways that have kept UMNO politicians and business elites in check, suggests that while compatibilities have declined, he may possess the skills with which to finesse the differences. Thus, while it is too soon to tell, it may be that under new management, Malaysia's political economy has regained some of its earlier equilibrium.

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