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Managing Ethnic Relations in Post-Crisis Malaysia and Indonesia

Lessons from the New Economic Policy?

Khoo Boo Teik



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Acronyms

ASB	Amanah Saham Bumiputera (Bumiputera Unit Trust Scheme)
ASN	Amanah Saham Nasional (National Unit Trust Scheme)
BA	Barisan Alternatif (Alternative Front)
BN	Barisan Nasional (National Front)
CBS	Central Bureau of Statistics
DAP	Democratic Action Party
EOI	export-oriented industrialization
FDI	foreign direct investment
FELDA	Federal Land Development Authority
GDP	gross domestic product
ICA	Industrial Coordination Act 1975
ISI	import-substituting industrialization
ISEAS	Institute of Southeast Asian Studies
MCA	Malaysian Chinese Association
MIC	Malaysian Indian Congress
MNC	Multinational corporation
NEP	New Economic Policy
NIC	newly industrialized country
NOC	National Operations Council
PAS	Parti Islam Semalaysia (Parti Islam, or Islamic Party)
PMIP	Pan Malaysian Islamic Party (Now Parti Islam)
PNB	Permodalan Nasional Berhad (National Equity Corporation)
RM	Malaysian ringgit
SEDC	state economic development corporation
SOEs	state-owned enterprises
UDA	Urban Development Authority
UMNO	United Malays National Organization

Glossary

Bahasa Malaysia	Malay; the Malaysian language
Bangsa Malaysia	Malaysian nation
Bumiputera	Indigenous people (predominantly Malay) in Malaysia
Dukun	Practitioners of "magic"
Kiai	Muslim teachers
Korupsi, kolusi dan nepotisme	Corruption, collusion and nepotism
Merdeka	Independence
Ninjas	Those suspected of being sorcerers
Pribumi	Indigenous people in Indonesia
Reformasi	Popular Reform Movement
Wawasan 2020	Vision 2020

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Summary/Résumé/Resumen

Summary

This paper addresses some of the problems of managing ethnic relations in Southeast Asia subsequent to the financial crisis of July 1997 by comparing the experiences of Indonesia and Malaysia.

In Indonesia, as is well known, the financial crisis led to economic collapse which, in turn, catalyzed the Popular "Reform" Movement, Reformasi, which ended President Raden Suharto's three-decade "New Order" regime. Indonesia's economic and political implosion brought in its wake several eruptions of ethnic violence—against the Chinese population, between Christian and Muslim communities in Maluku, and between Dayaks and Madurese in Kalimantan. Instances of ethnic animosity were not unknown during the New Order period, and a few of the more recent outbreaks had occurred just before the crisis in Suharto's regime. Yet the major post-crisis outbreaks of ethnic violence surpassed previous ones in various ways. The scale of violence was much larger and covered many different geographical locations. They have been extremely complex in their causes, flashpoints and antagonists. And, in some cases, their security ramifications have been so severe that, together with the secessionist battles in Aceh and Irian Jaya, these outbreaks have sometimes been seen as signs that the Indonesian state may disintegrate.

In contrast, and barring low-level controversies over certain issues, political contention in post-crisis Malaysia has been generally free of ethnic tension, and particularly Malay-Chinese tension, which had so overshadowed past politics. Instead, a novel politics of dissent, also popularly called *reformasi* (after the Indonesian experience), has emerged around an opposition coalition of parties and groupings that are remarkable for their diverse ethnic partnership, religious affiliations and ideological commitments. It is not yet certain how successful this movement will be, but it has already tried some bold experiments in alternative forms of interethnic cooperation.

In short, it seems paradoxical that Indonesia, which was not usually thought to exemplify a state with deep interethnic problems, suffered major outbreaks of ethnic violence in several regions of the country, whereas Malaysia, which has been typically seen as an ethnically divided society, maintained stable interethnic relations.

Among other things, this stark contrast in outcome has led some politicians and analysts in Indonesia and Malaysia to argue that post-crisis Malaysia avoided interethnic recriminations because of the socially and politically beneficial effects of its massive affirmative action programme, known as the New Economic Policy (NEP). Extrapolating from that, some observers have suggested that post-crisis Indonesia requires some variation of a Malaysia-style NEP to avoid or minimize ethnic tensions.

Without dismissing some of NEP's underlying, more generalized principles about an equitable interethnic distribution of wealth via affirmative action programmes, this paper suggests that Malaysia's NEP was never exclusively restricted to ethnicity and ethnic relations. NEP encompassed state policies that affected ethnic identities, interethnic power sharing, and an ethnically targeted distribution of developmental benefits, but was not confined to these issues alone.

In its heyday, NEP provided an overarching policy framework that presupposed high capacities for policy making, determined state economic intervention, bureaucratic regulation, and modes of governance generally associated with the East Asian developmental state. In addition, NEP coincided with certain developments in the global economy, such as the new international division of labour linked to the internationalization of manufacturing production. Consequently, while NEP was commonly seen as "ethnic" in conception, its implementation and subsequent adjustments radically recomposed the class structure of Malaysian society, altered the balance of power between different economic and social groupings, and entrenched the role of the state in the economy.

Can this massive programme of social engineering be replicated in post-crisis Indonesia under global and domestic economic and social conditions that are different from those that Malaysia faced when it pursued NEP in earnest between 1970 and 1990? To what extent did NEP's effects reduce—or periodically intensify—interethnic tension? If some variant of NEP can be useful for managing interethnic tensions, which might that be? And finally, what differences in levels of state capacities for managing the immediately destabilizing consequences of the July 1997 crisis accounted for the starkly contrasting outcomes for ethnic relations in Indonesia and Malaysia? This paper provides some answers to these questions with the goal of contributing to a deeper understanding of ethnic conflicts in the two countries.

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Résumé

L'auteur étudie ici quelques-uns des problèmes rencontrés dans la gestion des relations ethniques en Asie du Sud-Est après la crise financière de juillet 1997 en comparant les expériences de l'Indonésie et de la Malaisie.

En Indonésie, on le sait, la crise financière a provoqué l'effondrement de l'économie, ce qui a servi de catalyseur au mouvement populaire de "réforme", Reformasi, qui a finalement mis un terme au régime Suharto, "l'Ordre nouveau", en place depuis trois décennies. L'implosion économique et politique de l'Indonésie a été suivie de plusieurs flambées de violences ethniques—contre la population chinoise, entre les communautés chrétienne et musulmane aux Moluques, et entre les Dayaks et les Madurais dans le Kalimantan. Il y avait eu des exemples d'animosité interethnique pendant la période de l'Ordre nouveau et, parmi les éruptions de violence les plus récentes, certaines s'étaient produites juste avant la crise du régime Suharto. Pourtant, les violences ethniques qui ont éclaté après la crise ont surpassé les précédentes à divers égards. Elles ont été beaucoup plus étendues et ont eu lieu en une multitude de points géographiques. Elles ont été extrêmement complexes, par la variété de leurs causes, des points d'embrasement et des antagonistes. Et, dans certains cas, leurs ramifications sécuritaires ont été si graves que certains ont vu dans ces explosions, conjuguées aux luttes séparatistes en Aceh et dans l'Irian Jaya, le signe d'un risque d'éclatement pour l'Etat indonésien.

En revanche, et à l'exception de controverses sur certaines questions qui n'ont jamais dépassé un certain degré d'intensité, le débat politique en Malaisie après la crise n'a guère souffert des tensions ethniques, en particulier des tensions entre Malais et Chinois, qui avaient tant assombri la vie politique dans le passé. Au contraire, une politique nouvelle de dissidence, appelée communément *reformasi* (d'après l'expérience indonésienne), a fait son apparition autour d'une coalition de partis et de groupements d'opposition qui présentent une remarquable diversité de partenaires ethniques, d'affiliations religieuses et d'engagements idéologiques. Si l'étendue de son succès reste à déterminer, ce mouvement a déjà tenté des expériences audacieuses et originales de coopération interethnique.

En bref, il semble paradoxal que l'Indonésie, dont les problèmes ethniques ne sont pas d'ordinaire jugés inextricables, ait connu de fortes éruptions de violences ethniques dans plusieurs régions, alors qu'en Malaisie, typiquement présentée comme une société multiethnique profondément divisée, les relations ethniques soient demeurées stables.

Ces résultats très contrastés, entre autres facteurs, ont amené des personnalités politiques et des analystes d'Indonésie et de Malaisie à supposer que la Malaisie d'après la crise avait évité les récriminations interethniques grâce aux effets sociaux et politiques bénéfiques de son vaste programme d'action antidiscriminatoire, connu sous le nom de "nouvelle politique économique" (NPE). Extrapolant à partir de là, certains observateurs ont suggéré que l'Indonésie d'après la crise avait besoin d'une variante de la NPE malaisienne pour se préserver des tensions ethniques ou les atténuer.

Sans rejeter les principes généraux qui sont à la base de la NPE et qui tendent à une distribution équitable des richesses entre les ethnies par le biais de programmes antidiscriminatoires, l'auteur fait observer ici que la NPE malaisienne ne s'est jamais limitée à l'ethnicité et aux relations ethniques. La NPE recouvrait des politiques publiques qui portaient sur les identités ethniques, le partage du pouvoir entre les ethnies et une répartition entre elles des bienfaits du développement, mais ne se limitait pas à ces seules questions.

A son apogée, la NPE a fourni un cadre politique général qui présupposait de fortes capacités en matière d'élaboration des politiques, une intervention résolue de l'Etat dans l'économie du pays, des règles régissant l'administration et des modes de gouvernance généralement associés à l'Etat "développemental" de l'Asie de l'Est. De plus, la NPE a coïncidé avec certains développements de l'économie mondiale tels que la nouvelle division internationale du travail liée à l'internationalisation de la production manufacturière. En conséquence, si la NPE apparaissait généralement comme de conception "ethnique", son application et les ajustements ultérieurs ont entraîné une recomposition profonde de la structure des classes en Malaisie, modifié l'équilibre des forces entre les différents groupements économiques et sociaux et ancré le rôle de l'Etat dans l'économie.

Peut-on reproduire dans l'Indonésie de l'après-crise ce vaste programme de recomposition sociale, alors que la situation économique et sociale qui règne en Indonésie et dans le monde est différente de celle qui prévalait lorsque la Malaisie poursuivait sa NPE entre 1970 et 1990? Dans quelle mesure les effets de la NPE ont-ils atténué – ou par moments intensifié – les tensions interethniques? Si une variante quelconque de la NPE pouvait aider à gérer les tensions interethniques, comment se présenterait-elle? Enfin, quelles différences dans les niveaux de capacité de l'Etat à gérer les conséquences immédiates et déstabilisantes de la crise de juillet 1997 peuvent expliquer les résultats très contrastés de la gestion des relations ethniques en Indonésie et en Malaisie? L'étude livre quelques réponses à ces questions dans le but de contribuer à une compréhension plus profonde des conflits ethniques dans les deux pays.

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Resumen

En este documento se abordan algunos de los problemas en el manejo de las relaciones étnicas en Asia Sudoriental posterior a la crisis financiera de julio de 1997. A tales efectos, se comparan las experiencias de Indonesia y Malasia.

De todos es sabido que la crisis financiera en Indonesia condujo al colapso económico que, a su vez, favoreció el desarrollo del movimiento popular "reformista", Reformasi, mismo que acabó con el régimen del Nuevo Orden del Presidente Suharto, mantenido durante tres decenios. La implosión política y económica del país provocó consiguientemente algunos brotes de violencia étnica – contra la población china; entre las comunidades cristianas y musulmanas en Maluku, y entre dayaks y madureses en Kalimantan. Durante el régimen del Nuevo Orden ya se habían dado casos de animadversión étnica, y algunos de los brotes más recientes habían surgido poco antes de que el régimen de Ramen Suharto entrara en crisis. Sin embargo, los principales brotes de violencia étnica posteriores a la crisis fueron mucho más graves que los anteriores en diversos aspectos. La escalada de violencia fue mucho mayor y abarcó localidades geográficas muy diversas. Sus causas, puntos álgidos y antagonistas han sido extremadamente complejos. En algunos casos, las consecuencias han sido tan graves desde el punto de vista de la seguridad, que, junto con las batallas secesionistas libradas en Aceh e Irian Jaya, estos brotes han llegado a considerarse algunas veces como señales de que el Estado indonesio se podría desintegrar.

Por el contrario, excluyendo la polémica de bajo nivel sobre determinados asuntos, el litigio político en Malasia después de la crisis ha estado generalmente exento de las tensiones étnicas, en particular entre malayos y chinos, que con tanta frecuencia habían eclipsado la política en tiempos anteriores. En su lugar, ha surgido una original política de desacuerdo, también conocida popu-

larmente como *reformasi* (por la experiencia de Indonesia), en torno a una coalición de partidos y agrupaciones de la oposición, que se distinguen por la diversidad de su asociación étnica, sus afiliaciones religiosas y sus compromisos ideológicos. Aún es pronto para determinar exactamente el éxito que tendrá este movimiento, pero lo cierto es que ya ha realizado algunos experimentos audaces con respecto a formas alternativas de cooperación interétnica.

En resumen, resulta paradójico que Indonesia, donde normalmente no se pensaba que fueran a surgir grandes problemas interétnicos, tuviera que enfrentarse a brotes importantes de violencia en algunas de sus regiones; mientras que Malasia, considerada una sociedad étnicamente dividida, mantuviera unas relaciones interétnicas estables.

Entre otros aspectos, el fuerte contraste observado en los resultados, ha llevado algunos políticos y analistas de Indonesia y Malasia a sostener que, durante la época posterior a la crisis, Malasia evitó las recriminaciones interétnicas debido a los benéficos efectos sociales y políticos de su programa de acción positiva, a gran escala, conocido como la Nueva Política Económica (NPE). Extrapolando este razonamiento, algunos observadores han sugerido que la Indonesia posterior a la crisis necesita alguna variedad de la NPE de Malasia, para evitar o reducir al mínimo las tensiones étnicas.

Sin descartar algunos de los principios subyacentes y más generalizados de la NPE sobre una distribución interétnica equitativa de la riqueza a través de programas de acción afirmativa, en estas páginas se señala que la NPE de Malasia nunca se limitó estrictamente a la etnicidad y las relaciones étnicas. Abarcó políticas estatales que afectaron a las identidades étnicas, el reparto interétnico de poderes, y una distribución de los beneficios del desarrollo con una orientación fundamentalmente étnica; sin embargo, no se limitó exclusivamente a estas cuestiones.

En su momento de apogeo, la NPE proporcionó un marco político general que presupuso una gran capacidad para la formulación de políticas, la firme intervención del Estado en la economía, la regulación burocrática y formas de gobierno generalmente asociadas con el estado de desarrollo de Asia Oriental. Asimismo, la NPE coincidió con algunos cambios operados en la economía mundial, como la nueva división internacional del trabajo vinculada a la internacionalización de la industria manufacturera. Por consiguiente, si bien se pensaba que la concepción de la NPE era “étnica”, su aplicación y adaptaciones posteriores cambiaron radicalmente la estructura de clases de la sociedad malasia, alteraron el equilibrio de poderes entre las diferentes agrupaciones económicas y sociales, y consolidaron el papel del Estado en la economía.

¿Puede repetirse este programa masivo de “ingeniería social” en la Indonesia posterior a la crisis, cuando las condiciones socioeconómicas generales de este país son tan diferentes de aquellas a las que se enfrentó Malasia cuando emprendió seriamente su NPE entre 1970 y 1990? ¿Hasta qué punto redujeron o intensificaron periódicamente los efectos de la NPE la tensión interétnica? Si una variante de la NPE puede ser útil para manejar las tensiones interétnicas, ¿cuál podría ser? Por último, ¿qué diferencias entre los Estados, en lo que respecta a su capacidad de manejar inmediatamente las consecuencias desestabilizadoras de la crisis de julio de 1997, justifican la obtención de resultados tan diferentes en materia de relaciones étnicas en Indonesia y Malasia? Este documento responde a algunas de estas preguntas, con el objetivo de ayudar a comprender mejor los conflictos étnicos de ambos países.

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Introduction

In Indonesia, the financial crisis of July 1997 sparked a precipitous economic collapse that catalyzed the popular “reform” movement, Reformasi, which ended President Ramen Suharto’s three-decade “New Order” regime. The economic implosion and political turbulence brought in their wake several eruptions of ethnic violence. These were major incidents perpetrated against the Chinese population in Jakarta and some parts of rural Java, breaking out between Christian and Muslim communities in Maluku, and mounted by Dayaks against Madurese in Kalimantan. Being telescoped into a short period of turmoil, and then virtually left to fester, the violence suggested that Indonesia’s ethnic relations were fast collapsing into chaos.

Instances of ethnic animosity were definitely not unknown during the New Order period. The events of 1965–1966 that toppled President Achmed Sukarno’s regime included attacks on Chinese Indonesians as part of the terrible “anti-communist” massacres that ushered in the New Order. During the 1970s and 1980s, there had been sporadic bursts of anti-Chinese riots often attributed to *pribumi*¹ (indigenous) resentment of ethnic Chinese domination of the economy. In 1997 in eastern Java, there was a rash of killing of *kiai* (Muslim teachers) and *dukun* (practitioners of “magic”) – the so-called *ninjas* suspected of being sorcerers (Kristof and Denn 2000:3–24). In Kalimantan, just months before the financial crisis, Dayak violence against the Madurese had begun, and then it resurfaced after Suharto’s regime fell.

Yet Indonesia’s post-crisis outbreaks of ethnic violence surpassed previous ones in several ways. The scale of violence was much higher (with the exception of the 1965–1966 massacres, and the killings following the invasion of East Timor) and the incidents covered different geographical locations. Between May and June 1998, approximately 2,244 people died in violence that raged in several cities, part of which was directed at the ethnic Chinese (Heryanto 1999:320–321). Thousands of people were killed in Maluku and in Kalimantan.² The character of some of the violence was shocking – the systematic rapes of Chinese women (Sandyawan 1998; Heryanto 1999), mutilations of the *ninjas*, ritualistic decapitations of Madurese men, women and children (Chang 2001), and unrestrained destruction of churches and mosques (Tedjasukmana 2000). Complex in their causes, flashpoints and antagonists, the ethnic conflicts continued to spread and flare, from Maluku’s capital, Ambon, to its other islands, and from west to central Kalimantan. In Maluku, seemingly trivial incidents sparked large-scale ethnic confrontations that escalated into interreligious warfare, as the resentments of “indigenous” Christians toward the preferential treatment of “settler” Muslims were heightened by their religious differences. In Kalimantan, similarly small accidents caused a mass slaughter, as the economic resentments of indigenous Dayaks were intensified by their cultural suspicions of “transmigrant” Madurese. The results in both of these cases were *pribumi* versus *pribumi* conflicts,³ which signalled that Indonesia’s economically related ethnic plight was not confined to *pribumi* responses to non-*pribumi* Chinese economic domination.

The security ramifications of the ethnic violence have become quite severe. This is true whether evaluated according to the complicity of segments of the security forces in these incidents, the partisanship of police personnel and the armed forces, or the intervention of militias. Sections of the military were suspected of planning and executing the attacks upon the Chinese, and Chinese women in particular, in Jakarta in May 1998 (McBeth 1998:27; Heryanto 1999:317). The violence in Maluku in 1999–2000 found police personnel aligned with the Christian community while the armed forces sided with the Muslim community (Symonds 2000). The religious dimensions of the Maluku violence were aggravated by the intervention of the Laskar Jihad militia, a Muslim paramilitary group (Fealy 2001). Before Suharto’s fall, his centralized regime was known to practise ethnic divide-and-rule policies even as it “resolved” interethnic conflicts by resorting to military

¹ The official Indonesian term for indigenous people is *pribumi*, while the Malaysian term is *bumiputera*.

² Estimates of the number of people killed in Maluku from January 1999 to June 2000 ranged from 4,000 (Tedjasukmana 2001:28) to 8,000 (Liu 2001:26) to 10,000 (Chew 2000:51). The violence in Kalimantan broke out in December 1996 and January 1997 (Human Rights Watch Asia 1997), in March 1999 (McBeth and Cohen 1999; Tesoro and McCawlye 1999), and in March 2001 (Elegant 2001).

³ See Anggraeni (2001) for Herb Feith’s comments on a history of conflicts between “indigenous communities” and “immigrant minorities” in Maluku and Kalimantan.

suppression. Since then, the persistent instability of the post-Suharto regimes has left them with few initiatives to offer as solutions to the post-1997 ethnic conflicts. Thus, the incidents of ethnic violence, considered together with the ongoing ethno-nationalist battles in Aceh and Papua, have been regarded as signs that the Indonesian state may itself disintegrate. With the continuing economic hardship and turbulence at the apex of the present political leadership in Indonesia, some observers have begun to compare the post-crisis situation in Indonesia with the former Soviet Union and Yugoslavia before these two states broke up, with accompanying ethnic violence (Booth 1999; Uhlin 1999).

The condition of ethnic relations in Indonesia's neighbour, Malaysia, presents a sharp contrast. Since July 1997, although it was also badly affected by the financial crisis, Malaysia has experienced only two minor incidents of ethnic confrontation. Both incidents, which occurred in Kampung Rawa, Penang (April 1998) and in Kampung Medan, Kuala Lumpur (March 2001), involved Malay-Indian conflict, with the Penang incident taking on some hues of a Muslim-Hindu confrontation. However, each incident was largely localized, casualties were limited, and the situation was quickly brought under control. Malay-Chinese tensions, which have long overshadowed Malaysia's post-independence politics—and which remain potentially the country's most destabilizing form of ethnic conflict—was significantly absent, barring low-level controversies over familiar issues that at no point threatened to spiral out of control.

Political contention in post-crisis Malaysia has thus been generally free of ethnic tension, which is perhaps surprising when it is recalled that an economic recession in 1985–1986 contributed to heightening Malay-Chinese tensions dangerously in 1987. It is perhaps remarkable that after July 1997, and especially after the dismissal of former Deputy Prime Minister Anwar Ibrahim in September 1998, Malaysia has witnessed the emergence of a novel politics of dissent (also popularly called *reformasi* after the Indonesian movement) that has consciously attempted to advance demands for democracy, institutional reform and social justice instead of pursuing the ethnic politics for which most Malaysian political parties are known. Indeed, *reformasi* in Malaysia has sprung up around the Barisan Alternatif, the Alternative Front, as distinguished from the ruling coalition, the Barisan Nasional (BN) or National Front, a coalition of opposition parties and social groupings known for their diverse ethnic partnerships, religious affiliations and ideological commitments (Khoo 2000). Given the continuing flux in Malaysian politics, it is uncertain whether or how successfully Barisan Alternatif will transform the ethnic character of Malaysian politics, but already this opposition coalition has conducted some relatively bold experiments in interethnic cooperation.

In short, it is ironic that Indonesia, which was not usually thought to exemplify a society with intractable ethnic problems, should have suffered such massive outbreaks of ethnic violence, whereas Malaysia, which has been typically portrayed as “a case study of a deeply divided multi-ethnic society”, has maintained stable, improving, ethnic relations. This stark contrast, among other things, has led some politicians and analysts in Indonesia, Malaysia and elsewhere, to argue that Malaysia has been able to avoid interethnic recriminations because of the socially and politically beneficial effects of its New Economic Policy (NEP), the massive affirmative action programme it has implemented since 1970. Extrapolating from that, “many Indonesians are urging that the solution...requires the adoption of something like Malaysia's New Economic Policy” (Mackie 1999:195).

Whatever its prospects for practical success, the idea of NEP's replicability as public policy is intriguing, and surely so for regimes anxious to find policy solutions to ethnic tensions and pressures. But a proper evaluation of NEP's record in Malaysia, or its potential as a model for adaptation elsewhere, must refrain from abstracting NEP out of the historical context in which it was conceived, implemented, modified, and once even suspended, over three decades. There is good reason for this caution: NEP, at its core, was a statement of goals and objectives—namely those of “eradicating poverty irrespective of race”, and “restructuring to abolish the identification of race with economic function” in order to achieve national unity. After the 13 May 1969 ethnic violence in Kuala Lumpur, some such visionary statement would have had to be invented had the National Operations Council (NOC), led by Tun Abdul Razak, not in fact promulgated NEP. But the specific measures and programmes of affirmative action that were adopted in NEP's name were

frequently matters of political contention, state intervention and bureaucratic invention. They were scarcely the stuff of a “do-it-yourself” kit for mending ethnic disrepair. Moreover, although ethnicity ruled its rhetoric, NEP was, ultimately, a massive social engineering project undertaken to redress “ethnic economic imbalances”, but in doing so, it recomposed Malay society and Malaysia’s class structure, sometimes with unintended consequences.

As this paper shows, the NEP project demanded far-reaching redefinitions of nationhood; alterations in the balance of economic and political power; construction of state capacities for economic interventionism; changes in modes of governance and regulation; and the promotion of an ideology of developmentalism, with all of these coming together under specific global and domestic conditions. On the basis of this analysis of key changes to the Malaysian political economy since 1970, and their impact on ethnic relations, the paper concludes by considering whether some lessons from NEP might be relevant to Indonesia’s future management of ethnic relations.

Ethnic Division of Labour

Official classification divides the Malaysian population between the *bumiputera*, or indigenous peoples, and non-*bumiputera*, or non-indigenous peoples. By this classification, the *bumiputera* consists largely of the Malays and the aboriginal communities of Peninsular Malaysia and the various “natives” of Sabah and Sarawak. The Sabah and Sarawak *bumiputera* include numerous groups, such as the Kadazan, Murut and Bajau of Sabah, and the Iban, Melanau, Bidayu, Kayan, Kenyah, Kelabit, Berawan and Penan of Sarawak. The non-*bumiputera* category chiefly refers to the Chinese and Indians whose presence in Malaysia became significant with the waves of immigration encouraged or tolerated by the British colonial administration during the nineteenth and early twentieth centuries. In recent years, there has been an official tendency to differentiate the population along religious lines as well, the most important distinction being that made between Muslims, who are predominantly Malays, and non-Muslims. There are sizeable numbers of indigenous non-Malay Muslims in Sabah and Sarawak, as well as Indian Muslims in Peninsular Malaysia, and a small proportion of Muslim converts of other ethnic backgrounds. Other Malaysians are classified, or regard themselves, as non-Muslims. Although these major ethnic and religious differentiations do not exhaust Malaysia’s cultural complexity, they reflect the reality of its plural society, particularly a pronounced pre-NEP ethnic division of labour that has been the source of much political contention.

On the eve of *Merdeka* (independence) in 1957, Malaysia’s political economy, shaped by colonial capitalism, had created certain patterns of uneven development, economic disparities and social divisions. The locus of advanced economic activity lay in foreign-owned plantations, mines and agency houses that produced and exported primary commodities (rubber and tin being the most important) to the rest of the world.⁴ Domiciled Chinese capital maintained a sufficiently strong presence in comprador activities, banking, small-scale manufacturing, retailing and services so that the “ubiquitous activity of the Chinese middleman” lent weight to the “popular misconception that commerce is controlled by the Chinese” (Puthuchearry 1960:xv). Political control and the administration of the state apparatus had been mostly turned over to Malay aristocrats who had been trained for civil service by the colonial state. Hence, the social origins of the ruling elite were those of the expatriate representatives of foreign capital, indigenous Malay aristocrats and domiciled Chinese capitalists and traders.

The economic disparities and social divisions were complicated by an ethnic division of labour not uncommon to the social organization of labour in other former colonies, such as Burma, Fiji and the countries of East Africa. Colonial design (Lim Teck Ghee 1984), as well as the peasantry’s “refusal to supply plantation labour” (Alatas 1977:80), left the Malay peasantry chiefly engaged in

⁴ A pioneering study of “ownership and control in the Malayan economy” in the 1950s found that European-owned companies controlled 84 per cent of large rubber estates (of over 500 acres each), 60 per cent of tin output, 65–75 per cent of exports, and 60 per cent of imports (Puthuchearry 1960:xv, 26–27, 85–86).

food production. Migrant Chinese and Indian labour mainly worked the tin mines, rubber estates and public works projects, respectively. Thus, the Malay peasantry escaped the harsh conditions of colonial capitalism but the rural Malay community was thereby locked into an immiserating close-to-subsistence sector. Colonial capitalism took a heavy toll on migrant labour but some sectors of Chinese and Indian migrants took advantage of an expanding urban sector to gain upward mobility through commerce, education and the professions.

The tripartite division of power at the elite level, and the ethnic division of labour, found peculiar expression in the basic “formula” of the Alliance, Malaysia’s first ruling coalition, which comprised the United Malays National Organization (UMNO), Malayan Chinese Association (MCA) and Malayan Indian Congress (MIC). The Alliance protected foreign economic interests (which were not nationalized, as in Indonesia under Sukarno, for example,) preserved the position of domiciled Chinese capital, and largely ceded control of the state apparatus to the Malay aristocrats who led UMNO. Politically, a federal constitution reserved a “special position” for the Malay community in recognition of its indigenous status, but guaranteed the non-Malays a new-found citizenship and accompanying rights. Hence the Alliance’s “formula” became known as a compromise that left “politics for the Malays” and “economics for the Chinese”. The Alliance’s economic management was conservative. The thrust of economic development under the Alliance was directed at improving urban infrastructure, implementing limited rural development schemes and providing small-scale assistance to incipient Malay businesses. Few things more clearly showed the regime’s commitment to a free market and its reluctance to tackle the ethnic division of labour than the regime’s reluctance to intervene on behalf of sectors of UMNO’s Malay base. Despite growing Malay frustration with the lack of progress in redressing their “relative economic backwardness”, the regime’s orientation in this area was supportive rather than aggressive (Jomo 1986:253–254).

Left to itself, the market could not resolve problems of rising unemployment, declining incomes and widening inequalities. By the late 1960s, the Alliance was hard pressed to meet social expectations coming from different quarters. The expectations were *economic* because laissez-faire capitalism and its ethnic division of labour could no longer match the social pressures arrayed against it. A marginalized Malay peasantry sought release from rural poverty, most dramatically by seizing uncultivated state land. A combination of Malay bureaucrats, intelligentsia and the middle class wanted to end their “relative backwardness” vis-à-vis their Chinese counterparts, and Chinese capital in particular (Mahathir 1970). The non-Malay middle and working classes refused to accept that their opportunities for employment, education and upward mobility could be prejudiced by the constitutional safeguards of certain “Malay special rights”. The expectations were *cultural* in that the fissures in Malaysia’s multi-ethnic society presented serious problems in the areas of language, culture and citizenship. These were areas susceptible to ethnic sentiments during the formative years of a Malaysian nationhood that was still haunted by the separate memories and complex demands of pre-war and postwar Malay, Chinese and Indian nationalism. Finally, the expectations were *political*, as the popular grievances were expressed via political parties and electoral competition. In short, the ethnic politics of the 1960s pitted the Alliance’s laissez-faire capitalism and “*Merdeka* compromise” against a rising *democratization of expectations*—that is, mass, but frequently conflicting, expectations of what decolonization and independence should mean.

In the May 1969 general election, the coincidence of mass expectations crystallized into an electoral revolt against the Alliance. An informal pact helped diverse opposition parties—the Pan Malaysian Islamic Party (PMIP, now Parti Islam, or PAS), Democratic Action Party (DAP) and the Gerakan Rakyat Malaysia (Gerakan, or Malaysian People’s Movement)—erode the Alliance’s hold on power. On 13 May, Kuala Lumpur was engulfed in ethnic violence.

New Economic Policy: Politics and Social Transformation

With the violence, the Alliance's elitist framework, the political economy that underpinned it and the cultural compromises that signalled its supposed success, collapsed.⁵ The National Operations Council, headed by Deputy Prime Minister Tun Abdul Razak, which ruled under a state of emergency from 1969 to 1971, had no more use for laissez-faire capitalism. Razak's regime promulgated the New Economic Policy, the premises of which were that widespread poverty, the ethnic division of labour, and Malay resentment of interethnic "economic imbalances" lay at the heart of the May 1969 violence. NEP's two major objectives were "poverty eradication irrespective of race" and "restructuring to abolish the identification of race with economic function". To "eradicate poverty irrespective of race", the state's Outline Perspective Plan 1971-1990 targeted a decline in the incidence of poverty, from 49 per cent of all households in 1970 to 16 per cent in 1990. To accomplish "restructuring to abolish the identification of race with economic function", the state planned to raise the *bumiputera* (indigenous, but predominantly Malay) share of corporate equity from 2.5 per cent in 1970 to 30 per cent in 1990.

During NEP's first decade of implementation, the pursuit of its objectives entailed several major sociopolitical departures from the Alliance period. The BN (effectively the UMNO, which was part of the coalition) redefined the parameters of Malaysian nationhood so as to place the dominant position of the Malay community vis-à-vis other ethnic communities beyond contention. The BN imposed this redefinition by entrenching the Malay language as the national language and the medium of instruction in state schools, reorganizing the educational system to reflect NEP's priority of producing greater numbers of Malay graduates, and proclaiming a Malay and Islamic culture as the national culture. With NEP's affirmative action imperatives, the state systematically used ethnic quotas and targets to regulate access to state assistance, business opportunities, tertiary education and civil service recruitment – primarily in favour of the Malay community. In this regard, no one doubted that NEP was meant to meet Malay expectations much more than non-Malay expectations, or that meeting the former frequently meant curbing the latter. Someone like Mahathir Mohamad, NEP's most articulate ideologue, could bluntly say: "The only thing to do is to admit that in giving the Malays their place in the sun, there must be denial for some non-Malays. Some non-Malays will have to be sacrificed in order to bring the Malays up".⁶ NEP's architects more tactfully said that NEP's projected high growth would achieve "restructuring" without provoking a sense of deprivation among the non-Malays.

This reassurance often meant little at the level of political parties, where ideological contestation and electoral competition retained much of their pre-1970 character of ethnic disagreement. For many Chinese, NEP meant a shift to "more politics for the Malays" and "NEP economics", which doubly disadvantaged non-Malays. At the elite level, the BN (which was the old Alliance enlarged by the co-optation of several opposition parties) practised an institutionalized politics of ethnic relations and power sharing, but demonstrably under UMNO's dominance. Before 1969, MCA leaders headed the ministries of finance and trade, and exerted considerable "Chinese influence" over economic planning and policy making. By the mid-1970s, however, UMNO leaders had monopolized policy making. At a quite different level, official attitudes all but identified poverty with rural Malay poverty, so that NEP's "poverty eradication" programmes rarely reached the non-Malay poor, such as the so-called Chinese New Villagers, or the urban poor. Yet several factors moderated non-Malay expressions of their sense of deprivation. One factor was, for lack of a better word, the resilience of the Chinese community. Their business operations had to contend with stricter bureaucratic regulation, but were not seriously impeded. Their community and social infrastructure – schools, associations, and religious and other institutions – continued to function and provide expressions of their identity and culture. A second factor was the recognition that NEP could not be dislodged as a policy framework. Accordingly, the Chinese community's main tactical response to NEP was to accept its *objectives* while trying to moderate

⁵ Mahathir (1970:15) wrote: "The Government started off on the wrong premise. ... It believed that the Chinese were only interested in business and acquisition of wealth, and that the Malays wished only to become Government servants. These ridiculous assumptions led to policies which undermined whatever superficial understanding there was between Malays and non-Malays".

⁶ A 1971 statement by Mahathir, cited in Yap (1976).

its *implementation*. Hence, ethnic politics under NEP were consistently conducted around targets, quotas and percentages. The third factor, discussed at greater length below, was the high economic growth under NEP, which generated new opportunities for business and the professional and middle classes as a whole.⁷

NEP's ethnic dimensions were explicit, but its underlying class content was not less significant: "restructuring" rapidly transformed Malay society and recomposed the Malaysian class structure. In both of these processes lay the state-engineered emergence of a combination of a Malay capitalist class and Malay middle and professional classes, later called the Bumiputera Commercial and Industrial Community. But the Malay peasantry was likewise transformed. NEP offered no land reform, but the Federal Land Development Authority (FELDA) implemented large-scale land settlement schemes to absorb landless peasants with the promise of eventual land ownership (Halim 1992). Young rural Malays (a large proportion of whom were women) were inducted into the manufacturing sector. Yet others were sent for training at all levels, absorbed into the civil service, or helped with opportunities for business. They all contributed to swelling rural-to-urban migration that NEP's advocates regarded with equanimity. But an unintended consequence of NEP's rapid transformation of Malay society was the resurgence of Islam as an ideological rallying point for dissident Malays. Prominent participants in that resurgence were young Malays, students and professionals. They were the targeted beneficiaries of NEP's educational, commercial, urbanization and industrial programmes. But they were simultaneously subjected to a wide range of social, economic, spatial and psychological dislocations, and moved by a composite of personal, ethnic and class impulses to turn to Islam as the fount of dissenting alternatives to NEP policies, practices and priorities. In an unexpected turn for ethnic relations, this Islamic resurgence eventually explored a discourse of Malaysian politics that claimed a "non-chauvinistic", that is, a non-ethnic, engagement with non-Malay and non-Muslim sensitivities on ethnic, religious and other issues.

State economic intervention

NEP's social engineering was managed by a decidedly interventionist state that played three key roles. As a *provider* of opportunities for Malays, the state enlarged the existing corps of Malay entrepreneurs, graduates and professionals. The state gave Malay entrepreneurs financial assistance, credit facilities, contracts, preferential share allocations, subsidies and training. It established new public universities and all-Malay residential schools and colleges at home, and sent tens of thousands of Malays, young students and mid-career officers, to universities abroad. This social engineering produced a full range of Malay entrepreneurs and capitalists (Searle 1999:81–95), a sizeable Malay middle class (Abdul Rahman 1995), and a considerable "*bumiputera* participation rate" in the professions (Jomo 1990:82–83, table 4.2; Government of Malaysia 1999:85, tables 3–7).

The state also became a determined *regulator* of business, both local and foreign, although the regulation of the former was politically more contentious. The state strengthened its regulatory powers and enforced compliance with NEP's restructuring requirements through legislative measures, such as the Industrial Coordination Act (ICA) in 1975, and bureaucratic procedures, which were set by the Foreign Investment Committee. NEP's restructuring requirements set a quota of at least 30 per cent *bumiputera* equity participation and employment in companies covered by ICA.⁸ In "expanding government power over firms", the ICA gave the Minister of Trade and Industry wide discretionary power over licensing, ownership structure, ethnic employment targets, product distribution quotas, local content and product pricing (Jesudason 1989:135–138).⁹

⁷ Many Chinese who refused to accept NEP emigrated.

⁸ Originally ICA provisions applied to any manufacturing firm having at least RM100,000 in shareholder capital and employing a minimum of 25 workers.

⁹ Even at the level of state and local government, (non-Malay) businesses were subjected to stringent bureaucratic regulations. In a non-manufacturing area such as real estate development, for example, many authorities—including land offices, town and country planning departments, municipal councils and state economic development corporations—imposed "NEP requirements" on seemingly technical matters such as land-use conversion or planning guidelines.

Finally, the state emerged as a major *investor* in many sectors of the economy. The state expanded public sector ownership of corporate equity by acquiring assets on behalf of the Malays. Public enterprises proliferated in number from 22 in 1960 to 109 in 1970, 656 in 1980, and 1,014 in 1985. State agencies, banks and funds sought, bought and otherwise held equity “in trust” for *bumiputeras*. Some of the best known of these state agencies were Bank Bumiputera, Urban Development Authority (UDA), Perbadanan Nasional (Pernas, or National Corporation), Permodalan Nasional Berhad (PNB, or National Equity Corporation), Amanah Saham Nasional (ASN, or National Unit Trust Scheme), and the state economic development corporations (SEDCs) (Searle 1999:61–66; Gomez and Jomo 1997:29–39).

NEP’s first decade was the heyday of state bureaucrats and technocrats who played the three roles of provider, regulator and investor with single-minded purpose, technical planning and enormous levels of resources. Fortuitous circumstances helped as well. The bureaucrats and technocrats who pursued NEP’s “poverty eradication” and “restructuring” were assisted in the 1970s by an international commodities boom and the discovery of offshore petroleum, both of which boosted state revenues. On the strength of these sharply increased revenues, the state was able to finance its intervention in the economy without imposing undue stress upon the national budget or the country’s balance of payments. For example, public enterprises under the stewardship of Tengku Razaleigh Hamzah (minister of finance in the mid-1980s) readily employed state resources to buy into, buy out, or otherwise start, companies that were pivotal to securing Malay control of the “commanding heights” of the economy.

The boost to NEP also came from yet another source. One of the state’s domestic priorities, that is, mass employment, which ISI (import-substituting industrialization) could not generate, coincided with an external development, namely the search by foreign multinational corporations (MNCs) for politically stable offshore production sites and cheap labour. Thus began Malaysia’s shift to an export-oriented industrialization (EOI) programme by offering the comparative advantages of lower wages, the prohibition of unionization among a new industrial labour force, the provision of sound physical and social infrastructure, and the utilization of fiscal, tax and other incentives to attract foreign direct investment. This shift to EOI attracted manufacturing MNCs from the West and East Asia to new export processing zones, and transformed a previously commodity-export-based economy into an industrialized economy.

Economic Nationalism

In other respects, the state’s economic intervention altered the balance of power among the state, foreign capital and domestic capital. The fundamental change was revealed by the state’s economic nationalist attitude toward foreign and Chinese capital. NEP targeted a 30 per cent Malay share of corporate equity by 1990, but allowed for a rise in non-Malay ownership from about 34.3 per cent in 1970, with the politically more contentious Chinese share accounting for 22.8 per cent in 1969 (Government of Malaysia 1971:40, table 3.1), to 40 per cent in 1990 (Government of Malaysia 1976:86, tables 4–16). Thus, Malay and non-Malay shares would increase at the expense of foreign ownership, which was targeted to decline from 63.3 per cent in 1970 to 30 per cent in 1990 (Government of Malaysia 1976:86, tables 4–16). The state began to acquire foreign companies and foreign equity. State enterprises, led by Pernas and Permodalan Nasional Berhad, bought up foreign companies such as London Tin, Chartered Consolidated, Sime Darby and Guthrie that had long dominated the mines, plantations and trading houses. Faced with state acquisitions or restructuring, certain foreign companies chose to relinquish ownership or control of their Malaysian subsidiaries (Searle 1999:72–74).¹⁰ Yet foreign capital could be mollified. The old foreign capital of the plantation houses, mines, banks and trading houses was never threatened with outright na-

¹⁰ One exception to the success of the state’s acquisitive trend was the foreign oil companies’ refusal to share management control with Petronas (Petroliam Nasional, or National Oil Corporation), as stipulated by the Petroleum Development Act of 1974 (Searle 1999:69–70). In response to the Petroleum Development Act, “which smells of nationalization, and...cannot be acceptable to any foreign interests ...foreign investment in Malaysia has come to a standstill” (Grace 1976, cited in Jomo 1986:281, fn. 69). There was an investment strike that ended only after the state had renegotiated with the oil companies and dropped the management conditions.

tionalization. “Malaysianizing” – the ownership of established companies by restructuring – was accomplished by market transactions. NEP’s “backdoor nationalization”, as foreign critics characterized the state acquisitions, entailed “relatively gentle...encroachments on the terrain of foreign capital” (Jomo 1986:281, fn. 68). Meanwhile the new foreign capital of the MNCs was highly favoured. The MNCs were not subjected to NEP’s “wealth restructuring” requirements, but they met NEP’s “employment restructuring” goal by proletarianizing large numbers of young rural Malays within the modern sectors of the economy.

For Chinese capital, the danger was that the state’s economic nationalism was inclined toward “Malay nationalism”, which the Chinese business community and political parties were too weak to resist. Chinese capital could not match the state’s penetration of key economic sectors. In banking, for example, where Chinese capital had expanded in the pre-NEP years, the state enlarged its assets and restructured both foreign-owned and Chinese-owned banks. By 1990, the state owned the three largest banks, Malayan Banking Berhad, Bank Bumiputera Berhad and United Malayan Banking Corporation (Searle 1999:75, table 3.2). Nor could Chinese capital escape stricter regulation, as was demonstrated by the failure of MCA and the Associated Chinese Chambers of Commerce and Industry of Malaysia to have the ICA repealed despite repeated attempts (Jesudason 1989:134–142). Chinese capital never enjoyed the MNCs’ privileged treatment. Portions of Chinese “old wealth”, typically family businesses controlled by individual tycoons, were unable or unwilling to adjust to NEP. These “pursued easy and safe areas of expansion, investing heavily in property development and finance, and avoiding sectors like manufacturing, which entailed larger risks and longer periods to recuperate investment outlays” (Jesudason 1989:163).

Other Chinese businesses, however, discovered opportunities that were, arguably, attributable to NEP. During NEP’s first decade, real gross domestic product (GDP) growth averaged 7.6 per cent per year (or 7.3 per cent over the Second Malaysia Plan period of 1971–1975 and 8.6 per cent in the Third Malaysia Plan period of 1976–1980). Under such conditions, business generally prospered, and the (predominantly Chinese) non-Malay share of corporate equity rose between 1970 and 1985. Some typically large Chinese businesses adapted to the NEP-altered balance of power at elite levels. Offering varying combinations of capital, networks and expertise, they courted, were courted by, or otherwise built commercial relationships with aspiring Malay capitalists or influential Malays situated in the aristocracy, bureaucracy, military and dominant Malay political party (Heng 1992:132–134; Sieh 1992:110–111). Soon a distinctive NEP creation – the “*bumiputera-non-bumiputera* joint venture” – emerged as a corporate platform from which adaptable Chinese capital, both “old wealth” and “new money”, partook in the state-led demand and public enterprise investment boosted by high commodity and oil revenues.

Emerging Intra-Malay Conflicts

Apart from ethnic considerations, the state sponsorship of Malay capital was dependent upon three critical factors. UMNO, as the dominant party in government, supplied the political power to push through NEP’s social engineering policies. The Malay-dominated bureaucracy provided the capacity for implementing NEP programmes. The performance of an incipient class of Malay capitalists had to vindicate the state assistance and financial nurturance they had received. Influential coalitions soon emerged from among the ranks of party, bureaucracy and class only to become new sources of intra-Malay conflict that could not be positioned in interethnic terms.

In the mid-1970s, one flashpoint emerged between the party and the bureaucracy. Razak’s regime had rapidly enlarged its corps of bureaucrats and technocrats, as Razak insisted that development required more “administration” than “politics”. A whole generation of Malay administrators, technocrats and professionals was trained at state expense and equipped with the resources to take charge of economic development under NEP. But the transition to an NEP state required a power shift, too, from UMNO’s “old guard” to younger UMNO politicians who were being groomed by Razak. And just as NEP repudiated the Alliance’s laissez-faire policies, so the rise of Razak’s

“young Turks” marginalized UMNO’s “old style politicians”, who supposedly lacked “the “vision and technocratic skills to carry through the restructuring of society” (Crouch 1980:17, 32–33).

Another source of conflict lay in the bureaucracy as it expanded in terms of funding, resources and personnel. Bureaucratic involvement in economic activities grew to such an extent that by 1983 public enterprises had controlled an estimated 45 per cent of “modern agriculture”, 50 per cent of mining, and between 70 and 80 per cent of banking (Parti Gerakan 1984:187, table 2). But the performance of public enterprises was itself a major problem. Many public enterprises could not meet market criteria of efficiency and profitability (Rugayah 1995:75–78; Gomez and Jomo 1997:76–77). Many officers regarded their public enterprises as “social enterprises”, whose “restructuring” goal was not readily measured in pecuniary value. The state tended to overlook the public enterprises’ deficits, debts and losses as the price of providing the Malays with experience, employment and skills. But the scale of deficits and losses was daunting. The total public sector deficit rose from RM400¹¹ million in 1970 to RM15.2 billion in 1982. State governments, statutory bodies and public enterprises owed the federal government RM8.743 billion in 1982 (Mehmet 1986:133–134), while “approximately 40–45 per cent of all state-owned enterprises (SOEs) have been unprofitable throughout the 1980s”, of which “almost half (or 25 per cent of all SOEs) had negative shareholder funds” (Adam and Cavendish 1995:25). A politically more contentious issue was the transfer of public enterprise assets. In principle, public enterprises run by political appointees and state managers held those assets “in trust” for the Malays. But the more commercially oriented trust agencies, like PNB, were empowered to acquire profitable companies. Even so powerful a public corporation as Pemas was required to transfer eleven of its most profitable companies to PNB in 1981. Commercial imperatives became more urgent after PNB established Amanah Saham Nasional (ASN, or the National Unit Trust Scheme). ASN bought PNB’s assets at cost, while individual Malays bought units of ASN shares. The companies remained “within the community” while individual shareholders received returns on their investments. ASN was a novel solution to the problem of asset transfer. Yet some managers of public enterprises were burdened by a “disincentive to profit-making” for fear of PNB’s taking over their enterprises (World Bank, cited in Gomez and Jomo 1997:77).

Public enterprises also faced pressures from Malay entrepreneurs who wanted the assets to be directly transferred to them, or complained of “unfair state competition”. Not a few state managers chose to become entrepreneurs, sometimes by acquiring the very enterprises they managed. Contention over the transfer of public assets grew acute as UMNO entered business and its managers used the party’s dominance to compete for state projects, contracts and assets. Within a few years of starting Fleet Holdings (for the purpose of generating party funds), UMNO had built up an economic empire that penetrated most economic sectors (Gomez 1990; Searle 1999:103–126). Subsequently, notable UMNO “nominees, trustees or proxies” – people to whom the party assets were entrusted – became big capitalists in their own right (Searle 1999:135–153).

In summary, as resources were increasingly controlled by bureaucrats and technocrats, as UMNO entered business on a large scale, and individual Malay capitalists emerged, new coalitions between groups located within the Malay party, bureaucracy and capitalist class arose and contended for power, access to resources and opportunities for accumulation. Over time, their disparate agendas were less and less able to be amicably subsumed under NEP: all based their claims on “restructuring”, but each pursued its disparate interests.

Mahathir: Reinterpreting NEP

By the time Mahathir Mohamad became Malaysia’s fourth prime minister in July 1981, many flashpoints of intra-Malay competition had emerged that would continually test the integrity of the party-bureaucracy-class axis so critical to NEP’s realization. And they generated conflicts that could not be readily positioned in the familiar interethnic mould. Mahathir himself would not and could not *replace* NEP’s objective of restructuring but he meant to *displace* NEP as the overriding

¹¹ RM is the Malaysian currency, ringgit (\$1=RM3.8, July 2004).

concern of Malaysian society. Mahathir is famous for formulating the “Malay dilemma”, which was usually understood to mean the correction of “Malay relative backwardness” vis-à-vis the non-Malays. But the crux of Mahathir’s “Malay dilemma” was that the “relative backwardness” of the Malay community, if uncorrected, would be the millstone that prevented the nation from catching up with the advanced nations of the world. It would be more accurate to characterize Mahathir as a *nationalist with capitalist aspirations, or a capitalist with nationalist aspirations*—and one who came to power just as the so-called East Asian miracle was unfolding. Consequently, Mahathir opted to steer Malaysia toward modernization, industrialization, privatization and bureaucratic reform, with significant implications for ethnic relations.

For a start, Mahathir extended and planned even to accelerate NEP’s high-growth developmentalism, which would consolidate NEP’s basic aims while lessening the likelihood of ethnic acrimony. One of his methods for doing so was to re-establish an alliance between state and domestic capital via his privatization and “Malaysia Incorporated” policies. Here, the relative success of NEP’s “restructuring” ensured a critical difference between Malaysia Inc. and the state-capital ties under the Alliance: the state now promoted a goal of Malaysian economic nationalism within which a leading role was reserved for the Bumiputera Commercial and Industrial Community (Khoo 1995:333–338). In that sense, the domestic goal of restructuring concerned Mahathir much less than providing direction for a state-sponsored drive toward heavy industrialization and industrial deepening following the East Asian model of late industrialization associated with the economic successes of Japan and the East Asian tigers. Consequently, the Mahathir regime offered a re-statement of national aspirations as a quest for “NICdom”¹² in the mid-1980s, and, after 1990, as a march toward developed country status, which would stop Malaysian society from “looking inwards with prejudice but rather outwards with pride” (Das 1982:38).

The first decade of Mahathir’s premiership did not see a trend of diminishing interethnic conflicts. The reverse was true, although his regime did not institute any particular NEP-type policy to heighten ethnic tensions. But the 1985–1986 recession strained the management of ethnic relations. On the one hand, the end of high growth intensified the Chinese sense of deprivation—in economic and cultural matters—that NEP was supposed to pre-empt. On the other hand, the Malay party-bureaucracy-class axis was split over how NEP’s “restructuring” objective would be affected by the recession. An anti-Mahathir camp wanted to pursue “restructuring” and “wealth redistribution” (along ethnic lines), if necessary, with more vigour. Mahathir and his allies decided to “hold the NEP in abeyance”, that is, to suspend NEP’s “restructuring” requirements to pursue “growth” rather than “redistribution”. This intra-Malay conflict deeply split the Malay community and, in the face of rising urban, non-Malay opposition, brought Malay-Chinese tensions to a dangerous level in 1987. The tensions were immediately dampened by police repression in October 1987.

What truly defused the tensions was the return to high economic growth: once more, internal policies coincided with external conditions. “Holding NEP in abeyance”, the state offered foreign direct investment more liberal equity requirements, easier start-up conditions, substantial depreciation of the ringgit and lower labour costs. This investment regime attracted investment inflows principally from Taiwanese, Japanese and Singaporean manufacturers prompted to relocate some of their activities because of rising production costs, tightening labour markets and stricter environmental restrictions at home. Just between 1988 and 1990, NEP’s concluding year, the average growth rate exceeded 9 per cent. Indeed, official statistics showed that the targets for “poverty eradication” and “restructuring” had been substantially met. Between 1970 and 1990, the incidence of poverty had declined from 49 per cent (of all households) to 17 per cent. Over the same period, despite controversy over the exact extent of “restructuring”, the *bumiputera* share of corporate equity had risen from 2.5 per cent in 1970 to at least (and probably considerably more than) 20 per cent. And *bumiputera* professionals, who formed less than 5 per cent of major professional categories in 1970, constituted over 29 per cent in 1990.

¹² NIC stands for newly industrialized country.

By its own standards, NEP had been a success. But what really set aside the ethnic politics of NEP was the wave of prosperity in the early to mid-1990s. With it came increases in income and living standards for most sectors of Malaysian society (with the exception of the new underclass of unskilled and semi-skilled, legal and illegal, migrant labourers). Then, from a position of strength, Mahathir redefined Malaysian nationhood yet again. He confidently claimed that the “Malay dilemma” had ended. In place of NEP, Mahathir offered Wawasan 2020 (Vision 2020), which expressed a vision of a Bangsa Malaysia (Malaysian nation) attaining the status of a developed country by the year 2020. Vision 2020 was proclaimed in 1991, and soon became hugely popular. Never had Mahathir or any of the previous ruling regimes obtained more multi-ethnic support than in the 1995 general election. By then, the overt manipulation of ethnic sentiments and grievances had become less habitual among politicians of both the ruling coalition and the opposition parties.

To the extent that ethnic differences and cultural grievances in Malaysia had always had an economic “essence” to them, the Mahathir regime in the 1990s seemed to have supplied economic solutions to cultural problems. The privatization of tertiary education, corporatization of public universities, and Mahathir’s insistence on reviving the use of English on pragmatic grounds, combined to defuse interethnic squabbles over issues of language, tertiary educational quotas for students of different communities, and the Chinese independent schools. No non-Malay, then, would dispute the status of Malay as Bahasa Malaysia (the Malaysian language). Only some Malay “linguistic nationalists” questioned Mahathir’s renewed promotion of the English language, while increasing numbers of non-Chinese (mostly Malay) children began to attend Chinese schools without hint of controversy.¹³

Lessons from NEP

For most Malaysians in the 1990s, interethnic tolerance took on new meaning and greater value when contrasted with ethnic warfare in the Balkans and the former Soviet bloc. It was common for Malaysians to hear hopeful, and not just propagandistic, comments about the unifying national goals of Wawasan 2020 and Bangsa Malaysia. At that point, Malaysians, according to one strand of BN ideology, had become one family. Nationhood, the elusive state that defied the Alliance elites, and national unity, which was NEP’s distant goal, seemed attainable.

It will never do for Malaysians to be complacent about ethnic relations and potential tensions. Yet one can now better understand how it was that things appeared to be quiet on Malaysia’s ethnic front on the eve of the July 1997 crisis, and why, despite other kinds of political conflicts, no major ethnic conflicts surfaced in the aftermath of the crisis.

What then are the “lessons from NEP” that can be drawn for the management of ethnic relations? They include the following:

1. NEP’s socioeconomic reforms required a high degree of state intervention. The post-1969 regimes continually sought to “govern the market”, even when Mahathir’s “privatization” offered an important nod in the direction of a domestic capital that had become much more multi-ethnic. Despite opposition and some problems that linger to this day, it was the state’s assumption of the roles of provider, regulator and investor that made possible the initial burst of NEP implementation.
2. NEP recognized that the ethnic division of labour that divided the society along intersecting ethnic and class lines had to be tackled on both counts. NEP expressly prescribed ethnic solutions to ethnic problems but its underlying class content was not less important. Restructuring to sponsor the rise of Malay capitalist, professional and middle classes was often presented as NEP’s explicitly ethnic dimension. In reality, it was more than that. And, in the absence of land reform, the land

¹³ The current estimate is 65,000 non-Chinese students, or about 10 per cent of the student population, are in Chinese schools.

resettlement schemes undertaken by the Federal Land Development Authority and the mass industrial employment spearheaded by the MNCs, rounded off a deep transformation of Malay society and the Malaysian class structure.

3. The post-1969 regimes redefined the parameters of nationhood and nationality, but without abandoning some of the basic tenets of interethnic relations that were inherited from the Alliance period. Razak's regime established Malay dominance vis-à-vis the non-Malays. The subsequent formulation of a Malay-Muslim national culture consigned expressions of non-Malay identities and cultures to "benign neglect", but not the outright hostility that could have threatened the basic economic and social infrastructure of the non-Malay communities.
4. Economic nationalism played a major role in NEP but came in different guises and was practised to different degrees. NEP reduced an older form of foreign ownership of the national economy for the benefit of domestic capital, but favoured EOI-based manufacturing FDI. At the level of corporate wealth, restructuring embodied strands of Malay economic nationalism vis-à-vis non-Malay capital, but small and medium Chinese businesses were not subjected to restructuring. Mahathir's "Malaysia Inc." stance reinterpreted NEP to express a vision of a multi-ethnic "national capital" capable of leading a unified nation.
5. NEP's transformation of Malay society generated new intra-ethnic tensions and conflicts. Restructuring at corporate levels created new coalitions of economic and political power whose agendas could not be subsumed amicably under NEP. At the mass level, the subjection of the Malay masses to rapid change and dislocation brought out forms of Malay-Muslim disaffection with the "Malay state".
6. BN, like the Alliance before it, institutionalized power sharing among the ethnic communities. Even after the balance of power was tipped in UMNO's favour, UMNO's non-Malay partners in BN remained symbolic, while also real, if limited, representatives of their communities. Power sharing was practicable because the core of Malaysia's ethnic divisiveness was mostly limited to Malay-Chinese differences, rather than more complicated sets of ethnic conflicts.
7. Successive regimes were committed to NEP's premise of promoting high economic growth to facilitate redistribution without placing undue stress upon ethnic relations. At a critical juncture during the recession of the mid-1980s, Mahathir's regime chose to suspend restructuring in favour of growth and employment generation, while keeping open the option of returning to restructuring under more conducive conditions.
8. Changing conditions or fortuitous circumstances variously affected NEP's performance. Some conditions were favourable, such as the oil price increases and commodities boom of the 1970s, which gave an impetus to restructuring, while others were not, such as when oil and commodity prices crashed in the 1980s, forcing a suspension of restructuring. Some of the circumstances were fortuitous, for example, the changes in the global industrial and financial system that brought the first wave of manufacturing FDI in the 1970s, and the second wave in the late 1980s. One key factor was the ability of the state to manage the destabilizing effects of economic crises and to modify policies to respond to, or take advantage of, changing conditions.
9. NEP could heighten, as well as diminish, ethnic differences to the extent that issues of ethnic identity and problems of cultural grievances in Malaysia had always had an economic essence to them. The substantive attainment of NEP's socioeconomic goals diminished the likelihood of intense ethnic economic rivalry, while the Mahathir regime's economic solutions to cultural problems in the 1990s encouraged a deeper sense of national purpose and identity.

Conclusion: Prospects for Indonesia

Looking at Indonesia today through NEP lenses, as it were, one will see more contrasts and obstacles than similarities and opportunities for the management of ethnic relations in the immediate future.

Indonesian society today has less room for manoeuvre than did Malaysia under NEP. Malaysia was never the exemplar of the East Asian model of development, but the state was able to take advantage of prevailing global circumstances to intervene heavily in the economy, impose a reformist agenda on foreign and local capital, utilize the emerging “new international division of labour” to break the ethnic division of labour, and nurture state-owned enterprises. This opportunity was not seized by Suharto’s regime, and is not likely to be available to the state in post-crisis Indonesia. The current phase of globalization is dominated by mobile multinational corporations and even more mobile finance capital. The state in post-crisis Indonesia can scarcely hope to operate with the degree of state intervention or the kinds of economic nationalism that propelled NEP without provoking a massive capital strike, both foreign and domestic. If post-crisis Malaysia has been able to maintain a semi-autarkic posture vis-à-vis the international money market since September 1998 without adverse effects for ethnic relations, it is partly because the political economy of NEP began before the advent of global neoliberal attacks on state economic intervention. Over a period, the state in Malaysia was able to build the institutional capacity needed to support state-led growth. And despite inefficiencies and excesses justified by restructuring, state revenues were invested in public projects that were committed to poverty eradication. In contrast, the Indonesian bureaucracy “suffered from a surplus of departments filled with underpaid and under-employed staff, charged with carrying out overlapping and uncoordinated regulations” (Vickers 2001:77). To take a notable example, Malaysia’s national petroleum company, Petronas, has long been one of the best-managed state enterprises. Petronas served as the state’s cash cow, milked to fund development in good times, and to bail out the state in times of financial difficulty. In contrast, Indonesia’s Pertamina had been captured by private interests before, even bankrupted, and needed to be saved by the state. Between Petronas and Pertamina lies the gulf between a developmentalist state with bureaucratic and technocratic capabilities, and a largely predatory state. It is difficult not to recall the characterization of post-crisis Indonesia as one of “those places where capitalism has been and gone, leaving behind scarred landscapes and ruined social edifices” (Anderson 1998:299).

One can, of course, draw parallels between the politically sensitive Malay-Chinese divide in pre-NEP Malaysia and the uneasy relations between *pribumi* Indonesians and the non-*pribumi* ethnic Chinese. Indonesia’s situation has not been improved by meaningful corrections of “*pribumi* relative backwardness”, apart from the emergence of powerful *pribumi* economic interests. Calls for NEP-type restructuring had been issued in Indonesia before. Some were made on ethnic grounds by vested and powerful *pribumi* interests seeking to expand their economic empires, some on class grounds by “radical critics of the New Order” moved by “populist concerns for a more equitable distribution of wealth” (Robison and Hadiz 1993:26). In circumstances of prolonged economic hardship, any Indonesian initiative that targets Chinese ownership for “restructuring” will contain “dangerously disruptive potential” (Robison and Hadiz 1993:26), no matter how it is justified. Mackie recently considered it “highly unlikely that an NEP would be anything short of disastrous” since “confiscatory measures against the Chinese would be unavoidable” and the absence of “a highly competent and uncorrupt bureaucracy” would mean that neither “redistribution of property nor even an NEP-style one could be carried out cleanly or without immense disruption” (Mackie 1999:196). But given the fact that desperate economic resentment still lies at the heart of anti-Chinese sentiment in Indonesia, is there any practicable alternative to adopting some variant of NEP’s restructuring objective? There may not be. One basic lesson from Malaysia’s NEP is that where class divisions closely overlap ethnic differences, economic disparities and cultural grievances exacerbate each other. There may not be a practicable alternative to developing “class and ethnic” solutions. But if restructuring is applied to moderate “ethnic Chinese economic domination”, any future management of *pribumi*-non-*pribumi* relations must learn from another basic NEP lesson, that is, restructuring cannot work efficiently without growth, or equitably without recognizing the need to pre-empt a sense of deprivation.

This last point is especially critical since Indonesia’s ethnic relations are vastly complicated by certain *pribumi*-*pribumi* relations. Relations between indigenous Christians and Muslim settlers in Maluku and between native Dayaks and migrant Madurese in Kalimantan combine a heightened sense of economic deprivation with cultural or religious suspicions. To those problems

might be added regionalist resentments of previous marginalization by the highly centralized New Order regime.¹⁴ It is no easy task to adequately address these mixes of economic, cultural and regionalist grievances. Some degree of decentralizing political authority is necessary despite concern that decentralized control over resources will become the regional elites' vehicle for self-aggrandizement. Some degree of regional autonomy is probably necessary to avoid an intensification of interethnic violence that could result in the ethno-nationalism seen in Aceh or Papua.¹⁵ At least in principle, the precondition for a solution to these difficult *pribumi-pribumi* relations has to be a more equitable distribution of economic opportunities and resources, between the centre and the regions, and within the regions themselves—some form of federalism, in a word. As Legge (2001:25) has rightly observed, whereas “in the 1950s federalism was a dirty word in the backlash against the Dutch efforts to retain influence by creating a United States of Indonesia”, today “one may wonder whether a federal type of solution might not be the only way of satisfying some regional demands”.

Problems of ethnic relations are rarely problems in and of themselves. They are embedded within political economy, society and culture. The real question may not be whether post-crisis Indonesia needs an NEP to solve its ethnic problems, which are more varied, more complex and operate on a larger scale than Malaysia's before NEP. The real question is what Reformasi ultimately means for the majority of Indonesians, two thirds of whom (or nearly 80 million people, just short of eight times the *total* Malaysian population in 1970) were predicted to be living under the poverty line in 1999 (ILO 1998).¹⁶ For them, any economic restructuring must mean significant poverty eradication above all else. To accomplish this requires a massive social transformation that is far more the stuff of ongoing political struggles than any particular exercise in public policy. In this regard, post-crisis Indonesia has, arguably, one bright spot. The 1997 crisis brought popular resistance to “*korupsi, kolusi dan nepotisme*” — the practices of “cronyism, collusion and nepotism”. As a corollary, the economic and social reforms needed to correct the concentration of wealth in the hands of powerful—but not exclusively ethnic Chinese—coalitions, need not be anti-Chinese in social impulses and popular understanding. If Reformasi brings a significant transformation of Indonesian political economy and society that gives substantive meaning to competing notions of democracy and social justice, including an equitable distribution of wealth along ethnic and class lines and regional lines, then other conditions of decent ethnic relations—cultural freedom, religious tolerance and regional autonomy—would be attainable. If Reformasi fails to do so, then the prospects for ethnic relations may be just as dismal as it is for other social issues.

¹⁴ Commenting on the “debate surrounding regional political autonomy and the demand to reformulate the existing national-state formation”, Tirtosudarmo (2000:28) remarked that “the emergence of various ethnic based organizations, demanding a recognition of their indigenous rights, is likely to be interconnected with the demand for more autonomy and independence [for] the regions”.

¹⁵ “If Jakarta wants to find a fundamental solution to the Dayak rebellion in Central Kalimantan, and prevent it from spreading to the other Kalimantan provinces, and turn it into an island-wide movement for Dayak self-determination, Megawati, and her military supporters had better fly over and start talking to the Dayak leaders, rather than simply using the Wild West style of ‘sending in the cavalry’” (Aditjondro 2001). Aditjondro wrote this in May 2001, two months before Megawati Sukarnoputri replaced Abdurrahman Wahid as president of Indonesia.

¹⁶ ILO (1998) published this dire report on the poverty situation in post-crisis Indonesia:

Due to stagnant wages and incomes in nominal terms, on one hand, and high inflation on the other, around 75 million people, or 37 per cent of the population, will fall below the poverty line by mid-1998. The corresponding figures by the end of 1998 will be around 100 million people, or 48 per cent of the population. This is a three- to four-fold increase from the officially estimated 11 per cent poverty incidence in 1996, and comparable to levels prevailing in the mid-1970s. In the absence of improvements in household income, further price rises in 1999 will push some 140 million people, or 66 per cent of the population, below the official poverty line, at poverty levels not seen since the 1960s.

The incidence of poverty in rural areas, at 53 per cent, will be higher than that in urban areas, at 39 per cent, by end of 1998. Also, over 70 per cent of poor people will live in rural areas.

Based on alternative, internationally comparable, poverty lines of \$1 and \$0.80 in urban and rural areas, 57 per cent of the population lived below the poverty line even before the crisis in 1996, or more than five times the official estimates of CBS [Central Board of Statistics]. The latter's estimates were based on a poverty line of \$0.45 per capita per day in 1996. These alternative estimates call into question the government's main approach of focusing on pockets of poverty in so-called least developed villages. Clearly, when poverty is as widespread as indicated by internationally comparable poverty lines, poverty alleviation efforts should be directed at the majority of the population.

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