BIBLIOGRAPHIC INFORMATION

Title	Malaysia's Development Strategy: The Dilemma Of Redistribution With Growth.
Source	Studies in Comparative International Development; Summer78, Vol. 13 Issue 2, p40, 16p
Author 1	Cheema, G. Shabbir
Author 2	NA
Author 3	NA
Publication/Conference	NA
Edition	NA
Document Type	Article
CPI Primary Subject	Governance and Public Admin
CPI Secondary Subject	; ; ;
Geographic Terms	Malaysia;

Abstract

Examines the feasibility of removing economic disparities in developing, multiethnic society within the broader framework of redistribution through growth, by analyzing Malaysia's development strategy. Provisions of the Malaysian Constitution for reducing interethnic disparities; Changes incorporated in the Malaysian economic policy to achieve economic balance; Impact of government programs on restructuring Malaysian society.

MALAYSIA'S DEVELOPMENT STRATEGY: THE DILEMMA OF REDISTRIBUTION WITH GROWTH

G. SHABBIR CHEEMA
Universiti Sains Malaysia

Although there has been an increase of approximately 50 percent since 1960 in the average per capita income of Third World countries, this growth has not been accompanied by an equitable distribution of resulting benefits (Ahluwalia, 1974:3). In many cases, income disparities among socioeconomic groups and regions have further widened, and could well be detrimental to the national integration and political stability of a country. Policymakers in developing countries as well as international organizations are exhibiting an increased awareness of this problem and are attempting to design development strategies promoting growth while reducing income disparities.

Three approaches to the development of Third World countries can be identified. The first emphasizes growth through, among other things, savings, investment, exports, productivity, and effective fiscal and monetary institutions (Rothstein, 1976:594). The basic assumptions are: (1) that in order to achieve long-term economic gratification immediate sacrifices, such as widening income disparities, are inevitable; (2) that eventually, as growth continues its benefits will be more widely distributed; and (3) that it will be accompanied by relatively greater access to land, capital, and other facilities. Two criticisms regarding application of these strategies in developing countries should be mentioned: first, due to the limited coverage possible under their fiscal systems, these countries lack effective mechanisms for redistributing income (Haq, 1973:369); and second, the "institutions which create growth are not neutral as to its distribution" (Haq, 1973:369). Thus high growth rates in these countries will not automatically filter down to the masses.

The second approach focuses on redistribution, thereby reducing existing inequalities. The policies implicit in this approach emphasize greater governmental intervention, specific programs to improve socioeconomic conditions of disadvantaged groups, greater utilization of human resources, agriculture, structure of foreign trade, etc. The basic assumptions of this strategy are that for the purposes of more equitable distribution, sacrifices in growth need to be made, and that to ensure the future stability of the system, radical reforms must be successfully implemented. Regarding the usefulness of this strategy for developing countries, the following criticisms are usually mentioned. First, it is argued that the elites of new nations will not support radical strategies because of "prestige that has been associated with high rates of growth, because of potential losses in elite welfare as gains are shifted to new groups, and because of possible fears that they will be overwhelmed by revolutionary turmoil" (Rothstein, 1976:598). Second, it is contended that implementation of this strategy would lower growth rates due to reduced domestic savings, and that consequently in the poorer countries not much would be there to redistribute.

The third approach emphasizes redistribution with growth. The assumption is that there is no inherent conflict between the goals of greater growth and social justice.[1] The two are mutually inclusive and should be brought together.[2] It is suggested that by improving access to modern-sector employment through education, increasing the demand for labor by redistributing land, and redirecting public investment, the disadvantages of lower socioeconomic and racial groups can be offset (Chenery, 1974:12). This requires substantial governmental intervention on behalf of the disadvantaged, although it takes place within the existing sociopolitical framework. The underlying assumption of this strategy is that by ensuring a significant growth rate and undertaking these measures, the benefits of both redistribution and growth policies can be retained. Criticisms leveled against such a strategy are that: (1) it prevents "economic incentives and free functioning of the price system to achieve efficiency in a capitalist framework" (Haq, 1973:370); and (2) it leads to inefficient administrative controls. Neither growth nor equity are accomplished by such confusion.

In this paper an attempt is made to examine Malaysia's development strategy. The scope is limited to those aspects of the strategy designed to remove interethnic economic disparities and restructure Malaysian society. Efforts to redistribute income through ownership of assets in the modern sector and the creation of a Malay industrial and commercial community are discussed. The main purpose is to examine the feasibility of removing economic disparities in a developing, multiethnic society within the broader framework of redistribution through growth.

Political Economy of a Plural Society

Malaysia is a multiracial society comprised of 46.8 percent Malays, 34.1 percent Chinese, 9.0 percent Indians and Pakistanis, 3.7 percent Dayaks (or Ibans), 1.8 percent Kadazans, 3.2 percent other native groups, and 1.4 percent other races. The indigenous government in pre-British Malaya consisted of a ruler (Yang di-Pertuan) in each state, district chiefs, and village headman (Penghulu).[3] The ruler exercised powers over his kingdom and was a symbol of unity to his people. The district chief performed functions such as local administration, revenue collection, defense, and justice. The headman served as a communication link between the people (*ra'ayat*) and district chiefs. In the mid-nineteenth century, the British intervened in order to safeguard their commercial interests which were being jeopardized as a result of feuding among Malay rulers and chiefs. The rulers agreed to the appointment of a British resident whose advice was to be followed on all matters other than Malay religion and customs. The British, in turn, were cautious in using Malay rulers to legitimize their colonial rule. Through land laws and provisions in the civil service and education, the British laid the foundations for the "special rights" which accorded Malays preferential treatment (Means, 1972:31).

Following the end of World War II and the Japanese occupation, the British attempted to introduce a centralized political and administrative structure, the Malayan Union, which was to incorporate all the Malayan Peninsula with the exception of Singapore.[4] This was vehemently opposed by the United Malays' National Organization (UMNO), which felt it was an attack on Malay indigenous institutions. The compromise formula which emerged, the Federation Agreement of 1948, provided for the sovereignty of the rulers, the special position of Malays as the indigenous people, an effective central government, and an opportunity for Chinese and Indians to qualify for Malayan citizenship if they fulfilled requirements such as birth in the federation and residence for a specific length of time.

The constitution which came into existence after Malaya's independence (Merdeka) in 1957 provided for a bargain between Malays and non-Malays which later became the basis for interethnic relations, national economic policies, and political groupings.[5] It provided for a titular head of state (Yang di-Pertuan Agong) to be chosen by a Conference of Rulers from among the sultans for a period of five years. It provided for Islam as the state religion and authorized the head of state to safeguard Malay religion and customs. Another concession given to Malays by the Constitution was that it affirmed the "special position of the Malays," which meant that the head of state, on the advice of the government, was to reserve reasonable proportions for Malays of (1) positions in the federal public service, (2) educational facilities such as scholarships and training programs given by the federal government, and (3) permits on licences for the operation of trade and business. In return for acknowledging the Malays' special status, Chinese and Indians were given "a further relaxation in citizenship provisions," and thus an opportunity to fully participate in the political process of the country (Milne, 1967:38).

The success of this constitutional bargain between Malays and non-Malays necessitated a political setup through which the needs and demands of various ethnic groups could be communicated to the machinery of government and through which a workable majority at the national level could be ascertained. Party politics in Malaya had already developed largely as a reaction to the British proposal for a Malayan Union, the desire of the communal elite to safeguard the interests of their group, and a broader concern for political emancipation and Malayan nationhood (Ongkili, 1974:255-77). The three communal political parties—United Malays' National Organization (UMNO), Malayan Chinese Association (MCA), and Malayan Indian Congress (MIC)—joined in an intercommunal Alliance and won the majority of seats in 1954, 1959, 1964, and 1968 general elections. The Alliance party became an institutional mechanism not only for communal elite bargaining for the redistribution of economic benefits but also a venue through which the demands of their constituencies could be communicated and communal conflicts managed.

Interethnic income disparities in Malaya at the time of independence were alarming. In the Household Budget survey of the Federation of Malaya 1957-58, it was reported that while 75 percent of Malay households in rural areas received a total monthly income of M$150 or less, only 23.5 percent of Chinese households in rural areas took in this small a sum. On the other hand, only 2.5 percent of rural Malay households, but 22.5 percent of rural Chinese households, had incomes of M$300 or more (Vorys, 1975:219). Early steps undertaken by the Alliance party for intercommunal economic redistribution were discernible in the First and Second Five-Year Plans, 1956-60 and 1961-65 respectively, and the First Malaysia Plan, 1966-1970.[6]

The leaders of UMNO, MCA, and MIC were politically bound by the constitutional contract to improve the economic situation of Malays. There was also a realization on their part that "hasty and coercive remedial initiatives would only worsen the situation," and that they should proceed with caution so that no group would feel a sense of deprivation (Vorys, 1975:219). The redistribution strategy which emerged was that the government should make persistent efforts to expand the collective pie through economic development. Within the framework of an expanding economy, preferential treatment was to be given to Malays, particularly in those areas stipulated in the constitutional provisions regarding their "special position." The private sector was to provide impetus for economic development.

One of the major steps undertaken to effect intercommunal redistribution during the first three plan periods was to modernize the agricultural sector by providing input facilities such as new seeds and fertilizers, and developing rural infrastructural and welfare facilities (Chee, 1975:9-17). It was felt that if only the productivity of small Malay farmers could be raised, it would increase their income level. The underlying assumption was that changes in the income of the rural populace would benefit Malays in particular since they constituted a high percentage of that population. The First Malaya Five-Year Plan allocated M$227.5 million to agriculture, amounting to about 24 percent of total public expenditure.[7] In addition, a large amount was spent on rural infrastructure and welfare facilities. During the Second Malaya Five-Year Plan public expenditure on agriculture and rural development increased by more than 100 percent. Similarly, the allocation for agriculture and rural development under the First Malaya Plan was M$911 million, again an increase of more than 100 percent.

Various rural development programs were designed to improve economic conditions of rural Malays. First, in land development schemes of the Federal Land Development Authority (FELDA) and those of the various states, Malays were given preferential treatment. The settlers in these schemes were to be the landless or those with noneconomic farm sizes. Second, to reduce the dependence of rural Malays on the predominantly Chinese middlemen, the government introduced institutional reforms. A Federal Agricultural Marketing Authority (FAMA) was established to coordinate public and private marketing.

The improvement of agricultural research and extension services was to be facilitated by the Malaysian Agricultural Research and Development Institute (MARDI). Cooperative societies and farmers' associations were established to correct existing institutional shortcomings in the area of credit. Third, single area corporations such as the Muda Agricultural Development Authority were established to develop economically backward regions. Fourth, the National Padi and Rice Authority (NAPRA) and Federal Land Rehabilitation and Consolidation Authority (FELCRA) were created. Fifth, to facilitate speedy implementation of rural development programs, a Ministry of Rural Development under the deputy prime minister was established. Progress on these projects was to be charted in the National Operations Room.

The government also initiated a strategy to assist the large number of Malays moving to urban areas. They were proclaimed "sons of the soil" (*bumiputra*) in the national policy package and were accorded special privileges to make them partners in the modern sector of the economy. Special efforts were made to train them in skills needed for urban employment. Majlis Amanah Ra'ayat (MARA) was entrusted with the task of giving vocational education to Malay students. MARA provided loan facilities to Malays, assisted them in the establishment of manufacturing and commercial concerns, built shop houses for them, and initiated bus services. Bank Bumiputra was established in 1965 to assist Malays in commerce and industry by granting them loans. Finally, the government emphasized that the private sector must hire more Malays at the higher management level.

The New Economic Policy: Renewed Political Drive for Redistribution

By the end of the 1960s it was becoming apparent to the Malay elite as well as the rural electorate that the economic terms of the constitutional bargain had not been successfully implemented. Neither economic conditions of the Malay nor interethnic economic disparities had changed. This was later verified when it was reported that in 1970 the mean household monthly income of Malays was M$178.7, that of Chinese M$387.4, and that of Indians M$310.4. As shown in Table 1, of those households having an income of less than M$100, 85.5 percent were Malay, only 9.6 percent Chinese, and 4.9 percent Indian.

The government's efforts to make Malays effective participants in commerce and industry did not have any visible impact. Foreign interests accounted for as much as 61 percent of the total share capital invested in the corporate sector. Chinese ownership accounted for about 22 percent. Ownership of share capital by Malays and Malay interests was only 2 percent of the total. The Malays' share in agriculture, forestry, and fisheries was only 0.9 percent, in mining and quarrying it

Table 1 Distribution of Households by Income,[1] Peninsular Malaysia, 1970

Income range (per month)	Malay	Chinese	Indian	Other	Total
$ 1 - 99	84.5	9.6	4.9	1 0	100
$ 100 - 199	60.8	24 9	14.0	0.3	100
$ 200 - 399	40.3	46.0	13.5	0.2	100
$ 400 - 699	31.6	55.7	12.1	0.6	100
$ 700 - 1,499	23.2	61.4	12.5	2.9	100
$1,500 - 2,999	14.0	62.1	13.6	10.3	100
$3,000 and above	12.1	52.0	17.3	18.6	100
As a % of total households	56.7	31.3	11.2	0.8	100
Mean household income ($ per month)	178.7	387.4	310.4	950.0	268 7
Median household income ($ per month)	122.3	271.1	195.5	324.2	168.6

[1]Income includes cash income, imputed income for earnings in kind plus transfer receipts

Source: Mid-Term Review of the Second Malaysia Plan 1971-1975 (Kuala Lumpur Government Press, 1973) p. 4.

was 0.7 percent, and in commerce 0.8 percent. Although foreign interests accounted for 61 percent of the total share capital, the Chinese owned about 60 percent of the total Malaysian share.

Discontent on the part of the Malay electorate, which had been considerably politicized due to effective UMNO party branches, was demonstrated in the 1969 general elections. The Alliance's share of votes in West Malaysia was reduced from 58.5 percent in 1964 to 49.1 percent. More significant, however, was the decline in UMNO's popularity among Malays. Even in predominantly Malay constituencies, UMNO's share of votes fell from 66 percent in 1966 to 56 percent. The anti-Chinese and pro-Islam Pan Malayan Islamic party (PMIP) increased its share of votes among Malays. The May 1969 riots, which took place immediately after the general election and in which, according to government figures, 196 people died, have been attributed to many factors.[8] Most significant was the frustration of Malays at the slow pace with which the government was implementing the economic aspects of the constitutional bargain which had granted them "special rights" to improve their economic situation. The Alliance party's strategy of proceeding with caution in communal redistribution so that non-Malays did not feel a sense of deprivation had faltered. For continued political legitimacy, the Malay ruling elite needed a new policy package which could incorporate the rising expectations of Malay masses.

The political events which followed the racial riots gave greater coercive capability to the Malay-dominated national political system. A State of National Emergency was declared. Parliament was suspended and a National Operations Council (NOC) was set up in order to recreate normal conditions and restore parliamentary democracy. Decision-making power shifted to key administrative and political elite who were predominantly Malay. They responded to the political challenge posed by Malay resentment by amending the constitution and drafting an economic charter which was to become the basis of future sectoral policies for reducing interethnic disparity.

The New Economic Policy (NEP) was incorporated into the Second Malaysia Plan, 1971-75, and the Perspective Plan, 1970-90. It was based upon a two-pronged development strategy. The first was designed to "reduce and eventually eradicate poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race" (Malaysia, 1971:1). The second prong aimed at "accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function" (Second Malaysia Plan, 1971:1). These goals were to be accomplished within the framework of a rapidly expanding economy. NEP does not attempt to redistribute existing wealth, but seeks equitable distribution of incremental wealth. While the first aspect emphasized increasing productivity and income, increasing opportunities for intersectoral movements and providing social services, the second was primarily designed to reduce interethnic disparities.

Programs and policies designed to achieve racial economic balance included modernizing and creating new economic activities in the rural sector for Malays, providing them with facilities for higher education in science and other disciplines, introducing modern industries in rural areas, developing new growth centers in new areas, shifting rural Malays to urban areas, providing specific development projects in various poor regions, creating a Malay entrepreneurial community, and increasing Malay participation in modern-sector activities such as ownership and control of assets in commerce and industry.

It was pointed out in the Perspective Plan that in order to reduce total income differentials between Malays and non-Malays, existing disparities in the ownership of assets had to be narrowed. The plan proposed that within a period of twenty years, Malays and other indigenous peoples were to "own and manage at least 30 percent of the total commercial and industrial activities of the economy in all categories and scales of operation" (Malaysia, 1973:81). Malay ownership of the total share capital is expected to reach 16 percent by 1980, 23 percent by 1985, and 30 percent by 1990. The share of non-Malays is expected to rise from 37 to 40 percent, while that of foreigners is forecast to decline from 61 to 30 percent.

A comparison of Malaysia's strategy for intercommunal income distribution before and after 1970 shows that in both periods the reduction of interethnic economic disparities was based upon, and expected to be implemented within the framework of, an expanding economy in which the private sector was expected to play a vital role, free enterprise was allowed to continue, and government intervention was to take place through public enterprises aimed at safeguarding the economic interests of Malays. After 1969 what did substantially change was the elite's political will, and subsequently the political system's capability to more intensely intervene in the national economy by means of setting certain targets and delineating specific programs for the restructuring of Malaysian society.

Impact of Government Programs: Problems and Prospects

The impact of government programs on restructuring Malaysian society has been reported in the *Third Malaysia Plan, 1976-80* (Malaysia, 1976), which points out that the number of Malay graduates from domestic tertiary institutions increased from 196 in 1970-71 to 3,107 in 1974-75. In addition, the government provided training, advisory assistance, credit facilities, and preferential treatment in the allocation of contracts to Malays and other indigenous peoples. The government also purchased share capital for Malays which it is holding in trust. Most of these facilities were provided through public enterprises and institutions which, in some cases, were already in existence, and in others were created after NEP was launched. These enterprises included the National Productivity Center (NPC), Institut Teknologi MARA (ITM), Malaysian Industrial Development Finance (MIDF), Malaysian Industrial Estates Sdn. Bhd. (MIEL), Bank Bumiputra, the Urban Development Authority (UDA), State Economic Development Corporations (SEDCs), Perbadanan Nasional (PERNAS), and others. The magnitude of commercial facilities provided to Malays is underscored by the fact that total loans and advances to Malays and other indigenous peoples increased from $80 million at the end of 1970 to $791 million by the end of 1975.

As a result of government programs, the share of Malay employment in the commercial and industrial sectors improved. The estimated percentage of Malay employment in manufacturing increased from 28.9 percent in 1970 to 33.1 percent in 1975. Similarly, Malay employment grew at a rate of 10.8 percent per annum in construction and 5.6 percent per annum in mining, which was greater than the overall rate of growth in employment. Increases in Malay ownership of share capital and assets was slower than expected. As against the Perspective Plan target of 9 percent, Malay ownership in the corporate sector as a whole rose from 2.4 percent in 1970 to only 5.3 percent in 1975. In the noncorporate sector of modern agriculture, the Malay share of acreage increased from 13 percent in 1971 to 19 percent in 1973. It should be indicated that ownership of share capital by non-Malays also increased from 34.3 percent in 1970 to 37.3 percent in 1975. This implies that the reduction of interethnic disparities in ownership was insignificant.

As regards the impact of government programs and policies on income distribution, we find that though the average montly household income has increased from M$220 in 1957 to M$275 in 1970, the gini ratio indicates a widening of income disparities. As Table 2 shows, the gini ratio in Malaysia has increased from 0.421 in 1957 to 0.499 in 1970. The income share of the bottom 5 percent of households decreased from 22 percent in 1957 to 17 percent in 1970. However, the share of households in the top 10 percent increased from 34.8 percent to 41.1 percent during the same period. The ratio of mean income between Malays and non-Malays increased from 1:1.9 in 1957 to 1:2.2 in 1970, indicating widening interethnic disparities (Chee, 1975:46). Finally, intracommunal and rural/urban disparities in income distribution also worsened.

There are a number of factors—social, political, economic, and cultural—which thwart the Malaysian government's efforts to make Malays effective participants in the industrial and commercial sectors. There is sufficient evidence available to show that Malays exhibit low achievement motivation, and that there is a tendency among them to resist change.[9] This has been attributed, among other things, to their social structure, the impact of Islamic sufism, the *adat* tradition, overprotective child-rearing practices, foreign exploitation, and subsistence agriculture as an occupation. The lack of achievement motivation among Malays can also be attributed to public policies which give special privileges and opportunities to Malays because, as Means (1972:43) points out, these policies further strengthen "the self-doubts

Table 2 Distribution of Income by Income Group of Households, West Malaysia, 1957-1970

% of Households	% of Income	
	1957/58	1970
Bottom Decile	2.2	1.2
2nd "	3.5	2.8
3rd "	4.6	3.2
4th "	5.4	4.5
5th "	6.5	5.5
6th "	7.7	6.8
7th "	9.2	9.1
8th "	11.1	10.7
9th "	15.0	15.1
Top "	34.8	41.1
Monthly Mean Income	M$220	M$275
Monthly Median Income	M$156	M$170
Gini Ratio	.421	.499
Mean Income Estimated from National Accounts	M$257	M$388
% of Households with income above Mean	29%	29%
Income Shares of Bottom Five Deciles	22%	17%

Source: Lim Lin Lean, "The Pattern of Income Distribution in West Malaysia 1957-1970", (Geneva: ILO World Employment Programme Research, 1974) p. 13.

among Malays as to their own abilities and potential," making them rely even more on their political power to gain further economic concessions and privileges.

The development of Malay entrepreneurship and managerial pools has also been hindered by lack of interest among Malays in science and commerce education, their preference for civil service and politics, their geographic concentration in eastern states, and the general character of small, family-oriented Chinese businesses in the country (Mehden, 1975:256-57). In 1973 about two-thirds of Malay university students were enrolled in arts, languages, Islamic studies, and humanities. Only 10 percent of the Chinese students were in the above subjects, while the majority studied science and engineering. Due to a quota system in civil service jobs, Malay students do not feel the need to go through rigorous science courses, as an arts degree is as good for these jobs as a science degree. Even those Malay students who succeed in getting science degrees find it quite difficult to be incorporated in western urban centers such as Penang, and as managers in Chinese businesses.

Increased ownership of assets and share capital by Malays has been hampered by the nonavailability of Malay savings. Aware of this fact, the government has begun the process of share acquisition by government institutions. These shares are held in trust for Malays and other indigenous peoples. This involves a substantial amount of government investment expenditure, and even though the government has the financial capability to acquire share capital for Malays and hold it in trust, there are spillover effects in this strategy. It will encourage and further strengthen bureaucratic entrepreneurship rather than facilitate innovation in the Malay business community. The public cost of state capitalism and the transfer of share capital and assets from government institutions to individual Malays have many ethical and political implications. As Syed Hussein Alatas (1972:12) points out, the majority will have to bear the cost of share acquisition by the government, and the Malay capitalist protected by the government cannot be a "genuine capitalist, with an innovative spirit, a commitment to methodical work, and sophisticated planning." Any shares bought by enterprises such as PERNAS and MARA are also considered *bumiputra*. The question is whether in the future, individual Malays will regard this type of shareholding with scepticism, since they may still lack the buying power necessary to personally benefit from this arrangement.

The Malay quota system for the issuance of licenses in various businesses has occasionally led to malpractice. In transportation, for example, due to a shortage of both capital and skills, Malays are usually unable to manage economically viable transport companies. This leads to a situation where a Chinese employs a Malay as director and titular owner of a company in order to obtain a business license. Such practices are detrimental to the accomplishment of the government's goals for restructuring society.

The role of public enterprises in facilitating the creation of a Malay industrial and commercial community has also been criticized. It is argued that these bodies have found it difficult to reconcile conflicting objectives such as PERNAS's concern for efficiency and MARA's loan policy, considered too liberal (Milne, 1976:246). Other criticisms leveled against public enterprises include duplication of functions, lack of coordination, competitiveness with Malay businesses, corruption, and the emergence of "bureaucratic entrepreneurs" in these bodies.

The government's policies for redistribution also had an impact on intercommunal relations and raised many politically sensitive issues. Though Chinese and Indians have largely accepted the inevitability of these policies and Malay political power, they continue to have reservations about various aspects of these policies. Common criticisms are that government is paying too much attention to restructuring the economy rather than eliminating poverty among all races, that policies are distorted by government officials at the implementation stage, that there are too many administrative controls, that economic targets for non-Malays should also be specified in national plans, particularly in those sectors of the economy in which they are underrepresented, and that these policies conflict with free enterprise.[10] Among some Malays there is the feeling that an expanding economy is bound to help the Chinese and Indians more than themselves. Some segments of the Malay elite, UMNO Youth for example, have pressed for even greater allocations for Malays, and at times have criticized the machinery of government for the slow implementation of programs for restructuring society. The Malays are also somewhat skeptical regarding the acceptance of these policies by non-Malays. Redistribution policies and Malay "special rights" generated intercommunal disputes after the formation of the Federation of Malaysia. Failure by leaders from Singapore and Malaya to reach an agreement on the nature of redistribution policies and Malay special rights was partly responsible for the constitutional crisis and subsequent expulsion of Singapore from the federation in 1965 (Means, 1972:52-53).

Malaysia's strategy for restructuring society within an expanding economy has, as shown earlier, widened income inequalities. This could have significant political consequences, as was shown by peasant unrest at Baling and student demonstrations. Rapid urbanization, which is partially a result of redistribution policies, has increased the degree of interaction among the various races. This could lead to a situation in which ethnic consciousness may be replaced by class consciousness. If this happens, the political system will be under tremendous pressure to respond to class demands. At present, there is a great deal of harmony between the Malay elite and the Malay masses. This could change to antagonism. While Malays are constantly urged by their leaders to show more enterprise and achievement orientation, the most likely consequence will probably be changes in traditional Malay deference to party leaders and a more verbal reaction over policy issues.[11]

Conclusion

Increasing Malay ownership of share capital and assets, ensuring their effective participation in industrial and commercial activities and creating a Malay entrepreneurial community, have been the cornerstones of Malaysia's development strategy. The focus on intercommunal redistribution within an expanding economy has been accompanied by the political will to effectively implement this strategy. These policies have led to an increased income level among Malays, more educational and vocational opportunities for them, and greater participation by them in the modern sectors of the economy. However, previous gains in this strategy have been at the cost of widening interethnic, intracommunal, and rural/urban income disparities. The government's efforts to restructure society have been hindered by, among other things, traditional Malay values and social structure, nonavailability of large-scale Malay savings, and lack of Malay student interest in science and commerce education. Finally, these policies have had implications for interethnic relations and the country's political process.

The Malaysian experience shows that while a combination of free enterprise and government intervention in the economy can lead to improvement in the economic conditions of have-nots, they do not guarantee a reduction in income disparities. Nor can the Malaysian strategy be effectively replicated in most countries of the Third World because, unlike Malaysia, these countries are unable to achieve the high growth rates indispensible for the success of this strategy.

NOTES

1. Myrdal (1973) contends that radical egalitarian reforms are a necessary condition for sustained growth. He mentions the following reasons: (1) Lack of basic welfare facilities impairs the capacity of the masses in developing countries to work, thus production is negatively affected. (2) Economic equality facilitates higher productivity because it increases mobility and free competition. (3) The rich, particularly landlords, in poor countries spend their incomes in conspicuous consumption, and due to loopholes in the collection of taxes, inequality of wealth does not contribute much to public savings. (4) Inequalities are detrimental to the national consolidation of underdeveloped countries. (5) The experience of the most advanced countries shows that their social reforms have been productive. This should apply to developing countries as well.

2. Chenery (1974) argues that the "conceptual separation between optimum growth and distribution policies" should be discarded.

3. For an analysis of the Malayan indigenous government, see Gullick (1965).

4. For a discussion of the British proposal for a Malayan Union and the motivation for opposition to the Union policy, see Sopiee (1974).

5. On Malaysian politics and interpretation of the constitutional bargain among ethnic groups, see Ratnam (1967), Means (1976), Milne (1967), Enloe (1973), Groves (1964), and Vorys (1975).

6. In 1963 Singapore and the Borneo states of Sarawak and Sabah joined the states of Malaya to form the Federation of Malaysia. Subsequently, Singapore was expelled from the federation. For a discussion of the reasons for forming a Federation of Malaysia and Singapore's expulsion, see Sopiee (1974), Ratnam (1974), Juntak (1969), and Leifer (1965).

7. For Malaya's development strategy and the role assigned to agriculture, see Rudner (1975).

8. Events leading to the May 1969 riots and their underlying causes have been documented in many works. See Teik (1971), Rahman (1969), and Means (1976).

9. Among others, see Parkinson (1967), Means (1972), and Said (1974).

10. Thillainathan (1976) points out that the government's commitment to reducing interethnic disparities was clearly more substantial than that to reducing interpersonal income differentials.

11. This was obvious during the 1975 UMNO General Assembly meeting, when a member alleged that a deputy minister had disclosed government secrets. He threatened to make it public unless the government took action. It was only after a personal appeal from the prime minister that the member withdrew his threat.

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