

AFFIRMATIVE ACTION AND EXCLUSION IN MALAYSIA: ETHNIC AND REGIONAL INEQUALITIES IN A MULTICULTURAL SOCIETY

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The major political divide in post-colonial Malaysia, especially on the more multi-cultural West Coast of Peninsular Malaysia, has long been seen in ethnic terms. It was long presumed in the sixties that the non-Malays were alienated by the Malay-dominated government. However, the strong Malay support for the opposition in the third May 1969 general election suggested growing alienation from what was perceived to have been the government's failure to improve the Malay lot owing to the influence of rich Chinese on the government.

The post-election 'race riots' provided the opportunity for a political transition to even greater Malay political hegemony to be secured by ensuring greater ethnic Malay support with a Malay supremacist ideology as well as inter-ethnic redistribution measures known as the NEP or New Economic Policy's efforts to 'restructure society' to eliminate the identification of 'race with economic function'. Ironically, after becoming Prime Minister in 1981, Mahathir Mohamad – generally considered to have been the leading 'ultra' or most aggressive and articulate advocate of affirmative action for the Malays in the late 1960s – began to 'liberalize' ethnic preferential policies, particularly in the areas of business, education and culture, especially after the 1985 recession.

Amendments to the Industrial Coordination Act (ICA) of 1975 as well as new investment incentives associated with the 1986 Promotion of Investments Act succeeded in reversing the massive capital flight estimated at around RM30 billion in the preceding decade. Allowing the proliferation of profit-seeking private educational institutions to award degrees from foreign universities has greatly increased opportunities for and reduced tertiary education costs. After announcing his Vision 2020 to forge a modern Malaysian nation and replacing the New Economic Policy with successor policies which have placed greater emphasis on economic policy objectives besides inter-ethnic redistribution, the ruling coalition has managed to gain considerable electoral support from non-Malays in the peninsula as well as in Sabah and Sarawak, albeit for varying reasons.

Malaysia is widely seen and often cited as a successful case of a multicultural society which has equalized socio-economic opportunities for diverse ethnic groups. While affirmative action policies have been practiced by many governments, especially since the 1960s, such considerations have defined much public policy in Malaysia, especially since the 1970s. The rapid economic growth, structural change and industrialization achieved by post-colonial Malaysia, especially in the 1970s and for a decade from the late 1980s, have caused Malaysia to be cited as a leading exemplar of 'growth with equity'.

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While acknowledging the undoubted achievements of Malaysia in this regard, this study suggests that closer attention to the Malaysian experience reveals many subtleties which greatly qualify this picture and nuance the policy lessons to be drawn from it. Most importantly, Malaysia has not been among the East Asian economies characterized by relatively low inequality. The less unequal East Asian societies of Japan, Taiwan and South Korea generally retained their Gini ratios for income inequality of around 0.3 for almost half a century until relatively

recently. In contrast, inequality has been far greater in Southeast Asia compared to Northeast Asia. And while such inequality has not steadily grown in Malaysia, as in Thailand, it has risen since the late 1980s after declining slightly in the 1970s and in the mid-1980s (Jomo 2003).

Perhaps even more importantly, Anand (1983) has argued that more than ninety percent of income inequality in Malaysia in 1970 could be explained – using Theil decomposition measures -- by factors other than ethnicity, leaving less than ten percent, at most, which may be attributed to ethnicity. While some of these other factors may be said to be ethnic-related, the almost singular focus of Malaysian public policy on inter-ethnic redistribution is therefore unlikely to be able to address most of the causes of income inequality. Hence, while affirmative action policies significantly reduced inter-ethnic economic inequalities by all measures during the 1970s and 1980s, intra-ethnic redistribution also seems to have greatly increased, especially among Malays, ostensibly the principal beneficiaries of inter-ethnic redistribution measures. Inter-ethnic economic differences seem to have re-opened since the 1990s with greater economic liberalization and greater emphasis on other economic policy priorities.

While gender differences also seem to have been reduced despite few gender-oriented affirmative action measures, regional differences have grown. Although the NEP promised to improve the lot of the indigenes (Bumiputera) in order to close the gap with non-Bumiputera, the main focus has been on the gap between Muslim Malays and ethnic Chinese in the peninsula, rather than on non-Muslim Bumiputera, especially in Sabah and Sarawak. Not surprisingly, therefore, the national leadership was quite unprepared for the strident assertion of Kadazandusun interests in Sabah and Dayak interests in Sarawak in the mid-1980s. Although this has largely been subordinated by the emergence of Muslim-Chinese elite coalitions in both states, the potential for renewed disgruntlement remains potent. Meanwhile, ethnic Indians, mainly in the peninsula, have also felt especially aggrieved for being discriminated against as non-Bumiputera.

The growing abuse of ethnic privileges, especially by the politically well-connected, has probably contributed to the cultural alienation and Islamic resurgence of the last three decades, with dissent among Malays increasingly expressed in an Islamic idiom. First in the 1990 and then in the 1999 general elections, a growing proportion of ethnic Malays supported the political opposition against an ostensibly Malay-dominated multiethnic ruling coalition. While this may be partly explained in terms of the re-emerging economic gap between the Bumiputeras and the ethnic Chinese in the country, it is also acknowledged as reflecting a growing cultural alienation from the perceived cultural corruption of the ruling elite. The Islamic resurgence has resulted in electoral success for the Islamic party PAS in the East Coast states of Kelantan and Terengganu, which the ruling federal government has responded to by applying new fiscal constraints. Thus, regional differences have been increasingly significant in understanding inequalities and political tensions in Malaysia – since the mid-1980s in the Borneo states of Sabah and Sarawak, and since the 1990s in Kelantan and, more recently, Terengganu.

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This study will continue with a brief introduction to the historical origins of socio-economic equalities in Malaysia. This will be followed by detailed consideration of two distributional aspects. The first substantive part will critically evaluate the record of the New Economic Policy, especially ‘restructuring society’ or inter-ethnic redistribution efforts, its consequences for inequality and implications for reducing inter-ethnic tensions and conflict. The second part focuses on regional economic inequalities, both in terms of contributions to overall growth as well as on the fiscal front, both in terms of revenue and expenditure. It is suggested that the almost singular official focus on inter-ethnic inequality at the

expense of other sources of economic inequality has constrained the effectiveness of public policy in ensuring greater inclusion. Nevertheless, in addition to abuse of the electoral system by the incumbent ruling coalition, enough has been done to avoid major new inter-ethnic explosions, although such tensions have persisted, while changing over time in response to new circumstances.

Historical Origins of Socio-Economic Inequalities

Malaysia is now a federation made up of the eleven States of Peninsular Malaysia, the former Federation of Malaya (including the Federal Territory of Kuala Lumpur, the capital), plus the former British Borneo possessions of Sabah and Sarawak. The peninsular States gained independence from the British in 1957 and formed the Federation of Malaya prior to the formation of the Malaysian Federation in 1963. Singapore, Sabah and Sarawak gained independence from Britain through the formation of Malaysia. The formation of Malaysia was pushed through by the British, despite the serious difficulties involved, not least of which was the contrived nature of the new nation, convenient only to the former colonial power. Within less than two years, Singapore left the Federation in August 1965.

Hence, since August 1965, Malaysia has included the eleven states of what was then called West Malaysia and the two Borneo states of East Malaysia. In the early 1970s, after the secession of Bangladesh from Pakistan, the official terminology changed to Peninsular Malaysia for the old Malaya, and Sabah and Sarawak, probably to limit any nascent sense of East Malaysian solidarity. After all, only about a third of those surveyed in Sabah (the former British North Borneo) and Sarawak had wanted to join Malaysia. Most Malaysians, especially in the peninsula, have long forgotten that both Borneo states joined with the former Federation of Malaya to form Malaysia, and that their leaders and people expected to enjoy privileged treatment within the new federation.

About half the population of the peninsula then comprised ethnic Malays, with almost 40 percent Chinese and ten percent Indians. In Sabah and Sarawak, there were almost no Indians with Chinese numbering over a third. Of the indigenous Bumiputera population, Muslims and non-Muslims were almost evenly balanced in Sabah, while less than a quarter of the population of Sarawak was Muslim.

One of the major economically significant consequences of incorporation into Malaysia for the Borneo States is that they have been obliged to pay higher prices for protected goods from the peninsula without being able to develop import-substituting manufacturing industries of their own, as infrastructure, cost and market size considerations favor such industrial location on the peninsula.

Natural resource exports from Sabah and Sarawak have ensured healthy trade surpluses for the federation as a whole (Wee, 1995). Malaysia's merchandise trade account would have had more modest surpluses, if not more frequent deficits, if not for the primary commodity exports from Sabah and Sarawak. On the other hand, most new import-substituting as well as export-oriented industries have been located in the peninsula.

Although the 1960s' armed struggle led by the North Kalimantan People's Army (Paraku) petered out by the early 1970s, desires for greater autonomy, including flirtations with secession, continued into the 1980s. However, the federal government in Kuala Lumpur has successfully forged dominant Muslim-Chinese partnerships in both states, which have alienated many of the politically and economically un-influential, though demographically numerous, non-Muslim Bumiputeras. Most academic and political analyses of Malaysian unity have ignored the changing tensions involving Sabah and Sarawak, and the complexities of Malaysian federalism.

Although the Malaysian economy has changed significantly since independence, many features reflecting uneven development can be traced to the crucial formative decades under colonial rule that shaped its economic structure. For instance, differences between the East Coast and the West Coast of Peninsular Malaysia can be traced to uneven regional growth dating back to the location of the early tin mines, staggered colonial annexation and infrastructure development, as well as subsequent economic growth reflecting prior unevenness.

Differences between the rice growing North and the rest of the peninsula are related to demographic history as well as the British policy of preserving Malay peasants as rice farmers, despite the rational peasant preference for rubber cultivation, which threatened British plantation interests. The urban-rural gap is, of course, reflective of the changing roles of town and country in Malaysian capital accumulation. The relative backwardness of the peasantry compared to plantations is only the most obvious of various differences in the rural economy. Ethnic differences have often coincided with class, occupational and other differences originating in the colonial economy.

Most analyses of economic inequality and conflict focus on the peninsula in post-colonial Malaysia. The ethnic conflict between the stereotyped politically dominant Malays and the economically successful Chinese dramatically came to a head with race riots in May 1969 (Butcher, 2001). This conflict is often articulated in terms of the rivalry between indigenous Bumiputera, literally sons of the soil – i.e. Malays, the aboriginal Orang Asli and the Muslim as well as non-Muslim indigenous communities of Sabah and Sarawak on Borneo island – and non-autochthonous non-Bumiputera, i.e. mainly ethnic Chinese and Indians.

During the 1960s, economic development not only maintained, but apparently even increased income inequalities, including the income gaps within each major ethnic group in Peninsular Malaysia. Income distribution in Peninsular Malaysia apparently worsened between 1957 and 1970, with the rich becoming richer and the poor getting poorer in all ethnic groups, especially among the Malays. While the commanding heights of the economy were still British dominated from the colonial period, mainly Chinese businesses were ubiquitous. While most Indians and many Chinese comprised the working class, the vast majority of smallholder farmers in the peninsula were Malays. In Sabah and Sarawak, there were fewer wage earners and more working the land.

Helped by favorable commodity prices and some early success in import-substituting industrialization, the Malayan and then the Malaysian economy sustained a high growth rate with low inflation until the early 1970s. Official statistics – though strictly non-comparable for methodological reasons – suggests a worsening distribution of income over the 1990s, a growing gap between town and country, and growing inequality among all the major ethnic groups. Inequality in the Malay community increased most – from a situation of least intra-ethnic inequality in 1957 to greatest inequality in 1970.

This growing inequality did not only result in growing inter-class tensions, but was primarily perceived in ethnic terms, not least because of officially-sanctioned political mobilization along racial lines. Hence, Malay resentment to domination by capital was expressed primarily against ethnic Chinese, who comprise the bulk of the business community, while non-Malay frustrations were directed against the Malay-dominated post-colonial state machinery, increasingly identified with United Malays National Organisation (UMNO), the dominant partner in the ruling coalition.

Such popular ethnic perceptions resulted in widespread racially inspired opposition in Peninsular Malaysia to the ruling Alliance government of the 1960s. The decade had seen an import-substituting industrialization program that generated relatively little employment and had largely petered out by the mid-1960s. Rural development efforts, initially inspired by counter-insurgency considerations in the early 1950s, increasingly emphasized productivity increasing measures, while avoiding redistribution in favor of the poorly capitalized land-hungry peasantry.

The ruling Alliance coalition in the 1960s was essentially a coalition of mainly ethnic-based parties led by UMNO, the United Malays National Organization. After the virtual elimination of the legal Left in the mid- and late 1960s, essentially racist or communal political ideologies faced little competition. Consequently, the deteriorating socio-economic and political situation in the 1960s came to be seen and interpreted primarily in ethnic terms. Many Malays believed Chinese economic hegemony to be responsible for Malay economic underdevelopment, though in the late 1960s, the Malaysian economy was still primarily dominated by foreign investors. On the other hand,

many non-Malays believed the UMNO-led Malay-dominated Alliance government to be responsible for official government discrimination against them. Most businessmen were Chinese and most government officials were Malays. Hence, Chinese capitalists, together with the Malay administrative-political elite, enjoyed most of the fruits of rapid economic growth in the 1960s.

In the third federal elections held then, the ruling Alliance coalition retained a greatly reduced parliamentary majority despite securing less than half the popular vote with the help of gerrymandered constituency delineations. In the May 1969 election, half the Malays and the majority of non-Malays voted against the Alliance government. Though undoubtedly manipulated by certain politicians, the post-election race riots were easily triggered off in the federal capital of Kuala Lumpur. As noted above, tensions had already been brewing before the elections due to ethnically perceived frustrations reflecting underlying class relations. After the elections, race riots broke apparently due to culturally offensive behavior by jubilant opposition party supporters as well as armed mobilization by youthful supporters of an incumbent chief minister who had not secured a majority in his state legislative assembly.

The general election results and ‘race riots’ of May 1969 reflected such ethnic consequences and dimensions of the new post-colonial socio-economic structure. Meanwhile, the emerging Malay middle class, who had nominal political control, perceived the gradual decline of British economic hegemony giving way to Chinese ascendancy. This ‘political-bureaucratic’ fraction became more assertive from the mid-1960s, establishing increased dominance after May 1969.

After the 1969 election results and the subsequent riots, the prime minister, Tunku Abdul Rahman, was gradually eased out by the late Tun Abdul Razak. Razak, the deputy leader of the ruling party and coalition, is believed to have staged a ‘palace coup’ – with the greater military-police role in response to the race riots – to take over political leadership with the support of party critics of Tunku, the incumbent party leader and prime minister. Thus, the replacement of the old UMNO leadership also reflected the ascendancy of the so-called Young Turks within UMNO, who had challenged the Tunku’s leadership from the late 1960s. After the traumatic events of May 1969, UMNO dominance of the ruling coalition became more pronounced as it co-opted most opposition parties, who were also largely ethnic-based, although they mobilized less explicitly on ethnic bases unlike the parties in the ruling coalition. It is generally agreed that Malaysian economic policymaking changed rather drastically in the aftermath of the race riots and the UMNO palace coup associated with 13 May 1969.

Much public policy since then, notably the New Economic Policy (NEP), first announced in 1970, has been dominated by inter-ethnic distributional considerations, and most public policy is widely seen through the lenses of ostensible ethnic interests. Malaysia has implemented the NEP since 1971. The NEP has the two-pronged objectives of poverty reduction irrespective of race (ethnicity) and ‘restructuring society’ to eliminate the identification of race with economic function and location, i.e. reduce inter-ethnic socio-economic disparities between Bumiputera indigenes and the non-Bumiputeras.

The Bumiputera are to be protected with constitutionally provided ‘special privileges’, i.e. a form of positive discrimination or affirmative action. The ‘Bumiputera’ category includes the indigenous peoples of Sabah, Sarawak and the Orang Asli in Peninsular Malaysia, for whom the race riots of 1969 were largely irrelevant. The NEP is perceived to have done relatively little for non-Muslim indigenous minorities, mainly in the Borneo States of Sabah and Sarawak.

While government policy before the NEP was generally considered to be basically *laissez faire* in approach, and responsive to as well as supportive of both foreign and domestic (predominantly Chinese) private sector interests, the seventies was characterized by growing state intervention, primarily in favor of the emerging Malay elite. While such intervention generally did not threaten property rights *per se*, particular business interests – usually Chinese or foreign – have felt threatened at various times.

The NEP was announced after the 13 May 1969 events as one of several efforts to achieve national unity in view of the socio-economic inequality inherited from the colonial period and consolidated in the post-Independence years. The NEP was ostensibly announced to create the socio-economic conditions for achieving ‘national unity’ through redistributive policies. The NEP had two objectives, namely to ‘eradicate poverty’ regardless of race and to ‘restructure society’ to eliminate the identification of race with economic function. An Outline Perspective Plan (OPP) for 1971-90 identified medium and long-term targets enroute to 1990 for both NEP objectives.

Improved inter-ethnic relations were expected from policies to ‘eradicate poverty,’ ostensibly regardless of race, and to ‘restructure society’ to eliminate the identification of ‘race’ with economic function, i.e. to reduce inter-ethnic disparities. The OPP included specific targets for poverty reduction and Bumiputera wealth ownership in particular. It is often forgotten that these distributional goals assumed an average annual growth rate of 8 percent over the OPP period. Initially, the NEP was widely accepted across ethnic lines, especially after the traumatic May 1969 events. Subsequent political developments enhanced UMNO and Malay political hegemony as several opposition parties joined the newly broadened National Front or Barisan Nasional (BN) ruling coalition.

Since Mahathir took over leadership of the government in 1981, he has introduced other public policy priorities, gradually diluting the previously almost single-minded NEP redistribution agenda. After some apparent (political and economic) success with partial economic liberalization after the 1985-86 economic recession, the shift was consolidated by declaring a broad new national project under the rubric of a new vision for the nation to be achieved by the year 2020. Vision 2020 has since been affirmed by the announcement of successor policies to the NEP in the form of the National Development Policy associated with the *Second Outline Perspective Plan, 1991-2000* (OPP2) and the National Vision Policy associated with the *Third Outline Perspective Plan, 2001-2010* (OPP3). Seen against this background then, Mahathir’s economic policies of the eighties suggest efforts to retreat from the excesses of seventies-type state interventionism, e.g. through privatization, ‘Malaysia Incorporated’, deregulation and ‘flexibility in NEP implementation.’

ETHNIC INEQUALITIES AND NEP ECONOMIC REDISTRIBUTION

Malaysia’s New Economic Policy (NEP) was announced in 1970 as part of a package of measures introduced after the political crises of May 1969. It sought to ‘eradicate poverty’ and to ‘restructure society to eliminate the identification of race with economic function’ in order to create the conditions for national unity. Since then, poverty in Malaysia has gone down tremendously, as in neighboring Thailand and Indonesia, which did not have comparable commitments to poverty reduction, but also experienced rapid economic growth and structural transformation.

Not surprisingly, the NEP has been principally associated with ‘restructuring’, i.e. efforts to reduce inter-ethnic economic disparities between Bumiputera indigenes and the non-Bumiputera, especially between ethnic Malays and Chinese. Hence, ‘restructuring’ has come to be associated with ‘positive discrimination’ or ‘affirmative action’ on behalf of the mainly Malay Bumiputeras. Such state interventions have resulted in significantly greater Bumiputera wealth ownership, business participation, education opportunities, public sector employment and promotion, as well as representation among professionals as well as managers/administrators.

However, these measures have also resulted in greater resentment by those who feel deprived by such policies, resulting at various times in emigration, capital flight and ethnic mobilization. Resentment is arguably greatest among the middle classes where ethnic rivalry is perceived to be greatest. Hence, while it is doubtful that the NEP has created the conditions for national unity, it has probably mitigated Bumiputera resentment of non-Bumiputera domination of business and the professions. Rapid economic growth over the last three decades, some economic and educational liberalization since the mid-1980s as well as greater recognition of external challenges have also served to mitigate greater inter-

ethnic resentment. It is useful to begin a more careful consideration of the Malaysian experience with a brief review of the background to the NEP.

The first section of this part on inter-ethnic inequalities and affirmative action policies to address them will begin with an examination of the extent to which the NEP's declared aims have been achieved¹. The final part will examine some implications of the legacy of the primacy of the ethnic divide in the public's imaginations. This has had a tremendous constraining effect on political as well as economic options, and shapes likely political mobilization as well as coalition-building and economic policy packages.

Poverty Reduction

The OPP forecast that the official poverty level should be reduced from 49 percent in Peninsular Malaysia in 1969 to 16 percent in 1990. According to official government plan documents, the poverty rate had been reduced to 18 percent by 1984 and 17 percent by 1987 from 40 percent in 1970. **Tables 1 and 2** summarize official data on the incidence of poverty in Peninsular Malaysia by sector for various years since 1970. They suggest an overall reduction of poverty incidence from 49.3 percent (official estimate) or 56.7 percent (Anand 1983 estimate) in 1970 to 39.6 percent in 1976, 18.4 percent in 1984 and 17.3 percent in 1987 in Peninsular Malaysia alone. In absolute terms, the number of poor households dropped from 791,800 in 1970 to 764,400 in 1976 and further to 483,300 in 1984, before rising slightly to 485,800 in 1987. Poverty incidence for all of Malaysia, i.e. including Sabah and Sarawak, fell to 6.1 percent in 1997 and 7.5 percent in 1999. **Figure 1** shows that the incidence of poverty has been unevenly spread throughout the country.

Official statistics suggest very impressive reductions of poverty in the 1970s and early 1980s, especially in Peninsular Malaysia. Although there are many legitimate reservations about the quality and nature of this data, there are few observers who would doubt that poverty, as officially defined, has been significantly reduced, even though part of the decline in poverty may have been due to a lowering of the poverty line. In view of the generally rapid growth of the Malaysian economy in most of the 1970s and part of the 1980s, poverty – as defined by the government – could have been further reduced, if more just and effective redistributive policies had been implemented, government waste minimized, and government allocations ostensibly for poverty eradication used effectively for reducing poverty instead of enriching politicians and contractors securing rural development projects. More significantly, it appears that per capita income levels have generally risen with growth.

However, the significance, consistency and credibility of this data have been challenged on several grounds.² There is much doubt as to whether the definitions of income used in the various surveys concerned have been consistent, e.g. with regard to the valuation of services

¹ This survey is seriously constrained by the nature of publicly available official statistics, which improved briefly in the late 1980s, only to be reduced again from the 1990s.

² For example, the poverty reduction between 1984 and 1987 – reported in the *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990*, and based on the presumably consistent first and second Household Income Surveys – raised troubling questions. For instance, while the number of poor rubber smallholding households was reported to have risen from 68,500 in 1984 to 83,100 in 1987, poverty incidence among them was said to have fallen from 42.7 percent to 40.0 percent! This decline would require the total number of rubber small-holding households to have fallen by 30 percent – from 160,400 to 207,800 – over the same three year period, a development unsupported by other evidence. And while the number of poor rubber small-holders is reported to have increased, poverty incidence among estate workers was inexplicably supposed to have dropped by 29 percent – from 16,400 to 11,700 – over the same period! Meanwhile, the number of poor rice farm households was reported to have dropped by 23 percent – from 70,500 to 54,400 – despite the reduction of government (e.g. fertilizer) subsidies and the officially fixed rice price from 1980 to 1990.

provided by the government, how these have been calculated in determining household incomes and actual measurement and estimation of poverty.³ Other problems in using an income-based determination of economic welfare have also not been given adequate attention.

While incomes undoubtedly influence economic welfare, it would be wrong to presume that welfare reflects expenditure, which is in turn largely determined by income. Another problem involves the estimation of income – and hence – poverty on a household basis rather than on a per capita basis. The *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990 (MTR5MP)* suggests that if per capita income – instead of household income – is used, the official poverty rate in Peninsular Malaysia would go down fairly significantly. While this is quite plausible and even likely, the plan document did not elaborate on why this would happen.

It also seems likely that some methods of measurement may have changed. For example, the *Fifth Malaysia Plan, 1986-1990 (5MP)*, p. 83) explicitly favored a more comprehensive concept of income, which ‘takes into account the imputed values for own produce consumed at home and owner-occupied housing’ as well as ‘the full value of public services enjoyed by households, either free or at subsidized rate (including) health, education, transport and utilities, and the various subsidies granted by the Government.’ There are, of course, merits in the income concept proposed, especially as a measure of living standards or economic welfare, but reducing poverty incidence by broadening the income concept, or by comparing essentially incomparable data, raises serious doubts about the actual extent of poverty reduction.

Nevertheless, for want of more acceptable alternative data sources, official figures will be used. The prevailing official poverty measures have used a household, rather than a per capita poverty line income yardstick.⁴ According to the *MTR5MP* (p. 45), the poverty line income⁵

Similarly, the disclosure of the official poverty line in mid-1989 suggests that at least some of the poverty reduction, especially between 1976 and 1984, may have been due to the reduction of the per capita poverty line income from RM33.00 in 1970 to RM30.30 in 1987 in 1970 prices, or from RM74.15 in 1970 to RM68.09 in 1987 in 1987 prices. There is also no way of independently verifying the comparability of the data, e.g. in terms of methods of measurement, since they are not publicly available. Also, the different nature of the three kinds of surveys involved means that they are not strictly comparable from a statistical point of view.

³ For instance, a household may well enjoy government-subsidized services valued above or below the value assumed in estimating the poverty line income (PLI). But if the full value of the services it enjoys pushes the household above the poverty line, whereas taking into consideration only the minimum quantum for the PLI would keep it below the poverty line, then clearly, the household is not receiving certain other basic needs despite being considered to be above the poverty line.

⁴ The *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990* (p. 47) noted that if a per capita measure is used instead of a household measure, the official poverty rate in 1987 would have been 12.4 percent, instead of 17.3 percent, in Peninsular Malaysia.

⁵ The different PLIs first published in the *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990* for Peninsular Malaysia, Sabah and Sarawak emphasize the considerable variation in living costs within a small country like Malaysia. For 1987, the PLIs were estimated at ‘about RM350 per month for a household of 5.14 persons in Peninsular Malaysia, RM429 per month for a household of 5.24 in Sarawak, and RM533 per month for a household of 5.36 in Sabah.’ Hence, the per capita PLI was 19.8 percent higher in Sarawak and 45.5 percent higher in Sabah than in Peninsular Malaysia. Yet, there have not been separate PLIs for urban and rural areas, implying that the true extent of urban poverty may well be underestimated compared to rural poverty, where the urban cost of living is significantly higher, especially in the Kelang Valley and Johor Baru areas. The PLI for 1999 was RM510 per month for Peninsular Malaysia for an average household size of 4.6, RM685 per month for Sabah for an average household size of 4.9, and RM584 per month for Sarawak for an average household size of 4.8. (Malaysia 2001b).

(PLI) has been defined as the minimum expenditure level to secure a certain standard of living, and ‘updated annually using the Consumer Price Index (CPI) to reflect changes in price levels.’ The PLI should be adjusted to reflect changes in the costs of specific items making up the PLI, as their relative weights differ from the breakdown of the CPI. Also, per capita consumption expenditure is probably a far better proxy for economic welfare than household income.

The current PLI approach to poverty measurement is based on a notion of absolute poverty. There seems to be less official interest in and concern about relative poverty, i.e. inequality and income distribution. There should be closer monitoring of distributional trends in economic welfare, expenditure, income and wealth to provide a more comprehensive and accurate picture of the welfare of the Malaysian population in relation to economic growth generally, and as a consequence of implementation of the NEP – and successor policies – specifically. It is quite possible that such statistics would show relatively greater increases in incomes of poorer groups in all ethnic communities as well as a significant reduction in differences among the average incomes of the major ethnic communities — trends which the Malaysian government could well be proud of. Available income data and the basket of goods and services constituting the PLI should also be made publicly available to facilitate meaningful public scrutiny of income and poverty reduction trends.

Under the NEP, there was no official commitment to reducing income inequality except between ethnic groups, particularly between the Bumiputeras and non-Bumiputeras. Since poverty is officially conceived in absolute, rather than in relative terms in relation to a poverty line income, income inequality can grow as the poverty rate declines if economic growth is sufficiently high. Income distribution trends do provide important indications of the welfare implications of economic growth and recession, especially as they affect inter-ethnic spatial and other income inequalities.

Tables 3 and 4 show income distribution trends in Malaysia, especially Peninsular Malaysia, since independence and especially after the NEP began. Between 1957 and 1970, income inequality apparently grew, with the rich getting richer and the poor getting poorer, though serious doubts (Anand 1983) have been raised about the comparability of the data involved. Some evidence since then pointed to growing income inequality during the 1970s, i.e. from 1970, through 1973 and 1976, to 1979, but other data suggest otherwise. For example, in the 1970s, the average real income of the bottom 40 percent increased, according to the *Fourth Malaysia Plan, 1981-1985 (4MP, p. 37)*. These trends suggest that rising incomes and poverty reduction in the 1970s may have been accompanied by growing income inequality, but there is other evidence to suggest that income inequality declined during the seventies and eighties, and has not changed much since then. Average inter-ethnic income disparities also declined during the NEP period, but appear to have risen in the 1990s.

The first official Household Income Surveys in 1984 and 1987 suggested declining overall income inequalities in the 1980s. Inequalities between Bumiputeras and non-Bumiputeras as well as those between town and country appear to have declined fairly steadily from the seventies in Peninsular Malaysia. The 1985-6 recession apparently reduced all major income disparities by more adversely affecting the relatively better off, while leaving the worse-off relatively less affected by the economic decline. Evidence for Sabah and Sarawak, only available for 1984 and 1987, suggest greater inequality there as well as similar disparity-reducing consequences of the mid-1980s recession.

The government probably has a successful story to tell with its data, and the credibility of the story would only be enhanced by better public access to it. It may also be useful to reconsider the composition of the PLI and to compare it with detailed consumer price trends to make more accurate inflation adjustments to the original PLI, and also to determine a more meaningful PLI with the benefit of hindsight and the experience of the last two decades of NEP implementation. Needless to say, significant regional and locational variations in living costs – e.g.

between urban and rural areas and perhaps even some of the major metropolitan centers (e.g. Kelang Valley and Johor Baru) – should be taken into consideration.

Despite the ostensible official concern about poverty, it is quite remarkable that after more than three decades of the NEP, there is still relatively little detailed information about the characteristics of the poor, which could help ascertain the reasons and causes of poverty, as well as appropriate, effective and efficient measures and efforts to overcome poverty. Such detailed analytical poverty profiles are especially urgent in view of the increasingly recognized phenomenon of ‘hard-core poverty’, said to be relatively unaffected by existing poverty eradication policies.

The absence of a clearer understanding of the poverty phenomenon has allowed policies to go on regardless of their efficacy in poverty eradication. Of course, once certain policies are implemented, interest groups benefiting from such policies tend to ensure the continuation of such policies regardless of their effectiveness in terms of their ostensible aims. This has led to the suspicion that such policies are maintained to facilitate patronage by the ruling political coalition and for the benefit of certain rural interest groups and among contractors and other business interests, rather than for the purpose of poverty reduction, as claimed.

A great deal of what is officially categorized as poverty eradication actually refers to expenditure for rural and agricultural development, much of which is certainly not for the benefit of the poor. Hence, it is crucial that expenditure for poverty eradication is provided in meaningful detail in order to ascertain to what extent such expenditure actually benefits the poor. Such evaluation is crucial in order to minimize abuses in the name of poverty eradication. Careful comparative studies can ascertain how and to what extent poverty eradication expenditure actually contributes to relieving poverty.

The evidence so far seems to suggest that poverty reduction has been largely due to rising incomes. In the rural areas, especially among the peasantry, it seems to be largely attributable to increasing productivity. However, rising productivity mainly benefits those who own their own economic resources, especially land. Inequality in resource allocation, both in terms of ownership as well as access, has therefore meant that such productivity gains have tended to benefit the well to do more than others. Hence, it is very likely that expenditure ostensibly for poverty eradication has actually brought greater benefits to the relatively well endowed, i.e. those other than the poor.

The demographic factor also needs greater consideration for several reasons. One other important factor which has reduced poverty among some of the ‘target groups’ has been the reduction in the population involved, e.g. in rice cultivation, small-scale rubber growing, fishing and plantation labor. Hence, despite continued population growth, there have not been corresponding increases in the number and population shares involved in these activities. On the contrary, there may well have been significant declines at least in some rural occupations.

With the ageing of the rural population as a consequence of urban migration, especially by the young, it appears that the economically active proportion of the population involved in agriculture has declined, exacerbating the phenomenon of idle agricultural land, also due to the uneconomic size of the farm land involved. With the average Malay fertility rate about double the Chinese rate at the end of the 1980s, and with the Indian rate slightly above the Chinese rate, it is also quite possible that per capita Malay income levels will continue to remain low, and poverty correspondingly high simply due to larger household sizes.

The official focus on Malay peasant poverty has emphasized productivity-increasing efforts for self-employed rural producers at the expense of other measures to reduce poverty, consequently, adversely affecting other poverty groups. Even among the Malay peasant population, those with less access to economic resources, especially land, are ignored by the main thrust, of poverty eradication efforts. Hence, peasant agricultural laborers have little to thank the NEP for. If their conditions have improved, it has been for other extraneous reasons, e.g. full employment or productivity increases raising their wages, rather than as a consequence of NEP poverty eradication measures.

Similarly, other rural laborers – such as estate workers, mine workers and public works and land development contract laborers – have been ignored by the NEP. The importance of immigrant and contract labor for some of these jobs has only served to worsen general working conditions and lower wage rates for these occupations, rendering them even more unattractive to Malaysians, and also depressing wage rates more generally in the labor market, especially for unskilled labor.

The approach has also tended to ignore the poor other than the main poor target groups, namely the rice farmers, rubber smallholders, coconut smallholders and fishermen, but even the earlier attention to such groups has been abandoned since the mid-1980s. Hence, the majority of the poor in Sabah and Sarawak are largely unaffected by poverty eradication measures, while some – e.g. shifting cultivators as well as hunter-gatherers – feel their interests threatened by the logging, land development and other trends which go by the name of development. Those in the towns also feel ignored by poverty eradication measures that they perceive to be primarily, if not exclusively, rural in orientation.

However, while there are many poor groups who have been bypassed by official poverty eradication measures, they may feel less neglected by official development efforts. Since ‘development’, particularly the provision of infrastructure and social services, is intimately connected with government and party patronage, these poor communities – especially the Bumiputeras, and particularly the Malays – do not necessarily feel themselves ignored by government development efforts generally, although they have not benefited from the government’s poverty eradication measures.

‘Restructuring Society’

Despite the popular rhetorical commitment by politicians to poverty eradication, the 1970s and early 1980s saw growing emphasis on the NEP’s other pronounced objective to ‘restructure society’ to abolish the identification of ethnicity with economic function, especially to create, expand and consolidate the Malay capitalist and middle classes. As officially interpreted, ‘restructuring’ is not meant to abolish or change socio-economic relations between classes or economic interest groups; in practice, it mainly seeks to increase Bumiputera capital ownership and personnel shares in the more attractive – mainly professional – occupations.

In practice, restructuring efforts have been largely aimed at increasing the share of Bumiputera capital as well as the number of Bumiputera businessmen and professionals in the context of continued open capitalist development by using the public sector and state intervention extensively. The NEP’s restructuring prong mainly involves redistribution of corporate stock ownership, employment and education, with the latter two sometimes considered together. There is particular interest in ownership of the modern corporate sector, though only a small minority of the population is actually involved, reflecting the dominance of capitalist interests in defining supposedly ethnic or communal interests.

Wealth Distribution

However, wealth restructuring – particularly the 30 percent target for Bumiputera share ownership by 1990 – remains the main obsession in most discussions about the NEP. **Table 5** reflects the distribution of ownership of the corporate sector by ethnicity and residence between 1969 and 2000. The Bumiputera share rose sharply from 1.5 percent in 1969 and 2.4 percent in 1970 during the 1970s until the mid-1980s. While the original *Mid-Term Review of the Second Malaysia Plan, 1971-1975 (MTR2MP)* target (p. 84, Table 4.8) of 9.0 percent Bumiputera ownership by 1975 was surpassed, only 12.5 percent of the corporate sector was in Bumiputera hands by 1980 (instead of the projected 16.0 percent) and 19.1 percent in 1985 (instead of the 23.0 percent expected). Instead of the 30.0 percent targeted for 1990, the Bumiputera share has hovered around 19.4 percent in 1988, 19.3 percent in 1990, 20.6 percent in 1995 and 19.3 percent in 1999.

Meanwhile, the share of foreign residents fell from 63.4 percent in 1970 to 42.9 percent in 1980, 33.6 percent in 1983, 26.0 percent in 1985 and 24.6 percent in 1988, before rising to 25.4 percent in 1990, 27.7 percent in 1995 and 32.7 percent in 1999. Meanwhile, the Chinese share rose from 22.8 percent in 1969 to 45.5 percent in 1990⁶ (when ethnically anonymous ownership of locally controlled companies was largely assigned to Chinese), before declining sharply to 40.9 percent in 1995 and 37.9 percent in 1999. Meanwhile, the Indian share rose slightly from 0.9 percent in 1969 to 1.2 percent in 1985 and 1988, and 1.5 percent in 1995 and 1999.

The most oft-cited government statistics mislead by exaggerating the shortfall from the 30 percent target (originally for 1990), with Bumiputera ownership⁷ hovering above 18 percent since 1983. It is likely that Bumiputera share ownership is much higher than suggested by such government statistics.⁸ All the percentages cited earlier probably underestimate their respective proportions of share ownership. If we put aside the share capital held through nominee companies and locally-controlled companies of unknown ethnic ownership identity, then, the total Bumiputera share of ethnically and residentially identified equity in 1988 was 24.7 percent, with the foreign resident and Chinese shares rising to 31.2 percent and 41.4 percent respectively. It has been variously argued that the Bumiputera and foreign shares would be even higher if shares held through nominee companies and locally controlled companies are taken into account, though there is no empirical basis for ascertaining the veracity of such claims.

The share of ‘other Malaysian residents’ – often wrongly equated with the non-Bumiputera Malaysian share – rose from 34.3 percent in 1970 to 37.5 percent in 1975, 44.6 percent in 1980 and 49.7 percent in 1982, slipping to 47.7 percent in 1983, before rising to 54.9 percent in 1985 and 56.0 percent in 1988, and then declining to 46.8 percent in 1990, 51.7 percent in 1995 and 48.2 percent in 1999. This category includes the ethnically unidentifiable residual share of ‘others, nominee companies and locally-controlled companies’, that could not be assigned to specific ethnic groups, which had grown from 12.2 percent in 1969 to 20.3 percent in 1985 and 21.2 percent in 1988.

Ownership of locally controlled companies was presumed to belong exclusively to non-Bumiputera Malaysians from 1991, whereas such shares could also have been owned by Bumiputeras as well as by foreign residents. Some would argue that they are more likely to be owned by

⁶ This happened despite some official discouragement of Chinese investments and capital flight attributable to the Industrial Coordination Act (ICA), higher interest rates abroad as well as emigration and investments overseas (‘exit’) due to Chinese frustrations in Malaysia. The resilience of Chinese capital should not be underestimated, however.

The decline in ethnic Chinese political influence after the 1960s has resulted in various responses and initiatives, varying with the specific interests concerned. From 1985, some of the more politically inspired initiatives were exposed as business scams dependent on political patronage or protection, exploited by politicians and businessmen for their own selfish ends. These exposures have further undermined the already seriously eroded position of the Malaysian Chinese Association (MCA), the second most important party in the ruling coalition. Despite its sizeable share of the economy, Chinese capital has limited control over the financial (banking, etc.) sector and the ‘commanding heights’ of the traditional capitalist sectors (international trade, primary production), which have mainly been taken over from foreign (especially British) capital by the state, ostensibly for the Malays.

⁷ In the mid-1980s, Mahathir announced to foreign investors and the Malaysian Chinese public (through the Chinese press) that NEP targets, particularly the 30 percent objective, had been suspended in view of the economic recession in the mid-1980s.

⁸ Federal and state government share ownership other than Bumiputera trust agencies have not appeared since 1969 in the official tables on ownership of share capital in limited companies.

Bumiputera individuals, especially politicians, who wish to obscure their business interests. But if we assume that these shares are divided according to the known ethnic proportions, then, the Bumiputera share would rise to at least 22 percent.

All such official figures only consider nominal share values, whereas estimates of the distribution of wealth held in shares should consider share prices though there are many problems in estimating such market values. Since Bumiputera and foreign share ownership tends to be concentrated in the larger, more successful firms which have been able to restructure to meet government guidelines, it is likely that the actual market value of shares held by non-Bumiputera residents is correspondingly less than nominal share ownership, whereas Bumiputera and foreign wealth would be considerably higher. Hence, it is quite possible that the 30 percent Bumiputera wealth ownership target has been achieved. While the 1997-8 financial crisis undoubtedly affected wealth, there is little evidence of its ethnic implications except for evidence that government interventions have tended to favor those best connected politically.

If market values are considered, instead of nominal or par values, the proportion of publicly listed foreign and Bumiputera shares would probably rise rather significantly, at the expense of the Chinese share. According to data from the Kuala Lumpur Stock Exchange (KLSE) *Annual Handbook*, incorporating information up to September 1988, 29.4 percent of equity by nominal value was owned by Bumiputeras, with 41.9 percent owned by 'other Malaysians' and 28.7 percent owned by foreigners. However, when market values based on closing prices at the KLSE on 1 March 1989 are considered, the Bumiputera and foreign shares rose to 34.5 percent and 32.2 percent respectively, with the share of 'other Malaysians' falling to 33.3 percent (Fong, 1989: Table 5). Not surprisingly, this suggests that Bumiputera shares are generally more highly valued in the market than those held by foreigners, and especially those belonging to other Malaysians.

The official figures for distribution of share ownership do not take into account share ownership in private limited companies, which are generally smaller, but sometimes more lucrative. The distribution of share ownership does not accurately reflect wealth ownership in Malaysia, especially of non-corporate wealth, e.g. held by private companies. It could also be reasonably argued that 'net tangible assets' would provide a more accurate reflection of corporate wealth distribution than par values, or even market values. Also, share capital only represents a portion of economic wealth, albeit an important one.

Similarly, the assets of foreign branches and subsidiaries in Malaysia have been ignored by such calculations. Hence, it is likely that foreign wealth and wealth-generating capacity in Malaysia has been significantly underestimated by government statistics. A fuller picture of wealth distribution and economic power has to consider other tangible assets, such as real property and agricultural land, as well as other sources of economic power, including access to rent-seeking opportunities as well as corporate control, as distinct from ownership. Hence, the Bumiputera percentage does not include shares owned by those who use nominee companies and other such devices that obscure the identity of the owner.

Not much is known about the trust agencies ostensibly set up to advance Bumiputera share ownership, entrepreneurial and managerial capability. However, in the public eye, these trust agencies have been associated with the growth of the public sector under the NEP. During the heady early years of NEP implementation, public enterprises of various types proliferated. By the early 1980s, federal government officials were no longer quite sure how many such enterprises had been established, not only by the federal and state governments, but also by the various statutory bodies, regional development agencies and other such public sector bodies. The fiscal and foreign debt crises of the early 1980s led to the introduction of structural adjustment.

In the mid-1980s, the government established a Central Information Collection Unit (CICU), run by Permodalan Nasional Berhad (PNB). 1987 accounts revealed that almost half the 1,148 enterprises – mostly subsidiaries and associated companies of state enterprises – were still in the red, involving a net loss of RM1.9 billion. Some 562 companies had losses totaling RM7.5 billion, while another 446 had profits of RM5.6

billion, with the remainder inactive or in the process of closing down. Total public sector investments in the 1,148 companies came to RM15.3 billion, or about 71 percent of the total paid-up capital of RM21.5 billion, with the state holding at least half the equity in 813 of these companies (*South East Asia Digest*, 21 July 1989).

The *Third Malaysia Plan, 1976-1980 (3MP)* projections (p. 86, Table 4.16) for the 30 percent Malay share of the corporate sector in 1990 anticipated 7.4 percent for 'Malay individuals' and 22.6 percent for 'Malay interests'. The *Fourth Malaysia Plan, 1981-1985 (4MP)*, however, reduced the share for Bumiputera individuals to 5.2 percent (or 17.3 percent of total Bumiputera ownership) and raised the share for 'Bumiputera trust agencies' to 24.8 percent (or 82.7 percent). However, since then, far greater emphasis has been given to Bumiputera personal wealth acquisition. The share of Bumiputera individuals rose significantly from 7.6 percent in 1983 to 14.2 percent in 1990, 18.6 percent in 1995 and 17.4 percent in 1999. Meanwhile, the Bumiputera trust agencies' share declined from 11.1 percent in 1983 to 5.1 percent in 1990 and 1.7 percent in 1999. Individuals accounted for 73.4 percent of total Bumiputera ownership in 1990 and 91.0 percent in 1999.

The share for Bumiputera trust agencies correspondingly fell to 9.0 percent in 1999 – a very dramatic reversal in a relatively short space of time, with important implications for the composition and nature of Malay capital as well as the character and role of state intervention and the public sector in Malaysia. Clearly, wealth accumulation by the state on behalf of the entire Bumiputera community has been abandoned in favor of private accumulation by individual Bumiputeras. Although for private aggrandizement, much of such accumulation has been heavily reliant on government dispensation. Hence, capital accumulation has increasingly been determined by 'know who' (political connections or influence), rather than 'know how' (entrepreneurial ability or capabilities). While this might be more pronounced among Bumiputera businessmen, it has also been true for others who have made their fortunes contingent on opportunities involving government dispensation (Gomez and Jomo 1999).

In fact, the issue of wealth ownership – whether of shares or other wealth – only involves the interests of a small elite. The high concentration of share capital ownership within each ethnic community was almost definitely understated in the case of the ASN. The Amanah Saham Nasional (ASN) – superseded by Amanah Saham Bumiputera (ASB) from 1991 – scheme provides some indication of the degree of wealth concentration in Malaysia. The ASN and ASB schemes have had unusually high rates of participation owing to the government efforts to maximize Bumiputera participation.

Such concentration is even more pronounced in the rest of the economy in view of government efforts to promote widespread participation in the ASN and its successor ASB schemes and the previous RM50,000 (now RM200,000) ownership limit on share units per Bumiputera. The level of concentration was also limited by the RM50,000 share ceiling for individual ownership. The ASN's and ASB's tax-free rates of return to investment has consistently been well above prevailing savings and fixed deposit interest rates. No other share-ownership scheme in the country, and probably in the world, has been able to attract such widespread nominal participation. Yet, although well over two million Bumiputeras were involved by the late 1980s, the vast majority had invested RM500 or less, while about 1.3 percent of all eligible Bumiputeras owned 75 percent of all ASN shares!

Ethnicity in Employment and the Professions

Government occupational statistics also suggest that employment restructuring has, generally speaking, been achieved. In fact, Bumiputera employment in the public sector and agriculture greatly exceeds their overall demographic share. According to the World Bank, government remuneration is, on average, about 25 percent higher than in the private sector. However, Bumiputeras are still under-represented in some of the most lucrative professions, such as medicine, accountancy and architecture, though much of this is temporary and will decline as the population

ages. Nevertheless, as **Table 6** shows, for the vast majority of the population, employment restructuring goals had, by and large, been achieved by 1990.

As far as occupational restructuring is concerned, by 1990 and 2000, Bumiputeras were significantly under-represented (i.e. less than 45 percent) only at the ‘administrative and managerial’ level (28.4 percent) and in sales-related occupations (36.5 percent). Nevertheless, the Malay proportions in these occupations have greatly increased since Independence, and especially under the NEP, though the Chinese proportions – 66.0 percent and 57.5 percent respectively – still significantly exceed their population share.

Otherwise, occupational restructuring has largely been achieved, especially in low-income employment. Rather, the main sources of tension over employment restructuring involve access to business opportunities and the more lucrative occupations. This mainly affects and concerns the middle class. Tertiary education as well as related employment and promotion opportunities are the main concerns and primary sources of inter-ethnic resentment and conflict, especially among the middle class, who correctly see these as determining their life chances. Both sides have been very morally self-righteous about their interests and claims. On the one hand, many Bumiputeras invoke indigenous or ‘native rights’ and the need for ‘positive discrimination’ and ‘affirmative action’ to overcome historical disadvantage under colonialism. On the other hand, many non-Bumiputeras protest ‘ethnic discrimination’, ‘cultural oppression’ and the official undermining of meritocracy.

Ethnic percentages in professional and technical occupations broadly reflect demographic proportions in the Peninsular Malaysian population, though Bumiputera under-representation in the more lucrative and prestigious professions has been highlighted by the Malay middle class, politicians and the government. Nevertheless, as **Table 7** shows, the Bumiputera proportion of the eight prized professions rose from 4.9 percent in 1970 to 29.0 percent in 1990 and 33.1 percent in 1995 and 32.0 percent in 1997, before measurement changes reduced the number of professionals by 45.5 percent in 1997 and the Bumiputera share to 27.3 percent in 1997 and 28.9 percent in 1999. There may also be some underestimation of the Bumiputera proportion as far as those in government service (e.g. the legal and judicial service) are concerned. Perhaps, more importantly, recent Bumiputera advances into the professions mainly involve the younger age cohorts. Hence, the Bumiputera proportion will continue to increase as the population ages, even if the current proportions remain unchanged. Malay professionals also seem to earn proportionately more, suggesting a likely ethnic premium in their professional charges (Merican, 1987).

As far as tertiary education more generally is concerned, the Bumiputera population in government-accredited local universities and university colleges was 67 percent in 1985 (*5MP*, 1986, pp. 490-1), up from 40 percent in 1970 (Malaysia, *MTR2MP*, 1973: 193). The ratio was supposed to be 60 percent from the early 1980s, as part of a ‘compromise’ resolution of the Merdeka University issue from the late 1970s. The controversy over ethnic quotas for public university admissions has continued to the present. The vast majority of students in private tertiary institutions have been non-Bumiputera. Most of the thousands of Bumiputera students abroad are believed to be government-funded, compared to only a small proportion of non-Bumiputeras.

Evidence on ‘restructuring society’ also suggests considerable success in terms of changing ethnic proportions in various lucrative professional occupations and by sectoral employment as well as wealth ownership. Official concern appears to have moved away from school enrolment ratios, where Bumiputeras are now actually ‘over-represented’ owing to the generally larger size of Bumiputera families as well as the higher enrolment of non-Bumiputera children in private institutions. Even interest in enrolment at the tertiary level has declined with the considerable Bumiputera advances since the 1970s and the growing phenomenon of graduate unemployment since the mid-1980s. Instead, the focus is now primarily on the lucrative professions, where Bumiputeras are still relatively under-represented despite rapid progress, especially since the 1980s.

It is very likely that tertiary education, and especially access to these professions, will continue to preoccupy the middle class, who feel they stand to gain or lose most in this regard. For obvious reasons, focus on the lucrative professions is likely to remain. Such ethnic preoccupations previously constrained state approval of private initiatives in human resource development and domestic tertiary education development, despite the considerable foreign exchange savings that have since accrued. However, the situation has changed significantly since the mid-1980s as businesses have successfully invested in providing tertiary educational credentials. Continued regulation has provided lucrative opportunities for rentier marketing of such degrees. Such preoccupations as well as the regime's obsession with controlling campus dissent have stood in the way of the urgent need to reform higher education in order to better prepare the Malaysian population for rapid cultural and technological changes.

Expenditure

After the NEP's inception, the state's commitment and priorities – as reflected by NEP expenditure allocations – increasingly shifted away from poverty eradication towards restructuring until the *5MP*. The ratio of allocations for restructuring, compared with poverty eradication, rose steadily from 22 percent under the *2MP* to 37 percent under the *3MP* and 47 percent under the *4MP*. According to the *5MP*, the *4MP* allocation ratio was later revised upward to 57 percent, while the ratio for actual expenditure was estimated at 59 percent (*5MP*, p. 231, Table 7.3). However, this ratio was revised downward for 1986-90 to 33 percent under the *5MP*, and then further down to 26 percent, and then 20 percent with the *MTR5MP*. Only a small percentage of the Bumiputera population benefits significantly from restructuring expenditure, compared with the far greater proportion of the Malay population (23.8 percent in Peninsular Malaysia in 1987) still officially considered poor. Subsequent Malaysian five-year plan documents no longer provide the information necessary for analysis of subsequent trends.

There is considerable evidence that only a fraction of poverty eradication funds actually benefits the poor, considering the huge bureaucracy and other expenses involved. 'Of the revised allocation for poverty eradication, about 40 percent was directly channeled to the poor through programs such as input subsidies and basic amenities, 31.8 percent for indirect programs such as purchase of equipment, credit facilities and training, while the rest was essentially for supporting programs which included the construction of related office buildings and associated management costs' (*MTR5MP*, 1989, p. 60). The poverty eradication expenditure also provided greater benefits to the non-poor, e.g. the rice price support program primarily benefits big farmers with large marketable surpluses of grain. Also, shifting the emphasis from poverty eradication to restructuring society probably tended to increase inequality within the Malay community, while the mid-1980s shift in the opposite direction may partly account for the reduction in Malay income inequality during 1984-7.

To improve the effectiveness and efficiency of public expenditure, including poverty eradication efforts, strict 'performance evaluation' has to be developed. Such comparative evaluation can help identify to what extent each poverty eradication measure is effective in reducing poverty or increasing incomes and economic welfare among target groups, among those who are poor as well as among others who are not poor. Such evaluation would be useful in identifying the most effective measures for eradicating poverty in the future as they would have to take into account the efficacy of specific poverty reduction measures.

As noted earlier, much, if not most analysis of inequality in Malaysia focuses overwhelmingly on inter-ethnic inequality although the statistical evidence suggests that it accounts for a relatively small share of Malaysian inequality. Correspondingly, the main focus in the study of conflict and instability in Malaysia has been on inter-ethnic tensions, especially between the politically and demographically dominant Muslim ethnic Malays, who also comprise the vast majority of Bumiputera indigenes in Peninsular Malaysia, and the more commercially successful and

ubiquitous ethnic Chinese, especially since the post-election riots of May 1969. This focus reflects popular perceptions and pre-occupations on various sides of various ethnic and cultural divides. However, this ethnic analytical preoccupation has obscured attention to regional tensions within the Malaysian federation.

FEDERAL-STATE AND INTER-REGIONAL ECONOMIC DISTRIBUTION

This second part assumes that, while understandable, this singular public policy priority on ethnicity has neglected other potential sources of conflict, most importantly, regional frustrations and tensions, which have long been important, though not unchanging. It goes on to identify federal government neglect and discrimination as the main sources of regional resentment, and suggests a likely vicious cycle of federal fiscal bias against opposition-controlled state governments reinforcing regional resentment expressed in support for ‘regional’ opposition. However, the federal government has sought to address this by directly controlling federal economic resources in such states hoping to discredit and bring the latter to heel in view of the opposition-held state governments’ meager budgetary resources.

Federal and State Government Finances

Under the Malaysian Constitution, taxes may only be levied with authorization by federal law. The Federal Government collects direct taxes such as income taxes on individuals, companies and cooperatives, as well as capital gains taxes, import and export duties. The State Governments are assigned residual revenues such as those related to land, real property, agriculture and forestry. Within constitutionally set limits, the Federal Government can influence such State government revenue sources.

For instance, the federal-owned Petroleum Nasional Berhad (Petronas) is empowered to contract out exploration and production of petroleum under the Petroleum Act, 1974. If the Federal Government directs – through Petronas – such activities away from a particular State during a certain period, the State Government concerned will have less royalty revenue in that period. The 1991 federal ban on log exports from Sabah – then held by the opposition PBS (Parti Bersatu Sabah) government – undermined State government revenue (Wee, 1995: 24).

In essence, the State’s financial powers are limited. State Governments receive grants from the Federal Government, given in consultation with the National Finance Council, which comprises the Prime Minister and ministers appointed by the Prime Minister and one representative from each State (Constitution of Malaysia, Article 108). Since the Prime Minister can appoint various ministers to the Council, he has much more power than any State representative. Current Prime Minister Mahathir Mohamad has been the most powerful and assertive among the four Malaysian prime ministers to date.

Grants to the States take the form of tax-sharing grants, general grants and specific grants. Federal Government expenditure has been far larger than for all the State Governments taken together. Federal government revenue has contributed from between 77 to 91 percent of total government revenue since 1963. Federal government operating expenditure made up more than 70 percent of total government operating expenditure for the period 1963-80, more than 50 percent in the 1980s, and about 40 percent in the 1990s. The period also saw higher federal current account surpluses as well as higher overall federal deficits.

Meanwhile, federal development expenditure constituted 68 to 90 percent of total development expenditure during the period under review. For the period 1985-99, federal government expenditure was at least four and a half times the consolidated State government expenditure. It increased to more than five times in 1995, and to about seven and a half times in 1999. Similarly, federal government revenue has exceeded consolidated State government revenues. Federal government revenue grew from four times the consolidated State government

revenues to seven times in the period under review. Federal Government financial allocations to State Governments have shifted from grants to loans over time.

Besides special grants, federal grants contribute proportionately more to State government revenue in Selangor, Kedah, Johor, Pulau Pinang, Negri Sembilan and Kelantan. Because of their limited financial resources, State Governments have attempted to reduce their fiscal gaps by cutting spending in line with their revenues (Umikalsum, 1992: 327) and handing over some functions to the Federal Government, leading to further centralization since the formation of Malaysia (Wee, 1996: 285).

Spending has been uneven among the states, reflecting federal government preferences as well as state government financial resources. The public sector was smallest in the Borneo states of Sabah and Sarawak, contributing the lowest shares of state GDPs during the NEP era. Public sector shares of state GDPs in the northern states of Perlis, Kedah, Pulau Pinang and Perak were relatively small in the early 1970s, but grew in the 1980s. The reverse was observed for Selangor, while Melaka's relatively large public sector share was maintained during this period (**Table 8**).

With its greater financial resources, there has been greater attention to federal government efforts in reducing inter-regional welfare differences and ensuring more equitable development. (For some sense of the contrast between the sources of economic growth and the distribution of economic welfare, see the contrast between poverty incidence by State in **Figure 1** and GDP per capita by State in **Figure 2**.) Malaysia has had eight five-year development plans since 1966. More development funds have been channeled to Selangor and Johore, both absolutely and relatively (**Figure 3**). The smaller States of Melaka, Pulau Pinang and Perlis have been allocated the most development funds in relation to area. Conversely, the larger States of Pahang, Sabah and Sarawak have received the lowest allocations in relation to area.

The Seventh Malaysia Plan (1996-2000) saw relatively higher allocations for the poor States of Sabah and Sarawak. Besides Pahang, the poor State of Terengganu also got the most allocations per capita (**Figure 4**). However, Terengganu's allocations have been reduced relatively after electing a PAS government in late 1999. The poorest State in the peninsula, Kelantan, has long experienced such discrimination since electing PAS State governments from 1959 until 1978, and then again from 1990. Since the Federal Government is in a better position to finance development, discrimination against these two States has aggravated tensions between them and the Federal Government.

Educational opportunities and scholarships have been politicized. Education has been and is perceived as a means to increase chances of participation in high-income employment. Most government educational opportunities and scholarships are reserved for Bumiputeras under the NEP. However, the ethnic quota system has failed to privilege the poor among the Bumiputeras. The siting of universities in various States has been similarly politicized. Besides politicizing development allocations and depriving States controlled by the opposition, the location of economic development projects and programs has also been politicized to marginalize those States led by opposition governments. The consequence of such bias is to further increase the disparities as opposition parties have been strongest in States characterized by poverty, fiscal discrimination and slower economic growth if not for natural resources – especially petroleum and timber – extraction activities.

The (usually federal) government-financed development of industrial infrastructure is generally expected to bring in employment-generating foreign investments. However, even without bias or neglect, it is often the case that poorer States and regions are more likely to be bypassed for cost, feasibility or viability considerations, leading to lower allocations to poorer States. Certain States may also lack the skilled human resources or other capabilities required for implementing some development projects. Limited capacities and capabilities are still common, and some development allocations have not been spent for such reasons.

Tensions between the Center and the Borneo States

Since the mid-1970s, petroleum resources have been managed by the federal government-owned Petronas. The issue of increasing petroleum royalties for producing States has often been raised. Based on the principle of ownership of the continental shelf by adjoining regions, Sabah and Sarawak could claim ownership before incorporation into Malaysia in 1963. The *status quo* could have been maintained insofar as the Malaysian Constitution is silent on the matter. Thus, the federal government claim to ownership has been construed as annexation.

The Federal Government gets far more petroleum revenue than the governments of the petroleum producing States (**Table 9**). Both Sabah and Sarawak seemingly enjoy favored financial positions among the Malaysian States. They receive more grants compared to other States, partly rationalized by being among the three founding members of the federation. However, over time, the grants negotiated at the time of formation of the Malaysian federation have been abolished and/or reduced.

The export ban on logs from Sabah has been another point of contention between the Sabah State Government and the Federal Government. The federal Minister of Primary Industries, with whom some powers over timber policy have been vested, banned log exports from the State in 1992. The ostensible reason for the ban was to encourage the growth of wood-based industries in Sabah, though it is widely attributed to the Sabah ruling party's post-nomination, pre-election defection to the opposition in late 1990. The Sabah Chief Minister unsuccessfully argued that the ban was only acceptable with compensation from the federal government for the State's anticipated revenue loss. The federal Minister had initially stated that the State would be compensated. He later claimed that the federal government was not in a position to do so, after the ruling party in Sabah had defected to the opposition (Wee, 1995: 22, 24).

In negotiations before the formation of Malaysia, Sabah and Sarawak politicians had insisted on Borneo-ization, i.e. staffing state civil services with Sabahans and Sarawakians respectively, as a condition for joining the federation. Many in Sabah and Sarawak still do not welcome the federal employees from the peninsular States, who are said to resent being sent there, to patronize the 'locals' or to take time to adjust to life in the two States. Relations between Malaysians from the peninsula and 'locals' in the Borneo States have, however, improved over the years. Nevertheless, social and economic difficulties, e.g. perceived higher rates of graduate unemployment, can threaten such relations, as in the past.

Although Sarawak was far more important historically in developing a sense of nationalism, these movements were largely co-opted in the 1970s, when the Sarawak United People's Party (SUPP) and then the Sarawak National Action Party (SNAP) joined the ruling coalition. In contrast, Sabah's status was rendered ambiguous by Filipino claims to territory once associated with the Sulu Sultanate. However, in recent decades, tensions between the center and the Sabah State Government have been greater than those between the center and the Sarawak State Government. Suggestions of secession have surfaced during periods of tension.

The mid-1970s saw the federal government oust the Mustapha government in favor of Berjaya. Tensions between the center and Sabah rose again in the mid-1980s after Parti Bersatu Sabah (PBS) defeated the incumbent Berjaya with strong support from the Kadazandusun and ethnic Chinese communities. However, the PBS joined the ruling coalition, in which it felt discriminated against. After the PBS defected to the opposition during the 1990 general elections, federal government discrimination against the PBS state government – and the state – became more pronounced. However, this was reversed when the national ruling coalition recaptured the state in 1994 by engineering defections from the PBS after it narrowly won the state election. Support for the PBS has since declined, and the leadership rejoined the ruling coalition in early 2002.

Before the 1990s, peninsula-based political parties did not operate in the Borneo States. After the heightened tensions between Sabah and the Federal Government in the 1980s culminated in Sabah's ruling party, PBS, defecting to the opposition just before the 1990 federal parliamentary elections, peninsular-based political parties began operating in the State to undermine the PBS. The United Malays National

Organization (UMNO), the most powerful party in the ruling national coalition, spread its wings to Sabah, even accepting non-Muslim Bumiputera members. After UMNO's entry into and take-over of the State in 1994, a two-year rotating chief ministership replaced the previously renewable full term chief ministership, still practiced in the other States.

This happened in spite of lower net transfers out of Sabah – compared to Sarawak – to the peninsula (**Table 10**). This may be due to poorer economic conditions in Sabah relative to Sarawak. Federal domination has been consolidated since the mid-1990s with federal patronage of a Muslim-Chinese elite alliance, not unlike the one that emerged in Sarawak in the 1970s – and was consolidated in the 1980s – that has also marginalized non-Muslim Bumiputeras.

Sarawak's relatively large area, lower population density, huge rural constituency areas, and State-level rivalries among its politicians have limited effective challenges from the State to the Federal Government. Citizens' protests have mainly been in the rural areas, where politically affiliated logging companies are active, and timber concessionaires threaten 'native' communities' claims to the forests for their livelihoods. Forests are a State matter, and hence, the protests have been directed at the State government. However, State politicians have been able to contain challenges from rural protestors, who are often spread over vast areas and largely cut off from one another, to the politicians' advantage. In fact, citizens' protests against the State Government of Sarawak have sometimes served to strengthen the State government's autonomy. Symbiotic relations between federal and State politicians have also helped diffuse federal-State conflicts.

Tensions between the Center and North East Peninsular Malaysia

At the time of Malayan independence in 1957, the ruling Alliance coalition gave lip service to State autonomy in finances, as this had been the *status quo*, especially for the five Unfederated Malay States of Johore, Kedah, Perlis, Kelantan and Terengganu. However, according to the Malaysian Constitution, tax may be levied only by the federal government or with the authority of federal law. State Governments can only borrow from the Federal Government or from sources approved by the Federal Government for up to five years.

Kelantan has been led by the Pan-Malaysian Islamic Party (PAS) for many years, and has long had conflicts with the Federal Government. PAS ruled Kelantan from 1959, joined the expanded ruling coalition in 1973, and then was forced out just before the 1978 state election, in which it lost Kelantan. During its years in political opposition to the ruling coalition, Kelantan has been discriminated against in terms of federal grant allocations. In the mid-1970s, PAS joined the ruling coalition for a few years and was rewarded with higher federal allocations for Kelantan. After PAS recaptured the state in 1990, Kelantan's allocations have again been adversely affected.

In the federal and peninsular State elections of 1999, PAS made significant inroads, capturing Terengganu and many seats in Kedah and Pahang as well. Since then, the ruling UMNO has sought to isolate and weaken the seemingly ascendant PAS, even withholding petroleum royalties previously paid directly to the Terengganu State government.

The government of the East Coast State of Terengganu filed a suit against Petronas and the Federal Government on 8 March 2001 over this non-payment of petroleum royalties to the State. The Federal Government had told Petronas to stop paying petroleum royalties to the Terengganu State Government. The Federal Government has diverted the oil royalties to a discretionary fund for expenditure in the State under Federal Government and federal ruling coalition control.

These conflicts between the Federal Government on the one hand and the opposition PAS-held States of Terengganu and Kelantan on the other reflect party rivalries. Greater electoral support for PAS not only reflects resurgent Islam's growing political influence, but also greater marginalization, socio-economic deprivation, frustration and dissent in the two East Coast States. Both States have had the two highest

incidences of poverty in the Peninsula from pre-independence days, despite Terengganu's thriving economy two centuries ago and more recent oil wealth.

Apparently, development allocations to the states do not seek to reduce inter-state or inter-regional inequalities. The improved allocations for Kedah from the tenth highest during the Third Malaysia Plan period (1976-80) to the sixth highest in the current Eighth Malaysia Plan period (2001-2005) is widely attributed to the Kedah-born Prime Minister's political concerns and provincialism. Conversely, Kelantan's share deteriorated from seventh to tenth over the same period. Meanwhile, the allocation for Selangor rose from sixth highest to third highest. Similarly, the poor state of Terengganu has also been allocated relatively less development funds, while the reverse has been true for the more developed state of Johor (**Table 11** and **Figure 3**).

The relatively greater funds allocated to the poor states of Sabah and Sarawak – compared to their counterparts in the peninsula – have not been enough to compensate for the states' much large sizes. Sarawak was favored from the 1980s, after the state ruling coalition was challenged from within, with the contending factions remaining within the national ruling coalition. However, no similar privileges have been accorded to the other poor states of Kelantan, Sabah and Terengganu, where opposition to the national ruling coalition has been stronger and led to opposition control of the state governments. In fact, the relative per capita allocation to Sabah declined over the period reviewed (**Table 12** and **Figure 4**) despite the growing incidence of poverty in the state.

Inequalities and Redistribution

Malaysia's New Economic Policy (NEP) was first announced in 1970 as the principal policy response to the post-election race riots of May 1969, which also resulted in a significant regime change. The events of May 1969 also involved a widespread popular rejection of the ruling Alliance coalition as well as a 'palace coup' within the ruling UMNO as the 'Young Turks' supporting then Deputy Prime Minister Razak sidelined Prime Minister Rahman who had led UMNO from 1951 and the country to independence in August 1957. The Rahman regime was seen by the new Razak regime as having been too conciliatory with the ubiquitous Chinese business community. The new Razak NEP regime was therefore committed to increased ethnic affirmative action or positive discrimination policies on behalf of the ethnic Malays.

The NEP had two prongs, namely 'poverty eradication regardless of race' and 'restructuring society to eliminate the identification or race with economic function'. The NEP was supposed to create the conditions for national unity by reducing inter-ethnic resentment due to socio-economic disparities. In practice, the NEP policies were seen as pro-Bumiputera (indigene), or more specifically, pro-Malay, referring to the largest indigenous ethnic community. Poverty reduction efforts have been seen as primarily rural and Malay, with policies principally oriented to the rural Malay (peasants). As poverty reduction efforts had been uncontroversial and had declined in significance over time, the NEP came to be increasingly identified with 'restructuring society' efforts to reduce inter-ethnic disparities, especially between ethnic Malay and ethnic Chinese Malaysians.

The NEP's redistribution measures were conceived in response to the events of May 1969, i.e. the pre-election ethnic tensions, the ruling coalition's electoral setback and the post-elections' palace coup against the incumbent prime minister. While redistributive in intent, NEP social policy enhanced Malaysian human resources in ways that reduced poverty, especially among the children of the Malay peasantry (Jomo and Gomez, 1997). In particular, greater education enabled them to gain more remunerative modern sector employment. However, there is considerable evidence (Jomo, 1989; Jomo, 1990) that much of the expenditure ostensibly allocated for poverty reduction never really benefited the poor.

Instead, the NEP increasingly emphasized ‘restructuring’ or reducing inter-ethnic economic disparities, especially between ethnic Malays and ethnic Chinese, rather than poverty reduction (Gomez and Jomo, 1999). While the NEP probably reduced some ethnic Malay resentments of Chinese economic success by accelerating the advance of Malay middle class and business interests, it may well also have generated even greater Malay expectations of their rights, entitlements and privileges under the Malaysian sun, thus inadvertently fuelling inter-ethnic resentment at the same time.

The NEP has been associated with the first Outline Perspective Plan (OPP) for 1971-90. The OPP sought to reduce poverty from 49 percent in Peninsular Malaysia in 1970 to 16 percent in 1990. The actual poverty rate in the peninsular in 1990 was 17 percent, while the national rate was slightly higher. The NEP’s main restructuring target was to raise the Bumiputera share of corporate stock ownership from 1.5 percent in 1969 to 30 percent in 1990. The government’s data suggest that Bumiputera ownership rose to about 18 percent in 1990 and slightly over 20 percent in 2000. Although the government originally envisaged that much of the Bumiputera corporate wealth would be held by trust agencies, private individual Bumiputera ownership has risen from less than a third to over 90 percent. Much of the measurement of NEP achievement has been subjected to dispute. This has been exacerbated by the lack of transparency on socio-economic data deemed sensitive.

The NEP has since ostensibly been replaced by the National Development Policy (NDP) associated with the *Second Outline Perspective Plan* (OPP2) for 1991-2000, and then by the National Vision Policy linked to the Third Outline Perspective Plan (OPP3) for 2001-2010. Although the new policies have put far greater emphasis on achieving rapid growth, industrialization and structural change, there is the widespread perception that public policy is still primarily influenced by the NEP’s restructuring society policies.

These policies are believed to be especially important in terms of affecting public policies affecting corporate wealth ownership as well as other areas, notably education and employment opportunities. In other words, ethnic discrimination primarily involves the business community and the middle class, where inter-ethnic tension is most acute. Inter-ethnic business coalitions have become increasingly important over time, often with the ethnic Malay partner securing rents for gaining access to government determined business opportunities, and the ethnic Chinese partner with business acumen getting the job done. Such ‘Ali Baba’ arrangements have generated considerable resentment, especially among those denied access to such business opportunities.

With privatization opportunities from the mid-1980s largely decided on a discretionary basis by the government leadership, there has been growing resentment and criticism of ‘rent-seeking’ and ‘cronyism’. Such disbursement of privatization opportunities also strengthened the leadership’s means for patronage, in turn encouraging competition for party and government political office and upward mobility. The selective nature of the ‘bail-out’ processes and procedures following the 1997-8 currency, financial and economic crises have strengthened, rather than undermined these tendencies.

While there is little doubt that specific socio-economic targets of the NEP have been largely achieved, later rather than sooner, it is not clear that such achievement has led to national unity, understood in terms of improved inter-ethnic relations. Associating improved inter-ethnic relations almost exclusively with reduced inter-ethnic disparities among the respective business communities and middle classes has in fact generated greater ethnic resentment and suspicion on both sides. Ethnic affirmative action policies as implemented and enforced in Malaysia have associated the interests of entire ethnic groups with their respective elites, thus generalizing resentments associated with inter-ethnic, intra-class competition. Thus, it is unlikely that the ethnic affirmative action means will achieve the end of improved inter-ethnic relations. An alternative approach needs to be found to create more lasting conditions for improved inter-ethnic relations.

Quite predictably, it has been in the area of wealth ownership that there seems to have been the greatest false modesty all round. The main protagonists – the Malays and the Chinese – are both very insistent that the official figures exaggerate their respective shares of economic

wealth. While there are grains of truth in such claims, the arguments are essentially self-serving. They are used to legitimize and support claims for greater shares, and for government intervention or withdrawal in this regard as the case may be. But what is most telling, perhaps, is that increased wealth ownership for any particular ethnic group actually only involves a very small minority, who are nevertheless ever ready to proclaim that they embody the interests of the particular ethnic group with which they are identified.

The relations between wealth distribution and other inter-ethnic economic disparities such as income distribution may be quite spurious. It is quite possible that there would be greater interest in uplifting incomes, rather than redistributing wealth. It is quite likely that there will be no further upward revision of the NEP's wealth restructuring targets above 30 percent despite continued Malay calls for wealth redistribution to reflect ethnic demographic proportions. As post-1990 (National Development Policy and *Second Outline Perspective Plan, 1991-2000*) and post-2000 (National Vision Policy and *Third Outline Perspective Plan, 2001-2010*) policies suggest, it is likely that the 30 percent target, which has developed such great symbolic significance and is most closely identified with the NEP in the public imagination, will be indefinitely retained for achievement at some point in the future. Depending on how one chooses to measure corporate wealth distribution, it can be shown that the 30 percent target has already been achieved or is close to being achieved.

However, adopting such means to assuage Bumiputera demands is likely to be politically risky. Furthermore, under the NEP, many who now control UMNO and the other BN parties at various levels actually enjoy rentier incomes, largely attributable to the NEP and the climate it has fostered. These people are unlikely to give up such opportunities – perceived to have been provided by the NEP – without a fight. Hence, any government based on such patronage and support is unlikely to be capable of ride roughshod over such interests despite the better judgment of those with greater appreciation of the mixed legacy of the NEP.

The NEP probably fuelled non-Malay resentment of abuses associated with UMNO's political hegemony and its main policy consequence, the NEP itself. While the NEP objectives of reducing poverty and inter-ethnic economic disparities were presented as means for achieving 'national unity', primarily understood in terms of ostensibly reducing Malay resentment against the Chinese, there is little real evidence that this has been achieved with implementation of the NEP. The virtual absence of a subsequent recurrence of inter-ethnic violence on a comparable massive scale is not necessarily evidence of greater 'national unity', even as narrowly conceived in terms of reduced inter-ethnic resentment.

To describe the NEP as Malaysia's second 'social contract' implies some parity among willing parties. Many non-Malays still complain that the NEP was imposed by a dominant UMNO on the ethnic minorities against their will. With a dominant, though unofficial ideology that has portrayed non-Malays as 'immigrant sojourners', exit – through emigration or by bypassing the government – has been the main alternative to resignation ('loyalty'). Voice has largely been left to a few braver souls between the four to five yearly elections, when dissent can be secretly expressed at the ballot box, with little real political consequence in a heavily gerrymandered and controlled electoral system.

The Mahathir government has already passed two opportunities (1991, 2001) to break with past policies in the interest of greater economic efficiency, more rapid growth and fairer distribution. It seems unlikely that a successor UMNO/BN government will have the autonomy or will to make such a bold break. And while the new opposition coalition must necessarily address the social, political and policy legacy around the NEP, it is more likely to take bold new initiatives for a more just and dynamic new Malaysian society.

The Malaysian government has been able to choose whether or not to announce that the NEP objectives, or more precisely the OPP targets, had been achieved. By doing so, the government could have made a clean break with the NEP in 1991 and embarked on different new policies. Instead, the government chose to continue the basic thrusts of the NEP with some changes, reflecting Mahathir policy priorities, including greater emphasis on growth, industrialization and the emergence of Bumiputera Commercial and Industrial community (BCIC) plus a

new name. This compromise formula sought to insert and assert Mahathir's priorities without overly threatening his UMNO following who are still yet to be weaned off the NEP. This process has been continued in 2001 with the announcement of a new National Vision Policy to coincide with the *Third Outline Perspective Plan* period (2001-2010), an obvious reference to Mahathir's Vision 2020, first enunciated in February 1991.

Whether or not recent government policy changes represent any significant departure from policy in this respect since the 1990s is difficult to gauge, but seems unlikely. In view of policy trends under Mahathir, which have mainly benefited the private sector, including foreign investors, there is little evidence of any significant advances in social policy to enhance the welfare of the majority. Unlike the first decade of the NEP in the seventies, when social policy – albeit primarily ethnic-oriented – became important, the last two decades have witnessed redistribution effects increasingly captured by politically-connected Malay business and middle class interests while private sector promotion has primarily benefited politically well-connected rentier or crony interests.

The Federation of Malaya had a centralized administration developed towards the end of the British colonial period. The circumstances of the formation of the Federation of Malaysia initially reversed this trend temporarily, with guarantees of greater autonomy for Sabah and Sarawak to induce them to join the new Malaysian federation. However, centralization has advanced over the years since within the context of a federal system.

Consequently, State Governments have surrendered various functions to the Federal Government for various reasons, including lack of fiscal resources. In response, State Governments have requested reassigning certain revenues from the Federal Government to State coffers. Such views have been most strongly expressed by representatives of the Borneo States of Sabah and Sarawak as well as Terengganu asking for higher petroleum royalties for their States. As founding members of the Malaysian Federation, the Borneo States have emphasized that they had expected net transfers of public funds in their favor – rather than the converse – from joining the federation. Instead, there is considerable evidence of a significant drain of economic resources away from the two States to national (Kuala Lumpur) and regional centers (Singapore, Hong Kong, Australia, New Zealand). Consequently, many in the Borneo states are of the view that their expectations from joining the Malaysian federation have been betrayed.

Over the decades, Federal Government financing for State Governments has shifted from grants to loans, further reinforcing federal control of the States. While disbursing loans – instead of grants – may require greater accountability on the part of the State Governments, expecting repayment is unrealistic because of the State Governments' limited revenue sources. However, the loans enable the Federal Government to assert greater control over the State governments, particularly when they are run by opposition parties or coalitions, or even by more independently minded members of the ruling coalition. Among the Malaysian States not under opposition control, the Sarawak State government probably enjoys most autonomy after the successful entry of UMNO into Sabah (Lim, 1997). Although the Borneo States have more constitutionally guaranteed autonomy than the Peninsular Malaysian States, they probably suffer greater abuse and poverty, partly because their greater autonomy has been abused by self-serving political business elites.

In short, resource (especially petroleum, gas and timber) extraction and political competition have reshaped federalism in Malaysia. This has led to the 'politicization' and manipulation of the original terms of Malaysian federalism – especially federal-state relations with regard to finances – to force opposition-held States to capitulate and, in the event of failure to do so, to 'buy votes' for recapture of those States. Such tactics have exacerbated federal-State conflicts and previously encouraged occasional threats to secede in the absence of any federal government indication of willingness to reform more equitably, e.g. through devolution or fiscal reform.

While federal arrangements may well be superior to unitary states in dealing with regional diversity, the second part of this paper has suggested that the overwhelming power of the center at the expense of the States has increased over time since Malayan independence in 1957 and the creation of the Malaysian federation in 1963. Undoubtedly, the federal government has successfully used – and abused – its authority and powers to overcome regional political opposition expressed in the capture of State governments. This has enabled the federal government to secure the bulk of petroleum rents extracted from the States, especially Sabah, Sarawak and Terengganu.

The apparently generous fiscal transfers from the center to these petroleum rich States actually obscure the considerable oil rent transfers to the center from these States. Some of this seeming generosity has been due to the terms of the Borneo States' entry into the Malaysian federation as well as the earlier hints of secession or demands for greater regional autonomy as options, especially before the 1990s. However, resource transfers from the States to the federal center are not obvious to most in Sabah and Sarawak, and have probably been obscured by the regional elites' rapacious and ostentatious accumulation and abuse of timber wealth. Continued access to this dwindling source of natural resource wealth has probably also deterred the States' elites from challenging the center's claim to most petroleum resource rents. As timber resources are exhausted, these elites will inevitably turn their sights to the oil and gas offshore, but since they have never really claimed these mineral resource rents strongly before, their belated efforts may not enjoy much popular legitimacy and potential for political mobilization, let alone succeed.

Similarly, the increasingly ham-fisted 'choking' of the Peninsular Malaysian Malay opposition, especially through discriminatory treatment of the two PAS-held States of Kelantan and Terengganu, could well further undermine the legitimacy of existing federal arrangements, with possibly unpredictable consequences. While this political rivalry is currently primarily understood in terms of the Malay supremacist UMNO versus the Islamist PAS, its political expression – in terms of the unilateral reordering of previous federal financial arrangements to deprive the opposition State governments of fiscal means – could well unintentionally provoke regional responses which may undermine the very legitimacy and unity of the Malaysian federation. Political developments since late 1998 continued to erode and undermine the legitimacy of Prime Minister Mahathir's leadership, especially among ethnic Malays in the northern and central States of Peninsular Malaysia.

Conflicts over federal versus state powers and inter-regional distribution issues have been rooted in socio-economic disparities and the struggle for control over natural resource rents, which State Governments previously had exclusive control over, as originally provided for by the federal constitution. The advance of fiscal centralization since then has also aggravated federal-state tensions, which have been relatively ignored due to the long-standing Malaysian pre-occupation with inter-ethnic tensions. Inter-regional resource transfers and the federal government's fiscal and political dominance have been used to undermine the more independent State Governments, especially those held by opposition parties. While the federal government is clearly dominant, central control over the State Governments has varied, especially in Sabah and Sarawak, with the continued hegemony of the national ruling coalition depending on successfully combining the carrot with the stick.

Most older Malaysians seem to agree that inter-ethnic relations deteriorated in the 1970s and early 1980s, and many were inclined to attribute this – at least partly – to the implementation of the NEP. On the other hand, there has undoubtedly been considerable success in achieving specific NEP objectives as the following review will show. According to available government statistics on NEP implementation, it appears that the OPP targets had, by and large, been achieved by 1990 except for a shortfall in Malay corporate wealth ownership.

The debate over future Malaysian economic policy has recently surfaced again, after the economic and political crises of 1997-98, causing considerable concern in various quarters. Although the concern emerged due to the devastation of the 1997-98 economic and political crises, it has been sustained by the inability to return to the high growth rates that prevailed in the decade before the crisis. From mid-2002, the

debate has primarily centered on the uncertainties of the regime after Prime Minister Mahathir retired at the end of October 2003 after 22 years in power. Dubbed an ‘ultra’ or extremist in the late 1960s for advocating inter-ethnic redistribution, Mahathir is now seen as a moderate primarily concerned with modernization, meritocracy and nation-building.

Once a great critic of the first Prime Minister’s autocratic behavior despite his patrician style, Mahathir himself has proved to be increasingly intolerant of criticism and willing to resort to unfair means to retain power and even to aggrandize friends. Decisions about future economic policies in Malaysia are probably not going to be decided by the interests or needs of the public, but are more likely to reflect the interests and desires of those in power and others of influence, including foreign economic advisors, who usually represent the interests of transnational corporations and international economic agencies.

The 1997 currency crisis and the unprecedented severe contraction of 1998 drew attention to the ‘cronyistic’ practices that have become an important feature of Malaysia’s business landscape. Although the focus on cronyism as the cause of the 1997-8 currency and financial crises was somewhat misplaced and served proponents of financial liberalization and capital account openness, it is now recognized as a major problem distorting and retarding the development of Malaysian modernization, industrialization as well as economic dynamism and competitiveness. After a strong recovery in 1999 and 2000, the Southeast Asian regional economic slowdown in 2001 underscored the weakness of Malaysia’s domestic engines of growth and the mixed consequences of economic openness and dependence. The prospects for Malaysia’s domestic engines of growth are increasingly recognized as weak, not least because of the economy’s openness and strong outward orientation as well as its historical reliance on foreign direct investment for propelling its most dynamic industries.

One consequence of the foreign domination of Malaysian manufacturing has been to encourage Malaysian investors to gravitate to other rentier activities, especially finance and property. As far as most Malaysian primary commodities are concerned, the major problems on the supply-side have been rising labor costs and the exhaustion of timber and land resources. Hence, for continued economic expansion, Malaysia desperately needs new investments, technology and market access, especially for manufacturers. FDI from abroad is supposed to sustain capital inflows, provided earlier by foreign borrowings in the early eighties and by portfolio inflows before the 1997 crisis. But with the availability of China and other competitive investment locations, Malaysia appears less attractive to prospective investors.

For ethnic-political as well as economic reasons, the Malaysian government favored foreign investment, rather than (predominantly Chinese) domestic investment in the late 1980s. This strategy further enhanced foreign capital’s dominance of Malaysian industry. However, in view of the post-1997 perception of lack of Malaysian policy consistency, it is unlikely that the massive foreign investments desired will be forthcoming, at least in the amounts desired in the near future. The government may then be tempted to either resort to foreign borrowings once again, or to offer even more attractive terms to encourage renewed foreign investments. It will be difficult to open the oil (and gas) tap much more, or cut down much more of the already much diminished forest, as happened in 1987. Needless to say, these options do not really offer sustainable, long-term growth and structural change for the Malaysian economy.

While there is little doubt that the Mahathir regime’s economic policy rhetoric has been decidedly nationalistic since 1998 and monetary policy has been somewhat independent; although the ringgit has been problematically pegged to the US dollar since September 1998, there is little evidence of consistently sustained nationalistic economic policies. On the contrary, there have been a series of pragmatic policy reversals encouraged by the deteriorating situation since the strong recovery of 1999-2000. In view of economic policy shifts since the mid-1980s and late 1990s, and recent government priorities, future economic policy will probably continue to emphasize rapid growth, especially industrialization, and greater reliance on market forces.

With the departure of Mahathir, there are doubts about the likely sustainability of his nationalist project, not least because it is perceived as mainly having benefited a politically connected few, primarily from the Malay political elite. In fact, the partial liberalization measures since the mid-1980s reduced non-Bumiputera resentment of government policies, resulting in Mahathir's ironic popularity among those who were expected to be most threatened by him. However, partial liberalization has obscured the selective allocation of lucrative business opportunities, especially associated with privatization, which has exacerbated growing inequality, including between the ethnic Chinese and the predominantly Malay Bumiputera, resulting in reduced support for the regime from the latter in the 1999 general election. Such resentment has since abated as memory of the Anwar Ibrahim episode recedes in the popular imagination, and this is likely to be reflected in improved electoral performance for the ruling coalition at the next general election.

Thus, the challenge of addressing social exclusion remains. In the 1960s, the Bumiputera are said to have resented the ubiquitous ethnic Chinese business presence, while the non-Bumiputera resented the Malay-dominated state. From the 1970s, the ethnic bias associated with the NEP reduced the former while increasing the latter. The mid-1980s' reforms seem to have offset both tendencies. And the post-Mahathir order seems to suggest another turn in the direction of the 1970s' NEP's ethnic bias combined with further economic liberalization. Meanwhile, however, rapid growth and social transformation has resulted in Bumiputera mimicry of ethnic Chinese inequality, although continued cultural, social and political mobilization along ethnic lines is likely to forestall significant class mobilization. Hence, social frustrations with continued if not growing inequality is likely to express themselves in different cultural idioms which are unlikely to lead to progressive social transformation.

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**AFFIRMATIVE ACTION AND EXCLUSION IN MALAYSIA:
ETHNIC AND REGIONAL INEQUALITIES IN A MULTICULTURAL SOCIETY**

Tables

Table 1. Malaysia: Incidence of Poverty, 1970-1999

	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>1997</i>	<i>1999</i>
Total	49.3	29.2	16.5	6.1	7.5
Rural	58.6	37.7	21.1	10.9	12.4
Urban	24.6	12.6	7.1	2.1	3.4
Hard-core Poor			3.9	1.4	1.4

Sources: Malaysia Plan documents

Table 2. Malaysia: Incidence of Poverty (%) by State, 1970-1999

	1970	1976	1984	1987	1990	1995	1997	1999
Johor	45.7	29.0	12.2	11.1	10.1	4.2	1.6	2.5
Melaka	34.1	32.4	15.8	11.7	12.4	3.2	3.6	5.7
Negri Sembilan	50.5	33.0	13.0	21.5	9.5	5.3	4.5	2.5
Selangor	42.7	22.9	8.6	8.9	7.8	2.2	1.3	2.0
Perak	52.2	43.0	20.3	19.9	19.3	4.9	4.5	9.5
Pulau Pinang	52.7	32.4	13.4	12.9	8.9	9.1	1.6	2.7
Perlis	63.2	59.8	33.7	29.1	17.2	11.8	10.6	13.3
Kedah	61.0	61.0	36.6	31.3	30.0	12.2	11.5	13.2
Kelantan	74.1	67.1	39.2	31.6	29.9	22.9	19.5	18.7
Trengganu	65.1	60.3	28.9	36.1	31.2	23.7	17.3	14.9
Pahang	56.1	28.9	15.7	12.3	10.3	6.8	4.1	2.7
Sabah	-	58.3	33.1	35.3	34.3	26.2	22.1	20.1
Sarawak	-	56.5	31.9	24.7	21.0	10.0	7.5	6.7
Kuala Lumpur	-	-	-	-	-	9.5	0.1	2.3
Malaysia	56.7*	37.7	20.7	19.3	17.1	8.7	6.8	7.5

Sources: *Fifth Malaysia Plan, 1986-1990 (5MP)*, *Mid-Term Review of the Fifth Malaysia Plan, 1986-1990 (MTR5MP)*, *Second Outline Perspective Plan, 1991-2000 (OPP2)*, *Mid-Term Review of the Seventh Malaysia Plan, 1996-2000 (MTR7MP)*, *Eighth Malaysia Plan, 2001-2005 (8MP)*

* For Peninsular Malaysia only

Table 3. Peninsular Malaysia:
Mean Monthly Household Incomes By Ethnic Group and Stratum, 1970-1999

	1970	1973	1976	1979	1984	1987	1990	1995	1999
All	423	502	566	669	792	760	1,167	2,020	2,472
Bumiputera (B)	276	335	380	475	616	614	940	1,604	1,984
Chinese (C)	632	739	866	906	1,086	1,012	1,631	2,890	3,456
Indian (I)	478	565	592	730	791	771	1,209	2,140	2,702
Others	1,304	1,798	1,395	1,816	1,775	2,043	955	1,284	1,371
Urban (U)	687	789	913	942	1,114	1,039	1,617	2,589	3,103
Rural (R)	321	374	431	531	596	604	951	1,326	1,718
Disparity ratio (C/B)	2.30	2.21	2.28	1.91	1.76	1.65	1.74	1.80	1.74
Disparity ratio (I/B)	1.73	1.69	1.56	1.54	1.28	1.26	1.30	1.33	1.36
Disparity ratio (U/R)	2.14	2.11	2.12	1.77	1.87	1.72	1.70	1.95	1.81

Note: Figures for 1970-87 in constant 1978 prices; figures for 1990-99 are constant 1990 prices.

Sources: *Fourth Malaysia Plan, 1981-85, Mid-Term Review of the Fifth Malaysia Plan, 1986-90, Seventh Malaysia Plan, 1996-2000, Eighth Malaysia Plan, 2001-2005,*

Table 4. Malaysia: Income Shares by Income Group, 1970-1999

	1970	1973	1976	1979	1984	1987	1990	1999
<u>Total</u>								
Top 20%	55.9	53.7	61.9	54.7	53.2	51.2	50.0	50.5
Middle 40%	32.5	34.0	27.8	34.4	34.0	35.0	35.5	35.5
Bottom 40%	11.6	12.3	10.3	10.9	12.8	13.8	14.5	14.0
 Urban								
Top 20%	55.0	—	—	—	52.1	50.8		48.9
Middle 40%	32.8	—	—	—	34.5	35.0		36.7
Bottom 40%	12.2	—	—	—	13.4	14.3		14.9
 Rural								
Top 20%	51.0	—	—	—	49.5	48.3		48.0
Middle 40%	35.9	—	—	—	36.4	36.7		36.7
Bottom 40%	13.1	—	—	—	14.1	15.0		15.6
 Gini Index	0.50	0.50	0.57	0.49	—	—	0,44	0.44
 Theil Index	0.48	0.43	0.71	0.42	—	—		

Sources: Malaysia Plan documents

Note: The published figures for urban and rural Malaysia in 1990 and 1999 do not add up to 100.0 per cent, but only the 1990 calculations are omitted because of the much greater disparities involved.

Table 5. Malaysia: Ownership of Share Capital (at par value) of Limited Companies,¹ 1969, 1975, 1980, 1983, 1985, 1990, 1995, 1999

Ownership Group	1969		1970		1975		1980		1983		1985		1990		1995		1999	
	RM m.	%	RM m.	%	RM m.	%	RM m.	%	RM m.	%	RM m.	%	RM m.	%	RM m.	%	RM m.	%
Malaysian residents	1,746.3	37.9	1,952.1	36.6	7,047.2	46.7	18,493.4	57.1	33,010.6	66.4	57,666.6	74.0	71,631.5	66.1	129,999.5	72.3	208,797.2	67.3
<i>Bumiputeras</i>	70.6	1.5	125.6	2.4	1,394.0	9.2	4,050.5	12.5	9,274.7	18.7	14,883.4	19.1	20,877.5	19.3	36,981.2	20.6	59,394.4	19.1
Bumiputera individuals ³	49.3	1.0	84.4	1.6	549.8	3.6	1,880.1	5.8	3,762.2	7.6	9,103.4	11.7	15,322.0	14.2	33,353.2	18.6	54,046.0	17.4
Trust agencies ⁴	21.3	0.5	41.2	0.8	844.2	5.6	2,170.4	6.7	5,512.4	11.1	5,780.0	7.4	5,555.5	5.1	3,628.0	2.0	5,248.4	1.7
<i>Other Malaysian residents⁵</i>	1,958.0	59.6	1,826.5	34.3	5,653.2	37.5	14,442.9	44.6	23,735.9	47.7	42,783.2	54.9	50,754.0	46.8	93,018.3	51.7	149,402.8	48.2
Chinese	1,064.8	22.8	1,450.5	27.2	–	–	–	–	–	–	26,033.3	33.4	49,296.5	45.5	73,552.7	40.9	117,372.4	37.9
Indians	41.0	0.9	55.9	1.1	–	–	–	–	–	–	927.9	1.2	1,068.0	1.0	2,723.1	1.5	4,752.9	1.5
Others	–	–	–	–	–	–	–	–	–	–	987.2	1.3	389.5	0.3	1,751.1	1.0	2,888.0	0.9
Nominee companies	98.9	2.1	320.1	6.0	–	–	–	–	–	–	5585.1	7.2	9,220.4	8.5	14,991.4	8.3	24,389.5	7.9
Locally-controlled companies	471.0	10.1	–	–	–	–	–	–	–	–	9,249.7	11.8	–	–	–	–	–	–
Federal and State Govts.	21.4	0.5	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Foreign residents	2,909.8	62.1	3,377.1	63.4	8,037.2	53.3	13,927.0	42.9	16,697.6	33.6	20,297.8	26.0	27,525.5	25.4	49,792.7	27.7	101,279.2	32.7
Share in Malaysian cos.	1,235.9	26.4	–	–	4,722.8	31.3	7,791.2	24.0	9,054.3	18.2	12,672.8	16.2	–	–	–	–	–	–
Foreign controlled cos.	282.3	6.0	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Net assets of local branches ⁶	1,391.6	29.7	–	–	3,314.4	22.0	6,135.8	18.9	7,643.3	15.4	7,625.0	9.8	–	–	–	–	–	–
Total⁷	3,286.0	100.0	5,329.2	100.0	15,084.4	100.0	32,420.4	100.0	49,708.2	100.0	77,964.4	100.0	108,377.4	100.0	179,792.2	100.0	310,076.4	100.0

Notes: ¹ The classification of ownership of share capital (at par value as adopted by the *Ownership Survey of Limited Companies* was based on the residential address of the shareholders and not by citizenship. Residents are persons, companies, or institutions that live in or are located in Peninsular Malaysia, Sabah and Sarawak. The definition, therefore, also includes foreign citizens residing in Malaysia.

² Figures for 1980 are based on the *Ownership Survey of Limited Companies*.

³ Include institutions channeling funds of individual Bumiputeras such as the Muslim Pilgrim Saving and Management Authority (LUTH), MARA Unit Trust Scheme, cooperatives and the ASN scheme.

⁴ Shares held through institutions classified as trust agencies such as the National Equity Corporation (PNB), National Corporation (PERNAS), The Council of Trust for Indigenous People (MARA), state economic development corporation (SEDCs), Development Bank of Malaysia (BPMB), Urban Development Authority (UDA), Bank Bumiputera Malaysia Berhad, Kompleks Kewangan Malaysia Berhad (KKMB), and Food Industries of Malaysia (FIMA). It also includes the amount of equity owned by the Government through other agencies and companies which have been identified under the Transfer Scheme of Government Equity to Bumiputeras.

⁵ Include share held by nominees and locally controlled companies (LCC). LCC records the total value of share capital of limited companies whose ownership could not be disaggregated further and assigned beyond the second level of ownership, to specific ethnic groups. Nominee shareholding was estimated to account for 5.7 per cent of the total corporate shares in 1985 or about RM4,400 million. Share held under the LCC amounted to about RM8,100 million or 10.7 per cent of the total share capital of limited companies in 1985.

⁶ This refers to the difference between the total assets in Malaysia and total liabilities in Malaysia of the companies incorporated abroad. This approach had to be used for Malaysia branches of companies incorporated abroad as the criterion on equity share capital could not be applied to these companies.

⁷ Excludes Government holdings other than through trust agencies, except for 1969.

Source: *Second Malaysia Plan, 1971*, p. 40; *Third Malaysia Plan, 1976*, p. 184; *Fourth Malaysia Plan, 1981*, p. 62; *Mid-Term Review of the Fourth Malaysia Plan, 1984*, p. 101; *Fifth Malaysia Plan, 1986*, p. 107; *Mid-Term Review of the Fifth Malaysia Plan, 1989*; *Seventh Malaysia Plan, 1996*, p. 86; *Eighth Malaysia Plan, 2001*, p. 64; Department of Statistics, the *Ownership Survey of Limited Companies, 1969-85*; and data from various trust agencies.

Table 6a
Malaysia: Employment by Occupation and Race, 1970 (per cent)

Occupation	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indian</i>	<i>Others</i>
Professional and technical	47.0	39.5	10.8	2.7
Administrative and managerial	24.1	62.9	7.8	5.2
Clerical and related workers	35.4	45.9	17.2	1.5
Sales and related workers	26.7	61.7	11.1	0.4
Service workers	44.3	39.6	14.6	1.5
Agricultural workers	72.0	17.3	9.7	1.0
Production, transport and other workers	34.2	55.9	9.6	0.3
Total	51.8	36.6	10.6	1.0
Ethnic proportions	52.7	35.8	10.7	0.8

Proportional Equality Index Of Employment By Occupation

Occupation	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indian</i>	<i>Others</i>
Professional and technical	0.89	1.10	1.01	3.38
Administrative and managerial	0.46	1.76	0.73	6.50
Clerical and related workers	0.67	1.28	1.61	1.88
Sales and related workers	0.51	1.72	1.04	0.50
Service workers	0.84	1.11	1.36	1.88
Agricultural workers	1.37	0.48	0.91	1.25
Production, transport and other workers	0.65	1.56	0.90	0.38
Total	0.98	1.02	0.99	1.25

Source: Malaysia, *Fourth Malaysia Plan, 1981-1985*.

Note: The proportional equality index is derived by dividing the percentage of employment of each ethnic group in each sector/occupation by the percentage share in population.

Table 6b
Malaysia: Employment by Occupation and Race, 2000 (percentages)

Occupation	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>
Professional and technical	63.9	25.8	7.6	2.7
Teachers and nurses	73.2	18.4	6.9	1.5
Administrative and managerial	37.0	52.3	5.5	5.2
Clerical and related workers	56.8	32.9	8.6	1.7
Sales and related workers	37.3	49.8	6.8	6.1
Service workers	57.7	21.8	8.5	12.0
Agricultural workers	61.2	10.3	6.9	21.6
Production, transport and other workers	44.7	33.8	10.0	11.5
Total	51.5	29.7	8.3	10.5

Proportional Equality Index Of Employment By Occupation

Occupation	<i>Bumiputera</i>	<i>Chinese</i>	<i>Indians</i>	<i>Others</i>
Professional and technical	0.97	1.02	1.03	2.26
Teachers and nurses	1.11	0.73	0.93	1.24
Administrative and managerial	0.56	2.07	0.75	4.30
Clerical and related workers	0.86	1.30	1.16	1.45
Sales and related workers	0.56	1.97	0.92	5.07
Service workers	0.87	0.86	1.15	10.00
Agricultural workers	0.93	0.41	0.94	17.97
Production, transport and other workers	0.68	1.34	1.35	9.59
Total	0.78	1.17	1.12	8.72

Source: Malaysia, *Eighth Malaysia Plan, 2001-2005*.

Note: The proportional equality index is derived by dividing the percentage of employment of each ethnic group in each sector/occupation by the percentage share in population.

Table 7. Malaysia: Registered Professionals¹ by Ethnic Group, 1970-1999

	<i>Bumi-putera</i>		<i>Chinese</i>		<i>Indians</i>		<i>Others</i>		<i>Total</i>	
1970 ²	225	(4.9%)	2,793	(61.0%)	1,066	(23.3%)	492	(10.8%)	4,576	(100%)
1975 ³	537	(6.7%)	5,131	(64.1%)	1,764	(22.1%)	572	(7.1%)	8,004	(100%)
1979	1,237	(11.0%)	7,154	(63.5%)	2,375	(21.1%)	496	(4.4%)	11,262	(100%)
1980	2,534	(14.9%)	10,812	(63.5%)	2,963	(17.4%)	708	(4.2%)	17,017	(100%)
1983	4,496	(18.9%)	14,933	(62.9%)	3,638	(15.3%)	699	(2.9%)	23,766	(100%)
1984	5,473	(21.0%)	16,154	(61.9%)	3,779	(14.5%)	675	(2.6%)	26,081	(100%)
1985	6,318	(22.2%)	17,407	(61.2%)	3,946	(13.9%)	773	(2.7%)	28,444	(100%)
1988	8,571	(25.1%)	19,985	(58.4%)	4,878	(14.3%)	762	(2.2%)	34,196	(100%)
1990	11,753	(29.0%)	22,641	(55.9%)	5,363	(13.2%)	750	(1.9%)	40,507	(100%)
1995	19,344	(33.1%)	30,636	(52.4%)	7,542	(12.9%)	939	(1.6%)	58,461	(100%)
1997 ⁴	22,866	(32.0%)	37,278	(52.1%)	9,389	(13.1%)	1,950	(2.7%)	71,843	(100%)
1997 ⁴	10,659	(27.3%)	21,298	(54.4%)	6,653	(17.0%)	515	(1.3%)	39,125	(100%)
1999	15,321	(28.9%)	28,565	(53.9%)	8,183	(15.5%)	884	(1.7%)	52,953	(100%)

Notes: ¹ Architects, accountants, engineers, dentists, doctors, veterinary surgeons, surveyors, lawyers.

² Excluding surveyors and lawyers.

³ Excluding surveyors.

⁴ There appears to have been a significant change in the counting of professionals between 1999 (*Mid-Term Review of the Seventh Malaysia Plan, 1996-2000*) and 2001 (*Eighth Malaysia Plan, 2001-2005*), with the total number of professionals and the Bumiputra share dropping drastically..

Sources: Malaysian plan documents.

Table 8. Malaysia: Government Services as Proportion of Gross Domestic Product in Purchasers' Prices by State, 1970-90

	1970	1971	1975	1980	1983	1985	1986	1988	1990
Johor	7.49 (5)	10.98 (6)	7.05 (6)	9.57 (6)	11.94 (4)	11.72 (5)	11.65 (6)	12.52 (6)	10.36 (6)
Kedah	6.20 (4a)	10.14 (5a)	6.72 (5a)	11.85 (10)	19.26 (11)	15.34 (10)	16.11 (11)	16.48 (10)	15.02 (10)
Kelantan	8.62 (7)	12.59 (7)	9.16 (9)	16.45 (13)	22.64 (13)	20.38 (13)	24.82 (13)	24.65 (13)	22.26 (13)
Melaka	11.03 (11)	17.96 (12)	10.65 (11)	14.37 (11)	16.79 (10)	17.55 (11)	15.47 (9)	16.51 (11)	13.67 (8)
N. Sembilan	8.86 (8)	13.55 (10)	8.31 (7)	9.79 (8)	13.54 (6)	12.60 (8)	14.81 (8)	15.52 (8)	13.90 (9)
Pahang	8.98 (9)	12.83 (8)	9.17 (10)	10.73 (9)	13.09 (5)	13.09 (9)	16.09 (10)	16.25 (9)	15.41 (11)
Perak	4.28 (1)	7.85 (2)	4.36 (1)	9.75 (7)	13.83 (8)	12.25 (7)	13.95 (7)	14.30 (7)	12.71 (7)
Perlis	6.20 (4b)	10.14 (5b)	6.72 (5b)	14.54 (12)	21.67 (12)	17.67 (12)	20.03 (12)	21.13 (12)	17.46 (12)
P. Pinang	5.19 (2a)	7.29 (1)	6.27 (4)	9.21 (4)	10.68 (3)	12.00 (6)	11.24 (5)	12.22 (5)	9.84 (5)
Sabah	5.19 (2b)	9.83 (4)	5.80 (3)	9.56 (5)	10.15 (2)	8.73 (2)	7.44 (1)	7.94 (1)	8.07 (4)
Sarawak	5.23 (3)	9.78 (3)	5.22 (2)	6.77 (1)	13.71 (7)	10.08 (4)	8.62 (4)	8.68 (4)	6.41 (1)
Selangor	10.26 (10)	13.30 (9)	11.10 (12)	7.85 (2)	7.71(1)	8.38 (1)	7.47 (2)	8.28 (3)	6.86 (3)
Terengganu	8.51 (6)	14.18 (11)	8.63 (8)	7.95 (3)	14.55 (9)	9.45 (3)	8.42 (3)	8.16 (2)	6.75 (2)
Kuala Lumpur	N.A.	N.A.	N.A.	14.78	18.27	16.43	16.26	17.58	15.42

n.a. - Not available

Figures in brackets indicate ranks from highest to lowest proportions.

Sources: Calculated with data from *Third Malaysia Plan, 1971-1975*, Table 10-1 and 10-3; *Fourth Malaysia Plan*, Table 5-1; *Mid-Term Review of the Fourth Malaysia Plan*, Tables 5-1 and 5-3; *Fifth Malaysia Plan, 1986-1990*, Tables 5-2, 5-3; *Second Outline Perspective Plan, 1991-2000*, Tables 4-6, 13

Table 9. Malaysia: Government Revenue, 1975-2001 (RM million)

	1975	1978	1980	1982	1983	1984	1985	1990	1996	2001
Federal Government:										
Petroleum Income Tax	322	771	1,736	2,075	1,998	2,570	3,130	2,644	2,203	9,858
Petroleum Royalty	78	116	345	425	491	581	619	627	848	2,000
Total	400	887	2,081	2,500	2,489	3,151	3,749	3,271	3,051	11,858
<i>% Total Federal Government Revenue</i>	7.82	10.03	14.94	14.98	13.38	15.15	17.76	11.08	5.24	14.90
Sabah	0.85	50.74	74.98	87.71	118.84	104.55	104.32	115.37	80.47	N.A.
<i>% State Government Revenue</i>	0.32	6.53	4.87	5.92	9.03	7.82	9.02	7.12	5.28	
Sarawak	112.35*	64.50*	116.00*	159.93*	171.71*	216.70*	210.66*	204.90	320.00	N.A.
<i>% State Government Revenue</i>	54.44*	27.01*	29.00	23.18*	17.36*	24.63*	22.41*	22.00	14.00	
Terengganu	-	13.20	0	181.94	0	0	280.92	0	0	N.A.
<i>% State Government Revenue</i>		22.37		0.70			83.07			

* Refers to revenue from land and mines, the majority of which is from crude oil and natural gas

2001: forecast only

Sources: Calculated with data from *State Financial Statements*, various issues

Economic Report, various issues

<http://www.bnm.gov.my> (Bank Negara Malaysia)

Table 10. Sabah & Sarawak: Net Transfers of Revenue From Federal Government, 1966-1989 (RM million)

	<i>Sabah</i>					<i>Sarawak</i>					
	<i>1966-70</i>	<i>1971-75</i>	<i>1976-80</i>	<i>1981-85</i>	<i>1986-88</i>	<i>1964-65</i>	<i>1966-70</i>	<i>1971-75</i>	<i>1976-80</i>	<i>1981-85</i>	<i>1986-89</i>
Federal allocations	299	350	363	1,732	382	72	240	225	300	543	491
Federal expenditure	1,140	2,284	3,741	9,283	4,159	209	614	1,190	1,815	6,139	4,741
Total	1,439	2,634	4,104	11,015	4,541	281	854	1,415	2,115	6,682	5,232
Federal revenue	655	1,152	4,922	9,415	2,195	130	441	692	1,906	5,346	3,741
Petroleum royalty	-	1	168	496	219	-	-	109	355	940	547
Petroleum dividend*	-	-	-	932*	751	-	-	-	-	2,048*	2,474
Petroleum tax*	-	-	845	1,894	1,023	-	-	-	584	646	1,942
Total	655	1,153	5,935	12,737	4,188	130	441	801	2,845	8,980	8,704
% total federal revenue	7%	6%	13%	14%	6%	5%	4%	4%	6%	10%	10%
Net transfer	784	1,481	-1,831	-1,722	353	151	413	614	-730	-2,298	-3,472

* Petroleum dividend for the period 1983-85

Source: Wee, 1995: Table 2.17

Table 11. Malaysia: Development Allocations by State, 1976-2005 (RM million)

	<i>3MP</i> <i>1976-80</i>	<i>4MP</i> <i>1981-85</i>	<i>5MP</i> <i>1986-90</i>	<i>6MP</i> <i>1991-95</i>	<i>7MP</i> <i>1996-2000</i>	<i>8MP</i> <i>2001-05</i>
Johor	1,832 (2)	2,929 (4)	4,529 (1)	3,794 (2)	3,613 (4)	5,937 (4)
Kedah	854 (10)	2,389 (8)	2,659 (9)	2,826 (5)	3,341 (5)	5,180 (6)
Kelantan	1,019 (7)	2,848 (5)	3,621 (7)	2,064 (9)	1,850 (10)	2,905 (10)
Melaka	328 (12)	940 (12)	520 (13)	924 (11)	1,191 (12)	2,465 (11)
N. Sembilan	617 (11)	1,131 (11)	1,302 (10)	1,548 (10a)	1,801 (11)	5,221 (5)
Pahang	2,054 (1)	2,944 (3)	4,118 (3)	2,837 (4)	3,090 (7)	3,821 (9)
Perak	1,792 (3)	2,834 (6)	3,738 (6)	2,563 (7)	3,216 (6)	4,849 (7)
Perlis	156 (13)	304 (13)	560 (12)	505 (12)	953 (13)	1,581 (13)
P. Pinang	894 (9)	1,236 (10)	1,257 (11)	1,548 (10b)	1,968 (9)	4,040 (8)
Sabah	1,452 (5)	3,172 (2)	3,913 (4)	2,307 (8)	4,495 (2)	7,990 (2)
Sarawak	1,657 (4)	2,608 (7)	3,464 (8)	3,209 (3)	4,548 (1)	8,676 (1)
Selangor*	1,413 (6)	3,677 (1)	4,365 (2)	4,295 (1)	4,296 (3)	7,848 (3)
Terengganu	911 (8)	2,023 (9)	3,790 (5)	2,729 (6)	2,553 (8)	2,443 (12)

Note: Development allocation rather than development expenditure is used because information on the later covers a shorter time period.

* Excludes Federal Territory of Kuala Lumpur

Figures in brackets indicate ranks from highest to lowest.

Sources: Various Malaysia Plan documents

Table 12. Malaysia: Development Allocation Per Capita by State, 1996-2000 (RM)

	<i>3MP 1976-80</i>	<i>4MP 1981-85</i>	<i>5MP 1986-90</i>	<i>6MP 1991-95</i>	<i>7MP 1996-2000</i>
Johor	1,114 (6)	1,651 (11)	2,276 (6)	1,800 (6)	1,353 (11)
Kedah	761 (10b)	1,983 (6)	2,092 (8)	2,000 (5a)	2,115 (6)
Kelantan	1,207 (5)	2,892 (3)	3,231 (3)	1,700 (7)	1,215 (13)
Melaka	644 (11)	1,889 (8)	1,015 (13)	1,600 (8a)	2,008 (7)
N. Sembilan	1,003 (7)	1,833 (9)	1,979 (10)	2,100 (4)	2,153 (5)
Pahang	2,885 (1)	3,378 (2)	3,574 (2)	2,700 (2a)	2,393 (3)
Perak	930 (9)	1,464 (12)	1,861 (11)	1,200 (10)	1,518 (9)
Perlis	761(10a)	1,911 (7)	3,162 (4)	2,700 (2b)	4,213 (1)
P. Pinang	935 (8)	1,222 (13)	1,137 (12)	1,499 (9)	1,578 (8)
Sabah	1,762 (2)	2,797 (4)	2,712 (5)	1,600 (8b)	1,513 (10)
Sarawak	1,372 (4)	1,851 (10)	2,059 (9)	2,000 (5b)	2,244 (4)
Selangor*	643 (12)	2,444 (5)	2,145 (7)	2,200 (3)	1,347 (12)
Terengganu	1,732 (3)	3,391 (1)	5,346 (1)	3,700 (1)	2,470 (2)

* Excludes Federal Territory of Kuala Lumpur

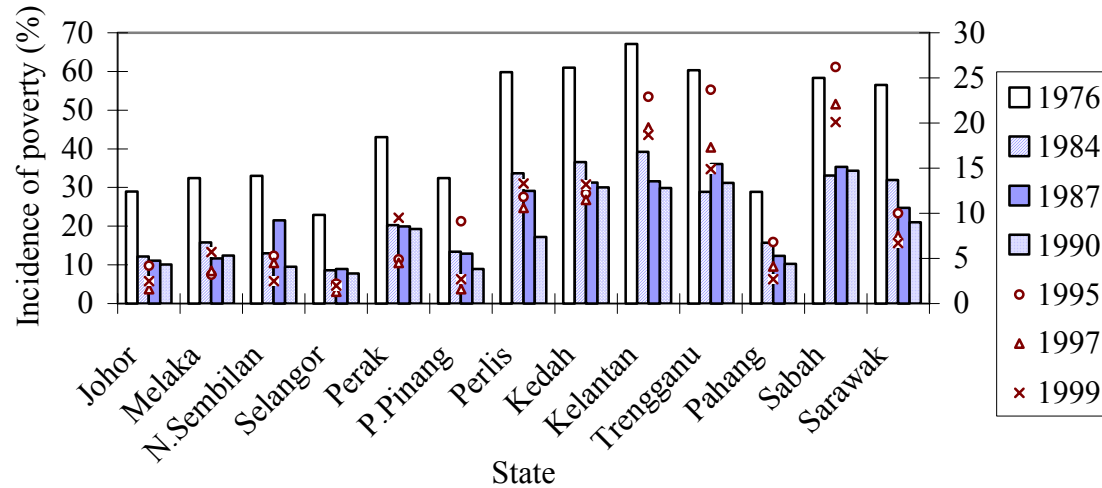
Figures in brackets indicate ranks from highest to lowest.

Source: Calculated with data from various Malaysia Plans and Yearbook of Statistics, Malaysia

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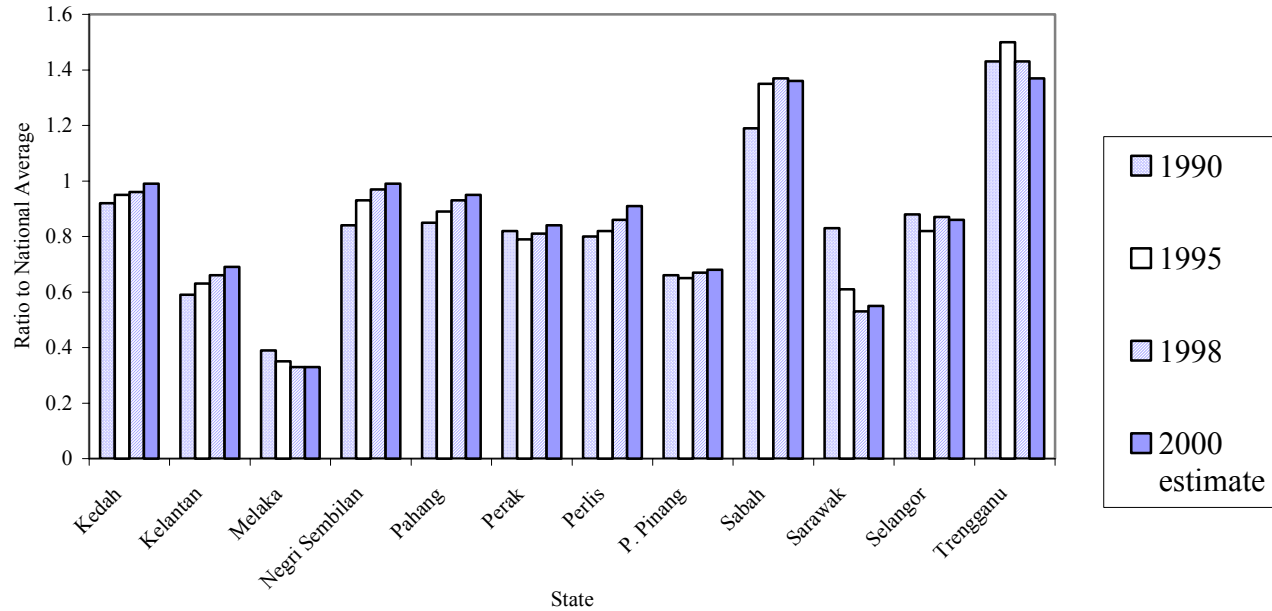
Figures

Figure 1. Malaysia: Incidence of Poverty by State, 1976-1999



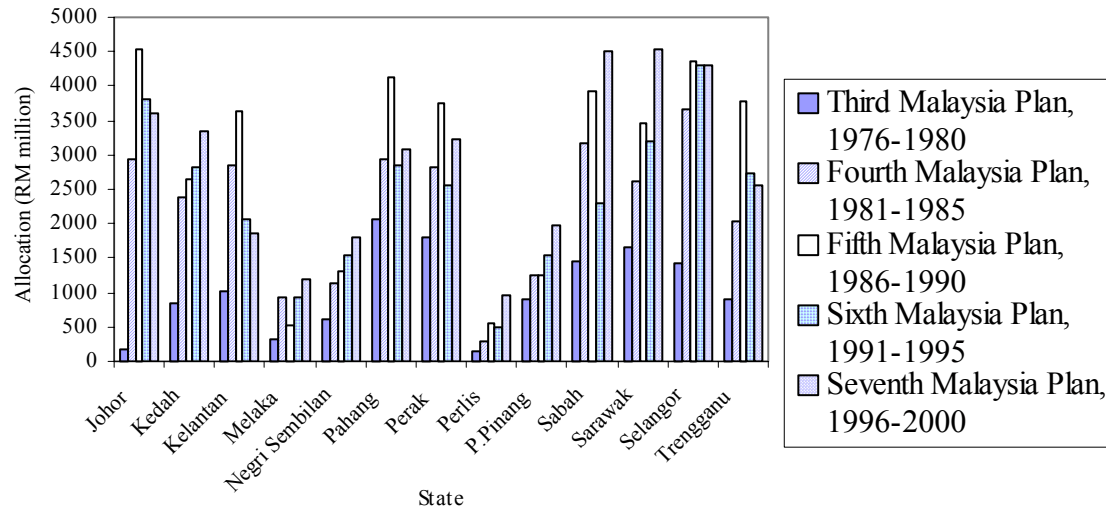
Sources: various Malaysia Plan documents

Figure 2. Malaysia: Gross Domestic Product Per Capita by State, 1990-2000



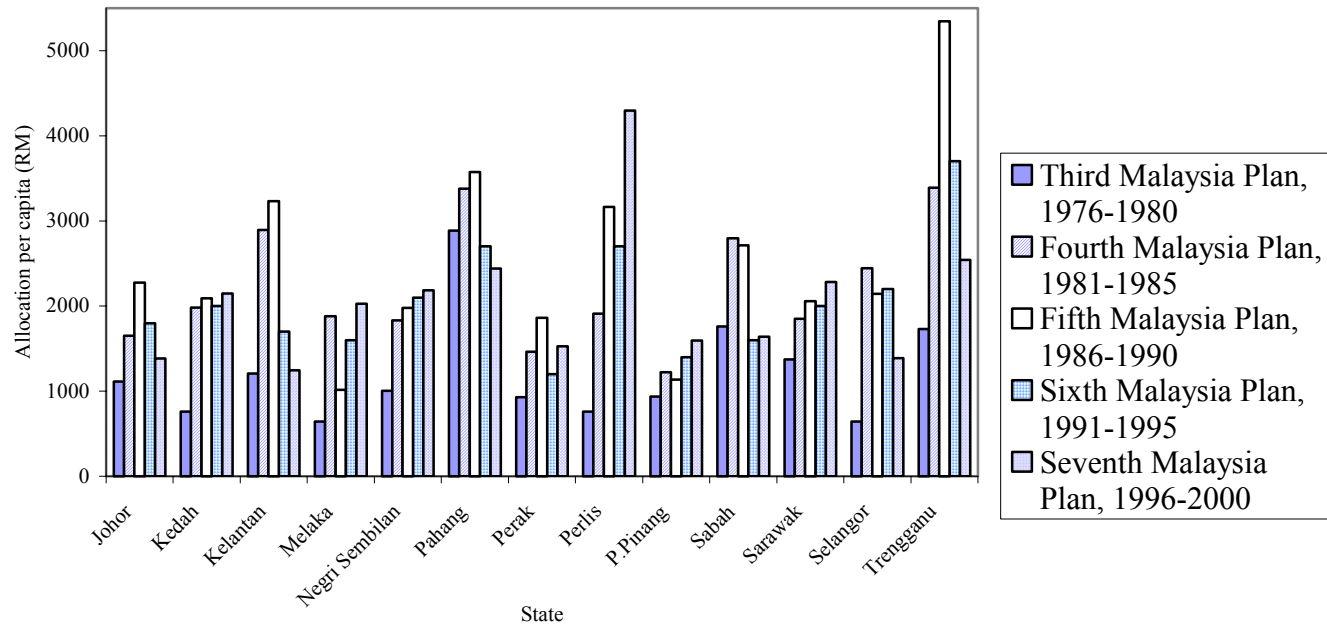
Source: *Seventh Malaysia Plan*, Table 2-7

Figure 3. Malaysia: Development Allocations by State, 1976-2000



Sources: various Malaysia Plan documents

Figure 4. Malaysia: Development Allocations Per Capita By State, 1976-2000



Sources: various Malaysia Plan documents