

**The Politics of Affirmative Action:
Ethnicity, Equity, and State-Business Relations in Malaysia**

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COMPLEX POLICY MIX

- **The Reality:** Affirmative action (AA) – one cog of socioeconomic policies & governance practices. Analyze complex policy mix, by a state that is not neutral.

Social Policy Debate: Universal or Target

- **Vertical Inequalities (VI) vs Horizontal Inequalities (HI):** HI better because ethnic conflict & economic differences better fixed by targeting ethnic groups in most need.
- **AA:** HI-type policy (to attain social justice); but also about economic rent distribution.

Developmental State, Neoliberalism, & State-Business Relations (SBRs)

- **Developmental state:** Highly interventionist; state-directed development.
- **Neoliberalism:** State actively supports private firms; free market; individual pursuit of profits.
- **SBRs:** Variety of methods to implement different policies running concurrently.

Argument to Discuss

- **Key Argument:** Aims of primary policies similar:
- a) **AA:** Social engineering to diversify the elite by reducing dominant position of historically advantaged ethnic groups.
- b) **Neoliberalism:** generate income for upper income brackets; not investment in production nor, even less, social progress.

Malaysia: State Structure & Policies

- **Malaysia:** First country where AA targeted a Majority Ethnic Group, one with political power. (US & India: target group – Minorities with no political or economic influence.)
- **Triggering Event:** 1969 race riots. Must address plight of long marginalized. Need policy shift.
- **AA:** Achieve 'national unity' by eradicating poverty & restructuring society. 20 year duration (1971-90)
- **Method:** Target one ethnic group (Malays/Bumiputeras).

- **Developmental State:** Guided by industrial policy; aided by bank control.
- **Neoliberalism:** Privatization – selective wealth transfer. At odds with group-oriented goals of AA.
- **Where Power Lies:** In hands of hegemonic elite.

SBRs, Politics, Policies

- **SBR models concurrently employed:**
 - a) **Invisible-hand:** state provides public goods
 - b) **Helping-hand:** state actively supports private firms
 - c) **Grabbing-hand:** state pursues own (rent-seeking) agenda
- **Centrality of politics in:**
 - a) public governance & state intervention
 - b) policy planning & implementationDetermines how inequalities are resolved & ethnic capital is developed

Policy Areas of Affirmative Action: Good & Bad Outcomes

	Education & Rural Development	HI Policies & Public Sector Employment	Business (Variety of SBRs)
Focus	<ol style="list-style-type: none"> 1. Poor rural Malay children sent to good residential schools 2. Best students sent abroad or to local public universities 3. Focus on agro sector & rural development 	<ol style="list-style-type: none"> 1. Public institutions: hugely Malay-based (90%) 2. Vast public sector (bloated) 	<ol style="list-style-type: none"> 1. Public contracts / procurement 2. Cheap loans 3. Discounted stock in listed companies
Outcomes	<ol style="list-style-type: none"> 1. Poverty reduced (65% in 1970 to 3% in 2020) 2. Increased economic presence of Malays 3. New Malay middle class 4. Brain drain: with racial quotas, non-Malays moved overseas 5. Failed Brain Gain program 	<ol style="list-style-type: none"> 1. Serious institutional decline: public sector, schools, & universities 2. Poor public delivery system: hardcore poverty persists; basic infrastructure in rural areas not created 3. Selective patronage rooted in public governance 4. New intra-group inequalities 5. Serious spatial inequalities 6. High FDI dependence 	<ol style="list-style-type: none"> 1. 1970-80: State intervention through GLCs 2. 1981: Shift from institutions to Individuals (Picking winners) 3. Privatization: create Malay corporate captains 4. Post-1997 Asian Financial Crisis: Re-nationalization. Huge GLC ecosystem – 42% of quoted capitalization 5. SMEs: 98.5% of all businesses; most micro firms 6. Corruption, rent-seeking, cronyism – key issues

Equity Redistribution: Through the Years

Ownership of share capital (at par value) of limited companies, 1969–2018 (per cent)

	1969	1970	1975	1980	1985	1990	1995	1999	2004	2006	2008	2011*	2015*	2018*
Bumiputera individuals & trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.9	19.4	21.9	23.4	16.2	16.9
Chinese	22.8	27.2	n.a.	n.a.	33.4	45.5	40.9	37.9	39.0	42.4	34.9	34.9	30.7	26.3
Indians	0.9	1.1	n.a.	n.a.	1.2	1.0	1.5	1.5	1.2	1.1	1.6			
Others	–	–	–	–	–	–	–	0.9	0.4	0.4	0.1			
Nominee companies	2.1	6.0	n.a.	n.a.	1.3	8.5	8.3	7.9	8.0	6.6	3.5	4.5	7.8	11.9
Locally-controlled firms	10.1	–	–	–	7.2	0.3	1.0	–	–	–	–	–	–	
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	32.5	30.1	37.9	37.2	45.3	44.9

Note: n.a. – not available. * Figures in 2011, 2015, and 2018 indicate combined volume for all non-Malays

Source: Malaysia Plans (2006, 2019, 2021)

Key Points:

- Major equity targets met by 1990. But, HI continues
- GLCs not included
- By 2018: i) All ethnic groups falling behind: ii) foreign capital on ascendency

Top Companies 1971 vs 1997

From Foreigners to Domestic Corporate Captains & Government (GLCs)

1971 (Before AA)

1. Aokam Tin Bhd. (Foreign)
2. Asia Motor Co. (KL) Sdn. Bhd. (Phang family)
3. Associated Pan Malaysia Cement Sdn. Bhd. (Foreign)
4. Austral Amalgamated Tin Bhd. (Foreign, Lee Loy Seng family)
5. Ayer Hitam Tin Dredging Ltd. (Foreign)
6. B.P. Malaysia Sdn. Bhd. (Foreign)
7. Bank Bumiputra (Government)
8. Batu Kawan Bhd. (Lee Loy Seng family)
9. Benta Plantations Bhd. (Foreign)
10. Berjuntai Tin Dredging Bhd. (Foreign)
11. Borneo Co. (M'sia) Sdn. Bhd. (Foreign)
12. Boustead Trading Sdn. Bhd. (Foreign)
13. Bovis South East Asia Bhd. (Foreign)
14. Caltex Oil Malaysia Ltd. (Foreign)
15. Central Sugars Bhd. (Foreign)
16. Champion Motor (M) Bhd. (Foreign)
17. Chartered Bank (Foreign)
18. Chemical Company of Malaysia Bhd. (Foreign)
19. Chung Khiaw Bank Ltd. (UOB-Singapore)
20. Cold Storage Holdings Ltd. (Foreign)
21. Consolidated Plantations (Foreign)
22. Cycle & Carriage Ltd. (Chua family)
23. Cycle & Carriage (M) Sdn. Bhd. (Chua family)
24. Dunlop Estates Bhd. (Foreign)
25. Dunlop Malaysian Ind. Sdn. Bhd. (Foreign)
26. East Asiatic Co. Ltd. (Foreign)
27. Syarikat Eastern Smelting Bhd. (OCBC group-Singapore)
28. Empat Nombor Ekor Bhd. (Lim Chooi Seng and family)
29. Esso Standard Malaya Bhd. (Foreign)
30. Federal Flour Mills Bhd. (Kuok family)

1997 (After AA; Before AFC)

1. Telekom (Government)
2. Tenaga Nasional (Government)
3. Malayan Banking (Government)
4. Petronas Gas (Government)
5. Genting (Lim Goh Tong)
6. Resorts World (Lim Goh Tong)
7. Sime Darby (Government)
8. United Engineers (Malaysia) (UEM) (Halim Saad)
9. Malaysia International Shipping Corp (MISC) (Government)
10. Renong (Halim Saad)
11. Rothmans of Pall Mall (Foreign)
12. Development & Commercial (D&C) Bank (Rashid Hussain)
13. Malaysian Airlines (Tajudin Ramli)
14. AMMB Holdings (Azman Hashim)
15. Public Bank (Teh Hong Piow)
16. YTL Corp (Yeoh family)
17. TR Industries (TRI) (Tajudin Ramli)
18. Magnum Corp (T.K. Lim)
19. Perusahaan Otomobil Nasional (Proton) (Yahya Ahmad)
20. Nestle (Foreign)
21. Edaran Otomobil Nasional (EON) (Yahya Ahmad)
22. Heavy Industries Corp of Malaysia (HICOM) (Yahya Ahmad)
23. Golden Hope Plantations (Government)
24. Hong Leong Credit (Quek Leng Chan)
25. Kuala Lumpur-Kepong (KLK) (Lee Loy Seng family)
26. Guthrie (Government)
27. Faber (Halim Saad)
28. Hong Leong Bank (Quek Leng Chan)
29. Berjaya Toto (Vincent Tan)
30. Commerce-Asset Holdings (Halim Saad)

Political power & corporate wealth: 1971 (Malay-foreign); 1997 (Merged under Malay elites)

Corporate Empires: From Corporate Captains to GLCs

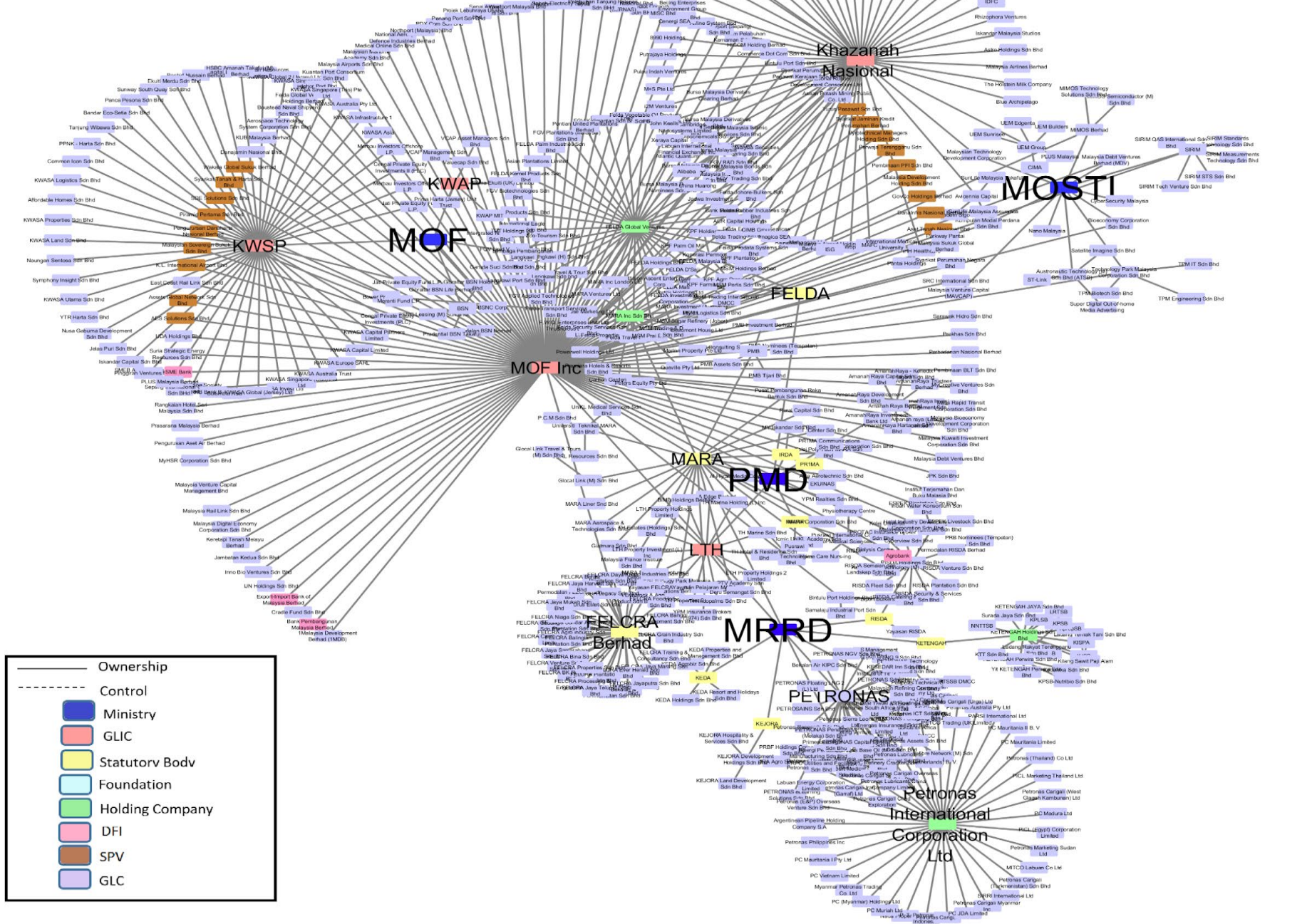
Business Groups: Top 50 in 2021

No	Company	Owner
1	Malayan Banking	PNB
2	Tenaga Nasional	Khazanah
3	Public Bank	Teh Hong Piow
4	Petronas Chemicals Group	Petronas
5	Sime Darby	PNB
6	IHH Healthcare	Khazanah
7	Maxis	Ananda Krishnan
8	Axiata Group	Khazanah
9	Petronas Gas	Petronas
10	CIMB Group Holdings	Khazanah
11	Digi.Com	Foreign
12	MISC	Petronas
13	Genting	Lim Family
14	Hong Leong Bank	Quek/Kwek family
15	IOI Corporation	Lee family
16	Genting Malaysia	Lim family
17	Kuala Lumpur Kepong	Lee family
18	Petronas Dagangan	Petronas
19	Telekom Malaysia	Khazanah
20	Hap Seng Consolidated	Lau Cho Kun
21	RHB Capital	EPF
22	PPB Group	Robert Kuok
23	Nestle	Foreign
24	YTL Corporation	Yeoh family
25	Hong Leong Financial Group	Quek/Kwek family

No.	Company	Owner
26	Westports Holdings	Gnanalingam family
27	Astro Malaysia Holdings	Ananda Krishnan
28	AMMB Holdings	EPF (Azman Hashim)
29	British American Tobacco	Foreign
30	YTL Power International	Yeoh family
31	Gamuda	PNB
32	IJM Corporation	PNB
33	Malaysia Airport Holdings	Khazanah
34	Sapura Energy Petroleum)	EPF
35	IOI Properties Group	Lee family
36	SP Setia	PNB
37	Fraser & Neave Holdings	Foreign
38	Genting Plantations	Lim family
39	Dialog Group	EPF
40	Batu Kawan	Lee family
41	Hartalega Holdings	Kuan family
42	MMC Corporation	Syed Mokhtar Shah
43	Malakoff Corporation	EPF
44	Top Glove Corporation	Lim Wee Chai
45	BIMB Holdings	LTH
46	AirAsia	Tony Fernandes & Kamarudin Meranun
47	Sunway Bhd	Cheah family
48	Lafarge	Foreign
49	Press Metal Bhd	Koon family
50	Alliance Financial Group	Foreign

Political power & corporate wealth: Concentrated in hands of Malay elites & GLCs

Ministries in Business



Affirmative Action:
Lessons Not Learnt

- **Duration of AA:** Have time limit. First 10 years, very productive
- **High quality education the key:** From primary level. Hugely expensive, but addressed 'historical disadvantage' problem
- **Access matters:** (Captured by elites) Poorest still left behind
- **Business:** Affirmative action in business - little evidence that it works
- **Competition shift:** From between ethnic groups to within a single ethnic group

SBRs, Ethnic Business
Development & HI:
Outcomes

- **Aims:** Individualistic competition, market participation, & diversifying business elite
Resulted in rise of *crutch mentality*
- **Big business:** No Malay in top 20 or in industrial sector, though industrial policy targeted cultivating Malay enterprise
- **SMEs:** Targeting undermined nurturing SMEs. Firms creating new technology – limited
- **Ethnic bypassing & fair participation:** Depriving entrepreneurs of incentives

Power, Racialized
Governance,
Intra-elite Feuds

- **Identity Politics:** embedded
- **Elites' racialized discourses:** Notion of 'protector' to subordinate & disorganize the poor who fear AA removal will keep them in poverty
- **Private wealth concentration:** No evidence of it. Wide dispersal of control of top 100. Due to *elite Malay feuding* over capture of rents
- **Economic power concentration:** In state (GLCs). Political feuds to control Executive

Conclusion: Lessons from Policy Mix

- **Governments pragmatic & eclectic** about policies. AA not implemented in isolation.
- **HI & neoliberal policies:** With joint implementation, convergence of trans-ethnic class interests.
- **Developmental state:** Retained to suggest state intervention to aid disenfranchised Malays.
- **HI's Extreme politicization:** Constant 'victim signaling' to secure support of poor Malays.
- **Property rights:** Can't indefinitely enforce system allowing wealth appropriation for transfer from one ethnic group to another.
- **Huge Malaysian diaspora:** Capital & talent flight.
- **Intra-Malay feuds:** Malay middle-class debating HI. Political elites feuding to control HI.
Poor Malays insist on HI.
- **Reform SBRs:** No political will to review SBR system that contributes to cronyism.
SBRs (& GLCs) crucial political tool. Problem of state that regulates & owns GLCs

Issues to Debate

- **AA:** Double edged sword – good & bad outcomes
- **Size of targeted group:** Minority or majority (with or without political influence)?
- **Achieving justice?:** Malays still among poorest. Increasing discontent with political system – not addressing core problems

Questions

- Asset-Based Wealth:** Core Inequality in AA debates. Can other indicators be used?
- Use HI & VI together?:** They address different, but equally pressing problems. Key Point: are beneficiaries those most in need?
- Institutional reforms:** Must first deconstruct hierarchical state structure to deal with 'institutional capture'. Can GLCs then be employed through 'Helping Hand' SBRs to achieve socioeconomic goals?