



international UPDATE

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AFFIRMATIVE ACTION IN MALAYSIA - COSTS AND BENEFITS

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Malaysia was shocked into taking affirmative action seriously by race riots in 1969. Their three-pronged approach to affirmative action in ownership, employment and poverty alleviation has been successful in reducing ethnic inequalities while achieving substantial economic growth over the past twenty five years. Tension now evident between the different strands of affirmative action policy has yet to be resolved. Malaysia should thus be seen as a model for South Africans to learn from rather than to emulate.

INTRODUCTION: BACKING BUMIPUTERAS

The glossy full page ad for a new townhouse development could be for Waterkloof, the price (R225,000) is about right. In fact it is in Petaling Jaya, garden suburb of Malaysia's capital Kuala Lumpur. There is just one difference. In small print you are informed that there is a 7% discount for *Bumiputeras*, the *sons of the soil* as the majority Malay community is known.

At the privatisation office in the Prime Minister's department, another approach is taken. Your innovative proposals are welcomed. The office aims to privatise another 100 enterprises, to put into the private sector more than the 86,000 jobs already privatised in the past three years. Just don't bother to come with a proposal that does not include at least a 30%, preferably larger, *bumiputera* interest.

Then there is the minor matter of land reform. Government is currently pausing, having changed the face of land tenure in favour of small holder farmers - the vast majority of whom are Malays.

This is affirmative action at work, Malaysia style. And it has relevance to South Africa in a number of ways.

OUR PLACE IN THE WORLD

White South Africans have understandably tended to look north for their cultural inspiration to the developed economies of Europe and North America. Inevitably, even the broader society reflected this bias.

The current political transition, coming as it does at a time of *international realignment*, serves to emphasise that we cannot continue to see ourselves as an island of Europe in Africa. We are not however a typically African economy, certainly not as a sub-Saharan one. Our base of industrial, natural resource and social development sets us clearly apart.

To whom then do we turn as a role model? It has been argued¹ that we should see ourselves as a typical middle income developing country with all the problems and the prospects of our peers. It is in this context that Malaysia has always made a compelling comparison for South Africa.

With its 1991 GNP per capita reported by the World Bank at US\$2,520, Malaysia is ranked close to South Africa (\$2,560) in the Bank's performance tables. At 18.2 million, its population is smaller than ours but still comparable. It has a sound natural resource base, though not one as dominant as that of the major oil producers.

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A good reason for considering its policies is that they have, in terms of traditional measures at least, been relatively successful. The Malaysian economy has enjoyed high levels of growth over the past twenty five years (GDP growth 7.9% 1970/79, and 5.7% 1980/91) interrupted only briefly by the recession of 1985.

AN ETHNIC MELTING POT

What makes Malaysia particularly special for South Africans is its ethnic make-up. It is one of those cultural melting-pots of colonialism. To tap the rubber, mine the tin and administer the civil service, the British imported Chinese and Indians in numbers that, while not outnumbering the native Malays, are substantial.

POPULATION (PENINSULAR MALAYSIA) 000s		
GROUP	1970	1988
Bumiputera	4,841	8,050
Chinese	3,285	4,435
Indian	981	1,386
Other	73	88
TOTAL	9,182	13,959

Also relevant to South Africa is the fact that these ethnic groups found themselves at independence in 1957 on very different steps of the economic ladder. Thus concern was focused on the fact that the *bumiputera* were dispossessed in the land of their birth.

Despite the good will expressed by the first inter-ethnic ruling coalition, an episode of civil unrest on ethnic lines occurred in 1969. This focused the attention of politicians on the need to address explicitly potential conflicts between ethnic groups. Provision for this existed in the constitution but, until 1969, it had not systematically been used.

THE NEP: EXPLICIT AFFIRMATIVE ACTION TO AVERT CONFLICT

The result was the production of the New Economy Plan (NEP) which included certain specific social objectives which have guided Malaysian policy for the last quarter century.

These included:

- * an increase in the Malay ownership of the economy to 30%;
- * action to ensure that Malays were better represented in the main professions;

- * action to reduce levels of poverty in the society since the Malays comprised the majority of the poor.

AFFIRMATIVE ACTION IN OWNERSHIP

One of the burning issues confronting government was that of ownership in the economy. Malay corporate ownership was a tiny proportion of Chinese ownership. Equally, ownership by nationals was small relative to foreign ownership.

That changed dramatically between 1970 and 1990, as evidenced below:

OWNERSHIP	1970	1990
Bumiputera individuals	1.6	14.0
Bumiputera Trust Agencies	0.8	6.3
Chinese	27.2	44.9
Indians	1.1	1.0
Foreign residents	63.4	25.1
Nominee companies	6.0	8.4

What the table shows is not just the dramatic change in ownership patterns between 1970 and 1990. It also indicates just how little had changed between independence in 1957 and the outbreak of civil unrest in 1969. While the conventional interpretation focused on Malay-Chinese rivalry as the underlying cause, the failure of Malays to dent the foreign ownership of the economy was clearly also a factor.

The mechanisms to achieve that change were multiple although what needs to be emphasised is the political determination to effect the change. The mechanisms included:

- * creation of non-financial public enterprises, often linked to the implementation of other government programmes such as land reform;
- * preference in allocation of government contracts;
- * entrepreneurial support;
- * requirement of Malay participation in listed companies.

One area of experience of relevance to South Africa is the vulnerability of areas of 'protected ownership'. During the economic recession of 1985, so many small Bumiputera enterprises encountered difficulties that an Enterprise Rehabilitation Fund had to be established to salvage them.

Another lesson which South Africa would do well to heed is of the complications caused by the entry of

political parties directly into business. This, combined with the promotion of affirmative action, has created a business environment in which, to quote a recent author, has been opened 'new and numerous opportunities for corruption and conflict-of-interest situations'.² This, he warns, 'may make it more difficult for the state to impose or implement policy preferences in future'.

AFFIRMATIVE ACTION IN EMPLOYMENT

This policy translated relatively easily into two distinct strategies. The first was to ensure access for Malays to the education needed to enter the professions. The second was to impose an element of affirmative action in the hiring policies of both the private and the public sector. A related although less obvious strategy was to create opportunities for Malay employment through the creation of new institutions.

All three of these strategies have been energetically pursued although the mechanisms have not always been transparent. Thus in terms of *bumiputera* employment, one commentator has noted that 'it seems that administrative pressure rather than formal legislation was used to ensure that Malays were employed in appropriate numbers' and it was noted that bureaucratic features of the Malaysian economy gave many opportunities for the application of such pressures.

The employment profile of government in 1990 reflected population profiles reasonably well. This was not yet true in other sectors however and Malays only represented 25% of the total number of professionals in the country. That was still a substantial advance on the situation in 1970.

AFFIRMATIVE ACTION AND POVERTY

Where the issue of affirmative action in ownership has been contentious, that of affirmative action to address poverty has been much less so. This is hardly surprising since, in 1969, over 65% of the rural population (49% of the total) lived in a state of absolute poverty. Since most were Malays, this aggravated the ethnic disparities and called for targeted action.

While in the long run, it was recognised that urbanisation and industrialisation would do most to lift the rural *bumiputera* from poverty, it was also recognised that a generation of economic development and education would have to intervene. Since poverty could not wait, specific interventions were needed and these focused on increasing rural incomes by giving the poor access to more land as well as to the support needed to use it effectively.

The scale of land development under the NEP is illustrated by the fact that an area of 1.5 million ha. (50% of the total land under cultivation in 1970) was brought into production over 20 years. This was done with the objective of creating the conditions to increase rural production and the incomes of poor rural households. The focus was on *smallholder* cultivation so as to maximise benefits to the poor. Most of the development was done by Federal and state government agencies (which also provided opportunities for the development of Malay professionals).

This focus on state supported rural development achieved remarkable results. Available data for 1973 and 1987 indicates that not only did average incomes grow overall but the gap between rich and poor and between rural and urban narrowed over the period - a remarkable example of growth with equity.

What remains to be addressed are quality of life issues, access to basic services, standards in services such as health and education, housing and urban transport. These affect relative rather than absolute poverty and require a public policy focus of a different kind. Malaysia's Vision 2020 commits government and nation to achieving the status of a developed country within 25 years. There are however doubts about the mechanisms for achieving this - and their costs.

THE COSTS AND BENEFITS OF AFFIRMATIVE ACTION

To some extent, the costs of affirmative action were limited by a policy decision to achieve an improvement in economic status through an expansion of the economy rather than through a mere redistribution within it. While active redistribution occurred, it was redistribution of new resources created in a growing economy.

While economic growth was thus not a direct casualty, the policies adopted to address affirmative action have proved to be expensive in a number of ways. They cannot however be seen in isolation. Other costs have been imposed by the federal political compromise left by the departing British to accommodate the traditional sultans. The efficiency costs of initial decisions on powers and functions have to be reckoned along with the further inefficiencies caused by the proliferation of affirmative action agencies.

This has been acknowledged although it has been argued that the creation of new agencies was an appropriate mechanism to achieve affirmative action. One test of this has been the willingness of government to relinquish control over public 'affirmative action' institutions and this is in fact occurring at a substantial rate.

The complex ethnic and federal political structure has imposed a further cost. To fund it, an approach to business has arisen where political parties participate very actively in the economy. Businessmen have to contribute to party ventures to obtain political support but within the complex web of contributions it is never quite clear whether contributions are politically directed, in support of affirmative action or simply corrupt payments. In the long run, this is unlikely to be healthy for either the economy or the political structure.

Beyond this, and even more difficult to quantify is the suppression of dissent. Partly in order to maintain the delicate political balance, but increasingly a response to disquiet over financial deals, a level of intolerance has arisen which is not supportive of a critical and active civil society.

This limits opportunities for obtaining greater transparency in government and some review of government performance in its own activities and as regulator of the private sector. If this is in part a consequence of affirmative action, then one cost of that process will be the impact on Malaysia's ability to progress into the next stage of its development on the basis of social consensus.

OTHER FACTORS

Other factors which should be noted are the Islamic and the regional dimensions. Religious issues overlie ethnic differences and a strong Islamic focus guides the country although it is emphasised at the highest level that Islam should not be imposed on non-believers.

This is one component of a complex foreign policy approach in which Malaysia manages to position itself both as a pro-Western country as well as a proponent of greater South-South cooperation in managing relations with the developed world.

The foreign policy approach is further complicated by the fact that, like South Africa, Malaysia is a small island of relative prosperity surrounded by a poorer sea. Given the low levels of unemployment, it has welcomed migrants on a more or less formal basis. These migrants have an impact on both poverty profiles and on poverty alleviation strategies which are still not fully understood.

The regional issue highlights another important point. Malaysia is well situated in the most dynamic region in the world. In Asia, in the 1970s and 1980s, there was room to make mistakes and many rewards for those who made less than others. Malaysia, as an historic ally of the West and a staunch member of ASEAN, had something of a head start. To their credit, its leaders took full advantage of it.

CONCLUSION: A MODEL TO LEARN FROM, NOT TO EMULATE

Given Malaysia's history, ethnic make-up, federal structure and general level of economic development, an understanding of its development dynamics can provide invaluable insights for South Africans. We should however see it as a model to learn from rather than to be emulated in every detail - a caveat emphasised by many Malaysians.

Both the learning and the cautions apply in the case of affirmative action strategies. The goals of affirmative action remain important and guide much policy and its implementation. These do however have two distinct emphases. And there appears currently to be more emphasis on addressing the participation in the economy of a minority of bumiputeras rather than on addressing the poverty in which many of the bumiputera (and other ethnic groups) still find themselves.

Some observers believe that this latter trend could limit the future successes of Malaysia in achieving its social objectives which is now to achieve the status of a developed nation by 2020. Whatever its future problems, South Africans can only hope that we will be as successful in addressing our social conflicts and economic development as the Malaysians have been since 1970.

NOTES

1. Muller, M., 'Third World Role Models for a South Africa in Transition: Some Pointers from Brazil', *South Africa International*, 21, 2, October 1990, pp.66-77.
2. Gomez, E.T., *Political Business: Corporate Involvement of Malaysian Political Parties*. Queensland: James Cook University, 1994.

STATEMENT OF PURPOSE

The South African Institute of International Affairs is an independent organisation which aims to promote a wider and more informed understanding of international issues among South Africans.

It seeks also to educate, inform and facilitate contact between people concerned with South Africa's place in an interdependent world, and to contribute to the public debate on foreign policy.