

Malaysian Industrialization, Ethnic Divisions, and the NIC Model: The Limits to Replication

Paul M. Lubeck

ABSTRACT

The paper examines the possibility of Malaysia, as an aspiring NIC of Southeast Asia, to replicate the successful industrialization of the East Asian NICs which was attributed to key political institutions and a strong class of indigenous industrialists. Within the context of colonial heritage and ethnic diversity, the writer discusses both the positive and negative aspects of the prospect. On the positive side, continuous growth, diversification of production and improved income distribution pave the way for "NICdom". On the negative side are the structural weaknesses, massive state intervention and weak relationship between state and business.

ABSTRAK

Kertas ini meneliti kemungkinan Malaysia, sebagai sebuah negara di Asia Tenggara untuk mengikuti jejak kejayaan perindustrian oleh negara-negara perindustrian baru di Asia Timur yang bergantung kepada institusi politik dan kumpulan industrialis pribumi yang kuat. Dalam konteks warisan penjajah dan kepelbagaian etnik, penulis membincang kedua-dua aspek positif dan negatif bagi prospek ini. Dari segi positifnya, pertumbuhan yang berterusan, kepelbagaian pengeluaran dan agihan pendapatan yang bertambah baik menggerakkan ekonomi ke arah "negara perindustrian baru". Dari segi negatif terdapat kelemahan struktur, campur tangan kerajaan dan hubungan yang lemah antara negara dan perniagaan.

THE PROBLEM OF REPLICATION

Since the first industrial revolution, successful industrialization strategies have invited imitation and replication by economically backward states seeking rapid social and economic transformation. Gershenkron termed this the 'demonstration effect,' one of the few

advantages possessed by late industrializers (Gershenkron, 1982). When applied to the question of states and economic development in the Asian-Pacific region, then the 'demonstrated' economic success of the East Asian NICs - Korea, Taiwan, Singapore, and Hong Kong - has, indeed, stimulated much imitation and, inevitably, raises the question whether the policies and institutions responsible for the NIC's success are replicable or transferable, either wholly or partially, to the aspiring NICs of Southeast Asia - Malaysia, Thailand, the Philippines, and Indonesia. Paradoxically, during the 1980s, while Malaysian industrial planners consciously imitated NIC industrial policies, critics charge that they failed to replicate key political institutions or a strong class of indigenous industrialists that, of course, are the trademarks of the NIC model. Given the contradiction between intention and outcome, this paper pursues the question: Can these aspiring NICs achieve rapid industrialization by replicating NIC industrial policies, even though they have radically different social structures, lack Confucian authority and cultural systems, and are attempting industrialization during a comparatively more sluggish, yet ruthlessly competitive, moment in the history of the international economy?

Appropriately, the Malaysian experience is ideal for evaluating the replicability of the model, for it has launched export-oriented industrialization (EOI), but retains a colonial-origin ethnic division of labour, whereby the Malays control the state apparatus and the Chinese dominate the capital accumulating private sector, a cleavage that undermines close business-state relations so essential to the successful NIC model. Also significant is the fact that all Asian NICs, with the partial exception of Singapore, are ethnically homogeneous societies, a feature that contrasts sharply with the ethnic diversity found in the aspiring NICs. The Malaysian experience forces scholars to consider several interrelated issues: whether the cohesive authority relations that articulate state and society in the NICs implicitly presume ethnic homogeneity; whether a long-standing ethnic division of labour poses an insurmountable obstacle to replicating the model; and given the latter point, how aspiring NIC industrial strategists might overcome obstacles to industrialization presented by the ethnic division of labour. Let me first examine the achievements and failures of the Malaysian industrialization strategy, and then, in a later section, explore the

structural origins of Malaysia's ethnic division of labour as well as the way ethnicity has been treated as an essentialist concept that, purportedly, explains Chinese and Malay investment patterns.

LESSONS FROM THE NIC MODEL

At first glance, Malaysia stands out from other "second tier NICs," not only for registering high rates of economic growth, but also for implementing its "Malaysia Incorporated" and "Look East" industrial policies in obvious imitation of Japan and the Asian NICs. Thus rhetorically, at the very least, Malaysia's industrial strategy is a variant of the East Asian model. What then are the essential features of this model? To be sure, there is variation among the East Asian NICs, arising from historical accidents and different political and social structures. Yet, all are "developmentalist" states, all strategies are administered by comparatively autonomous technocratic elites and all have succeeded by institutionalizing a close relationship between business leaders and state officials in the formation of a dynamic export-oriented regime of capital accumulation (Johnson, 1982). Besides constructing industrial infrastructure (harbors, communications, transportation, and industrial estates) and sponsoring intermediate industries (petroleum refining, steel, and fertilizer), so typical of "deep" import-substituting regimes, the NIC developmentalist state has wedded market rationality to state planning by constructing a "capitalist guided market economy" (White & Wade, 1988, p.5). "Soft authoritarian" state intervention, to use Johnson's felicitous phrase, seeks to augment market rationality, in the long term by reducing risks and uncertainty, as opposed to favoring market distorting interventions that create rent-seeking opportunities for officials and businessmen (Johnson, 1987, p. 141). "Market augmenting" does not, however, mean slavish obedience to free market principles. Not only is state ownership of intermediate and basic industries commonplace, but domestic markets are protected by tariff and nontariff barriers. Amsden convincingly demolishes neoclassical theoretical explanations of Korea's success by demonstrating that "getting relative prices 'wrong'" was, in fact "right." That is, she argues that by insisting on export quotas and

other performance standards, Korea's price distortions enhanced growth, private investment, and efficiency over the long term. Firms that met state export quotas were allowed to sell in the domestic market at inflated prices, thus assuring profitability together with EOI (Amsden 1989, pp. 144-145).

What really happens in practice? Developmentalist state planners constantly assess changing comparative advantages in the world economy in order to upgrade EOI targets that are allocated to domestic producers. While the mix of market-driven competition and market distorting interventions vary situationally according to plan targets, world market demand and productive capacity, that is, from toys to computers, a developmentalist state may provide cheap finance, fiscal incentives, monopoly rents, below-market cost inputs, technological parks, marketing services, or tariff protection in the domestic market. One recognizes, of course, significant variation in the forms of guidance offered by NIC stages in the literature, ranging from the chaebol-centered conglomerates nurtured by the corporatist Korean state to the family-centered firms favored by the Taiwanese state (Deyo, 1987; Hamilton & Biggart, 1988). Nonetheless, the essential characteristic of the NIC model rests upon the negotiated relationship between privately accumulating capitalist firms and target-setting state officials; a seminal relationship that links domestic and export-oriented strategies, so as to increase value-added, raise technical expertise, and maintain global competitiveness. Rhetoric aside, whatever slogans like "Look East" intend to communicate, Malaysian industrial policy must be judged by whether state and business elites do, in fact, institutionalize market augmenting policies and whether state subsidies create an innovative, competitive class of manufacturers or a protected, politically dependent class of rentier capitalists. Now let us first examine the case for Malaysia as a fledgling NIC state and then evaluate the critiques of this rosy interpretation.

THE CASE FOR "NICDOM"

Supporters of the view that Malaysia has successfully entered the pantheon of "NICdom" argue forcefully that the economy has

produced very impressive numbers (MIDA, 1990). Indeed, citing conventional statistical indicators, such as recent economic growth (7% - 9% annum), the weight of manufacturing in GDP (26%), the share of export-oriented to total manufactures (50%) and per capita income (\$2,182), the financial press has declared Malaysia a NIC (MacFarquhar, 1980, p. 67); *Far Eastern Economic Review* FEER, September 7, 1989, p. 96). It is the third largest producer of electronic components, after the United States and Japan, and the world's largest exporter of components that are assembled and tested by mostly American firms in export processing zones (EPZs). Recently, Japanese and NIC direct foreign investment (DFI) has mushroomed in other sectors, especially consumer electronics. Interestingly, explanations for the boom in DFI rest not on the exploitation of cheap labor as underdevelopment theorists like Frobel and Kreye argue, for the price of labor is lower in other ASEAN states (Frobel & Kreye, 1980). In fact, Malaysia suffers from a labour shortage, especially acute among skilled electronics workers. The demand for labour attracts an estimated 700,000 to 1 million illegal workers from the neighboring states of Indonesia, the Philippines, and Thailand to work in plantations and domestic service as well as manufacturing. Rather than cheap labour, Malaysia's DFI boom is driven by the interaction of Malaysia's comparative advantages and wide-ranging structural changes in the Pacific Rim economy; that is, by the appreciation of NIC and Japanese currencies, by new inventory and production systems (just-in-time, or JIT) that require local suppliers, by the loss of NIC access to the U.S. market under the tariff-free quotas of the General System of Preferences (GSP) and, relative to ASEAN rivals, by Malaysia's high standard of industrial infrastructure, political stability, civil service discipline, and human capital resources. Further, it can be argued that Malaysia's traditional raw material and commodity exports are efficiently produced and unusually diverse, that is, tin, rubber, palm products, lumber, cocoa, petroleum, and natural gas. Hence, they bolster FDI manufacturing by paying for the foreign exchange costs of importing capital goods and manufacturing inputs as well as by offering forward linkages to resource-based industries using rubber (gloves, tires), palm products (oleo-refining and cosmetics), wood (furniture), and petroleum and natural gas refining (fertilizers, plastics, and

petrochemicals). Fortuitously, recent rises in petroleum prices encouraged Bank Negara to revise upward the estimated growth rate to more than 10% for 1990.

Finally, supporters argue that, like Taiwan and Korea, but unlike its ASEAN neighbors, Malaysia has achieved a comparatively equal distribution of income through the implementation of the New Economic Policy (NEP) in 1971 ("The New Economic Policy," 1989). The latter is a program of truly massive state intervention into Malaysia's economy and society, developed in response to ethnonationalist pressure from Malay capital and the shock from the racial riots of 1969 (Shamsul, 1986). To summarize a complex political and legal process, the NEP (1971) was designed:

1. To eliminate absolute poverty especially among the Malay peasantry;
2. to abolish the correlation between occupation and ethnicity through an "affirmative action" program requiring quotas for Malays in education, employment and government contracts; and
3. to restructure the ownership of corporate equity holdings through state funding of Bumiputera (i.e., Malay and other indigenous peoples) "trust agencies" that purchases and holds equities for the Bumiputera community.

To achieve the last goal, the NEP authorized trust agencies to restructure corporate equity ownership among ethnic groups such that, by 1990, the equity share of Bumiputera would be increased from 1.9 to 30%, other Malaysians (Chinese and Indians) would be increased from 23.5% to 40% and foreigners reduced from 60.7% to 30% (Malaysia, 1973). Not unlike other indigenization of industry laws promulgated elsewhere (i.e., Mexico and Nigeria) during the 1970s, NEP represented a bold effort to increase Malaysian control at the expense of foreign equity holdings, to redistribute income to disadvantaged ethnic and class groups, and to abolish a colonial-origin ethnic division of labour, a cleavage that threatened to destroy Malaysia's multiracial democracy and prospects for economic development. Like all "affirmative action" programs, however, the NEP is neither market augmenting nor efficiency inducing in the short to medium terms: instead, supporters argue that it has provided the social peace, analogous

to social democracy's dampening of class tensions, that has created the institutional basis for economic growth and political stability since 1971. As an official at the Malaysian Industrial Development Authority (MIDA) bluntly stated in an interview: "The Chinese received political stability from the NEP. Racial turmoil attracts neither foreign nor local investment."

THE CASE FOR STRUCTURAL WEAKNESS

However impressive the Malaysian numbers on economic growth may appear when compared to most other second tier NICs, critics assert that the economy is suffering from deep structural weaknesses. From this perspective, massive state intervention into the economy since 1971 neither replicates the positive features of the NIC model, nor the autonomy of state economic planners, nor the articulated relationship between business and the state, nor, in structural terms, a deeper, innovative, and dynamic process of Malaysian, as opposed to foreign, capital accumulation. Instead of "NICdom," they see weaknesses, inefficiency, and enclaves. Impressive short-term growth rates, enclave EOI-manufacturing without linkages to the highly protected import-substitution sector, and dependence on raw material export-earnings confirm the existence of deep structural imbalances that require rationalization along market augmenting lines (Edwards, 1990; Jesudason, 1989; Jomo, 1990). Thus the impressive numbers are temporary and illusory, and certainly insufficient evidence for asserting Malaysia's NIC status. Critics stress that, rather than creating a "market augmenting" alliance between business and political elites, one that is committed to strengthening the technical and competitive position of Malaysian manufacturing capital, state industrial policy is riddled with contradictions, irrationalities, and outright corruption. As opposed to strengthening technocratic guidance toward planned goals, the political elite dominates decision making and undermines the comparatively weak technocracy's efforts to rationalize industrial policy. When compared to the high level of policy centralization found in the NIC states, the technocracy's authority is so fragmented among competing agencies (i.e., Malaysian Industrial Development Authority, Economic Planning

Unit, State Economic Development Corporations, Ministry of Trade and Industry, HICOM, PETRONAS, etc.) that rational, market augmenting strategies are difficult to implement, even if the political elite consented. Equally important, the necessary consultation between state and business is neglected in favor of interethnic political bargains - money politics - that, though allegedly justified by the NEP, merely line the pockets of an unproductive rentier bourgeoisie who are beholden to a political patronage system that is legitimated by ethnic chauvinism and thus hostile to the discipline of market competition of any kind (Gomez, 1990, 1991).

Regarding income equality, while absolute poverty has probably been reduced to close to NEP targets, relative income inequality within the Malays and other ethnic groups has, in fact, increased significantly since the NEP. Critics, for example, cite the distribution of share ownership in ASN (Amanah Saham Nasional), the unit trust share agency, which was allegedly created to broaden share ownership for all Malays. Like all the Bumiputera trust agencies, it lacks accountability to share holders. Moreover, less than a third of eligible Malays participate. Worse still from the point of view of inequality, "about three quarters of those participating have five hundred units (i.e., M\$500) or less. At the other extreme, half of one percent of participants owns twenty-five thousand units or more" (Hirschman, 1989, p. 80). Furthermore, Hirschman cites Lim and Sieh's (Hirschman, 1989, p. 10) findings that one hundred or so families own almost half the capital in Malaysian corporations. Twenty years later income inequality has increased especially among the Malays, again in contrast to the NIC income profiles.

To be sure, sorting out this debate lies beyond the space limits of this paper, but several points can be deduced with some certainty. Malaysia has achieved impressive growth figures in manufacturing and successfully emulated certain aspects of export-oriented manufacturing (EOI) in the EPZs. Unfortunately, the structure of production and the relationship between business and the state bear little relationship to either Taiwan or Korea, which are the appropriate comparative cases (MIDA/UNIDO, 1985). It is true that the older domestic manufacturing industries, that is, the ISI sector, are highly protected, dominated by transnational firms and,

more significantly, possesses few linkages with the EOI sector: that is, they lack an organic, interactive relationship that would transform the productivity of both sectors as Amsden argues occurred in Korea (Amsden, 1989; see also Edwards, 1990). Despite the boom in direct foreign investment (DFI) in the EOI sector, value added is comparatively low; linkages to domestic suppliers are weak; and efficiency spin-offs that might raise productivity in the domestic ISI sector are absent. The rapidly expanding consumer electronics and appliance industries, to take a glaring example, use electronic chips and components, but there is no strong supplier linkage to Malaysia's components sector. Nor, for reasons discussed below, are Malaysian firms prominent in existing domestic linkages: rather, NIC and Japanese consumer electronics firms are bringing their own supplier firms. If the past record is predictive, any NIC state would certainly have planned to link these sectors and their domestic capitalists would have been assisted, coerced, and subsidized until they created productive linkages.

Curiously, despite the openness of the economy, Malaysia has created a model marked by an extraordinary degree of state intervention into the economy. Yet strong intervention has not performed effectively as a market augments, a guided capitalist, planner nor a technocratic prop for domestic manufacturing capital. In practice, enormous sums have been poured into rural development schemes, heavy industries, Bumiputera loans and NEP trust agencies. Emulation of Korea's heavy industry program (i.e., HICOM) produced a nonfunctioning steel mill and highly protected automobile, the Proton Saga, which is entirely dependent on Mitsubishi for inputs and management. Observe the astonishing size of Malaysia's central government expenditure relative to GDP presented in Figure 1. (Note that the expenditure of Malaysia's 13 states are not included or it would be even higher!). Undoubtedly, when state expenditure represents more than half of GDP, that is, almost three times that of centrally planned China, the propensity for patronage and rentier capitalism expands accordingly. At the same time, Figure 1 confirms that the financial resources are available to cover subsidies and set targets, even without foreign aid that was important in the NIC transitions. If a developmentalist state coalition emerged these resources could subsidize Malaysian capital with performance standards, improve efficiency and

structural articulation between sectors, and/or enhance societal equity. The scale of these expenditures, together with detailed studies of political party holding companies, noncompetitive public sector contracting, abuses of loan schemes, and banking scandals, simply contradict the requirement that a NIC-developmental state be dirigiste, relatively autonomous and technocratic (FEER, November 1, 1990, p.75; Gomez, 1990; Haggert & Cheng, 1987). Rhetorical claims of "Looking East" notwithstanding, the structure of Malaysia's manufacturing sector and state industrial policy bear only a distant relationship to the NIC states of Korea and Taiwan.

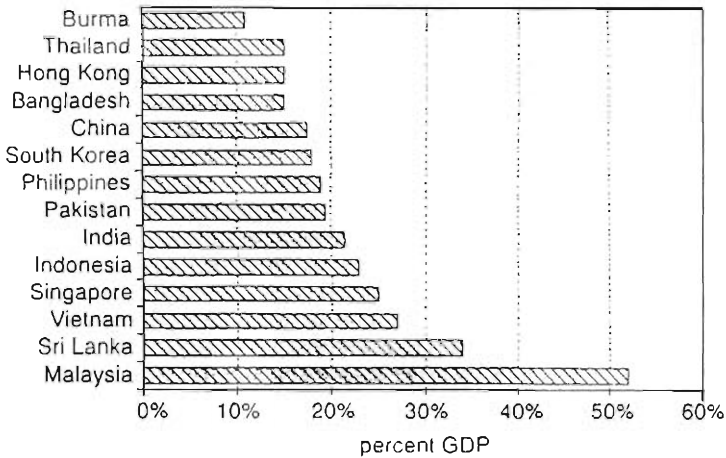


FIGURE 1. Business indicators: Central Governments' Expenditures as a percentage of GDP

Source: Far Eastern Economic Review: Hong Kong (1990, November 1, p. 75)

To respond to one of our original questions, it is now clear that the key relationship between technocratic state elites and Malaysian industrialists is aborted by the separation of economic and political power: The Malays control the state apparatus and the Chinese still, even after 20 years of the NEP, dominate the domestic commercial and manufacturing sector. Rather than aligning with the domestic bourgeoisie, the Malay-dominated state elite have, until now, aligned themselves with foreign capital in exchange for directorships, joint ventures, and other passive, essentially rentier

rewards, garnered at the expense of Malaysian-controlled accumulation. Virtually all analysts stress that ethnic competition and cultural differences are the root causes of these structural weaknesses in the Malaysian economy. Jesudason, for example, concludes: "Because of Malay group resentment and envy of Chinese economic success, both aggravated by past Chinese exclusivity in their businesses, the Malay leaders strove to control Chinese business development" (Jesudason, 1989, p. 163). Although this descriptive analysis is true, and indeed suggests how difficult it is to replicate the NIC model in ethnically diverse societies elsewhere in Asia, it would be an error to accept, uncritically, an essentialist explanation that assumes that unchanging, primordial cultural differences are indelibly etched on Chinese and Malay personalities; or one that assumes that the numerically predominant Malays are incapable of altering their rentier mode of accumulation as industrialization deepens. How then does one resolve this conundrum?

First, a sufficient explanation of this cleavage requires a historical-structural explanation for the emergence of the ethnic division of labor from the onset of the colonial period. Second, inconsistencies contained within the dominant explanation – that is, the cultural theory of ethnicity that reproduces ethnic stereotypes recounting the backwardness of the Muslim Malays or the discipline of the Confucian Chinese – must be thoroughly demystified (or "deconstructed" to be more fashionable) in order to suggest routes to alternative futures for both groups. Finally, since no condition is permanent under a regime of rapid industrialization, the evidence suggesting a reconsideration of industrial policy by technocratic Malay elites should be factored into our evaluation.

STRUCTURAL ORIGINS OF THE ETHNIC DIVISION OF LABOR

After reading Jesudason's (1989) description of ethnic competition, it might be easy to forget that our units of analysis, that is, the two ethnic groups now competing intensely with each other - Malay and Chinese - are rather recent social constructions of political

solidarity in Malaysia. What were the structural forces that defined their present boundaries? Historically, like the German-speakers of nineteenth-century Central Europe, Malay-speaking groups in the Malay states shared many common cultural elements - language, customary law, and especially Islam - before the British unified the Malay states by gradually introducing "indirect rule." Earlier the Malay peoples in question not only recognized different political authorities, but these authorities were often located in Sumatra, Sulawesi or Thailand. And, of course, competition, dynastic struggles, and war were common among rival Malay states (Andaya & Andaya, 1982). Hence, the territorial form and ethnonational boundary of Malays in contemporary Malaysia is a product of colonial rule and the political imagination of their community leaders (Anderson, 1983, p. 110).

Similarly the Chinese immigrants to Malaysia, though sharing a common *han* cultural identity, belonged to regionally distinct linguistic groups, which were not mutually intelligible. It is not surprising that the Chinese excluded each other from membership in dialect associations (*Pang*) that were formed by migrants initially attracted to the straits settlements by employment and trade, and later to the interior by the profits from the Chinese-organized tin mining industry. Yen describes the Chinese between 1800 and 1911 as "rigidly divided" by economic competition and because, the leaders "did not foresee a homogenous Chinese society with one dialect, nor did they see the need for such a society" (Yen, 1986, p. 180). The dialect cleavages even "extended to the next world" through different burial grounds that were "intended to separate the spirits of the dead of one Pang from another to whom the dialect would be unintelligible" (Yen, 1986, p. 179). Economic competition between Pangs was so fierce that it ignited a large scale riot in Penang in 1867, involving 35,000 people and lasting 10 days. Hence, history illustrates that the identities of Malaysia's competing ethnic groups are neither natural nor primordial, rather they were invented by leaders who constructed communities in the face of pressures from the world market and later by the constraints imposed by the ethnic division of labor under colonial rule. Is it not possible that new political identities will be constructed as products of rapid industrialization?

In Malaya, as elsewhere, British colonial policy relied on so-called scientific theories of race to organize the social division of labor. Officials assumed each racial and ethnic group possessed inherited predispositions toward performing needed roles in the colonial division of labor, be they martial arts, commerce, wage labor, efficient administration, or subsistence farming. In turn, these beliefs provided the necessary ideological rationalization of colonial Malaya's social order as well as the basis for profitability in the Imperial economic system: The Chinese organized labour and capital to export tin and dominated the intermediary trade between colonial merchant houses and consumers in the interior; the Indians were recruited to work on rubber plantations; and the Malay peasants were encouraged to produce padi rice for local consumption and prevented from planting rubber, a more lucrative crop reserved for plantations and commercial (Chinese) farmers. Alatas (1977) documents the ubiquity of these stereotypes in *The Myth of the Lazy Native*, where he shows how officials constructed a discourse on the docility of the Indians, the indolence and courtesy of the Malay, and the industry and competitiveness of the Chinese. Colonial policy, therefore, not only "consciously sought the ossification of Malay rural society" (Lim, 1984, p. 55), but created an ideology of racial and ethnic stereotypes that "inculcated feelings of superiority and inferiority among, and between, groups" (Abraham, 1983, p. 20). The origins of contemporary ethnic stereotypes lie in the colonial division of labor and in the official discourse on race. Sadly, the subjects still believe the myths and evaluate themselves and others accordingly. Let us examine how the structures of colonial rule inflated ethnic stereotypes and laid the foundation for a weak technocracy and a rentier bourgeoisie.

Structurally, Malaysia's ethnic cleavages emerged from colonial policies that buttressed the Muslim aristocracy on **one hand**, and crushed economic opportunities for the rural Malays from the commoner strata on the other hand. This is not to argue that the Chinese and Malay were matched equally in the ways of the modern, commercial economy prior to tin mining and British intervention, though a Malay trading class existed in the sixteenth century only to be destroyed by the advance of the Portuguese and Dutch empires. To be sure, originating as self-selected migrants from the highly commercialized regions of southern China, Chinese

traders and workers were better positioned than the Malays to garner economic advantages from the colonial economy. Note that these are structural and organizational experiences not dependent solely on cultural values. Worse still for the majority of Malays, British colonial policy not only discouraged Malay rubber producers but introduced a land reservation policy (1913) that deliberately blocked Malay land sales to non-Malays, thus driving down land values by as much as 50% and reducing their creditworthiness (Lim, 1984). Hence, to institutionalize social stability under indirect rule, Malay education was thwarted; immigrants were recruited for clerical and technical positions; and Malay peasants were encouraged to plant low-value food crops without the technical agro-services that the British provided for the plantation sector and, for comparison with the NICs, that the Japanese provided for the peasantry of Taiwan and Korea. All of these policies heightened economic backwardness among the nonaristocratic Malays, thus preventing them from participating in the modern, urban, and commercial sector (Roff, 1967).

ARISTOCRATIC ALLIES AND RENTIER POLITICS

The contrast with Japanese agrarian policy in colonial Taiwan and Korea underscores how indirect rule contributed to the economic backwardness of the Malay and the "rentier" economic orientation of the Malay political elite. However brutally administered in Taiwan and Korea, Japanese agrarian policy was economically progressive in that they expropriated large landlords, transformed the technology of agrarian production and rationalized landlord-tenant relations such that output increased dramatically so that it could be taxed accordingly (Amsden, 1985). Paternalistic indirect rule, informed by Western "orientalism," committed the British to supporting the ruling groups' right to administer customary law and the Islamic religion. Thus the British wedded the power of the colonial state to the decaying cultural authority of a backward feudal ruling class and, because of the organizational and technical superiority of the colonial state, actually strengthened the aristocracy's capacity to exploit their subjects through taxation, licenses, corruption and, above all, indirect control over land title

transactions. As salaried officials who dominated recruitment to the civil service, the ruling groups had privileged access to state economic affairs like allocating mining concessions, the purchase of Malay-reserved land, and access to higher education. Talib's study of Trengganu documents the increasing economic insecurity of the peasantry at the same time as the "the new salaried class, by virtue of its political position and social connections, was able to maintain its continued interests in land even after the collapse of its former forms of domination" (Talib, 1984, p. 225).

Structurally, it is readily apparent that today's weak administrative state elite and the rentier bourgeoisie are the immediate progeny of indirect rule. The aristocrats became colonial civil servants; later they formed the leadership of United Malays National Organization (UMNO) as well as providing the first three prime ministers; and now they straddle the public and private spheres as company directors, trust managers, and heads of public corporations. It is for good reason they are labeled the "administracracy" (Jomo, 1986). Hence, the Malay bourgeoisie is weak, relative to the political-administrative class, in large part because "indirect rule" spawned a powerful rentier political class, one yet to be challenged and all too comfortably ensconced within the state. They remain the dominant class. Emerging from colonialism with all the titles and regalia of a nonproductive ruling class, it never felt the competitive pressure nor the financial necessity to pursue commercial and industrial capital accumulation. Initially, the latter role was allocated to the Chinese who formed an alliance with UNMO. Since the NEP, however, aspiring Malay capitalists must rely on the distribution of patronage from the political class whose control over state administration - from Kuala Lumpur to the remotest village - is crucial for obtaining access to wealth or capital (Shamsul, 1986). Even though the NEP expanded the economic power of the political class and opened its ranks to nonaristocrats like Finance Minister Daim bin Zainuddin, the pattern of rentier accumulation established during colonial-rule remains unchanged and, effectively, unchallenged. Interestingly, those among the Malay who became legitimate capitalists have tended to originate from "alien Malay" (Arabs, Indians, and Indonesians) who, though typically Muslim, could not follow the path of the administracracy (Jomo, 1986). This suggests that

inherited structures of political domination, not the cultural attributes of the Muslim Malay, are responsible for the weak state technocratic impulse and indirectly for the ethnic division of labor that depended on bargaining among the ethnically based elites. Finally, to return to our comparison with Taiwan and Korea, whereas the American sponsored land reform in those countries abolished the political and cultural power of landlords as a class, essentially finishing what Japanese colonialism began, the contemporary Malaysian situation is just the opposite. The aristocracy retains juridical, political and economic power as a status group with large landholdings, great political influence on state government, and enormous informal influence in the countryside. Since the constitution defines Islam as the official state religion, cultural power is also retained: Each state's Islamic ruler is the enforcer of Islamic law over his Muslim subjects. All of which should be factored in when evaluating obstacles to replicating the NIC model in states like Malaysia.

ETHNIC ESSENTIALISM OR STATE INDUSTRIAL POLICY?

If, as argued above, colonial structures were responsible for institutionalizing an ethnic division of labour, nurturing a rentier aristocratic cum administrative class, and blocking avenues of capitalist development for the commoner Malays, how can one explain the persistence of the ethnic division of labor since implementation of the NEP? To be sure, the NEP has thrust the Malay forward as managers, state administrators, professionals, merchants, and to some degree as industrialists. Yet, the problem of industrial linkages remains: Why have neither the Malays nor the Chinese entered manufacturing vigorously so as to develop the network of linkages necessary for the rapidly expanding manufacturing sector? It should be stressed that, while the Malay elite dominates the state apparatus and the coalition government, allied Chinese and Indian elites also share in the distribution of rentier patronage. And given the vast resources expended it is not surprising that the Malay-dominated state has created a Malay bourgeoisie, one largely limited to finance, property and construc-

tion, yet weak in manufacturing and generally dependent on state patronage. What, then, explains the weakness of Malay and, to a lesser degree, Chinese industrialists? Jesudason, writing sympathetically to the plight of Chinese business under the NEP, offers two "general reasons" for the failure of Malay businesses:

1. The failure of Malays to develop the Weberian equivalent of a methodical rational approach to accumulation.
2. The very nature of state policies toward Malay business development (Jesudason, 1989, p. 104).

Let us examine the assumptions and the implications of the first reason. Reference to the search for the "Weberian equivalent" of the Protestant ethic has an almost intoxicating appeal to cultural theorists such as MacFarquhar who hypothesize that a post-Confucian cultural orientation (i.e., family discipline, respect for authority, frugality, etc.) explains why East Asian capitalism has flourished (MacFarquhar, 1980). In his search for the essential culture of capitalism, Peter Berger notes with understandable irony that Weberians in the 1950s argued just the opposite: Confucianism was seen as an obstacle to capitalist development (Berger, 1986; Levy & Shih, 1949). Yet, even though he agrees that Weber was wrong about the potential of Asian capitalism, Berger remains convinced "that, as evidence continues to come in, this hypothesis will be supported" (Berger, 1988, p. 7). If a cultural ethos like Confucianism can be interpreted as an obstacle during one period and later as a "comparative advantage," then it is difficult to reconcile it as a viable independent variable. Instead, this anomaly suggests that any positive effect Confucianism may have on economic development is contingent on a third, probably structural factor, such as an organized-institutional framework or a particular class coalition.

Since all cultural traditions contain valuable moral lessons about honesty, discipline, and authority, often mutually quite contradictory, one supposes that anyone committed to a cultural explanation can, with some diligence, discover a tradition or verse from a sacred text to make the causal connection - from cultural value to observed behaviors - once a state achieves industrialization. Pursuing this line of reasoning, therefore, it is noteworthy that, despite their rich Confucian cultural endowment, Malaysian

Chinese businesses have not performed their assigned role as the innovative, manufacturing capitalist as their Confucian counterparts have done elsewhere, or at very least not sufficiently to resolve Malaysia's manufacturing linkage problems. Furthermore, divisions between small, medium, and large-scale Chinese capital are significant. Because the major Chinese capitalists are allied with UMNO in a coalition government, they have shared in the same rentier forms of accumulation as the Malay (Gomez, 1991). Jesudason notes that they avoided long term risks by shifting investment away from productive manufacturing to "commercial property and residential housing"; thus "large firms were relatively unhurt by the NEP" (Jesudason, 1989, p. 163). Similarly, Yoshihara argues that the more disciplined Chinese capitalists became "contaminated" by the political networking and rent-seeking practiced by well-connected Malay political actors.

This in turn affected the business ethics of Chinese capitalists. By working closely with Malay capitalist or Malay politicians, it became possible to make a large sum of money - an accomplishment that would take decades for the most successful Chinese capitalists before the NEP. (Yoshihara, 1988, p. 91).

Hence, Malaysia's structural weaknesses in indigenous manufacturing investment are not easily attributable to the essentialist ethnic attributes of either Malays or Chinese. Rather state industrial policy, or perhaps the lack of one, appears most significant.

Before discussing alternative strategies let us return to Jesudason's (1989) observation that Malays lack the Weberian equivalent of a disciplined, rational approach to accumulation, an obvious essentialist assertion about Malay culture. Writing on this same issue, Morishima argues in the Japanese case that Confucian ethics borrowed from China were reinterpreted in order to support the national goal of industrialization and political independence. Though starting from the same text, "as a result of different study and interpretation [it] produced in Japan a totally different national ethos" (Morishima, 1982, p. 3). A new interpretation combined with a new authority structure capable of institutionalizing new production norms, therefore, explains the success of industrialization in all of the Confucian societies: Japan, Taiwan, and Korea.

Success, therefore, requires the combination of two changes: first, a reinterpretation of texts or values, and second, a new organizational structure of authority to institutionalize them. Organized power must exist before the reinterpreted texts may exert their influence.

Leaving aside the issue of organizational structure for a moment, it is readily apparent in the Malay case that any new interpretative framework encouraging methodical, rational accumulation in Weberian terms, that is, as an ethical orientation toward the world, is unlikely to arise solely from rural-origin Malay culture. Why not? Note first that the Malaysian constitution, which describes the special rights of the Malay, defines Malays as practicing Muslims. To reject Islam formally means risking forfeiture of those special rights. Demographically, Malays now constitute the largest urban ethnic group with the highest population growth rate whose rate of urbanization will surpass 50% in the early 1990s. Therefore, just as backward colonial structures created the prototypical rural Malay identity during the period of indirect rule, the rapid rates of urbanization and industrial participation are constructing the material basis for a new urban Malay identity. Not surprisingly, both the social discourse and social boundaries defining the modern urban Malay identity are framed in terms of Islamic texts and values, and not in terms of regionally based Malay equivalents. Hence, it is readily apparent that any reinterpretation of texts underlying a new authority orientation toward accumulation must come from a reinterpretation of the Islamic discourse on development and accumulation. Writing on the modern Islamic resurgence, Muzaffar concludes:

More than language or any other facet of culture, Islam expresses Bumiputra, or more accurately, Malay identity in a manner that has no parallel. Islam touches the life of a Malay at a thousand points. (Muzaffar, 1987, pp. 24-25).

Space does not permit a detailed discussion of the numerous Islamic movements in Malaysia, but it is noteworthy that since independence the most significant opposition to the UMNO alliance has come from the PAS, the Islamic party; that the Islamic student movement's leader was co-opted by UMNO as education minister;

and that, in response to the resurgence, the political administrative class has promoted some of the Islamic agenda. Furthermore, since the "reinterpretation" of texts for national development, cited as a prerequisite by Morishima (1982), is already a major intellectual industry among the world's Muslims, it is exceedingly likely that as inequality rises among Malays and the effects of the rentier system of accumulation are challenged, the Islamic discourse on development will be reinterpreted to construct a new authority structure; one designed to rationalize disciplined accumulation. Finally, just like his analysis of Confucianism and capitalism, numerous studies have shown the Weberian analysis of Islam to be false. Paradoxically, Islamization is, in fact, associated elsewhere with the rise of merchant capitalism, for example, Nigeria and in West Africa; and Islamic sects like the Mozabites and Tijaniyyis have reinterpreted Islamic texts so as to associate religiosity with success in the material world, personal frugality and the disciplined accumulation of capital (Abun-Nasr, 1965; Bordiue, 1962; Rodinson, 1978).

Thus it is textually possible for Islam to provide Morishima's reinterpretation of texts for potential Malay manufacturers. But even if this occurred, would it resolve the problems described by Jesudason (1989)? True, redefining Malay will not eliminate ethnic cleavages nor ethnic competition. Potentially for the Malays, it could "develop the Weberian equivalent of a methodical, rational approach to accumulation," and thus a sense of much needed confidence. Finally, instead of generating an orientation of clientelism and ethnic rent-seeking, it raises the potential for a cultural orientation toward industrial investment that is universalistic toward community members as well as consistent normatively towards others. And this would surely be a superior ethical orientation toward the material world than that of the present ethnic patronage system.

Regarding ethnic attributes, therefore, the evidence suggests that rentier and nonproductive forms of investment are very common among both the Chinese and the Malays. Ideally, while it is advantageous to possess a highly commercialized, historically deep, ethnic culture, emphasizing discipline, frugality, and reverence for education, culture alone is insufficient without an institutionalized authority relationship between state and business

elites. Twenty years after the NEP, there is a new Malaysian dilemma. Armed by the sweeping authority of the NEP, as well as industry licensing laws like the Industrial Coordination Act, the political-administrative class has achieved hegemony over the Malaysian economy. Unlike the situation of 1970, this class now possesses enormous discretionary powers to approve or disapprove projects, to license intermediate industries, and to capitalize aspiring entrepreneurs, a combination that enables it to mediate most economic relations in Malaysia. What has been the result of the increased relative autonomy of the political-administrative class? On one hand, their policies have frightened away Chinese investments in productive manufacturing linkages, while, on the other hand, the hegemonic class has failed to create a disciplined class of industrialists from among their Malay clients in spite of truly staggering expenditures. Hence, without the confidence of the Chinese industrialists or a confident Malay class of industrialists, Malaysia is forced to rely on foreign investment to achieve those rosy numbers in its manufacturing sector, with all the attendant structural weaknesses.

TOWARD STRUCTURAL REFORM: THE SEARCH FOR TECHNOCRATIC GUIDANCE

Given the reality of structural weaknesses in the manufacturing sector, let us conclude by examining the potential for reform represented by the technocracy in the next decade. It is reasonable to assume that ethnic segmentation will remain part of the Malaysian social structure. And because of higher birthrates, the assimilation of Muslims into the Bumiputera, and higher out-migration rates for minorities, the proportion of Bumiputera will rise significantly, probably reaching two thirds of Malaysia's population in the 1990s. It follows that the Malaysia will continue to exercise control over the state and the economic technocracy. Given the assumption of Malay political dominance, what are the forces that might combine to rationalize state industrial policy in the direction of NIC-like market augmenting strategies, greater domestic investment in linkages, and higher value-added manufacturing?

The inexorable demographic shift toward the Malays coupled with rising income inequality raises the question of whether ethnically based redistribution policies at the core of the NEP can be sustained indefinitely. As the Malay political class becomes increasingly responsible for economic and investment policy and as the Malay rentier bourgeoisie becomes more visible within the economic elite, there will be proportionately less to redistribute to the Malay from others; and, at the level of communal party politics, there will be less plausibility in scapegoating the Chinese for Malaysia's economic problems and structural weaknesses. Recent electoral outcomes reflect these strains already. Ultimately, the lack of competitiveness and low rate of return from both state sponsored and subsidized Malay investments, aggravated by competitive pressures from the international economy, will force factions within the political elite to reform industrial policy. Whatever the outcome of this struggle, the Malay technocracy must play a powerful role in any reformulation.

One of the successes of the NEP has been the creation of a Malay technocratic, professional, and managerial class, one that is increasingly critical of the irrationality and failures imbedded in the present model of accumulation. Mindful of the reconsideration of NEP, which expires in 1991, Malay policy makers both within and outside the state have floated reform packages. Surprisingly, though often described as a think-tank for the Malay establishment, the Malaysian Institute of Economic Research (MIER) recently indicted the NEP for failing to alter the prevailing pattern of Bumiputera underrepresentation in the "commercial and industrial sector," for creating a "rentier entrepreneurial class" and for "the institutionalization of mediocrity" (Salih, 1988, pp. 2-3). Commenting on the future, MIER warned the Malay elite:

The high degree of dependency created by government-supported programs and politicization of educational goals may also contribute to a closing of the Malay mind, and induce a heightened degree of ethnic polarization that will leave the young [er] generation confused and unprepared for the demands and competition of the twenty-first century. (Salih, 1988, p. 3).

Subsequently, a reformation of the NEP was proposed in a paper coauthored by the director of MIER and a colleague who is now an

economic advisor to the Malaysian central bank. Again, they argue for greater competition, reduction in income inequality "regardless of race" and higher rates of "efficiency, innovation, technology and skills." Inattention to the latter, according to their analysis, "shows how much the problems of wastage, inefficient management and shortcomings in skill and manpower, and technological development need to be addressed in ... the post - 1990 economic policy" (Salih & Yusof, 1989, p. 23). Continuing, they dismiss the effort to create a Bumiputera commercial and industrial class by subsidy and patronage as a failure. Hence for these reasons, they argue against the current NEP policy of forced restructuring of corporate equities in Chinese firms (i.e., 30% Bumiputera), acknowledging that forced restructuring of Chinese and others has deterred investment and promoted rentier forms of accumulation (i.e., Ali Baba arrangements). Instead, they argue that fiscal incentives should be used to encourage Bumiputera equity sharing; that Bumiputera ownership of equity should not be a criteria for the establishment or expansion of an enterprise; that take-over actions by Bumiputera trust agencies be limited so that priority can be given to improving the efficiency and productivity of enterprises in which the trust agencies have an ownership stake (Salih & Yusof, 1989, p. 59). Overall, the thrust of their recommendations argue against state intervention on behalf of Malay rentiers and in favor of increasing productivity by forcing the Bumiputera managers, investors, and manufacturers to meet performance standards based upon efficiency. Undoubtedly, just as in other statist economies, there is an intense debate among Malays over the cost and benefit of the rentier model, the question remains whether the technocratic groups will prevail over the political elite that trades on redistribution of rent-seeking opportunities.

Finally, it should be noted that state technocrats charged with monitoring foreign investment and encouraging domestic linkages are also concerned with the irrationalities arising from current state industrial policy. Let us return to the problem of linkages in the booming electronics and electrical sector. Rasiah's work on the electronic components sector shows clearly that linkage and supplier firms have emerged in the Penang region mostly because of competition among international firms, support from the Penang Development Corporation and a ready supply of mostly Chinese

small-scale industrialists (Rasiah, 1990). Modest linkage effects were achieved in spite of the relative indifference of the responsible Malaysian (federal) state agencies, largely because most are not Bumiputera owned and managed. Hence, the potential is there but the candidates are Chinese and Indian. If Salih and Yusof's recommendations about equity restructuring were followed, manufacturing linkages would increase immensely. It is important to note that many technocrats who were interviewed about such irrationalities were aware and voiced support of the reforms proposed by Salih and Yusof.

Finally, structural changes in the Pacific Rim economy have brought changes in foreign investment patterns especially in the booming electronics sector. Instead of originating solely from OECD states, much of the new investment arrives from the NICs, especially Taiwan, Singapore and Hong Kong. Taiwan was the largest foreign investor in 1989 and represented 42% of approved applications in the first nine months of 1990 (The Star, 1990). Part of Malaysia's attractiveness arises from Malaysia's Chinese-language schools that enable firms to recruit high quality managers and skilled labour. Since foreign firms that export are exempted from NEP equity restructuring regulations and since state planners must generate employment for the urbanizing Malays, foreign Chinese presence in Malaysia's industrial profile is increasing even in small-to medium-scale industries that supply the NIC firms. Hence, state policy-makers have expressed concern during interviews that because NEP equity requirements and other regulations (i.e., ICA) discourage Malaysian Chinese from developing supplier firms but encourage foreign (often Chinese) firms to bring their own suppliers, the state is unintentionally denationalizing those very industries that could ameliorate the acknowledged structural weaknesses in the Malaysian manufacturing sector. These are some of the most blatant irrationalities that bedevil industrial policymakers. It is readily apparent that some members of the technocracy are debating policy reforms that would encourage linkage industries regardless of ethnicity. Whether they are capable of overcoming the resistance of political elites remains the pivotal question for industrial policy in the next decade.

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Center for Global Transformations
Merill College
University of California
Sante Cruz
California
U.S.A.