

GOVERNING BY BUMIPUTERA HEGEMONY AND PREDATORY STATE POWER: CHALLENGES IN REGULATORY REFORMS IN MALAYSIA

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ABSTRACT

The political economy of Malaysia is largely shaped by its historical context, which deliberately retained race-based social order in its developmental agendas. The historical context and prevailing social conflict resulting from colonial policy placed potentially problematic restraints on the hegemonic social order and functioning but Malaysia's ability in assimilating hegemonic discourse into the Malaysian political economy requires further investigation. This study examines the governance and regulatory reform within the Malaysian socio-economic, political and historical domain. It can be observed that the development of nation-building saw an odd blend of policies; a highly interventionist developmental state to ensure a smooth implementation of the Bumiputera affirmative policy and the neo-liberal agendas which favoured capital accumulation.

Keywords: Developmental States, Governance, Hegemony, Malaysia, Regulation.

INTRODUCTION

The dynamism of economic globalization requires administrative and regulatory reforms which not only emphasized on civil service system, public finance, and state-owned enterprises but also include restructuring of market, privatization, deregulation, and decentralization (Beh, 2007). However, critics argue that the development of socio-economic policies and regulations are dependent upon the nation's historical trajectory, the types of regimes that accompanied growth and debates over social policy (Haggard, 2005); meant to consolidate and extend central policy control (Robison et al., 2005). These institutional structures are in turn shaped governance framework, particularly on how interests are structured, power is exercised and how socio-economic policies choices are made (Underhill and Zhang, 2005).

The dependency of developmental states, including Malaysia on capital to facilitate economic growth and social development has seen the state becomes the key market player (Hoogvelt, 2001; Wickramasinghe & Hopper, 2005), whilst at the same time regulating institutional structures to promote social order and political stability. Nevertheless, the complexities and contradictions to regulate and balance the interests of capital with broader societal issues have become increasingly apparent (Ruggie, 2012). This has created a regulatory vacuum (governance gap) and poses challenges to the state autonomy to enforce institutional

structures that inculcate public accountability, responsibility, ethical norms and values in a contemporary economic globalization (Bakan, 2005). Furthermore, scholars argue that economic, political and personal ties bound the relationships between state and business, in which comprise and condition the development process (Wickramasinghe & Hopper, 2005). This raised questions about the underlying relationship between the role of the state, power relations and social conflict and probed further question on how these interrelations construct and shape governance framework in a particular society.

As in the case of Malaysia, the development of state-led capitalism involved the construction of the Bumiputera (“*sons of soil*”) hegemony which shaped the conceptions of social and political reality of Malaysian society. The Bumiputera affirmative policy is socially institutionalised within the power-knowledge relations and predatory state power; an espoused prerequisite to achieve national unity, social cohesion and stability. It has been argued that the establishment of modes of governance are not to manage the consequences of development but are undertaken in parallel to specific social and economic problems. This highlights the need to understand how the state gain and maintain its hegemony and further structure and shape the market and social relations in the era of economic globalization. It also probes further questions about the governance and regulatory reform within the Malaysian socio-economic, political and historical domain because these institutional structures set a context for socio-economic and political forms and arrangements. The analysis of Malaysia’s developmental model highlighted the crucial role played by the state and its influence on socio-economic policies.

This study employs Gramsci’s concept of hegemony and capitalist crisis for an analysis of governance framework in Malaysia. It focuses on the role of the state apparatuses which presumably favour the interests of capital, whilst mediating governance framework through various forms of state administrative/bureaucratic modes of socio-economic regulation.

METHODOLOGY

This study sees both Gramsci’s concept of hegemony and capitalist crisis as complementary and offers a flexible approach for an analysis of governance framework in Malaysia. The hegemonic order can be explained in terms of a historic bloc and social cohesion within a form of state, in which a particular ideology is socially institutionalized through language and power-knowledge relations. Hence, the Gramscian hegemonic perspective is useful for understanding the evolving framework of power through ideological discourse to balance class interests and to rationalize the heightened state’s roles in the economy (Gramsci, 1971). The acceptance of certain prevailing common sense (developed through a historic bloc) enables the dominant group’s elites to exercise and legitimize their social and political control in society. Thus, the hegemonic interactions between the state and society are maintained, not only through coercion, but through establishing consensus (Cox, 1981; Leysens, 2008).

The review of historical context is necessary to establish a “*framework for action*” (Cox, 1981); comprising of actions and dominant ideology which shaped a common sense and thus, reasonable and possible (Stephan, 2011). This is done through the examination of publicly available documents and records in order to sketch the socio-economic, political and historical aspects that underpin the Malaysian political economy. The social and political events are ‘*periodised*’ as a method of data ordering and analysis to understand the development of

governance framework and its transformation in Malaysia. The data is predominantly obtained from secondary sources such as local publications, official reports, books and government websites.

THE DEVELOPMENTAL STATE

In a contemporary era of economic globalization, developmental states are often under pressure to build their hegemony within the terms of a neo-liberal model of capitalism. These developmental states are often encouraged to open up their economies through privatization, liberalization and deregulation of domestic economy (Harvey, 2005). The process of economic development, however, disregards the role of economic growth which has contributed to social and environmental problems in most developmental states where millions of farmers or indigenous people are being pushed aside, marginalized and displaced for the sake of development, and the cases of environmental destruction, poverty and violations of labour and human rights, are increasing (Bakan, 2005; Banerjee, 2007; Korten, 2001). Although attempts to reform governance mechanisms to regulate corporate activities have been evident since the beginning of the century, they appear inadequate to address social and environmental issues stemming from the intensification of economic globalization.

To compound such complexity, critics documented extensive evidence of direct state intervention in the economy, particularly in Asian countries (Hoogvelt, 2011; Uddin & Hopper, 2001; Wickramasinghe & Hopper, 2005). Asian developmental states are defined as highly centralized, state-led capitalism with public and private enterprises being integrated through various 'clientelist' mechanisms (cronyism) that subsequently controlled the Malaysian economy and further shaped the country's governance framework (Robison et al., 2005). This structure not only empowers politicians and powerful elite to pursue personal agendas (Wickramasinghe & Hopper, 2005) but impairs the institution for advancing public accountabilities and responsibility, since the goal is geared towards preserving the interests of the elite and the endless accumulation of capital.

The Construction of Bumiputera Hegemony

The Malaysian post-colonial society featured deep class cleavages and economic discrepancies that are no less significant than the ethnic distinctions: in geographic location, in types of economic activity and in the levels of livelihood (Yusof & Bhattasali, 2008). The prolonged socio-economic tensions and the disenchantment with the ruling regime due to increasing ethnic polarization had led to ethnic clashes between the Malays and the Chinese in 1969 (Yusof & Bhattasali, 2008; Jomo et al., 1995). The ethnic riot, which led to the declaration of a state of national emergency and suspension of the Parliament, marked the turning point of how socio-economic and political lives of Malaysian plural society were to be governed in the country thereafter. The New Economic Policy (NEP) introduced in 1971 sought to: (1) eradicate poverty regardless of race by raising the income levels; and (2) restructure society to eliminate the identification of ethnicity with economic functions. The main feature of the NEP is to raise the Bumiputera's share of corporate equity to 30 percent within two decades.

To foster economic growth and to improve social development, the Bumiputera policy was socially institutionalised and advocated as the best way to achieve national unity, social

cohesion and stability (Gomez & Jomo, 1997). The state was able to implant a common sense that improving Bumiputera economy was of prime importance, in which the formulation and implementation of development plans were held to be the sole prerogative of the state. Whilst the country's developmental model may have been distorted by contingent ethnic factors, the legitimacy of the ruling regime was maintained through consistent economic growth and maintenance of racial harmony.

The Outcome of Bumiputera Policy

The implementation of the Bumiputera policy involved a combination of developmental and distributional concerns, aiming to empower Bumiputera entrepreneurs and economic participation (Yusof & Bhattasali, 2008). The state created several mechanisms including infrastructure and trust agencies to provide financial and technical assistance, employment and managerial training needed for Bumiputera entrepreneurs to thrive.

The state-led capitalism and Bumiputera policy apparently reduced the incidence of poverty by ethnicity across the period from 49 percent (1970) to 1.7 percent (2012) and 0.4 percent (2016) (Department of Statistics, 2017). Whilst NEP had successfully catalysed socio-economic change and apparently redefined ethnic cleavage, the average Bumiputera remained trapped with little prospect of social mobility. The national statistics revealed that income inequalities remain almost at the same level for the past 20 years and in fact, inequality in Malaysia is among the highest in the region (NEAC, 2010). Critics argue that inequality also persists across different categories of resources including wealth, financial assets, real estate, investment assets and savings (Gomez & Kaur, 2014).

Although Bumiputera policy had become a huge social engineering project that altered the class structure of Malaysian society the allocation of economic resources and distribution of economic rents were awarded to selective patronages (Jomo et al., 1995). This has essentially produced a new class of rich businessman, usually politically-linked to the ruling party (Gomez & Jomo, 1997). Furthermore, the dominant control posed by the ruling regime and defensive Bumiputera policy had parenthetically ripened the system of crony capitalism, political nepotism and money politics across the period (Beeson, 2000; Jomo, 1996). This structure had paved ways for corruption, abuse of power and economic mismanagement (Beeson, 2000; Jomo, 1996). In this context, scholars insisted that the distinction between the interests of the state and the social elite became blurred over the years, as the improved position of the latter was contingent on state largesse (Underhill & Zhang, 2005). The prevailing structure not only empowered the powerful elite but undermined public accountability and impaired institutions for advancing governance systems.

Liberalization and the Threat to the National Autonomy

A wave to seek for foreign investments to promote socio-economic growth had become important agendas among developmental states since 1980s. Although trapped within the framework of the Bumiputera hegemony, Malaysia had been forced to join in the "*race to the bottom*" to attract foreign investments. To facilitate the expansion of capital and to preserve the country's competitive advantage, the state had implemented substantial measures by providing necessary infrastructure and facilities including: (1) cheap, docile and largely un-unionized labor

(Jomo & Tan, 1996); (2) semi-skilled, women workers (Salleh & Meyanathan, 1993); (3) investment incentive package of cheap industrial land and pioneer status; (4) industrial estates and free trade zones (Jomo et al., 1995). In addition, the establishment of industrial estates and free trade zones was crucial since it generated massive factory employment opportunities for young Bumiputera (Jomo et al., 1995). This was parallel to socio-economic policies which aimed to eliminate the identification of ethnicity with economic function.

Nevertheless, the contradictory position of the states in maintaining and legitimating the economic capital whilst at the same time, preserving its own legitimacy had become increasingly apparent. The intensification of economic globalization, competition from emerging economies and the pressure to build hegemony within the terms of a neo-liberalism imposed constraints on pushing ahead with Bumiputera policies. The introduction of the New Economic Model (NEM) in 2010 signified that Malaysia's race-based political and economic system had come under pressure as the country struggled to cope with global market pressures and competition to attract foreign investment. The policy reform outlined broad strategies to transform Malaysia into a high-income country. As the socio-economic policy was hampered by the existing institutional structures which served to manage social disparities which had affected Malaysia ever since, the appropriate enabling environment that promoted public accountability remains yet to be seen.

DISCUSSION

Regulatory and Governance Reform

The implementation of Bumiputera policy had been facilitated by the state's action in the form of economic intervention, social policy and authoritarianism. The authoritarian measures had deepened the concentration of power in the hands of a few people who formulated, supervised and implemented socio-economic policies and had seen stringent control of the key institutions in the country which served as procedural checks on despotic executive power (Jomo, 1996). Some scholars advocated that authoritarianism was necessary to ensure social, economic and political order for capitalist development (Rodan, 2004); a position that assisted authoritarian leaders to rationalize and legitimize the ruling regime's developmental agendas. It can be suggested that the legitimacy of the power depends on the ability of the state apparatus to maintain political cohesion and social harmony.

Some scholars alleged that the mixture of racial and economic goals, mediated by Bumiputera policy had parenthetically ripened the system of crony capitalism (Beeson, 2000), political nepotism, and money politics (Jomo, 1996) across the period. In this context, the prevailing institutional structure not only impairs institutions for advancing governance mechanisms but has paved ways for corruption, abuse of power and economic mismanagement (Beeson, 2000; Jomo, 1996). The corruption index published by the Transparency International's Corruption Perceptions Index (CPI) (Table 1) demanded immediate state's action to address the problem earnestly.

The Asian Financial Crisis 1997/1998

The commanding height of the problem was prevalent during the Asian financial crisis. It was observed that the strategy of increasing Bumiputera's corporate wealth proved to be an

ephemeral phenomenon since Malay corporate figures had to be bailed out and the number of bankruptcy cases among Malay entrepreneurs continued to rise, especially after the crisis (Ahmad-Farouk, 2012).

The Asian financial crisis provided the catalyst for regulatory and governance reform in Malaysia. In the aftermath of the crisis, the state undertook significant reforms to address governance and accountability issues following substantial withdrawal of funds from the Malaysian capital markets (Liew, 2006).

Table 1 TRANSPARENCY INTERNATIONAL CORRUPTION PERCEPTIONS INDEX FOR MALAYSIA		
Year	Overall CPI Global Rank by Country	CPI Scores
2001	36	5.0
2002	33	4.9
2003	37	5.2
2004	39	5.0
2005	39	5.1
2006	44	5.0
2007	43	5.1
2008	47	5.1
2009	56	4.5
2010	56	4.4
2011	60	4.3
2012	54	4.9
2013	53	5.0
2014	51	5.2
2015	54	5.0
2016	55	4.9
2017	62	4.7

Source: Transparency International Report 2001-2017.

Improving Governance Framework

The analysis of national policies and regulatory framework signify the concern addressed by the state in promoting a sound system of governance. This included improving governance mechanisms crucial for promoting good governance, public accountability and responsible behaviour.

Strengthening Capital Market

Securities Commission (SC) is a key player, responsible for promoting capital market development and streamline regulations for the securities market in Malaysia. To strengthen governance frameworks and to raise the standard of disclosures, the Malaysian Code of Corporate Governance was established in March 2000. The Code was later revised in 2007 to strengthen the roles and responsibilities of the board of directors, audit committee and internal audit function. To further strengthen governance mechanisms, the Corporate Governance Blueprint were introduced in 2011 and the Malaysian Code on Corporate Governance in 2012.

In addition, Bursa Malaysia also responsible in shaping governance discourses through its role as the front line regulator for public-listed corporations in Malaysia. It has launched a framework for the implementation and reporting of social activities in 2006, which is drawn from the national development policies.

In addition, following the Asian crisis, a Corporate Law Reform Committee was established in 2003 to undertake a comprehensive review of the Malaysia's Companies Act 1965. This led to the release of the Companies (Amendment) Act 2007 which introduced 24 new clauses including: provisions on duty and care, skill and diligence, related party transactions, statutory derivative actions, disclosure requirements and the prohibition of interested directors from voting, whistle blowing and auditor's duties (Anis, 2016).

The Revamp of the State Institution

To embrace democratic reforms and to curb patronage and corruption, the National Integrity Plan (NIP) is launched in 2004, under the administration of the Malaysian Institute of Integrity. The institute is entrusted to combat corruption, enhance governance mechanism and to establish "*a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards*" (National Integrity Plan, 2004).

Furthermore, to reinstate public confidence, Malaysian Anti-Corruption Commission (MACC) was revamped in 2009 with the aim to increase efficiency, transparency and accountability and providing more avenues for the public to reveal corrupt practices to the authorities.

CONCLUSION

Through Gramscian perspectives, it can be observed that the Bumiputera policy is used as an instrument of hegemonic discourse to legitimize the ruling regime's developmental agendas, emancipating a specific milieu that shaped and masked social and political life of Malaysian society. In order to maintain hegemony in social order and functioning the authoritarian rule is seen as necessary to transform Malaysia into a high-income country.

The review of socio-economic policies and political quiescence in Malaysia alluded to the powerful entrenched of Bumiputera policy, which plays a central role in building national unity and social cohesion as racial tensions remain beneath the thin semblance of racial harmony. Besides, the reliance of foreign investment to stimulate economic growth has continued to shape the country's policies and actions which, in turn, impacted upon the development of governance

mechanisms. These structures in turn, shaped the forms of relations between capital, state and society.

The development of appropriate governance framework and associated reforms could be seen as part of this contested terrain as the states were enmeshed with dilemmas and contradictions inherent in the capitalist systems. It is noteworthy to note that Malaysia had been governed by only one political coalition since independence under which national socio-economic policies had been streamlined. Alas, the ability of the state to change its socio-economic policy has become increasingly apparent, mainly due to the political interests which often hinder the renewal of those policies.

However, history was created in the country's 14th general election which saw the unshakeable Barisan Nasional (National Front) coalition losing to Pakatan Harapan (Alliance for Hope) coalition after being in power for 61 years. Since the country is still riddled with an ethnic-based socio-economic and political structure, the economic outlook of the new state and associated reforms focusing on enhancing transparency, accountability and financial prudence remains to be seen in a contemporary era of economic globalization. The call for transformation of the ethnic-based socio-economic policy could be seen as the step to achieve a more equitable and sustainable economic growth and development.

This paper focused on the construction of Bumiputera hegemony and the role of the state in shaping the governance framework. Further research may incorporate understanding of the power relations, the role of the state, the intensification of global economic environment and the domestic institutional setting that continually influenced and shaped governance framework.

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