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Diversity of Southeast Asian Capitalisms: Evolving State-Business Relations in Malaysia

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ABSTRACT
Empirical gaps exist in the literature about diverse forms of capitalism. The first is thematic, involving the incomplete institutional and political account of how the state can, through a series of policies, shape the development of domestic enterprises. The second gap is regional in nature: this literature does not deal with the historical development of firms that have played a central role in industrialising Southeast Asia. One reason for this is that since most existing theories are based on Western contexts, they are theoretically ill-equipped to deal with the concepts of power and state-business nexuses when the political system is not democratic in nature. But state-business ties, where politicians in power distribute government-generated rents on a selective basis, have resulted in diverse business systems such as highly diversified conglomerates, state-owned companies and small- and medium-scale enterprises. This article deals with these theoretical and empirical gaps. To better understand the nature and implications of evolving state-business ties in Southeast Asia, this topic is examined through the lens of regulation theory. To appreciate the complexity and implications of state-business configurations on the political system and forms of enterprise development, a case study of Malaysia is provided.

In the prolific and diverse range of research in the new political economy literature, conducted over the past 15 years, only recently has Asia been considered. For example, when Hall and Soskice (2001) pioneered the varieties of capitalism (VoC) concept, they mentioned Japan, while South Korea, Taiwan and China were incorporated into the discussion about a decade later (Huang 2008). Southeast Asian countries, however, remain at the margin of this recent scientific agenda to assess the varieties of capitalism in Asia. The most obvious explanation for this empirical gap is that the VoC framework appears theoretically ill-equipped to deal with the concepts of power and state-business nexuses when the political system is not democratic in nature. This article fills this lacuna by dealing with the specific features of capitalism of post-colonial, semi-
authoritarian and multi-ethnic Malaysia, using an alternative political economy framework, located in regulation theory.

The VoC literature is one part of a broader corpus of the comparative capitalism perspective (Ebenau, Bruff, and May 2015), a heterodox approach that offers strong methods in the discipline of political economy to assess and analyse the institutional diversity of capitalism. In this wide, relatively porous and eclectic field of research, some studies have stressed various distinctive socio-economic contexts, especially those of emerging countries where the mode of capitalist development has differed from that of the West and countries associated with the Organisation for Economic Co-operation and Development (OECD). This comparative capitalism approach includes the institutionalist perspective offered by the Regulation school (see Boyer 1990; Amable 2003; Boyer, Uemura, and Isogai 2012a). It is a critical approach that, together with other, earlier European theories of the diversity of capitalism, heavily influenced VoC authors (see Hall and Soskice 2001, 3).

The regulationist viewpoint provides a longue durée analysis of capital accumulation, assessing over several decades the deep institutional embeddedness of capitalist systems of production. Another distinct component of the comparative capitalism literature, business systems theory, focuses on the institutional context as well as multiple rationales that determine international corporate activities dominated by capitalist enterprises (see Whitley 1992, 1999; Redding 2005). Business systems are used in reference to institutions that govern economic activity inside and outside companies (Witt and Redding 2014, 4–5). Since these theories devote considerable attention to the issue of power behind the institutional framing that determines macro-economic and business systems trajectories, they appear best suited to capture the diversity of Asian capitalisms, as well as analyse the complexity of the Malaysian case given its distinct institutional hierarchy.

In Asia, state-business nexuses have been recognised as a core theme by regulationist authors (Lechevalier 2007), by VoC proponents (Carney and Andriesse 2014) and by those who adopt a business systems perspective (Witt and Redding 2013; Carney and Witt 2015). However, with the exception of the recent publication of Lafaye de Micheaux (2017), Malaysian capitalism and its close and evolving state-business ties have not been fully examined through the lens of the regulationist theoretical framework, leaving an empirical gap that is filled here. Malaysian capitalism is embedded in a rich and complex social context characterised by, among others, the unique political continuity of a single dominant party, the United Malays National Organisation (UMNO), since independence in 1957. This article provides an in-depth and renewed political economy analysis of state-business nexuses in Malaysia through a less familiar institutionalist theoretical framework. The regulationist perspective carries several heuristic benefits as it provides a sharper comprehension of the implications of state-business nexuses on macro-economic issues, drawing attention to the complementarities that occur between different institutions when such ties are created. It allows for an appraisal of fundamental issues such as the inequitable distribution of power and its shifts under different prime ministers, despite the visible continuity of the ruling UMNO, which have led to major policy changes. By looking beyond UMNO continuity, this mode of analysis incorporates the outcomes of economic crises and political turning points that have marked out Malaysia’s development path. This form of
theoretical and epistemological framing is particularly necessary when dealing with an electoral authoritarian developmental state in rapidly industrialising Southeast Asia (Case 2009).

The relevance of the regulationist framework to assess Malaysia seems obvious: the uncertain nature of the economic “order”; the importance of history and institutions; the recognition of the developmental role of the state, the heterogeneity of firms and the need for markets to be well-structured and governed; the persistent occurrence of political and economic crises; and the diversity of the institutional settings of the capitalist system across time.

To deal with Malaysian capitalism and its forms of state-business ties under the comparative capitalisms literature, specific attention must be drawn to the diversity of Asian capitalisms approach initiated by Boyer, Uemura and Isogai (2012), a body of literature that employed a comprehensive set of social science methods to better capture the heterogeneity of local firms, their structural change in history, as well as their deep political component (Alary and Lafaye de Micheaux 2015). As a critical theory characterised by a historical analysis, regulation theory allows for an assessment of the changes in the conduct of business, directed as well as shaped by an authoritarian state that has persistently intervened in the Malaysian economy (see Boyer 1989, 2016). This article analyses the development path of capitalism in Malaysia over time through a detailed assessment of the heavily institutionalised relationship between the state and the corporate sector, with specific focus on its links with a range of heterogeneous firms.

In order to comprehensively analyse state-business nexuses in Malaysia from a comparative capitalism perspective, this article is in three parts. The first part introduces regulation theory and discusses the relevance of insights brought by it, compared to the VoC perspective, to an analysis of Malaysian capitalism. This section stresses the methodological complementarities regulation theory shares with business systems theory, crucial in order to better understand the implications of state-business nexuses in Asia. The second part applies this framework to the Malaysian case. This section indicates how Malaysia’s capitalism is different from that of contemporary China and the former “Fordist” model through this framework’s five institutional forms. The third part historically reviews Malaysia’s business systems and state policies involving the development of domestic firms since the 1950s, with specific focus on how government-linked companies (GLCs) and small and medium-scale enterprises (SMEs) function under the administration of Prime Minister Najib Razak.

Comparative Capitalism Research in Asia: Crises, Conflicts, Institutions and History

Epistemology of Diversity of Capitalism

Studies within the comparative capitalism literature share a common argument about the existence of a variety of models against the normative idea of “one best way of capitalism” (that is, the US or British form). Its strong inter-disciplinary method, derived from sociology, economics, history and political science, is another of this literature’s strengths. These two elements are found in regulation theory within the
diversity of capitalisms literature as well as in the VoC approach, though there are significant differences between the two.

In their seminal *Varieties of Capitalism*, Hall and Soskice’s objective was to create a framework to understand institutional similarities and differences among developed economies. They aimed to open academic research agendas, restricted then by the dominant mainstream neo-classical economics based in rational choice theory. Hall and Soskice (2001, 2–4) wanted to go beyond the arguments presented in several heterodox perspectives that dealt with institutional embeddedness within economies; this included the *modernisation* approach, the neo-corporatism literature and studies that focused on social systems of production. They distanced themselves from these intellectual paradigms, which adequately characterised national differences in the post-war era, on the grounds that they were “overstating what government can accomplish” (Hall and Soskice 2001, 4). At that time in the 1990s, when research leading to the VoC was being undertaken, globalisation and market-opening policies advocated by the dominant neo-liberal ideology were on the ascendency; it, therefore, seemed obvious to the authors that economic and institutional adjustments as well as capital accumulation patterns were firm-led. They intended to “bring back firms into the center of the analysis of comparing capitalisms” (Hall and Soskice 2001, 4) and their book was a project to build a “firm-centered political economy” perspective. Methodologically, they paved the way for new disciplinary linkages between business studies and political economy. Their ideas have since enjoyed broad support (see, for example, Coates 2015, 18–19).

Focusing on co-ordination, Hall and Soskice (2001) argued that there were not only liberal market economies but also co-ordinated market economies. This perspective opened a distinctive way for the authors to determine the impact of institutions on economic performance. By doing so, they proposed a powerful dichotomy to model the varieties of capitalism. In this approach, co-ordination is the core mechanism that interlocks the relevant actors of the economy – individuals, firms, producer groups and governments. The main institutions of a political economy frame, condition, constrain and define the strategies and the activities of companies, from which economic performance will be determined.¹ This led them to argue that comparative advantage was primarily institutionally determined and therefore politically constructed. However, their firm-centred political economy approach regards companies, whose activities aggregate into overall levels of economic performance, as the crucial actor in a capitalist system that serves as the key agent of modification or adaptation in the face of technological change or international competition.

Witt and Redding (2013, 268), adopting a business systems approach, make a pertinent point when they argue that VoC’s typology was not designed to encompass Asian countries and that “none of the existing business systems typologies adequately categorises the institutional variations visible in Asia and the West.” About Asia’s own diversity, they contend that “compared with the differences between the West and the East, the variations inside the West seem to be minor,” and conclude that “when it comes to understanding Asia, however, the VoC framework clearly falls short” (Witt and Redding 2013, 299).

Fifteen years after the VoC’s fruitful academic impetus, however, a shift is required from this individualist and firm-centred framework, what Boyer (2016) identifies as a holist-individualist view. Given the VOC’s focus on democratic and developed
economies, this perspective is necessary as it can deal with the self-sustaining but continuously changing capitalist mode of production seen in a variety of forms in Asia.

Among the political economy perspectives, the French Ecole de la Régulation deserves attention. Regulationist scholars assume that the dual dichotomy offered by Hall and Soskice (2001) fails to grasp the much deeper diversity of forms in capitalism. Rather than two forms of capitalism, Amable (2003), for example, argues that there are five. The Regulationist school allows an exploration of issues that are not covered in the VoC and opens theoretical space for concepts such as power, conflict, crisis and history in order to understand how capitalism functions (Boyer 1989). Institutions are expressions of a compromise, and influence, and are a result of the formation of stable socio-political blocs (Amable 2003, 10). Power stands at the centre as institutions are defined as temporary political-economy accords and the diverse institutional designs shaping national capitalisms reflect the nation’s conflicts over local (national) distributional issues.

Our study’s framework therefore argues that institutions are not designed to solve co-ordination problems between equal agents with similar interests but to resolve conflicts among unequal actors with divergent interests (Amable 2003, 10). In taking this position, our perspective departs from the neo-institutionalist direction that has been adopted by proponents of VoC who identify institutions as the rule of the game and mechanisms through which uncertainty is reduced (see Ebenau, Bruff, and May 2015, 2). Meanwhile, our perspective defines institutions as unfinished expressions of political compromises. It conceptualises power, class struggle and history very differently than New Institutional Economics (NIE).

The concept of power is central to our perspective. For this reason, our mode of analysis departs from both NIE and the mainstream neo-classical theory of economic equilibrium. Moreover, by grounding its theoretical roots in a less-normative and non-universalising institutionalist perspective, our approach, mixing the regulationist framework with references to business systems theory, is able to better grasp how capitalism functions in less developed countries.

Renewing the Political Economy of Capitalism

The authors of the diversity of Asian capitalism approach reject the assumptions of mainstream economics and focus on social and historical compromise, functionality and viability; their primary concern is understanding how a system works – or does not work – rather than on optimal performance. They refuse to put at the centre of analysis the normative optimality, derived by the equilibrium formalist agenda. This framework permits an analysis of politics, including its conduct through single dominant party states, still seen in Malaysia, Singapore, Vietnam and China. By staying theoretically out of the normative and functionalist scheme of the NIE, also sometimes adopted or implied by the VoC, space is opened to “bring back the political and the politicised variant” (Streeck 2016).

Since Aglietta’s (1979) seminal work on American capitalism, the theory of the regulation of capital accumulation has focused on capitalism as a specific system of organising and reproducing social relations, among which wage relations are the cornerstone of capitalist economies. As Boyer (1990, 16) notes: “the study of capitalist regulation therefore, cannot be the investigation of abstract economic laws. It is the study of the transformation of social relations as it creates new forms that are both
economic and non-economic, that are organised in structures and themselves reproduce a determinant structure, the mode of production.” This intellectual project involves dealing with both the structure of the economy and its transformation over time, issues that constitute the development path (Boyer 1990; Boyer and Saillard 2002). In this longue durée approach, where politics and distributive conflicts are central, different institutions have emerged in response to these issues, making for different trajectories in the economy.

Boyer makes the case that, in regulation theory, institutions constitute specific expressions of one or more social relations that “shape the short run process of economic adjustment (the ‘regulation’ mode) as well as the growth regime” (Boyer 2003, 79). Since long-term transformations of capitalism were the core concern of this theory, it developed a variety of tools to understand the factors that shaped consistent growth, the nature of emerging inequalities, the significance of social conflicts and subsequent political processes that contributed to alternative “institutionalised compromises” (Boyer 2003, 86–89). By understanding how institutions evolved, as this provided insights into institutional hierarchy or complementarity, the co-existence of various types of capitalism could be explained (Boyer 2003; Vercueil 2016).

The five identified institutional forms of a capitalist economy are: (i) the forms of competition, of which publicly-owned companies may play a specific role; (ii) the wage-labour nexus, that is, the nature of labour relations; (iii) state-economy relations (or their nexus), a component of which is modes of state-business relationships; (iv) the monetary/financial and credit regime; and (v) insertion into the international economy (Boyer, Uemura, and Isogai 2012, 3–4). Since these institutional forms are shaped primarily by political struggles, several types of capitalisms can emerge in different countries.

The concept of “accumulation regime” is at the heart of the analysis of the dynamics of the economy. A regime of capital accumulation is characterised by growth rates and volume of investments. This regime expresses how production, circulation, consumption and distribution organise and expand capital in a way that stabilises the economy. Sustained by a set of institutional forms at a given moment in time, it is itself the result of history, conflicts and policies. The “mode of regulation” is the institutional and ideological framework that facilitates the reproduction of particular regimes of accumulation and modes of growth. It stabilises and frames behaviours and expectations to support a given growth path. However, this consistent support is by nature temporary because social and economic change occurs during the development of the capitalist production process: contradictions arise, creating tensions in the accumulation dynamic (over-investment, under-investment, excess production, bottlenecks, and so on). Tensions occurring between economic dynamics (accumulation regime) and the socio-political institutional frame (mode of regulation) lead to different types of crises such as the divorce between consumption and production norms. Inevitably, crises occur and are part of the process of capitalism. This non-equilibrium frame is thus able to explain the major crises that Asian economies have been facing (Boyer, Uemura, and Isogai 2012b).
Regulation Theory and the Analysis of Malaysian Capitalism

What do Regulationists Know about Southeast Asian Capitalisms?

The developmental states of East Asia have exhibited a remarkably strong pace of growth over the last 50 years, a pattern of development that cannot properly fit the framework set by VoC. Amable’s regulationist framework, in his *Diversity of Modern Capitalisms* (2003) where he introduced a specific type of “Asian Capitalism” therefore merits review.

Among Amable’s (2003, 174) five identified models of modern capitalism, Asian capitalism is characterised as being a “governed” rather than a regulated market which shapes product competition, regulates labour markets, has a bank-based financial system, a low level of social protection and a private tertiary education system. But since Amable used OECD data, he took into account only Japan and South Korea. Second, his model of power and of political and economic feedback can be considered as far too democracy-centred, a political reality that is extremely different in Southeast Asia (Amable 2003, 48). Moreover, the rise of state-led capitalism in China and the geopolitical and normative influence it has over Southeast Asian countries further supports this assertion.

Importantly, too, the reality of the national configurations of the so-called Asian capitalism encompasses great diversity. *Transformation and Diversity of Asian Capitalisms* by Boyer, Uemura, and Isogai (2012a), relying on regulationist-based research on China from 1978 to the 1990s, as well as the studies by Chavance (2000), Song (2001), Uni (2007) and Aglietta and Landy (2007), compare extensively China’s capitalism with that of Japan and South Korea. However, they pay little attention to Southeast Asia. Useful concepts from Boyer, Uemura, and Isogai (2012b) are employed here to reconstruct an understanding of the political economy of Malaysian capitalism, opening the possibility for further research from a comparative perspective. By doing so, this study indicates the theoretical and comparative advantage of the diversity of capitalism agenda, from the regulation theory perspective, over the VoC, given the former’s focus on the state-business nexus.

Business systems in Asia include the Japanese *keiretsu*, the Korean *chaebol*, the Taiwanese SMEs and the Singaporean and Malaysian GLCs. Highly diversified business groups, or conglomerates, thrive in the Thailand and Indonesia economies. This diversity of Asian capitalism was not recognised in this approach until the publication of the results of a longstanding French-Japanese research collaboration, a project that extended to China and South Korea (Boyer, Uemura, and Isogai 2012a). After this book was released, a number of journal special issues were published, aiming to bring Asia into the comparative capitalism perspective, to fill this empirical gap as well as open avenues for further theoretical debates (see Storz, Amable, Casper, and Lechevalier 2013; Alary and Lafaye de Micheaux 2013). However, even in this literature, notwithstanding Alary and Lafaye de Micheaux (2014) and Lafaye de Micheaux (2017), Southeast Asia tends to remain on the margin. Malaysia, for example, has never been the subject of specific attention from the VoC approach. However, this country appears in comparative exercises after 2012 and in few articles in regulationist and business systems publications (see Delfolie 2013; Carney and Andriesse 2014).
To capture the variance of the Asian economies, Harada and Tohyama (2012, 246–254) used cluster analysis combined with a multiple factor analysis that deals with the degree of liberalisation in different markets and the contrast of trade dependence and domestic social protection, to determine that Malaysia in the 2000s, along with Thailand, had a “Trade-led Industrialising Capitalism.” This is because “liberalization and industrialization steadily advanced and the countries are articulated in the network of world trade” (Harada and Tohyama 2012, 253). This type of capitalism shares with the “Insular Semi-agrarian Capitalism” of Indonesia and the Philippines a lower degree of liberalisation of markets, compared to other Asian capitalisms. However, Malaysia and Thailand show relatively higher public expenditure on education and a greater dependence on external trade, but less rigidity of employment and hours worked. Indonesia and the Philipsines were also considered as less heavily damaged by economic crises. These models are distinctive from other Asian capitalisms, namely the “City Capitalism” of Hong Kong and Singapore, the “Innovation-led Capitalism” of Japan, South Korea and Taiwan and the “Continental Mixed Capitalism” of China. Crucially too, Harada and Tohyama (2012, 245) note fundamental differences in the political economic systems of these countries: China, Indonesia and Thailand are “authoritative”; Malaysia and the Philippines are “emergent-fragile”; Hong Kong and Singapore are “key junctions of financial trade”; and Japan, Korea and Taiwan are characterised as “the pursuit of technological progress coupled with the strict security of employment contract.”

An important outcome of the analysis by Harada and Tohyama (2012) is that there has been no institutional convergence between these countries during the period from the 1990s to the mid-2000s. The crucial point of their comparative analysis of the direction of institutional change is that there is no common orientation among East Asian countries. There is no “one best institutional way” to be followed. Harada and Tohyama (2012, 252) assert that the “economies would not converge for ten years at least. First, Indonesia and the Philippines show peculiar transitions that are very different from the other economies. Second, the position of China does not radically change, contrary to our expectation.” They say that this “might imply that the institutional configuration of China is comparatively rigid in spite of the embrace of capitalist institutions.”

Whitley and Zhang (2013) note a similar point, arguing that between the 1980s and the 2000s in Malaysia, Thailand, Taiwan and Japan, there were varying patterns of state direction of the economy, together with evolving degrees of business co-ordination of economic activities. The conclusions drawn from Harada and Tohyama’s (2012) clustering are in line with the business systems of Indonesia and the Philippines studied by Witt and Redding (2014). The Harada and Tohyama’s (2012) study suggests some unique features of Malaysia’s economic structures, even if embedded in a larger cluster of emerging Southeast Asia business systems, an idea that will be further developed in this study (see Witt and Redding 2014).

**Institutional Configuration of Malaysian Capitalism**

A regulationist framework is employed in this article to assemble consistently an analysis of business activity, business performance and state-business nexuses. As
argued, the five institutional forms codifying social and economic relations are hierarchically structured. In Malaysian capitalism, the state-economy relationship is at the pinnacle of its institutional architecture. Since the 1969 riots and the commencement of strong intervention in the economy, the state has come to dominate all other institutional forms, imposing its own logic and constraints. In this hierarchy, the pecking order below the state-economy relationship is the international integration regime of Malaysia’s very open economy. These are: the monetary regime (favouring stability for trade, but even more constantly devoted to sustaining economic growth); the competition form (resulting from the interplay between state intervention, the multinational companies (MNCs) and the monetary and credit policy); and, as the less autonomous and most endogenous institutional dimension, the labour nexus (wages, productivity level, labour condition, share of migrant workers, and so on). Despite its important contribution to growth, labour has constantly been subaltern in nature, subjected to exploitation in Malaysian capitalism and required to adjust itself to other institutional forms and to the economic dynamic in order to ensure high profits are registered as well as to facilitate the high inflow of investments from domestic and foreign investors.

The regulation framework helps to consistently establish the hierarchy of the main institutions framing Malaysian capitalism and to characterise its investment-led accumulation regime (Lafaye de Micheaux 2017). Table 1 compares Malaysia with the contemporary Chinese configuration (Boyer 2012, 193) and with the French configuration of the “Thirty Glorious Years,” depicting the Golden Age of growth based on the Fordist regulation regime of 1945–75 (Fourastié 1979).

Malaysia’s configuration is different from that of China where the implicit compromise is pro-growth and the accumulation regime is driven by the primacy of competition. In this institutional hierarchy in China, as opposed to Malaysia, “integration into the international economy is the consequence of domestic institutional forms” (Boyer 2012, 193). Malaysia’s system is also distinct from France’s post-war Fordist regulation mode where the social compromise was about redistributing high wages and sustaining revenue and consumption, from which growth and profits ensued. The wage-labour nexus has been leading the institutional hierarchy since the time of the introduction of the welfare state. In Malaysia, since 1971 but with forerunners from the 1950s, the state-economy relationship, specifically state-business ties, heavily influences the nature of market competition. But other key institutions also shape Malaysian capitalism.

### Table 1. Institutional configuration of Malaysian capitalism in comparative perspective.

<table>
<thead>
<tr>
<th>Institutional forms</th>
<th>Malaysia (since the 1970s)</th>
<th>China (since 1989)</th>
<th>France (1945–75)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State/Economy Nexus</td>
<td>Forms of Competition</td>
<td>Wage-Labour Nexus</td>
</tr>
<tr>
<td>(Top of the institutional hierarchy; Supreme)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Insertion into International Economy</td>
<td>Wage-Labour Nexus</td>
<td>State/Economy Nexus</td>
</tr>
<tr>
<td>3</td>
<td>Monetary/Credit Regime</td>
<td>Monetary/Credit Regime</td>
<td>Forms of Competition</td>
</tr>
<tr>
<td>4</td>
<td>Forms of Competition</td>
<td>State/Economy Nexus</td>
<td>Monetary/Credit Regime</td>
</tr>
<tr>
<td>5</td>
<td>Wage-Labour Nexus</td>
<td>Insertion into International Economy</td>
<td>Insertion into International Economy</td>
</tr>
<tr>
<td>(Bottom; Totally dependent on the others)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Lafaye de Micheaux (2017) for Malaysia; Boyer (2012, 193) for China; Boyer (2016, 240–241) for France.
A crucial component of Malaysia’s regulation framework is the monetary regime, specifically Bank Negara, the central bank, which diligently supports growth, industrialisation and exports rather than paying sole attention to maintaining monetarist orthodoxy. The monetary regime is thus closely intertwined with other institutions though also subservient to the hegemonic UMNO. Bank Negara and regulatory oversight institutions such as the Securities Commission fastidiously monitor speculation and corrupt practices, but selectively prosecute those who violate the law. These oversight institutions serve both political objectives as well as sustain an environment that generates investments given Malaysia’s integration in international trade. Apart from the objective of economic growth, monetary policy is dedicated to sustaining extremely, if not excessively, strong trade openness. Furthermore, Malaysia is highly dependent on foreign direct investments to finance and drive strategic and competitive industrial sectors.

International integration is a core dimension of Malaysia’s regulation framework which has evolved with certain constants in place, specifically the country’s dependence on foreign investments to advance industrialisation. Malaysia, a high-middle-income country with an impressive literacy rate of about 94%, has long been one of the most open economies in the world. This export-oriented economic structure has its roots in colonial history when the country was a lucrative British imperial possession; all government administrations have since welcomed MNCs with generous investment incentives. The manufacturing sector, for example, has been dominated over time by British, American and Japanese firms, while China’s state-owned enterprises (SOEs) have been acquiring a growing presence in the economy since 2010 (see Li and Cheong 2017; Zhang, Rasiah, and Lee 2017). These foreign meta-institutions have shaped competition in Malaysia, contributing to its capacity to function as an open economy.

Regarding the wage-labour nexus, while there was fair distribution of power between labour and capital after World War II, trade unions have since been persistently suppressed by the state to keep wages low to draw foreign investments (Bhopal and Todd 2000). From the 1980s, the government actively proposed in-house unions, ostensibly following the Japanese model, to decimate the once influential trade unions (Carney and Andriesse 2014, 155–157). Interestingly too, because of structurally low unemployment, a large segment of the workforce is from abroad, allowing for economic activity to continue without serious capital-labour conflicts (Devadason and Chan 2013).

In spite of Malaysia’s rapid modernisation, a shortage of skilled workers has hampered its endeavours to attain the status of a highly industrialised economy. For this reason, Malaysia is reputedly stuck in a high-middle-income trap (Hill, Tham, and Ragayah 2011). The low volume of skilled labour is an outcome of the perceptible decline in the quality of public education, a problem the government has acknowledged by issuing numerous reform plans. The most recent reform proposal, the *Malaysia Education Blueprint 2013–2025*, provides a clear testimony of the parlous state of public education (Malaysia 2013). To deal with this problem, the education sector was significantly liberalised in the early 1990s, allowing the middle class to resort to private schooling which was expected to ensure a continued supply of well-educated labour. But with public education, which caters to the poor and the lower-middle class, in decline and a persistent reluctance by the state to institute reforms that also entail
retrenching an ill-equipped teaching force – a key constituency for UMNO in rural areas – two types of labour force have emerged. The first is a well-trained – even foreign-educated – middle class while the second is a poorly-educated, predominantly rural-based, workforce with hardly any skills to secure employment in a modern economy.

Following a major political shift in 1970 involving extensive state intervention in the economy, the socio-political consensus regarding the pattern of wealth distribution, which shapes the mode of regulation, has tended to be ethnically-based, rather than class-based, despite the government’s stated emphasis on eradicating poverty regardless of race (Malaysia 1971). This merits further investigation as it would be an important distinction within the regulationist view which argues that “the founding social relations of capitalism are market competition and the capital/labor relations” (Boyer 2012, 190). This study of Malaysia’s enterprise development policies indicates that the nature of the relations between the state and businesses is extremely complex, framed primarily around the affirmative action-based New Economic Policy (NEP).

Affirmative action was officially introduced in 1970, though it was applied in a variety of forms from the 1950s. A holistic review of income and wealth distribution and an understanding of the modes of NEP implementation are far more relevant than merely analysing the conduct of individual firms if one is to describe Malaysian capitalism and understand its macro-economic trajectory. Decisions taken by the state about social and economic policies that help ruling politicians retain power can have an impact on the mode of enterprise development. The key actor in the economy cannot be reduced to the firm, and this is why we focus on state-business relationships in the Malaysian economy and contest the crucial assumption that the activities of companies aggregate into overall levels of economic performance. Crucially too, Malaysia’s policies involving the development of domestic conglomerates and SMEs are strongly conditioned by the government’s longstanding and extensive assistance to firms along ethnic lines. This study, therefore, favours a materialist and historical perspective, with a focus on the macro-economic level while also dealing with the heterogeneity of Malaysian businesses.

**Politics, Changing State-Business Ties and Varieties of Capital**

*Primacy of Government-Linked Companies*

Among macro-institutions of Malaysian capitalism, the state has a premier position in the institutional hierarchy. UMNO, the hegemonic party in the state, imposes its logic – as well as constraints – on institutions in this structure in order to suit the dictates of party leaders. Although Malaysia is governed by the multi-party Barisan Nasional (BN, or National Front), UMNO is recognised as one of the world’s few remaining single dominant parties that governs in an electoral authoritarian system (Case 2009). BN was an outcome of UMNO’s near loss of power in the 1969 general election, after which nearly all major opposition parties were incorporated into this coalition.

The nexus between the state and business commenced in a well-structured manner when the NEP was introduced as an endeavour to rectify wealth and income inequities between the Bumiputera and other ethnic groups. The NEP justified extensive state
intervention in the economy to redistribute corporate equity, alleviate poverty and promote Bumiputera entrepreneurship. It sanctioned the distribution of state-generated contracts and licences to Bumiputeras to increase their ownership of corporate equity. However, a number of these rents were also re-channelled to Chinese firms as sub-contracts. Since these rents were productively deployed, they contributed to economic growth, but they did not contribute to the NEP’s inter-ethnic wealth restructuring goal (Gomez 2012a). Since then, the government has resorted to assorted forms of state-business ties to nurture different types of enterprises: GLCs, SMEs and conglomerates. The nature of the links between political elites and these enterprises and the mode of corporate development has varied considerably, most evident in the differences of the administrations led by Mahathir Mohamad (1981–2003) and Najib Razak (since 2009) (see Table 2). However, the state has retained a significant presence in key sectors of the economy through GLCs. Enterprise development plans have not been wholly Bumiputera-centred, while vendor programmes involving GLCs are officially open to all companies. Well-formulated policies have shaped structural change (from plantations and mining to industrialisation and services) and have contributed to capital accumulation through the monitoring of macroeconomic performance, including frequent budget stimuli and pro-growth monetary policies.

SMEs are regulated primarily through public policies, introduced to nurture domestic enterprises, and tied to the state through procurement and vendor programmes, involving SMEs and MNCs that are merit-based but tend to largely favour the Bumiputeras. A high level of intra-Chinese competition prevails among SMEs because of the NEP, a reason why persistent entrepreneurial activity has been evident at this level (Gomez 2012a). This type of competition is not as pervasive among Bumiputera-owned SMEs because they are recurrently privy to state-generated rents. Rents disbursed through these programmes include government contracts which are implemented through sub-contracts to non-Bumiputera firms, a reason for the continued growth of Chinese enterprises. This promotion of state-engineered enterprise development programmes that have led to different business systems and state-business ties has remained in place in spite of Malaysia’s very open economy.

GLCs at federal, state and municipal levels have not been developed in a coherently linear direction; they incorporate hybrid features and are required to fulfil a range of business and social duties (Menon and Ng 2013). At the federal level, GLCs are primarily owned and controlled by five savings- and investment-based institutions, the Employees Provident Fund, the Government Pension Fund, the Islamic Pilgrimage Fund, the Armed Forces Pension Fund and Permodalan Nasional (National Trust Fund), as well as Khazanah Nasional, the sovereign wealth, and the Minister of Finance Incorporated (MoF Inc.), this ministry’s holding company. These seven institutions, collectively known as government-linked investment companies (GLICs), vary considerably in terms of their size and objectives and are ultimately controlled by the Minister of Finance through complex pyramid-type organisational structures (Gomez 2017). GLICs and GLCs implement interventionist-type policies, including those that drive industrialisation, while also actively participating in corporate-type practices such as takeovers and mergers.

By 2015, GLICs had majority ownership of Malaysia’s largest publicly-listed firms along with a multitude of private companies in all sectors of the economy. The leading
Table 2. Differences in state-business ties under Mahathir and Najib.

<table>
<thead>
<tr>
<th>Prime Minister</th>
<th>Mahathir Mohamad</th>
<th>Najib Razak</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-business ties</td>
<td>Used stock market to develop conglomerates</td>
<td>Uses covert shell companies. No fences between government and personal</td>
</tr>
<tr>
<td>Business development mode</td>
<td>First diversified conglomerates; later focused approach. Realised with greater diversification, firms more likely to be dependent on political links and rents to develop</td>
<td>Businesses mixed and meandering; emphasis on GLCs. Sold lucrative state assets (e.g., power plants) to private firms in return for political funding</td>
</tr>
<tr>
<td>Businesses style</td>
<td>Transactional and market-driven; captured key sectors (plantations, mining, banks); early movers in emerging sectors (health; logistics)</td>
<td>Not market focused; philanthropic (film-making; donations to United Nations; property speculation abroad)</td>
</tr>
<tr>
<td>Policies and politics</td>
<td>State-business and policy strategies tightly linked (NEP; heavy industries and car sector to nurture Malay SMEs; privatisation to create conglomerates)</td>
<td>No clear link between state-business and policy strategies constantly subjected to change (market-friendly affirmative action; Bumiputera economic empowerment or BEE).</td>
</tr>
<tr>
<td>Political business links</td>
<td>Heavy control over well-connected Malay firms by politicians in power</td>
<td>No clear links with well-connected firms; more a source of political funding</td>
</tr>
<tr>
<td>Ownership and control pattern</td>
<td>Ownership of firms widely held – allowed private firms to emerge. Did not use GLCs to control firms (but used for bailouts when necessary)</td>
<td>Focus on GLCs – ownership tightly held through Ministry of Finance. GLCs abused financially by politicians in power but are also required to expand abroad and emerge as key players in Southeast Asia. Not driven by clear development policy agenda</td>
</tr>
</tbody>
</table>

Source: Gomez (2016).
publicly-listed GLCs, known locally as the “G20,” had a market capitalisation of RM431.1 billion – about 42% of total market capitalisation – and a presence in 42 countries (Malay Mail, April 23, 2015). Seven of the top ten quoted firms are GLCs and so too are half of the top 50 companies, making them the most important enterprises in the country.

The GLICs and GLCs are led by professional managers who report to a board of directors whose members are appointed by the state. Through these directors, the state can shape decision-making within the GLICs and GLCs, determining how the rents they generate are distributed. The state can also inform decision-making within these enterprises through a series of other mechanisms such as legislation and public policies. Since the state has a substantial equity stake in the banking sector, it has been able to involve GLCs in capital intensive sectors such as those in heavy industries and high technology.

Growing Presence of GLCs

It was not always that the GLCs had functioned as Malaysia’s leading enterprises. In the immediate post-colonial period, the largest publicly-listed companies were foreign, primarily British, enterprises. In the 1960s, foreigners owned 62% of the share capital of all registered companies that included a majority of the quoted companies. The Chinese owned about 23% of this share capital while Bumiputeras owned a mere 1.5%, a situation that justified affirmative action to redistribute wealth between ethnic groups. GLC presence in the economy grew rapidly in the 1970s when they were endowed with substantial public funds to acquire corporate assets owned by foreigners. These corporate assets were to be eventually redistributed among poor Bumiputeras, but state elites began abusing their access to this corporate equity to serve vested political interests and accumulate wealth (Wain 2009).

In the 1970s, another major type of state-associated company emerged, serving as an additional mode of capital accumulation for political elites. These companies were owned by BN-based political parties. UMNO, in particular, owned an array of key private and publicly-listed companies. By 1995, about 16,000 companies had been established by UMNO’s divisions and branches, owned and managed usually by the party’s proxies (see Gomez 2012b). Due to the complicated ownership structures of these firms, as well as proxy ownership, the extent of UMNO’s business ownership was difficult to estimate but it was reputed to own direct and indirect interests in key companies in media, banking, construction and property development (Wain 2009).

A third type of state-linked enterprise emerged in the 1980s when privatisation was actively pursued. State-owned companies were privatised through a process of selective patronage to create an entrepreneurial “new rich” (Searle 1999; Sloane 1999). This new rich was to create profit-generating enterprises that were to be at the heart of Malaysia’s industrialisation drive. These companies were typically one-person or family enterprises whose owners were active in management and seen as “corporate captains.” By the early 1990s, well-connected businesspeople owned two-thirds of the top 30 publicly-listed companies. These business figures, though predominantly Bumiputeras like Halim Saad, Tajudin Ralim, Wan Azmi Wan Hamzah, Azman Hashim and Rashid Hussain, included non-Bumiputeras such as Vincent Tan, T. Ananda Krishnan and the Yeoh and Lim families (Gomez 2009).
If the 1969 riots were the critical juncture in history that led to greater state intervention in the economy, the 1997 Asian economic crisis had a similar outcome (Pepinsky 2009). During this crisis, GLCs were deployed to take over highly leveraged and well-connected firms owned by UMNO and the new rich, concentrating corporate power in the hands of the state. Following demands for corporate governance reforms, three areas were targeted: the regulatory structure, the legislative context and the financial reporting framework. This reform drive unleashed a series of regulatory changes through the main oversight agencies such as the Securities Commission, Bursa Malaysia (the stock exchange) and the Registrar of Companies. The regulatory structure was streamlined to remove ambiguity in terms of jurisdiction and enforcement while the relevant legislation was amended to deal with the limitations exposed during the crisis. These reforms contributed little in terms of reducing selective patronage, rent-seeking and corruption that were again exposed following the 2008 global financial crisis.

**Mixing Interventionism with Neo-Liberal Policies**

As in 1997, the 2008 crisis emphasised the repercussions of the mix of interventionist and neo-liberal policies, indicating UMNO’s unwillingness to change policy direction and institute the requisite institutional and regulatory reforms. By 1998, it was patently clear that because of a preferential system based on ethnic quotas, a once well-functioning bureaucracy had come to be dominated by one ethnic group and was seen to be bloated, inefficient and subservient to UMNO. When the capacity of the bureaucracy to promulgate viable policies was called into question, government leaders began relying heavily on think tanks in the 1990s for policy input. From the early 2000s, the government began turning to foreign consultancies such as Goldman Sachs and McKinsey to prepare policy plans. In terms of bureaucratic capacity to implement policies, the government, by its own admission, needed to improve the “public delivery system” (Malaysia 2006).

Intra-elite feuds have been the primary agent of change in the political system, the corporate sector and the nexus between state and business, most obvious in 1987, 1998, 2009 and 2015. Though political crises have occurred when this strong state was challenged, it has not been replaced, or reformed. On these occasions, prominent leaders have been consigned to the opposition or removed from the political system. In 1987, a number of UMNO members were ousted after a deep factional dispute; though they created an opposition party, many returned to the party fold after faring badly in the 2005 general election. In 1998, then Prime Minister Mahathir sacked his deputy and Finance Minister, Anwar Ibrahim, and GLCs were used to take over companies owned by the latter’s business allies. In 2009, UMNO elites used BN’s poor electoral performance in the 2008 general election to justify forcing Abdullah Ahmad Badawi to step down as prime minister. In 2015, when a serious feud began between Prime Minister Najib and Mahathir over how GLCs were being abused to channel funds into the political system, investor confidence was seriously undermined. The funds from savings-based GLICs had allegedly been abused to bailout 1MDB, a GLC closely associated with Prime Minister Najib (Malaysiakini, May 12, 2015).
In an assessment of Malaysia’s regulatory process, how GLICs and GLCs function merits crucial attention because, since 1999, the prime minister has concurrently occupied the post of finance minister. This issue is of particular significance because Malaysia’s leading commercial banks, Malayan Banking, CIMB Group and RHB Bank, are GLCs. The state also owns development financial institutions (DFIs) such as SME Bank, Export-Import (EXIM) Bank and Agro Bank that play a role in channelling funds to SMEs. DFIs reputedly serve as a source of patronage, specifically to channel funds to Bumiputeras to secure political support (Gomez, Satkunasingham, and Lee 2015). State-led industrial-financial ties involve DFIs and had been productively used by Mahathir to drive industrialisation and by Abdullah to create new economic sectors and nurture SMEs. Najib has not utilised these DFIs as development-based institutions, preferring to get them to function as commercial banks.

The internal structure of privately-owned publicly-listed companies is characterised by interlocking stock ownership, used by their owners to protect themselves from financially well-endowed GLICs that can institute corporate takeovers with ease (Searle 1999). Ex-UMNO leaders and ex-bureaucrats are appointed by these companies as board directors to protect their economic interests. The founders of these firms as well as family-owned companies remain principal corporate decision-makers, evident among the largest firms, Genting, IOI, Public Bank and the Hong Leong, AirAsia, Maxis/Astro, Berjaya and YTL groups.

However, a vital mechanism available to the state to control private firms is public policies, particularly those based on affirmative action. When the NEP ended in 1990, Mahathir continued to champion the Bumiputera Commercial and Industrial Community policy. Najib promulgated the BEE policy in September 2013, even though he had admitted, following the 2008 economic crisis, that affirmative action in business had to cease (Gomez 2102a). Although privately-owned firms are willing to work with the GLCs as a means to secure access to state rents, they are aware that they can be privy to takeovers. Such takeovers have occurred most conspicuously in the construction and property development sector. Gamuda, IJM, Sunrise and SP Setia, all prominent publicly-listed Chinese companies that have worked closely with GLCs, have been taken over by GLICs. Two of Malaysia’s top three GLC-based banks, Malayan Banking and RHB Bank, were established by Chinese businessmen, while the origins of the second largest bank, state-controlled CIMB, can be traced to a Chinese-based institution, Bian Chiang Bank. This bank evolved into Bank of Commerce when it came under the control of UMNO and was subsequently merged with the then ailing and scandal-ridden government-owned Bank Bumiputra (Gomez 2017).

**Pseudo Support of SMEs? The Bumiputera Factor**

The state is, however, supportive of SMEs, including those traditionally owned by non-Bumiputeras (Lee and Tan 2000). From 2003, the government’s focus was on SMEs as its data claimed they had come to constitute 99% of all business establishments. The state has recognised the need to maintain an entrepreneurial SME base as these companies serve as key drivers of employment, with about 5.6 million workers employed in them. However, the government has not been able to foster the rise of entrepreneurial domestic firms because SMEs hardly invest in research and
development (R&D), mainly because they fear expropriation by the state through equity redistribution regulations which will be enforced when they emerge as large companies seeking public-listing. How business systems evolved was largely determined by the practice of selective patronage, though it was conducted in different forms depending on whether it involved GLCs, business groups or SMEs. In all cases, firms privy to state rents were expected to promote industrialisation as well as register profits; among large enterprises, a share of the profits had to be channelled back to politicians for political party activities (Gomez 2012b). State leaders have sought to ensure that the conglomerates that emerged remained under their direct or indirect control. State-business ties consequently serve two goals: to industrialise economies and to create a source for funds for politicians to help them retain power. With the institutionalisation of selective patronage, state-business nexuses were characterised by an intimate familiarity between elites from UMNO and from business that contributed to the deep monetisation of the political system. After the 2008 general elections, when the opposition emerged as a serious threat to BN’s hold on power, and following the 2008 financial crisis, the links between the state and business took on a new form under Prime Minister Najib, with his active and unprecedented employment of GLCs to drive economic growth, even as he continued to strongly espouse the privatisation of state-owned firms. A second key feature of Najib’s administration was his stress on state–state ties, involving links with SOEs from China. Since Malaysia remains heavily dependent on foreign investments to generate growth, a transition has been noted in the mode adopted by the government to attain this goal: the launching of major public infrastructure projects to be implemented through GLC-SOE joint ventures. These state–state joint ventures are similar to those forged between the governments of China and Singapore in the 1990s (Pereira 2003). However, a major difference in these state–state ties is that these joint ventures in Malaysia serve to also secure private investments. This sees Najib incorporate well-connected Malaysian Chinese into these ventures.

The most controversial deal where state–state business relations occurred involved the 1MDB sovereign wealth fund, controlled by the minister of finance. To deal with its massive debts, 1MDB announced in 2015 its plans to sell 60% of its equity in the 486-acre Bandar Malaysia project, the single largest remaining tract of development land in Kuala Lumpur. Bandar Malaysia is estimated to have a gross development value of RM150 billion over the next 25 years. 1MDB’s majority stake in Bandar Malaysia was sold to the China Railway Group, China’s largest construction enterprise, and Indah Waterfront Holdings, controlled by a Malaysian businessman Lim Kang Hoo, who has direct and indirect business links ties with prominent members of the elite (The Star, March 10, 2017).

However, Malaysia looks not only to China, with its state-led capitalism, as a source of investments, but also actively courts the neo-liberal regimes of the West, including by endorsing the Trans-Pacific Partnership Agreement (TPPA), created by the US to check China’s growing global economic influence. The TPPA will, presumably, allow Malaysian companies to enter markets in the Pacific, providing them an opportunity to compete internationally and accumulate wealth.

After the 2013 general election when BN secured less than 50% of the national popular vote and the coalition narrowly retained a majority of the seats in parliament, Najib launched his affirmative-action-based BEE policy (The Star, September 14, 2013).
This policy was to be implemented by GLCs through vendor programmes for SMEs (The Sun, May 26, 2016). The BEE marked a major policy shift as Najib was aware that race-based affirmative action in business had been hampering domestic investments having publicly admitted after the 2008 economic crisis that affirmative action had to be removed in order to draw local and foreign investments to drive economic growth. However, following protests from UMNO, in his 10th Malaysia Plan (2011–2015), which outlined how he planned to develop the economy over those five years, Najib changed his stand and affirmative action was retained, but it would be “market friendly.” When the 11th Malaysia Plan (2016–2020) was released in 2015, in its review of the previous plan’s policies, there was no mention of the effectiveness of Najib’s market-friendly affirmative action. In fact, the 11th Malaysia Plan did not mention affirmative action at all. But with the need to retain, as well as increase, Bumiputera electoral support, the political implications of BEE held sway. Given the way the corporate sector had reacted to similar affirmative action-based policies in the past, it was unlikely that the BEE would inspire private investor confidence.

Conclusion

The mode of development of capitalism in Southeast Asia varies far more considerably than literature such as the VoC suggests. French regulation theory has attempted to expand the analysis to fill empirical and methodological gaps and emphasise the complexity of capitalism in this region. This perspective stresses the critical value of an institution-based political economy analysis that focuses on power, polity and distributive conflicts, allowing for a deeper understanding of the play between the state and the business system. The regulation perspective situates this state-business nexus within the context of a country’s institutional architecture which provides better insights into the dynamics of capitalism, involving economic performance and accumulation.

In regions where the state actively shapes the form of capitalism, the VoC’s liberal market economies versus co-ordinated market economies dichotomy is obviously problematic. In Southeast Asia, important variations exist in development plans that have resulted in extremely different and complex business systems. The ties created between public and private institutions are persistently subject to change while the policy focus can be profoundly altered depending on the political situation. State-business relations have taken a variety of directions in Southeast Asia, precipitating differing degrees of elite fracture. Since the 1990s, privately-owned business groups have become a major political force, bringing to the forefront concerns about “accountability politics” (Rodan and Hughes 2014).

Witt and Redding (2014) correctly note that the state in Malaysia is simultaneously developmental and predatory. We have built on this point using regulation theory as it provides a useful historical perspective to indicate that while transitions within the state have reshaped state-business ties, developmental and predatory practices continue to co-exist. This historical perspective also traces how business systems are deeply conditioned by development and social policies as well as the politics of the state.

Malaysia is also an interesting case as it has accommodated different business systems, conditioned by hegemonic state institutions and actors. In this context, a
heterogeneity of state enterprises and private firms co-exist and function in tandem with each other. Malaysia shares two features with most Southeast Asian governments which the comparative capitalism literature should note: first, the desire to develop entrepreneurial domestic firms – originally, business groups and subsequently, SMEs – with the state intervening in the economy to achieve this goal. GLCs were used to nurture these privately-owned enterprises through joint ventures and vendor programmes.

Second, the Malaysian case indicates that firms are nationally specific and embedded and thus attuned to domestic political developments. Market-oriented forms of coordination by firms are determined by the politics of the nation, while the location of power determines the mode of state patronage. In this context, new norms emerged under different prime ministers in terms of how state institutions were to be employed to nurture domestic enterprises as well as create Bumiputera capitalists. The policy choices of these premiers as well as the politics of the state have shaped how economic rents have been distributed to business groups (under Mahathir), to SMEs (under Abdullah) and to GLCs (under Najib). Of related concern is whether non-Bumiputera-owned enterprises, particularly SMEs, will invest adequately to upgrade the quality of their products and services if they fear that their property rights will not be protected in the presence of a state that continues to advocate affirmative action.

This historical analysis of Malaysia’s political economy indicates three pertinent points: first, the inequitable distribution of wealth between ethnic groups can be an enduring and compelling political justification and social compromise that shapes a specific and, by and large, operable regulation mode. This ethnic compromise has served to stifle discontent arising from capital’s exploitation of labour and appropriation of rents meant for poor Bumiputeras by UMNO elites. Second, all relevant regulatory institutions exist as required of an open economy, but they are not mechanisms through which uncertainty is reduced, as the 1MDB scandal has indicated. Third, business systems involving GLCs, business groups and SMEs and their ties with each other constantly evolve. State-business ties have changed from private-led (1950s and 1960s), to state-led (1970s), to public–private (1980s to 1990s), to state-led (early 2000s) and to state–state (from the late 2000s). New institutions were created on each occasion to complement or support businesses responsible for generating economic development. After the 1997 crisis led to intra-elite feuds, GLCs re-emerged as Malaysia’s most powerful business enterprises and political power in the state was further concentrated in the office of the prime minister. Conflicts over distributional issues led to reconfigured institutional designs as they served as tools of capital accumulation.

Malaysia has arrived at this point where, because of economic crises and intra-elite feuds, corporate equity wealth is concentrated in the hands of GLCs. About half the equity of publicly-listed companies, in terms of market capitalisation, is owned by GLCs, under majority ownership of GLICs that also control Malaysia’s leading pension and savings funds, trust funds and sovereign wealth funds. GLICs are ultimately controlled by the minister of finance. What now prevails is a situation of extreme concentration of political and economic wealth in the hands of the executive who can shape the evolution of GLICs and GLCs.

A defining feature of state-business ties operating in electoral authoritarian regimes of the sort found in Malaysia is that while business owners have the capacity to
accumulate wealth, they have little control over their assets that can be appropriated through social policies. As a result, state-business links have been inherently unstable, changing rapidly following power elite disputes or after a change in the premiership. Patronage continues to define UMNO politics, but the flow of rents to the well-connected has become more covert with greater difficulty to trace the implications of this practice on the corporate sector. Concerns about covert corporate concentration have grown as the concealed nature of state-business ties have progressively increased. When the 1MDB debt crisis was exposed in 2015, it indicated that GLCs had emerged as a means of capital accumulation while state-led transnational business ventures serve as a mechanism to channel abroad funds that are re-directed into the bank accounts of political elites (The Edge Financial Daily, July 20, 2015).

The functioning of business systems is evidently rooted in the unpredictable terrain of politics, made even more tenuous by the fact that the prime minister concurrently serves as the finance minister. The finance minister, through the GLICs, oversees a core-periphery structure comprising layers of key publicly-listed and private firms, sovereign wealth funds, savings- and pension-based funds and Malaysia’s leading banks and DFIs. This concentration of economic power has serious implications on the development of the corporate sector. State-business ties evidently require reform, specifically major structural changes where power is devolved to relevant oversight institutions, to ensure productive and progressive economic and business development.

Notes

1. Emphasising actors, the first of them being the firm, is consistent with a view based on strategy and justified when sometimes employing game theory in the VoC framework.
2. The French intellectual School of Political Economy has been influential over the last 30 years, especially in the US, Latin America, Japan and South Korea (Aglietta 1976; Hollingsworth and Boyer 1997). Its scientific contribution is seen in two key academic journals: L’Année de la Régulation and Régulation Review.
3. NIE refers to social relations as contracts and holds the view that exchange is central and intrinsically superior to all other economic activities, as emphasised by North (Maucourant 2012).
4. In neo-classical theory, this equilibrium exists. It is self-regulating and stable. If an external shock occurs, the quantity of goods and/or price will automatically re-adjust themselves back to the point of this equilibrium. In this model, the concept of power is not relevant as it is assumed that the market functions correctly and co-ordinates exchanges.
5. Bumiputra, or sons of the soil, is an epithet used to refer to the Malays, though it includes indigenous communities, including those in the Borneo states of Sabah and Sarawak.
6. The G20 now comprises 17 firms, following a spate of mergers to create huge enterprises that can compete globally when they invest in foreign countries, a key government agenda.
7. The government classifies a company as small if its sales turnover is between RM250,000 and RM10 million or if it has between five and 50 full-time employees. Companies with a sales turnover of RM10–RM25 million or between 51 and 150 full-time employees are classified as medium-sized.
8. In the mid-2000s, Malaysia’s spending on R&D as a share of GDP was about 0.95%, very much behind Japan (3.4%), Singapore (2.39%) and South Korea (3.23%).
9. When Najib became prime minister in 2009, he pledged to curb money politics and corruption. However, for that to occur, he had to devolve power to oversight institutions to ensure they had the autonomy to act without fear or favour. This was not done.

10. The Bandar Malaysia project entails the construction of a mammoth underground city that will accommodate Mass Rapid Transit lines and a commuter and express rail link. Twelve highways are to converge in Bandar Malaysia which will serve as the gateway for the proposed high-speed rail line between Kuala Lumpur and Singapore.

11. Lim Kang Hoo was ranked by Forbes in 2015 as Malaysia’s 27th richest person with assets of US$650 million (Forbes Asia, February 24, 2016). He has an interest in four publicly-listed companies: Iskandar Waterfront City, Ekovest, Knusford and PLS Plantations. Ekovest’s shareholders include Haris Onn Hussein, the brother of the Minister of Defence, Hishamuddin Hussein. The son of the Sultan of Johor, Tunku Ismail Sultan Ibrahim, is the chairman of Knusford whose Managing Director is Ahmad Zaki Zahid, once closely associated with former Prime Minister Abdullah.

12. Donald Trump, when elected as president in 2016, announced his intention to withdraw America’s involvement in the TPPA. Malaysia, however, hopes the remaining countries involved in discussions will institute this trade agreement (see Bernama, March 11, 2017).

**Disclosure statement**

No potential conflict of interest was reported by the authors.

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