

**ICT DEVELOPMENT:  
ECONOMY, POLITICS AND INEQUALITY IN MALAYSIA**

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**Abstract**

## 1. INTRODUCTION

Since independence in 1957, Malaysia has been profoundly transformed economically, socially and politically. Essentially premised on its various development strategies and programmes, the successful story of the Malaysian economy can be attributed to its market-oriented policies with regard to private sector investment and activities, both domestic and foreign. With the emphasis targeted at achieving long-term sustainable growth in equity, the basic philosophy of growth since 1970s, should be accompanied by improvements in the distribution of income and social stratification. Goals are not only set in economic terms but also in the form of social targets such as those envisaged in the New Economic Policy (NEP), New Development Policy (NDP) and initially in the current Vision 2020. But with the increasing engagement in the liberalisation process and ICTs, as in its recent economic policy for instance, the question of how well this can be the basis of its future attainment is something that is interesting to investigate. This question is based on the argument made by many that the continuous engagement in such developments will further divide the society (Castells, 2000a, 2000b, 2004; Norris, 2001).

The discussion will be centered on the Malaysian historical, economic and political context with the inequality issues as its main backdrop. Using the issues of inequality as the basis for analysing the role of history, the economy and politics, is essential for our understanding of the implications that the recent economic development and ICTs might have on the future attainment of a Malaysian society.

The first part of this article examines the historical context during the colonialist period, particularly British colonialism. The main objective of this section is to chart the influence of colonialism in the formation of a multi-ethnic society in Malaysia and its later implications for the economy and politics. In the second section the discussion will be focusing on the various development and policy strategies engaged by the government to further develop the economy and society. This section will serve as an indicator of the government's aim to be a developed country by 2020 through its extensive used of ICTs. Finally a discussion on politics will be included as they play an important role as far as policymaking is concerned.

## 2. BRIEF BACKGROUND OF MALAYSIA

Malaysia is regarded as being of the successful economies in the developing world. Being one of the fastest growing regions in the world, Malaysia's aims are to reach developed status within the next two decades through the extensive use of ICTs. Strategically situated in the heart of Southeast Asia, her neighbours comprise Singapore in the south, Thailand in the north, Indonesia in the west and the Philippines in the Far East. Malaysia comprises Peninsular Malaysia and the two states of Sabah and Sarawak, which are located on the island of Borneo where Brunei and some parts of Indonesia are also situated (Figure 1).

Twenty years ago, with its economy based on the export of agriculture and mineral products, Malaysia was merely known as an "Agrarian State". Today, manufacturing and service industries dominate the Malaysian economy. This structural change in many of its economic sectors has helped the country to grow tremendously. Historically Malaysian society has been based upon unequal economic and political segregation. However, the recent growth led to further social division based on disparities in income distribution, work composition (particularly between genders), the increasing gap between urban and rural dwellers and even political division.

**Figure 1 - Map Of Malaysia**



With a total population of 26.75 million, according to the 2000 census, Malaysian society is considered to be multi-ethnic, multi-lingual, multi-religious and multi-cultural. The population comprises three major ethnic groups namely the Malay, Chinese and Indian. Of the total Malaysian citizens, Malays make up 65.1 per cent, while 26 per cent are Chinese and 7.7 per cent Indians. Not only does each community strongly guard its cultural identity and ethnic dimensions, even most political parties are ethnically based.

Malaysia is made up of fourteen states: Johor, Melaka, Negeri Sembilan, Perak, Pulau Pinang, Selangor, and the Federal Territory of Kuala Lumpur, make up the more developed states whilst Kedah, Kelantan, Pahang, Perlis, Terengganu, Sabah and Sarawak from a group of less developed states ones. As reported in 2005, Kuala Lumpur, as well as being the capital city of Malaysia and the centre of economic and cultural activity, it is also the most urbanized state with 100 per cent urbanisation followed by Selangor with 88.4 per cent and Pulau Pinang with 79.8 per cent. On the other hand states with low urbanisation levels are Kelantan (33.4 per cent), Perlis (35.1 per cent) and Kedah (39.8 per cent) (Malaysia, 2006:381).

### **3. COLONIALIST PERIOD**

The successive captures of Malacca by the Portuguese in 1511 and subsequently by the Dutch in 1641, the British in 1786, Japanese Occupation of 1941-1945 were followed by a further period of British rule up to the independence of Malaya (then Malaysia) in 1957. Independence marked an historic transition from colonial influence and intervention to the changing socio-economic background of modern Malaysian society. The historical context of the formation of ethnic pluralism in Malaysia can be traced back to the early contacts between Dutch and Portuguese colonialists and Chinese and Indians traders. However, it was British colonial rule that most influenced the present economic and social structure (Snodgrass, 1980:22-42; Anand, 1983:1-4; Faaland et.al, 1990:2-4)

For the British, their attempt to secure the trade route between India and China through the Straits of Malacca, the settlement of Penang in 1786 and Malacca in 1795

followed by Singapore in 1824<sup>1</sup>, was primarily aimed at the expansion of trade. But the disputes among the local rulers following the discovery of rich tin deposits in Perak and other mining activities in about 1850 signalled further British intervention, which slowly drew the Straits Settlements into closer political and economic ties despite the transformation of economic activity and the large-scale migration of Chinese population into the Malay Peninsular.

Malays were engaged in small-scale mining activity up to the middle of the nineteenth century, but the major development of the industry was accompanied by the rapid migration of Chinese workers whose numbers grew from zero in 1850 to an estimated 80,000 in 1870 in Perak alone (Andaya & Andaya, 1982:210). As at this point in time, the Chinese were the dominant figures in Malayan tin mining. For the Chinese, their ability to quickly adopt European skills and techniques in economic management and mechanical innovation had made them more successful than the Europeans (Gullick, 1969:66). Even after the British entrance into mechanised mining using techniques such as dredging, had displaced many Chinese from the mining industry, they moved into other areas of the economy such as urban commerce, estates and small-scale industry. As a result the flow of Chinese immigrants from China continued (Young, Bussink & Hassan, 1980:13). The Chinese relationship with civil power, which could be described as *imperium in imperio*, was described by Victor Purcell as follows:

‘As a race they are quite prepared that the overseas administrative power shall be vested in others, indeed they seem to prefer it so. They do not want to be bothered with the legal and administrative machinery. But they want the maximum of freedom within alien framework of government, the freedom to trade and make money and to live their lives without interference. To the really ambitious Malayan Chinese, success means to be a great merchant or a captain of industry.’

(Purcell, 1967:291)

By the late 1880s, the British agreed to intervene and established indirect rule in Selangor, Perak, Negeri Sembilan and Pahang. By 1896, these four signatory states

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<sup>1</sup> Following the establishment of a trading post in Singapore in 1824, a single administrative unit, namely the Straits Settlements, comprising Penang, Malacca and Singapore was formed by the British in 1826.

were established as the Federated Malay States (FMS) with Kuala Lumpur as its capital. With the concept of 'Malay rule and British advice' the Sultan was required to accept a British Resident 'whose advice must be asked and acted upon on all questions other than those touching Malay religion and customs'. At the same time the Sultans were allowed to keep all the privileges of the Malay ceremonial court but with the executive power remaining in the hands of the British Resident. Unsurprisingly most of the Malay rulers became 'puppets' under the strict control of the British (Gullick, 1981:19-33). Meanwhile the acceptance of permanent British advisers by the four northern states of Perlis, Kedah, Kelantan and Terengganu and the southern state of Johor in 1914, collectively known as the Unfederated Malay States (UMS) and excluded from the FMS, had effectively allowed the extension of British rule throughout the Malay Peninsular.

With this extension Britain's next move was to establish its commercial interests in accord with the interests of the British colonial administration. Despite growing numbers in tin mining activities, the first rubber boom caused by the expansion of the motorcar industry occurred between 1905-1908 and made the British government introduce special land regulations to encourage rubber cultivation. By 1908 it was reported that rubber was being planted in almost every state in Malaya, occupying some 109,000 hectares, 'an area greater than that planted with any other crop' (Andaya & Andaya, 1982:214). The rubber boom in Malaya was quickly noticeable, especially along the west coast states, which made these areas more developed and prosperous than those on the east coast of Malay Peninsular, Sabah and Sarawak (Roslan, 2002). The established infrastructure of the tin industry had also benefited the rubber industry, which not only led the spectacular entry of European investment and expertise into Malaya's economy but also made the Malay Peninsular quickly become the main supplier of rubber to the world in addition to its dominance of the tin supplies.

Obviously the new activities needed more labourers. Surprisingly, the indigenous Malay community was largely bypassed to meet this demand. Instead, during the early decades of the twentieth century, hundred of thousands of 'indentured' workers

from South India<sup>2</sup> were brought in by plantation owners to work on their rubber plantations while the Chinese continued to work in the tin mines. Under such circumstances, immigration continued to increase, particularly throughout the first decade of the twentieth century. This particularly occurred before the introduction of some restrictive legislation on export and planting activities<sup>3</sup> and the great depression<sup>4</sup> that took place between the periods of 1922 to 1939. Eventually, from the 1930s onwards, the ethnic changes started to slow down and stabilise, particularly the proportion of Malays in the population levelled off at 50 per cent after the period<sup>5</sup> (Arles, 1971, cited in Anand, 1983). A most striking factor was the increase in locally born Chinese and Indian communities. The proportion of Chinese born in Malaysia rose from 36 to 64 per cent, while the Indians increased from 21 to 52 per cent in the period from 1931 to 1947. By independence in 1957 more than three-quarters of the Chinese population and almost two-thirds of Indians were locally born (ibid). Obviously, the most striking implication of this was that the economic and political make-up of Malaysia was becoming more divided along ethnic line.

As mentioned earlier, at this point in time, the Malay Peninsular was made up of three major races; the Malays as the indigenous community and the Chinese and Indian immigrants as non-indigenous groups. By contrast, the form of economic and social organisation among Chinese and later the Indians along with their distinctive work as labourers in mines and on plantations kept these communities apart from the Malays who were being re-absorbed into the countryside as agriculturalists, an occupation to which they were much accustomed. The net result was a country made up of sectoral and geographical concentrations based on race (Abdullah & Mohamed, 1982:107).

Largely inherited from the British colonial administration policy of 'divide and rule', the segregation among major ethnic groups became more prominent. The Chinese and Indians were engaged more with the modern sectors of the economics such as in

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<sup>2</sup> The beginning of large-scale Indian migration can be traced back as early as the 1880s (see for example Hirschman, 1972)

<sup>3</sup> Discussion on the issues related to legislation pertaining to land and planting activities can be found in Thoburn (1977, 68-70)

<sup>4</sup> World economic depression took place between 1929-1933

<sup>5</sup> For example in 1800 the Malays had made up of some 90 per cent of the total population of Malaya but by the first census in 1911 they made up only 51 per cent (Gullick, 1969:74).

tin mining, rubber production and commercial activities that mostly took place in the west coast areas such as in the states of Selangor, Negeri Sembilan, Perak and Pulau Pinang which were relatively more developed. The Malays on the other hand, continued to remain in the subsistence sector of traditional and agricultural activities such as farming, fishing and paddy (rice), largely in the East Coast and northern parts of the peninsular such as in Kelantan, Terengganu, Kedah and Perlis. These states were basically agricultural states and relatively underdeveloped.

Looking at the employment structure by ethnic group and economic sector for the late 1960s for example, it was clear that Malays continued to predominate in the rural areas compared to non-Malays who were largely in the urban sectors. In 1968 for instance, about 66 per cent of Malays were in the rural sectors with only 32 per cent of total Chinese employment in the same sector. While on the other hand, the urban sector, such as in mining, manufacturing, construction and commerce, employed about 62 per cent non-Malays with Malays making up only about 15 per cent of this sector (M.Zainuddin and Zulkifly, 1982:137). This indicates that the Chinese domination in the modern or quasi-modern sector of the economy further established their settlement in the urban areas. For example, reported by Mehden (1975), in 1957 there were only about 11.2 per cent of Malays living in the urban areas while 88.8 per cent remained in the rural areas. For the Chinese, about 44.4 per cent of this community lived in the urban areas. Obviously, 'the relative concentration of non-Malays in urban areas also gave them access to better educational facilities in the cities – a factor which helped in perpetuating their edge over the Malays in the economy' (Anand, 1983:3-4).

But the most important implication of this was the increased income gap and the widespread of poverty, particularly among the Malays. From Table 1 below, it is clear that, while there was an indication of a reduction in the incidence of poverty in the period of 1957 to 1970, about 65.9 per cent of Malays were still poor, compared to only 27.5 per cent Chinese and 40.2 per cent Indians respectively. Moreover, the severe poverty problem seems to have occurred more in rural than in the urban areas. Even though there were urban poor,



**Table 1**  
**Incidence of Poverty in Peninsular Malaysia (%),**  
**1957/58 and 1970**

|                  | <b>1957/58</b> | <b>1970</b> |
|------------------|----------------|-------------|
| All Households   | 51.2           | 49.3        |
| Rural households | 59.6           | 58.7        |
| Urban households | 29.7           | 21.3        |
| Malay            |                |             |
| All households   | 70.5           | 65.9        |
| Rural households | 74.9           | 70.3        |
| Urban households | 32.7           | 38.8        |
| Chinese          |                |             |
| All households   | 27.4           | 27.5        |
| Rural households | 25.2           | 24.6        |
| Urban households | 29.4           | 30.5        |
| Indian           |                |             |
| All households   | 35.7           | 40.2        |
| Rural households | 44.8           | 31.8        |
| Urban households | 31.5           | 44.9        |
|                  |                |             |

Source: Ikemoto (1985)

as well as Chinese and Indian poor, the majority of the rural households were Malays, and these Malays experienced higher levels of poverty and remained the largest group. This is based on the fact that most of the Malays were to be found outside the modern, urban and corporate sector. Malays tended to be poorly represented among professional, entrepreneurs or corporate managers, as ‘they continued to be concentrated in low-productivity peasant agriculture and the public sector’ (Gomez and Jomo, 1999a:19).

This was the case during the period between 1957 and 1970 when there was a fall in income share of about 30 per cent for the lowest 20 per cent of households. It was the predominantly Malay rural households that experienced the sharpest decline of about 40 per cent; an amount that was sharper than the Chinese urban households (15 per cent) (Pang, 1983:317). Although some measures to speed up the Malays’ economic

mobility and to promote *bumiputera*<sup>6</sup> capitalism through NEP was introduced (to be discussed in the next section), the ownership of share capital among the Malays in 1970, still remained low at about 2.4 per cent compared to the Chinese, 27.2 per cent, and that of foreigners, which constituted about 63.4 per cent (Gomez and Jomo, 1997).

After independence, particularly by the mid 1960s, Malay feelings of being economically deprived became more noticeable. The sentiment was felt by the new generation of Malays, especially among the upwardly ambitious Malay civil servants and the new cohort of educated and urbanized Malays, who wanted more and quicker economic advantages. Much blame was put on the government for its perceived error in not aggressively correcting the economic imbalances between the ethnic groups. Since then, the issue of the economic backwardness of the Malays has been used by the Malay political elites and intelligentsia to single out the ethnic inequality factor (Mahathir, 1970:76).

These economic imbalances, despite some efforts that had been made to eliminate the pre-independence pattern of foreign and local Chinese ownership of the corporate sector has created the ethnic disturbances on May 13, 1969. The bloody racial riots that occurred during that period, particularly between the Malays and the Chinese, had most tragic effects. The riots had proved to have a damaging effect on nation building. Many argued that, for Malaysia to enjoy progress, stability and harmony in the future, correcting and narrowing the economic imbalances between ethnic groups was essential. As a response, the New Economic Policy (NEP) was introduced by the government in 1970, a policy strategy that was to be implemented over the 20-year period to 1990. Under its two-pronged strategy, its primary objectives were to eradicate poverty in society, regardless of ethnicity and to increase Malay and other indigenous peoples' (*bumiputera*) participation in the country's economic growth and wealth. This was to be targeted at a figure of 30 per cent by 1990.

However, inequality among the ethnic groups in areas such as income level, the rural-urban dichotomy and work composition proved to be highly persistent during this

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<sup>6</sup> Bumiputera literally means the "son of the soil" related strongly with the Malays to differentiate them from the other non-indigenous communities such as the Chinese and Indians. The Malays are the main Bumiputera in Peninsular Malaysia, meanwhile in Sabah, the Bumiputera are Kadazan, Bajau and Murut. In Sarawak they are Malay, Bidayuh, Iban and Melanau.

period. But it was claimed that the affirmative action taken by the government through NEP was the turning point in bringing the rapid economic growth that the country is presently enjoying and eventually helping to reduce inequalities within society. At this point we must turn to a discussion of Malaysian economic development to understand its contributions in further developing the economy and the implications for its future progress.

#### **4. MALAYSIAN ECONOMIC DEVELOPMENT**

Some observers of Malaysia's economic development have argued that Malaysia appears to represent one of the success stories of a developing economy which challenges many conventional models of national development [see for example World Bank (1993) and Trezzini (2001)]. Being in the first generation of newly industrializing countries (NICs), Malaysia has the remarkable record of sustained economic growth with a Gross Domestic Product (GDP) growth rate of between 8.0 to 10.0 per cent during the period from 1990 to 1996, with the manufacturing sector as its major contributor. Malaysia has been portrayed as one of the 'economic miracles' of East Asia (World Bank, 1993:25) before the sudden and massive collapse of its economy due to the economic and financial turmoil in late 1997. With extensive deposits of natural gas, copper, tin, uranium, bauxite and coal, Malaysia is also known as a country that is rich in natural resources. Meanwhile in agricultural production, besides having a major producer of rubber and exporter of tropical hardwoods, Malaysia is also the leading exporter of palm oil (Alamgir, 1994:67).

The initial interest of the British Empire in the mid 19<sup>th</sup> and 20<sup>th</sup> centuries in the Malaysian agricultural economy was to cater for Britain's needs and meet the demands of the European market, as most of the products were exported to Britain. After independence in 1957, with the characteristics of a classical colonial economy, Malaysia became the world's largest producer of tin and the second largest of natural rubber. But with the uncertainties in agricultural products, such as lower commodity prices in tin and rubber and with the pricing system mostly being controlled by the West, government started to align its economic structure towards manufacturing by promoting industrialisation in selected areas, which became the basis for its continuous growth in the present decade (Brown, 1995:543). The creation of the

Malaysian Industrial Development Finance (MIDF) in 1960, followed by the Malaysian Industrial Development Authority (MIDA) in 1965 has had a great impact on the pace and pattern of industrial development in the country. With the variety of incentives to attract foreign investment through the opening of free trade zones and many industrial estates, the 1970s and 1980s witnessed remarkable growth in the Malaysian economy.

**a. Policy Change and the Growth of the Malaysian Economy**

Malaysia's success in its economic development and planning has primarily been shaped by the nature of the visions and interpretations of the respective ruling governments in promoting a national agenda for development. Jomo (1999) for example, has outlined and distinguished at least three different regimes with different prophecy and priorities in shaping the development process of Malaysian economy, which are:

- (i) 'Alliance Laissez Fairism, 1957-69 (Tunku Abdul Rahman). Generally laissez faire policies with 'mild' import-substituting industrialization, agricultural diversification, rural development and 'mild', but increasing ethnic affirmative action policies;
- (ii) Growing State Intervention (Abdul Razak, 1969-76; Hussein Onn, 1976-81; Mahathir Mohamed, 1981-85). Increasing state intervention and public sector expansion, especially for inter-ethnic redistribution; export oriented industrialisation; Looking East; public expenditure cuts from 1982, but government joint ventures with Japanese to develop heavy industries in the face of declining foreign investments;
- (iii) Economic Liberalisation (Mahathir Mohamad, 1986-present). Massive ringgit depreciation, economic liberalisation, privatisation, improved official support for the private sector; increased investment incentives; regressive 'supply side oriented', tax reforms; Vision 2020.' (Jomo, 1999:85-86)

The ruling Alliance government, a coalition of the political elite from three major ethnic groups, formed Malaysia's development philosophy after independence in 1957. It was to embark upon a programme of economic development emphasising industrialisation and economic diversification. This was effectively, a continuity of

the laissez-faire economic policy of the post-colonial government. With a development strategy of minimum state intervention, the effect of such interest was to protect the ex-colonial power and encourage greater foreign investment inflows. Even though the approach of laissez-faire economic policy has resulted in rapid economic growth with a real GDP growth rate of 5.4 per cent in the period 1966-70 compared with only 4.1 per cent in 1956-1960 (BNM, 1994:4), about half of the population were still living in poverty towards the end of the 1960s as indicated in the incidence of poverty. The policy was therefore considered a failure.

The introduction of the New Economic Policy (NEP) in 1971, after the bloody racial riots in 1969, marked the historical transition of socio-economic development in Malaysia. The widening gap of equity between the Malays and other ethnic groups, especially the Chinese, had forced the ruling government to divert their laissez-faire policy into greater state intervention in order to speed up the Malays' mobility in employment, education and the economy of the country to keep them abreast of the non-Malays.

With its implementation over twenty years (1970-1990) and including the Second Malaysia Plan (1971-1975), the NEP's ultimate aim was to achieve national unity and foster nation-building through massive economic redistribution programmes to achieve its twin-pronged strategy of 'poverty eradication' and 'the restructuring of society'. The targets of the NEP both in reducing the level of poverty and boosting the ownership of share capital among the ethnic groups, particularly among the *bumiputera* can be clearly seen in Table 2 below. Its target was that, by 1990, the incidence of poverty among Malaysians would be reduced to 16.7 per cent, while the ownership of share capital among *bumiputera* would be increased to 30 per cent.

**Table 2**  
**Selected Socio-Economic Targets of the NEP**

| <b>Incidence of Poverty</b>        | <b>1970</b> | <b>Target (1990)</b> |
|------------------------------------|-------------|----------------------|
| Overall                            | 49.3        | 16.7                 |
| Rural                              | 58.7        | 23                   |
| Urban                              | 21.3        | 9.1                  |
| <b>Corporate Equity Ownership:</b> |             |                      |
| Bumiputera                         | 2.4         | 30                   |
| Other Malaysia                     | 34.3        | 40                   |
| Foreigners                         | 63.3        | 30                   |

Source: Malaysia (1991), Table 2-1, p. 34

As at 1990, most of the NEP's ambitious targets had largely been achieved. The poverty incidence had been impressively declined from 49.3 per cent in 1970 to 15 per cent in 1990, and was further reduced to 5.7 per cent in 2004 (Malaysia, 2006:348), beyond its targeted figure. The identification of ethnic groups with economic function was also being reduced. The *bumiputera* share rose from 6 per cent to nearly 20 per cent in 1990 before experiencing a slight decline to 18.9 per cent in 2004. Meanwhile, shares for non-*bumiputera*, especially the Chinese, also rose from 27.2 per cent in 1970 to 45.5 per cent in 1990 and to 40.6 in 2004 (Malaysia, 1991, 2001a, 2006:356). In the overall observations, the *bumiputera* control of capital and ownership at the end of the NEP period was identified as representing significant progress, but it was still under-representation in terms of the actual share of corporate capital, being still below its target point of 30.0 per cent (see for instance Gomez and Jomo, 1997:166).

Malaysia experienced remarkably high economic growth during the NEP and later through the NDP period. The GDP growth rate has been increased and sustained at roughly more than 8.0 per cent annually compared to an average of only 5.4 per cent at the introduction of the First Malaysia Plan from 1966 to 1970. The government favoured the international competitiveness of export-oriented activities compared to the earlier policy of import substitution, despite the weakening public enterprises and the heavy promotion of privatisation and its economic priorities of modernisation and industrialization which had been among the reason for Malaysia's success in achieving fast growth (Jomo et.al, 2003:109). With the heavy reliance on foreign rather than domestic-led manufacturing growth, which imitates Singapore's industrialisation strategy, the extensive transformation of the public sector by privatisation and deregulation appears to be the turning point for government policy in terms of economic liberalisation and structural change since 1986.

Modern manufacturing sectors were expanded progressively while the new wave of foreign relocation started to take shape. The passing of a Free Trade Zone Act in 1971, despite various incentives and privileges under the Generalised System of Preferences (GSP) that were withdrawn in many Asian NICs in 1998, explains the rising trend in foreign direct investment (FDI) in manufacturing industries in

Malaysia. The changes in the domestic economic environment to coincide with businesses in industrialized countries, particularly the United States and Japan, enabled Malaysia to receive huge Foreign Direct Investment (FDI) from the mid-1980s to mid-1997, before the financial crisis occurred. For example, in 1993, Foreign Direct Investment contributed nearly 60 per cent of all investment in Malaysia, and Malaysia became one of the top five recipients of FDI in the developing world during 1987-93, according to the World Bank. The major bulk of FDI received was for manufacturing; with electrical and electronic products being a steady recipient since 1990, followed by petroleum and petrochemical products (EPU, 2001b). Among the major sources of FDI flowing into Malaysia are the United States and Japan. The US was the major contributor to FDI with a share accounting for 37.8 per cent followed by Japan with 14.5 per cent, Singapore 9.0 per cent, Taiwan 4.6 per cent and the United Kingdom 3.8 per cent (ibid).

Obviously, during the period from 1970 to 2005, the contribution of manufacturing to GDP increased from 13.9 per cent to 31.4 per cent as compared with the previously predominant agricultural sector, which declined from 29.0 per cent to 7.8 per cent of the total output of the economy (Table 3). However, the service sector, such as finance; transport and communication along with the wholesale and retail trade, continued to be dominant throughout the period. Admittedly, the Malaysian economy has diversified considerably from the colonial economic pillars of rubber and tin. With export-oriented industrialisation increasing its momentum in the seventies and into the late eighties, manufacturing has become the largest single sectoral activity in the Malaysian economy, with services growing correspondingly.

**Table 3**  
**Composition of Gross Domestic Products (GDP) (% at constant prices)**

|                                   | 1970 | 1980 | 1990 | 1995 | 2000 | 2005 |
|-----------------------------------|------|------|------|------|------|------|
| Agriculture, Forestry and Fishing | 29   | 22.9 | 18.7 | 10.3 | 8.2  | 7.8  |
| Construction                      | 3.8  | 4.6  | 3.5  | 4.4  | 3.3  | 2.7  |
| Manufacturing                     | 13.9 | 19.6 | 27   | 27.1 | 31.9 | 31.4 |
| Mining and Quarrying              | 13.7 | 10.1 | 9.7  | 8.2  | 6.7  | 5.9  |
| Services                          | 36.2 | 42.8 | 42.3 | 57.2 | 53.9 | 58.1 |

Source: (i) Malaysia (1991); (ii) Economic Report 1996/97;  
Based on data retrieved from <http://www.epu.jpm.my/eif2001/1.html>  
Malaysia (2001a), Malaysia (2006)

As a result, the share of agriculture in total employment fell from 50.5 per cent in 1970 to 18.7 per cent in 1995 to 12.9 per cent in 2005, while the share of the manufacturing sector increased from 11.4 per cent in 1970 to 25.3 per cent in 1995 and 28.7 per cent in 2005. The unemployment rate experienced a decline from 5.1 per cent in 1970 to only 3.5 per cent in 2005. The per capita income had also increased tremendously, from RM721 in 1960 to RM6099 in 1990 to RM18,489 in 2005 and the poverty level has impressively fallen while the gap between the ethnic groups has been reduced substantially (Malaysia, 1996, 2001a, 2006:6)

As can be seen, the Malaysian economy has made tremendous progress. The economic diversification towards manufacturing and its preference towards FDI have helped it perpetuate the growth in income levels and the changes in work composition. Meanwhile, the affirmative action taken by the government under the NEP has not only significantly reduced poverty amongst the Malay community, but the number of Malay capitalists and middle class has expanded aggressively (Gomez and Jomo, 1999a:23). This can be seen, not only through the increasing size of the Malay share, but also from the increasing number of registered professional Malays that has increased from 4.9 per cent in 1970 to nearly 30 per cent in 1999 and again to 38.8 per cent in 2005 (Jomo, 1991:498; Malaysia 2001a:69, Malaysia, 2006:355). Because of the government's concentration on creating a Malay middle and business class, some re-distribution of wealth has taken place. However, there remain large numbers of Malays that have not really benefited, particularly those in the rural areas. This has been the main factor in the increasing inter-class disparity among the Malays in recent years (Zakaria, 1982:96; Roslan, 2002).

What this suggests is that, while inter-ethnic disparity is eventually closing, there is now emerging a new problem of inter-Malay inequality. This is based on the evidence that the gini coefficient amongst the Malay community has substantially increased over the years from 0.428 in 1990 to 0.452 in 2004, (Roslan, 2002, Table VI.2, Malaysia, 2006:352). Whether this has resulted from affirmative action taken by the government or is related to the extensive used of ICTs in recent years is something that needs further investigation.



Meanwhile, in the case of regional development, while economic prosperity is being enjoyed by the overall society there is still clear disparity between the urban and rural populations. Not only do the urbanisation rates seem to be high in the more developed states like Kuala Lumpur, Selangor, Pulau Pinang and Johor, these states also seem to enjoy high income gains and low levels of poverty, which leaves the less developed states, like Kelantan, Kedah, Perlis and Sabah, with a high level incidence of poverty although it shows some level of declining rate over the years. For example, in the state of Kedah the level of incidence poverty increased from 12.2 per cent in 1995 to 13.5 per cent in 1999 down to 7.0 per cent in 2004, while in Perlis from 11.8 to 13.3 per cent and went down to 6.3 for the same period of time. Compared to those in Kedah and Perlis, more developed states only experienced a low incidence of poverty; between 0.3 and 1.5 per cent between 1995 to 2004 (Malaysia, 2001a:143, Malaysia, 2006:378). Moreover, the lack of infrastructure such as telecommunication and electricity coverage particularly in the rural areas such as those in Sabah which in only 72 per cent and in Sarawak only 80.8 percent, give an indication that the issue of inequality continues to be persistent in Malaysia (Malaysia, 2001a:322; Harris et.al, 2001, Malaysia 2006:422).

#### **b. The Present Economic Development**

The introduction of the NDP (1991-2000) to replace the NEP, which ended in 1990, marked another important economic transition for the country. During this period, massive economic liberalisation, privatisation and deregulation processes took place. No doubt some liberalization, such as the privatisation and deregulation of the telecommunications and communication industries, was first adopted during the mid eighties, it was during this period that private sector was given more leeway. The call for a less regulated economy, particularly by the large Malay-controlled business class and the example of the success of other earlier East Asian economies such as Taiwan and Korea in liberalising its economy were among the important factors in the government's move towards extensive economic liberalisation (Jomo, 1999:95).

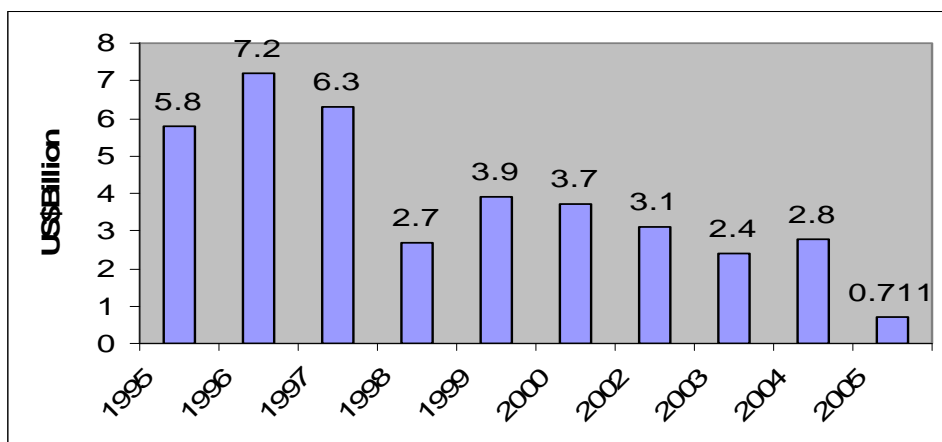
The government's favourable towards private capital could be clearly seen through various incentives which it introduced. These included lower interest rates, *ringgit* depreciation to promote export and to encourage foreign investment (as a result of the 1997 financial crisis), greater labour flexibility and the increased availability of cheap

migrant labour and the privatisation of government enterprises and public projects. As a result, the country experienced an extensive period of economic growth during the NDP period. FDI made an excellent contribution to the economy and the GDP rate for the country stayed at roughly 8 per cent per annum.

However, the liberalisation process and the opening up of the country's economy were not without consequences. In late 1997, the Asian economy, including Malaysia, began to face a currency crisis. Parts of the economic sector such as manufacturing and services were badly hit. Meanwhile, the previously good FDI contribution to the economy started to slow down. Figure 1 clearly indicates that, while the inflow of FDI started to increase in 1996, it then experienced a drop, particularly after the financial crisis in 1997, and reached its lowest point in 1998. Although the FDI in Malaysia started to rebound in 1999 before experiencing a slight drop in 2000 and continuing to drop throughout the year 2003, 2004 and 2005, the low FDI contribution during this period compared to the early and middle 1990s, suggested that its competitive advantage started to be questioned. This was particularly due to the low number of applications from foreign companies (EPU, 2001). Besides the impact created by the currency crisis, the shift towards producing high value-added products and greater competition from the low wage countries like China and Vietnam were among the reasons for lower inflow of FDI into the country (ADB, 2000, Utusan Online, 2004).

**Figure 1**

**Foreign Direct Investment in Malaysia (US\$billion)**



Source: Based on data retrieved from:  
<http://www.unctad.org/section/press/docs/asean-spotlight.pdf>

Meanwhile, internal factors such as rising production and labour costs, a serious shortage of skilled personnel, the lack of scientists and R&D and the domination of men in the labour force compared to women which resulted from the changing pattern of work composition, would obviously all have their consequences for Malaysian competitiveness in the global market. There is increasing evidence that parts of the employment sector such as manufacturing and services have been gaining momentum in recent years. In terms of gender, the higher employment categories such as the administrative and managerial sectors have been continuously dominated by men who constituted more than 60 per cent of the total in the period from 1992 to 2005. On the other hand women mostly occupied low-skill and low status occupations in the production, clerical and related workers categories. For example, in 2005, about 31.1 per cent of women were being employed in these employment sectors (Malaysia, 2006:297).

Since the manufacturing sector became the most prominent employment sector, the high number of women being employed under this category is not in doubt. For example, in 1980, about 85 per cent of the workforce in electronic industries and 71 per cent in the textile industries were women (Yun, 1984:11). This could be the result of the migration of mostly rural women searching for low-skilled jobs, particularly offered by manufacturing industries which increased from, 1000 people in 1970 to 60,000 in 1990 (Roziyah, 2003:126). Although the number of women in professional, managerial and administrative positions has increased over the years, large portions of these women are in the teaching and nursing professions. In addition, the proportion of women who participated in the labour force only constituted about 45.7 per cent compared to about 86.6 per cent of men in 2005 (Malaysia, 2006). This indicates that the gender participation in the labour force is unevenly distributed. This will then have its implications in producing sufficient labour supply, particularly in the high-skilled workforce that the country currently needs.

Realising the shortfall, the government announced that it was to embark on further economic growth and modernization, known as Vision 2020, on 28 February 1991. Using ICTs as the point of departure, action such as the establishment of the Multimedia Super Corridor (MSC) in 1996, was taken in the hope that the present

strength of the economy in sectors such as manufacturing and services will be the new engine of growth by producing a high technology/high skill industry for the country to further develop and compete in the global economy. With the objective of achieving the status of a developed country by the year 2020, it is also hoped that both the economy and the society will become more prosperous and the means for Malaysia to create its own national identity will be further enhanced (Malaysia, 1991:3-4, Mahathir, 1998:27).

## 5. MALAYSIAN POLITICS

In order to understand Malaysian political structures in a multiethnic society, many observers and analyst of Malaysian politics regard ethnicity as the basis in understanding the whole situation. This due to the fact that the power struggles between the Malay and non-Malay (mainly Chinese) communities have been going on for over a long period of Malaysian history. Driven primarily by ethnic tension and the compromises this requires Malaysian politics have 'always been controlled by an unequal alliance between the elites' of both major communities (Crouch, 1993:136). With its formal democracy and strong authoritarian tendencies, Malaysia has been ruled since 1955 by a coalition government of United Malays National Organisation (UMNO), the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC) known as *Barisan Nasional* (National Front). These three major parties representing Malays, Chinese and Indians have won all eleven parliamentary elections held since the first one in 1955.

The success of *Barisan Nasional*, as the coalition has been known since 1974, means that it has held more than four-fifths of the seats in parliament in all elections. This has been due to their superior electoral strategy to win substantial support from both the Malays and non-Malays<sup>7</sup>. Unlike the other coalition party, UMNO, political supremacy and legitimacy have been almost unchallenged. For most of the Malays who regard themselves as the original inhabitants, their success in having a Malay Sultan as the head of the state, Malay as the national language and Islam as the

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<sup>7</sup> Like the opposition party such as Democratic Action Party (DAP), their support largely drawn from mainly Chinese community, while Pan-Malaysian Islamic Party (PAS) is religious-based party focusing totally on MalayMuslim voters.

religion of the state written into the 1957 constitution were seen as the symbols of Malay dominance politically, socially and culturally. Indeed, after 1969 the questioning, even in Parliament, of the pre-eminence of the Malay special rights, non-Malay citizenship, the status of the national language, Islam and the constitutional provisions pertaining to the Sultans could result in prosecution under the Sedition Act which has been defined as a “sensitive issue” and is seen by many as an authoritarian means of ruling (Crouch, 1996).

Moreover, the privileges that the government enjoyed under the existing constitution and Acts such as the Sedition Act, 1948; the Official Secret Act, 1972; the Defamation Act, 1957; Internal Security Act, 1960 and Printing Presses and Publications Act, 1948 act to limit political and legal debate and further strengthen the governments authoritarian tendencies, especially in ensuring that the Malay-dominated government remains in power. This can be clearly seen, not only by limiting the power of the judiciary and monarchy (Brown, 1995:550), but also in the extensive control over the media through government control and ownership of broadcasting networks and leading newspapers. Not only do publishing licences need yearly renewal and government appointment of editors, but also most of the leading newspaper and private television stations are directly or indirectly owned by individuals or corporations connected to the government (Gomez, 1990:178).

In addition, the reason for UMNO’s continued dominance over the government was their ability to sustain and maintain the ethnic divisions and class structures in Malaysian society, especially among the Malays who formed the majority of the electorate. But as has been noted earlier, the government’s high concentration on creating Malay capitalist and middle class has left large numbers of Malays, especially in the rural areas, not really well catered for. For such a reason, another Malay opposition party, namely the PAS, has used the lack of modernisation processes in many rural areas, which tend to be Malay dominated to gain more support. PAS’s victories in the state of Kelantan for the past two decades including the recent 2008 general election and other states such as in Perlis and Perak after their coalition with other opposition party such as Parti Keadilan Rakyat (PKR) and Democratic Action Party (DAP) alarmed the present government who see the beginning of a continuous threat. Whether this situation will lead to the PAS taking

over as the leading Malay party or whether it will split the Malay vote need to be examined (Zakaria, 1982:98).

It was very obvious that the PAS supported the idea of an Islamic state. With a strong religious stance as compared to UMNO, aspects of government policy, such as the creation of a Chinese Consultative Committee, which in the fundamentalist Islamic view is the government giving privileges to Chinese exploiters caused increasing support for the PAS because of the feeling that the principles of Islamic justice had been ignored.

For the government, concern about the rise in support for extremist Islamic views, exposure to Western cultural settings and most importantly, the threat posed by the PAS to establish an Islamic state has persuaded the government to take the lead in 'Islamising the country and actively promoting its own creed of Islam' (Terzinni, 2001:341). The government view is a relatively liberal and progressive interpretation of Islam. While being in the position of actively promoting and sustaining rapid industrialisation and social mobilisation, the government doesn't view Islam as a threat to modernisation. Despite they sees Islam as a means to further strengthen their superiority in all fields such as in modern knowledge, industry and commerce (Mahathir, 2000b:112). The government hopes that, by having a proper liberalisation policy accompanied by strong "Asian-Muslim values", the aim of becoming an industrialised country set out in Vision 2020 will become reality. Moreover, as part of the process of globalisation the government's lead in championing many Muslim causes, such as Bosnia and Palestinians will further strengthen their position as a 'true' Islamic fundamentalist government among the Malay/Muslim communities.

As for non-Malays, under the 1957 "consociational bargain" it was clearly understood that, by giving the Malays the means to control the government, the non-Malays would acquire citizenship by birth, freedom to vote and the assurance of freedom of economic enterprise in exchange. Moreover, the non-Malays', especially the Chinese, continuous domination on economic matters was almost assured, and their rights to practice their religions and customs without any hindrance was confirmed. However the special preferences to the Malays in terms of language, culture and Islam, which is

virtually embedded within the national language and culture, caused some resentment among the non-Malays.

Their resentments over the policies that “discriminate” their rights as a Malaysian citizen were expressed in the slogan of a “Malaysian Malaysia”, articulated especially by the opposition parties such as DAP, implying that all Malaysians irrespective of their race, culture and religion should have an equal stake in the country (Esman, 1994:73). Being a political vehicle for non-Malays who insisted on complete equality in the country which they regarded as their homeland, the ability of the DAP to draw support from the mainly Malaysian Chinese middle class and professionals posed another threat to the *Barisan Nasional*, especially the MCA. Moreover, the MCA was unable to influence many policy decisions since it had not held influential ministerial posts in finance, trade and industry since the 1970s and now found itself unable to act as a legitimate protector of the Chinese community because of a lack of unity among the Chinese towards the end of 1980s (Gomez, 1999:186). For MCA and subsequently the MIC, their inability to check UMNO’s growing influence in the *Barisan Nasional* was because of their awareness that ‘their chances of securing electoral victory were virtually impossible without the Malay support UMNO could provide’ (ibid:181).

The consequences of the economic recession in the late 1980s badly affected the country and resulted in the setback in the 1990 general election. The government’s share of the vote fell to 82.6 per cent compared to 98.8 per cent electoral support in the 1986<sup>8</sup> parliamentary election. This led the government to embark on more liberal policies. These included a move towards liberalisation policies in the economy through a “National Development Policy (NDP)” and “Vision 2020” with the goals to achieve ‘an economically just society with inter-ethnic parity’. The priority was to embark on an income-based policy rather than equity. The promotion of greater tolerance of non-Malay cultural expressions, the promotion of the English language and education at tertiary level and the tremendous economic growth of the early 1990s increased the support from various strata of society, especially the non-

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<sup>8</sup> See Baharuddin and Sankaran (1994) for detail breakdown of seats contested and won during the 1986 and 1990 general election between the *Barisan Nasional* and Opposition Parties.

*bumiputeras*, which benefited the UMNO as well. Thus, the 1995 general election saw dramatic gains in electoral support for the *Barisan Nasional* government.

However, the financial crisis that hit the country at the end of 1997, followed by the sacking of ex-deputy Prime Minister Anwar Ibrahim, proved to be another turning point in the history of Malaysian politics. Anwar was subsequently charged in court on five counts each of corruption and being a promiscuous bisexual and “sodomist”. Anwar on the other hand defended himself as being a government target after voicing concerns about the growing cronyism and nepotism among party members and the government. These events gave momentum to issues such as human rights, democracy, freedom of assembly and expression as well as concern about the government’s accountability, which has been by the NGOs, particularly the opposition parties, to attack the government and to gain more support. As a result, UMNO in particular had become a deeply factionalised party divided between Anwar supporters and those behind the government.

The 1999 general election saw a dramatic decline in the vote for the government with the government struggling to gain two-thirds of the vote during the election. These problems were due to the division described above (see Kamaruddin, 2000:27). Although 2004 general election have seen some increased in the support to the government, but again in 2008 general election they have lost many seats and even worst, they only won by simple majority. Meanwhile, some have concluded that the heavy promotion of ICTs, such as the Internet by the government in recent years has been another contributing factor. This is due to the observation that the inability to extensively use the mainstream media led to the Internet being heavily used by the oppositions to rally their support during the election (Baharuddin et.al, 2001, 2008).

## **6. CONCLUDING REMARKS**

For the past three decades, Malaysia has made considerable progress in terms of its economy, politics and social life. Indeed, the combination of the complicated economic progress and political background makes it an ideal subject for study pertaining to policy and its consequences for future development.



Economic liberalisation, privatisation and deregulation have taken place in the country in the past decades and have helped the country to evolve from an agrarian state into a newly industrialised one within short period of time. Coupled with various affirmative action policies, such as NEP and NDP, the country is enjoying growth in its economic attainments and social progress with large contributions from its strong manufacturing and service-based industries. Not only has the poverty level declined dramatically, but there is also evidence of changes in work composition, which has contributed, to the increase in income levels.

But the progress is not without challenge. The opening up of Malaysian economy to the global market has raised questions about its competitive advantage. In order to remain competitive, particularly in attracting FDI for its sustainable growth, the government has embarked on a more ambitious and vigorous policy shift, namely Vision 2020. Using ICTs as its point of reference, it is hoped that the move towards high skills and high technology will help to perpetuate the economy and become a developed country in the next two decades. Being a multi-ethnic society with a diverse political background, the means needed to embark on its own type of modernity have raised important questions. These are based on the view that the technological development, such as ICTs, would have its own unintended consequences as a result of both economic and political decisions. As to whether a distinctive Malaysian identity will emerge or whether Malaysian society will be further divided as suggested by the concept of the digital divide is yet to be discovered. Most important is the impact of this is for Vision 2020.

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