Targeting Horizontal Inequalities: Ethnicity, Equity, and Entrepreneurship in Malaysia

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Abstract
This study examines whether the horizontal inequality policies in Malaysia that preferentially target the indigenous ethnic groups (Bumiputera) are the ideal tool to reduce racial conflict. It also reviews whether the employment of race-based (Bumiputera-biased) policies is an effective method to help nurture highly entrepreneurial small- and medium-sized enterprises (SMEs). The case of large Bumiputera enterprises indicates that horizontal inequality-based policies has unproductive outcomes. Although well-connected Malay "corporate captains" did emerge by the mid 1990s, many of them lost control of their businesses during the 1997–98 Asian financial crisis, and these conglomerates did not actively foster Bumiputera SMEs. Malaysia has well-formulated programs that support SMEs, but their procedures, specifically involving creating Bumiputera capital as well as redistributing equity, do not promote an environment for productive entrepreneurship. The new economic policy regime, recently unveiled, continues emphasizing the distribution of wealth along ethnic lines at its essence, although now the emphasis will be on "picking winners" from among entrepreneurial Bumiputeras in a transparent manner. These assertions will not result in a fairer system of picking and supporting Bumiputera SMEs as these documents do not discuss devolution of power to key oversight institutions to ensure checks and balances in the award of state-generated rents.

1. Introduction

The literature on policy mechanisms to resolve structural inequalities in societies can broadly be divided into two schools of thought. The first calls for a universal approach when implementing social policies and the second contends that it is more viable to develop policies that target disadvantaged groups to help overcome social inequalities

(Ravaillion 2003; Mkandawire 2005). The targeted groups would be those lagging behind economically in society, along, for instance, class or ethnic lines. The implementation of policies based on either of these schools of thought has enormous implications in the context of multi-ethnic countries, as their outcomes can lead to racial tensions or add to already existing grievances, erupting into conflict.

On the issue of policy implementation and ethnic conflict, scholars argue that one reason for the persistence of racial strife in multi-ethnic societies is that policies have been viewed from a vertical perspective, that is, one that addresses social inequities from a universal perspective (Jayaraj and Subramanian 2006). *Vertically based* policies address the plight of individuals in need, regardless of their ethnic background. The counter-argument is that ethnic conflict and inter-ethnic social and economic differences can be better resolved by adopting a horizontal perspective—that is, by targeting ethnic groups that are in the most need of help.[1]

The concept of *horizontal inequalities* provides a means of assessing the level of intergroup inequality. Horizontal inequalities, it is argued, impact negatively on social stability in a way that is different from the consequences of vertical inequalities, particularly in cases where distinct ethnic and cultural differences coincide with economic and political inequalities, a situation that can then result in violent conflict. The horizontal perspective rests on an understanding of societal organization that revolves around the group dimension. The argument in favor of attaching significant weight to the idea of horizontal inequalities is that a purely vertical view of inequality provides no social perspective regarding the organization of society and the existing group hierarchies and structures that may be in place. An examination of horizontal inequalities highlights these existing forms of organization, by focusing on the group dimension within a society (Stewart 2002, 2008; Østby 2003, 2008).

Although there is value in understanding the role played by groups in social conflicts, many factors need to be considered regarding group identities and mobilization. The historical context is particularly important as major historical shifts, such as slavery, apartheid, and colonialism, have had a significant impact on the formation and consolidation of contemporary group identities. A key problem with the theory of horizontal inequalities, however, is that group construction is dynamic, and group boundaries are rarely static, as individual and societal perceptions and preferences shift over time. A horizontal cross-section of the structure of society

1 For a debate on the problems with vertical type policies and the need to consider a horizontal approach, see, for example, Stewart (2002, 2008), Østby (2003, 2008), and Jayaraj and Subramanian (2006).

does not appear to take into account the fluidity of individual identity and group membership, nor does it allow for the spaces where boundaries and identities overlap and transform. The horizontal inequality perspective also tends to compartmentalize individuals into groups lacking real significance in contemporary contexts. This construct of horizontal organization leans toward a homogenous view of group members, neglecting multiple individual allegiances and identities, the high degree of heterogeneity within groups, intra-ethnic changes, class, and other socioeconomic shifts and divisions.

In Malaysia, one long-standing government policy has been the cultivation of a Bumiputera Commercial and Industrial Community (BCIC).[2] Malaysia's approach to Bumiputera enterprise development has been state-centric with the government playing a key role in nurturing the rise of businesses owned by members of this community. This BCIC policy constituted part of the government agenda to develop domestic capital that would drive industrialization in Malaysia.

This paper examines the outcomes of horizontal inequality policies that preferentially target ethnic groups, with a focus on their impact on small- and medium-scale enterprises (SMEs). This study will assess the government's attempt to increase Bumiputera involvement in the industrial and services sectors through an evaluation of major vendor programs introduced to support SMEs. In short, this study will determine if targeting ethnic groups in business has benefited Malaysian economy and society.

2. Horizontal inequalities, ethnicity, and equitable development

Stewart, Brown, and Langer (2008) contend that there are three major types of horizontal inequalities: political, cultural, and socioeconomic. Horizontal inequalities that are socioeconomic in nature, the primary concern of this study, include those that involve ownership of wealth-generating assets such as those that are financial- and natural resource–based. The volume of income generated by individuals or groups depends on the amount of assets held by them. In multi-ethnic countries, one long-standing argument (similar to theorizing by proponents of a horizontal inequalities perspective) is that if a large volume of wealth-generating assets is concentrated in the hands of one ethnic community, specifically minorities, this can contribute to racial conflagration.[3]

2 The term *Bumiputera,* which means "sons of the soil," is used in reference to ethnic Malays and other indigenous peoples.

3 See, for example, Chua (2003). For a rebuttal of this line of argument, see Tarling and Gomez (2008).

In Malaysia, where the political system is characterized as being under the hegemony of one party (Mauzy 1993), an assessment of political horizontal inequalities is necessary, particularly as the leading parties in the country are race-based. Political horizontal inequalities are defined as those where group distribution of political opportunities and power, including control over the executive, legislature, regional governments, the army, and police, is unevenly distributed (Stewart, Brown, and Langer 2008). This inequity in the distribution of power has contributed to inequities in the distribution of economic resources (Gomez and Jomo 1999; Searle 1999).

The model of economic development adopted by a state is very much influenced by the nature of the regime. Compacts between state and capital vary from region to region. In Latin America, firms combine forces to create associations that help them collectively take up issues of mutual concern with the state (Durand 2010). These business associations are extremely influential and play a key role in determining policy agendas by the government. In Southeast Asia, in general, and in Malaysia, in particular, although state–capital linkages are a characteristic feature of the development process, business associations play no significant role in the economy. One reason for this is that because minorities have a dominant economic presence, including having ownership of large well-diversified business groups, or conglomerates, they prefer to develop ties directly with the state (Jesudason 1989; Gomez 1999; Searle 1999). Malaysian SMEs have little capacity to influence public policy even though national and ethnically based business associations have been formed (Chin 2001). In more homogenous Japan, however, social compacts involving state, business groups, and trade unions have been extremely crucial in generating rapid industrialization and redistributing wealth more equitably (Johnson 1982).

Of related importance is that a review of the economic history of Southeast Asian countries would indicate that governments adopted a mix-and-match approach to development policies. These countries' mode of economic and social change included ideas from different models of development (i.e., neo-liberalism and the developmental state).[4] The role of strategic institutions deployed to implement development plans also vary from country to country. The links between regime types, institutions, and social policies, and the effectiveness of these ties in eliminating socioeconomic inequities, are important—a point that draws attention to the issue of "institutional capacity" and extent of equitable distribution of power.

The role of the bureaucracy in creating and delivering policies equitably and in acting independently is important because it speaks to the issue of institutional auton-

4 See Harvey (2005) and Johnson (1982) for a discussion of the primary tenets of neo-liberalism and the developmental state, respectively.

omy. Which institution within the state has the capacity to control policy decisions has a bearing on the manner of distribution of economic resources. These arguments stress the importance of distinguishing between structure and ethnicity when analyzing public policies introduced to resolve horizontal inequalities.

In the literature on ethnicity and conflict, Brubaker (2004) notes that current debates relate essentially to the ontological status granted to "ethnicity" and ethnic "groups" as social phenomena. He argues that such debates depersonalize individual identity and reaffirm communal identity. Brubaker (2004, 2) draws specific attention to the concept of "everyday ethnicity" and notes that "ethnicity happens," yet residents can remain unresponsive "to the appeals of ethno-national entrepreneurs." For Brubaker (2004, 11), there is a need to see "ethnicity as cognition" and to analyze it in "relational, processual, dynamic, eventful, and disaggregated terms." This mode of analysis, Brubaker suggests, would provide a better understanding of how ethnicity has been abused, or constructed, to serve the vested interests of those who hold political office. Brubaker argues for an analysis of "ethnicity without groups" in which social processes of ethnicization, social mobilization, organization, and identification (rather than "identity") are made central to the inquiry.

Although ethnic identities might be "invented" or "imagined," they can arouse deep attachments from the people involved (Anderson 1983). Bates (2004) asserts that the constructivist view combines elements of the primordialist and instrumentalist perspectives. In a similar vein, Brubaker and Cooper (2000) contend that research on ethnicity and ethnic conflict indulge in "clichéd constructivism," that is, a tendency to preface such studies with nominal concessions to the variable, tenuous, and socially constructed nature of ethnic identities before proceeding to treat ethnicity in a "groupist" way that has little relationship to supposed constructivist underpinnings.

These arguments indicate that theories focusing on groups as a unit of analysis do not capture the complexity of ethnic and national identities—how such identifications evolve over time and how they are reconfigured by political and economic change. Members of an ethnic group, such as Indians and Chinese, do not share a common language, and sub-ethnic and religious divides run deep within these communities. These cleavages have persistently served to split, not unify, these ethnic communities. Although it is true that the Chinese have a major presence in Southeast Asian economies, popular myths have emerged based on a superficial knowledge of their ownership of corporate equity. First, the Chinese have little control over corporate stock they own. In Malaysia, Singapore, and Indonesia, all of which have (or have had) strong states, Chinese capitalists are largely subservient to government leaders (Gomez 1999; Gomez and Hsiao 2004). Second, Chinese capitalists in Southeast Asia rarely cooperate by merging their enterprises, even though they have been subject to much discrimination and marginalization (Gomez and Hsiao 2004). The diversity of characters that make up a nation and their everyday encounters draws attention to the need to de-homogenize ethnic communities and to de-essentialize their patterns of economic and political behavior.

3. Economic and enterprise development in Malaysia, 1970–2010

Migration and settlement patterns during British colonial rule framed boundary lines that shaped group-identity formation in Malaysia. As changes in the composition of the population occurred, which affected the organization of inter-ethnic relations spatially and in the economy, it contributed to competition for economic resources. Economic competition between ethnic groups was seen as the root of the tensions that led to serious race riots in 1969.

In 1970, two important events occurred following the riots. In the political system, the consociational form of the then tripartite ruling coalition was enlarged with the formation of the *Barisan Nasional* (National Front), comprising about a dozen parties. The United Malays' National Organization (UMNO), however, remained hegemonic in this coalition, which Mauzy (1993, 110–111) described as one where power-sharing meant "accommodation on essentially Malay terms." In the economy, the New Economic Policy (NEP), an affirmative action–based 20-year plan, was launched to resolve ethnic and social inequities that had contributed to this crisis. This policy exulted national unity, a goal to be achieved by removing all remnants of a spatially and class-divided society that had been created during colonial rule.[5] The grand narrative of the NEP was that of eradicating poverty, regardless of race, and restructuring society to achieve inter-ethnic economic parity between the Bumiputeras and other ethnic groups, particularly the Chinese.[6] A core concern of this social engineering policy was to rectify inequitable corporate ownership patterns among ethnic groups that had emerged during colonial rule, including through the subjugation of Malays in a burgeoning tin- and plantation-based economy in which they once had an active participation.[7]

Horizontal inequality policies such as the NEP, implemented within a context of a powerful hegemonic party at the helm of the state, would lead to a complex nexus

5 Malaysia attained independence in 1957.

6 According to the 2010 census, Malaysia's population of 28.3 million people comprises 67.4 percent Bumiputeras, 24.6 percent Chinese, 7.3 percent Indians, and other ethnic groups made up the rest of the number.

7 For a pioneering study of the development of capital during British rule that contributed to marginalization of Malay capital, see Puthucheary (1960).

of politics, bureaucracy, and business. This nexus was most clearly manifested when the government subsequently decreed that Bumiputeras should own 30 percent of corporate equity by 1990, with the nurturing of BCIC. The mechanism to attain this goal was by targeting Bumiputeras as recipients of government-created rents. This form of ethnic targeting in business would re-shape capital formation and development patterns among large enterprises and SMEs profoundly. Targeting favoring Bumiputeras was continued after 1990, when the NEP came to an end, with the introduction of similar policies such as the National Development Policy, implemented between 1991 and 2000, and the National Vision Policy (2001–10), both of which suggest a continued confluence of political and economic interests. When the government's 5-year development agenda after 2010 was released, it explicitly stated that "affirmative action" favoring Bumiputeras in business was to continue, but not before much pressure was put on the executive arm of government by UMNO members for the continuation of ethnically based state patronage in business.[8]

Inevitably, ethnic targeting has been shrouded in controversy. By 1990, although a large Bumiputera middle class had emerged, primarily because the government had provided quality education to poor rural children, a well-connected Malay business elite (or "new rich"), who owned large enterprises, had been created.[9] The development of SMEs had not been wholly ignored, but these new rich had received a preponderant share of state rents, distributed in numerous forms, including through the privatization of government enterprises and the award of lucrative licenses in key economic sectors. The government's focus on public enterprises in the 1970s, on conglomerates in the 1980s and 1990s, and on SMEs since 2003 indicated differing modes of governance by political elites. Implementation of public policies, particularly those that were race-based in nature, were at times synchronized and at other times syncopated. Relationships between politicians were quite often abrasive, especially during economic crises, which precipitated struggles between political elites over bailouts or access to more rents to fend off insolvency. On two occasions (in 1987 and 1998), after serious economic crises a split in UMNO contributed to the rise of powerful new opposition parties as politicians attempted to protect large enterprises aligned with them from bankruptcy.

Large business groups have been a distinctive feature of corporate Malaysia since the colonial period, though foreign, mainly British, enterprises then held vast dominance over the economy. In spite of the ubiquitous presence of Chinese firms in

8 See the *Tenth Malaysia Plan 2010–15.* See also the *New Economic Model Parts I and II.*

9 For insights into the rise of these "new rich," see Gomez and Jomo (1999), Searle (1999), and Sloane (1999).

Table 1. Ownership of share capital (at par value) of limited companies, 1969–2008 (percent)

	1969	1970	1975	1980	1985	1990	1995	1999	2004	2006	2008
Bumiputera individuals & trust agencies	1.5	2.4	9.2	12.5	19.1	19.2	20.6	19.1	18.9	19.4	21.9
Chinese	22.8	27.2	n.a.	n.a.	33.4	45.5	40.9	37.9	39.0	42.4	34.9
Indians	0.9	1.1	n.a.	n.a.	1.2	1.0	1.5	1.5	1.2	1.1	1.6
Other	—	—	—	—	—	—	—	0.9	0.4	0.4	0.1
Nominee companies	2.1	6.0	n.a.	n.a.	1.3	8.5	8.3	7.9	8.0	6.6	3.5
Locally controlled firms	10.1	—	—	—	7.2	0.3	1.0	—	—	—	—
Foreigners	62.1	63.4	53.3	42.9	26.0	25.4	27.7	32.7	32.5	30.1	37.9

Source: *Malaysia (2010).*

Note: *n.a. = not available.*

rural and urban areas, in terms of ownership and control of influential companies in the economy their strength paled in comparison to foreign capital. An assessment of interlocking stock ownership and directorships among major business groups in the late 1960s revealed a significant concentration of control over the economy by a small number of large British firms (Lim 1981).

SMEs, however, have long been predominantly Chinese-owned. Although British firms dominated the economy, one sector in which the Chinese had a notable presence was manufacturing, in an assortment of activities (Puthucheary 1960).

The government did attempt to increase Malay participation in the economy during the 1960s. Bank Bumiputra was incorporated in 1965 to provide Malays with credit to develop new enterprises, and Perbadanan Nasional (Pernas, or National Corporation), a trust agency, was established in 1969 to promote Malay capital. Little was achieved by 1969 in terms of equitable distribution of corporate wealth among all ethnic communities, however. That year, the disparity in ownership of corporate stock between the Bumiputeras (1.5 percent) and Chinese (22.8 percent) was obvious, though foreign enterprises owned 62 percent of the total equity (see Table 1).

In the NEP's first decade, the government concentrated on creating public enterprises, later called government-linked companies (GLCs). Because 30 percent equity of quoted firms had to be transferred to Bumiputeras, much of these shares were channeled to public enterprises and Bumiputera trust agencies. In 1981, a major shift occurred when Mahathir Mohamad became Prime Minister and began actively promoting private Bumiputera entrepreneurship, not GLCs, as part of his BCIC policy. Mahathir's primary contention was that equality could be achieved if Malaysia had an equal number of Malay and Chinese millionaires (Gomez 2009). Through selective patronage, involving neoliberal policies such as the privatization of GLCs, Mahathir strove to create this new breed of Malay capitalists. During his two-decade-long premiership (1981–2003), however, his government actively intervened in the economy to drive heavy industrialization through a quagmire of new state-owned firms. Mahathir hoped his pragmatic approach to adopting and adapting development models would aid his endeavor to rapidly assemble Malay-owned conglomerates. This mix of contradictory neoliberal and state-led policies was logically coherent, as far as he was concerned, because this convergence of strategies was seen as the best method to fulfill the BCIC's goals. These new conglomerates were then supposed to help the state groom Bumiputera-owned SMEs through subcontracts and outsourcing. Although well-connected Malay "corporate captains" did emerge by the mid 1990s—many of them subsequently lost control of their businesses during the 1997–98 Asian financial crisis (AFC)—these conglomerates did not actively foster Bumiputera SMEs.[10]

By 2008, according to government figures in Table 1, Bumiputeras still owned only 22 percent of total corporate equity; these figures have been disputed in numerous studies.[11]

By 2010, serious problems within the Malaysian economy were evident, specifically the poor quality of technological development, the high dependence on foreign capital to generate growth, and the ineffectiveness of big business to drive industrialization. Between 2000 and 2010, official figures indicated a clear reluctance by domestic private firms to invest in the economy.[12] Moreover, there had been numerous animated public debates about the efficacy of nurturing domestic capital along ethnic lines, most frequently during economic crises such as the severe recession in the mid 1980s, the 1997–98 AFC that led to the collapse of many Bumiputera capitalists nurtured by the state, and in 2009 when Malaysia slipped into a deep recession after the 2008–09 global financial crisis. Whereas studies of large enterprises indicate that horizontal inequality-based policies had unproductive outcomes,[13] there has been little assessment of the SME sector to determine if this mode of development of Bumiputera-owned firms has had significantly different outcomes.

4. Nurturing Bumiputera SMEs

Table 2 provides a definition of micro-, small-, and medium-sized enterprises as used by the government based on annual sales turnover or number of full-time

10 Gomez (2009) provides an in-depth discussion on the rise and fall of the large Bumiputera firms nurtured by Mahathir. Also see Perkins and Woo (2000) for an analysis of the political and economic consequences in Malaysia from the AFC.

11 See, for example, the 2006 study by the Centre for Public Policy Analysis.

12 *Tenth Malaysia Plan* (Figure 2.2), page 38.

13 Gomez and Jomo (1999), Searle (1999), Sloane (1999), and Gomez (2009).

Table 2. Definition of SMEs

	Micro enterprise	Small enterprise	Medium enterprise
Manufacturing, manufacturing-related services, and agro-based industries	Sales turnover of less than RM 250,000 or less than 5 full-time employees	Sales turnover between RM 250,000 and less than RM 10 million or between 5 and 50 full-time employees	Sales turnover between RM 10 million and RM 25 million or between 51 and 150 full-time employees
Services, primary agriculture, and information & communication technology	Sales turnover of less than RM 200,000 or less than 5 full-time employees	Sales turnover between RM 200,000 and less than RM 1 million or between 5 and 19 full-time employees	Sales turnover between RM 1 million and RM 5 million or between 20 and 50 full-time employees

Source: *http://www.smidec.gov.my*

Note: *RM = Malaysian ringgit.*

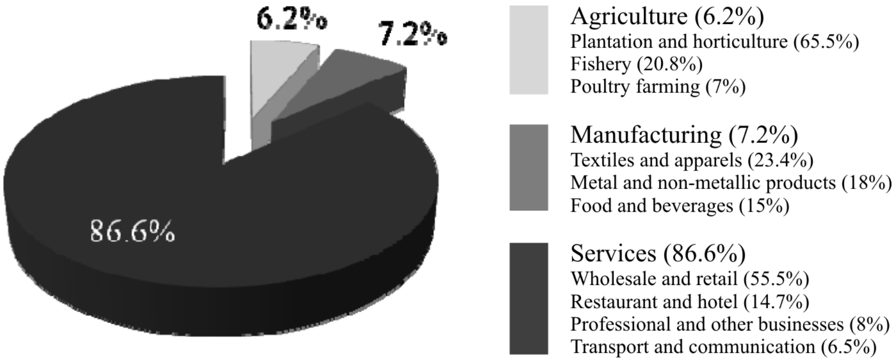
employees. In 2005, SMEs constituted approximately 99.2 percent of all businesses; almost 80 percent of them can be classified as micro-sized enterprises. SMEs employed more than 5.6 million workers. Official figures also report that only about 37 percent of all SMEs are Bumiputera-owned (Bank Negara 2006).

Bumiputera SMEs have not managed to acquire a significant presence in key sectors of the economy, including manufacturing, in spite of numerous government-assisted programs, including vendor schemes to enhance their participation in the industrialization process, specifically during the tenure of Prime Minister Abdullah Ahmad Badawi (2003–09). Like Mahathir, Abdullah staunchly supported Bumiputera capital, though he initiated one major reform; he zealously nurtured Bumiputera SMEs by deploying state institutions to deal directly with them, a method he hoped would also aid rural cottage industries, thereby alleviating poverty.

In terms of sectoral distribution, 87 percent of all SMEs are in services, 7.2 percent in manufacturing, and 6.2 percent in agriculture (see Figure 1). Of the SMEs in the services sector, 69.3 percent are in wholesale, retail, or restaurants (Third Industrial Master Plan 2006–12, 165). Because SMEs' share of GDP is about 32 percent, the contribution of Bumiputera SMEs in 2009 was only about 11.5 percent (see also Figure 2).

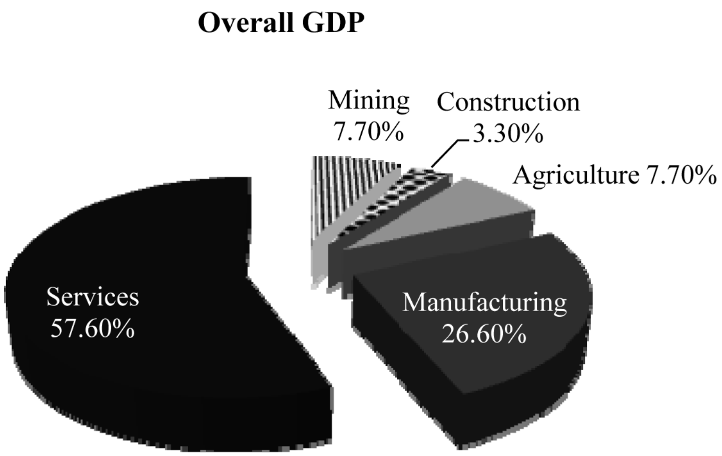
Table 3 outlines legislation introduced since 1957 to promote industrialization. As with most postcolonial societies, the government embarked on import-substituting industrialization in the early 1960s (and in the mid-1980s through its heavy industrialization program) but the development of domestic industry remained small. Export-oriented industrialization from the 1970s drove industrial development. Institutions such as the Malaysian Industrial Development Authority were established to encourage industrial investment by providing incentives and infrastructure to at-

Figure 1. Percentage of SME establishments by sector



Source: SME Annual Report 2010, page 22.

Figure 2. GDP contribution by key economic activity in 2009 (constant 2000 prices)



Source: *SME Annual Report 2010, page 25.*

Note: *The shares do not add up to 100% due to import duties, and so forth.*

tract foreign direct investment (FDI). The Free Trade Zone Act of 1971 provided financial benefits of pioneer status involving tax holidays and tariff exemptions to encourage FDI for manufacturing exports. Most FDI involved electronics and electrical (E&E) manufacturing where foreign firms mainly used imported equipment and materials, with few local inputs and linkages. By the end of the 1980s, manufacturing was a major net foreign exchange earner, and from 1970 to 1993

Table 3. Legislation on industrial policies

Legislation	Features
Pioneer Industries Ordinance, 1958	Objective Provide incentives to develop manufacturing industries in support of the import substituting strategy Incentives provided: Pioneer status: tax relief for two years, which can be extended depending on invested capital subject to conditions
Investment Incentives Act, 1968 (Revised—1979) (Repealed by Promotion of Investments Act, 1986)	Objectives • Replace the Pioneer Industries Ordinance (1958) to promote manufacturing industries in support of the export-oriented industrialization strategy • Encourage investment and attract labor-intensive, export-oriented industries Incentives provided • Tax relief for pioneer status, labor utilization projects and locational incentives • Investment tax credits • Deductions for promotion of exports • Accelerated depreciation allowances • Export allowance • Increased capital allowance for approved projects • See special provisioning relating to hotel industry
Free Trade Zones Act, 1971 (Repealed by Free Zones Act 1990)	Objectives • To create free trade zones (FTZs) and locate multinational corporations (MNCs) within certain industrial estates • Promote entreport trade for manufacturing companies that produce or assemble products mainly for export Incentives provided • Duty-free imports of raw material and capital equipment in the FTZs • Streamlined customs formalities with reduced administrative formalities • Infrastructure facilities within the FTZ • Company income tax incentives (includes pioneer status, labor utilization relief, investment tax credit, export promotion, deduction and locational incentives)
Industrial Coordination Act (ICA), 1975	Objectives and functions • Systematic development and growth in the manufacturing sector • Establishment of an Industrial Advisory Council • Guide the private sector in the implementation of industrial policies • Collect data and information on the manufacturing sector • Licensing of new and existing manufacturing activities by Ministry of Trade and Industry • Granting of licenses, loans and the procurement policies • Manufacturers who wish to diversify have to seek approval from the licensing officer • Exemptions of ICA were given to firms that fulfill certain criteria
Promotion of Investment Act, 1986 *Act has been amended in 1988, 1990, 1993, 1994, 1997, 1998, 2001, 2007, and 2008 to alter, delete, and add new sections	Objective • Replaced Investment Incentives Act, 1968 (Revised 1979) • Provide attractive incentives for the manufacturing sector Incentives provided • Pioneer status • Investment tax allowance • Industrial adjustment allowance • Infrastructure allowance • Double deduction on expenses for promotion of exports • Other incentives

Source: *Ministry of Finance (Retrieved 28 August 2009, http://www2.treasury.gov.my).*

manufacturing's share of GDP more than doubled from 13 percent to 30 percent, with services growing correspondingly.

From the mid-1980s until 2003, there had been rather benign neglect of the agriculture sector and rural industries by the government, in favor of policies and efforts to rapidly industrialize and privatize Malaysia. The services industry is presently the leading economic sector. Key subsectors in services comprise those dealing with Islamic financial products, including banking, *takaful* (insurance), and re-*takaful,* and outsourcing and shared services are growing along with those firms in information communication technology (ICT) such as software and content development and Internet-based services. Other subsectors in services that are expected to grow include tourism and restaurants, and transportation is expected to expand with the promotion of ports in various coastal areas as cargo transshipment areas.

The introduction of horizontal inequality legislation such as the Industrial Coordination Act (ICA) was aimed at increasing Bumiputera equity ownership in the burgeoning manufacturing sector. The ICA was launched in 1975 to enforce the requirement of at least 30 percent Bumiputera participation in business ventures. Foreign and Chinese firms strongly objected to the ICA, leading to its amendment on several occasions. Other measures were deployed to ensure foreign firms followed state guidelines on Bumiputera equity participation, however, including through institutions such as the Capital Issues Committee (CIC) that would regulate the growth of the capital market and the Foreign Investment Committee that would oversee FDI.

The CIC had the most clout to advance the "indigenization" of corporate stock. CIC approval was required before companies could obtain public listings and before quoted firms could change their equity structure or their operations. In 1992, the CIC was replaced by the Securities Commission, which possesses even more wide-ranging powers, but these have not been deployed as heavy-handedly for redistribution purposes. During this time, non-Bumiputeras still complained that regulatory bodies as well as other policy instruments—licensing, allocation of concessions for logging and mining, land alienation, protective tariffs, and import controls—had hindered their business prospects. Many Chinese concealed the extent of their investments by incorporating holding firms to bypass the oversight of regulatory bodies used to pressure them to comply with horizontal inequality–based employment and ownership directives. Some prominent Chinese businesspeople bypassed the state by diversifying their operations overseas (Jesudason 1989). Those who owned listed firms had little choice but to restructure, contributing to a spate of rights issues in the late 1970s. Small (predominantly manufacturing) enterprises were most affected by the government's new constraints.

After implementation of the ICA, Bumiputera participation in manufacturing grew between 1975 and 1985, with equity ownership always above 40 percent, but this proportion declined when liberalization and deregulation initiatives were introduced to address a recession in the mid-1980s. In 1987, the government amended the ICA's stringent Bumiputera investment and employee exemption limits for licensing manufacturing enterprises to promote domestic private investment. To encourage FDI, an accommodative Promotion of Investments Act was adopted in 1986, providing tax holidays and pioneer status for investments in export-oriented manufacturing and agriculture as well as tourism. The deregulation measures used to attract FDI included a relaxation of restrictions on foreign equity in manufacturing. The 30-percent ceiling on foreign shareholdings would only apply to firms exporting under 20 percent of production, whereas foreigners could own up to 80 percent of stock for operations with a comparable percentage of exports. These policy moves, coupled with favorable external market conditions, resulted in a resurgence of export-oriented manufacturing, largely under the auspices of foreign, especially East Asian, capital (Gomez and Jomo 1999).

Liberalization may have increased FDI in manufacturing, which stimulated the rise of this sector, but it did not help increase Bumiputera participation in these industries (Gomez and Jomo 1999, 42–43). By the late 1980s, private Malay business involvement in manufacturing was extremely modest; most businesses were based in food processing, local handicraft, and furniture production, hardly what would constitute heavy industries or major manufacturing enterprises.

Measures were introduced to steer SME involvement in new areas of the economy, including establishing GLCs to help these firms. The Multimedia Development Corporation works with firms in services, specifically those in the knowledge-based economy and ICT. The Malaysian Biotechnology Corporation is responsible for firms involved in biotechnology. It promotes R&D links between domestic firms and tertiary institutions such as university-based research institutes and provides financial support for business propositions. The Halal Industry Development Corporation was incorporated to spearhead Malaysia's drive to become a global hub for halal products, with this enterprise playing a crucial role in linking multinational corporations (MNCs) to SMEs. The core functions of these GLCs are to create links between the financial sector and SMEs to help fund business ventures and provide the necessary regulatory framework to protect production output, including helping securitize and collateralize products.

During Abdullah's term as prime minister a number of government institutions were reformed or introduced to enhance SME participation in the economy. In 2004, the National SME Development Council (NSDC) was established; chaired by the Prime Minister, it comprises 15 ministers and the heads of four key agencies involved in the development of SMEs.[14] The NSDC provides all SMEs a diverse range of assistance, including access to funding and other forms of government concessions. The SME Corporation Malaysia (SME Corp), formerly the Small and Medium Industries Development Corporation, was restructured in 2009 as a one-stop agency reporting directly to the Prime Minister though under the jurisdiction of the Ministry of Trade & Industry. SME Corp is responsible for coordinating policies and implementing programs to aid all SMEs in all economic sectors. SME Corp's restructuring was part of the government's drive to reduce bureaucratic red tape that had hindered the activities of SMEs. In 2005, two government-owned banks, Bank Pembangunan and Bank Industri & Teknoloji, were merged to form SME Bank to aid the channeling of funds to small firms.

5. Vendor SMEs

Although these institutions and reforms were introduced to help Bumiputera SMEs in particular, the major mechanism introduced by the government to support small firms was the vendor system, which entailed forging ties with MNCs and GLCs. This vendor system, actively promoted by Abdullah and his successor, Najib Razak, would reflect this redesigning of the bureaucracy as well as GLCs to help spawn thriving Bumiputera-owned SMEs. Apart from this state-directed support of SMEs, the links the government encouraged between small firms and MNCs would involve outsourcing of production and services by the latter to the former on terms that would also benefit foreign firms.

Tables 4 and 5 provide details of two of the vendor programs introduced by the government to nurture all SMEs.[15] The Vendor Development Program (VDP) and Global Supplier Program (GSP) involve vendor systems that serve to reform the ties between SMEs and big business, including MNCs, GLCs, and large privately owned companies in a more structured manner. Though still highly interventionist and heavily directed by the state, these SME–big business ties were created to enhance the productivity of all small firms and help them gain greater access to local and international markets. This vendor system was supposed to encourage competition

14 One feature of Abdullah's administration was its range of SME-specific programs. In just one year, 2007, a total of 189 programs were implemented by 14 ministries and related agencies with an expenditure of RM 4.9 billion benefiting 286,755 SMEs. See the Bank Negara Report (2008).

15 Other vendor programs include the Industrial Linkage Program.

Table 4. Vendor Development Program (VDP)

Aim	• Provide opportunities for SMEs to participate in subcontracting arrangements and other joint-venture related activities • Develop and strengthen SME performance as manufacturer and supplier of components, input materials, machinery, parts, and supporting services to large firms and MNCs
How it works	• Vendors to supply components and spare parts to anchor firms—large local corporations or MNCs • In return, anchor companies are directly involved in the development of SMEs, particularly through technology transfer and by providing a stable market • This long-term contract will enable the vendors to grow into large corporations and also be able to penetrate international markets
Incentives for SMEs	• Anchor firms provide a market for products of SMEs, as well as technical facilities to vendors, such as in the area of training and quality improvement • The government provides various facilities such as soft loans and other financial support
Incentives for MNCs	• Anchors do not receive financial assistance under this program

Source: *SME Information and Advisory Centre.*

Table 5. Global Supplier Program (GSP)

Aim	• To develop SMEs into competitive suppliers of parts and components to MNCs in Malaysia and their worldwide operations through mentoring activities and linkage initiative of the GSP
How it works	• Involves training in critical skills and creating links with MNCs and large companies • The training initiative is implemented in collaboration with local Skills Development Centers

Incentives provided	• SME Corp has appointed 42 training providers to undertake skills training for SMEs
	• Some examples:
	  • Sarawak Skills Development Centre
	  • Johor Skills Development Centre
	  • Penang Skills Development Centre
	  • German-Malaysian Institute
	  • Malaysia France Institute
	  • Malaysia Productivity Corporation
	  • The Institute of Marketing Malaysia
	• SMEs that send employees for courses at any of the training providers will be eligible for 80 percent training grant from SME Corp
	• The remaining costs can be claimed through the Human Resource Development Fund, if the company is registered with the Human Resources Development Board

Source: *SME Information and Advisory Centre.*

that would spur innovation and upgrading that would lead to the rise of independent entrepreneurial SMEs.

Tables 4 and 5 indicate forms of state intervention to aid the cultivation of links between SMEs and large firms in key economic sectors. The role of the state in forging these business ties took various modes including through direct ownership of new enterprises involving MNCs and domestic firms to promote a particular industry such as the automobile sector. The government created agencies and GLCs to help SMEs link up with MNCs in key new sectors it wanted to promote including biotechnology, ICT, and halal products.[16]

16 Another mechanism used by the government to facilitate MNC–SME links was by creating an infrastructure that would bring them into closer proximity with each other. Innovative infrastructure development ideas include the creation of "intelligent cities," Cyberjaya and Putrajaya, and regional "corridors" that provide all necessary facilities for the efficient con-

The primary goal of the VDP is to increase Bumiputera involvement in manufacturing by getting SMEs to become specialized manufacturers of high-quality products leading ultimately to their emergence as suppliers of industrial components, machinery, and equipment used by large industries and MNCs. The VDP was most noted for augmenting Bumiputera SME participation in the state-led Malaysian car project, Proton, introduced in the mid-1980s as part of the heavy industrialization program.[17] The VDP was also employed to help domestic SMEs emerge as key players in the E&E sector. The Electrical and Electronics Components Scheme was introduced by the government in 1992 to encourage MNCs to acquire their supplies from any SME as well as outsource non-competitive jobs to them. Another dimension of this outsourcing involved ties between MNCs and their former employees who had established SMEs. The owners of these new SMEs would produce lower-end goods for their former employers, a process that would eventually aid technological and managerial upgrading among these newly formed small firms, as well as help them internationalize their markets. Notable SMEs owned by former employees of MNCs are Unico Holdings, Eng Teknologi Holdings, and Globetronics Technology in the E&E sector.[18]

The GSP, an attempt to create links between firms by acting as an intermediary between MNCs and SMEs, was particularly important in the retailing sector. Small outlets that had long dominated the retailing sector were losing customers to hypermarkets after the government began relaxing foreign ownership of the distributive trade sector from the mid-1980s. Hypermarkets run by MNCs like Tesco and Carrefour had grown rapidly to capture a significant market share of the retailing sector. By 2009, hypermarkets were serving over a million customers each week, accounting for nearly 60 percent of retail sales. To get foreign hypermarkets to promote goods produced by SMEs locally and abroad, these MNCs were to allot space for locally produced goods in both their domestic and foreign outlets. The linkages served as an attempt to enable Malaysian producers to market their products abroad, specifically in Europe, the home base of Tesco, Carrefour, and Nestle. Tesco has taken Malaysian firms abroad, creating markets for them in Europe and North America.

duct of business. Cyberjaya and Putrajaya are a part of Malaysia's Multimedia Superhighway Corridor, which serves to link government and business.

17 The heavy industrialization policy was implemented through state-owned Heavy Industries Corporation of Malaysia, which collaborated with foreign, mainly Japanese, companies to develop a variety of industries, ranging from steel and cement production to the manufacture of a national car.

18 See the Bank Negara Report (2006).

Nestle focused primarily on promoting Malaysia's halal products internationally. SME Corp, through an evaluation system, identified and recommended SMEs in the halal industry as suppliers to Nestle. The Halal Industry Development Corporation assisted Nestle with its halal food development, training, and consultancy programs for SMEs. In 2008, Nestle had about 150 suppliers of which 40 were local companies. SME Corp provided matching grants for the development and promotion of halal products. Such linkages were mutually beneficial as the production and distribution of halal food is a potentially huge market worldwide.

6. Outcomes: Horizontal inequalities and enterprise development

Through the VDP, the number of links created between SMEs and large firms, including MNCs, has been commendable. For example, by 2007, 182 vendors were supplying Proton with 4,000 component parts.[19] As for the GSP, by the end of 2008, out of Tesco's 2,000 suppliers, SMEs accounted for about 60 percent of them in 30 hypermarkets nationwide. Ties between Nestle and small local firms have been fruitful, too.[20]

These figures indicate important outcomes through these vendor systems, but they reveal little about the quality of the products and services provided. When the vendor system established local supply linkages involving SMEs and GLCs in industrialization projects, the program targeted new Bumiputera firms that had problems producing quality goods at low cost. Also, these figures draw no attention to SMEs capable of producing high-quality products for large industries that have been bypassed when these linkages were created. This has undermined the capacity of large firms, particularly the GLCs, to produce high-quality products.

Proton, for example, struggles to enhance its domestic and international repute as a manufacturer of high-quality automobiles. One reason for this is that Proton's vendors have shown little capacity to enhance technological skills that would help them improve the range and quality of their products used in the making of the national car. Proton's unsuccessful experiment with the vendor system indicates that selective intervention to cultivate Bumiputera entrepreneurship has failed in spite of phenomenal state support. These vendor programs may possibly have had a different conclusion had contracts been awarded to non-Bumiputera firms with the capac-

19 *Bernama,* 18 December 2008.

20 See http://www.malaysiasme.com.my/index.php/SME-News/Six-Local-Firms-Export-RM460-Million-Halal-Products-Via-Tesco-UK.html.

ity to supply high quality products at a cost-effective rate, however. Additionally, Bumiputera businesspeople without ties to influential politicians have complained that they have not benefited from schemes under the vendor system.

There is much support for the argument that the Proton project may have had better outcomes had it been implemented in a non-race-based manner. Malaysia's second car project, Perodua, a thriving small-compact automobile manufacturer with export capacity, is a public–private venture like Proton. Perodua's shareholders are two GLCs, UMW and PNB Equity Resource Corporation; Japanese enterprises Daihatsu and Mitsui; and MBM Resources, which is a publicly listed Chinese family firm that is the lead domestic partner in this venture. In contrast to Perodua's growing repute, the Malaysian government's long search for a foreign partner to sustain Proton as a viable venture indicates the non-viability of a race-based vendor program.

A similar situation prevails in the E&E sector. SMEs that have emerged as major firms include Globetronics and Unico, both non-Bumiputera-owned enterprises closely linked to Intel. Unico, a manufacturer of information technology and telecommunication products, was incorporated in 1992. By 2000, Unico was Intel's largest supplier of motherboards. Because Intel was eager to outsource this segment of its production, it aided Unico's venture as a manufacturer of motherboards by training personnel in the new enterprise in key aspects of its operations. The link between Intel and Unico was equally beneficial as they shared business plans and developed strategies for mutual growth.[21] Globetronics was established in 1991 by two Malaysian Chinese engineers with 30 years of combined experience with Intel. Globetronics started out as a subcontractor to Intel but diversified its operations by moving up through value-added engineering from a single-product line to multiple-product lines serving a range of domestic and foreign customers. Acutely aware that MNCs were only willing to teach SMEs a certain quantum of production methods, usually for lower-end products, Globetronics actively invested in research and development (R&D) to develop its own local capabilities, indicating a close connection between knowledge and entrepreneurship in this sector.[22] Put differently, the success stories from SME–MNC ties in the E&E sector indicate that productive outcomes occur if the firm is run by owners with existing knowledge of the industry. In the Globetronics case, this knowledge contributed to further specialization that facilitated innovation, which led to growth.

21 See Bank Negara's 2006 report for an insightful assessment of the performance of SMEs, the problems these firms encounter, and institutions and mechanisms created in their development.

22 Interview with the management of Globetronics, 7 July 2009.

The GSP has proven to be an effective mechanism to assist Malaysian SMEs market their products abroad. There have been complaints about the manner in which the government has cultivated ties on behalf of small firms with MNCs, however. Non-Bumiputera-owned companies argue that they are not allowed access to the domestic and foreign markets that these MNCs can provide. One crucial component of this complaint is that the firms left out of such links can produce better quality products at a cheaper rate, which can help them break into foreign markets; this denies domestic entrepreneurial firms the capacity to expand. Such practices also undermine the relationship between MNCs and SMEs, if the latter produce goods of a poor quality.[23]

Among non-Bumiputera firms, given the race-based nature of public policies, the general features of SMEs (particularly family-owned firms) is that these enterprises serve primarily as a source of income and employment, with reluctance by the owners to invest in R&D. One reason why SMEs do not invest in R&D is that because a large number of them function merely as subcontractors, there is little need for this as the specifications for their work are given to them by their contractors.[24]

Poor investment in R&D by SMEs is a major concern for two reasons. First, R&D expenditure in Malaysia amounts to barely 0.6 percent of GDP—it totals about 3 percent in most industrialized countries. This poor rate of investment in R&D in Malaysia has long been a serious impediment to the upgrading of local technology. Although productive investment in R&D is urgent if Malaysia aspires to reduce its dependence on labor-intensive and export-driven manufacturing, the problem is that it is extremely unlikely that domestic SMEs will invest sufficiently in this if horizontal inequality-type policies stay unaltered. Importantly too, among Bumiputera SMEs the government's focus is on increasing the volume of such enterprises that are operating in the economy, not ensuring that they have adequate capacity to function in a competitive environment.

Other features of non-Bumiputera SMEs are that they seldom integrate with other firms, refrain from drawing attention to themselves, and prefer to establish numerous small firms to venture into an enterprise that offers hope of a quick profit (Chin 2001). SME owners also fear appropriation of their companies when they relinquish 30 percent of their equity when they publicly list their enterprise.

23 Interview with SME Association representatives, 29 June 2009.

24 Interview with SME Association representatives, 29 June 2009.

In 2010, four decades after longstanding and substantial institutional and financial support for Bumiputera capital, there is considerable evidence that these programs have been unsuccessful. Not one of Malaysia's top ten publicly listed companies is owned by a Bumiputera. No firm in the top ten is involved in the industrial sector, indicating the government's failure to develop huge enterprises with an active participation in manufacturing. Manufacturing firms of old have fallen behind in terms of investing in new plants and equipment, introducing novel products, and pursuing new markets because they have not been in the forefront of promoting R&D that can enhance productivity and encourage innovation. This suggests that state policies and institutions have constrained the entrepreneurial capacity of old non-Bumiputera capital, including by hindering their entry into the market. Learning can occur through ties with MNCs, but there is little evidence of much technology development involving a large segment of SMEs involved in the various vendor programs. In 2009, the government announced that the economy was caught in a "high middle-income country trap," an overt admission that domestic firms were unable to evolve beyond the point where they had the competence to develop and commercialize new technology.[25]

7. Conclusion

Horizontal inequality endeavors after the 1969 riots resulted in priority legislation and bureaucratic institutions that emphasized building Bumiputera capital. A new political consociational structure was created by a hegemonic UMNO to execute this agenda. The creation of this legislation and these institutions was aided by the fact that inequalities, though structurally shaped, were ethnically expressed, due primarily to the nature of political parties. Because horizontal inequalities are expressed in racial terms, this has inevitably provoked responses from society along ethnic lines.

The government's development plan involved active state intervention in the economy through policies framed from a horizontal inequality perspective along with a strategy that promoted industrialization, including heavy industries, through public–private ventures encompassing GLCs, MNCs, and SMEs. This inclusion of horizontal inequality policies in the industrialization program has shown no tangible improvement in the quality of industrial products by Bumiputera SMEs.

25 See Athukorala and Woo (forthcoming) for a recent discussion of this phenomenon in Malaysia.

A further dimension of this development strategy, privatization, pertained to GLCs that were relinquished to well-connected privately owned firms that were then expected to aid Bumiputera SMEs. This endeavor was equally unsuccessful even though the manner of privatization ensured that the state still remained very much in direct or indirect control of these companies. Given the scale of privatization, selective patronage along ethnic lines has contributed to growing wealth and income inequities among Bumiputeras.

The problem with the structure of public policies is the government's misplaced assumption that it can selectively promote Bumiputera SMEs without jeopardizing the development of domestic capital. This appraisal of vendor programs has exposed the ramifications of race-based policies like the NEP and BCIC on the corporate sector. Because policies to advance domestic entrepreneurship have long been tempered with the desire to promote Bumiputera capital, this has impacted negatively on non-Malay businesses, inhibiting the growth of potentially entrepreneurial SMEs. Economic crises in 1986, 1997–98, and 2008–09 have altered key horizontal inequality mandates, including the closure of important oversight institutions, but their major tenets remain unchanged.

The costs of policies that target ethnic groups in business have been great, additional positive outcomes may possibly have occurred had their pattern of implementation been different. Because bureaucratic institutions are subservient to a hegemonic party, policies have not been implemented in an equitable and transparent manner.[26] This is overtly admitted in recent government documents—the Government Transformation Plan, the New Economic Model Parts I & II, and the Tenth Malaysia Plan—that note the need to dispense with "rent-seeking" and "patronage." These documents, however, assert that affirmative action that favors developing capital along ethnic lines is still important, although now the emphasis will be on "picking winners" from among entrepreneurial Bumiputeras in a transparent manner. These assertions will not result in a fairer system of picking and supporting Bumiputera SMEs, however, as these documents do not discuss the devolution of power to key oversight institutions to ensure checks and balances in the award of state rents.

If enterprise development from a horizontal inequality perspective is to continue, the selection process is crucial to ensure constructive entrepreneurship. The policy should target people with the requisite know-how, preferably from among the new

26 Interview with senior bureaucrats, 18 July 2011.

middle class, if the government is intent on nurturing entrepreneurship. There is evidence that inter-ethnic business partnerships involving the middle class are being forged without state intervention, specifically in the high technology and outsourcing services sectors (Wazir 2002). This trend underscores a crucial point: Horizontal inequality policies have been most meaningful when the focus was on providing quality education at an early stage to the poor, a core factor for the rise of this independent new Bumiputera middle class.

The capacity of the new Bumiputera middle class to forge inter-ethnic business ties draws attention to two vital issues: duration and access. Anomalies in horizontal inequalities–type initiatives can be explained in terms of their persistence across time and their inability to ensure that members of the targeted groups have equal access to the concessions on offer. On the issue of access, horizontal inequality–related economic policies and legislation have been challenged formally through political channels and informally through reduced investments in R&D or in the economy. These protests have come from non-targeted ethnic groups who argue they are unfairly disadvantaged by such programs. Opposition is rapidly emerging from members within the targeted population, however, who voice a similar sense of marginalization.

When horizontal inequality programs lead to increased heterogeneity of economic and political status among the beneficiaries, this can lead to intra-group conflicts. If incentives are disbursed without accompanying strategies that ensure all members have equal access, then the program shifts the competition from one between members of different ethnic groups to one between members of the targeted community. Over time, class divisions within the targeted group become increasingly pronounced, with the wealthiest within these communities capturing a large portion of the privileges while those with fewer resources are left behind. Persistent race-based political discourses have diminished criticism of growing intra-Bumiputera wealth and income disparities, though recent electoral trends in the underdeveloped Malay heartland states of Kelantan, Kedah, Perlis, and Terengganu indicate that opposition parties have benefited from these new injustices (Puthucheary and Norani 2005).

These new inequities indicate that determining the duration of race-based policies and abiding by this stipulation is imperative. Mahathir’s appraisal of the BCIC before retiring as prime minister was that its long-term implementation had led to a “crutch mentality” among Bumiputeras.[27] The implications of long-term execution

27 See Mahathir (2002).

of these policies include serving to reinforce ethnic identity in a manner that impairs social cohesion. Long-term implementation of horizontal inequality policies has led to the creation of claimed identities to secure incentives accruing from these programs. A 20-year duration was stipulated for the NEP, a clear testament that this was to be a temporary plan.

In spite of the liberalization of equity ownership regulations in 2010 following the global financial crisis and attempts by the government to make its economic policies more "market friendly,"[28] it is unlikely that these initiatives will inspire investor confidence. This is because implementation of affirmative action is set to continue, ostensibly to address the issue of wealth disparities, because of the government's concern that the Chinese still have twice the volume of equity owned by Bumiputeras (see Table 1). The continuation of a policy that was subject to intense debate because it was said to stymie domestic and foreign investments suggests that an elite class can racialize identity, by subordinating one group over another, to consolidate political and economic power.

Because SMEs constitute a numerically vital segment of the economy and are a critical source of job creation and entrepreneurial ventures, the government has to review its practice of mixing social and business policies. Although Malaysia has well-formulated programs that support SMEs, this mix of policies, specifically involving creating Bumiputera capital as well as redistributing equity, does not promote an environment for productive entrepreneurship. Enterprise development policies need to be framed from a perspective that is not horizontal in orientation as such plans have clearly led to an essentializing of identities of ethnic groups. This has contributed to a sense of marginalization by businesspeople from minority groups that have potentially high entrepreneurial capacity. The issue of property rights, involving ownership and control of an enterprise, is fundamental as SMEs prefer a secure, transparent, and accountable administrative (and legal) infrastructure that supports risk-taking and novelty-seeking entrepreneurial activities. The government has recognized that a particular type of polity is now required,[29] along with the need to liberalize ethnically based ownership regulations, but it has not acted adequately to infuse trust in investors that their investments will be protected in the long term. The government must address this, as it also informs the nature of policy planning, if it hopes to foster entrepreneurial SMEs that can generate growth.

28 See the *Tenth Malaysia Plan*.

29 The *Government Transformation Plan* and the *New Economic Model Part I* discuss the need to curb corruption and rent-seeking. The arguments in these documents were evidently a response to the Barisan Nasional's poor electoral performance in the 2008 general election.

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