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Privatized Patronage

The economics and politics of privatization in Malaysia

Edmund Terence Gomez

Abstract Given the close links between politics and business in Malaysia, the political implications of privatization take on added significance, contributing, in particular, to considerable political patronage during privatization. This paper deals with the problems that emerged following state intervention in the economy which ultimately led to the government’s justification for introducing privatization. The paper examines the meaning of privatization in Malaysia, its mode of implementation and its implications on society. The main emphasis here is the question of executive dominance over the state and the impact this can have on the implementation of privatization, in particular, facilitating the practice of political patronage and changing ownership patterns.

Keywords Malaysia, privatization, public policy, politics, patronage

Politics, Patronage and Privatization

In Malaysia, the term privatization is used rather loosely to refer to a broad range of measures ranging from the partial divestment of ownership (of an activity or enterprise) from the public to the private sectors, to the licensing of private competitors in an activity previously dominated by the public sector, or to the private management of a public sector activity. Whichever way the term is used, privatization generally involves, among other things, new control of economic activities as well as economic welfare implications for consumers as well as employees. The political dimensions of privatization can become more pronounced when the welfare impact of the policy is unevenly distributed among the population. In view of the multi-ethnic composition of the population, there is keen interest in the ethnicity of ownership, investing privatization in Malaysia with even greater political implications.

The political implications of privatization take on added significance in view of the close links between politics and business in Malaysia (see Gomez 1990, 1991a, 1994). This has contributed to significant political patronage during privatization. Such patronage is characteristic of the state, characterized by power in the executive arm of government, is a multi-racial, multi-party coalition, dominated by Prime Minister Mahathir Mohamad and the National Organization (UMNO), a fact that privatization in Malaysia.

Despite much evidence of extensive patronage rents, Malaysia is being seen as a country that is predominantly Chinese but where the state and its machinery have also been strong forces. This has largely been due to the growth of the economy and foreign investments which, in turn, have been a major factor in improved port facilities, major government projects, including the launching of a new satellite, a huge dam, and a large number of infrastructure projects.

This paper deals with the problems that emerge following state intervention in the economy which ultimately led to the government’s justification for privatization. The paper examines the meaning of privatization in Malaysia, its mode of implementation and its implications on society. The main emphasis here is the question of executive dominance over the state and the impact this has on privatization, in particular, facilitating the practice of political patronage and changing ownership patterns.

From Government to Private

In 1969, race riots occurred which led to a change in the distribution of wealth among Malaysia’s predominantly the Malays and the Chinese. In that year the government introduced the New Economic Policy to achieve national development plan to achieve nation wide development, and by restructuring the economic parity between the predominantly Chinese non-Bumiputra community and by reducing inter-ethnic economic disparity. The Chinese community.

In 1969, while the Bumiputra share of economic power in Malaysia stood at 4 years, Chinese equity ownership stood at 23% in foreign ownership.