Consultative Mechanisms and Economic Governance in Malaysia

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The World Bank
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Introduction

1.1. In the past two decades many developing nations have attempted to improve economic competitiveness and adjust to the rapidly evolving world economy with economic reforms involving trade liberalization, regulatory reform and industrial restructuring. Among the common problems encountered in reform efforts have been outright conflicts among powerful actors, such as the political leadership and opposition, civil servants, and business and labor groups, over the direction and timing of reforms. In addition, passive-aggressive resistance to reform efforts through evasion and non-compliance with new policies is common within the business community. Much World Bank-sponsored research has chronicled such problems and the common consequence of the derailing of the momentum for reform (Nelson, 1989; Haggard and Webb, 1994; Frischtak and Atiyas, 1996).

1.2. Consultative mechanisms (CMs) are groups or committees that bring economic and political actors together for dialogue and consensus-building with respect to economic policy and reform. CMs are most commonly found in East Asia but are increasingly being adopted in other worlds regions as well. CMs may be organized along industrial, sectoral, functional (e.g., export promotion, tax reform) and even national bases. Generally, they are informal bodies lacking legal authority yet are often influential due to the participation of high-ranking government officials, career bureaucrats, business association representatives and captains of industry. The formal dialogues that take place in CMs are further associated

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1 The Principal Investigators for this project are Jesse Biddle, Department of Sociology, Penn State University and Vedat Milor, Stanford University Law School. Andrew Stone, PSDBE, managed the research project for the World Bank. The research team thanks the Research Committee of the World Bank and R. Shyam Khemani, Manager, PSDBE for their generous support and sponsorship of this work. The team also thanks Government of Malaysia, and especially officials in the Economic Planning Unit, for supporting this research, as well as the many members of the government and private sector who agreed to be interviewed. Without their cooperation, this research would not have been possible. While in Malaysia, the research team benefited from the expert advice of Professor Jomo K.S, Faculty of Economics and Administration, University of Malaya, as well as the energetic research assistance of Brian Folk, Ph.D. Candidate, University of California, Berkeley. Andrew MacIntyre, University of California, San Diego, and Saha Meyanathan, EASPS provided helpful commentaries on a previous draft of this report. The authors alone, however, are responsible for the interpretations provided in this report.
with, and may help foster, informal networks among participants which extend over time. Thus, CMs somewhat resemble corporatist interest-intermediation structures which exist in parts of Europe (Katzenstein, 1985; Wilensky and Turner, 1987). However, at least in East Asia, organized labor has not been a significant participant in consultative processes and business participation is less likely to involve cross-sectoral and centralized associations (Deyo, 1989).

1.3. The motivating rationale for the creation of consultative mechanisms is that they may allow economic actors to find solutions to collective problems associated with both market and government failures. Thus, CMs are believed able to a) enhance the flow of information between government, business and civil society, b) engender a sense of common ownership over reform strategies among participants, c) help conserve resources through pooling of technical expertise and sharing of costs, d) increase governance capacity by helping to mobilize both public and private resources and e) generate trust and social capital which, in turn, lower the transaction costs of business and economic governance.

1.4. Not surprisingly, therefore, national and international agencies are also beginning to foster CMs in their operational work. The World Bank, for example, now often facilitates the formation of CMs, believing these can contribute to the quality and momentum of economic reform (Stone, 1995a; 1995b), and USAID has contributed funds and expertise to building CMs. Yet, national experiences with CMs in Africa, Latin America and Eastern Europe have been mixed and, in some cases, CMs may have empowered opponents of reform. Because research into the dynamics of CMs has been limited, however, the factors which determine when and how consultative processes can enhance economic reform are largely unknown.

1.5. This report on consultative processes in Malaysia -- what is referred to as the “Malaysia Inc.” policy -- is part of a comparative World Bank study with funding from the Research Committee and coordination by the Business Environment Group, Private Sector Development Department. The objective of the comparative study is to determine how and when CMs can be useful adjuncts to economic reform efforts. With regard to this study, on one hand, we have attempted to provide a rich descriptive account of Malaysian public-private dialogues, something so far lacking in published materials, so as to provide operationally useful information to Bank staff and other interested policy practitioners. On the other hand, we have attempted to provide a theoretical analysis of the key institutional dynamics associated with these dialogues. In addition to this study of Malaysia, the comparative project will generate case studies of national and regional consultative mechanisms in Ghana and Mexico, a review of World Bank experiences with CMs, and a summary report on the dynamics of government-business consultative processes.

1.6. The findings discussed within are based on field research conducted by the authors in Kuala Lumpur and the state of Penang, Malaysia, in August, 1997, as well as follow-up research by local consultants in late 1997 and early 1998. Beyond secondary data collection, we conducted a series of in-depth and confidential interviews with high-ranking government officials and nationally influential members of the private sector, and held informal background interviews with certain professionals and academics as well. Furthermore, to the extent possible, we used a semi-structured research instrument to enhance the comparability of interviews. We quote from these interviews (without attribution) to illustrate

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2 For example, in Ghana, one of the cases being studied as part of this World Bank comparative study, USAID helped fund the Private Enterprise Foundation. See “Consultative Mechanisms in Ghana” (Ayee, et. al., 1999) for a discussion of the effectiveness, or lack thereof, of public-private dialogues in Ghana.
various points throughout this paper. The primary universe from which government officials and business persons were identified for interviews was the membership roster of the Malaysian Business Council (MBC), the nation’s premier consultative dialogue. While this universe cannot be taken as representative of the Malaysian business community as a whole, the MBC roster is considered by knowledgeable Malaysians as an accurate cross-section of actors who are “insiders” to the Malaysia Inc. policy. Refer to Appendix I for the names of interviewees. And refer to Appendix II to review the semi-structured interview instrument for government officials and private sector members.

A. Summary of the Malaysian Case

1.7. In Malaysia, the use of consultative mechanisms has become routine and institutionalized, particularly since the early 1990s. Commonly referred to as “Malaysia Inc.,” the ethic of public-private collaboration and the standing consultative mechanisms -- such as the Malaysian Business Council, and the annual Ministry of Finance and Ministry of International Trade and Industry dialogues -- have also begun to receive international attention. This result is due in part, no doubt, to the promotional efforts of Prime Minister Dr. Mahathir Mohamad in forums such as the Langkawi International Dialogues on “Smart Partnerships.”

1.8. What makes the Malaysian experience with consultative mechanisms unique is that Malaysia Inc., at least with respect to institutional design, is more systematic, encompassing and ambitious than the Japanese and South Korean patterns of public-private cooperation upon which it is based. Malaysia Inc. is more systematic because it envisions the use of consultative dialogues for all sectors of the economy and not just those perceived as strategic to industrial policy. It is more encompassing because dialogues are encouraged, not just at the national-level, but at state levels as well. And, arguably, it is more ambitious because it attempts to reconcile public and private development goals in an ethnically divided society in which state and business elites historically were drawn from different races.

1.9. The near-consensus view of government and business officials interviewed for this research was that Malaysia’s use of consultative mechanisms had contributed to economic and social advances. In this regard, there is no disputing that since the announcement by the government of the Malaysia Inc. policy in 1983, Malaysia has achieved a) an enviable economic record with respect to growth, investment and employment-generation; b) economic reforms including significant privatization of state enterprises, trade liberalization, reduction of red tape for domestic investors (particularly the small, largely Chinese, business community), easing of restrictions on DFI, and an improved investment climate; and c) a lowering of ethnic tensions between Malaysia’s minority, yet economically powerful, Chinese business community and the Malay-dominated government over the direction of national economic policy.

1.10. What is difficult to discern is the precise causal connection between the Malaysia Inc. policy and Malaysia’s economic and social accomplishments. Respondents argued that Malaysia Inc. causally contributed to these accomplishments because:

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3 The timing of the research coincided with the beginnings of the 1997-98 Asian currency and economic crisis. The authors do not believe, however, that the interviews were unduly biased by this coincidence. This is because a) the semi-structured research instrument used focused discussion on government-business consultative processes, as opposed to government policy more generally, and b) interviewees by and large themselves were careful to distinguish when they were commenting on short-term concerns as opposed to the research topic of government-business consultations.
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- Information was shared more readily between the public and private sectors and this lead to improvements in economic policy
- Trust was more prevalent between the government, civil servant and business communities and this helped build consensus on policy adjustment and reform
- Economic policy pronouncements were more credible because government officials had established track records of keeping promises made in institutionalized dialogues
- Corruption in the civil service was reduced because of increased opportunities for public airing of business complaints and a reduction in red tape
- Narrowly-oriented rent-seeking by business was diminished because consultative forums encouraged a focus on the public good and made more visible narrowly-oriented rent-seeking efforts

Evidence in support of these claims is provided in the middle portions of this report.

1.11. At the same time, we wish to stress that there are significant problems and limitations with the Malaysia Inc. policy as currently structured. In the first place, while the policy has allowed some business input into economic policy discussions, there have been limitations to government’s willingness to consult business, not to mention other actors routinely excluded from the dialogues. One issue has been the restricted range of civil society groups that have participated in consultative dialogues. While the public sector has generally been well represented in the major CMs by both ruling party politicians and career civil servants, for the most part it is only the business sector that has represented civil society. That there has been token representation of organized labor and of other non-governmental organizations (e.g., consumer and environmental groups) in some CMs, such as the Malaysian Business Council, cannot disguise the overall lack of participation and voice of such groups in the Malaysia Inc. policy more generally. The narrow range of civil society participation in CMs has inhibited critical debate in these bodies and, just as seriously, has provided networking and informational advantages to the privileged groups that have gotten to participate.

1.12. A second issue concerns the ambitious economic agendas, such as the Multimedia Super Corridor project, occasionally promoted by the Prime Minister and his close advisors. Consultations over such pet projects sometimes occur. However, the role of business in such consultations has not been to help evaluate the wisdom of these agendas, even when business misgivings existed, but rather to smooth their implementation. Thus, Malaysian CMs are not institutional means through which business or other actors in civil society have been able to alter strong government preferences.

1.13. A third issue is in that there are important economic matters, such as the privatization policy, which the government has insisted be left off the table altogether in consultative mechanisms. These policy areas are closely linked to the Malay-dominated government’s longstanding commitment to help foster inter-ethnic economic equality and a Bumiputera (i.e., ethnic Malay) commercial and industrial business class. The consequence of this, however, is that the government loses the benefits, such as information exchange, resource conservation, constructive critiques, etc., which would otherwise be gained if these policies were discussed in institutionalized dialogues.

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4 See the Consultative Mechanisms in Practice section below for a discussion of the Multimedia Super Corridor project.
1.14. The most serious problem with the Malaysia Inc. policy in our opinion, however, has been the lack of monitoring and accountability for consultative mechanisms. The absence of well-established means through which business or other participants in CMs can find out what happens in government circles following the generation of (tentative) proposals and agreements makes the policy process, at least potentially, more subject to abuse through cronyism and subtle forms of institutional capture. The idea of a monitoring body for Malaysia Inc. has been raised, but not yet acted upon, within both Malaysian government circles and the national-level CM, the Malaysian Business Council, itself.\(^5\) The presence of monitoring and accountability processes would render economic decision-making more transparent and encourage political and economic actors to act in the public interest.

1.15. It remains to be seen whether the East Asian economic crisis, which is occasioning reforms in some nations in the region, will also lead to reforms in the Malaysia Inc. policy. We believe that the analyses in the Western press regarding the alleged end to the Asian miracle and, with it, to the legitimacy of institutionalized public-private collaboration, is overwrought and, at least with respect to Malaysia, somewhat misguided as well. No doubt, Prime Minister Mahathir’s well-publicized blaming of financial speculators, Jewish bankers and the International Monetary Fund for the crisis fueled the impression that he, and his government, had something to hide.

1.16. The point we wish to stress, however, is that the Malaysian model of public-private collaboration, despite its problems, includes the premises that economic policy should be informed by wide-reaching business input and that public-private collaboration be conducted in transparent forums. This is much different than the image of “behind closed doors” dealmaking conjured up by invocations of cronyism and hidden networks as key characteristics of East Asian economic governance. Furthermore, regarding Malaysia, it is precisely those areas of economic policy, such as privatization, least associated with consultative dialogues that have received the most criticism for involving cronyism and favoritism. For this reason, it is a mistake to view Malaysia Inc. as a cause of such governance problems. Thus, the recommendation of this study is that Malaysia should reform the Malaysia Inc. policy so that it more closely follows its own premises, not eliminate it altogether.

B. Consultative Mechanisms and Economic Governance

1.17 Consultative mechanisms have been initiated under divergent circumstances in different world regions. In Africa, Latin America and Eastern Europe, CMs have usually been formed in association with reform efforts occasioned by economic crisis. Often referred to as the “Washington consensus,” the standard reform package involves macroeconomic policies aimed at economic stabilization and liberalization policies aimed at structural reform (Williamson, 1994; Rodrik, 1996). In such contexts, CMs have tended to accompany a specific reform agenda, often after previous reform efforts have stalled, and, as a consequence, have had limited lifetimes. In East Asia, by contrast, consultative mechanisms have been less an accompaniment to a specific reform exercise than they have been part of the institutional framework for economic governance. For instance, government-business consultations accompanied industrial policies in Japan and South Korea (Wade, 1990; World Bank, 1993; Campos and Root, 1996).\(^6\)

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\(^5\) See the Consultative Mechanisms in Practice section below for details.

\(^6\) While the growth record of East Asian economies may be most clearly due to relatively good macroeconomic management as argued by the World Bank (1993), empirical research has documented the pervasiveness of micro-
1.18 The East Asian economic crisis, which began in the fall of 1997, not surprisingly, led some observers, most notably those attracted to neoliberal ideas, to question the extent to which collaboration among public and private sectors exacerbated or even caused the crisis. Thus, at least in less discriminating analyses, the “administrative guidance” practiced in Japan, the “export promotion councils” in South Korea, and the “Malaysia Inc.” consultative mechanisms discussed in this report, are all labeled as “crony capitalism” and thereby condemned (Wall Street Journal, 12/8/97). In contrast, at least some distinguished voices within the World Bank have voiced reservations about jumping to conclusions with respect to the utility of public-private consultation in East Asia. For example, Senior Vice-President and Chief Economist, Joseph Stiglitz, recently wrote (1998):

The recent turmoil in East Asia has, in some circles, cast doubt on the public-private partnership that characterized the region’s development strategy. The accusations of “crony capitalism,” overbearing state direction of investments, and lack of transparency have, in some minds, discredited government involvement in development. I would argue that the critics have been too harsh -- after all, the past achievements in accumulating savings, promoting investment, and developing human capital cannot simply be erased. ... We have much to learn from East Asia and the East Asian model, perhaps even more as we set about trying to ascertain not only the lessons of their remarkable growth, but also the lessons of their current crisis.

1.19 What, then, is known about the general role of public-private consultative processes in East Asia? Both the sometimes celebratory analyses of “developmental states” (Johnson, 1982; Deyo, 1987; Amsden, 1989; Wade, 1990) as well as the more skeptical analysis in the World Bank’s East Asian Miracle (1993) study concluded that these nations’ success in implementing structural reforms, making adjustments to the world economy, and pursuing microeconomic interventions depended, in part, on the presence of communicative networks connecting economic policy makers with private economic actors. In general, such networks facilitate reciprocal information flows which help policy design, implementation and adjustment (Campos and Root, 1996). Moreover, these networks often help forge trust, create shared norms and help build social capital between policy makers and business and labor leaders (Illeris, 1986; Putnam, 1993; Evans, 1995). And trust, shared norms and social capital can help otherwise contentious economic actors overcome collective action dilemmas and envision future benefits to be gained through cooperation (Ostrum, 1990; Kandori, 1992; Pyke, 1992).

1.20 For the critics of public-private partnerships, however, such regular interactions, information sharing and trust generation among government officials and business persons in East Asia is worrisome. Long-standing neoliberal beliefs hold that cooperation among economic actors poses threats to the operation of markets and thereby to the public good. An influential statement of this thesis is by Olson (1982) who argues that cooperation among economic actors generates “distributional coalitions” which organize with the purpose of securing from the government private benefits for members at the public’s expense. From this point of view, consultative mechanisms are suspect. On one hand, they provide an opportunity for oriented economic interventions associated with industrial policies (Johnson, 1982; Amsden, 1989; Lall, 1996; Rodrik, 1996).

The term crony capitalism originated as a means of describing the economic governance structure in The Philippines under former President Ferdinand Marcos. As such, the term usefully brought attention to the extent to which Marcos used state power to direct rents toward relatives and regime supporters, a.k.a. cronies, with little reference to publicly-oriented developmental goals.
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private economic actors to communicate, get to know each other and, perhaps, discover and organized on the basis of shared interests. On the other hand, they provide private actors access to government agents who may have the power to tailor economic policies to serve narrow interests.

1.21 Neoliberal beliefs also hold that government’s economic role should be curtailed as a means to avoid corruption and rent seeking. Again, consultative processes are suspect because they are usually linked to economic policy areas involving government discretion. And, as noted in the classic arguments by Krueger (1974) and Bhagwati (1982), because discretionary government involvement in markets generates rents, this helps create and sustain groups with interests in seeking those rents. Not only may rent seeking corrupt public officials but it may make it difficult to change poorly conceptualized economic policies if an economic agency is “captured” by a rent seeking coalition. Rent seeking also imposes costs on private actors, such as information collection and lobbying, as they expend resources seeking rents. Furthermore, the instability of economic policy which results when political actors bend rules to serve narrow purposes undermines the credibility of economic policies more generally and thereby damages investor confidence.

1.22 Our belief is that many of the concerns held by neoliberal critics of public-private collaboration can be mitigated by the presence of institutional safeguards. Rent seeking is most likely to be avoided when economic policy-makers enjoy “insularity” from organized interests in civil society and politicians who would attempt to divert economic policy toward private ends. One explanation for insularity is that economic bureaucrats may be professional. Thus, “Weberian” bureaucratic structures, with meritocratic promotion criteria and stable career paths, can tie individual incentives to institutional goals and thereby minimize bureaucratic vulnerability to rent-seeking pressures (Shapiro and Taylor, 1990; Geddes, 1993; Schneider, 1993). Insular Weberian bureaucracies need not be detached or wholly cut off from civil society. In fact, in nations such as Japan and South Korea, professional civil servants established and maintained dense communicative ties with the business constituencies for their policies (Evans, 1995). Insularity may be further enhanced by centralizing discretionary economic policy (e.g., industrial policy, subsidized finance, etc.) in small “pilot agencies” (Onis, 1991). Even given professional economic bureaucrats operating in centralized pilot agencies, however, insularity is likely to be compromised in the presence of political struggles between powerful groups with widely varying economic strategy preferences. Thus, insularity is also likely to be enhanced when there exists some consensus among elites over economic strategy.

1.23 Unfortunately, in many developing nations contentious political struggles and a lack of professional bureaucratic structures are common. Thus, the potential for public-private consultative forums to facilitate rent seeking is real. For this reason, it is important for consultative mechanisms to have “transparency,” and “monitoring and accountability mechanisms.” The term transparency suggests that CM participants have equal access to information and are knowledgeable regarding decision-making processes. Monitoring mechanisms, in turn, allow CM participants to know what government officials, or other CM participants, have done following the generation of proposals and agreements. In cases where CM participants enter into specific commitments, accountability mechanisms further allow for various forms of punishment and reward as incentives to fulfill the commitments. Taken together, such institutional features may significantly decrease the attractiveness of rent-seeking efforts by rendering them more easily observable, more risky and more costly (Campos and Root, 1996). Furthermore, an added benefit of transparent discussions, and of public knowledge of decision-processes, is that these make it more likely that
economic actors will abide by publicly-oriented norms -- honesty, reciprocity, generosity -- in their behavior.\(^8\)

1.24 While transparency, and monitoring and accountability mechanisms, in consultative dialogues may diminish the risks of corruption and rent-seeking, there remains the possibility of a more subtle threat to public welfare which we refer to as “institutional capture.” Institutional capture does not necessarily presume illegality or even “behind closed doors” deal-making. Rather, the idea is that participation in a consultative dialogue may provide a business various advantages -- good information, early knowledge of impending policy shifts, first-name familiarity with influential government officials, etc. -- which provide a competitive edge vis a vis competitors which are not network members. For instance, conglomerate firms, because they may be active and influential in several industries, may regularly participate in a number of public-private dialogues and thus develop information and networking advantages.\(^9\) Smaller firms, which may not have the personnel and organizational skills to easily participate in consultative processes, are therefore at a disadvantage. On one hand, they may miss out on specific opportunities made available through consultative processes. On the other hand, they may be at a long run competitive disadvantage compared to firms that benefit from such opportunities regularly. Inst

1.25 Institutional capture can also occur when consultative dialogues have memberships that over represent particular ethnic groups or geographic regions.

C. **Hypotheses on Consultative Mechanism Effectiveness**

1.26 While broad economic context may differentiate the origins of consultative processes in different world regions, our research was also guided by the recognition that CMs are institutions and, as such, were going to be more or less effective as adjuncts to economic reform depending on their design and operation. In this regard, the institutional literature offers two contrasting visions on institutional functions. On one hand, institutions are viewed as devices to help resolve collective problems (Bates, 1988; Ostrum, 1990). On the other hand, institutions which are “captured” are viewed as devices which help provide distributional benefits to those who have authority over them (Olson, 1982; Knight, 1992).

1.27 In terms of the first vision, consultative mechanisms can potentially help resolve collective economic problems, especially ones which result from information asymmetries and lack of trust between the public and private sectors. Regarding information problems, the private sector, for example, may have knowledge of the impact of proposed regulatory revisions which is unavailable to economic planners. For its part, the government may have a sensible economic reform strategy which, however, is misunderstood by actors in the private sector. Lack of trust, of course, increases transactions costs, shortens planning horizons and makes more likely strategic as opposed to cooperative interactions. Therefore, insofar as CMs increase trust and decrease information asymmetries they may make significant contributions to the forging of consensus on economic reforms among powerful economic and political actors.

\(^8\) See the author’s earlier analyses of policy networks in Turkey which examine how the extent of transparency, and of monitoring and accountability mechanisms, influence rent-seeking and, more generally, economic governance in three industries (Biddle and Milor, 1995; 1997).

\(^9\) Of course, such advantages may accrue to large conglomerates as a result of other factors, such as lobbying, leadership in business associations, campaign contributions, etc., as well.
1.28 Despite this potential, however, as the vision of institutional capture suggests, it is possible that CMs may function in whole or in part to promote the interests of a particular group as opposed to helping to resolve a collective problem. This is understandable given the high stakes involved in significant economic reform exercises. In particular, given uncertainty as to whether or not the reforms will generate economic growth at all, and given uncertainty as well to the distribution of any future growth, economic actors with a relative advantage under the status quo arrangement may have little enthusiasm for sincerely supporting reform. The major World Bank study on state-owned enterprise reform and privatization, Bureaucrats in Business: The Economics and Politics of Government Ownership (1995), strongly supported this conclusion. Under such circumstances, participation in a CM by economic and political actors may be little more than a strategic ploy for self-defense or self-promotion.

1.29 Given these specific concerns regarding the functioning of consultative mechanisms, we conducted our research with specific hypotheses in mind regarding how the design and operation of CMs would enhance or impede reform efforts:

1.30 First, we hypothesized that an effective CM would institutionalize dialogue among economic stakeholders with respect to a specific reform agenda. To clarify; a lack of an institutionalized dialogue means that the CM would not be necessarily be distinct from existing policy networks and thus would not necessarily be seen as the forum in which to seriously discuss policy issues. A lack of specific focus would likely imply that the CM did not have a unique mission vis à vis existing policy bodies. If so, policy recommendations could lack clout or contradict recommendations from alternative policy bodies.

1.31 Second, we hypothesized that an effective CM would be one in which economic stakeholders made credible commitments. A lack of credibility would mean that stakeholders would presume that their counterparts did not intend to, or were not in a position to, fulfill promises. This, in turn, could encourage early defection from the CM and generally undermine the likelihood that stakeholders would act sincerely in dealings with each other. While the importance of the credibility of government commitments is well discussed in the policy literature, we believed that the credibility of all stakeholders, not just government representatives, was relevant.  

1.32 Third, we hypothesized that an effective CM would be characterized by the presence of monitoring mechanisms for commitments undertaken by stakeholders. Monitoring mechanisms are ways in which stakeholders can determine if their counterparts have, in fact, fulfilled promises. In addition, formal or informal sanctioning can be associated with monitoring. Thus, monitoring functions as a means to prevent and make costly shirking while recognizing and rewarding the fulfillment of commitments.

1.33 Finally, we hypothesized that an effective CM would have a member composition that legitimately and authoritatively represented the major stakeholders. Here the issue is that the exclusion, illegitimate representation, or non-authoritative representation, of major stakeholders would more easily allow CM capture by a narrowly-based distributional coalition. At the same time, an unwillingness of a stakeholder to participate, or the early defection of a stakeholder, could well reflect not just incentives to free-ride but an estimation that the CM was already so captured.

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10 In general, the notion of credibility with respect to economic reform implies that the “promises that the leadership makes to compensate losers and protect investor’s property rights” must be believable” (World Bank, 1995: 176). In turn, believability is conditioned upon a) the reputation government leaders have for keeping promises and b) domestic and international institutional restraints that provide incentives for leaders to keep promises (World Bank, 1995: 204-05).
1.34 The next section of this report, Economic Governance in Malaysia, places the Malaysia Inc. policy into the broader context of Malaysian economic development policies. The third section, Consultative Mechanisms in Practice, provides illustrations of the actual operation of various consultative dialogues in Malaysia. And in the final two sections, Discussion of Malaysia Inc. and Conclusion, we explore the strengths and weaknesses of Malaysia Inc. and offer an assessment of some of the institutional design lessons to be learned from the Malaysian experience.
2

Economic Governance in Malaysia

A. Political Context

2.1 The implementation of the Malaysia Inc. policy, and of Malaysian development policies more generally, reflects attributes of the Malaysian state and political process. In the post-Independence period, Malaysia managed to avoid the political instability common to multi-ethnic societies following the institutionalization of a Malay-dominated, yet ethnically inclusive, ruling coalition. This allowed the political leadership to credibly formulate and consistently pursue economic development strategies. In turn, the Malaysian economic bureaucracy, due to its British civil service tradition as well as constitutional protections, proved capable of implementing development policies relatively professionally between the 1960s and 1990s. This was the case even though these policies changed in character remarkably and the centrality of the bureaucracy to economic policy formulation diminished significantly over time (Leigh, 1992).11

2.2 A respected observer of Malaysian politics, Harold Crouch, notes that, “the Malaysian political system could not be described as either democratic or authoritarian without substantial qualification” (1996: p. 29). At Independence in 1957, the Malaysian constitution was modeled on the British Westminster system, and the polity has a number of major democratic features, such as regular elections contested by independent parties, a parliament to which the government is responsive, and a constitutionally independent judiciary. In Malaysia, party-formation followed racial boundaries. A political coalition, renamed the Barisan Nasional (BN) in 1974, dominated by the United Malays National Organization (UMNO), in tandem with the Malayan Chinese Association (MCA) and Malayan Indian Congress (MIC), has controlled the government since Independence. The only significant challenge to this coalition occurred in the late 1980’s when UMNO dissidents formed an opposition party, “Semangat 46.” In the 1990 national elections the BN prevailed though and maintained its Parliamentary majority and a majority popular vote as well.

2.3 Despite the trappings of democracy though formal limitations on democratic process exist. When a twelve-year state of emergency, originally announced to fight a communist insurgency, ended in 1960, the government implemented an Internal Security Act (ISA) allowing detention without trial. Following racial

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11 There are indications that the professionalism of the Malaysian economic bureaucracy has diminished in the 1990s. See the sub-section, Origins of Malaysia Inc., below for details.
riots in 1969, and a temporary suspension of Parliament, authoritarian controls were expanded. Thus, into the 1990s, the ISA and other government measures, such as the Sedition Act and Official Secrets Act, continue to hamper the exercise of democratic political rights, especially free expression. Recently, for example, the Malaysian government has threatened to use these legal tools as a means of dampening criticism by financial analysts and others regarding the government’s handling of the financial crisis which began in August 1997.

2.4 Equally as significant as formal limitations on democratic process are the consequences of expanding executive power in tandem with the influences of what has been termed “money politics” (Gomez, 1991) within the Barisan Nasional. Increasing executive power results from the fact that the Prime Minister – the leader of UMNO – has amassed considerable authority over time through a “powerful Prime Minister”s Department and ability to amend the constitution at will (due to the Barisan’s two-thirds majority in the lower house)” (Bowie, 1994: 168). As a result, the Malaysian Parliament is often seen to function as a “rubber stamp” for executive branch decisions even though if also provides some opportunity for public airing of opposition views.

2.5 The term money politics captures a complex phenomenon which has evolved in Malaysia over the past several decade in which the government overall, and UMNO in particular, has increasingly established patronage links between government and business. As put by Gomez and Jomo (1997: 5), “since the state has slowly become a vital instrument for accumulation in Malaysia, through its ability to formulate and implement policies, regulate markets and otherwise distribute rents (for example, through privatization, licenses and contracts), this has meant that access to rents is increasingly contingent on political access and influence.” While the economic consequences of “money politics” are mixed as regards the effectiveness of Malaysia’s consultative mechanisms, there is little doubt but that it lessons the democratic character of Malaysia’s political system.

2.6 Not surprisingly, therefore, Malay domination of the BN has led to the implementation of economic policies that have been quite unpopular with non-Malays. No doubt, the presence of the MCA, MIC and other opposition parties within the ruling coalition allowed these parties to influence policies, even if minimally. Nonetheless, much bitterness sometimes existed. The New Economic Policy (discussed below) adopted in the early 1970s, for example, which comprised an aggressive affirmative action program for Malays, was heatedly opposed by much of the Chinese-Malaysian business community until it was rescinded in favor of the National Development Policy in 1991.

2.7 Despite the contentiousness of economic policy, however, the stability of the government and the career longevity of major Malay leaders, such as Prime Minister Mahathir, and Economic Advisor to the Government, Daim Zainuddin, has allowed economic policies to be reasonably clear, mostly predictable and generally credible in the eyes of the business community. Thus, by and large, the private sector has been able to believe that policies will be as announced. This has meant that Malaysian and foreign investors, at least since the mid-1980s, have not had to contend too much with the unpredictable economic twists and turns which often accompany challenges to, or changes in, the political leadership in developing nations. As stated forcefully to the authors by a prominent Chinese businessman (Author’s interview):

What we have in Malaysia is strong and predictable leadership. What matters is less what is said than what is done. So, I may not agree with something like how the privatization policy is run, and I know full well that I am unlikely to directly benefit, but I know that it is happening and this allows me to plan. In the end, even though the Chinese portion of the economic pie is not growing as fast as the Malay portion, it has been growing and I am able to make money.
The credibility of economic policies also reflects the long-standing proclivity on the part of some top UMNO leaders to informally consult with important members of the private sector in the formation of policies. For instance, during the 1980s, and well before the Malaysia Inc. policy had become institutionalized, both Prime Minister Mahathir, through the formation of an “Economists Panel,” and (then) Finance Minister Daim Zainuddin, through discussions in his house, regularly consulted with businessmen and academics on economic policy formation (Author’s interviews).

B. *Malaysian Development Policy*

Analysts conventionally distinguish three stages of Malaysian development policy in the post-colonial period. At Independence, the Malaysian economy was heavily dependent on the export of primary commodities as “two-fifths of GDP came from agriculture, compared with less than 10 percent from manufacturing (Jomo and Edwards, 1993: 18). Thus, the Malaysian government sought to promote industrialization. The initial strategy, which lasted from 1957 to 1970, involved relatively minor interventions in the market such as tax incentives (e.g., the Pioneer Ordinance), infrastructure development (e.g., factory space), and the provision of moderate levels of protection for import-substituting industries in the hopes of attracting foreign investment. While industrial production grew rapidly in this period, with foreign investors being dominant, most producers for the domestic market were not internationally competitive, production was concentrated in light, first-stage manufacturing for final consumer goods, there were few linkages between domestic industry and the traditional export sector, and manufacturing industry was not generating rapid employment growth (Lall, 1996). In terms of local entrepreneurs, Malaysian Chinese predominated.

The second stage, associated with the New Economic Policy (NEP), lasted from 1971 into the mid-1980s when it was gradually abandoned in favor of the National Development Policy (NDP) which was formally announced in 1991. Coming on the heels of racial riots in 1969, the NEP consolidated the earlier shift in development strategy and emphasized greater export-orientation in industrialization, but also involved a direct effort to redress ethnic imbalances in the economy as well. Regarding the latter, the NEP had as its objectives not only to eradicate poverty, which was concentrated particularly among the majority Bumiputera (indigenous Malay) population, but also to eliminate the identification of race and ethnicity with economic function.

As the 1970s progressed, the state sector grew rapidly through devices such as the purchase of shares in foreign-owned plantations and domestic businesses and the establishment of numerous state enterprises. These SOEs (as well as Malay-owned small businesses) were given preferences in government procurement and financing and thus their number and the size of the state sector grew rapidly. In addition, by 1975, the government had grown dissatisfied with the speed with which the business community, both the domestic Chinese and foreign sectors, was complying with the principles of the NEP. Thus, the Industrial Coordination Act (ICA) was passed which, through the discretionary use of licensing requirements for larger businesses (smaller businesses were exempted), allowed the state to use more aggressive tactics to increase Bumiputera employment and participation in business.

The ICA, which made issuance of licenses for industrial activity conditional upon compliance with NEP guidelines of 30 percent Malay share of corporate ownership, was not the sole element of corporate restructuring in favor of the Malay community. NEP policy makers also created state trusts to acquire and hold shares for Malays. Chief among these were the National Investment Company and the National Unit Trust. The standard operation of these trusts was that existing (mostly Chinese controlled) and newly established firms were forced to sell 30 percent of equity to the government, which would then
be placed in a national trust. These trust agencies further mobilized Malay savings (all Malays were allowed to purchase stakes). Since the trust agencies acquired profitable businesses at no cost or at very low cost, Malays who participated in the scheme benefited by receiving handsome dividends. Furthermore, the formation of these trusts encouraged ordinary Malays to participate in the NEP and thus helped avert “the potent charge that the NEP provided only a fictitious accumulation of capital to some nominally Malay public organizations and to a handful of Malay capitalists” (Horowitz, 1989: 266).

2.13 A more technically neutral element of the NEP was an economically sensible export orientation, indicated by the successful promotion of free trade zones in the 1970s. Through the use of fiscal incentives and other devices, the Malaysian Industrial Development Authority (MIDA) and other government entities, such as the Penang Development Corporation, targeted electronics multinationals in the US and elsewhere. As these multinationals were engaged in global restructuring strategies, Malaysia was able to capture significant shares of the emerging global high-tech electronics market. At the same time, Malaysia was also somewhat successful in establishing export industries based on the establishment of domestic processing capacity of natural resources such as wood, rubber and palm oil.

2.14 In 1981, however, the new Mahathir government decided that further measures were needed to deepen Malaysia’s industrialization drive. Invoking a “Look East” policy, in which the economic practices associated with governance models in Japan, South Korea, and other Asian economies, were held out as exemplars, Prime Minister Mahathir pursued an interventionist strategy partially modeled on South Korea’s Heavy and Chemical Industries industrial policy push. The government established HICOM (Heavy Industries Corporation of Malaysia) to diversify manufacturing activity, increase local linkages, promote small and medium enterprises and generate local technological capacity. HICOM, however, suffered significant financial losses, and these, combined with a deterioration in the terms of trade (fueled by drops in world prices for major commodities such as petroleum and palm oil) and increasing external debt, occasioned a recession lasting from late 1984 until 1987. As a consequence, Malaysia experienced negative growth rates, and investments, both public and private, dropped precipitously.

2.15 Beginning in 1986, therefore, the third development stage was initiated. The government decided to adopt more pragmatic development policies, move away from the strict implementation of the racial policies of the NEP and the heavy reliance on state intervention to propel the economy, and embarked on a program of administrative reform (discussed in more detail below). In 1991, these new policy emphases were formalized as the National Development Policy and given significant impetus with the Prime Minister’s famous “Vision 2020” speech.

2.16 While the NDP did not entail the same direct involvement of the state in directing the economy as seen with the NEP and heavy industrialization drive, it continued to involve the government influencing the direction of development. An Industrial Master Plan was drawn up for 1986-95 that invoked a selective use of import-protection and export promotion activities. The restructured public sector retained a role in major industries where capital investments were high and the learning period lengthy. And MIDA and other agencies began exercising more discretion over foreign investment with an eye toward promoting higher value-added and more technologically sophisticated industry (Author’s interviews).

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12 At the same time, since the NEP aimed to increase Malay ownership of equity to 30 percent, there were transfer restrictions such that Malay ownership stakes in state trusts could only be redeemed by resale to state-controlled organizations at low par value. The reason for this was to safeguard against the re-sale of Malay ownership stakes to foreigners and ethnic Chinese at market prices to realize capital gains.
C. **Institutionalization of Malaysia Inc.**

2.17 When Prime Minister Mahathir announced the concept of Malaysia Inc. in 1983, his plea to the private and public sectors to cooperate, since they were supposed to be "sharing the same fate and destiny as partners, shareholders and workers within the same 'corporation', which ... is the Nation," sounded more like a utopian dream than an attainable objective (Mahathir, 1984: 2). Yet, actions can speak louder than words. And Dr. Mahathir did, indeed, act by reducing the discretionary powers of the government, by urging the formation of multiple channels of communication through consultative bodies, and by crafting a policy framework conducive to a partnership between politicians, bureaucrats and the business community.

2.18 Although the Malaysia Inc. policy was first announced by the Prime Minister in 1983, it took most of a decade to take root. The policy was a part of the “Look East” strategy of Mahathir and, as the title suggests, the Malaysia Inc. policy was molded after the Japan Inc. idea in which there has been close collaboration between the government and big business. At the same time, however, the Malaysia Inc. policy was designed to be even more encompassing with collaborative relations envisioned between public and private sectors in all sectors of the economy, between the differently-placed racial groups, and at the state as well as federal levels. What is Malaysia Inc.? According to Mahathir (1984):

> The Malaysia Incorporated concept means close and mutually supportive cooperation between the public and private sectors. ... The private sector must understand national policies, objectives and procedures in order to facilitate their dealings with the Government. They must appreciate that regulations and procedures are not meant to frustrate them but are in fact a means of ensuring orderliness in commerce and industry.
>
> ... The service sections of the Government, the policy and lawmakers, have a duty to ensure that no undue hindrance is put in the way of the private sector. ... It is the private sector that provides the revenues necessary for government expenditure of every kind.

2.19 As follow-up to the announcement of the policy, the government directed the establishment of public-private consultative panels in Ministries, State Governments and District Offices and embarked on an educational drive to publicize the policy.

2.20 As of the mid-1990s, Prime Minister Mahathir began to refer to the Malaysia Inc. idea as a "smart partnership"; smart because "it yields results, results which are shared without exception by everyone, not only the three partners, but the people and the nation as a whole" (Langkawi Dialogue, July 29, 1996). The reference in Dr. Mahathir's speech to the three partners is apt because, broadly speaking, the partnership consists of political leaders, civil servants at the top echelons of the government bureaucracy, and the private business sector. Labor has been left out of the arrangement and the participation of NGOs, academics and others has been peripheral.

2.21 Unlike partnership arrangements in business life, however, relations between the three sides in the "smart partnership" are not governed by written agreements but by what may be called an “implicit” understanding of rights and expectations. Our analysis is that the most basic principle of this implicit

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13 More broadly, Japan Inc. refers to the extensive networks connecting politicians, bureaucrats and businesses in Japan as well as to the practice of “administrative guidance” through which economic bureaucrats, particularly those associated with the Ministry of International Trade and Industry, promoted industrial policies.

14 INTAN (National Institute of Public Administration) sponsored 33 lecture sessions, a national forum and four state-level discussions in 1983 on the Malaysia Inc. policy.
contract is the following. The government will commit to being somewhat responsive to the needs of the private sector, via the institutionalization of consultative dialogues, provided that the private sector in turn commits to allowing certain discretionary policy areas (e.g., the privatization program), to remain off limits in dialogues. The core economic agency for the government’s discretionary use of economic power is the Economic Planning Unit (EPU). And the areas of government policy most likely to be considered off limits in consultative mechanisms concern the government’s continuing commitment to achieve inter-ethnic equality and foster a Malay business class.

2.22 Given the timing of the announcement of Malaysia Inc. in the early 1980s, it is not surprising that it initially generated little enthusiasm in the private sector. Within the Chinese business community, a significant fact of business life remained the demands of the official ethnic redistribution policy as symbolized by the Industrial Coordination Act, in effect since 1975. The Associated Chinese Chamber of Commerce and Industry in Malaysia, in fact, had openly denounced the ICA and called on the government to repeal it in 1977 (Jesudason, 1989). Furthermore, declining investments in the manufacturing sector, and increased capital flight in the late 1970s and into the 1980s have been linked by analysts to private sector concerns with the ICA (Jesudason, 1989). The creation by the government of a consultative body, the Industrial Advisory Council (a precursor to the MITI dialogue discussed below), in 1979, may have helped matters somewhat. Through this dialogue disaffected Chinese business persons were invited to discuss their concerns directly with (then) Minister of International Trade and Industry, Mahathir Mohamad. At the same time, however, as mentioned above, the government’s ambitious heavy industrialization drive of the early 1980s, mismanagement of public sector entities, and the global economic recession undermined the nation’s macroeconomic stability and this further diminished private sector confidence.

2.23 With respect to private sector willingness to take seriously the Malaysia Inc. policy, therefore, it is difficult to overestimate the importance of the government’s pragmatic reactions to the macroeconomic crisis and recession of the mid-1980s. Reassuring to the Chinese business community and small business sector was that the most objectionable provisions of the Industrial Coordination Act were amended to encourage greater private investment. For instance, the size of firms that were subject to the ICA was increased to those with a work force of 75 employees and RM2.5 million in shareholders’ funds. Foreign investors were also reassured with the passage of the Promotion of Investment Act of 1986 that liberalized Malaysia’s investment climate and allowed greater foreign equity stakes. In addition, the government began implementing its privatization program (discussed below), first announced in 1983 as part of the Malaysia Inc. idea, more vigorously.

2.24 Finally, sending what was perhaps the strongest signal to the private sector, the government demonstrated a willingness to sack Malay managers of mismanaged state enterprises. Thus, by mid-1988, in a number of cases, the “management of state industries passed to private sector managers, in most cases executives of foreign joint venture partners, and almost without exception non-Malay, something quite unthinkable in the early days of the NEP” (Bowie, 1994: 178-9). One MBC member the authors interviewed, for example, who is Malaysian Chinese, explained how the government gave him a free hand in restructuring an important bank, and despite not being a Malay, was able to dismiss the Malay CEO, whom he thought was responsible for poor management (Author’s interview).

2.25 In addition to the pragmatism of the government in response to economic crisis, the Malaysia Inc. policy received momentum from an overhaul of the attitudes and operational practices of the Malaysian civil service. The British colonial legacy endowed Malaysia with a professional civil service in which merit mattered for advancement and in which constitutional protections limited the politicization of the bureaucratic corps. While fortunate in having a professional bureaucratic tradition, one consequence of the
British tradition was a civil service ethic that proscribed extensive communication and social interaction between civil servants and the business community. That the movers and shakers in the business community were either foreigners or domestic Chinese, while civil servants were generally Malay, only exacerbated the lack of interaction. Not surprisingly, Malaysian economic bureaucrats perceived themselves in an adversarial role vis a vis the business community. Their job was to closely scrutinize and regulate the business community. Furthermore, during the 1970s and into the 1980s, when the NEP was being implemented, the role of bureaucrats in monitoring and enforcing policies such as the Industrial Coordination Act exacerbated this social distance between themselves and the Chinese and small business sectors.

2.26 Not only did this lack of interaction generate negative attitudes toward business within the civil service, but it also hindered bureaucratic understanding and appreciation of the business world. As noted by a former civil servant who is currently prominent in the financial sector (Author’s interview):

In the past, there was a great deal of suspicion between government and business. Civil servants were not supposed to fraternize with business. As a result, they used to be completely isolated from real world issues. They would do all of their thinking and planning by reading books and going to libraries. This has completely changed. I used to work in the Finance Ministry and I certainly had this sort of isolation from the business world.

2.27 In order to reduce this social distance as well as to familiarize bureaucrats with business culture, the government introduced a series of measures. One interesting strategy involved the promotion of social and sporting events in which senior civil servants and top business people, as well as their families, were invited. Prime Minister Mahathir’s direct involvement in promoting these events helped make them successful (Author’s interview). A business Attachment Program for senior civil servants, sponsored by the British-Malaysia Industry and Trade Association, was introduced in 1983. Participating bureaucrats were provided special training in INTAN (National Institute of Public Administration) and then sponsored to work with a multinational corporation. Civil servants were further encouraged to join the private sector permanently through an early retirement scheme introduced in 1992, which permitted retirement as early as age 40 (with pension benefits to be paid at age 50).

2.28 The government also undertook specific actions to enhance the Malaysia Inc. policy in the latter part of the 1980s as it came to recognize that the policy was not yet effective. This recognition came about partially as the result of a series of internal studies conducted by MAMPU (Malaysian Administrative Modernization and Management Planning Unit) and INTAN in the mid-1980s. These studies determined a) that public sector officials remained unsure how the policy was to be implemented and generally uncommitted to the idea anyway (especially within the middle and lower ranks), b) that the consultative panels were not widespread and, in many cases, met infrequently, c) that the consultations which were effective often predated the announcement of the Malaysia Inc. policy (see, for example, the discussion below of the annual budget dialogue sponsored by the Ministry of Finance) and were narrowly focused on specific sectors or industries, and d) that few people in the private sector were aware of the policy and many who were aware were skeptical.  

15 These studies of Malaysia Inc. conducted by MAMPU and INTAN were not available to the authors. However, they are discussed and summarized in an influential Malaysian Business Council Working Paper, “Strengthening Malaysia Incorporated” from 1992 which the authors were able to review.
In response to these findings, the government initiated a series of far-reaching administrative reforms to reinvigorate the Malaysia Inc. idea. In 1990, the government formed the Sub-Committee on the Improvement of Public Administration, which was re-named the Malaysia Inc. Panel (also called the Malaysia Inc. Officials Committee) in 1991. This panel was composed of 26 people in which heads of private sector associations and chief editors of major newspapers comprised the majority. A reinvigorated Malaysia Inc. policy was announced in July 1991 in a directive from the Chief Secretary to the Government (i.e., Malaysia’s top civil servant), Ahmad Sarji, an influential proponent of the Malaysia Inc. policy. In Development Administration Circular No. 9, the Chief Secretary called for the establishment of consultative panels in all Ministries, Departments and Offices at Federal, State and District levels. Terms of reference for these panels included coming up with measures to streamline and make more transparent the rules, regulations and procedures for the delivery of public sector services to the private sector. Specific administrative reforms undertaken around this time frame included:

- The simplification or elimination of licenses, permits and laws regarding business investment and activity (i.e., “cutting red tape”)
- The creation of a one-stop licensing center for investors housed in MIDA (Malaysian Industrial Development Authority)
- The implementation of Client’s Charters for administrative agencies
- Public sector training programs to teach civil servants about Malaysia Inc. and about the business environment more generally
- Efforts to make information about rules and regulations easy for members of the private sector to find and understand. For example, the Civil Service Link, created in 1994, is an electronic data bank which includes things such as profiles of government agencies, regulations for incentives for investments, transcripts of laws, etc.

The underlying idea behind these administrative reforms associated with the Malaysia Inc. policy was to render economic rules governing business transactions more transparent and predictable as well as less costly. In turn, it was hoped that this would enable economic actors to engage in business planning with less fear of the bureaucracy’s prerogatives to change the rules or to interpret them arbitrarily to seek rents. An indication of the success of these administrative reforms is offered in the 1995 World Competitiveness Report of the World Economic Forum and International Institute of Management which ranked Malaysia first in the world in terms of government transparency. Thus, by 1991, the tri-partite partnership of Malaysia Inc. was in place. In the next section we more carefully examine the practice of Malaysia Inc. by focusing in on several distinct consultative mechanisms.
Consultative Mechanisms in Practice

3.1 As the Malaysia Inc. policy has become institutionalized there have emerged numerous distinct consultative mechanisms. The premier national-level CM is the Malaysian Business Council (MBC), a 72 member body comprising the state elite and captains of commerce and industry (token representation of labor and NGOs is present within the MBC as well). Within the bureaucracy, the Malaysia Inc. Officials Committee (MIOC) is the most central body. More accessible to a larger number of people from the private sector than the MBC and MIOC are a number of dialogues organized by different Ministries. Chief among these are the annual pre-budget dialogues organized by the Ministry of Finance, and the industrial policy dialogues organized by the Ministry of International Trade and Industry (MITI). In addition, there are ad hoc and temporary CMs that may be set up by individual Ministries to formulate policies with regard to specific tasks, such as the currency crisis, human resources, etc. Finally, there are a large number of advisory and consultative committees that have been set up by state governments in order to involve trade and industry associations, as well as individual firms, in policy making and planning.

A. Commonalities, Norms and Conventions

3.2 Prior to discussing how distinct CMs operate, it is useful to note some commonalities, norms and conventions shared among them. In terms of commonalities, a first observation is that participation in CMs is by invitation only, albeit decision-makers often attempt to strike a balance among the invitees in terms of geographical and sectoral representation and also in terms of ethnic composition. Second, although a wide variety of policy ideas may be discussed in a CM, and although a consensus may even be reached under some circumstances, none of the policy ideas are legally binding. That is, CMs are not formal decision-making bodies. Rather, for a policy idea discussed in a CM to be adopted, a government official (e.g., high-

16 Interestingly, the Malaysian Civil Service apparently maintains a distinction between the MBC and all other consultative mechanisms. Thus, in the 1996 document, The Civil Service of Malaysia, the MBC is not mentioned at all while the Malaysia Incorporated Officials Committee is described as the “highest-level consultative panel” (GOM, 1996: 147). In our interviews, however, the MBC was clearly perceived by both public officials and private business persons as the most senior of the consultative dialogues. The fact that the MBC is specifically associated with Prime Minister Mahathir, as opposed to being a part of the general application of the Malaysia Inc. to the operations of the civil service, may explain this oddity.
ranking bureaucrat, Minister, etc.) has to espouse the proposed course of action and eventually help get the idea to the appropriate government body, such as the Cabinet, for approval. And third, although there are topical variations in terms of themes discussed in different CMs, some pressing issues get discussed in multiple forums. For example, labor shortages in the economy and restrictions on the importation of foreign workers were discussed in both the MITI and the Budget Dialogues in 1997.

3.3 As regards norms and conventions vis a vis CMs, several of our business community interviewees claimed that as long as one was diplomatic it was generally possible to speak one's mind in CMs. That is, the government expected forthright opinions to be shared by business participants. There is some indication that this norm extends to the highest-level government officials. For example, an MBC member we interviewed helped the Prime Minister choose who would sit on the MBC. This interviewee claimed that, since many Malaysian business people were known to be too timid to speak up at such a high level forum, a number of people were chosen specifically because they were believed to be vocal and outspoken. Furthermore, the Prime Minister invited all MBC members to write to him directly if they had something to say but felt they could not say it during a MBC meeting. Remarkably, several of our interviewees who were MBC members and who mentioned actually writing the Prime Minister in this fashion claim that he answered such correspondences promptly.

3.4 It would be a mistake, however, to suggest that free speech is encouraged or likely within the MBC and other institutionalized CMs. One issue, as mentioned by several government interviewees, is that the government exercises discretion over who gets invited to join consultative dialogues. This, of course, places significant boundaries around the range of opinions likely to be voiced. With respect to the MBC, for example, much forethought and even an interview process for some prospective members (conducted by ISIS) preceded invitations to join the body (Author’s interview).

3.5 In addition to discretion being exercised over who gets invited to a dialogue, pressures also exist which curtail the range of opinion likely to be expressed within consultative settings. For instance, with respect to the MITI and Budget dialogues, while the annual meetings include participants with varying points of view, repeated invitations to the more select functional and ad hoc consultative bodies are dependent on a “don’t rock the boat” attitude. We were informed by a Finance Ministry official, for example, that participants in these latter forms of dialogues whose perspectives were deemed unhelpful did not receive further invitations to participate in consultations (Author’s interviews). Clearly, the opportunity to participate in these dialogues is advantageous to business persons who may, for example, receive advance notice of pending policy shifts, and, in any case, are able to derive long term benefits from cultivating network connections with influential policy makers. Thus, they are unlikely to risk being thrown out of the consultative circle by expressing opinions that may be unwelcome.

3.6 While free speech within restricted and well-understood boundaries is encouraged in consultative dialogues, private sector members are discouraged from attempting to use these forums to ask for particularistic favors. This is not to say that lobbying is strictly prohibited. It is not. But the convention is to present particularistic concerns only when other firms in the same industry share similar concerns. As put to us in an interview with an influential banker: “with respect to the MBC, if you bring a personal issue and ask for ridiculous favors, then others will follow suit and the meeting will become too contentious and degenerate into mutual accusations” (Author’s interview). So it is better to be responsible and not lose sight of the public good. At the same time, such a “responsible” attitude is good for business, because, according to the same person:

MBC meetings are great for networking and if you behave well and represent your country's interest, then the decision makers will respect you more. They will get to
know you better, and you can then forge personal ties with top people which may later be mobilized for asking personal favors if need arises.

3.7 As opposed to within the MBC, more firm-specific or industry-specific concerns can be raised in state-level and Ministerial forums although, as noted, the tendency over time has been for firms and business associations to learn to link their suggestions to broader sectoral or national-level concerns.

3.8 What is a firm or business association expected to do when policy-makers disagree with their advice and suggestions? The convention under such circumstances is that the firm or business association is expected to continue the dialogue at the same level, but to think more comprehensively and to present a better submission or argument to government authorities in a subsequent round of meetings. This is viewed as a preferable alternative to the possible alternative recourse of an end run around the consultative body through an effort to reach a higher-level decision-maker directly. For example, if a firm encountered a problem at a local state level, it is expected to make full use of existing dialogue opportunities at this same level before, say, complaining to MITI or the Ministry of Finance authorities in Kuala Lumpur. One positive externality of this convention is that the dialogues become opportunities for mutual learning processes as issues are returned to repeatedly and as parties interact repeatedly.

3.9 Of course, as noted by one of the highest-ranking and most respected civil servants we interviewed, business efforts to seek special favors do make it to top levels, particularly when backed by politicians. This official claimed, however, that given the professionalism of the civil service and, additionally, given the desire of the Prime Minister to personally limit favors, such efforts have often been curtailed. It is worth quoting this official at length (Author’s interview):

I can’t tell you there are not interventions. There are. But in the civil service, we have a strong sense of adherence to rules and regulations. If what is demanded is contrary to rules, then we would tell the politicians to go to Parliament and amend the law. ... If pressures were too strong, civil servants could go to see the Chief Secretary who had good relations with the Deputy PM and Prime Minister. Then, the Prime Minister would berate the politician or businessman who was trying to interfere with our operations. In the last analysis, the fact that we have a cohesive government and we are dealing with the same people over the years has helped. We came to know and trust each other. Politicians gradually learned what we will do and what we can’t or won’t.

3.10 At the same time, in return for expecting the private groups to forthrightly participate in the dialogues and not perform end runs around the system, government authorities are expected to reciprocate in various ways. Perhaps most significantly, serious suggestions from firms or business associations are supposed to be examined carefully by government officials and implemented when appropriate. In this regard, both the MITI and Budget dialogues have much credibility within the business community as interviewees repeatedly noted that it is common and, in fact, routine for business suggestions to be accepted. A second important form of government reciprocity is guarantees of confidentiality. In the words of a high level official in the Ministry of Finance, "to my knowledge, we have not used information we may have obtained from a submission to punish or treat any business poorly. I think this sort of even-handedness, respect for confidentiality, has increased trust." None of our business interviewees contradicted this claim (Author’s interviews).

3.11 We turn now to a discussion of the specific operation of different consultative mechanisms. The discussion below will focus upon the Malaysian Business Council, the two major sectoral consultative
mechanisms (i.e., the Budget and MITI dialogues), an example of an ad hoc dialogue relating to high technology and the “multimedia supercorridor,” and an example of a state-level dialogue in Penang.

B. **The Budget Dialogue**

3.12 The oldest standing consultative mechanism in Malaysia is the annual budget dialogue organized by the Ministry of Finance. This dialogue originated in an economic conference held in the late 1970s which involved top Finance officials, including the Minister, and academics (Author’s interviews). Initially, the dialogue consisted of a get-together of civil servants and academics at which informal discussion of budget issues occurred. Over time, the budget dialogue has evolved considerably although the primary focus has remained the consideration of issues associated with the draft budget. While participation in the dialogue has continued to require an invitation from the Ministry, an increasingly diverse group of participants has been invited, including not just academics, but business associations, research institutes, NGOs, social groups and so on. As the number of participants grew, the Ministry also began requesting the submission of written commentaries. Moreover, from a single-minded focus on the proposed budget, the dialogue has expanded in scope to include annual themes on diverse subjects, to extend over a number of sessions, and to have some sessions held outside of Kuala Lumpur.

3.13 In addition to the annual budget dialogue, the Finance Ministry also organizes ad hoc dialogues, perhaps three or four in any given year, in response to specific economic matters. These groups meet once or twice, will usually include both academics and business persons, and will involve both formal presentations and informal discussions on the matter at hand. As mentioned, a finance official confirmed for us that repeated invitations to these ad hoc dialogues is contingent on proven capacity on the part of the persons invited to make what the Ministry considers to be positive contributions. Those whose contributions are considered disruptive or unhelpful will not be invited back.

3.14 In order to deal with the many submissions and ideas generated during the annual dialogue, the Ministry has developed in-house follow-up procedures. Thus, the Economic and International Department acts as a secretariat and reviews the varying suggestions from the dialogue, tabulates these and compares them to the draft budget. This gives the Ministry the ability to know if several different parties made the same particular suggestion in a given year and which suggestions get repeated one year to the next. Changes to be made to the budget which emerge from the dialogue are shared in written fashion with the Cabinet and other Ministries as appropriate (Author’s interviews).

C. **The MITI Dialogue**

3.15 The MITI dialogue, like the Budget dialogue, is an annual affair but it was only initiated in the late 1980s. As a Ministerial-level consultative body, however, it was preceded by an Industrial Advisory Council, which had been established in 1979 to help ease tensions between Malaysian Chinese business persons and the government regarding the Industrial Coordination Act. The MITI dialogue is more likely to focus on sectoral or industrial issues when compared with the macro debates associated with the Budget dialogue. Similarly to the Budget dialogue, however, the MITI dialogue has expanded and evolved over the years in terms of the length of the dialogue, the number and diversity of participants, the themes to be addressed and the location of the dialogue. The process is for participants to submit written suggestions to MITI regarding ideas and suggestions for matters under the authority of the Ministry. During the meeting itself, Minister Rafidah Aziz takes an active role and has been known to dress down her own staff in public when they were unable to offer an adequate response to a question or suggestion from a participant. Not surprisingly, this has led to the MITI staff coming well prepared to the dialogues.
3.16 There are several reasons why the MITI dialogue is taken quite seriously by the private sector. First, given that MIDA (the Malaysian Industrial Development Authority) is under the authority of MITI, and is the agency most closely associated with the discretionary application of investment and export incentives, manufacturers in Malaysia participate in the MITI dialogue in order to understand the incentive regime and to lobby for specific changes. Secondly, other than the Economic Planning Unit (which is closely associated with the Prime Minister’s political leadership and is also more insulated), MITI is the government agency most involved in the formulation of long-term industrial strategy. For example, the new Industrial Master Plan (IMP2) for 1996-2005, was drafted by MITI. Thus, businesses attempt to understand and influence industrial strategy through participation in MITI dialogues. Finally, MITI Minister Rafidah Aziz is well known for personally leading and setting a serious and energetic tone for the dialogue. This personal involvement lends credibility to the dialogue to business participants.

3.17 Other than the annual dialogue, MITI also coordinates a number of specific consultative mechanisms to which certain businesses and business associations are invited to participate. These are relatively institutionalized and long-lived in comparison to the issue-specific and ad hoc consultations which complement the Budget dialogue held by the Ministry of Finance. In general, these specific CMs are organized on a functional basis, as opposed to being organized in terms of industries and sectors. This reflects the fact that MITI’s internal organization is mostly by functional area as opposed, for example, to the industrial and sectoral departmental structure of the Japanese Ministry of International Trade and Industry. Examples of MITI’s specific consultative bodies include an Export Promotion Council and an Action Committee on the Industrial Master Plan. Again, the Minister is known to actively participate in many of these consultations.

D. The Malaysian Business Council

3.18 The Malaysian Business Council was launched in February 1991 by Prime Minister Mahathir. The MBC was intended by Mahathir to be a culmination of the Malaysia Inc. concept in that it would be a forum in which Malaysia’s most prominent and powerful politicians, civil servants and captains of industry would meet face to face in order to discuss national economic policy issues. The MBC was also the choice of venue for Mahathir to present a major policy statement, “Malaysia: The Way Forward,” which has become popularly known as “Vision 2020.” This policy statement is generally perceived as paving the way for the announcement later in 1991 of the National Development Policy (NDP). As noted above, the NDP formalized the economic strategy shift away from the two-decades old NEP, with its emphasis on inter-ethnic economic equity, and toward a model emphasizing industrialization, growth and international economic openness.

3.19 The MBC had antecedents in terms of national-level consultative bodies. Some observers link the MBC to the earlier, and ill-fated, National Economic Consultative Council (NECC). Formed in late 1988, the NECC, with a broad inter-ethnic membership that included prominent academics and former politicians, had the task of working out a development strategy to supersede the ethnically-divisive New Economic Policy. After much contentious debate and even principled resignations by some participants, a lengthy report was issued in early 1991 which, however, was largely ignored by the government (Mauzy, 1991). Much earlier, following the 1969 racial riots, a National Consultative Council had been created which had involved many of the top decision-makers in government. Some MBC members we interviewed, however, view the MBC as an extension and expansion of the Economists Panel, mentioned above, which the Prime Minister consulted, albeit informally, during the early 1980s composed of academics and business people (Author’s interviews).
3.20 In terms of procedures, the Malaysian Business Council meets infrequently, only once or twice a year since inception, and behind closed doors. Meetings usually involve the Prime Minister making a presentation on economic matters of concern to him and general discussions on the Prime Minister’s ideas as well as on ideas being forwarded through the policy papers prepared by the Working Committees (discussed below). Meetings are cordial and, according to our interviews, outright disagreements are rare as discussions tend to remain focused on general trends and macroeconomic issues.

3.21 The membership of the MBC during the mid-1990s read as a “who’s who” in Malaysia. The Prime Minister was MBC Chairman and the former Deputy Prime Minister and Minister of Finance, Anwar Ibrahim, was MBC Vice-Chairman. In terms of public sector representation, there were 10 Cabinet members altogether and 11 prominent civil servants appointed in ex officio capacities. Regarding private sector members, however, according to an MBC member who assisted the Prime Minister in identifying persons for membership, “we identified persons rather than representatives of organizations or specific businesses. We wanted people with capacity, who could be useful and speak up” (Author’s interview). Nonetheless, a number of desired criteria for members from the private sector guided selection. These included: a) variation in ages; b) ethnic diversity; c) sectoral economic representation; d) inter-state geographic representation; and e) diversity in types of firms, i.e., private, state-owned and state economic development corporations (Author’s interviews). There is token representation of labor, such as the Malaysian Labor Organization (MLO) and the Congress of the Union of Employees in Public and Civil Services (CUEPACS), as well as of the media and NGOs.

3.22 An important institutional feature of the MBC is the nine internal Working Committees, each with specific areas of responsibility. The head of each Working Committee is an MBC Vice-Chairperson. Vice-Chairpersons have included Ministers, civil servants and private sector representatives of high repute. The main function of Working Committees has been to discuss policy issues and prepare policy papers with recommendations that were subsequently presented to the full MBC meeting. In interviews we were informed that it had been common but not universal for recommendations made through Working Committee policy papers to subsequently be adopted officially (Author’s interviews). Each Working Committee drew a membership from the MBC and could co-opt experts, as needed, from outside the MBC.

3.23 The Working Committees varied considerably with respect to the frequency of meetings and the production of policy papers. Repeatedly in interviews, the authors heard that the effectiveness of a Working Committee was primarily a function of who was the head. In the cases of heads who were politically important, such as the former Deputy Prime Minister and Finance Minister Anwar Ibrahim and MITI Minister Rafidah Aziz, Working Committees were viewed as arenas in which serious policy discussions with potential impact on actual policies were taking place. Lacking a politically important head, Working Committees were viewed as much less relevant to how policy decisions would actually be made. In such cases, presumably, MBC members would have to seek out alternative means to influence policy. In any case, various Working Committees during the life of the MBC have tabled about 30 policy papers and these remain classified by the government as confidential.

3.24 Another institutional feature of the MBC is the external Secretariat, the Institute of Strategic and International Studies (ISIS). In consultation with the Prime Minister and the heads of the Working Committees, ISIS establishes agendas for MBC meetings. Additionally, ISIS is generally involved with the preparation of Working Committee policy papers through the provision of expert research services, although in some cases policy papers were prepared under the auspices of a relevant Ministry or government agency, such as the Central Bank. ISIS does not, however, have a formal role in following-up and monitoring the progress of any proposals, agreements or other outcomes of MBC meetings.
E. **Ad Hoc Dialogues -- the Multimedia Super Corridor**

3.25 In addition to the formalized mechanisms of dialogue discussed above, at times, at the behest of the Prime Minister, some ad hoc committees may be formed to discuss and deliberate on issues of national significance. This has been the case in the area of information technology where an Information Technology Council was formed in 1993, and the brainchild of this council is now known as the Multimedia Super Corridor or MSC. According to our interviewees, although the idea of the MSC emanated from the Prime Minister himself at the urging of his private advisor, Mr. Kenichi Ohmae, the idea had been thoroughly discussed in a number of workshops sponsored by the Information Technology Council. Some limited opposition to the MSC has been voiced. For example, one interviewee told us that he found the fiscal incentives given to foreign investors in order to induce them to invest in the MSC, such as 10-year tax holidays, to be quite excessive, and has voiced and written such criticisms in a number of forums (Author’s interview). Nonetheless, as a pet project of Dr. Mahathir, the MSC has been proceeding rapidly from conception to implementation.

3.26 The idea of the MSC has been widely publicized by the Malaysian government, and this is not the place to reiterate information that can be gleaned from official documents.\(^\text{17}\) We would like to emphasize, however, the grand scale of the project as well as its overall location within the general structure of Malaysia, Inc. Our understanding of the MSC is that it is an agglomeration of loosely connected activities all designed to move future development options into the multi-media component of the information technology sector in order to enable the realization of Vision 2020. The means through which this will be accomplished include: a) common infrastructure provision by the government; b) promotion of eight flagship industries (initially through government guarantees of domestic market shares); c) special incentives for investors; and d) relaxation of labor restrictions. In an effort to capture positive externalities associated with location, such as in Silicon Valley and other successful information technology sites, the MSC will have a physical location which will encompass an area about 15 kilometers wide and 50 kilometers long. In this connection, a new information technology city called Cyber Jaya will be constructed to the south of Kuala Lumpur.

3.27 The agency in charge of the MSC is the MSC Development Corporation. This agency has already designed several pilot programs in a variety of areas, such as “smart schools” (e.g., computer-aided and computerized teaching and learning as well as internet access for all schools) and “telemedicine” (e.g., remote consultation, diagnosis and treatment of diseases). Furthermore, the MSC has already attracted a number of foreign investors in computer, telecommunications and broadcasting industries (such as Sun Microsystems and Microsoft). And the creation of the MSC has spawned a number of legal measures, such as the Digital Signature Bill and the Computer Crime Bill, to form the legal framework of the MSC.

3.28 Interestingly, the MSC has expanded the Malaysia Inc. idea into the international arena. That is, in order to guide the development of the MSC and to advise the government on issues such as the nature of incentives needed to attract foreign capital and the intellectual property laws needed to protect proprietary technology, an International Advisory Panel (IAP) has been formed. Members of the IAP include Bill Gates of Microsoft, Scott McNealy of Sun, Nobuyuki Ides of Sony, Larry Ellison of Oracle, and Dean Michael

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\(^{17}\) See, for instance, a special issue of The New Strait Times, Computimes, May 29, 1997, which discusses various aspects of the MSC in detail. The government has also published a number of booklets which can guide foreign investors interested in the MSC. These can be obtained by contacting the MSC Development Corporation. The address is MDC, PO Box 12260, 50772 Kuala Lumpur, Malaysia.
Spence of the Stanford Graduate School of Business, among others. The formation of the IAP, which held its first meeting on January 16, 1997 at the Gates Building of Stanford University and a second meeting in early 1998, heralded the gradual expansion of the breadth of Malaysia Inc. concept beyond national borders. It is too early to tell whether or not the Malaysian MSC will ever rival other Asian information technology sites in Taiwan and Singapore. However, the use of CMs in order to push the effort forward, including the integration of foreign perspectives into the policy design, are significant policy innovations which may compensate for some of the disadvantages of late timing.

F. State Level Dialogues -- Penang Economic Council

3.29 Although the Malaysia Inc. policy as stated in government publications includes the idea of state-level consultations, this ambition has been unevenly realized. Perhaps the most extensive use of public-private dialogues at the state level are to be found in Penang, a state in the northwest of the Malay Peninsula. A former British trading post with a majority Chinese-Malaysian population, Penang is famed for its rapid pace of development, with a growth rate of about 10 percent annually for the past decade, and is known as the “Silicon Valley of the East” due to its success in attracting electronics-related investments. The major consultative body is the Penang Economic Council (PEC) which was formed in 1991 and subsequently helped spawn a series of sectoral and functional consultative bodies. The PEC was modeled on the Malaysian Business Council and, in fact, the secretariat of the MBC, the Institute for Strategic and International Studies, helped organize the PEC initially (Author’s interviews). The formation of the PEC reflected the initiative of the Penang Development Corporation (PDC), and especially the Chief Minister of the state, who also serves as Chairman of the PDC.

3.30 Each state in Malaysia has a development corporation that was formed in the late 1960s or early 1970s. Following the New Economic Policy, most have prioritized enhancing the economic position of the Malay population. Reflecting both the quality of leadership, as well as the nature and extent of resources, however, different development corporations established their own strategies to fulfill their missions. In the southern state of Johor, for example, the development corporation adopted a strategy of promoting industrial development goals through tactics which included direct acquisition of land as well as commercial and industrial properties, the management of export-oriented industrial estates and the promotion of Malay entrepreneurship (Author’s interviews). In Penang, by contrast, the extensive use of public-private consultations as part of an economic development strategy reflected specific constraints under which the PDC had to operate. In particular, because the British did not have a land policy restricting private ownership, the state government ended up with rights to only about 11 percent of the territory, with most of this in hilly areas, and the PDC itself was not vested with rights to any land initially. Thus, in contrast to Johor where the development corporation competes with the private sector in certain activities, in Penang the PDC always perceived its role as facilitating, and perhaps, directing private sector activity, but certainly not replacing it (Author’s interviews). Priorities of the PDC over the years have included industrial planning, human resource development, urban redevelopment, tourism promotion, and land development and reclamation.

3.31 Perhaps the most successful single example of public-private collaboration in Penang is the Penang Skills Development Centre (PSDC). Established in May 1989, the PSDC provides pre-employment training, skills upgrading and training consultancy services to businesses, especially in high technology industries. The initiative to address human resource shortages initially came from Penang-based MNCs, such as Intel, Motorola, Hewlett Packard and Robert Bosch, following recognition that the skills shortage was a collective problem facing industry. These businesses, in tandem with staff from the PDC, established a steering committee that drew up the concept for a broad-based collaborative solution to the skills problem.
This solution had the state government provide initial funding, academics from the local university, the Science University of Malaysia, provide continuing technical advice and consulting services, and industry, by way of a membership structure which offers gradated benefits, provide the bulk of continuing funding for PSDC programs. In 1994, Prime Minister Mahathir made special recognition of the PSDC as an exemplar of the Malaysia Inc. policy, and the PSDC has also garnered international acclaim.18

3.32 The Penang Economic Council, the state-level consultative mechanism, was formed in December 1991, with the initial mission to deliberate upon and contribute to a strategic development plan which was adopted in October 1992. Participants in the PEC included academics as well as government and business persons. Government participants represented not just state-level offices, but federal-level ones as well such as the Economic Planning Unit and ISIS. The PEC made significant contributions to the strategic plan while the inclusion of the private sector in the discussions and planning process helped generate both good will and a sense of shared mission between public and private sectors regarding the major developmental challenges facing the state (Author’s interviews). The strategic plan identified broad “strategic thrusts” for the state until the year 2000 and laid out specific goals associated with each of these. The strategic thrusts were a) to ensure sustainable economic growth, b) to promote a dynamic economy through human resource development and broadening the state’s economic base, c) to reduce poverty and social inequalities, and d) to restructure the government’s institutional and administrative infrastructure. An assessment of the progress made toward the goals of the strategic plan was carried out in 1995 and documented that most of the specific goals had been met.

3.33 While the PEC only met over the course of a year and a half, one of the goals identified by the PEC and stated in the strategic plan was the enhancement of public-private consultation. Toward this end, a series of sectoral and functional consultative mechanisms were established. Certain dialogues, such as the Penang Industrial Council and the Penang Tourism Council, have been quite active. The Tourism Council, for example, established a Tourism Action Plan to guide the industry’s development while the Industrial Council has tackled problems such as skills shortages and overseas management of subsidiary firms, the latter by helping to establish incentives for firms to set up their operational centers in Penang.

3.34 Other consultative mechanisms initiated by the PEC, such as the Trade Council and the Environmental Council, however, have been less successful. One problem has been finding appropriate people to participate. Given the complexity of the issues, the centrality of a small number of firms and the limited size of government staff, a basic skills shortage exists (Author’s interviews). Furthermore, duplicating what the authors observed with respect to the Working Committees of the Malaysian Business Council, the success of the councils reflects the extent to which top level government and business persons participate. For example, the successful Industrial Council is chaired by the Chief Minister. Perhaps most significant, however, has been the difficulty the councils have had in moving past an event-specific approach to deal with long term issues. Part of this reflects the conditions of rapid change in Penang in which skills and physical infrastructure bottlenecks and environmental concerns pile up one on top of the other. As put by an interviewee, councils set up at the state level "tend to be reactive, not proactive. It is like a continuous effort at fire fighting" (Author’s interview).

18 For example, the Far Eastern Economic Review, January 1994, states, “the PSDC is unique in Malaysia not just because it trains shop-floor workers as technicians and engineers but also because competing companies pool their resources to fund it.” See also the comments in The Economist, 22-28 May 1993.
3.35 In the next section we move away from the description of distinct consultative bodies to consider more directly analytic lessons regarding institutional features of the Malaysia Inc. policy.
Discussion of Malaysia Inc.

4.1 In approaching the research in Malaysia, we had specific hypotheses in mind for examination regarding the design of effective consultative mechanisms. Thus, the discussion below will comment on the validity of these hypotheses by examining particular institutional design lessons to be learned from the operation of specific CMs, such as the Malaysian Business Council or the annual Budget and MITI dialogues. At the same time, however, the Malaysia Inc. policy embraces a national practice (and philosophy) of cooperation among the public and private sectors as a whole, a practice under which all of the particular CMs are subsumed. For this reason, the following comments also provide an analysis, at times critical, of the Malaysia Inc. policy as a whole (i.e., at a macro level).

A. Limits to Dialogue: Privatization Policy

4.2 Central to our analysis of the Malaysia Inc. policy as it operates at the national or macro level is an acknowledgement of the significant limits or boundaries to acceptable debate between public and private sectors in Malaysia. As noted above, the Malaysia Inc. policy operates with an implicit understanding between the government and the local business community, most notably the Malaysian Chinese entrepreneurs. Essentially, interviews suggest that the government commits to being responsive to the needs of the private sector, via the institutionalization of consultative dialogues, while the private sector in turn commits to allowing certain discretionary policy areas to remain off limits in dialogues. We will use the example of the privatization policy to illustrate this implicit understanding. The privatization policy makes sense to single out not only because it has significant distributional consequences but because it has also been subject to harsh criticism as regards its alleged non-transparency and contributions to “cronyism.”

4.3 There can be no doubt that certain policy areas, generally those associated with the government’s commitments to foster inter-ethnic equality and a Malay industrial and commercial business class, are not welcome topics for discussion in institutionalized CMs. Our interviews with Malaysian Business Council members allowed us to explore this issue with respect to the MBC, the premier consultative dialogue in Malaysia. In the MBC, in addition to the broad matters raised by the Prime Minister himself, critical discussion tends to be possible in Working Committee which, as noted above, have the responsibility to present policy proposals to the whole council in the form of Working Papers. In our interviews, however, in response to our specific questions as to the handling of sensitive and contentious issues within these committees, we found out that such issues tended not to be raised by participants at all. Furthermore, even
when sensitive issues were raised in the Working Committees, they did not necessarily make their way into the Working Papers.

4.4 A couple of examples may be offered to illustrate these points. One MBC member said that he raised in a Working Committee the contentious issue of the need for the government to do more to foster a truly multi-racial civil service in Malaysia (the civil service remains primarily staffed by Malays). He later found out, however, that it was somehow decided without his consent to drop the issue from the Working Paper his committee later presented to the whole MBC (Author’s interview). Another interviewee stated that he and another MBC member had wanted to discuss the privatization policy in one of the Working Committees (Author’s interview). The result, however, was that:

   The chairman of the committee thought privatization was too sensitive a topic. We had thought a policy paper on privatization would be useful, but the chairman thought it was too much of a hot potato and wanted it dropped. The reason this made sense was that privatization, which used to be in the Ministry of Finance, had been moved to the EPU. It’s too bad that it was not possible to do anything

4.5 The EPU, or Economic Planning Unit, this interviewee (and other people with who we spoke) explained, is considered the foremost government office associated with executive power and discretionary policy. By moving the privatization policy from the Finance Ministry to the EPU, the government had signaled that the topic was, for practical purposes, off limits for open discussion.

4.6 Before explaining how the privatization policy operates, the point needs to be stressed that by excluding this policy, as well as other sensitive policy areas from discussion, the positive contributions consultative processes could offer to these policy areas are lost. Most generally, open discussion of sensitive policy areas within transparent consultative processes makes discussions over economic policy more democratic. Other positive contributions include information sharing, trust generation and the diminishment of rent-seeking opportunities. As put by one interviewee, since "the consultative processes are public, and groups can see what each other is doing," incentives are generated to lobby within the system, in the open, rather than seek personal advantage behind closed doors. Given the scope of the privatization program, problems associated with rent seeking are particularly significant. This is because, as a well-known critic puts it, the way privatization has been organized provides "lucrative opportunities for political leaders and politically connected businessmen to gain tremendous advantage" (Gomez, 1997). Why this is the case is explained below. But it is also the case that, in the absence of open discussion of privatization, it is unlikely that a full and balanced record of the policy will ever emerge, and chances are that the, perhaps exaggerated, allegations of cronyism and corrupt favoritism will continue to be voiced.

4.7 How, then, is privatization organized? Although the privatization policy was first announced in 1983 when Dr. Mahathir announced the concept of Malaysia Inc., it took another two years until the Privatization Section of the powerful EPU issued its Guidelines on Privatization (1985). According to the EPU objectives, privatization was partially needed due to the mismanagement of heavy industries because by 1986-87, virtually every major HICOM unit was in the red and extensive foreign debts incurred by state enterprises were draining government coffers (Bowie, 1994: 78). By the mid-1980s, worsening financial conditions in public enterprises were exerting pressures on the budget. For example, in the 1980-1985 period, public enterprises accounted for about 64.3 percent of the public sector deficit (Mohamed, 1995: 66-8). The public sector, however, was also beset by other problems, such as economic inefficiency, inferior goods and services, high costs, incompetence and limited innovation. Lack of accountability was also evident as, “out of a total of about 900 public enterprises, the Ministry of Public Enterprises only reported annual returns for 269 enterprises in 1984, which recorded an accumulated loss of RM 137.3 million”
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(Mohamed, 1995, quoting Supian, 1988: 69). The government had been able to absorb such losses in the heyday of growth in the 1970s when revenues were high. However, when the economy slipped into recession in the mid-1980s, it became difficult to ignore profitability concerns.

4.8 Privatization also involved an effort to reduce the size of the state. In this regard, while there were only 22 public enterprises in 1960, this number expanded rapidly in the 1970s and 1980s so that by 1992, the number of enterprises owned by federal and state authorities totaled 1,149. By the end of 1993, i.e. a decade after the privatization policy was announced, a total of 72 public enterprises had been transferred to private hands using a variety of methods, such as sale of equity, asset sales, leasing, build-operate-transfer schemes, etc. (Mohamed, 1995: 70-75). While the absolute number of entities privatized remains small, a number of them have been sizable such as Sports Toto Bhd., the Malaysian International Shipping Corporation, Malaysia Airlines Bhd., the Heavy Industries Corporation of Malaysia (HICOM) Holdings Bhd., Petronas Dagangan Bhd., and Petronas Gas Bhd. in 1995 (Gomez, 1997: 185).

4.9 Besides the objectives of better management and a smaller state sector, however, privatization has served important political objectives in Malaysia. And it is these political objectives which explain why privatization remains a sensitive topic not able to be openly discussed in consultative dialogues with the private sector. According to the EPU (1985):

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Privatization is also expected to contribute towards meeting the objectives of the New Economic Policy (NEP), especially as Bumiputera entrepreneurship and presence have improved greatly since the early days of the NEP and they are therefore capable of taking up their share of the privatized services.
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4.10 This ethnic redistribution objective of privatization may be understood to comprise two distinct yet interrelated considerations. The first of these, as discussed above, has been the desire to enhance the legitimacy of the government in the eyes of the Malay community at large by ensuring the equitable distribution of wealth to the population (particularly via the institutional medium of state-controlled trust agencies). The second, however, was the desire to create a self-sustaining class of Bumiputera entrepreneurs. These Malay capitalists, unlike the Malay masses who might act on short-term bases and sell their shares in trust agencies when transfer restraints were removed, were expected to become the Malay flag bearers for efficient corporate management and good corporate citizenship. Furthermore, there was a strategic political motive in the desire to create an upper crust Malay entrepreneur group. As noted to us by one of the leading Malay decision makers of the 1980s and 1990s (Author’s interviews):

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When non-Malays were given citizenship they did not vote for us, and the ruling party almost lost the 1969 election. Consequently, we, the Malays, came to the recognition that we were going to lose, sooner or later, our political power if we could not ground it in economic power. This is the social context in which the NEP was formulated. It was driven by a desire to share the economic cake together with an awareness that economic prowess was the ultimate foundation upon which political power rests.
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4.11 This materialistic perception of the relationship between economic and political power thus profoundly shaped the way privatization proceeded in Malaysia. Therefore, it is not surprising that the efficiency objectives of privatization have been compromised. First, in the absence of antitrust regulations and a competition policy, privatization has often involved the transformation of public monopolies into private monopolies. For example, through privatization, majority control of monopolies such as HICOM Holdings, MAS (Malaysia Airlines), Sports Toto, and companies like Peremba, has been transferred into private hands (Gomez, 1997: 192).
4.12 Second, in line with the Guidelines on Privatization in which “priority will need to be given to private Bumiputera interests” (EPU, 1985: 8), the government’s approach has limited the participation of foreign and non-Bumiputera interests, thereby denying opportunities to potentially competent investors.\footnote{Reiterating what was in the Guidelines on Privatization, the Privatization Master Plan, published by the government in February 1991, stressed that most privatization projects required at least 30 percent Bumiputera participation in order to advance the NEP’s inter-ethnic wealth distribution objectives. In addition, the government established a “first-come, first-served” approach to deciding to whom to sell state entities. And, the record shows that it is well-connected Malay entrepreneurs who have been most successful when bringing a possible privatization project to the attention of EPU officials.} It is not that foreigners and ethnic Chinese entrepreneurs cannot bid for privatized enterprises. Rather, because the sale of public enterprises to non-Bumiputeras would prove politically unpopular for the government, the best strategy for non-Malays has consisted of linking up with politically influential Malays (Gomez, 1997: 190-91). Interestingly, this has had the salutary, if unintended, effect of reducing inter-ethnic tensions in favor of cross-ethnic business class solidarity (Author’s interviews; Jesudason, 1997).

4.13 Third, privatization has lacked transparency and this has perpetuated the belief that “cronyism,” widely perceived as a problem in the 1980s, has continued to flourish in the 1990s (Jomo, et al., 1995: 85). For example, a number of major privatization contracts and public projects have been awarded without tender to politically connected businessmen. Among the examples cited by Gomez are the award of a RM6 billion national sewerage disposal project to Indah Water Sdn Bhd, without tender; the award of Malaysia’s largest private contract, the construction of the massive RM15 billion Bakun Dam project in Sarawak to Ekran Bhd, also without tender; and, the transfer of Bank Negara’s 32 percent stake in MAS (Malaysian Airlines) to Malaysian Helicopter Services, at a very favorable price, and without open bidding (Gomez, 1997: 194-95).\footnote{There is an automatic tendency among some observers of Malaysia, and of the East Asian region more generally, to equate patronage with inefficiency and illegal corruption. We don’t necessarily agree with such simplistic conceptions and think that the existence of patron-client networks can be compatible with economic growth. For a similar conception, see R. Doner and A. Ramsey, “Competitive Clientelism and Economic Governance: The Case of Thailand” (Maxfield and Schneider, eds., 1997).}

4.14 And finally, although the Privatization Master Plan (1991) outlined criteria for privatization, the government did not set up an independent monitoring body to ensure proper implementation of the plan (Gomez, 1997: 196). In the absence of institutional monitoring, critics argue that the Capital Issues Committee (CIC), which has been responsible for setting prices of new shares has underpriced new share issues. Such underpricing not only selectively benefits the new owners of the former state enterprise but deprives “the government and the public sector of considerable revenue from the sale of shares” (Jomo K.S., et al., 1995: 90).

4.15 What this discussion of privatization suggests is that it is desirable to bring distributional and other sensitive issues under the purview of the CMs. This is because closed and non-transparent policy processes, such as privatization in Malaysia, provide easier opportunities for individuals and groups to seek gain without justifying such gains through reason or reference to public goods. Indeed, the opposite, private gain at the public expense (i.e., corruption,) becomes more likely. In contrast, when policies are discussed in open and transparent consultative bodies this helps generate the expectation that individuals or groups back up their positions with reasoned arguments and claims as regards the public good (e.g., growth, employment generation, etc.).
4.16 We return now to consideration of the four hypotheses, mentioned above, which informed this research.

B. Institutionalization of Dialogue

4.17 Our first hypothesis was that consultative dialogues will be more effective to the extent they are institutionalized and focus dialogue among economic stakeholders on a specific agenda. Malaysia’s experience is mixed in this regard. By and large, Malaysia’s national-level CMs are well established (i.e., institutionalized) as discussed in detail above in the “Institutionalization of Malaysia Inc.” sub-section. Thus, for example, even with respect to a spur-of-the-moment ad hoc dialogue organized by the Finance Ministry, the general practice of convening such dialogues is familiar to those who are likely to be invited to participate. However, Malaysian CMs differ in the extent to which they focus dialogue on specific agendas. The more focused, problem-solving CMs tend not to be the larger and more established standing ones, such as the Malaysian Business Council and the annual budget and MITI dialogues. Rather, it is the ad hoc dialogues, such as those organized by the Finance Ministry, and functional ones organized by MITI, which are most likely to focus on specific, and often narrowly defined, policy agendas.

4.18 It is tempting to conclude from this that the larger and more established CMs serve little purpose beyond a “photo opportunity” for participants as it was put to us by one critic with whom we spoke in Malaysia. This may be too simple, however. In fact, we believe that the success of the ad hoc and functional CMs in Malaysia is related to their being associated with a broader economic governance environment in which some trust and social capital exist among political, bureaucratic and business actors as resources. And, the broader Malaysia Inc. policy in general, and CMs such as the MBC in particular, helped generate those resources in the first place. And this was certainly the perspective of a number of our interviewees who believed that the MBC, for example, is as important for networking and trust-generation as it is for focusing dialogue on particular issues. As put the MBC member who helped the Prime Minister select participants (Author’s interviews):

> Some members have been disgruntled that the MBC does not make specific decisions, does not meet more often. But we didn’t really intend or want the MBC to have this sort of function. Instead, the idea was for discussion, development of rapport, generation of trust. It was non-Cartesian in the sense that it was not legalistic. Some people would have preferred more formality, but it seems to work pretty well here where there are cultural underpinnings where people respect each other and believe cooperation is possible.

4.19 In addition, a number of interviewees singled out the personal attention of the Prime Minister to the workings of the MBC as an indication of the importance that he gave to the overall Malaysia Inc. policy. Similarly, some interviewees singled out the personal attention given by MITI Minister Rafidah Aziz to the MITI dialogue as a signal that she cared about private sector concerns.

C. Commitment Credibility

4.20 Our second hypothesis was that effective CMs would be ones in which economic stakeholders were able to make credible commitments. A lack of credibility would mean that stakeholders would presume that their counterparts were not sincere when making promises (or otherwise signaling their

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21 As the focus of our research was principally on national-level CMs, we are not able to make general statements about the extent of institutionalization of CMs at the state level. In the case of Penang, the one state in which we examined CMs, the practice of using public-private dialogues to accompany economic policy decisions is well-established.
intentions) or were not in a position to actually carry through with their promises. In turn, this would make it more likely that participants would defect from the consultative process or would not be sincere in their dealings with each other.

4.21 To begin, it may be observed that to the extent that a CM involves specific problem-solving efforts, as with ad hoc and functional CMs in Malaysia, commitments undertaken by economic actors can be made more credible through the establishment of monitoring and accountability mechanisms. This point is discussed below. Beyond this, however, one of our most clear research findings was that Malaysian CMs have evolved into forums in which information is meaningfully shared and in which policy discussions involve sincere exchange of views. Lack of credibility in the sense that participants did not trust each other’s information or sincerity has not been a major problem. While such reputational credibility is significant, it has also been backed up by the political reality that the Malay-led Barisan Nasional political party dominates the legislative branch. Accordingly, business participants in CMs did not have to worry too much about whether or not government participants were going to be able to carry through with their (sincere) promises.

4.22 Civil servants we interviewed emphasized the information sharing aspects of the major consultative mechanisms. That is, for them the concrete value of dialogue with members of the private sector is that specific suggestions from dialogue participants may be sensible and, if adopted, lead to improvements in economic policies. More generally, the close dialogue with the private sector enables civil servants (and politicians) to understand and appreciate economic trends which, particularly as a result of globalization, sometimes evolve rapidly. As put by a high-ranking official in the Finance Ministry (Author’s interview):

As a result of changes in the world economy and of Malaysia’s increasing reliance on trade and an export strategy, we discovered in our Ministry that it was tough, if not impossible, to keep track of statistical information in a timely manner. Hence, we were sometimes unable to perceive when important economic changes were taking place. For instance, the recession of 1986 surprised us; we had not predicted it. What we began to realize was that, in some ways, the private sector had a better, or at least a different, view from us. And, since the government has a tradition of economic planning, even a dominant role in the economy, we realized that we needed to work more closely with the private sector.

4.23 Private sector interviewees concurred that information sharing is important and also agreed that the government is often sincere in wanting to “work more closely with the private sector.” Thus, consultative dialogues provided not just an opportunity to hear about the government’s proposed policies in detail but, especially with respect to the Budget and MITI dialogues, an opportunity to represent business perspectives in conjunction with discussions over policy changes. While business persons recognized that government officials cannot possibly adopt all proposed changes, they also concurred that some changes get adopted. Moreover, a proposal not adopted this year may, if again put forward, be adopted in a following year.

4.24 Given private sector belief in the accuracy of government information and in the likelihood that policy proposals under discussion will be implemented in consultative mechanisms, it is not surprising that we observed there to be a direct relationship between the credibility of government participants and their level of authority. That is, members of the business community take the pronouncements of high-level politicians and civil servants in the context of CMs quite seriously. Thus, the CMs most often singled out by business interviewees as being useful or effective, such as the ad hoc and functional dialogues at Ministerial levels and certain of the Working Committees of the MBC, invariably were those in which either
Ministers or top level civil servants participated. When government officials with high authority were not present, our business interviewees were likely to view participation in a CM as a waste of time. Our understanding of CMs in the state of Penang reinforces this lesson as the successful PEC, and the most successful of the councils established by the PEC, the Industrial Council, were both chaired by the Chief Minister.

4.25 An unanticipated but important consequence of business participation in consultative dialogues, which our research revealed, has been the generation of increasingly sophisticated business perspectives over time. As some sectors of the private sector have learned to adopt broad and publicly oriented perspectives in CMs, this has enhanced their credibility in the eyes of the Malaysian government. During the 1980s, when the Malaysia Inc. policy was relatively new, business groups tended to present narrow, firm and industry-specific, proposals during consultations. As acknowledged by a business executive from one of Malaysia’s largest corporations with respect to the Budget dialogue (Author’s interview), “the problem with this meeting was that many in the private sector saw it as an opportunity to just present a laundry list of their problems. This led to different members of the private sector asking ridiculous favors, contradicting each other, and so on.”

4.26 Business presentations improved in quality and matured in focus during the 1990s. Many people in the private sector now understand that there are tradeoffs to be made between their demands and those of others, and that there is an opportunity cost to each policy proposal. Moreover, private sector groups are increasingly likely to attempt to harmonize self-interest with the public good when submitting proposals to CM dialogues, such as the annual ones put on by the Ministry of Finance and MITI. Submissions from larger business associations with relatively broad memberships, such as the Federation of Malaysian Manufacturers, have set the standard. As one interviewee claimed:

Some of the private sector groups, such as the Federation of Malaysian Manufacturers (FMM) and the International Chamber of Commerce (ICOC), are strong lobby groups for their members. At the same time, their efforts are not narrowly defined to seek benefits for members, and instead are more general efforts to improve the business climate and to reduce regulation.22

4.27 It is instructive to explore the alternative situation of when government officials do not view private sector contributions in consultative processes as broad and publicly oriented. In such circumstances, government officials see business views as parochial, often discount them, and business cooperation may be sought through manipulation as opposed to argumentation and persuasion. For example, as explained to us by a high-ranking civil servant in describing how his Ministry organized dialogues with the private sector (Author’s interview):

Often, the private sector is divided into many different groups. ... And, of course, the private sector groups do not always see eye to eye. Thus, the Ministry is often in the position of having to play a balancing act between groups in the private sector. On the one hand, our preference is to allow market forces to operate when possible as this good in the

22 Such statements sound to the point when one looks at various submissions to the annual Budget and MITI dialogues. Generally, these submissions are not “politically correct” pieces regurgitating what politicians want to hear. Nor are they parochial pieces asking ridiculous favors without pondering macro consequences. Rather, they tend to be well-written and sophisticated pieces, some containing carefully worded but sharp criticisms of various aspects of government policy. Several examples of these submissions were reviewed by the authors.
long run for economic growth. On the other hand, we also desire to promote certain industries and this may involve some incentives and long-range planning tools. Consequently, we have to be careful which groups we invite to discussions so that voices in the private sector which oppose our position are responded to by others in the private sector who agree with us. In this way we look neutral and can more easily implement our policies.

4.28 It may be noted that unlike the Ministry of Finance or MITI, this official’s ministry has not generated a national-level and inclusive policy dialogue with the business community. Rather, dialogues tend to be organized only at the level of specific industries and in such contexts business participants have had little incentive or opportunity to adopt broader perspectives.

D. Monitoring Mechanisms

4.29 Our third hypothesis was that effective CMs would be characterized by the presence of monitoring and accountability mechanisms for the commitments undertaken by stakeholders. And this is where we believe Malaysia Inc. has the most problems. To be precise, once a collective resolution (even if only an informal consensus) is reached within a CM regarding desirable policy, the long run credibility of the dialogue, and of the Malaysia Inc. policy in general, requires not only that participants were sincere when reaching their resolution but that the resolution stands a good chance of being translated into practice. For this to occur, and for participants to be able to track the progress, or lack thereof, of collective resolutions, the presence of follow-up and accountability mechanisms is desirable.

4.30 In terms of specific consultative practices, the extent to which follow-up mechanisms exist is variable. Thus, for example, in the Budget dialogue follow-up is handled internally through a review process for submissions from participants which has evolved over a number of years. This enables the Ministry of Finance to keep close track of issues such as how often a certain proposal is offered in a given year and whether or not the proposal has been offered in previous years. Although the review process is not public, the actual budget is made public and this allows participants to see what proposals were or were not acted upon. In the MBC, by contrast, follow-up procedures are less well institutionalized. In this regard, it was noted to us in several interviews that the fate of matters discussed in MBC meetings is principally dependent on the initiative of individuals who chair Working Committees. Of course, the presence of Ministers in some Working Committees as Chairs helps certain ideas to get implemented. To quote one MBC member (Author’s interview):

In the early days, the Working Committees seemed to always be chaired by a Minister. This encouraged real dialogue and efforts to do something with those committees. When a Minister is not present, it is unclear whether there is any commitment to do anything. This also makes any sort of follow-up on an idea very difficult. I’d say that the committees led by Rafidah, the Minister of MITI, and Anwar, the Minister of Finance, are good examples of this. These were the most effective Working Committees; others were less effective.

4.31 Given that not all Ministers or Ministries are represented at MBC meetings, it would have seemed logical to have an external and independent body responsible for tracking what happens to collective resolutions after a meeting ends. In this way, any MBC member could have contacted this independent body to find out what, if anything, was happening to implement collectively made decisions and whether or not the relevant public officials were acting on the matter. One interviewee reported that he specifically called for the institutionalization of such follow-up procedures during an MBC meeting only to have the Prime Minister personally veto the idea. Some MBC members think that the MBC Secretariat, ISIS, is
supposed to "monitor ideas and proposals and bring information back to members about what is happening or not happening with various proposals." The ISIS leadership, however, sees its role differently, "we didn't set up specific, formal follow-up mechanisms". (Author's interviews).

4.32 While formal monitoring procedures tend to be absent in Malaysian public-private consultative processes, some informal monitoring has nonetheless been possible. For example, to the extent that Malaysian CMs are transparent and many of the participants interact repeatedly with each other, this facilitates efforts by individuals and firms to follow what each other is doing and to take action when needed. One interesting example was related to us by a representative of a business organization (Author’s interview):

Companies police each other and file complaints to our federation. For instance, a company in ceramics received a tax holiday and other subsidies for export. But they dumped their products on the domestic market to the detriment of other producers. We complained to MIDA (Malaysian Industrial Development Authority) during the annual MITI dialogue and got the export license of this company rescinded.

4.33 At the same time, the establishment of more formal and institutionalized mechanisms would facilitate these informal monitoring efforts.

4.34 The lack of monitoring and accountability mechanisms is a problem, however, not just at the level of particular consultative dialogues, but at the level of the Malaysia Inc. policy more broadly as well. Two problems must be distinguished. First, there is the fact that not all policy matters are subject to comfortable debate within institutionalized CMs. Second, there are issues associated with what we earlier referred to as “institutional capture” of consultative mechanisms.

4.35 With respect to the first problem, as discussed in detail above, our analysis is that an implicit understanding emerged in which the economic track record of the political leadership was sufficiently good that consultative dialogues could usefully proceed even with certain policy areas not open to debate. These little-discussed policy areas are generally associated with the government’s efforts to subsidize the nascent Bumiputera commercial and industrial class. And, as previously discussed, our general position is that public goods result when discretionary economic policy is brought under the rubric of transparent public-private deliberations.

4.36 At the same time, given that these sensitive policy areas are not discussed in consultative mechanisms, it is legitimate to ask if there exist other institutional incentives to provide discipline and accountability for these policy areas, particularly those associated with the distribution of rents? In this regard, Malaysia has not followed the lead of some of the other East Asian countries, such as Japan and South Korea, which linked access to rents or direct subsidies to specific performance criteria such as exports (Amsden, 1989). As a result, it is common to hear warnings from academics, research institutes, and also from Malay technocratic, managerial and professional groups, cautioning politicians not to dole out favors too indiscriminately (especially through privatization) and without requiring beneficiaries to meet performance standards.

4.37 There is some evidence that reputational concerns may serve as an informal safeguard against such problems. Several interviewees claimed that those who receive favors through government’s discretionary use of tools such as the privatization policy know they have to perform well because, if they don't, they fall out of favor with the political leadership. And, if this occurs, they will be put out of the information and privilege circles (Author’s interviews). That the Malaysian version of patron-client, or crony, capitalism has not been as narrowly-based and detrimental to the public good as can be observed in
some nearby states, may provide indirect evidence for the existence of this safeguard (MacIntyre, 1994). At
the same time, however, the government’s recent willingness to bail out certain enterprises and individuals
gives pause to this claim. One example is the government’s announcement in August, 1997, that it would
establish a RM 60 billion (about US $15 billion) fund to prop up selected stocks and selected investors by
buying the selected stocks from the investors at original purchase prices. As these stock values had declined
precipitously since the beginning of the Malaysian currency crisis in July, 1997, this scheme,
understandably, outraged many Malaysians who thought the public purse was being used to bail out wealthy
cronies.23

4.38 In any case, this (alleged) safeguard of reputational concerns is also linked to the personal
influence of a small number of powerful persons, such as the Prime Minister and former Finance Minister
and Economic Advisor to the Government (now Minister with Special Functions), Daim Zainuddin. That
is, a handful of top Malay decision-makers withhold for themselves the ability to determine whether or not
an individual who has benefited from government favors is performing poorly and should suffer some
consequence. In public statements Daim Zainuddin has not only acknowledged the personalistic manner in
which such determinations have been made but has also defended this process by reference to his ability to
judge character and performance. For example, when paraphrasing comments Daim made to him in a for-
tribution interview, Root states (1996: 67):

Daim Zainuddin explained that knowing the management capabilities of those chosen was
critical. Open competitive bidding has limits when projects are complicated. How could
bureaucrats with little knowledge of the private sector accurately evaluate whether prices
cited in bids were realistic? Neutrality in the bidding process could only be assured if the
public sector knew as much about the private sector as the private businessmen. But in the
1980s, the bureaucracy did not have the background to assess bids accurately. Thus, they
could be easily fooled and above all they could not evaluate the managerial capacity of
individuals who were bidding. This was why Daim preferred to choose those with known
abilities.

4.39 The authors are not in a position to evaluate such claims. What is clear, however, is that even
taking them at face value, the substitution of personal judgement by political actors for economic
performance standards associated with market signals or, at a minimum, some quantitative measure (e.g.,
exports) is a long run invitation for abuse.

4.40 The second problem generated by the lack of monitoring for the Malaysia Inc. policy as a whole,
that of institutional capture, relates, ironically, not to Malaysia’s inability to institutionalize public-private
dialogue on all policy matters but, instead, to Malaysia’s very success in institutionalizing so much public-
private dialogue. Recall from the theory discussion above that the skeptics of consultative dialogues wonder
what it is that prevents regular and cooperative relations between public officials (with much discretion
ary economic power in their hands) and business persons from allowing them to hijack economic policies for
narrow ends. That is, how can institutional capture be avoided in the context of widespread use of
consultative mechanisms? We have argued that, to some extent, it is possible to preempt this problem by
ensuring that consultative dialogues are transparent in operation and are accompanied by monitoring and
accountability mechanisms. Nonetheless, the insider advantages available to the participants in

23 Other examples of bailouts of the politically connected are chronicled in 'Introduction' to Jomo K. S., ed., Tigers in
institutionalized CMs, such as more and earlier information and enhanced networking circles, can prove decisive competitive tools in some business situations or to lead to corruption under some circumstances. Even business persons who are largely supportive of Malaysia Inc. commented on this problem with respect to the MBC (Author’s interviews). As one interviewee noted:

One problem is that the members are very senior people and I’d say there is room to bring in some younger members over time. The older members, who are already established and successful, I see them networking with each other all of the time. They are regularly present in the other consultative processes as well. Yet, the economy is growing rapidly and there are many successful young business persons who are not really part of the network system. So, we need to open the MBC up to these persons.

4.41 In a frank analysis, the MBC Working Committee on “Malaysia Inc. and the Role of the Government and the Private Sector,” raised the problems of institutional capture and corruption in a paper titled “Strengthening Malaysia Inc.” tabled at the Third Plenary Meeting of the MBC in August, 1992. This committee, which was chaired by the influential former Finance Minister, Daim Zainuddin, noted:

The implementation of the concept of Malaysia Inc. entails specially close relations between government and business, which inadvertently leads to close ties between the ruling party and the more organized large-scale businesses. ... Once such a relationship becomes firmly entrenched in the economy, this could lead to a number of unwarranted consequences such as the emergence of cartels and monopolies. ... A related consequence of this political-bureaucratic-business collusion is the possibility of higher levels of corruption. But even more insidious is the pervasiveness of a system which, although it may not be seen as corruption in the strict sense of the word, leads to strengthening of “money politics” or to what is termed “institutionalized corruption” ...

4.42 The solution to this problem proposed by the MBC Working Committee was to create an extra-governmental body with the sole mission to monitor the evolution of Malaysia Inc. This was not the first time this suggestion had been raised. For instance, in 1991, MAMPU presented a paper to the Malaysia Incorporated Panel recommending the establishment of an independent monitoring body to be staffed and financed by both public and private sectors.24 Specifically, the MBC Working Paper, in commenting on how to strengthen Malaysia Inc., stated the need for a “mechanism to monitor and oversee its implementation.” Several options were presented with the preferred one being the creation of:

A neutral and independent body, comprising key political figures, senior civil servants, captains of industry, labor representatives, and academia, existing outside the government apparatus, but with authority to monitor implementation. It is of utmost importance that this body be fully representative of the different sections of society so that its authority and decisions are binding and acceptable to all. It must likewise be entrusted with sufficient powers that if persuasion is not sufficient, it could use its clout to enforce decisions. It must also be free from domination by any single party.

24 The authors did not have the opportunity to review this paper. Reference was made to it, however, in the MBC Working Paper on Malaysia Inc. mentioned above.
4.43 It is difficult to dispute that the creation of such a monitoring body would help address the issue of institutional capture of consultative processes. To date, however, such suggestions have not been acted upon.

E. Membership Composition

4.44 The fourth hypothesis was that effective CMs would have member compositions that legitimately and authoritatively represented major stakeholders. The motivating interest behind this hypothesis was the belief that rent-seeking efforts, and institutional capture, would be less likely with broad-based CM membership. At the same time, it is also possible for CM to have member compositions that are too broad if groups are involved that are not major stakeholders.

4.45 A detailed evaluation of this hypothesis would require greater attention to the dynamics of particular consultative dialogues in Malaysia than was possible for this report. Let us mention, however, that a regular part of our interview schedule with MBC members included an inquiry as to whether or not important economic actors were excluded from that dialogue. The bulk of respondents claimed MBC membership was adequate. A couple of respondents mentioned women and a couple mentioned small businesses as underrepresented. But the largest number of respondents with any concern about MBC membership focused on the relative absence of organized labor. Interestingly, at the same time as mentioning that labor was, by and large, excluded, respondents tended to add the assessment that this might not be such a big deal because they didn’t think labor exerted much influence in Malaysia. Thus, few respondent’s identified particular problems resulting from labor’s exclusion from the general tripartite partnership of Malaysia Inc.

4.46 We believe the issue of labor’s participation in Malaysian consultative processes is more complicated than this, however. First, that labor may not be well organized and thus not capable of articulating itself with a unified voice seems a poor reason to exclude labor from the consultative dialogues. Business participation in Malaysian CMs, for example, as acknowledged by both government and business interviewees, was initially characterized by much parochialism and short sightedness. Over time, however, the act of participating and the perception that participation mattered led to improvements in the quality of business participation. There is no reason to expect that labor groups would not similarly demonstrate a learning curve through participation in CMs. And second, the exclusion of labor means, of course, the likelihood that business perspectives on labor issues, even when short-sighted, will carry the day. Yet, it is unclear how much attention business is likely to give to enhancing labor productivity. As noted by a prominent critic in this regard (Jomo, 1994: 93):

> The „Malaysia Incorporated” concept for economic nationalism cannot be simply limited to relations between the public and private sectors, or more specifically, between politicians and bureaucrats on the one hand and investors on the other. Rather, it has to be more „corporatist” and „populist” in conception. ... In this connection, the state should not blatantly side with management against labour, as it has, ostensibly to lower production costs in the interest of international competitiveness. ... It is important to recognize the differences between industrial relations in South Korea and Japan, with the former more blatantly repressive, while the latter has been corporatist at the company level, thus ensuring competitive advantage on the shopfloor.

4.47 In a relatively recent speech (Langkawi Dialogue, July 29, 1996), Prime Minister Mahathir indicated he is now willing to accord labor a partnership status in Malaysia Inc. However, Mahathir also states that labor’s participation will remain limited until trade unions prove themselves worthy through the
Discussion of Malaysia Inc.

adoption of mature and long-term actions. Given that Dr. Mahathir, by all indications, retains for himself the capacity to judge mature from immature actions, it is unclear when labor will achieve admission to general partnership status in Malaysia Inc.

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Conclusion

5.1 The Malaysian experience with institutionalized public-private dialogues on economic policy constitutes an impressive historical experience from which important lessons may be drawn. In thinking about Malaysia Inc. as an element of Malaysian economic governance, an initial response is to recognize how improbable it is that institutionally stable mechanisms of government-business consultation would arise at all in an ethnically-divided society in which state and business elites are drawn from different races. After all, one does not have to look very long or hard in order to find national examples in which ethnic divisions express themselves in recurrent patterns of violence.

5.2 In our analysis of the success of Malaysia Inc. in this paper, one possible explanation which received little attention is that cultural values unique to Malaysia, or to parts of Asian more generally, might enable public-private cooperation in manners unattainable in other parts of the world. This perspective was forwarded to us in several interviews. For example, one MBC member argued that inter-ethnic cooperation and state-business partnership in Malaysia, Indonesia and other East Asian nations was made possible as a result of “cultural underpinnings where people respect each other and believe cooperation is possible.” This interviewee went on to claim that “Asian races demonstrate much tolerance and respect for each other while, in comparison, Europeans are more aggressive and individualistic” while ignoring, for example, the treatment of the people of East Timor by the Indonesian government. Thus, it would be easy to dismiss such arguments altogether. More sensible, however, is to acknowledge that, since the research design for this study focused on institutions, it is not possible to offer strong comments one way or another as to the independent influence of cultural values.

5.3 In turning to an evaluation of the economic governance contributions of Malaysia Inc. as an institutional structure, while we have noted some concerns as discussed in the previous section, the authors nonetheless find much to praise. In broad sweep, the structured and relatively transparent discussions between government and business sectors made possible under the Malaysia Inc. policy has facilitated information-sharing and helped generate trust among economic stakeholders, has enhanced policy credibility in the eyes of the business community, and has diminished opportunities for gross corruption.
within the public sector. That it is difficult to place quantitative measures on such contributions to sound economic governance should not be allowed to obscure their reality.

5.4 The more thorny problem in offering an evaluation of the Malaysia Inc. policy as an institutional innovation is that of weighing the costs of the policy in light of the problem we have referred to as “institutional capture.” That is, insofar as government economic policy is discretionary and rents are made available, regular participants in the Malaysia Inc. policy tend to be better positioned to receive rents and other benefits from the government than are irregular or non-participants. From this fact, critics contend the Malaysia Inc. policy should be understood principally not as contributing to economic governance but, rather, as an institutional arrangement which contributes to the political structure often referred to as “cronyism” and, within the Malaysian context, as “money politics” (Gomez, 1991). In this view, from the perspective of business participants, the policy provides a means of nurturing relations with powerful politicians in order to curry favours or, at least, avoid prejudicial treatment. From the perspective of the government, the policy provides a means of binding wealthy and ascendant business people to the ruling party and building support for government policies.  

5.5 We don’t dispute that there are close political arrangements between the government and some elements of the business community. Gomez and Jomo’s book, Malaysia’s Political Economy: Politics, Patronage and Profits (1997), for example, offers a thorough analysis of these. And we agree that the Malaysia Inc. policy, as currently structured, tends not to challenge these arrangements and may, in fact, sometimes offer opportunities for their furtherance. Most crucial, in this regard, as discussed in the previous section, is the lack of monitoring and accountability mechanisms as well as the exclusion of some policy arenas (e.g., privatization policy) from institutionalized public-private dialogue under the Malaysia Inc. policy. Reform of Malaysia Inc. as suggested above, we believe, would go some way to making the policy less of an adjunct to cronyism and money politics.

5.6 At the same time, however, Malaysia’s close government-business political arrangements should not be seen either as a direct consequence of, or as dependent on, the Malaysia Inc. policy. In the first place, prior to the institutionalization of the Malaysia Inc. policy in the mid-1980s, the Malay-dominated government managed patron-client relations and rent-seeking arrangements with elements of the business community with relative success, at least if political stability may be seen as partially a consequence of effective patronage. Secondly, for those policy arenas in which it is well-institutionalized, such as the trade regime and associated subsidies and incentives controlled by MITI, the Malaysia Inc. policy contributes to greater transparency and more democratic access to rent-opportunities than would occur in its absence. And even for those policy arenas which remain largely off-limits for institutionalized public-private dialogue, such as privatization policy, there is indirect evidence that the trust and enhanced communication brought about through the Malaysia Inc. policy has expanded Malaysian Chinese access to rents (Jesudason, 1997). Lastly, to state the obvious, many forms of rent-seeking and patronage relations may be observed in other developing and transitional economies without, however, there being present relatively transparent and institutionalized government-business contacts as associated with the Malaysia Inc. policy. For these reasons, we think it a mistake to ignore or discount the economic governance contributions of the Malaysia Inc. policy simply because these coexist with ongoing “money politics” relations among the government and business community.

The authors thank Prof. Andrew MacIntyre for eloquently drawing this point to their attention.
5.7 Insofar as the World Bank and other international agencies are attempting to foster CMs in other world regions, the institutional design lessons from the previous section provide some clues as to the construction of effective public-private deliberation forums. However, we believe Malaysia’s capacity to institutionalize public-private dialogues is also a result of specific historical situations which may pose limits.

5.8 to the replicability of Malaysia’s experience. A first point in this regard is that Malaysia benefits from a professional bureaucratic tradition which helped civil servants remain relatively insulated from the increased opportunity for corruption and narrowly-oriented rent-seeking provided business and political actors through consultative processes. That opportunities for corruption and rent-seeking result from Malaysia Inc. should not be doubted. As noted to us by a former civil servant who has moved into the private sector (Author’s interview):

Just yesterday I sent a FAX directly to the Minister of Finance who I know personally. All of us at a certain level in the private sector are able to personally communicate with people in government in this way. ... So, the truth is that this concern about the possibility of rent-seeking is real. The solution to this problem which the British attempted in Malaysia was for the civil service to keep its distance from the business community. Even in this solution though there must be honor and integrity on the part of the civil servants. I would argue with your critics at the World Bank and would say that the fact of a conversation between me and a Minister does not mean that there is corruption. That is, what is really effective is not the distance between the people but is the honor and integrity of those people. You have to have self-discipline on the part of the government.

5.9 As discussed in the introduction to this paper, however, professional bureaucratic structures in which civil servants hold publicly-oriented values, such as the “honor” and “integrity” mentioned by our interviewee, are a consequence of institutional structures in which economic bureaucrats are rewarded on merit bases and enjoy long tenures. In this regard, it is not a good sign that among the high performing East Asian nations (i.e., Singapore, South Korea, Taiwan, Thailand and Malaysia) the Malaysian civil service has the lowest ratio of public to private sector salaries at the mid-level and senior-level (Campos and Root, 1966: 144). Our interviews with high-ranking civil servants revealed as well the subjective perception that compensation has declined over the past two decades (Author’s interviews).

5.10 In a context of diminishing career opportunities in the civil service, it is reasonable to speculate that the Malaysia Inc. policy is likely to undermine bureaucratic insulation from rent seeking pressures brought by politicians and business persons. This was certainly the perspective of some interviewees and academic experts with whom we spoke. The belief was that declining relative salaries and the effects of the early retirement program encourages economic bureaucrats to “feather their nests” by doing favors for businesses in hopes of subsequent job offers. As put by one academic, “the perception since the mid-1980s has increasingly become one of ‘if you’re any good, you would have been snapped up by the private sector’ and the only reason you’re still in the bureaucracy is because you’re lousy.”

5.11 A second institutional feature of Malaysia Inc. that may be difficult to replicate has been political stability. Malaysia’s multi-ethnic ruling political coalition, the Barisan Nasional, as well as Prime Minister Mahathir, have been politically secure (with a minor exception being the political challenge from the splinter party Semangat 46 in the late-1980s) during the two-decade period in which public-private consultations became institutionalized. This has meant that CMs for the most part have been able to focus on economic matters and avoid disruption from the currents of political intrigue which have harmed public-private dialogues in other nations. Several distinct issues are relevant. Most obviously, because
government participants in CMs have made it clear that consultations are to concern economic matters, business participants have come to have this understanding as well. Beyond this, however, the political stability in Malaysia has also led to some continuity with respect to the individuals who work in the government and civil service and this has allowed the development over time of personal relationships between them and actors in the private sector. This, in turn, helps to generate trust and social capital among these participants thereby enhancing their capacity to have productive interactions (Putnam, 1993; Fukuyama, 1995). And finally, the long-term presence of political figures, such as Prime Minister Mahathir, as well as of prominent civil servants, means that business persons can more readily evaluate the credibility of economic policy pronouncements from these figures as a result of previous experiences with them.

5.12 A final institutional feature associated with Malaysia’s success with consultative mechanisms has been the pragmatic application of development strategies that combine commitments to ethnic equality with commitments to economic growth. This has generated some degree of national consensus among political, bureaucratic and business elites which underpins consultative dialogues. The first decade and a half of the New Economic Policy, between 1970 and the mid-1980s, constituted a difficult balancing act for the Malaysian political leadership as it pursued the social objective of fostering inter-ethnic equality through affirmative action policies and the economic objectives of growth and development. While Malaysian inter-ethnic economic restructuring policies may have been more successful than such efforts in other parts of the world, they nonetheless led to much tension as, in particular, the Chinese business community employed familiar strategies of “voice” (e.g., political opposition) and “exit” (e.g., capital flight). In this context, of special importance to the generation of a national consensus was the government’s handling of the recession in 1985-86. By initiating hard-nosed and pragmatic reforms in response to the recession, the Malay political leadership signaled to the private sector, especially foreign investors and the Chinese business community, that growth would not be sacrificed to ethnic-redistribution concerns. The new government economic strategy, which combined continuing commitments to ethnic inclusion with growth-oriented policies, thus formed a crucial underpinning to the Malaysia Inc. policy which, while first announced in 1983, was not fully realized until 1991 with the Prime Minister’s “Vision 2020” speech and subsequent announcement of the National Development Policy (NDP).

5.13 To conclude, given that both political stability and some degree of consensus over economic policy among political and economic elites in Malaysia contributed to the success of consultative mechanisms, the ongoing economic and political turmoil may pose a challenge to the continuity of the Malaysia Inc. policy. Most serious has been the dispute between the Prime Minister and former Deputy Prime Minister and Finance Minister, Anwar Ibrahim. On one hand, this dispute concerned disagreements over the best economic policy responses for handling the currency crisis that began in August 1997. In December of 1997 Anwar had forwarded a so-called “IMF package without the IMF” to the cabinet which included orthodox stabilization proposals such as cutting government spending and keeping a flexible

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27 The fieldwork for this research project, and most centrally the semi-structured interviews with MBC participants, was completed in August, 1997, just on the eve of the Asian financial crisis. For this reason, it is not possible to comment directly in this paper on how insiders to the Malaysia Inc. policy perceive the political and economic repercussions of the crisis.
exchange rate to decrease the current account deficits. Anwar also signaled to the financial and business communities that the government would not artificially keep afloat firms facing fundamental difficulties. However, in a challenge to Anwar’s authority, Mahathir created a National Economic Action Council just two weeks prior to the presentation of Anwar’s policy package, and appointed his close advisor and former Finance Minister, Daim Zainuddin, to be Executive Director of this body. Moreover, Mahathir further signaled disagreement with Anwar’s orthodox policy package through his support of efforts to help out financially certain politically-connected firms (e.g., Renong Bhd.) as well as his decision to implement controls over capital flows (most centrally to fix the exchange rate and to curtail offshore trading of the ringgit) (Haggard and Low, 1999).

5.14 On the other hand, this dispute also had political overtones as Anwar had been perceived as the most likely successor to the aging Mahathir. Apparently believing the time was right to launch a political challenge, likely in part due to observations of how rapidly events in Indonesia led to the fall of Soeharto, Anwar had moved beyond economic disagreements with Mahathir to also level charges against the regime of insufficient political openness, corruption and nepotism. By the UMNO General Assembly in June 1998 though it had become clear that Anwar had seriously miscalculated. The dispute came to an ugly end in September when Anwar was arrested on charges, which many observers believe were trumped-up, of corruption, abuse of office and sexual misconduct the day after being fired from office by Mahathir.

5.15 In such a volatile context, where disagreements over economic policy among top Malay officials have been wrapped up in a political secession battle within UMNO, government participants in consultative mechanisms are likely to have a difficult time making credible commitments regarding future economic decisions. This is because, irrespective of their personal reputation, they cannot assure business persons who it is that will be in charge of economic policy making and what the priorities of those political leaders will be. No doubt, the fact that Mahathir survived Anwar’s political challenge has settled the situation somewhat. Nonetheless, with national elections mandated for the year 2000, the secession issue and the possibility of significant economic policy changes are likely to remain significant in the eyes of the Malaysian business community and civil society more generally.

5.16 One indication of the possibility that Malaysian consultative processes have lost some legitimacy has been the struggles Mahathir has encountered to date in his effort to establish a second “National Economic Consultative Council.” Citing government insincerity and the experience of the first NECC, all of the opposition parties and some individuals have rejected invitations to participate. At the same time, it would be a mistake to overestimate the extent to which the political and economic upheavals have undermined the practice of government-business consultations in Malaysia. For example, despite the budget tightening which was necessitated by the financial crisis, the ambitious Multimedia Super Corridor

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28 Given that the NEAC was vested with authority to develop plans to deal with the financial crisis, the placement of Daim over Anwar, who was named Deputy Director, undermined Anwar’s authority as finance Minister. When Daim entered the cabinet as a special functions minister “entrusted with the tasks relating to economic development” in June, 1998, Anwar’s authority was further diminished. It is therefore not surprising that on a number of basic matters the proposals forwarded by the NEAC differed from those which had been put forward by Anwar. Thus, for example, the NEAC supported efforts to help firms hurt by the crisis through a lowering of interest rates as well as with targeted funds for groups affected by the crisis (e.g., Petty Traders and Hawkers Fund, Export Credit Refinancing Facility).

29 As discussed previously, the first NECC (1988-91) engendered much controversy as participants struggled to generate agreements over economic strategies to supercede the ethnically-divisive NEP and as the government subsequently ignored a number of the agreements which did emerge.
project has been proceeding and the major consultative body associated with that project, the MSC Advisory Council, has met in three high profile meetings. In the end, it may be precisely a challenge, such as that associated with a political secession, that will determine if the Malaysia Inc. policy can be sufficiently reformed to fully establish itself as a useful and permanent institutional adjunct to economic governance in Malaysia.
APPENDIX 1: Interview Schedule

Interviews conducted in Kuala Lumpur, Malaysia, in August, 1997

1. (Tan Sri) Ahmad Sarji. MBC Working Committee Chairman and Member. Former Chief Secretary to the Government. Chairman of PNB (National Equity Corporation).

2. (Dr.) Ahmad Tasir Lopie Pihie. CEO of MIGHT (Malaysian Industry-Government Group for High Technology).

3. (Tunku Tan Sri Dato” Seri) Ahmad Yahaya. MBC Member. Executive Deputy Chairman, Sime Darby.

4. (Dr.) Arif Nun. COO of MDC (MSC Development Corporation).

5. (Tan Sri Dato’) Azman Hashim. MBC Working Committee Chairman and Member. Chairman, Arab-Malaysian Group.

6. (Tan Sri) Basir Ismail. MBC Working Committee Chairman and Member. Former Executive Director, Johor Corporation (a state economic development corporation).

7. (Tan Sri) Clifford Herbert. MBC Member. Secretary General, Ministry of Finance.

8. (Tun) Daim Zainuddin. MBC Working Committee Chairman and Member. Economic Advisor to the Government. Former Minister of Finance.

9. (Tan Sri) Geh Ik Cheong. MBC Working Committee Chairman and Member. Chairman, RHB Bank.

10. (Dato”) Haji Mohamed Ali Bin Haji Hashim. MBC Member. Executive Director, Johor Corporation (a state economic development corporation).

11. (Dato”) Haji Mohd. Ramli Kushairi. MBC Member. Chairman, South Malaysia Industries.

12. (Datuk) Haron Siraj. MBC Member. Secretary General, Ministry of Primary Industries.

13. (Dr.) K.J. John. Vice President for Information Technology Development, MIMOS (Malaysian Institute of Microelectronics Systems). Executive Secretary, NITC (National Information Technology Council). Former Director, Industrial Policy Division, MITI (Ministry of International Trade and Industry).

14. (Datuk) Khatijah Ahmad. MBC Member. Chairman and Managing Director, KAF Group.

15. (Datuk) Khoo Eng Choo. MBC Member. Managing Director, Price Waterhouse.

16. (Dato” Seri Dr.) Lim Keng Yaik. MBC Member. Minister of Primary Industries. President, Gerakan Political Party.

17. (Mr.) Paul Low. Vice-President, FMM (Federation of Malaysian Manufacturers).

18. Mustafa Mohamed Najimudin. Executive Director, National Malay Chamber of Commerce.

19. (Tan Sri Dr.) Noordin Sopiee. MBC Member. Chairman and CEO, ISIS (Institute of Strategic and International Studies). Executive Director, MBC Centre for Economic Research and Services.

20. (Dr.) R. Thillainathan. Director of Finance, Genting Bhd.
21. (Tan Sri) Ramon V. Navaratnam. MBC Working Committee Chairman and Member. Group Corporate Advisor, SungeiWay Group. Formerly, Deputy-Secretary General, Ministry of Finance.

22. (Datuk) Soong Siew Hoong. MBC Member. President, Chinese Chamber of Commerce and Industry. Treasurer, Gerakan Political Party. Vice-President, FMM (Federation of Malaysian Manufacturers).

23. (Tan Sri Datuk) Zainol Abidin Sulong. MBC Member. Chairman, MIDA (Malaysian Industrial Development Authority).

24. (Dr.) Zainal Aznam Yusof. Deputy-Director General (Economics), ISIS (Institute for Strategic International Studies).

Interviews conducted in Penang, Malaysia, in August, 1997

25. (Mrs.) B.J. Yeang. Deputy-General Manager, Penang Development Corporation (a state economic development corporation).

26. (Mr.) Boonler Somchit. Executive Director, PSDC (Penang Skills Development Center).

27. (Tan Sri) Koh Tsu Koon. Chief Minister of Penang. Chairman, Penang Development Corporation (a state economic development corporation).

28. (Ms.) Lim Pao Li. Managing Director, DCT Consultancy Services (a wholly-owned subsidiary of Penang Development Corporation).

29. (Dr.) Tan Tat Wai. MBC Member. Chief Executive, Southern Steel Bhd.
Appendix II -- Methods and Interview Instrument

This report draws heavily from the results of a series of confidential, semi-structured interviews held by the authors with high-ranking government officials and nationally-influential members of the private sector in Kuala Lumpur and Penang, Malaysia, in August, 1997. The universe of persons for interviews was the membership roster of the Malaysian Business Council, the premier consultative mechanism in Malaysia. This universe constituted an elite group of many of the most powerful and respected persons in the government and business sectors. As listed in Appendix I, the research team held formal interviews with 19 MBC members, about 25 percent of the universe, as well as informal interviews with a number of other government, business, professional and academic persons.

As semi-structured interviews are a particular and somewhat uncommon research method, it is useful to explain why we chose to use them as well as how they operate. The choice to use a semi-structured instrument reflected the nature of the research. On one hand, the research team was most concerned to gain in-depth knowledge held by MBC members and did not believe this would be possible using either a survey approach or highly structured interviews. Furthermore, based on previous interviews with elites, as well as on advice from our local expert consultant, the research team believed that the use of highly structured interviews would impede frank and open discussions. On the other hand, the use of wholly unstructured interviews would not have allowed any evaluation of the representativity of a particular interviewee’s comments. Thus, a semi-structured interview was the best choice for achieving the desired substantive depth without sacrificing validity.

Semi-structured interviews involve the use of a standard set of questions for all interviewees that are combined with unstructured follow-up questions determined by interviewer discretion. By asking a standard set of questions, the research team was able to gather parallel information on issues of interest from all interviewees. As reflected in the interview schedule below, standard questions closely followed the theoretical hypotheses guiding the research. By asking unstructured follow-up questions, however, the research team was also able to tailor questions to categories of interviewees (e.g., government versus private sector) as well as able to allow interviewees to expand on what they considered to be of most relevance.

Standard Interview (Malaysia)

A. Introduction and Warm-Up
1. Describe World Bank/PSD project on Consultative Mechanisms
2. Describe process of interview

B. Regarding CM Origins
1. What were the important (political, economic, social) factors which led to the need for consultations between government and private sector?
   -- Who were the most important people involved in initiating consultations?
2. What were the basic purposes, functions, of these consultative processes?
   -- Did these purposes change over time as consultations proceeded?
3. What were the circumstances which led you (your firm, your organization, your office) to become involved in these consultations?
   -- Were you involved with previous consultative processes?

C. Regarding Commitment Credibility
4. In your experience, did the CM increase or decrease the level of trust between politicians, civil servants, labor leaders and the business community?
5. In your opinion, were the PM and other politicians truly committed to these consultations?
   -- What about civil servants, were they truly committed?
   -- What about members of the business community, were they truly committed?
   -- What about labor leaders, were they truly committed?

D. Regarding Monitoring Mechanisms
6. Were there procedures to facilitate follow-through for suggestions or decisions generated during the consultative process?
   -- How did these procedures operate?
7. Did the PM and other top politicians follow-through with promises or commitments made during consultative meetings? Examples?
   -- What about civil servants, did they follow-through? Examples?
   -- What about the business community? Examples?
   -- What about the labor leaders? Examples?

E. Regarding CM Membership
8. Were all important economic actors represented in the CM?
   -- What were the consequences of excluding them?
9. Were any economic actors too heavily represented?
   -- What was the consequence of this?
10. Are you aware of important issues or concerns which members held but felt unable to address during these consultative processes?
    -- Can you offer a specific example?

F. Warm-Down
11. How successful do you judge this CM to have been?
    -- Can you name specific accomplishments?
12. What could be done to make such consultative processes more successful in the future?
13. What recommendations do you have for the World Bank or for other countries in terms of building Consultative Mechanisms?
Selected Bibliography


Consultative Mechanisms and Economic Governance in Malaysia


