The Role of Government Agencies in Creating a Malay Middle Class in Malaysia

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ABSTRACT

Malaysia as a developing country has created an educated Malay middle class with certain skills and expertise. This class experiences expansion from time to time and plays an important role in advancing the state. They not only play a role in mobilizing the national economy, but also bring socio-political changes. The emergence of this group is much influenced by the industrialization process in Malaysia. In addition, the emergence of this group is influenced by the establishment of government agencies which have played and continue to play their own roles. Thus, this article is presented to study the role of government agencies in the creation of a Malay middle class in Malaysia. However, this research focuses on only three government agencies: Majlis Amanah Rakyat (MARA), Perbadanan Nasional Berhad (PNS) and Permodalan Nasional Berhad (PNB). Research outcome shows that these three agencies play an important role in giving birth to a Malay middle class in Malaysia. They provide advisory services, financial assistance as well as employment opportunities in the companies they own.

Key words: Government agencies, role, creating, Malay middle class, Malaysia, MARA, PNS, PNB.

Introduction

After achieving independence in 1957, Malaysia faced complex problems, particularly in its economy. The ethnic-based segregation patterns of the economic sector were clearly noticeable. Thus, a structured national development programme was planned and implemented to improve the national economy. Efforts in the development was implemented in stages, beginning with the First Malayan Plan (1956-1960) which was implemented for the purpose of increasing agricultural productions. It was later followed by the Second Malayan Plan (1966-1970), Third Malaysian Plan (1971-1975), Fourth Malaysian Plan (1976-1980) and continued with 5-year development plans. The development plans aimed at reducing poverty rate, bridging the economic gap between the races and forging inter-ethnic unity. In this development effort, focus was on improving the status of the rural Malay, particularly the farming community (Mujani and Abdul Razak, 2012).

Concomitant with the launching of the development project, some government agencies were set up as one of the efforts to improve the economic position of the Malays and then to create a new group among them known as the Malay middle class. The racial riots which broke out on 13th May 1969 was the turning point for economic and industrial expansion in Malaysia (Mohd Ibrahim, 1993). The effect of this episode was to lead to the formulation of the New Economic Policy (NEP) which laid down two main objectives: to eliminate poverty and to restructure the multiethnic society. Through the NEP, 30% of the equity in commercial and industrial activities in Malaysia is targeted for Malays and Bumiputera ownership. The focus of this equity ownership is the shares of public listed companies which make up 90% of capital equity and makes up 78% in terms of added value in the manufacturing production sector compared to individual ownership companies and partnerships which control only a small portion of capital (10%) and added value of production (22%). Thus, certain facilities
have been submitted to increase the equity of Malays and Bumiputera, particularly the share capital in industry of the modern sector. Institutions such as Majlis Amanah Rakyat (MARA), Perbadanan Nasional Berhad (PNS) and Permodalan Nasional Berhad (PNB) play an important role in this strategy. At the beginning stage, these institutions obtained equity shares in partnership with the private sector and the ownership of these shares are later transferred to other Malays and Bumiputera (Arifin, 1983; Mujani et al., 2012a).

Majlis Amanah Rakyat (MARA):

Majlis Amanah Rakyat (MARA) is one of the agencies introduced by the government to encourage the economic development of Malaysia generally and of the Malays specifically. Introduced in the year 1966 as a result of the first Bumiputera Economic Congress conference resolution, MARA plays the role of trustee agency in the development of the Bumiputera Industrial and Commercial Community. The first objective of MARA is to encourage, guide, train and assist Bumiputera actively involved in commercial and industrial activities. This objective is the main mobiliser in the formation of Bumiputera entrepreneurs who are resilient, professional and established. MARA was incorporated under the Ministry of Entrepreneur and Cooperative Development (MECD) (Marthinin, 2009).

MARA was formed as one of the efforts to achieve the objectives of the New Economic Policy (NEP). Thus, Malays benefit greatly from MARA programs (Guan, 2006). The programs introduced by MARA encompass education, entrepreneurship, rural transportation and investment. Educational programs are the first target of MARA because of the realization that only through education can the pattern of Malay life be changed in order that they may involve themselves in the modern economic sector and not be anymore dependent on traditional economies (Hamil, 2004). Generally, MARA programs in education are more inclined to establishing educational institutions which produce educated and skilled human capital in various fields, particularly in management, technology and science (Guan, 2009). Among the educational institutions set up by MARA is MARA Institute of Technology (upgraded to MARA Technology University or UiTM), MARA Skills Institute (IKM) and Pusat Giat MARA (Vocational and Entrepreneurial Skills). At the same time, it produces skilled labour to fill current economic needs in line with the expansion of the industrial sector.

In addition, MARA is also a very important government agency active in providing entrepreneurial and training programs, specifically for Bumiputera entrepreneurs. As many as 4,000 entrepreneurial courses have been held over the period from 1996 to 1988 with a total participation of more than 163,000 persons (Abdullah, 1997). Later during the Ninth Malaysian Plan (2006-2010), as much as RM 3.1 billion has been allocated for MARA, of which nearly RM 890 million has been allocated for entrepreneur development programs (Marthinin, 2009). Through these programs, specific MARA courses are formed for producing entrepreneurs and potential entrepreneurs, increasing the number of entrepreneurs and increasing the skills of entrepreneurs in commercial and industrial activities. These programs are organised according to specific zones whereby zone 1 covers the states of Perlis, Kedah and Penang; zone 2 for Perak, Selangor and Wilayah Persekutuan; zone 3 for Johore, Malacca and Negeri Sembilan; zone 4 for Kelantan, Trengganu and Pahang, and zone 5 and 6 for Sabah dan Sarawak respectively (Abdullah, 1997). The entrepreneurial program developed is more for the purpose of producing entrepreneurs in small and medium industries, through advisory services, feasibility studies, training and business management (Yaacob, 1981).

In addition to programs on education and entrepreneurship, MARA is also involved in giving credit facilities, guidance services and provision of various infrastructural facilities including business sites and premises. As for investment programs, MARA is actively involved in the transportation, commercial and industrial sectors through investment and management of subsidiaries for commercial purposes. It is also the pioneer, organiser and investor, particularly through Bumiputera participation, directly or indirectly, in small and medium industries. In efforts to involve Malays in the field of business, MARA has set up several companies as a step in the formation of a business community among Bumiputera. MARA also introduced the umbrella concept to protect, encourage and guide Malay entrepreneurs in terms of advisory services, credit facilities, contract offers and stock supplies. Up to the end of the 1980s, MARA owns 32 companies in transportation, commercial and industrial sectors with a total value of RM 900 million. All these companies are placed under the supervision of MARA Holdings Sdn. Bhd. (MHSB) (Hamil, 2004).

Perbadanan Nasional Berhad (PNS):

Perbadanan Nasional Berhad (PERNAS) is a commercial agency set up by the government to provide facilities for the Malays, particularly in commercial and business activities. The idea of its establishment was proposed by the late second Prime Minister Tun Abdul Razak in the second Bumiputera Economic Congress on the 7th-9th September 1968. PERNAS was established on the 29th November 1969 with the prime objective of increasing Bumiputera participation in financial and management fields for the industrial, commercial and financial development sectors. Its field of activity is in various aspects such as steel production, communication
devices, shipbuilding, highway construction, off-shore commercialization, hotel and property development, container transportation and insurance business (Ooi, 2009).

Tengku Razaleigh as the second Chairman of PERNAS had greatly contributed in expanding PERNAS. After he was appointed Chairman replacing Mohd. Roslan Abdullah, he was instructed by Tun Abdul Razak to make a study of the overseas business system. He decided to go to the United Kingdom where he made a study of Booker McConnell Services, United Kingdom’s largest food wholesale operator, renowned in the whole of Africa and the Caribbean. The outcome of his study motivated the government to allocate for the expansion of PERNAS. From this allocation, PERNAS Edar was set up with its chief role as the main distributor of necessities merchandise for Malay retailers. This motivation had further strengthened the position of Malay retailers in this business activity categorised as middle class activity (Hamil, 2004).

In early 1971, a trade delegation to China headed by Tengku Razaleigh succeeded in acquiring rights of distribution, handling and procurement of supplies from there. Prior to that, the import and export of goods from China was managed by middlemen states of Hong Kong and Singapore, whereby 5% tax was imposed for services rendered. In addition to obtaining right of handling merchandise from China, PERNAS also dominated the insurance business which involved an active government organisation, Malaysian National Insurance Sdn. Bhd. (MNI). Through MNI the Malays were seen as getting involved in various activities in life insurance, banking insurance, business insurance and factory insurance (Mujani et al., 2012b).

Further, in May 1971, PERNAS Construction was set up for the purpose of helping the Malays to be involved actively in the construction industry. Assistance was given in the form of tenders as well as subcontracts and management of construction projects. Originally, PERNAS Construction was responsible for training Malays as small contractors with the hope that they will be able to manage bigger projects in the future. In the manufacturing sector, PERNAS had set up PERNAS Engineering Sdn. Bhd. to be fully involved in the manufacturing sector which covers export activities of manufactured products. In addition to this agency also joint-ventured with foreign companies, particularly from Japan, Germany, Norway and United Kingdom. The other PERNAS subsidiaries are PERNAS Properties Sdn. Bhd., PERNAS Trading Sdn. Bhd., PERNAS Securities Sdn. Bhd., PERNAS Mining Sdn. Bhd. and PERNAS Wakil Sdn. Bhd. The function of these subsidiaries may be stated as follows: (Hasfiza, 2011):

1. PERNAS Properties Sdn. Bhd.: to train and give advisory services to Malays to be involved in property business.
2. PERNAS Trading Sdn. Bhd.: to implement development of infrastructure programs by supplying main materials necessary for construction. Infrastructure developed includes police-stations, houses, shophouses, government buildings and playing fields.
3. PERNAS Securities Sdn. Bhd.: to guard the interests of Malay and Bumiputera in all forms of investment and industry ventured into.
4. PERNAS Mining Sdn. Bhd.: to encourage and give advisory services to Malays to be involved in mining activities.
5. PERNAS Wakil Sdn. Bhd.: to supply necessities such as certain foods, clothes and tools.

PERNAS was later privatised in September 1996 through a takeover process by PERNAS International Holdings Berhad and is known as PNS to this day. Various strategies have been implemented by PNS to assist the government in creating a Bumiputera Business and Industrial Community. In addition, PNS is responsible for developing and increasing the number of middle class businessmen among Bumiputera. To achieve this objective, PNS had allocated a certain amount for the franchise industry. In the year 2001, PNS signed an agreement with two American franchisors, Dwyer and El-Torito groups to operate as master franchisees in South-east Asia. Further, early in the year 2003, PNS seemed less attentive to the franchise industry and created a new fully-owned company, PNS Francais Sdn. Bhd. to fully manage all franchise matters. Even so, PNS still provides financial assistance in the form of loans to franchise-holders (Malaysia Business, 2008). These efforts have given the Bumiputera the advantage of a bigger share in the national economy and contribute to the country’s economic development.

Permodalan Nasional Berhad (PNB):

Permodalan Nasional Berhad (PNB) was set up on 17th March 1978 as a subsidiary of Yayasan Pelaburan Bumiputera (YPB). Generally, the main function of PNB is to evaluate, select and acquire shares in public listed companies which are strong and have high potential (Yahaya et al., 2009). PNB is an important government instrument in helping to achieve the NEP objective of increasing the equity holding of Bumiputera in the corporate sector. In addition, PNB is also entrusted with developing opportunities for Bumiputera professionals in building and managing wealth (Ooi, 2009). In implementing the development program, PNB has taken over certain foreign firms involved in strategic sectors, particularly companies in the plantation and mining sectors (Embong, 2000).
As an example, PNB took over Guthrie Company in September 1981 in an event known as a dawn raid at the London Stock Exchange. In addition, PNB also took over other foreign companies such as Sime Darby and Harrison & Crosfield which owned hundreds of hectares of land in the plantations sector. In addition, PNB also took over Malaysian Mining Corporation (MMC) which dominated the mining sector (Crouch, 1996; Embong, 2000). Through this strategy, there occurred a restructuring of job patterns in Malaysia, whereby there emerged a number of Bumiputera managers and professionals who manage various big government and private companies such as banks, financial and insurance companies, manufacturing companies, container and shipping companies.

In addition, PNB is also entrusted with managing Amanah Saham Nasional Berhad (ASNB) which was introduced on 22nd of May 1979 under the Companies Act 1965. It is the fully-owned subsidiary of PNB and is responsible for managing and marketing the ASN Scheme to Bumiputera individuals (Yahaya et al., 2009). Up to 2005, PNB has managed eight unit trusts with five of them specifically for Bumiputera (Ooi, 2009). Then in the year 1981, Amanah Saham Nasional (ASN) was introduced. Even though only 11 units were launched during that time, the number of units bought by the public, specifically the Malays, was far better than previously sold (Yahaya et al., 2009). At the onset as many as 2,077,108 persons participated in the ASN Scheme with a total investment of $2 thousand million. This number of investors forms 42.1% of 4.93 million Bumiputera who qualify to invest in the ASN Scheme (Azilawani, 2011).

In addition to the ASN Scheme, the Amanah Saham Bumiputera (ASB) Scheme also plays a role in increasing Bumiputera participation in investment. This scheme was created on 2nd January 1990 as an additional scheme for the Bumiputera so that they will continue to save and invest in trust share investment schemes in order to increase and maintain the Bumiputera economic holding in the corporate sector (http://www.asnb.com.my/english/asb.htm, 2012). The full task of managing the ASN and ASB was given to ASNB. At the same time, ASNB is also responsible for managing other unit trusts such as the Amanah Saham Nasional 3 Imbang (ASN 3 Imbang), Amanah Saham Wawasan 2020 (ASW 2020), Amanah Saham Didik (ASD), Amanah Saham Malaysia (ASM) as well as Amanah Saham Gemilang (ASG) comprising of ASG Pendidikan (Education), ASG Kesihatan (Health) and ASG Persaraan (Retirement) (Yahaya et al., 2009).

Thus, it can be said that government agencies such as MARA, PNS and PNB have truly played an important role in creating a Malay middle class, particularly in business and industry activities. Their involvement in business is reflected in Bumiputera ownership in business complexes, industrial premises and hotels. As an example, in the year 2005, the Bumiputera owned 29,374 buildings or business premises whereby 24,374 are in the form of buildings, 3,207 in the form of business complexes, 1,480 in the form of business premises and 313 in the form of hotels (Shafii et al., 2009). Percentage-wise, Bumiputera ownership in business and industry, is only 11.7%. This goes to show that the NEP objective or target of 30% has not been achieved yet. Even though the time frame for implementation has expired in 1990, efforts in economic development should be continued so that the number in the middle class, particularly the Malay middle class, can be increased to a higher level. A company is deemed as Bumiputera if it fulfills the following conditions: (Malaysia Business, 2008):

1. 35% of the company equity is held by legally certified Bumiputera or not more than 24% by non-Bumiputera.
2. Shareholders are Bumiputera and are not directly related to non-Bumiputera.
3. The company owners are Bumiputera voted by company members, and able to carry out his duties free from influence.
4. At least 51% of the board of directors including the chairman nominated are Bumiputera.
5. The director and chief executive officer are Bumiputera.

The growth of the Malay middle class in Malaysia, particularly, the Malay middle class is an important factor which contributes to economic development (Kahn, 1996). In addition to the role of government agencies, the growth of the Malay middle class is also influenced by other factors such as government encouragement in industrial activities. As an example, the government develops electrical industrial companies in industrial zones such as Penang, Johore and Selangor. Thus, more job opportunities are provided for the locals in those zones. In addition, the increase of women’s participation in the manufacturing sector indirectly increases the household income level as well as the growth of the skilled middle class such as managers, administrators and professionals. Further, it is also influenced by the government initiative in increasing society’s participation in small and medium industries through certain programs which increase the wealth level among entrepreneurs. The number of workers in the civil services which increases from time to time also increases the middle class from among managers, administrators and professionals. Likewise with the service industry which continually increases. Since the 1990’s, the service industry has been the major contributor to economic revenue in Malaysia (Shafii et al., 2009).
Conclusion:

Malaysia is faced with various challenges from the early days of independence, particularly in improving the economic situation of the Malays. Various efforts have been implemented by the government to meet these challenges, including formulating and implementing national development programs. In ensuring a continuous and smooth execution of these programs, some agencies have been established, namely, Majlis Amanah Rakyat (MARA), Perbadanan Nasional Berhad (PNB) and Permodalan Nasional Berhad (PNB). These three agencies have the same objective, to strengthen the economic position of the Malays and increase their involvement in the modern economic sector, particularly, in business and industry. This indirectly, creates a Malay middle class in all fields. Even though the NEP objective or target of 30% equity in business and commerce has not yet been achieved, the economic position of the Malays, particularly the Malay middle class is far better than before. The middle class needs to be increased in number because they play the role of mobilising the national economy which then contributes to development in all fields whether in politics, economics or even social.

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