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Democratic Developmental States? Institutional Structures for Incubating an Indigenous Entrepreneurial Class and Poverty Reduction in Malaysia and South Africa

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Introduction

The need to promote an inclusive development strategy and incubate a virile indigenous entrepreneurial class remains a key challenge for the Malaysian and South African states in their quest for the democratic developmental state. For the absence of a virile indigenous business class that can embed with the state in the development process remains a daunting obstacle.

The Chapter therefore examines the institutional characteristics that enabled the Malaysian state to incubate a Malay entrepreneurial class and significantly reduce the level of poverty, and the organisational structures created by the post-apartheid South African state to promote a black business class and to reduce the high level of poverty among its population. 'Institution' is used here to mean organisations, which are arenas of contestations and where trade-offs are made by the contending groups, but not in terms of rules that constrain human behaviour.

The choice of Malaysia and South Africa as case studies arises partly from the common social, economic and political features both countries share: heterogeneity in terms of religion, race and ethnic considerations. For instance, the minority race and ethnic groups are in charge of the real sector of the economies, while the majority ethnic group dominates the politics and state institutions after independence. In Malaysia, while the economy and politics are controlled by people of Chinese descent, the state institutions have the indigenous Malays in the majority. The same is true of South Africa where the economy is dominated by the minority white population while the black population, especially Africans, now controls politics and state institutions. In both countries, one major political party, with membership drawn largely from the majority ethnic group, dominates politics.

One of the consequences of the ethno-religious politics is the increasing inequality and the identification of race and ethnicity with economic functions. The Malaysian and South African states have been responding to the challenge by charting a developmental ideology and strategies aimed at promoting an indigenous capitalist class and the reduction of poverty. In fact, Mhone rightly noted that in South Africa, there is 'a conscious and strategic stance taken by government to promote accelerated growth, structural transformation, social development and the repositioning of the economy in the international division of labour by consciously influencing the performance of the market' (Mhone 2003:39).

Furthermore, there are contrasting features that have helped to shape the state and its ideology of development in Malaysia and South Africa. First, Malaysia had more expansive policy tools at its disposal in the years of the New Economic Policy (NEP) – 1970s-1990s – than South Africa in the post-apartheid period. Second, the Malaysian state, like apartheid South Africa, was authoritarian. For instance, the Malaysian state resorted to repressive measures to drive its NEP agenda, partly because dictatorship was fashionable then. By the 1990s, however, when the power of the authoritarian state to sustain growth had waned considerably, the Malaysian state engaged in policy reversal, relaxed previous repressive laws and opened up the political space and economy for the participation by the non-state actors. The Malaysian experience was similar to post-1994 South Africa, when the state began to reverse the apartheid policy and started to solicit opinions from a range of interest groups like civil society organization (CSOs), trade unions and capital and diverse communities around its social and economic transformation policies and programmes.

The Malaysian State: Institutional Foundation and the Creation of an Indigenous Entrepreneurial Class

Malaysia was a rural and an agricultural economy at the time it gained political independence on August 31, 1957 until the early 1970s. Malaysia was not only a heterogeneous society polarized along cultural, racial, religious and geographical lines, but the divide was evident in all facets of its society. While the Malaysian-Chinese dominated the economy, the Malays, the majority indigenous race or ethnic group, controlled the politics, the military, bureaucracy and judiciary. Racial divisions coincided with economic and geographical divisions, as the Chinese dominated the modern sector of the economy and lived in the urban areas, while the Malays were engaged in agricultural activities and lived in the rural areas. The polarization of Malaysian society, especially the intersection of race with economic activities, fuelled the 1969 riot. In fact, the United Malays National Organization

(UMNO)-led coalition government had expressed fear that the deepening racial disparities posed a major threat to the political stability of Malaysia. The National Economic Policy (NEP), therefore, was a policy response to redress the ethnic imbalances.

The Objectives of the NEP

The NEP had two main objectives: first, to reduce and eradicate poverty through increasing employment opportunities and income for all Malaysians, irrespective of race; and, second, to restructure and correct the economic imbalances in a way that would eliminate the identification of race with economic function in Malaysia (Kuala Lumpur 1971). Its overall aim was to uplift the social and economic position of the Bumiputeras[1], the ethnic Malays whose economic positions were historically inferior to the Chinese.

Launched in 1971, the NEP had a twenty-year period (1970-1990) to actualize its objectives.

Scholars described the NEP as a Malay-first policy (Horii 1990), an ethnic-oriented policy (Torii 1997), an affirmative action policy (Shamsul 1997), and an economic empowerment programme (Edigheji 1997).

The Malaysian state had set clear targets to realize the objectives of the NEP. With respect to the first objective – poverty alleviation – it was envisaged that poverty would be reduced from 50 per cent in 1970 to 20 per cent in 1990. With regard to the second objective – restructuring of the society – it was expected that 'employment in the various sectors of the economy and employment by occupational levels would reflect the racial composition of the country' (Kuala Lumpur 1973:9). This was to be accompanied by an aggressive training and education strategy intended to create the much-needed Malay professional class. The most salient aspect of the restructuring of the society was how to redress the ownership of the means of production and disparities in wealth. It was envisaged that by 1990 ethnic Malay control of government trust agencies and state-owned enterprises, and equity ownership, would have increased from 2.4 per cent[2] in 1970, to 30 per cent by 1990. The attainment of these objectives was predicated on direct government intervention[3] in the economy to give preferential treatments to Bumiputeras as a way of levelling the socio-economic playing field.

However, government interventions were not intended to be at the expense of non-ethnic Malaysians, in particular the ethnic Chinese. Rather, the government's goals were predicated on economic growth and the restriction on foreign equity ownership from 60 per cent in 1970 to 30 per cent in 1990. At the same time, non-Malays equity shares were to increase from 34.4 per cent to 40 per cent. Even the decline in the foreign equity ownership was to be in relative terms, because the state still relied on foreign investment for technology, access to export markets, skills and employment opportunities in the manufacturing sector.

The Implementation of the NEP and Its Impact

The Malaysian government initiated several programmes to facilitate Bumiputera entry into the business class. The programmes included special training courses, advisory services, provision of credit with zero-interest and provision of business premises, and were entrusted to the Urban Development Foundation (UDF) and Majlis Amanah Rakyat (MARA). The Malay-owned businesses received preferential treatments from the state. They were particularly favoured in the award of government contracts, import and export licenses. For example, while the Ministry of Works and Public Utilities and, the Department of Telecommunication reserved at least 30 per cent of their contracts and procurements for Malay firms, the Ministry of Transport kept 100 per cent of its contracts for Malay businesses.

Further, the government intervened in the banking sector so that it could channel more capital to the Bumi entrepreneurs. The Malaysian Central Bank (Bank Negera), for instance, had requested all commercial banks to lend 20 per cent of their total loans to the Bumiputera entrepreneurs. Commercial banks that failed to implement the guideline were sanctioned. The government-owned commercial and development banks were established with the sole aim of channelling resources to existing and potential Malay business persons. Similarly, the state created the Credit Guarantee Corporation (CGC) to provide security of up to 60 per cent of the value of its loans advanced by commercial banks to small businesses.[4]

Bumiputeras were equally given special opportunities to buy shares in major companies at a discounted price. The Ministry of Trade and Industry (MTI)[5] kept a list of Bumiputera applicants for shares and ensured that they were the first to be considered whenever shares were sold.[6] The Perbadanan Nasionale (PERNAS the National Corporation) was set up in 1969 to acquire stakes in existing companies and; to establish its own business, especially through majority holdings in joint ventures, which gave added impetus under the NEP. It acquired stock from foreign firms on behalf of Bumiputeras. As Emsley noted, by 1988, the PERNAS had 96 companies under its control and with majority shares in 69 of the companies (Emsley 1996). Critics of the NEP had noted that most of the state enterprises were poorly managed, riddled with corruption and posted huge losses, thereby making it a waste of national resources. According to Jesudason, the state sacrificed economic efficiency for political objectives.[7]

Like the Japanese Ministry of Trade and Industry (MITI), the Malaysian counterpart, the MTI played an important role in facilitating linkages between the Bumiputeras and foreign firms. Critics of the NEP such as Crouch noted that the MTI was a source of patronage distribution to UMNO supporters and members. Firms owned by top civil servants, UMNO politicians and supporters were favoured in the award of government contracts. In addition, most of the discounted shares were acquired by politically connected individuals and members of the royal families who resold them at the market price. It became a source of easy wealth. Expectedly, rent-seeking turned out counter-productive to the objective of the NEP, as some of the shares were resold to Chinese business persons that the incubating Bumiputera business class was expected to replace.

The Malaysian government had, in an attempt to rectify the problem, set up the Permodalan Nasionale Berhads (National Equity Corporation, PNB). It was a trust scheme known as the National Unit Trust (ASN). Under the scheme, stock shares of well-performing government-owned companies and public corporations were transferred to the PNB. The ASN bought PNB's assets at cost and sold them exclusively to the Bumiputeras in order to ensure the direct participation of the people. Participants in the scheme could only buy and sell ASN's shares to the trust itself, but not to non-Bumiputeras. This was intended to keep the shares in the hands of ethnic Malays. Even strong critics of the NEP such as Jesudason had hailed the scheme as a brilliant strategy that simultaneously kept the state managerial control of the companies, spread profit to the wider community, and held the shares in the hands of the Malays. Crouch had noted that, by 1989, 45 per cent of about 5.3 million eligible Bumiputeras had purchased shares in ASN's trust (Crouch 1996).

The scheme was an appropriate mechanism to empower the Bumiputera community, that is, to redistribute income and wealth to more Malays, especially the poor who could not have participated in such a scheme if it were left to market forces (Edigheji 1997). In fact, the participation of the poor in the scheme was quite commendable, as the majority of trust holders were farmers, labourers and housewives (Jesudason 1989). As it is shown in subsequent sections, this contrasts sharply with the South African case where the poor did not benefit from the black economic enterprise (BEE).

With regard to the creation of a Bumiputera entrepreneurial class, critics had noted that the performance of the NEP was a complete failure. For example, most of the Bumiputera-owned small businesses were either run at a loss, or were fronts for Chinese businesses,[8] and they defaulted on repayment of loans. Worse still, the Malay business persons engaged only in 'property speculation and manoeuvres on the stock market' (Crouch 1996:214), thereby contributing very little to employment generation and diversification of the economy. In spite of the pro-Bumiputera business strategy of the NEP, it demonstrated that the growth of the Chinese business was hamstrung while ethnic tension heightened.

The Bumiputera business class has been described as a rentier class that depended on government patronage (Faaland et al. 1990). The Bumiputera political and bureaucratic elite inclusive of the emergent entrepreneurs used the state as a source of wealth accumulation. State officials awarded contracts to companies in which the bourgeoning Bumiputera elites were directors, or to companies of their friends and family members. As Jesudason noted, most Bumiputera businesspersons were involved in speculative rather than productive activities, which had few national economic benefits. Even the Chinese business class became involved in rent-seeking activities and was considerably dependent on state patronage. In fact, rent seeking activities permeated the political economy of Malaysia, with few national economic benefits.

Notwithstanding the criticisms levelled against the NEP, it recorded some level of success. First, Chinese equity ownership actually grew reaching 46.2 per-cent in 1990 which was 6.2 per cent more than the NEP target. Indeed, the imple-mentation of the NEP created a social and political climate that enabled the business community to thrive. In all, 'the Chinese not only increased their corporate equity, but achieved social peace from the NEP' (Edigheji 1997:48). Even though critics had noted that, by 1990, Bumiputera equity shares had only grown to 20.3 per cent, that is, 9.7 per cent below the NEP target, Lubeck argued that if the shares of Bumiputeras were added to the surplus extracted from the rent, their shares would amount to 29.1 per cent, which was almost the target of the NEP. What is more, not all Bumiputera business groups were engaged in speculative activities, especially the rural dwellers, who were involved in construction, manufacturing of food products and handicrafts, wholesale and retail activities (Shamsul 1997).

Lubeck refuted most of the critical assessments of the NEP, especially its promotion of rent seeking. In his words:

> For the question of accumulation and state strategy, the question of import is not whether corruption exists or whether monopoly rents were granted by the state to individual members of the Bumi bourgeoisie and to the public enterprises ... Indeed, such rentier interventions were probably necessary to maintain social peace, to abolish the ethnic division of labour and to incubate a bourgeoisie that can confidentially cooperate with state bureaucrats to achieve planning goals in the flexible informal manner that Johnson affirms for the developmental states. True, for free marketeers of the Anglo-American variety, the mode of bourgeoisie formation is neither inspiring nor efficient in the short run. The key question for assessing this strategy rests upon the capacity of the bureaucracy and the new generation of the Malays political elite to discipline, rationalize, and deepen the technical capacity of the fledgling Bumi business and industrial class (Lubeck 1997:8).

Lubeck's argument provides a useful insight into the analysis of the inherent contradictions of the democratic developmental state, particularly the simultaneous occurrence of the pursuit of development and rent seeking. The state seems to be closely associated with corruption, patronage and the experiences of a rentier class, at least in the short run. But the key factor that determines successful economic and industrial transformation is the political will that political leaders are expected to demonstrate by identifying and creating a focal point to ensure that its developmental objectives are achieved, as evident in Malaysia. This is so because the committed political leadership partly accounted for the relatively successful economic transformation of Malaysia.

With regard to the generation of employment in all sectors and occupational levels irrespective of racial composition of the country, the NEP performed well. The state had invested massively in the education of the Bumiputeras. The initial focus was first on basic education; as the country's productive base became more technological emphasis shifted to technical and vocational education. This resulted in the massive increase in the proportion of Bumiputeras in institutions of learning inclusive of the universities.

However, the increase was not at the expense of the non-Bumiputeras.[9] The trained human resources were gainfully employed so that the state could exert considerable pressure on the private sector to ensure that at least 30 per cent of their workforce was ethnic Malay.[10] The figure contrasted with the situation in South Africa, where white business has largely circumvented compliance with the Employment Equity Act. In addition, the Bumiputeras were preferentially treated in public sector employment and the result was remarkable. By 1990, the Bumiputera population had been transformed from agricultural to modern sector occupations. The state also achieved its objective of creating a middle class Bumiputera society by 1990, as a large number of ethnic Malays rose into the middle class. They were found in various professional occupations both in the public and private sectors.

The net effect of the NEP was a remarkable improvement in the living standards of all Malaysians, irrespective of ethnic background. Absolute poverty declined from 49.3 per cent in 1970 to 15 per cent by 1990, a better result than the NEP had targeted. Also, unemployment declined from 17 per cent in 1990 to near zero per cent in 1995. The gross national product per capita rose from $370 in 1970 (Emsley 1996) to $3, 890 by 1995 (World Bank 1997). The infant mortality rate fell from 45 per thousand in 1970 (Emsley 1996) to 12 per thousand in 1994 (World Bank 1996). These achievements in social development coincided with high economic growth throughout the NEP period, averaging about 6.7 per cent annually.[11] Economic growth was accompanied by a fundamental transformation of the economy. Malaysia was transformed from an agrarian and exporter of raw materials in the 1970s to an industrial economy with informatics being the dominant sector by the 1990s. With the implementation of the NEP, there was a dramatic reduction of income inequality and the liberalization of the economy.

State Institutions and State-Society Relations

At this juncture, it is useful to examine the institutional arrangements that enabled the Malaysian state to incubate an indigenous Malay entrepreneurial class, and how it helped to reduce poverty. Let me state here that the Malaysian state can hardly be described as predatory in spite of evidence of rampant rent seeking activities, corruption and authoritarianism; but neither did the state possess all the credentials of the developmental state as defined by Johnson (Johnson 1987). All the same, the Malaysian state was highly autonomous. The pertinent question is: How did the Malaysian state achieve its remarkable success in economic growth?

Evans attempts to provide the answer to the above question as follows:

> ... it takes only a very rough approximation of the Weberian ideal type to confer advantage. Even developmental states are only approximation of the ideal type, but intermediate states show that the basic bureaucratic model can be stretched further and still deliver (Evans 1995:64).

It can, therefore, be argued that the Malaysian state exhibited a high degree of autonomy and was partially embedded. In other words, the state was only embedded with a section of capital – the Malay business class, while it excluded the Chinese business class and the civil society organizations. The autonomy of state institutions only helped to minimize corruption, but it did not eliminate it. A note on the Malaysian political system is necessary at this point.

The Nature of Political System

The Malaysian state can be described as authoritarian, as evident in the curtailment of press freedom and restriction of the rights of association during the NEP period. The state enacted legislation that prohibited the parliamentary debate of the NEP, or its criticism by interest groups and radical opposition parties like the Labour Party. In particular, academic freedom, workers' rights to organize and strike over labour issues and other national concerns were denied or extremely curtailed. Unionization was banned or restrained in industries the state considered as key sectors such as informatics. It was only in 1988 that the rights of workers to unionize in the information and technology (IT) sector were recognised. Even then, it was limited to in-house and not industry-wide unions. This and the division of the labour movement along racial lines considerably limited the capacity of the union movement to participate in the policy process.

However, the Malaysian state opened the political space since the 1990s, as it allowed considerable freedom and became responsive to the demands and needs of the people and the society. But Malaysia did not qualify as a multi-party democracy, as there were restrictions on the opposition parties. The UMNO still dominates the political landscape since independence in 1957, which is similar to South Africa where the African National Congress (ANC) controlled the politics since the end of apartheid in 1994. The Malaysian state had conducted elections regularly, but rigged in favour of the UMNO-led National Front. The competition for positions within the UMNO remained intense, in part, because the Malay votes alone could not give it a two-third majority. Coupled with the radical Malay parties such as PAS (Pas Islam sa-Malaysia) having to compete for the Malay votes, the UMNO had to rely on Chinese and Indian parties to secure the required two-third majority. As a result, the Malay elite could not use repressive measures alone to suppress other ethnic groups; nor could it afford to completely ignore their demands. The option was for the government to respond to the demands and pressures from the broader society and; to allow considerable degree of freedom.

In essence, the ethnic diversity in Malaysia prevented the state from assuming a fully fledged authoritarian character. Diversity spurred government responsiveness and promoted inter-communal bargaining and negotiations between the ethnic parties that constituted the consociational governments that had run Malaysia in the post-colonial period. The politics of ethnic diversity largely contributed to consensus building around social and economic policies. It was the emergence of such a consensus that had enabled the government to relax some aspects of the NEP from the late 1980s, particularly as legislation was enacted to give effect to such changes.

Autonomous State Institutions and Development Outcomes of Malaysia

The Malaysian state had relatively autonomous institutions that contributed to its cohesion. Of the 16 developing countries inclusive the Asian NICs, Malaysia is ranked sixth (Edigheji 2007). Like South Korea, Singapore and Taiwan, the Malaysian state had a shared ideology among the political and bureaucratic elites. It was an ethnically driven development ideology aimed at promoting Bumiputera participation and dominance of all spheres of the national life. In fact, it was a 'Malayness' ideology, similar to post-1994 South Africa, where there is a shared ideology to promote black economic enterprise between the political and bureaucratic elites, and to reduce poverty. The Malay political and bureaucratic elites had attended the same schools, and had common familial ties and marriages – the kind of informal networks that Johnson claimed characterized developmental states.

Crouch has identified the nature of the Malaysian civil service as a factor that contributed to the cohesion of the state and a basis for the shared project by the political and bureaucratic elites.[12] Civil servants in Malaysia played a leading role in politics. They were allowed to join political parties and by the 1980s occupied elective positions in them. The civil service was not only a recruiting ground for the UMNO, but most of its leaders had a bureaucratic background. In addition, the UMNO and the government were highly embedded and this provided a basis for cooperation on vital policy issues. According to Tun Razak, then Malaysian Prime Minister, it was a 'government with the party' (Torii 1997:221). This means that there was a strong tie between the government and the party, which constituted the institutional foundation for economic transformation. The UMNO through its seven bureaus,[13] especially the Economic Bureau, contributed enormously to the policy process and played a leading role in some vital aspects of the NEP.[14]

The Economic Bureau enhanced the scope for economic policy coordination within the party and between it and the government. This contrasts sharply with South Africa, where the bureaucratic elites have dominated the policy process and marginalized the African National Congress (ANC) and its alliance partners, COSATU. The SACP was also marginalized in the process of policy formation. This, in part, contributed to the tension within the ANC, and between the party, COSATU and the SACP.

Malaysia inherited a significant bureaucratic apparatus from the British that enabled the state to intervene in the economy. Even though recruitment and promotion in the bureaucracy were based on examination, the Bumiputeras were given preferential treatment according to the objectives of the NEP. By such a gesture, the attributes of Weberian bureaucracy were refined to suit the Malaysian situation. In fact, the privileges extended to the Bumiputeras enabled the political elites to appoint trusted and competent personnel into key policy and planning positions (Jesudason 1989:78). The UMNO-led government also enacted legislation that limited debates on the NEP, thereby insulating state policy makers from criticism by special interest groups. Thus, insulation was achieved through repression rather than the ability of the state to elicit co-operation from society,[15] and this can be said to have violated the principles of democratic governance.

Compared with the East Asian NICs, however, the Malaysian state was much more fragmented with multiple planning agencies. The most important of these agencies was the Economic Planning Unit (EPU), which was an arm of the Prime Minister's office. As Jesudason had noted, the EPU acted as 'the custodian of NEP goals'[16] and played a leading role in the selection of projects. At the initial stage of the NEP, the political elites set the broad policy direction and left the technocrats to flesh out the details of planning and implementation. With increased concentration of power in the hands of top political executives, coupled with the emergence of powerful political leaders like Mahathir Mohamad as Prime Minister, agencies like the EPU lost some of their power. As a result, the EPU did not have the same influence on public policy as the Economic Planning Board in South Korea (EPB) and the Economic Development Board (EDB) in Singapore.

Yet the political and bureaucratic elites were able to develop the technical expertise that enhanced state capacity. Equally, other agencies like the Malaysian Industrial Development Authority (MIDA) and the State Economic Development Corporations (SEDCs) played a decisive role in ensuring that the NEP's targets were met. The Penang Development Corporation (PDC) was the most successful agency of the SEDCs, as it moved the economy from a labour-intensive industrialization strategy in the electronics sector to automated manufacturing. There was a semblance of state autonomy in Malaysia, which conferred advantages on the state in its task of incubating a Bumiputera business class and reducing poverty.

Embedding the Malaysian State

In most of the received literature on Malaysia's experience with industrialization, scholars have identified the lack of embeddedness of the Malaysian state as evident in the exclusion of the Chinese business community that constituted the dominant part of the domestic bourgeoisie, from the policy process. In particular, Crouch argued that the Chinese entrepreneurs were disqualified from playing a dominant role in politics because of their ethnic background. As noted, the increased role of the state in politics and economy also left Chinese businesses at the mercy of the Malay-dominated government that was committed to the expansion of Malay participation in business. The state-Chinese business relationship was anything but cordial.[17]

However, it can be argued that these criticisms were mistaken. For a major plank of the NEP was the creation of a Bumiputera business class. To achieve this goal, the state entered into alliances with foreign capital, instead of the local Chinese business class. The state also facilitated Bumiputera-foreign capital alliances, especially as the state did not see the Chinese business community as a crucial partner in achieving its objective. Over the years, however the state's relationship with the Chinese business class changed for various reasons. First, the Chinese business class constituted a substantial part of the economy and made it impossible for the state to totally ignore it as it pursed the objectives of the NEP. As a result, the government responded to the demands of the Chinese business class. Second, the changing economic climate had forced the state to privatize some of its assets in the 1980s and further liberalized some of its equity requirements to the relief of the Chinese businesses.

There is a need for an analysis of embeddedness or lack of it in Malaysia in order to capture the social group that constituted the state's partner in its project of transformation. This was quite evident in the state's pro-Bumiputera policies and its relationship with such a group. In this context, it can be argued that the Malaysian state achieved its goal.[18] For example, the state and Bumiputera business class were highly embedded, as there was an institutionalized relationship between both parties. The state-Bumiputera business embeddedness informed the need to restructure the state and society in favour of the Bumiputera business community. The emerging Bumiputera entrepreneurs had considerable leverage in government in terms of the promotion of the NEP's goals. They were avid supporters of the UMNO.

Jesudason aptly captured the depth of the state's embeddedness when he argued that: 'The Malay business leaders had much leverage with government officials because many were, either at present, or in the past, high UMNO officials and top civil servants... These business leaders enjoyed close ties with the government and as potentially important opinion makers, found a receptive ear among politicians and bureaucrats' (Jesudason 1989:65). In fact, the link between the UMNO and the Bumiputera business class became the foundation for state-led public-private cooperation. The state had further strengthened the Bumiputera business class by creating a business association for it, which became the platform for the private sector to contribute to the policy and development process in Malaysia.

Without doubt, the Malaysian experience has important implications for the conceptualization of embeddedness. The Malaysian state was partially embedded, though it established ties only with a section of the business community. The state also lacked what Evans referred to as 'inclusive' embeddedness (Evans 1995). The selection of participants in the embedding process was based on individual capacity and that partly accounted for their minimal contribution to public policy.

By the 1990s, the policy process became more inclusive and that resulted in the establishment of the Malaysian Business Council (MBC) with representation from the government, private sector, labour and civil society. The various ministries also entered into dialogue and developed consultative mechanisms. All this was established as part of 'Malaysia Incorporated', which required greater and mutually supportive cooperation between the state, the private sector and other stakeholders. The discussion now turns to the situation in South Africa.

The South African State and its Institutional Foundation: 1994-2006

South African politics, like its Malaysian counterpart, was dominated by one major political party, the African National Congress (ANC) that won more than two-third majority in the election held in 2004. Unlike Malaysia where the major party had used state power to suppress all form of opposition, the state allowed the opposition parties to flourish. One problem is that opposition parties, especially the Democratic Alliance (DA), always articulated narrow interests that prevented the party from gaining the support of majority of the electorate. In fact, the parochial interests of the opposition parties largely accounted more the continued dominance of the ANC in South African politics than the reported silencing of the opposition by the ANC.

Further, the South African state, like the Malaysian, expressed a commitment to promote a human-centred development. But the South African state, like most independent African states, lacked the capacity to achieve its developmental goals as evident in the incapacities of departments and ministries and municipal governments responsible for the provision of social services. However, the state showed strong revenue collection ability and macro-economic management.

As noted, the South African state has embryonic features of a democratic developmental state, given its moderate approximation with Weber's characterization of the state. For example, the bureaucratic elites of the state are highly insulated from external pressure. Importantly, there is considerable degree of insularity of economic bureaucrats from external pressures. This was demonstrated by the manner in which the government adopted and pursued its macro-economic policy since 1996. In spite of the opposition from the public and the ANC-alliance partners, the Council of South Africa Trade Union (COSATU) and the SACP, the government stuck to its macro-economic framework that was focused on macro-economic stability.

The South African state, like its Malaysian counterpart, had achieved cohesion and shared a common agenda between the political and bureaucrat elites. Similarly, most senior bureaucrats are also members of the ANC. Some are members of its National Executive Committee (NEC), which further cemented the links between the government and the ruling party.

Unlike in Malaysia, however, the role of the ANC and its alliance with the partners had waned over the years, especially as the bureaucrats dominated the policy agenda. This became a source of open tension within the ANC-led alliance. Unlike the Economic Bureau of the UMNO in Malaysia, the ANC's Economic Transformation Committee (ETC) had little influence over economic policy. Coupled with the lack of research capacity within the ANC, the bureaucrats were further empowered to dominate the policy process to the detriment of the ANC-led alliance.

The South African state has a high degree of autonomy and coordination of public policy, as evident in the establishment of the Policy Coordination and Advisory Services (PCAS). As its primary goal, the PCAS is to ensure greater coordination and alignment of government policy. However, the autonomy of the South Africa state and its ability to coordinate policy is being limited by the absence of career civil servants and the high turnover of senior bureaucrats. All this contrasts with the Malaysian situation.

The need to restructure South Africa's public service informed the creation of the New Public Management (NPM) framework whereby bureaucrats are appointed on performance-based contracts. Rather than enhance the performance of the bureaucrats, the NPM strategy reduced the espirit de corps among the bureaucrats in South Africa, which, in turn, contributed to the inability of the state to address its fundamental development challenges, particularly the reduction of the high levels of poverty in the country.

South Africa is marked by a racial division of labour, one of the legacies of apartheid, which contrasts with Malaysia's ethnic division of labour. Thabo Mbeki, then South African President, had contextualized the racial division of labour when he described South Africa as having two economies: one poor and mostly black, and the second rich and mostly white. This partly explains why the country's economy is still dominated by the white minority group and the resultant high levels of poverty and inequality since the termination of the apartheid regime in 1994.

In the post-1994 period, there is still a worsening trend of inequality in South Africa, as evident in the inability of various government efforts to reduce poverty through the provision of over two million public houses to poor, and the expansion of social security to greater number of people which have not yielded positive results. So, too, the Expanded Public Work Programme (EPWP) and the extension of free basic water and electricity to citizens have failed to bring about the desired changes. In fact, the number of people living on less than US$1 dollar a day had increased from 1.9 million in 1996 to 4.3 million in 2004. South Africa's Gini-coefficient increased from 0.60 in 1996 to 0.64 in 2005, making it one of the most inequitable countries in the world.

Worse still, ten years after the Employment Equity (EE) Act – aimed at achieving employment equity in the workplace – 75 per cent of top management positions were still held by white males, compared with 22 per cent of blacks in 2006. All this took place in a context where the blacks still constitute 87 per cent of the economically active population, and in gender terms, males constituted 78 per cent of top management in a situation where they only accounted for 54 per cent of the active labour force (Employment Equity Commission 2006).

It can be argued that not only has the South African state remained untransformed 13 years after the end of apartheid, but also the country's economy is still dominated by the primary sector in spite of its relative level of industrialization. Let me now examine the embeddedness of the South African state.

Embedding the Emerging State and Society

The degree of embeddedness of the state does not necessarily indicate its developmental credentials; rather it constitutes an important component of the nature of state-society relations. This is because embeddedness implies a concrete set of ties between the state and social groups, which the state considers instrumental to actualize its developmental agenda. Weiss refers to such a theoretical framework for the success of the developmental state as 'Governed Interdependence' (GI). The GI involves central coordination founded on cooperation between government and business, with the state acting as the coordinator (Weiss 1998).

As noted, the argument for embeddedness is not based only on its likely positive effects on economic growth, but also on equity. With respect to the latter, embeddedness is more likely to result in the accommodation of the needs of the poor and the marginalized in public policies and their outcomes. Cognizant of the fact that the state has to work collaboratively with non-state actors to permit the growth of embeddedness, the South African government has always argued that 'the state needs to be sufficiently strong to commit to encompassing long-term development objectives' (Pretoria 2003:103). In fact, to Phumzile Mlambo-Ngcuka, then Deputy President of South Africa, the state's ability to halve unemployment and poverty by 2015 would largely be dependent on 'effective economic leadership from government and effective partnership between government and key stakeholders such as organized labour and business' (Mlambo-Ngcuka 2006:1).

As part of the strategy for embedding the state in South Africa, the participation of interest groups in the policy process has increased in the country. There is legislation that mandates the state to consult with non-state actors. Policy networks and consultative mechanisms (CMs) have been created at the three spheres of government, namely, national, provincial and municipal. At the national level, the apex CM is the National Economic Development and Labour Council (NEDLAC), established through an Act of Parliament as a forum for negotiations and consensus-building between the state, organized business, organized labour and communities.

Further, the Mbeki presidency established a number of Presidential Working Groups through which the President and his cabinet could consult regularly with interest groups. These are the Presidential Working Group on Women, the Presidential Youth Working Group, the Presidential Trade Unions Working Group, the Presidential Big Business Working Group, the Presidential Black Business Working Group and the Presidential Commercial Agriculture Working Group, among others. Though no research has been conducted on these Working Groups, there are regular Indabas (meetings) between the President and his cabinet on the one hand and the representatives of the various sectors that made up the respective Working Groups on the other. For example, the Presidential Black Business Working Group provides a forum for the President to directly engage and consult with leading black business persons and organized black business on pertinent issues such as the black economic empowerment (BEE) project. In a similar vein, the President consults with the farming community, including the National African Farmers Union's (NAFU) and Agric-SA on the transformation of the agricultural sector and land reform through the Presidential Working Group on Agriculture.

In addition, an International Investment Council (IIC) was established. The IIC was made up of prominent international business people, with the aim of helping to attract investment to South Africa. The President and his cabinet held regular meetings with members of the IIC, a forum where government policies were explained to members of the Council and advice sought from them. The members of the Council included Mr William Rhodes, Vice President of the Citigroup Incorporated, United States, Mr Niall Fitzgerald, co-chairman of Unilever, United Kingdom, Mr Martin Kohlhausen, chairman of Commerzbank, Germany, Mr Hassan Marikan, chairman of Pretonas, Malaysia, Dr Tony O'Reilly, chairman of Independent Newspapers, Ireland, and Dr George Soros, chairman of Soros Fund Management, United States. The Information, Communication Technology (ICT) Council was established and its members included the chief executive officers (CEOs) of some of the leading ICT companies in the world (Mbeki 2000).

The establishment of these Councils was informed by the President's focus on the promotion of economic growth and increased investment in the country.

The primary aims of the consultative structures were to gain the confidence of the domestic and external investment communities, to generate trust between members and the state, and to enable members to make inputs into government policies, to enhance the legitimacy of the policy process, to facilitate exchange of information and coordinate expectations among private agents and to reduce coordination costs and ensure that policies are made transparently. Other expected advantages of these initiatives were the reduction of rent seeking among private agents and strengthening the capacity of the state to forge ahead with its development objectives.

Therefore, contrary to the view that there is lack of consultation by government with its social partners around its macroeconomic policy, the creation of the Presidential Working Groups is indicative of the increasing participation of interest groups in the formulation and implementation of public policies.

Notwithstanding the embeddedness of the South African state, the greater participation of social groups does not mean that the needs and interests of all non-state actors are accommodated. For example, at the Growth and Development Summit (GDS), the issue was not addressed in spite of the pressure from civil society organisations and the trade unions. This was one issue that could have aborted the GDS, but it did not. Willie Madisha, President of the COSATU in his address at the Summit lamented the inability to reach agreement on issues around HIV, which was deferred to a separate task team to deliberate (Madisha 2003).

Further, the Summit was an effort by the national stakeholders to commit themselves to a common vision for promoting rising levels of growth, investment, job creation and people-centred development. In this sense, business interests have been predominant and quite predictably, they made very few concessions. In the case of retirement funds for example, 'the life insurance industry, government, labour and community organisations committed to work towards investing five per cent of their investable income' in unspecified 'appropriate financial instruments' The trade unions, in particular, were demanding that more than ten per cent of pension funds be invested in job creating initiatives. But business did not yield to this demand and that remained a source of dissatisfaction for the unions.

Even though the GDS agreement seemed progressive, the actual challenge was whether the parties to the agreements would fulfil their commitments. In fact, the South African social partners were notorious for not meeting their commitments, as business has worked against agreements that it perceived not to advance its interest. Business's continued opposition to labour laws and affirmative action laws and policies are illustrative of this point (Edigheji 2003).

Perhaps all this informed Willie Madisha's contention that, 'As always at NEDLAC, it is easy to talk, but hard that action follows the talk'. What is more, there are no effective mechanisms to monitor the implementation of NEDLAC agreements, like most participatory structures in South Africa. This accounts for why the GDS agreement contained similar contents as NEDLAC's annual summit agreements of the 2000 and 2001 (NEDLAC 2000 & 2001). Three years after these annual summit agreements were signed there was no significant progress towards their implementation. Indeed, the Council was unable to come up with a work programme towards the implementation of the aforementioned annual summit agreements.

Similarly, COSATU had expressed concern about the lack of government commitment to aggressively pursue an equitable growth strategy, at least, until the announcement of Accelerated Skills and Growth Initiative South Africa. COSATU's central concerns have been employment creation and poverty alleviation, which partly explains the Unions' regular engagement with the ANC-led alliance and with the government.

In COSATU's view:

> The reluctance by government to prioritise equitable growth also emerges if we contrast engagements on sector strategies with the implementation of BEE. In the 2000s, virtually every government policy adopted some reference to the BEE. Government departments drove the BEE charters in key sectors. In contrast, it was difficult to ensure government commitment to sector strategies that sought to ensure employment creation and more equitable ownership (COSATU 2005:8).

There is also a need to examine the state's relationship with the trade unions, which played prominent role during the struggle to terminate the apartheid regime.

State-Trade Union Relations

The role of trade union movement was very instrumental in the struggles against the apartheid regime. It is natural therefore, to have trade unions incorporated into the policy process in post-1994 South Africa. Primarily, this is aimed at facilitating dialogue between the state and the union movement. Yet state-trade union relations are not as strong as both parties had expected. This could partly be attributed to the absence of a shared transformation vision between the state and the trade unions. For the ability of the state to forge its vision of transformation and mobilize society around it is one of the key elements of the sought democratic developmental state.

However, before 1996 when the Growth, Employment and Accelerated Reconstruction policy GEAR was adopted on the insistence of Finance Minister Trevor Manuel and other senior government officials, only the Reconstruction and Development Programme RDP represented such a common vision. According to the PCAS, 'apart from the RDP, there was no such encompassing framework on board' around which the alliance partners could mobilize the entire South

African society (PCAS 2003:103). Not surprisingly, the relationship between the state and the trade unions, especially COSATU, soured. State-union relations on macroeconomic policy were mired in controversy.

State-Business Relations

State-business relations in South Africa can be understood in two, but inter-related contexts: first, state-black business class, and second, state-white business. This is in spite of the racial fragmentation of business organizations, which weakened the relationship between the two important stakeholders until the early 2000, when the relationship improved. Like in South Africa, fragmenting business interests along racial lines was a problem in Malaysia.

The white business groups were the South African Chamber of Commerce (SACOB), made up of predominant small and medium size firms; the South African Foundation (SAF), comprised of the 50 largest firms in South Africa; the Afrikaner Handelsinstituut, representing the main Afrikaner business interests (AHI), and Business South Africa (BSA). The black business groups were the National African Federation Chambers of Commerce (NAFCOC) and the Foundation for African Business and Consumer Services (FABCOS).

On account of the fragmentation of business groups along racial paths, business has been unable to speak with one voice on important policy issues. In an attempt to form non-racial business associations, Business Unity South Africa (BUSA) was established in October 2003 as the umbrella and national body for business associations in South Africa. As part of the strategy of eliminating racism and strengthening business groups, the AHI, FABCOS, NAFCOC and SACOB were merged into the Chamber of Commerce and Industry South Africa (CHAMSA) in October 2003. Let me now examine the state-business relations in details, beginning with the white business.

State-White Business Relations

In South Africa, like Malaysia, the embeddedness of the state has been constrained by the absence of a shared developmental agenda between the black majority government and the dominant (white) business grouping. This problem has hampered effective cooperation between white and black businesses, as evident in the initial scepticism expressed by the former in the early post-apartheid period that an ANC-led government was not likely to implement market-friendly economic policies.

Big business in particular, had fears about the ANC's nationalization policy and the likely interventionist posture and redistributive thrusts of an ANC-led government. These fears were carried over into the post-1994 period. Coupled with the opposition by white business to the Black Economic Empowerment (BEE) and Affirmative Actions (AA) policies, which were supported by the incipient black business class but seen by white business as state interference with the free operation of market forces, the approach of the state raised more concerns for the white business group. For example, in 1998, Thabo Mbeki, then Deputy President, had expressed government's frustration over white business opposition to the transformation of both public and private sector institutions and organizations aimed at redressing the problem of racial representation.

Mbeki's reaction should also be viewed in the context of the speculative attack on the Rand, the country's currency, in the mid-1990s, following unwarranted fear about the health of then President Nelson Mandela and the appointment of the first black Minister of Finance, Trevor Manuel. The white business questioned the capacity of a black government to govern and to manage the economy efficiently. All this resulted in substantial depreciation of the local currency, and, in part, led to the adoption of GEAR.

With the implementation of GEAR however, business attitudes towards the government changed remarkably, particularly raising business confidence in public policy. That did not minimize the disjuncture between the political elite and the business leadership due, in part, to the Afro-pessimism among the white community and business persons. Under Mbeki's presidency, Tony Trahar, CEO of Anglo-American Plc, the largest conglomerate in South Africa, had said that the South African political risk issue had started to diminish, although it was not gone (Mbeki 2004).

In essence, the level of embeddedness of the state can be partly understood in the context of the decline of racial factor among the emerging political elites and business groups, and white business's lack of trust for the state in the post-apartheid South Africa.

State-Black Business Relations

The South African state after 1994 adopted measures for incubating and nurturing a black business class, with which it shared a common development project. Some of the measures included the establishment of the National Empowerment Fund (NEF) that provided loans to black business, and the Industrial Development Corporation's (IDC) BEE programme that favoured a tender regime to black businesses, and the various sector charters. The state did not only facilitate the afore-mentioned programmes through the BEE policies, but with the award of state tenders to black businesses.

However, critics had characterized the emerging black business class as parasitic individuals, who owed their positions to political connections but not business acumen. The President's brother, Moeletsi Mbeki, argued that the BBE policy did not create entrepreneurs, but political leaders and politically-connected people, and amounted to giving them assets which they lacked the know-how to manage. The black elite were no more than a buffer to protect white business (Mbeki 2003).

The main weakness of current model of the BEE is its narrow policy, focused on share-acquisition without enough attention paid to entrepreneurial development and skills training as a way of creating a sustained and independent black business class. This is referred to as a minimalist approach to the BEE, which is primarily focused on de-racializing equity ownership and fostering a process of social exclusion in the new South Africa as the majority of blacks, and most rural women, remain unemployed and are denied the fruits of social transformation – without access to physical and social infrastructure. At the same time, a new very rich black and professional class enjoys the benefits of the democratic transition with access to corporate ownership. Therefore, a minimalist approach to BEE promotes the empowerment of few black individuals and the disempowerment of the vast majority of the black population. This has resulted in widening the gap between the rich and poor in the black population (Edigheji 1999).

Further, the BEE policy helped to create a black business group that relied on crony capitalism and self enrichment, which was similar to the Bumiputera business people in Malaysia in the 1970s and 1980s (Jesudason 1989). However, that is to ignore the fact that, the BEE did also bring about business deals with the government policies that benefited ordinary people. For example, in privatizing TELKOM, the state-owned telecommunication utility, shares were sold to ordinary people. Other BEE deals in the private sector, particularly in two of South African leading banks, NEDBANK[19] and ABSA, also benefited the workers and communities, although their spread was considerably limited.

Concluding Remarks

This chapter has attempted to explain some of the institutional foundations of both the Malaysian and South African states that helped to incubate an indigenous entrepreneurial class and to reduce poverty in both countries. Malaysia and South Africa demonstrated elements of the developmental state, but obviously lacked full democratic credentials. Both countries had fairly high degree of embeddedness with institutional structures, but the emerging business class was tied to patronage of the state. The prospect of the rise of a real DDS remained slim. It is all the more so because of the huge challenge of building the democratic developmental state under the conditions of underdevelopment and dependence in the South.

Notes

1. The Bumiputera or 'Bumis' refers to all indigenous people including the Malays, who constituted the majority race group.
2. Malay individuals or trust funds equity ownership amounted to 1.6 per cent while government agencies had another 0.8 per cent in 1970.
3. Most of the existing studies on Malaysian political economy agree that state intervention was the most crucial feature of the NEP (See Jesudason, 1989 and Crouch, 1996).
4. There were many defaults in loan repayments by Bumiputera business persons. Crouch reports that in 1982 there was a 40 per cent default in the loans made by MARA. These kinds of defaults have made critics view the NEP as a drain on public resources.
5. Critics of NEP such as Crouch (1996) see the MTI as a source of distribution of patronage to UMNO members and supports.

6. Another way the Ministry ensured compliance with NEP objectives was through the issuance of investment licenses. In addition, the government enacted the Industrial Coordination Act (ICA) in 1975, which required all companies producing for the local market to restructure their equity holding in line with NEP's objective - a minimum of 30 per cent equity holding by Bumis.
7. See Jesudason, 1989, for a critical account of the dismal performance of the state sector especially the State Development Corporations.
8. The concept of Ali-Baba refers to a Sino-Bumiputera joint venture. In most cases, the arrangement was that the Ali (Bumi) received generous fees for securing business deals through his access to high-ranking politicians or bureaucrats while the Chinese partner (Baba) retained control over the enterprise. This way the NEP regulations were circumvented.
9. Indeed the proportion of non-Bumiputeras in institutions of learning also increased. As in other sectors, their enrolment in the schools declined only in relevant terms. See Emsley (1996) for a more detailed discussion on this subject.
10. Some of these guidelines including the quota on employment and equity, as well as the heavy industrialization programme, were relaxed in the 1980s following recession in the Malaysian economy. The government in turn embarked on its privatization and deregulation programmes.
11. These figures were in spite of the recession in the world economy, which adversely affected the Malaysian economy. Apart from the East Asian NICs, Malaysia recorded the highest growth rate in the world in the NEP period.
12. Crouch sees the participation of civil servants in politics as a source of corruption.
13. See Torii (1997) for the detailed functions of the bureaux.
14. This was particularly in terms of policy proposals, some of which were later adopted by the government.
15. The Malaysian state had sweeping repressive powers, some of which were derived from emergency legislation. These were used to limit criticisms of the NEP. In this regard, press and academic freedom were curtailed, as well as the denial of workers' rights to organize. These measures were sign as a source of state autonomy. But as I have argued, autonomy means the ability of the state to elicit cooperation and consensus from society rather than dominate it.
16. It is interesting to note that most of the literature on the Malaysian political economy is silent on the role of the EPU. Even Jesudason did not discuss its role in detail. This is an area that is worth further research.
17. See Jesudason (1989) and Pek Koon (1997) for detailed analysis of the acrimonious relationship that existed between the Bumiputera dominated state and the Chinese business class.
18. Most of the existing literature including Jesudason (1989) and Crouch (1996) questioned whether the Bumiputera business class could be seen as a class in itself. The thrust of their argument is that because of the Bumiputera business dependence on the state, they lacked the power to constrain the state and stressed that the latter dominated the former. This argument misses the point. Hence in this paper, I stressed state-Bumiputera business co-operation rather than dominance.
19. In its empowerment transactions, NEDLAC reserves its Eyethu shares for its black clients.

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