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STATE AND ENTREPRENEURSHIP: THE FAILURE TO CREATE A BUMIPUTERA COMMERCIAL AND INDUSTRIAL COMMUNITY (BCIC) IN PENANG, MALAYSIA

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This study examines the failure of the Malaysian state to create a Bumiputera Commercial and Industrial Class (BCIC) in the northern state of Penang. While analysts have emphasised the utility of strong states in inventing the bourgeoisie, especially in light of the impressive economic performances of the East Asian newly industrialised economies (NIEs), recent attempts to bring about a BCIC in Penang were unsuccessful, illustrating the extent to which the processes of class formation lie outside the control of even a relatively powerful state. It is suggested that although the state continues to maintain control over a large part of the economy, it is being challenged by dominant societal interests that were able to assert their economic and political interests, thereby limiting the state's autonomy.

Keywords: Bumiputera implementing agencies, Bumiputera commercial and industrial class, New Economic Policy

When the New Economic Policy (NEP)[1] was introduced in Malaysia in 1971, it was assumed that the state would play a bigger role in the economy by actively intervening on behalf of the *bumiputeras*.[2] This could be because in the aftermath of the 13 May 1969 race riots, the prognosis that was given by the United Malays National Organisation (UMNO) elite pinpointed the socioeconomic imbalances between the different ethnic groups as the main culprits in sparking the deadly riots. As far as the UMNO-dominated government was concerned, a greater regulation of the market would bring about the sought-after levelling effect, which, in turn, would positively correlate to political stability. While the first prong of the NEP aimed to eradicate poverty irrespective of race, the second prong aimed to restructure society. As a matter of fact, the major thrust of the NEP was its fixation on the need to both industrialise and create *bumiputera* entrepreneurs. Nevertheless, it should be noted that the creation of the Bumiputera Commercial and Industrial Class (BCIC) was only actively pursued under the state's Outline Perspective Plan (OPP II, 1991–2000) when the NEP had already ended. The existence of a BCIC was viewed as a means by which the Malays could enter the modern economy and thus raise their socio-economic status.

As early as the First Malaysia Plan (1966–1970), the state had set aside funds for development projects specifically for the Malays. The agencies that benefited from this were MARA (Majlis Amanah Rakyat or the Council of Trust for the Indigenous Peoples) and Bank Bumiputera, as they were originally established to foster Malay entrepreneurship through the provision of commercial loans and various projects. It is also commonly known that throughout the 1960s, the Malaysian state created trust agencies on behalf of the *bumiputera*. MARA, for example, was set up to challenge the dominance of Chinese domestic capital. Nevertheless, Malay forays into commercial activity in the 1960s were limited to small rural industries such as batik. In an attempt by the emerging *bumiputera* businessmen to pressure the state, two Bumiputera Economic Congresses were held in 1965 and 1968 in which demands for increasing the role of the state in strengthening Malay capital through MARA and Bank Bumiputera were made. A study by O. Popenoe (1970) had shown that many of these businessmen were influential due to their administrative positions and close relationships with political leaders. The state, however, was only able to give preferential treatment to Malay businesses in mining, timber, and transportation because it could regulate these sectors. Altogether, despite the preference given to Malay businesses, the policies of the 1960s were deemed unsuccessful because under the leadership of the first premier Tunku Abdul Rahman, the government remained committed to its laissez-faire policy. As such, economic policies under the Tunku only served to widen disparities, which infuriated the emerging Malay businessmen. This anger manifested itself within UMNO and was expressed in communalist terms.

With the advent of the NEP in 1971, the state essentially abandoned its laissez-faire policy in favour of a more interventionist stance. The same goal of creating a Malay commercial and industrial community was being pursued but with greater rigor. A new emphasis was given to achieving a 30% capital share for Malays by 1990. The government itself spearheaded this initiative by setting up implementing agencies to provide financial and technical assistance. In contrast to the pre-NEP era, the implementation of the NEP saw the government playing an active role in the economy. More than 94 agencies and 1,137 government-funded companies were set up during the NEP era to intensify *bumiputera* business and economic participation (Shukor, 2006: 43). These initiatives included a significant strategy to increase Malay and other indigenous ownership of capital assets, more specifically, equity in enterprises of the modern sectors of the economy to be held in trust by state public bodies.

Table 1: Examples of *bumiputera* implementing agencies and their functions

Bumiputera implementing agency	Function
MARA (Majlis Amanah Rakyat, Council of Trust for the Indigenous Peoples)	Education, training, provision of technical and financial assistance, establishment of new industrial enterprises and management of enterprises in the initial stages with a view to the ultimate transfer of their ownership to the *bumiputera* themselves.
PERNAS (Perbadanan Nasional Berhad, The National Corporation)	To promote Malay participation in insurance, construction, trading, properties, engineering, and securities.
UDA (Urban Development Authority)	Commercial and property development for Malays.
SEDCs (State Economic Development Corporations)	To take up equity shares in joint ventures with the private sector. These shares will eventually be transferred to the individual ownership of Malays and other indigenous people.

Source: Second Malaysia Plan (1971).

As the main goal of the NEP was to increase Malay participation in the modern sector of the economy, state intervention on behalf of the Malays was deemed necessary because it was widely believed that the Malays could not compete successfully with established Chinese and foreign businesses. All of the state governments, for instance, were told to set up their own State Economic Development Corporations (SEDCs) that became involved in a myriad of business activities in collaboration with either foreign capital or local Chinese businessmen. It was envisioned that these state corporations would go into lucrative businesses such as timber, mining, and rubber plantations. Of all of the state enterprises, Perbadanan Nasional Berhad (PERNAS), which was set up in late 1969, became a major player in such sectors as insurance, construction, engineering, trading, real estate, mining, and securities. In addition, Permodalan Nasional Berhad (PNB, National Equity Corporation) was established in 1978 to encourage direct participation by individual Malays in the agencies that were acting on their behalf. By the early 1980s, PNB had taken over PERNAS' leading role in the economy, and by the end of 1985 it had emerged as Malaysia's largest conglomerate. Despite PNB's success, many of the enterprises that were set up by the SEDCs suffered major losses.[3]

This article aims to examine the attempts of the Bumiputera Implementing Agencies (BIAs) in the northern state of Penang to enhance Malay participation in commerce and industry. I argue that the inability of the BIAs to improve the socio-economic well being of the Penang Malays is due to the contradictory nature of using the state apparatus to create a commercial and industrial community. Increased bureaucratisation has numerous repercussions in terms of efficiency gains and as a mechanism to promote patronage. Furthermore, states are known to make mistakes when choosing the industries and sectors to be promoted. When it comes to choosing which industries to promote, states are known to rely primarily on their subjective judgment, they have also turned out to be too ambitious and are found to be lacking in economic rationales.[4]

The above claim is based on the assumption that while the state plays a prominent role in economic development, it is less able to control and build the BCIC, as political and economic forces often restrict its autonomous decision-making process. The Malaysian state, for example, has to grapple with two opposing imperatives: the redistributive strategy (NEP) versus the need to industrialise. While these two imperatives might appear to be complementary, a cursory glance reveals that they rest on different modalities. Redistributive strategies entail greater state intervention, whereas pro-growth measures entail liberalisation. As Maznah (2003) has noted, this could not be accomplished without undermining fundamental aspects of the NEP. More importantly, the changing economic environment makes the preservation of the developmental state difficult in practical terms. Globalisation, liberalisation of trade and foreign investment, World Trade Organization (WTO) rules, and a dramatic rise in the number of free trade agreements did not allow the developmental state to protect and promote the BCIC's agenda.

DEVELOPMENTAL STATE AND CAPITALIST DEVELOPMENT

Most development theories dealing with late industrialisation, dependent development, or unequal exchange in the world system give a great deal of attention to the state. Their main concern is to clarify the role of the state in exercising its direct and indirect influence on the economic growth of industrial latecomers. The concept of a "developmental state" focuses on political will, ideological coherence, bureaucratic instruments, and the repressive capacity necessary to formulate and implement effective economic policies and promote high-speed capitalist growth (Gereffi and Wayman, 1990). It is argued that the main preoccupation of the leaders of developing states is the need for rapid economic growth necessary to compete in the world market, and in the Malaysian case, the need to create a BCIC. It is further argued that economic growth in the developing world requires a planned and sustained state intervention and that the state be insulated from societal pressures (Johnson, 1982; Friedman, 1988). It is not surprising that most of the nations in developing states have been characterised by authoritarian regimes at one point or another. While there is a broad consensus among scholars that a divergence exists in state formation processes between the western and nonwestern settings, with states in the former emerging from warfare and societal conflicts and in the latter from decolonisation, there is less agreement on the nature of the states' capacities across the developing world and their ability to bring about economic growth. The statist perspective has attributed the capability of the state to bring about economic growth in the developing world, more specifically in East-Asia, to capacity—the state's ability to implement strategies to achieve its economic, political, or social goals in society. It is widely assumed that East Asian states are highly insulated from societal pressures and are therefore better able to carry out their objectives. Taiwan and South Korea have been cited as cases in which existing social norms and structures aided the state. In Taiwan, for example, the near-total absence of the rural elite allows the state to use agriculture taxes and surplus production to finance industrialisation without significant opposition, while in South Korea, the high status and autonomy historically accorded to the bureaucracy allow the state to recruit members of the traditional elites to its service and demand their allegiance to state goals rather than those of their own groups (Amsden, 1985; Evans, 1989). According to Gereffi and Fonda (1992), the rise of bureaucratic regimes in Latin America in the 1960s and 1970s and the subsequent "redemocratisation" has been used to explain development strategies in that region, while the reformulation of the bureaucratic-authoritarian model has been utilised to explain the greater coercive capacity and more exclusionary character of the developmental state in countries like South Korea and Taiwan, as well as the impact of the distinctive East Asian regional development. While an agreement exists that these states dominate their societies, there is also a consensus that the specifics of the state-society relations vary across cases and affect the states' ability to carry out their projects. In Brazil, an initial state intervention resulted in high levels of economic growth, and the Chilean state was able to not only carry out its denationalisation but also to introduce free market principles and practices (Evans, 1979; Stepan, 1978). Alternatively, where strong states and equally strong societies exist, societal groups can resist state intervention (Cohen, 1989). In this case, the state may set out to achieve an ambitious economic plan, but its success will be highly dependent on state-society relations. Scholars have pointed out that even when a state has played a prominent role in economic development, it may still face resistance from highly organised societal groups with their own economic interests. The Indian and Mexican cases demonstrate the way strong states can be captured and constrained by societal groups. Rudolph and Rudolph (1987) characterise the Indian state as semi-autonomous or constrained and treat it as a third actor that influences economic development, along with labour and capital. However, they agree that while the Indian state is able to formulate and implement economic strategies with some success, its ability to carry them out fully is hampered by the societal pressures generated by a pluralist open polity. Regarding Mexico, Grindle (1986) and Bennett and Sharpe (1985) assert that state planning and implementation of economic policy and its reliance on and support of the private sector are the main reasons for its continued ability to direct development. Hamilton (1982) presents the dissenting view that the Mexican state was less able to control and build the private sector because foreign capital and business elites often restricted its autonomous decision-making processes. The democratisation of the once-bureaucratic authoritarian states in Latin America reflects the successful movement by societal groups to reorganise themselves and to assert their economic and political interests, limiting their autonomy.

Tselichtchev and Debroux (2009) argue that the Asian financial crisis had undermined one of the pillars of the developmental state: cooperative relations between government and business. Instead of supporting businesses through various kinds of preferential treatments, governments had to initiate speedy reorganisation and restructuring using a stick rather than a carrot. While East Asian states were able to guide, support, and protect domestic businesses and establish close ties with particular industries, companies, conglomerates, families, and clans, the Asian crisis had severed, or at least curtailed, these types of arrangements. They went on to say that resource allocation has become more market-driven, and the state's role as creators, protectors, and promoters of particular industries has declined (Tselichtchev and Debroux, 2009: 64). Most states in Southeast Asia are expanding their Government Link Companies (GLCs) to establish them as key players and are actively going global. As such, Southeast Asian states are encouraging them to operate as autonomous, self-reliant business entities, competing at full strength domestically and globally.

CONCEPTUAL FRAMEWORK

While many scholars have utilised the developmental state approach in examining the success or failure of the third world states' efforts to restructure their societies, focusing on the state's autonomy in bringing about the desired policy outcome, it is argued here that the Malaysian case is better understood by using Migdal's (2001) "state-in-society approach." Migdal's process-oriented approach illuminates how power is exercised around the world and how and when patterns of power change. Unlike the developmental state approach, Migdal demonstrates that actual states, their apparent resources notwithstanding, have had enormous difficulty transforming public policies into successful social change. The state-in-society approach demonstrates both that the states are fragmented and that they face a multitude of social organisations—families, clans, multinational corporations, domestic businesses, tribes, political parties, and patron-client dyads—that maintain and vie for the power to set the rules guiding people's behaviour. These ongoing and overlapping struggles ally parts of the state with groups in society against other such coalitions. In the process, they determine how societies and states create and maintain distinct ways of structuring day-to-day life, including the nature of the rules that govern the behaviour of the people whom they benefit and disadvantage, which elements unite people and which divide them, and what shared meanings people hold about their relationships with others and their place in the world. In essence, state-society relations vary across regions, and the statist perspective of dominant states insulated from societal pressure directing resources to restructure society is not applicable across the third world.

Although Malaysia's foray into heavy industries via the Heavy Industries Corporation of Malaysia (HICOM) mirrors the East Asian path, it concluded with heavy losses. This may be because these industries, especially the automotive sector, had relied on subsidised credit, government procurement provisions, and heavy tariff protections. More importantly, these industries were not subject to market-based performance. With regard to the BCIC agenda, Malaysia's fourth premier's desire for Malaysia to join the ranks of the Newly Industrialised Economies (NIEs) status meant relaxing some of the NEP's requirements. The Industrial Coordination Act (ICA), for example, which was introduced to ensure that a 30% share of all investments was in *bumiputera* hands, was repealed because it stood in the way of foreign investment. With the Industrial Master Plan of 1986, the regulation of foreign equity participation was considerably more flexible, especially in the manufacturing sector. One hundred percent foreign-equity ownership of export-oriented companies was allowed (Maznah, 2003). With the gradual introduction of pro-growth policies, the state had essentially eased its control of the economy, with the exception of sensitive political ventures such as the automobile, petrochemical, steel, and cement industries. The only way, it seemed, for the state to promote the BCIC was through increasing corporate wealth. Privatisation, whether complete or partial, of some of the state's strategic assets was announced in 1991 via the Privatization Master Plan. The national carrier Malaysia Airlines, postal and telephone networks, hospital support services, and highways were among some of the entities identified for the privatisation exercise. These assets were sold off to well-connected *bumiputera* tycoons. The Malay tycoons who emerged from this exercise, such as Halim Saad, Tajudin Ramli, and Wan Azmi, had primarily relied on their strong connections with the state for their success. As Ariffin (2003) has noted, the trend towards transferring shares from public companies to individuals continued unabated during the Mahathir era, which saw a greater involvement between UMNO and individual Malay entrepreneurs who acquired these shares. In addition, these assets were sold at much lower prices than their market values (Mahathir, 2011). As such, many criticisms were levelled at patronage, cronyism, and the lack of transparency and competitive bidding. As Malaysia was hit hard by the Asian financial crisis, some of these assets were renationalised, and the restructuring process of the government-linked companies is still ongoing. The strategy of increasing corporate wealth among *bumiputeras* by transferring shares proves to be an ephemeral phenomenon, as many Malay corporate figures had to be bailed out, and the number of bankruptcy cases among Malay entrepreneurs continued to rise, especially after the 1997–1998 Asian financial crisis (Shukor, 2006: 51). Moreover, Mahathir (2011) himself conceded that the BCIC policy had failed to create a *bumiputera* presence in the retail sector.

BUMIPUTERA PARTICIPATION IN BUSINESS AND INDUSTRY IN PENANG

Penang is the second-smallest state in Malaysia, with a total land area of 1,031 sq km and a total population of 1,520,143. It is the only state in Malaysia where the ethnic Chinese formed the majority, but a recent census has revealed that the Malay community is now the majority, comprising 43% of the population. The Chinese community makes up 41% of the population, followed by 10% Indian. While the state economy in 1969 was such that the state Gross Domestic Product (GDP) of Penang was RM680 million, with trade and agriculture taking up the lion's share of the state GDP and employment, the state is now the third-largest economy in Malaysia, with manufacturing accounting for 45.9% of the state's GDP in the year 2000. In 2010, Penang attracted the highest total of foreign direct investment (FDI) in Malaysia.

Table 2 presents the employment patterns in Penang, which coincide with the state's objective to promote labour-intensive and export-oriented industries. Penang is the first state to pioneer the concept of Free Trade Zones (FTZs) in Malaysia and has managed to attract important attention from the multinationals (MNCs), especially those involved in electronic components. As noted above, these export-driven industries are exempted from the *bumiputera* equity requirement. Therefore, it comes as no surprise that the *bumiputera* presence in this sector is almost nonexistent, as the possibility of imposing an equity requirement on multinational companies was limited because they generally insisted on full foreign ownership.

Table 2: Employment by industry (%) in Penang in 2008 and 2009

Industry	2008	2009
Agriculture, hunting and forestry	1.4	1.3
Fishing	1.0	1.0
Mining and quarrying	0.1	0.2
Manufacturing	34.7	29.9
Electricity, gas and water supply	0.6	0.4
Construction	7.8	6.4
Wholesale and retail trade; repair of motor vehicles; and personal and household goods	14.0	17.6
Hotels and restaurants	9.4	8.7
Transport, storage and communication	5.1	7.2
Financial intermediation	2.2	3.0
Real estate, renting and business activities	5.5	6.7
Public administration and defence; compulsory social security	4.2	3.8
Education	4.9	5.1
Health and social work	3.5	2.8
Other community social and personal services	2.9	2.6
Private households with employed persons	2.8	3.4
Total	**100.0**	**100.0**

Source: Penang Strategic Plan (2010).

On the contrary, the success of the BCIC policy in Malaysia was mainly restricted to state-controlled companies through the implementation of various vendor programmes. HICOM, for example, was required to increase local linkages and generate local technological capabilities, especially among *bumiputera* companies (Mahani, 2011). A vendor development scheme under the umbrella concept and consisting of mostly *bumiputera* vendors was heavily supported by PROTON. The Seventh Malaysia Plan reported that in 1988, 51 large companies, including multinationals, were entered as anchor companies, with 112 *bumiputera* companies appointed as vendors. Avenues for increasing Malay economic participation were also pursued under the government's Privatization Master Plan programme. Despite the substantial public expenditure, this policy was not a success because bankruptcy cases among Malay entrepreneurs had been high (New Straits Times, 2005). The government itself acknowledged that the ownership of *bumiputera* business establishments was 34% in 1988 with a share of total business turnover of less than 21%; out of 52,000 licenses issued in Peninsular Malaysia in 1990, the *bumiputera* held only 28%, out of which 46% were in petty trading. In 1987, out of 21,000 distributors registered with the Ministry of International Trade and Industry, only 14.5% were *bumiputera* companies, and *bumiputera* entrepreneurs' registered suppliers with the Ministry of Finance had an average paid-up capital of less than RM30,000.

The same trend could be observed at the state level. As in the situation at the national level, state assistance to *bumiputera* entrepreneurs in Penang can be categorised into several groups, such as providing the necessary capital, giving out capital loans, providing counselling and advice, providing business premises, and entering into cooperative arrangements with the relevant agencies. For example, BIAs such as Majlis Amanah Rakyat (MARA), Penang Regional Development Authority (PERDA), Tekun National Foundation (TEKUN), Amanah Ikhtiar Malaysia (AIM), and the SME Bank are involved in the provision of capital and loans, as well as providing assistance and advice. MARA and PERDA, for example, are responsible for providing the business premises needed by *bumiputeras.* It should be noted that the BIAs have been providing assistance to the *bumiputeras* for a significant period of time, and the amount of financial assistance available to *bumiputeras* has been increasing in tandem with their perceived needs. BIAs such as MARA, TEKUN and PERDA have been known to provide 100% funding and assistance to the *bumiputeras* (see Table 3). The TEKUN Foundation has been giving 100% of its loans to *bumiputeras*, mainly in the service and commercial sectors (88.2%), followed by the manufacturing sector (9.4%). In addition, MARA has also been giving loans to *bumiputera* entrepreneurs in the service and commercial sectors (60.1%), the manufacturing sector (11.3%) and the wholesale sector (12.8%).

Despite efforts made by the BIAs to facilitate easy access not only to capital but also to business premises, *bumiputera* entrepreneurs still lagged behind in the ownership of commercial premises in Penang. Table 4 shows the percentage of commercial buildings owned by *bumiputeras* in Sebarang Perai. While this might not provide an accurate indicator of the *bumiputeras'* business activities, it offers a rough estimate. While it can also be argued that easy access to credit and business premises per se cannot propel the BCICs to the forefront of commerce and industry, the *bumiputeras'* inability to own commercial premises in spite of the efforts made by the BIAs suggests that other forces might be at work in creating a successful commerce and industrial community. One argument is that because *bumiputeras* are given easy access to both capital and business premises, they are less likely to develop genuine entrepreneurial skills.[5] The more convincing approach is that because the Malay business community is both given a monopoly on contracts with values less than RM50,000 and preference in the issuing of licenses where licensing requirements apply, they are more likely to develop a political alignment with politicians and work closely with the BIAs in such sectors as construction. Occasionally, such special relationships between *bumiputeras* enterprises and the BIAs present no difficulties for the legitimation of the NEP/NDP; some *bumiputera* entrepreneurs are willing to forge an alliance with influential politicians in order to receive easier access to both financing and rent. Nevertheless, the alliance between the state and the chosen *bumiputera* entrepreneurs has acted as a restraint on genuine *bumiputera* entrepreneurs' development, which is clearly demonstrated in the extremely low level of *bumiputera* participation in small and medium industries (see Table 5). The data show that *bumiputera* participation in sectors such as metal-based industries, electrical and electronics, rubber and plastic products, service providers, printing and paper products, factory related services, ICT services, retail and whole activities is low.

Table 3: Statistical information on funding by agencies in Penang (2001 to September 2006)

	Number of borrowers			
Agency	*Bumiputeras*	Percentage (%)	Non-*bumiputeras*	Percentage (%)
MARA	784	100	–	–
SME Bank	168	74	58	26
SMIDEC	57	17	275	83
PUNB	55	100	–	–
PNS	–	–	3	100
PERDA	85	100	–	–
TEKUN	2.339	100	–	–
AGRO Bank	2,820	89	361	11
AIM	3,372	99	32	1
BSN	4,891	53	4,334	47

Source: MARA, 2005; SMIDEC, 2006a; PERDA, 2004; TEKUN, 2006; UTAS, 2005; BSN, 2004; AGRO Bank, 2006; AIM, 2001.

The Federation of Malaysian Manufacturers (FMM) has pointed out that the presence of BIAs has crowded out private sector investments in various areas of economic activity, including displacing private *bumiputeras* from participation in business. Because the BIAs at both the state and federal levels were involved in various subsectors of industrial manufacturing ranging from industrial chemicals, iron and steel, transport equipment, and food products to nonmetallic mineral products, these agencies became competitors for the few private *bumiputeras* in these businesses (Federation of Malaysian Manufacturers, 2011). According to the Federation of Malaysian Manufacturers (2011), the involvement of the BIAs in various sectors of the economy has created uncertainty and unfair competition, distorted the market, and contributed to losses in investor confidence. Without a reliable market structure as a base, the state's efforts to strengthen the *bumiputera* entrepreneurs are likely to be fruitless.

Table 4: An estimate of *bumiputera* commercial real estate ownership in Seberang Perai 2007

	SPU			SPT			SPS		
Properties	Malay	Other Ethnic Groups	Total	Malay	Other Ethnic Groups	Total	Malay	Other Ethnic Groups	Total
Commercial	3% (542)	46% (6,206)	21% (6,748)	9% (1,367)	50% (12,369)	34% (13,736)	4% (193)	41% (4,461)	30% 141,476
Light industries	0% (1)	4% (484)	2% (485)	0% (29)	11% (2,756)	% (2,785)	0% (5)	4% (480)	3% (485)
Factories	0% (4)	2% (224)	1% (228)	0% (8)	3% (804)	2% (812)	0% (1)	2% (178)	1% (179)
Village buildings	97% (17,844)	49% (6,541)	77% (24,385)	91% (13,750)	36% (8,821)	57% (22,571)	96% (4,764)	53% (5,658)	66% (10,877)
Total	100% (30,559)	100% (40,245)	100% (70,804)	100% (34,469)	100% (77,816)	100% (112,285)	100% (11,324)	100% (34,553)	100% (28,966)

Source: Majlis Perbandaran Seberang Perai (2006).

By assuming that inadequate capital was the factor preventing *bumiputera* entrepreneurs from being competitive, the BIAs in Penang expanded their role as the primary sources of investment loans for entrepreneurial activities. While the availability of financing through the state might have benefited some *bumiputera* entrepreneurs, it did not have the intended effect. More often than not, the BIAs found themselves propping up weak *bumiputera* entrepreneurs or business cronies who were the beneficiaries of contracts and rents provided by a political leader and/or his political party (Saravanamuttu, 2008). Moreover, most *bumiputera* entrepreneurs believed that once given, the assistance need not be repaid, and that they were not required to abide by the terms and conditions of the loan agreements entered into with the state[6]. The general incentives and support that the BIAs offered appear obviously inadequate because the state has no way of controlling the market in which the *bumiputera* entrepreneurs operate. In addition, the level of bureaucratic red tape and political interference in certain agencies has led to delays and obstacles in the provision of both capital and business premises. It is an open secret that all enactments providing for the setting up of BIAs specified that the chairman of each agency will be the person holding the office of Menteri Besar (MB) or Chief Minister (CM). This has led to what Abdul Rahman (2008) describes as state-government-party collusion.

Even so, the state has been unable to overcome the limitations imposed by the market structure, as its difficulty in creating a BCIC in Penang illustrates. Most *bumiputera* entrepreneurs in Penang depend on the *bumiputera* community for support. For example, 95% of the customers of the products produced by *bumiputera* retailers and wholesale outlets are *bumiputera* themselves (Pulau

Pinang Economic Planning Unit, 2007). This stands in stark contrast to the abilities of well-connected *bumiputera* entrepreneurs to capture more rents in the construction industry. Because the state has been involved in the economy at different levels, acting as everything from a simple allocative agent to a builder of infrastructure, the tendency also exists for the government bureaucracy to turn into a rentier class. It is the interests of this class that the state has defended, and the NEP was managed to create an oligopolistic *bumiputera* community because it favoured a small number of well-connected Malays. To be sure, the small group of Malays put in charge of the Government Link Companies (GLCs) are connected with senior politicians and were provided with not only huge loans but also guarantees of lucrative state contracts.

The failure of the BIAs to create the BCIC can therefore be analysed using Migdal's state-in-society approach. While the statist model assumes that third-world states would be able to restructure society according to Western conventions of state authority, this may not be applicable in the Malaysian case. The Penang case has illustrated that BIAs are part of the general administrative structure of the government and are a subsystem of the political system. Even in the sectors in which the BIAs are able to influence outcomes, there is mismatch in the allocative process, which illustrates that the separation of political and administrative spheres of government are fictional in many nonwestern societies. In Malaysia, the broad social political goals of the NEP mean that any attempt to maintain a formal separation is of little value. An understanding of the role of the BIAs is incomplete without a careful consideration of the political factors that influence their actual operations. The challenge of creating a BCIC in Penang is compounded by the fact that there were no businesses that had been in existence for many generations. On the contrary, during the early part of the NEP, opportunities were given to create the BCIC by economic/political leaders such as Tengku Razaleigh Hamzah and Tun Daim Zainuddin. Policies were designed to create opportunities by offering preference if they could deliver goods or services at the prevailing market price. However, the cost and quality requirements were often not met because there was no strict appraisal or progress. That fact created dependency and complacency (Mahani, 2011).

Table 5: A list of industrial categories *vis-à-vis bumiputera* and non-*bumiputera* participation

No.	Industry	*Bumiputera*	Non-*bumiputera*	Total
1.	Pharmaceutical	4	9	13
2.	Printing and paper products	–	1	1
3.	Metal-based industries	3	74	77
4.	Electric and electronic	12	142	154
5.	Non-metal industries	3	22	25
6.	Wood and wood-based products	20	41	61
7.	Rubber products	2	42	44
8.	Plastic products	2	95	97
9.	Chemicals and petrochemicals	8	38	46
10.	Other products	–	7	7
11.	Logistics	3	2	5
12.	Food and beverage	31	111	142
13.	Machines and engineering	26	225	251
14.	Service providers	3	3	6
15.	Transportation equipment	3	15	18
16.	Printing and paper products	–	79	79
17.	Service and peripheral products	–	7	7
18.	Manufacturing-related products	3	67	70
19.	ICT-related activities	–	5	5
20.	Professional management services	4	7	11
21.	Retail and wholesale	2	12	14
22.	Textile, clothing and leather	8	32	40
	Total	137	1036	1173
	Percentage	11.7	88.3	100

Source: Small and Medium Industries Development Corporation (SMIDEC), 2006b.

It also follows that any investigation of the developmental state has to factor in the constraining effects of the neoliberal global context. Social policies predicated on market fundamentalism will inevitably come into conflict with the developmental framework, especially with the effort to redress economic inequalities based on race. Thus, the image of the state also varies in relation to its specific engagements with society in general (national, regional, and global), suggesting that in relation to its practices, the state is at once limited, constrained, divided, and fragmented. A key facet of the state's efforts to create the BCIC has been the establishment of a structure that can speak with one voice for a sector. The historically fragmented nature of the Malaysian economy is apparent in the existence of various lobbying groups, such as the chamber of commerce that operated within and without the ruling party. In this way, the state is shown to be inside the institutions and the institutions are shown to be inside the state. The social boundaries between state and society are thus effectively being redrawn. Migdal's state-in-society model, with its dialectic of images and practices, offers a fruitful theoretical corrective to state-centric and socio-centric views of state-society relations in that its attention to praxis restores equivalence to both state and society, freeing them from reification. It can be concluded that on the basis of the exploratory state-in-society analytical approach developed here, the state can be understood as a structure in the process of becoming, and not merely in the way it should be. In other words, the state is informed and altered by the relationships established when other social forces engage with it and vice versa. These relational effects and the mutual constitution of the state and society along a developmental trajectory reveal the Malaysian state to be a limited state with limited capacities, rather than an omnipresent and omnipotent social force with unbounded capacities. In the process of describing some of the mutually transformative and constitutive alliances, accommodations and resistances that have arisen in the context of the engagement of the state with the economy, the dynamism of the state in drawing and redrawing social boundaries has become apparent. In particular, it has been shown that these boundaries are mediated by not only the state and its apparatuses but also by the chamber of commerce, politicians, and global capital with which they are engaged. Moreover, these boundaries delimit a number of tensions between the ostensibly unified, albeit multiple and contradictory, image of the state and its fragmented and apparently unsuccessful yet not ineffective practices, caught up as they are in the ebb and flow of local, national, supranational and global social contingencies.

CONCLUSION

A developmental state, even one unconstrained by politics and enjoying a high growth rate, may appear to be well endowed with high capacities and autonomy. Nevertheless, the Penang case has illustrated that the state cannot restructure capital as it chooses without forming alliances with foreign and local capitalists. While the NEP aims to eliminate horizontal disparity, it has created a stable oligopoly of *bumiputera* entrepreneurs linked to powerful politicians. Where the state failed to provide *bumiputera* entrepreneurs with rents, as illustrated in the case of Penang, it has failed to create a successful BCIC. This could be due to the fact that there was and is no strategic alliance among the BIAs, MNCs and the local Chinese capital. As the Penang case demonstrates, the state's efforts to support *bumiputera* entrepreneurs are likely to fail when the entrepreneurs face the market. The underlying motive of the NEP and the NDP is to increase the number of BCICs within the framework of the present economic system with some assistance from the state. It is unfortunate that the development of the BCICs has to be performed within the framework of a laissez-faire system whereby the weak will naturally perish. At the conceptual level, this exhibits the state's captive nature, whereby a small group of BCICs can exert political pressure on the state to continue its economic restructuring programme, thereby limiting the state's autonomy.

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NOTES

1. Convinced that the 13 May 1969, race riots were caused by growing Malay discontent due to the persistent economic imbalances between ethnic groups, in 1971, the Malaysian government announced a New Economic Policy (NEP) to promote national unity. The NEP had two aims: to reduce and eventually eliminate poverty among all ethnic communities and to restructure society in order to correct the economic imbalance among communal groups and eventually to eliminate the identification of race with economic function. The key objectives of the NEP were to be achieved between 1970 and 1990 and were embodied in successive five-year plans. See Abdul Rahman (2002).
2. Throughout this article, I use the terms *bumiputera* and Malay interchangeably because the Malays, together with the natives of Sabah and Sarawak, are categorised politically as *bumiputera* or "sons of soil" and are given special privileges under the Malaysian constitution and the NEP. It should, however, be noted that the Malaysian Constitution speaks of Malays and the natives of Sabah and Sarawak. The term *bumiputera* has no legal basis. See Shad Saleem (2003).
3. For an in-depth discussion of Malay business and politics, see Jamaie Hamil (2004).
4. States in developing countries are known to create domestic capitalists due both to a shortage of entrepreneurial capacity and to pressure from groups competing for resources. As such, the choice of which industry to promote is often tied to state motivations and the political forces behind these motivations. See Tan (2008).
5. Interviews with various BIAs personnel have revealed that most *bumiputera* entrepreneurs are of the opinion that they do not have to repay their loans, as they believe that it is their entitlement. In almost all definitions of entrepreneurship, there is the agreement that entrepreneurship describes a kind of behaviour that includes (1) initiative taking, (2) the organising and reorganising of social and economic mechanisms to turn resources and situations to practical ends, and (3) the acceptance of risk or failure. To an economist, an entrepreneur is one who brings resources, labour, materials, and other assets into combinations that make their value greater than before and one who introduces changes, innovations, and a new order. See Hisrich (2005).
6. This statement is made based on a focus group interview conducted by the author with personnel from various BIAs in Penang.

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