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DISTINCTIVE FEATURES OF MALAYSIAN SOCIETY MODERNIZATION

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Abstract:
In this article analyzes the historical features of modernization of Malaysia. Also covers the process of forming a model of the development of Malaysia and the factors influencing it.

Keywords: Modernization, «Vision 2020», the bumiputera, NEP, GDP, Malaysian Technology Development Corporation – MTDC, TNC.

Introduction

In recent years, the ongoing crisis in the global economy has posed a number of urgent challenges for developing countries, such as how to overcome these difficulties, maintain steady growth rates, and improve the living standards of their populations. As a result, there has emerged a growing need for theoretical research based on comparative analysis of the historical development paths of societies with similar or closely related trajectories. In the past, Malaysia was primarily an agrarian economy specializing in the production of agricultural goods. However, today it has successfully mastered innovative technologies, made effective use of modern achievements in science and engineering, and established the production of high-quality, export-oriented goods. The development path of Malaysia — a country that has managed to modernize and diversify its industrial base — can serve as an important example for states currently pursuing similar goals of modernization and economic restructuring. As stated, “Our task today is to take all necessary measures to ensure that future generations live in a stable, safe, and prosperous world” [1]. Therefore, studying Malaysia’s experience in comprehensive national modernization, developing theoretical recommendations based on this analysis, and adapting them — where appropriate — to the national context of Uzbekistan’s ongoing large-scale reforms, would undoubtedly be beneficial and practically valuable.

It is appropriate to conditionally divide the history of Malaysia’s comprehensive modernization — particularly in the field of economics — into two main stages for analytical purposes. The first stage of large-scale economic reforms covers the period from 1957, when Malaysia gained independence from the British Empire, up to the 1990s. The second stage began in the 1990s and continues to the present day. Both stages hold significant importance in the country’s modernization history. The first stage can be characterized as a period during which Malaysia achieved true economic independence, integrated its economy into the global economic system, and evolved into an indispensable component of the international economic framework as a regional economic zone. This period also encompasses numerous related processes — the establishment of national industries, institutional reforms, and the gradual diversification of production. The second stage is distinguished by the widespread implementation of information technologies across all sectors, the transformation of Malaysia into a financial hub of the

Southeast Asian region, and its growing role as a key element in maintaining balance within the global economic network. Evidently, both stages were marked by large-scale reforms and structural transformations. Consequently, each stage must be studied separately, in close relation to the socio-economic and historical challenges it addressed. Therefore, the present study focuses on the second stage of Malaysia's modernization — which emerged as the logical continuation and necessary outcome of the first — and continues to influence the country's development trajectory to this day.

The directions of Malaysia's new socio-economic policy, which emerged in 1991–1992, were clearly defined in Mahathir Mohamad's famous speech titled "Vision 2020." Reflecting on the results of the policies pursued over the years, Mahathir stated: "We have based our course on the principle of 'Look East' and have strictly adhered to the programs of privatization and non-interference in production. We turned the private sector into the driving force of the economy and accelerated the pace of industrialization. We devoted considerable effort to developing small and medium-sized enterprises, focusing on building an export-oriented economy with the ambition that global markets would be filled with Malaysian products. By firmly adhering to the principle of working with modern technologies and placing great emphasis on human resource development, we steadily attracted foreign investment. We also recognized in a timely manner the need to modernize the tourism, services, and agriculture sectors." [2, p. 117]

This speech can rightfully be regarded as the starting point of an entirely new phase in Malaysia's modernization — a second stage that, while distinct in character, emerged as the direct outcome and logical continuation of the reforms implemented during the first stage of the country's development.

The implementation of the "Vision 2020" concept was envisioned through a set of government-adopted strategic documents, including the National Development Policy, the Second Outline Perspective Plan (1991–2020), the Second Industrial Master Plan (1996–2005), and the Third Industrial Master Plan (2006–2010). Although these policy documents were formulated based on the structural features of the New Economic Policy (NEP) from the first stage of modernization, they shifted the focus from quantitative to qualitative indicators, which in itself signified the beginning of a new era in Malaysia's modernization process.

According to these plans, Malaysia aimed to double its GDP at the end of each decade, and by 2020, to increase the total GDP eightfold and per capita income fourfold, compared to the 1990 baseline (calculations based on the 1990 exchange rate of the national currency, the ringgit) [3, p. 7].

The new policy documents placed special emphasis on the development of human resources, particularly the training of highly qualified scientific and technical specialists capable of meeting the demands of an advanced industrialized economy. The Second Outline Perspective Plan projected a rapid growth rate of the manufacturing sector — 10.5% annually — which was expected to raise its share in GDP from 27% in 1990 to 38% by 2005, and in exports from 70% to 82%, reflecting Malaysia's commitment to industrial diversification and export-oriented development.

In the Second Industrial Master Plan (1996–2005), particular attention was given to the development of intersectoral relations, taking into account the strengthening of production and

the introduction of new pricing mechanisms. The plan envisioned the restructuring of 12 industrial sectors, with one of its central objectives being the reduction of labor-intensive enterprises within export production. This goal implied the closure of low-profit industries and the relocation of labor-intensive manufacturing operations to Malaysia, where the demand for inexpensive labor could be met under more favorable conditions.

It was anticipated that the industrial growth rate would decline from 10.5% to 8.3%, which would, in turn, lead to a moderate decrease in export growth—down to approximately 16%. Nevertheless, despite these projections, the share of the manufacturing sector in Malaysia's GDP remained stable at 38%, underscoring the sector's structural resilience.

Both Industrial Master Plans were closely linked to the country's Five-Year Development Plans—specifically the Sixth (1991–1995), Seventh (1996–2000), and Eighth (2001–2005)—which guided their gradual implementation. The Ninth Five-Year Plan (2006–2010), in turn, was formulated based on the principles and ideas of the Third Industrial Master Plan (2006–2020).

A decisive factor in the successful implementation of these modernization processes was the active involvement of transnational corporations (TNCs). The creation of favorable investment conditions, including the establishment of growth centers and export-oriented industrial zones, played a key role in ensuring sustainable positive outcomes. In line with Malaysia's priority of rapidly organizing and restructuring high-tech industries, many TNCs began to expand their research and development (R&D) and design activities across the country. Among them, Japanese corporations were among the first to take the initiative and play a leading role in launching large-scale industrial and technological projects in Malaysia.

In 1994, the company Hitachi Electronic Products (Malaysia) — which manufactures color televisions and cassette players, with 90% of its output exported — established in Malaysia its planning divisions, research departments, and design bureaus. On Penang Island, in a newly created technological corridor (formerly a tin-mining center), the production of measurement instruments and precision equipment for laboratory-based technological cycles began, supported by collaborations with the Palo Alto and California technology companies. A full production cycle was carried out by the world-renowned Hewlett-Packard, as well as Intel, which by 2003 employed more than 8,000 Malaysians [4, 2003, vol. 166, no. 19, p. 40].

In 1992, Malaysia established the Malaysian Technology Development Corporation (MTDC) — an organization aimed at commercializing the results of scientific research and technological discoveries conducted in the country's universities and research institutes. The primary purpose of MTDC was to assess the practical value of innovations, ensure the continuous integration of new technologies into the industrial process, and support enterprises in securing financial resources necessary for development in priority sectors.

The corporation's main functions included:

- identifying and funding high-potential inventions and technologies,
- assisting enterprises in attracting investment capital,
- and facilitating the creation of industrial-financial groups through partnerships with international technology corporations.

Priority sectors supported by MTDC included nanobiotechnology, composite materials

production, renewable energy sources, precision engineering and machine-building, microelectronics, photonics, and emerging service industries.

Over the following years, MTDC evolved into a comprehensive and integrated corporation, influencing the formation of industrial and financial conglomerates through venture capital and alliances with global technological firms. Its activities extended beyond consultancy to include the creation of technological incubators and support for new business sectors within Malaysia's innovation ecosystem.

In 1996, MTDC launched a high-technology financing program to support entrepreneurs engaged in advanced manufacturing. To achieve these goals, the corporation established several specialized funds — including those for technology acquisition, commercialization of R&D results, and businesses owned or managed by women entrepreneurs — thereby strengthening Malaysia's transition toward a knowledge-based and innovation-driven economy.

In 2004, with government support, the Malaysian Technology Development Corporation (MTDC), in cooperation with several complex structures, allocated various funds to firms with a total capital exceeding 50 million. Moreover, in 2003, the Malaysian government backed MTDC's initiative to manage venture capital for non–ICT companies through the establishment of the Non-ICT Venture Capital Fund, amounting to 265 million USD, and helped found several related companies, such as Malaysian Technology Venture, Sumber Modal Satu, and East Malaysia Growth.

Three universities participated in MTDC's development projects, each creating technological-industrial incubators:

- the University Putra Malaysia (UPM) in Serdang, Selangor — specializing in information and communication technologies, multimedia communication, and agricultural biotechnology;
- the National University of Malaysia (UKM) in Bangi, Selangor — focusing on natural sciences and biotechnology through its technological research center;
- and the University of Technology Malaysia (UTM) in Skudai, Johor — home to the Innovation Center specializing in automation and advanced production technologies.

Additionally, a server firm providing continuous electronic commerce services was established. MTDC expanded its range of services to include economic and technological consulting, marketing research, business planning, auditing, and production organization. Its partner companies, operating in the aforementioned sectors, also began providing consulting services in strategic long-term development planning. In Selangor, a specialized firm offering 24-hour information and communication services for e-commerce was launched.

Another significant institution contributing to Malaysia's industrial innovation was the Malaysian Palm Oil Board (MPOB), whose activities proved highly productive. Within the first quarter of its operations, the MPOB participated in solving over 300 technological challenges related to biomass utilization and new product development. During 2004–2005, the introduction of bio-additives to diesel fuel created favorable conditions for a qualitative leap in plantation agriculture. This new blend, containing 5% "EnvoDiesel" or biodiesel, offered multiple advantages — not only reducing fuel costs but also being environmentally cleaner and requiring no vehicle modifications for use.

The EnvoDiesel fuel was initially tested in vehicles operated by the palm oil industry, as well as by the Ministries of Industry, Police, Public Works, and several state administrations. At a time when global oil prices were still relatively low, this innovation significantly benefited Malaysia by stimulating domestic palm oil production and reducing national fuel expenditures. By 2007, the construction of three biodiesel plants with a combined annual production capacity of 180,000 tons was planned. To avoid dependence on expensive imported oil and petroleum products, Malaysia aimed to produce 500,000 tons of this type of biofuel annually [5, 22.03.2006].

One of Malaysia's largest plantation corporations, Golden Hope Plantations, planned to double its palm oil output to 1.6 million tons by 2015. Its plantations in Sarawak covered 180,000 hectares, and the company intended to expand its Indonesian plantations from 20,000 to 150,000 hectares by 2015, further strengthening Malaysia's position as a global leader in the sustainable palm oil industry.

At the turn of the 21st century, Malaysia's Economic Development Corporation established around 200 economic zones and industrial parks, all operating under the supervision of the corporation itself, its regional service branches, port authorities, and municipal administrations. In addition, there were 14 free industrial zones (FIZs), primarily designed to host enterprises engaged in export-oriented manufacturing. These FIZs provided investors with modern infrastructure, storage facilities, and comprehensive tax and customs incentives, creating favorable conditions for production and export operations. The development of modern logistics was carried out in close integration with advanced telecommunication technologies, ensuring efficient connectivity and trade facilitation.

Unlike many Western countries, Malaysia's economic and social restructuring was not pursued solely under the assumption that technological development would automatically lead to organizational and administrative efficiency. Instead, the country adopted a synthesized model that combined foreign, domestic, and public sector participation in production. This hybrid approach allowed Malaysia, within a relatively short period, to significantly increase capital accumulation, modernize industrial production, and expand its range of competitive products, positioning itself more confidently on the global market.

Under government policies aimed at regulating investment processes, both enterprises and production technologies underwent continual improvement, while the legal foundations of entrepreneurship gradually took shape. This process was marked by the adoption of several key legislative acts — such as the Companies Act (1965), the Industrial Coordination Act (1976), and the Investment Incentives Act (1986) [6, pp. 268–269]. Over the next decade, the system for expanding investment developed steadily. Initially, newly established companies were exempted from investment-related taxes, and later, the state assumed responsibility for export financing. These companies were also granted import duty exemptions on essential equipment and provided with grants for staff training in new industrial fields.

Applications for investment approval were reviewed by the Malaysian Industrial Development Authority (MIDA) and the Foreign Investment Committee, ensuring transparency and consistency. Overall, Malaysia's legal framework was regarded as stable, with amendments serving primarily to liberalize and clarify investment conditions. However, in contrast to

Singapore, Malaysia maintained certain restrictions on foreign investors in specific sectors. Firstly, in industries such as water and energy supply, machinery manufacturing, telecommunications, banking, and healthcare, foreign ownership could not exceed 30%. Secondly, regardless of ownership type, 30% of equity had to be reserved for Bumiputra (indigenous Malays) shareholders. Nevertheless, recognizing the need to sustain dynamic progress, the government permitted 100% foreign ownership in newly licensed high-tech sectors, which encouraged the establishment of international trade headquarters and research institutions across the country.

Despite liberalization, management positions in most industries remained reserved for local professionals, with restrictions on the number and duration of foreign specialists' contracts. Exceptions were made for multinational information and communication technology (ICT) companies, which were allowed unlimited foreign hiring to maintain their competitive edge. In recent years, Malaysia has taken a strategic approach to selecting foreign investors for state industrial projects and infrastructure construction, prioritizing those employing advanced technologies. In the construction sector, the ratio between domestic and foreign investors was fixed at 60:40 in favor of local companies.

The successes of Malaysia's economic policy during 1978–1996 are evident. GDP growth rates never fell below 8%, leading to a 3.5-fold increase in total output. By the first half of 1997, per capita income had risen from USD 2,474 (in 1991) to approximately USD 5,000. Numerous industrial sectors demonstrated remarkable growth: by the late 1990s, the production of electrical and electronic goods had increased 32-fold, rubber products — 13-fold, chemical products — 10-fold, metal and petroleum products — 7-fold, and textiles, apparel, and processed wood products — 6-fold.

Despite having only 8.7 million residents (excluding migrant workers), Malaysia became the world's largest producer of palm oil — accounting for over half of global consumption — and one of the leading producers of natural rubber.

The Second Industrial Master Plan emphasized the importance of training a highly skilled workforce, identifying new sources of economic growth, and ensuring that industrial development aligned with the population's well-being. These priorities enabled Malaysia to transition into a new, more advanced stage of industrialization [7, p. 3].

By 1996–1997, Malaysia had become the second most competitive economy in the world, earning international recognition as the "Asian Tiger" and giving rise to the term "The Malaysian Miracle" in global media. Foreign researchers have since regarded Malaysia's industrial and development strategies as a model of effective government-led economic policy adaptable to emerging economies.

Overall, the second stage of Malaysia's reform history represented a period of deepening and expanding the objectives established in the first stage. It was characterized by an emphasis on the balanced development of science, education, and industry. The creation of corporate research institutes by major companies and TNCs, along with practical collaboration among universities, research institutions, industries, and state agencies, played a vital role in sustaining progress. Moreover, the emergence of organizations supporting entrepreneurship and innovation created a favorable environment for the rapid commercialization of new

technologies, cementing Malaysia's transformation into a modern, knowledge-based industrialnation.

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