MNCs will solve only part of the problem. If foreign government officials are not deterred from their efforts to enrich themselves at the expense of companies, ethical conduct involving MNCs is unlikely to be inspired.

Despite the frailty of some MNCs, the vast majority of them in this increasingly enlightened age fit the description offered by Senator Patrick Moynihan, who regards the MNC as "the most creative international institution of the twentieth century." Ambassador Eliot Richardson has said, during his tenure as Secretary of Commerce: "The profound economic force of multinationals is spreading the benefits of civilization to all nations." All parties concerned, including the MNCs and the host and home governments which supervise them, should ensure that this civilizing process occurs in an environment which precludes bribery and extortion.

Risking Diversity: The Oil Opportunity in Malaysia

MICHAEL GOLDBERG

In developing countries, oil wealth can be employed to perpetuate petroleum activities and make them the economy's centerpiece, or it can be used to promote new industries and modernize traditional sectors. The discovery of oil, however, is in no way a panacea. The influx of foreign exchange can cause problems of allocation and political instability that accentuate social tensions (e.g., Iran), just as it can prop up a floundering regime (e.g., Neto's Angola).

When Shell Oil Co. located the commercially exploitable Lutong field off the coast of Eastern Malaysia in 1965, the policy trade-offs faced by the government were abruptly revised. Attempts to manage this opportunity reflect the crucial role planned for the petroleum sector in promoting social stability and economic development. The Malaysian experience with oil revenues is striking for three reasons: (1) the intricacy of the formula of incentives and linkages adopted to gain governmental objectives; (2) the rapidity of energy sector development; and (3) the effect on the economy's diversification into traditional products such as rubber, tin, palm oil and timber.[1]

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1. *Far Eastern Economic Review*, 1 September 1978, pp. 67-68. According to the *Area Handbook for Malaysia*, these four products were historically responsible for over 80 percent of the foreign exchange receipts. Also, Malaysia has traditionally been nearly self-sufficient in rice and fish.

Malaysian Social Reality and "Bumiputra"

Since independence in 1963, policy has been formed by the diverse racial, economic and geographic features of Malaysia. While the ethnic Malays constitute 48 percent of the population of thirteen million, their rural concentration has enabled the predominantly urban Chinese (35%), in conjunction with the Indian community (11%), to control the bulk of trade. Malay aspirations were channeled into the burgeoning government bureaucracies, and national plans and government spending patterns reflect a strong rural Malay bias.[2]

This uneasy alliance was rattled in 1969, when inconclusive elections exploded into violent race riots in Kuala Lumpur.[3] The ruling National Front coalition of ten Malay, Chinese and Indian parties responded with the "Bumiputra" policies (literally "sons of the soil"), an affirmative action program intended to promote educational and management roles for ethnic Malays. As compensation, the Chinese were granted an expanded political role, in an effort to forge greater national integration. The ethnic pressures are similar to those that led to national disintegration in Lebanon and Cyprus, and require constant government attention. The Malaysian treatment of Chinese refugees from Vietnam reflects the nervousness that lies just below the surface.

"Bumiputra" extended into the regulation of private foreign investment, which has historically permeated every major sector of the economy. The New Economic Plan (NEP) was designed in 1971 to codify the restructuring of society by realigning equity ownership, in which Malay interests amounted to a scant 2.4 percent in 1975.[4] The 1990 goal is an overall equity split of 30 percent Malays, 40 percent "other Malaysians" and 30 percent foreign interests. Economic growth is emphatically endorsed as the mechanism of redistribution to avoid playing a zero-sum game with racial overtones. Stricter licensing controls, local management clauses and increased government involvement were incorporated into the NEP.

These adjustment policies face criticism from several sides. As one Malay put it, "If there were 100 companies, I would much rather own 51% of 30 of them than 30% of all of them."[5] Other Malays complain that the only beneficiaries have been the rich Malay industrialists.[6] The Bank Rakyat failure of 1975, ending an institution established to encourage small-scale Malay cooperative ven-

2. In the Third Malaysian Plan (1976-1980), fully 38.2 percent of the budget was allocated for rural poverty concerns. *Far Eastern Economic Review,* 28 July 1978.
3. Some Malaysians explain the riots of 1969 in purely political terms, and describe them as localized in the capital, Kuala Lumpur. However, Malaysian government officials and all Western observers analyzed them in racial terms.
4. *Far Eastern Economic Review,* 1 September 1978, p. 44.
5. *Ibid.,* p. 45.
6. Ian Gill, "PERNAS Octopus: Facing digestive problems," *Insight,* April 1979, pp. 20-27.

tures, is cited in support of the accusation.[7] The Chinese are also aroused over the change in educational practices, a "fundamental mainspring of the community," which is jealously guarded. A further concern is the Industrial Coordination Act of 1975, which attempted to control the reinvestment of Chinese profits.

There were other difficulties with the NEP as well. Because there were not enough Malay entrepreneurs backed by private lending agencies, the government established a variety of lending institutions and increased aid to the rural sector, causing inflationary pressure in the economy. Government spending increased 23.4 percent in 1977, the money supply rose 16 percent, and as a result inflation jumped from 2.4 percent in 1976 to 6.2 percent during 1978.[8] Many domestic and foreign investors objected to the goals of "bumiputra" on profit-maximization grounds, and sectoral goals were relaxed in response to such complaints. To encourage interest in private investment, the government revised the existing incentive structure to permit a rapid recovery rate of invested capital and a higher rate of return. To promote foreign trade, export market research and overseas advertising expenses were exempted from taxation. Partial tax relief for one to ten years was offered to companies that located factories in "development areas," and further exemptions of up to eight years were provided based on the number of full-time employees.[9]

The History of Oil in Malaysia

As in other countries in which oil has become a key part of the export sector, the relationship between the oil companies and the government evolved in a series of stages. Shell first found oil at Miri in northern Sarawak in 1911, with production peaking in the 1920s. As the field's output declined to only 760 barrels per day (b/d) by 1970, the search for other sources shifted offshore beginning in 1964. Until 1974, concession agreements were extended by the individual states to Shell and Exxon which granted them exclusive exploration, production, refining and marketing rights. The companies agreed to pay 8-11 percent royalties on the value of the product and 55-60 percent income tax on profits. A requirement of at least 15 percent Malaysian participation by 1970 was subsequently added.[10]

7. *Modern Asia,* October 1978, pp. 74-75. According to the *Far Eastern Economic Review,* 1 September 1978, private banks have lagged behind the "bumiputra" goals in agriculture and manufacturing lending.
8. *ABECOR Country Report: Malaysia,* and also *Financial Times,* 16 May 1978.
9. For a complete accounting of the incentives offered, *see* N.D. Karunaratne and M.B. Abdullah, "Incentive Schemes and Foreign Investments in the Industrialization of Malaysia," *Asian Survey,* March 1978, and Guy Pauker, "The ASEAN Energy Scene in Global Perspective," *Asian Survey,* June 1979.
10. Willard A. Hanna, "The Petronas Perversity," (New York: American Field Staff, 1976).

In 1974, the national oil company Petronas was founded, with a mandate to become a "fully integrated oil company in all activities from exploration to marketing within ten years."[11] In particular, new agreements were to be drawn up to reflect the changing conditions in the oil industry. The result was a four-tiered system of offshore service contracts, favoring the two major and other companies which had already committed capital.

While changes had been expected, Petronas shocked the companies with its innovative "management shares" clause put forth in the Petroleum Development Act of 1975. This entitled Petronas to gain voting control over the personnel policies while holding only one percent of the equity shares. This mechanism cleared the way for "nationalization of the companies themselves without fair compensation."[12] The scheme was abandoned in mid-1976, after prolonged negotiations and oil company slowdowns forced Prime Minister Datuk Hussein Onn to intervene personally. A twenty year contract with an 83.5:16.5 profit split favoring Petronas was finally arranged, giving Malaysia an estimated 68 percent share after cost recovery and other deductions.

The hard-fought gains for Petronas were not without their costs. Exxon halted exploration and development in early 1975 as a protest over the new terms, not resuming full operations until late 1976. Conoco's reaction was even more dramatic. The company pressed for more favorable terms in light of a projected recovery potential of only twenty million barrels. Petronas steadfastly refused, claiming that the Sutong field held fifty million barrels. Their decision was also linked to a renegotiation clause in the more important Exxon contract. Petronas Carigali, the national oil company's exploration subsidiary, was established to take over the Sutong field, and has been seeking a partner for delineation and recovery operations. Conoco has closed its Kuala Lumpur office, and hopes to re-enter Sutong under better terms.

The contemporary history of government-oil company relations in Malaysia has been stormy, as these examples show, but the situation closely resembles those of other oil-producing countries whose economic nationalism has come to the fore during negotiations.

Government and Private Industry Optimism

There are several grounds for optimistic analysis and planning on the part of Petronas. According to the Malaysian Central Bank, oil has been the fastest growing industry over the last two years. The value of petroleum exports

11. *Petroleum News Southeast Asia,* March 1976, p. 9.
12. Brian VanStone Evans, *The ASEAN Council on Petroleum,* MALD Paper submitted 5 May 1977, The Fletcher School of Law and Diplomacy.

jumped 15.5 percent in 1977 to reach $1 billion, due to marked increases in both volume and price. With light Malaysian crude currently selling for $40 per barrel, 1980 revenues are expected to reach $3.6 billion. And a highly placed official has stated that only 13 of the commercially exploitable fields are currently in production, while another 11 have been delineated.

Based on this rosy financial picture of present growth and future promise, Petronas has continually revised its production goals upwards. Recent gains in Shell's Erb West field (off Sabah) and Esso Eastern's Pulai and Tapis fields (in the South China Sea) have pushed the daily output from 180,000 b/d in late 1978 to 275,000 b/d in late 1979. A "best case" scenario sees oil price hikes continuing as production hits the 400,000 b/d level, with Bintulu exports of liquid natural gas coming onstream in 1983.

Public pronouncements by Petronas focus on the finite nature of the oil and gas bonanzas, hoping to control the tide of rising expectations that could turn into widespread discontent if not fulfilled. Also, the government seeks to avoid foreign company pressure to raise daily production to 500,000 barrels. These motivations may explain the sharp contrast between Petronas' estimate of 1.04 billion barrels in recoverable reserves (November 1979) and those of the CIA (2 billion barrels) and the *Oil and Gas Journal* (2.8 billion barrels). At a production rate of 350,000 b/d, the differences are amplified; Petronas expects proven reserves to be depleted within eight years, while the *Oil and Gas Journal*'s figures allow for a twenty-two year supply. Including offshore natural gas potential, the *Quarterly Economic Review* has ranked Malaysia ninth in the world in offshore oil and natural gas potential, with a projection of 940,000 b/d in the early 1980s.[13]

Given Malaysian oil's high gravity and low sulphur content, Petronas' market strategy has been to export most of its production to the pollution-conscious Japanese and Thais. Rapid establishment in the Japanese market is considered to be crucial in order to compete with the People's Republic of China's (PRC) low-sulphur crude, a product considered a real competitor by the Malaysians despite its high paraffin content. For domestic use, Malaysia imports heavier but cheaper Kuwaiti crude, to be mixed with domestic crude at local refineries in a 60:40 ratio. Such a method of "importing beer and exporting champagne" carries with it revenue advantages as well as the establishment of new trade channels, although some Malaysians would prefer self-sufficiency for political reasons.[14]

13. *Quarterly Economic Review of Oil in the Far East and Australia,* pp. 22-23.
14. Japanese buyers are looking increasingly to Southeast Asian oil exporters in light of recent events in Iran. *See* Henry Scott Stokes' article entitled "Oil Outlook Worrying Japanese," *New York Times,* 23 November 1979, p. D1. *See* Guy Pauker, *Asian Survey,* June 1979 for information concerning the entry of PRC crude oil.

The Companies' Interest

There is ample proof of extensive private foreign investment interest in the oil sector. Seventy oil companies have registered for the rights to new acreage and, in 1978 alone, $700 million was spent on exploration, development and production. Interest is also reflected in the regional equipment rental charges: fees for "floaters," which are offshore-anchored semi-submersible rigs (up from $10,000 to $17,000 per day) and "jack-ups," which stand on the ocean floor (up to $25,000 per day), bear this out.[15] Other indicators are: (1) Oceanic's recent production-sharing contract for an 881,360 acre tract offshore of northwest Sabah; (2) Esso Eastern's attempts to win a second extension for exploration work at Trengannu, after four successive finds; and (3) Shell's growing commitment off Sarawak and Sabah.

The fortunes of the companies and their ability to deal with the demands of Malaysian economic nationalism have varied greatly, since there are several factors involved in the remarkable growth of the energy sector. Commonly cited factors include political stability, investment incentives, availability of financial resources and trainable manpower, and infrastructural improvements. Petronas has offered nationalization safeguards and profit repatriation guarantees to encourage involvement in their exploration-intensive program. The natural environment offers few technical difficulties to be overcome, unlike the stormy North Sea or the frozen tundra of Alaska's North Slope.

The oil companies view Malaysia as a safe bet in political-risk terms as well. The last upheaval was in 1969, and structural changes have been implemented to make a repetition unlikely. Prime Minister Datuk Hussein Onn enjoys widespread personal popularity due to his successful anti-corruption and anti-Communism drives. His National Front coalition controls 131 of the Parliament's 154 seats, and no elections are planned for the foreseeable future. In fact, there are few within the party willing to challenge Hussein Onn.[16]

There are no major regional disputes that threaten future Malaysian prosperity and peace. Recent Vietnamese actions in Kampuchea have helped to solidify Malaysia's relations with its ASEAN partners, although ties with the Philippines are strained because of the Moslem uprising in Mindanao and the conflicting claims on Sabah. At present there are no separatist movements in Sarawak or Sabah, and Philippine and Brunein claims on Malaysian territories are not given much credence internationally.

Any realistic assessment of Malaysia's investment climate must take into consideration the rising tide of Islamic fundamentalism. While there are major doctrinal differences between the conservative Sunnis of Malaysia and Iran's revolutionary Shi'ite sect, there is considerable support for the strict application

15. *Oil and Gas Journal,* 8 January 1979, p. 47.
16. *ABECOR Country Report: Malaysia,* and *Far Eastern Economic Yearbook, 1979.*

of Koranic laws. The fundamentalist approach is particularly appealing to ethnic Malays in the fifteen to twenty-nine year old age group, who bear the brunt of Malaysia's unemployment problem. While it is unlikely that a revitalized Islamic spirit in Southeast Asia will cause regional upheaval, there are growing signs that the Malays are defining themselves more in a religious than in a national sense.[17]

Finally, economic performance has been excellent. Malaysia can point to a sustained annual GDP growth rate of 6.5 percent (1960-1978), a growing domestic market and a reasonably small external debt. The government's sense of security is reflected in its increased accessibility and responsiveness in dealing with company complaints, as evidenced by flexibility in implementing "Bumiputra" and licensing changes. Indeed, government actions have for the most part been clear and free from surprises since the troubled days of 1965, making today's Malaysia an uncommonly inviting place in which to do business.

Future Directions for Petronas

Given past successes and the motivations of the two major actors (Petronas and the foreign oil interests), Petronas has formulated an ambitious growth strategy. One goal has been to move into downstream activities, thereby obtaining a greater share of the profits from processed petroleum products. This has prompted a $250 million refinery project to satisfy the growing demand (7.5 percent annually) for middle distillates such as kerosene, and diesel and aviation fuels. An additional refinery has been proposed by Malaysia, to be jointly constructed and operated with Kuwait and Indonesia on the Indonesian island of Batam. Petronas is not, however, operating under the illusion that it can reach such goals alone. It fully recognizes that "skilled personnel and resource constraints are too severe."[18]

Petronas' reputation is riding on the fortunes of the world's largest gas liquefaction plant, to be completed at Bintulu, Sarawak in 1983. The project required two years of difficult negotiations; the final agreement in March of 1978 gave Petronas a 65 percent share, with Shell and Mitsubishi each holding a 17.5 percent interest. The plant will attain a production level of six million tons per year of liquefied natural gas (LNG), for which a twenty year sales agreement with Japan has been secured. While the Bintulu LNG plant will cost in excess of $1 billion, $520 million in "soft" loans were obtained from Japan in 1978. By October 1979, eleven international banks had expressed interest in the venture, despite thin profit margins.[19]

17. "Malaysia: Islam Sharpens the Knife Edge," *The Economist*, 12 April 1980, p. 25.
18. R. Vedavalli, World Bank Staff Working Paper No. 289, p. 27.
19. *Asian Wall Street Journal*, 25 October 1979, and *Asian Wall Street Journal*, 16 November 1979.

The Bintulu operation has opened up several other avenues of business for Petronas. One offshoot is the Malaysian International Shipping Corporation, founded on a $700 million purchase of five French-built LNG tankers scheduled for delivery in 1981 and 1982. It is unclear, however, whether the enterprise will be able to rent out the vessels to avoid costly storage charges. Another linkage is the opportunity to enter the marketing stage. Petronas has a 65 percent share in an LNG marketing company in Japan in conjunction with Tokyo Electric and Tokyo Gas Company. A third spin-off is the $300 million Bintulu fertilizer plant. In 1978 more than 500,000 tons of fertilizer had to be imported. When this plant is completed, it will produce 540,000 tons per month of urea and 360,000 tons per month of ammonia, enabling various agricultural pursuits to expand.[20]

While these ambitious plans are being formulated, the example of Indonesia's Pertamina oil company remains on the minds of many. Pertamina nearly collapsed due to over-extension, widespread corruption and mismanagement, and a misunderstanding of technical issues. There are understandably worried financiers watching for parallels in the operations of Petronas. As one banker observed, Petronas' executives "aren't particularly competent at all in technical matters."[21] In a move that may reflect governmental recognition of the limitations of Petronas, the Ministry of Trade and Industry's responsibilities were recently expanded to include licensing for all downstream operations in the petroleum sector. This has adversely affected the company's bargaining power. The manager of Petronas did, however, admit that the momentum of new oil finds, the LNG work at Bintulu and the prospect of generating quick revenues were pushing company plans ahead too rapidly to insure complete control.

Oil Revenue Uses: The Alternatives

The portrait drawn thus far must be supplemented by a discussion of the wide range of improvements needed to insure continued economic growth and social cohesion. Oil wealth has given the Malaysians greater control over their economic environment and increased the government's ability to cope with unexpected difficulties. The country's 12 percent drop in rice production in 1978 was quickly answered by the importation of 350,000 tons of rice, without recourse to international lending agencies. Partial repayment of debts has enhanced a healthy international credit rating. The Third Malaysian Plan was a bold attempt to remedy the old bottlenecks through infrastructural improvements, such as the renovation of Port Klang and the redesigning of the road system.

20. Ho Kwon Ping, "The Fourth Factor," *Far Eastern Economic Review*, 13 July 1979, p. 35.
21. *Asian Wall Street Journal*, 16 November 1979, p. 6.

However, much of the oil wealth sits unused today, either due to problems of internal organization or to a perceived inability of the economy to absorb investments more rapidly. The economy has been described as "an overbanked system awash with liquidity."[22] The huge Malaysian trading conglomerate faces similar digestive problems.[23]

There are underlying problems which must be addressed to keep Malaysia on the current path to prosperity, problems to which the oil money could be effectively applied. The biggest challenge is persistent unemployment. Although manufacturing has grown 10.5 percent in each of the last two years, widespread employment gains have failed to materialize.[24] The Third Malaysian Plan projected a need for 743,000 jobs to be created between 1976 and 1980. However, it appears that Malay affirmative action goals are too grandiose and will not be met, which may in turn stimulate ethnic hostilities.

There are a number of steps that could be taken to constructively employ the petrodollars. Unemployment could be countered by the stimulation of new labor-intensive industries matched to domestic resources. Promising markets exist for wood carvings and panelwork, furniture, pewter and batiks. Further market research would reveal other possibilities.

Before the oil boom of the 1970s, the dominant feature of the economy was the balanced and diversified nature of the primary product sector. Malaysia leads the world in rubber and palm oil production and is the largest exporter of tin and tropical hardwoods. In the past, chronic price instability resulted in foreign exchange fluctuations, making these products an unreliable basis for growth and hence national planning. However, recent changes in these relatively labor-intensive sectors may be cause for renewed examination.[25]

The future appears particularly bright for rubber and tin production. Constant oil price hikes have boosted synthetic rubber costs, allowing Malaysian natural rubber sales to expand in European markets. Increased competition for shipping rights will probably lower rates by almost 15 percent, reinforcing their comparative advantage. As for tin, the market was only marginally affected by the boom-bust cycle that recently hit world metal markets. Government tax regulations have been adjusted to stimulate long-term investment, including the enormous high-grade deposits at Kuala Langat.

Timber producers, on the other hand, face a considerable struggle in the near future as poor forest management techniques begin to take their toll. In

22. According to the *Far Eastern Economic Review*, 27 July 1978, p. 70, there have been problems with increasing excess bank liquidity — "41.8 percent at end-1977 against 39.8 percent end-1976: minimum requirement 25 percent."
23. Ian Gill, "PERNAS Octopus: Facing digestive problems," *Insight*, April 1979, pp. 20-27.
24. Geoffrey Hainsworth, "Economic Growth and Poverty in Southeast Asia: Malaysia, Indonesia and the Philippines," *Pacific Affairs*, Vol. 52, No. 1, p. 16. *See also*, *Business Asia*, 10 August 1979.
25. Rubber, palm oil, timber, tin and fishing enterprises currently employ 50 percent of the working population.

past years, market opportunities and government concessions policies combined to encourage short-term stripping (922,000 acres per year) with little organized reforestation. Reacting to pressure from conservationists, the government revised the tax structure and lease terms to stimulate replanting. However, even lush Sabah state will face difficulties soon if this lucrative renewable resource is further neglected.

Palm oil, cocoa and rice production represent other alternative channels for the oil receipts. Expansion of the palm oil sector seems likely given the promising new PRC and Middle East markets. Due to its high returns per acre, increased cocoa output could alleviate the current land shortage and yield favorable distributional effects. The rice problem seems to be the most sensitive, as shown by the farmers' riots over government pricing policies in early 1979. Kuala Lumpur must take the needs of such special interest groups into account if self-sufficiency in food is to be achieved by 1985.

Policies to take advantage of these market prospects can be easily implemented by the national and state governments. The educational system could be adjusted in two ways: (1) the curricula of high schools and universities should respond to the need to prepare future Malaysian managers to handle a diversified economy, and (2) informal training in rural areas should stress the inexpensive steps that must be taken to ensure the renewability of certain resources and protect the land's vitality. For example, to achieve satisfactory replanting rates for timber, there must be a rejuvenated forestry service that can survey the situation and follow up on government initiatives.

Preferential tax treatment to promote local processing, price subsidies for cocoa combined with extension services targeted at small farmers, and an improved rural marketing and transportation infrastructure would yield economic benefits and could improve the rural standard of living. Also, although capital availability is presently not a problem, consideration might be given to additional incentives to stimulate reinvestment in local enterprises by Chinese Malaysians. This would lessen dependence on foreign capital and increase employment while strengthening national integration by giving the Chinese a larger stake in the system.

There are steps available to increase the size of Malaysia's resource endowment as well as the efficiency of its exploitation. Large stretches of the countryside remain unexplored in terms of resource endowment. In other countries, efforts to take stock of such areas have been warmly received by the World Bank. Yet only recently has the government shown any interest in opening up untapped areas in both eastern and western Malaysia.[26] Further, Petronas and other large companies have recognized the importance of training future managers so that the human capital stock will expand to keep pace with

26. *Far Eastern Economic Review,* 5 October 1979, p. 103.

economic growth. Intelligent decisions cannot be made without a clearer understanding of the resources and management skills that will be available in the years ahead.

Conclusion

The government's management of the oil sector provides a basis for projecting the path that lies ahead. From the perspective of many development economists, Malaysia enjoys an enviable position in that new industries are beginning to take hold while the agricultural and mining sectors remain diversified. Although the immediate future looks promising, based on both government and private sector projections, Minister of Primary Industries Paul Leong recently sounded a note of caution not "to take the country's prosperity for granted," warning that the sectors responsible for the current boom are not by nature self-sustaining.[27] In fact, Malaysia's major products are coincidentally experiencing a commodity boom unmatched since the Korean War, an advantage that could quickly evaporate.

Petronas has adeptly managed the oil opportunity. Effective economic and social linkages have been implemented to increase Malaysian control of traditionally foreign-held operations and encourage spin-offs into downstream activities. The pace of change has been consciously slowed to allow Petronas time to gain managerial experience and establish monitoring mechanisms to regulate exploitation of a depletable resource. Petronas has recognized the politically explosive potential of its work, continually underestimating the oil reserves in an effort to mute rising expectations.

The national government's performance also shows growing self-confidence as it proves itself to be a tough negotiator. Recent policies display an understanding of the effectiveness of economic incentives such as tax policies and revised regulations. Increased clarity and flexibility in government positions indicate that lessons have been drawn from the costly 1975-1976 production-sharing negotiations. However, the state should consider tempering its economic involvement since free market development may be more beneficial than a large state role in the long run, for budgetary as well as efficiency reasons.

There is, however, a major threat to the government's development plans. The pace of "bumiputra" must live up to the expectations of the Malays, while providing no basis for Chinese fears of absolute deprivation. This will not be easy. In a political and social climate as complex as that of Malaysia, traditional economic improvements such as increased per capita income and GNP become secondary as each ethnic group takes a narrower view. More job opportunities for each group would represent a concrete gain; it thus seems advantageous

27. *Far Eastern Economic Review*, 5 October 1979, p. 103.

in the long-run to use oil as "an export revenue stabilizer" rather than "a dominant export earner."[28]

Wealth is not enough to ensure stability in Malaysia. Oil revenues represent a windfall to be harnessed to bolster sagging rubber, palm oil and tin production, aid in reforestation efforts, and build new industries to further diversify the economy. Given the predicted reliability of future natural gas receipts, these sectors could be upgraded with government assistance to remain competitive in foreign markets, emphasizing their renewable character and substantial employment capacity. As one expert puts it: "Malaysia can afford some false starts in the course of trial-and-error, so long as the final outcome is sustained productivity improvement, cross-racial participation, and ability to compete in export markets."[29] The role assigned to oil revenues by Malaysian planners should reflect these crucial considerations.

28. *Far Eastern Economic Review,* 28 July 1978, p. 170.
29. Geoffrey Hainsworth, *Pacific Affairs,* p. 38.