



FEATURES OF THE SOCIAL DEVELOPMENT OF THE COUNTRIES OF SOUTHEAST ASIA (ON THE EXAMPLE OF MALAYSIA)

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Abstract

This study examines the first stage of Malaysia's modernization process (1957-1990s), highlighting its historical, socio-economic, and political dimensions. Following independence from British colonial rule in 1957, Malaysia confronted the dual challenge of overcoming the colonial legacy—characterized by a raw material- and agriculture-based economy—and laying the foundation for a diversified, modern economic system.

Keywords: Modernization, Rukunegara, the bumiputera, NEP, TNK, a five-year economic plan, import goods, export diversification.

Introduction

In recent years, the crisis situation observed in the global economy has posed a number of urgent issues for developing countries, such as how to overcome these difficult circumstances and, without slowing down their pace of development, raise the standard of living of the population. As a result, in the field of scientific research as well, the necessity has arisen to rely on comparative analysis of the history of similar or closely related societies and to conduct theoretical studies on this basis.

Malaysia, which in the past was primarily specialized in the production of agricultural products but today, having successfully mastered innovative technologies and making effective use of modern scientific and technical achievements, has managed to establish the production of high-quality, export-



oriented goods, may serve as an important example for states pursuing modernization and diversification of their industries.

Indeed, as President of the Republic of Uzbekistan Sh. Mirziyoyev has emphasized: “Our priority goal is to radically transform the life of every family and every citizen living in our country, and to enhance human dignity and well-being.” [1] Therefore, studying Malaysia’s experience as an integral part of the Islamic socio-cultural environment in the sphere of comprehensive modernization of the country, and on this basis developing theoretical proposals aimed at deepening the large-scale reforms taking place in our homeland, as well as applying them, where appropriate, with consideration of national characteristics, will undoubtedly be beneficial.

Results and Discussion

It is advisable to conditionally divide the history of comprehensive modernization processes in Malaysia, particularly in the economic sphere, into two stages. The initial period of large-scale reforms in Malaysia’s economy covers the time from 1957, when the country gained independence from British colonial rule, up until the 1990s of the twentieth century. The second stage began in the 1990s and continues to the present day. Both stages are essential in the history of the country’s modernization. The first stage can be characterized by Malaysia’s attainment of true economic independence, its integration into the global economy, and its transformation into a vital element of the international economic system as an economic zone, along with many other factors connected with these processes. The second stage, in turn, is distinguished by the wide implementation of information technologies in all spheres, the country’s formation as a financial hub of Southeast Asia, and, through this, its emergence as a key element in determining the balance of the global economic network. As can be seen, both stages witnessed massive reforms in the country. This, in turn, requires examining each stage separately in relation to the issues posed above. Therefore, this study will focus on a separate analysis of the first stage in Malaysia’s modernization history.

The first stage proceeded in parallel with the process of the country’s liberation from the consequences of colonialism. During the colonial period, Malaysia’s



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economy had fallen into a dire state, with its main branches consisting of tin mining (accounting for 37% of the world's tin extraction) and plantation farming, which was specialized in cultivating the heave tree and producing rubber. [2. P. 1-3] The entire economy of the country was directed toward servicing processing industries in the metropolis or other foreign states, which led to relatively developed export. Foreign trade relations were carried out mainly through the port of Singapore. In 1957, the country's annual income per capita amounted to 334 US dollars [3. P. 1]. With the end of colonial rule worldwide, relations between former metropolises and colonies were disrupted, giving rise to a new economic balance based on new forms of interaction. At that time, the young country had to pass through various stages of development. Each of these stages involved addressing specific prospective tasks, which can be identified as distinctive features of Malaysia's modernization history during that era.

In the early reforms, the goal was to stabilize as much as possible the socio-economic disparities inherited from the past. After the establishment of the Malaysian Federation in 1963 - comprising the Malacca Peninsula along with the Borneo Island states of Sarawak and Sabah, and Singapore—there appeared, if not complete resolution, at least substantial opportunities to address these social problems more comprehensively.

The new federal governance system did not allow for one-sided policies in any sphere. This was characterized not only by the ethnic diversity of the regions but also by the differing levels of their socio-economic development. In addition, freeing the country's economic relations from dependence on Singapore was one of the pressing issues in Malaysia's history during that period. At the initial stage of these reforms, special emphasis was placed on the need to establish state governance institutions such as the central bank, ministries, and planning agencies. Indeed, the existing elite overcame proponents of the concept of statism, who gave primary importance to the role of the state in the economy.

The Federation of Malaysia's development strategy for 1956-1960 had been developed even before the country achieved independence, and this plan was not abolished after independence was gained in 1957. This strategy was not designed for nationwide development on a broad scale, but rather for the socio-economic



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development of individual regions. Nevertheless, even such initial small-scale attempts aimed at shaping the economic system were not fully put into practice. Malaysia not only carefully developed its subsequent development plans from a theoretical perspective but also paid special attention to their consistent implementation in practice. In 1980, Malaysia's Prime Minister Mahathir Mohamad emphasized that "Malaysia, in the pursuit of its successes, has never relied on communism or socialism, neither in practice nor in theory; on the contrary, it has always been based on the market economy. Of course, it is true that various experiments and trials were conducted between state companies and economic corporations. However, they operated alongside the private sector on an equal footing. Unlike many newly independent countries, which tested numerous variants of nationalization, Malaysia did not strongly support extensive nationalization. Instead, Malaysia established a practice of purchasing shares of foreign companies based on market mechanisms." [4. P. 197]

Malaysia succeeded in implementing comprehensive strategies developed by experienced policymakers and theorists, which were designed for real-life application. Moreover, the fact that the government was always accountable to the electorate for their implementation played a significant role in the country's development.

Although the 1961-1965 development plan was well elaborated, its implementation faced certain difficulties due to conflicts between Indonesia and Malaysia, as well as Singapore's withdrawal from the federation. Like the previous plan, this development strategy focused not on the entire country's territory, but mainly on the western parts, i.e., the Malacca Peninsula, while the eastern regions of Sarawak and Sabah received only general attention.

The 1966-1970 development plan served as the foundation for Malaysia's economic model and became the first nationwide development program in the country's history. It envisioned reforms in import-substituting sectors. Initially, enterprises engaged in simple production activities were opened. Such enterprises were distinguished by their specific features, namely low financial expenditures at the cost of high labor input and the processing of local raw materials.

The second five-year development plan for 1971-1975 was based on two programmatic documents. The first was the New Economic Policy (NEP) for



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1970-1990, which had become necessary in response to the inter-ethnic clashes of 1969 that exposed severe inequalities between different social strata. The second was embodied in the document Rukunegara (Rukunegara - “Principles of Statehood”), adopted on 31 August 1970, which set out the ideological foundations of the nation. These documents testified to a social contract born out of the aspiration to form a single progressive nation, relying on the achievements of science and technology and guided by the principles of social justice and economic equality. [5. P. 2-3; 6. P. 2]

A Malay movement was launched in the country to eliminate the sharp social inequality and poverty among different ethnic groups. The share of the bumiputera (“sons of the soil”), who had lived in this territory for centuries and constituted nearly half of the population, in corporate ownership and management was raised from 2% to 30%. In addition, although it was difficult to acknowledge that this was a complex issue, measures were undertaken to reduce poverty regardless of ethnic background. According to the 1970 report of the Economic Planning Unit under the Prime Minister’s Department, 49% of Malaysia’s population lived in poverty. Most poverty-stricken areas were those specializing in rice cultivation, where the indigenous population (bumiputera) mainly resided. The NEP was designed to alleviate racial and class tensions through a sharp restructuring of socio-economic institutions, from corporations down to rural agricultural sectors. From the very first attempts, it became clear that such acute problems could not be resolved without a strong and active reformist role of the state. Following the adoption of the NEP, the government quickly set about strengthening the material and technical base of the so-called public sector in Malaysia by increasing the share of bumiputera in the corporate sector. In 1969, the total capital of joint-stock companies in West Malaysia amounted to 4,678 million US dollars, of which 62.1% belonged to foreign shareholders, while the rest was held by local shareholders: Chinese Malaysians - 22.8%, Malays - 1.5%, and Indian Malaysians - 0.9%. [7. P. 40]

According to the experts who took part in drafting the NEP, socio-economic reforms were expected to make it possible, within about twenty years (around the 1990s), to form a single nation living under the principles of social justice and equality.



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In the early 1970s, Prime Minister Abdul Razak Hussein, who oversaw the creation of the NEP, had to introduce subsidies through state agencies to stabilize the prices of essential goods (petroleum products, rice, flour, sugar, and others). [8, 2006. P. 16-23; 03. P. 7]

The core goals of the NEP were reflected in four successive five-year plans (the 2nd, 3rd, 4th, and 5th). The economic policy was based on the tasks of achieving high rates of economic growth (6-6.5%) and overcoming disparities in economic positions between Malaysia's various ethnic communities of diverse origin (Chinese, Indian, Arab, and others) through cooperative labor.

According to economist B. N. Ghosh, under the conditions of initial socio-economic inequality, the state sought to maintain ethnocentric Chinese capitalism in order to reinforce socio-economic inequalities. [9. P. 169]

Malaysia's model of economic development based on the production of import-substituting goods acquired specific features, namely, the establishment of resource- and labor-intensive enterprises. As a result, even the abundant reserves of cheap labor became insufficient to meet the growing demand. Import-substituting production was launched through the import of spare parts and equipment from abroad. Consequently, the reliance on imported machinery, spare parts, and production components made the process of commodity production increasingly complex.

By the 1970s, Malaysia gradually began to move from complex production processes towards the step-by-step development of export-oriented sectors. The availability of cheap local labor proved highly advantageous for the foreign companies that owned the majority of enterprises.

The government played an active role in implementing the idea of creating export-oriented enterprises. As a result, a model of transition to export-oriented production emerged, which became the main driver of economic growth. Nevertheless, dependence on foreign investment, technology, and spare parts increased even further. With the emergence of the electrical and electronics industries, nearly 80-85% of enterprises became dependent on imported components. [10. P. 120]

The issue of financing new industries was addressed by attracting transnational corporations (TNCs) along with their capital, technologies, and modern



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management systems. Under the influence of TNCs, new enterprises producing competitive goods were established, while TNCs helped ensure that such products secured their place in the global market and were successfully marketed. In 1972, Siemens Group, which opened its factory in Malaysia, became the first TNC to operate in the country. Taking into account the prospects of its long-term activity in Malaysia, the corporation supported the development of several leading new industries and product types. By 2006, companies such as Siemens Malaysia, Siemens Multimedia, OSRAM Semiconductors, Siemens VDO Instruments, VDO Automotive, and Meditel Electronics were operating in the country. These companies were active in sectors such as telecommunications, energy, oil and gas, transport, automotive manufacturing, and water supply, with many enterprises functioning on the basis of a full production cycle. In line with Malaysia's adopted strategy, they adhered to the principle of enhancing technical capabilities in order to prepare the ground for the development of various branches of the economy.

Over more than thirty years, Siemens Group invested over 5 billion US dollars into the Malaysian economy. By 2005, Siemens enterprises in Malaysia employed more than 3,700 managers and staff.

Another example is the company Infineon Technologies Malaysia, established in 1973. Between 1973 and 2005, the company invested a total of 4 billion ringgit in the Malaysian economy (for comparison, 1 US dollar equaled 3.8 ringgit). Its factories on the Malacca Peninsula, which accounted for one-third of the company's total production, employed more than 5,800 Malaysians. These factories produced semiconductors for the automotive industry, energy control systems, mobile phones, servers, computers, digital and multimedia equipment, universal mobile telecommunication systems, and many other products.

By 2005, Infineon Technologies had already become one of the world's leading innovative companies in the semiconductor industry. The company's success was attributed to its constant work on developing and applying new technologies, as well as on training and retraining highly qualified personnel. On the Malacca Peninsula, the company established an academy to train its employees. Another of its major facilities was its semiconductor production plant in Kulim (Kedah State). The information technology infrastructure required by the company was



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provided by the world-renowned Siemens Corporation. [11, 2006. P. 16-31; 03. P. 22]. Correctly assessing the expansion of Malaysia's relations in the Asia-Pacific region, Siemens established a telecommunications service center for Southeast Asia and the Pacific, a regional oil and gas business center, and an Asia-Pacific communications network center. [12, 2006. P. 15-31; 03. P. 6]. This did not mean that the Malaysian government intended the country to remain dependent on corporations composed of foreign components in the fields of technology and marketing. Rather, it reflected the state's unwillingness to lose strategic advantages associated with corporate partnerships. Of course, although not consistently, the government gradually attempted to address this problem. During the Third Five-Year Plan (1976-1980), when the trend toward self-reliance began, there was, for the first time, an opportunity to oppose corporate demands. In this plan, the share of foreign and domestic private companies—the main source of financing in the construction sector—was set at 60%, while the state's share was limited to 40%. In the 1980s, as the global economic situation deteriorated, the volume of foreign direct investment flowing into Malaysia temporarily but significantly declined. This was observed primarily in the manufacturing sector. As a result of the New Economic Policy, the ratio of the bumiputera share in the corporate sector compared with Chinese, Indian, Arab, and other foreign investors remained at the previous 30:40:30 balance. Adjustments were introduced to the methods of achieving the set goals. Priority was given to strengthening the Malay corporate sector and, as a result, increasing the bumiputera share in the establishment of firms and companies. Despite the government's serious efforts, the bumiputera share in the economy did not exceed 17.8%, whereas the expected target was 23%. The share of foreign investors, which was supposed to decrease to 28.7%, fell only to 25.5%. By contrast, the Chinese share, which according to the plan was expected to grow by 48.4%, rose to 56.7%, recording an extraordinarily high figure. [13. P. 187]

By the mid-1980s, Malaysia's priority tasks gradually shifted. The government was compelled to focus less on strengthening the bumiputera share in the national economy and more on developing export-oriented sectors and diversifying them. At the same time, solutions to other complex problems—such as methods of agricultural development—were also reconsidered.



Conclusion

In general, during the first stage of Malaysia's modernization history, one can distinguish the following features, which share commonalities with the modernization processes of many developing countries—particularly those that were formerly colonies and later gained independence—while at the same time being unique to Malaysia and essential for countries undergoing large-scale reforms:

1. At the outset of reforms, Malaysia faced the challenge of overcoming the legacy of colonialism. The main task was to transform an economy primarily based on raw materials and agriculture into a multi-structured economy. For this purpose, Malaysia established relations with neighboring countries in the region based on shared interests.
2. A central focus of Malaysia's economic modernization was the creation of a balanced alignment of interests among different social strata and ethnic groups.
3. In developing its economy, Malaysia paid significant attention to the factor of foreign investment. Although some concessions were made to foreign investors, particularly transnational corporations (TNCs), national interests were not neglected.
4. The first stage of Malaysia's modernization can, in fact, be described as the period of theoretical formation of the Malaysian development model and its gradual implementation in practice. Malaysia made wide use of short-term development programs, with the New Economic Policy (NEP)—which encompassed four consecutive five-year plans—playing a particularly important role.

In short, the first stage of Malaysia's modernization can be regarded as both the period of shaping the Malaysian development model and of preparing the ground for the second stage.

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