

# **Building Modern States: Industrialization in Norway and Malaysia**

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## Abstract

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This thesis sets out to apply a corrective to the views that modern state development is a result of war-making or solely a consequence of global capitalism. These and other perspectives on the state and its modern development have rarely directly engaged with industrialization as a unique form of economic change and as imperative to modern state development. Theories on the developmental state have come closest to identifying how industrialization as a process impacts upon and shapes state development. Industrialization has been the major imperative for the development of the modern Norwegian and Malaysian states in the twentieth century. Industrialization gave rise to powerful social organizations representing a range of interests. As industrial development proceeded, these organizations orientated toward the state. In turn, institutions of the modern state emerged and developed around the industrialization process and the problems and changes it produced. In both case studies, the state also managed industrialization as a political project. This project was carried out by the state attempting to variously regulate, direct or manage the key components of the industrialization process. These components included foreign investment, the banking sector and labour relations. Industrialization saw the state extend its control into areas of banking, capital flows and relations between key social groups. Modern state development in the twentieth century must be understood as a result of industrialization as an economic process *and* a political project by the state. Perspectives on modern state development must qualify accounts of war-making and capitalism to construct a more variable model. An approach that identifies key organizations as powerful social actors, must in addition understand the modern state as a powerful actor also. Industrialization builds the modern state with its many sites of power that increases regulation and management of economic processes.

## **Declaration of Authorship**

Except where reference is made in the text of the thesis, this thesis contains no material published elsewhere or extracted in whole or in part from a thesis submitted for the award of any other degree or diploma.

No other person's work has been used without due acknowledgement in the main text of the thesis.

The thesis has not been submitted for the award of any degree or diploma in any other tertiary institution.

Several Norwegian language articles were professionally translated into English to support research.

Signed.....

May 2008

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## List of Acronyms and Abbreviations

APEC- Asia Pacific Economic Cooperation  
ASEAN- Association of South-East Asian Nations  
BN- *Barisan Nasional*  
DAP- Democratic Action Party  
DNA- Norwegian Labour Party  
DNU- Department for National Unity  
EPU- Economic Planning Unit  
FDI- Foreign Direct Investment  
GDP-Gross Domestic Product  
GNP-Gross National Product  
HICOM- Heavy Industries Corporation of Malaysia  
IMF- International Monetary Fund  
ISA- Internal Security Act  
KL- Kuala Lumpur  
KLSE-Kuala Lumpur Stock Exchange  
LO- *Landsorganisasjonen* (National Federation of Labour)  
MAF- Malaysian Armed Forces  
MCA-Malay Chinese Association  
MIC- Malaysian Indian Congress  
MTUC- Malaysian Trades Union Congress  
NAF- *Norsk Arbeidsgiverforening* (Norwegian Employers Federation)  
NEAC- National Economic Action Council  
NEP- New Economic Policy  
NIC- Newly Industrializing Country  
NOC- National Operations Council  
NUPW-National Union of Plantation Workers  
NVE- Norwegian River and Electricity Board  
OIC- Organization of Islamic Conferences  
PAS- Parti Islam Se-Malaysia  
PERNAS- National Corporation  
PPP- People's Progressive Party  
RM- Malaysian Ringgit  
RTM- Radio Television Malaysia  
UDA- Urban Development Authority  
UEM-United Engineers Malaysia  
UMNO-United Malay National Organization

## A note on language and sources

Norwegian spelling is used for names and places where appropriate. These spellings use the contemporary form of *norske*. Whilst the majority of sources are in English, several Norwegian language articles were translated for the purposes of this research. Some of these older sources also use the formal *norsk* known as *bøkmål* as opposed to *nynorsk* (new norsk). For more general references, many articles from Norwegian historical journals also contain English summaries of their main points and argument. I would like to thank Veronica Eng and Maren Søreide for their translation work and guidance with the material. Whilst no Bahasa Malay language sources were used for this research, Bahasa Malay names are used where appropriate.

# INTRODUCTION

## **Building Modern States**

As the primary institution of politics, it is fitting that the state receives so much attention in scholarship. This thesis will contribute to the existing literature, providing a different perspective on old questions by exploring the state in a period of great change. The aim of this thesis is to understand how the modern state, as an organizational form, is shaped by the process of industrialization, and how in turn the state responds to the industrialization process. The problem addressed in this thesis is this: we do not have an adequate conceptual model of the modern state as it emerged and responded to the process of industrialization in the twentieth century. Specifically, this thesis asks: *how does industrialization interact with and shape the process of modern state development?*

The process of state formation has received considerable attention. From specific case studies to comparative works and to more abstract explorations in social theory, the state has remained central to the social sciences. Underpinning this vast literature are definitional debates as to what the state *actually is*. Yet despite all this work the consideration of industrialization as a key factor in modern state development has rarely been *directly* explored as the literature review will demonstrate. Numerous historical studies have approached this topic in an indirect fashion, but enhancing conceptual frameworks have not been the direct aim of many studies. This thesis will analyze the impact of industrialization on the development of the modern state with a direct focus on the relationship between economic change and modern state development. Further, it will apply these findings to the concept of the modern state.

A plausible approach to this problem resides in some traditions of historical sociology. The organizational form of the state which emerged from the seventeenth century onward in Europe was driven by a search for security. The solution to the perpetual climate of insecurity was the organization of societies along martial lines, and the key

features of the modern state, such as bureaucracies, developed as a result. Such organizations could extract treasure from the population through taxation, and conscript people for the purpose of defence. As Charles Tilly concludes: 'war made states and states went on to make war.'<sup>1</sup> Warfare became the driving imperative for state formation in Europe, whence it became the premier form of territorial organization because it was the best way to ensure security in an insecure world. This account is popular and its key assumptions are evident, explicitly or implicitly, in much of the literature concerning state development. Nevertheless, it needs to be reconsidered. Industrialization is a dramatic and transformative process, yet the war-making model tends to exclude it as a direct influence upon the process of state development. The war-making imperative approach is embedded in the experience of major European powers as they went about the consolidation of territorial control in the seventeenth, eighteenth and nineteenth centuries. But for small states on the periphery of major economic and political regions in the twentieth century, this model is insufficient as an explanatory framework. This is not to imply that the search for security is not of importance, but rather to suggest that industrialization must be considered as an alternative factor in modern state development.

This thesis will demonstrate how modern state development is related to the process of industrialization through an analysis of the states of Norway and Malaysia. Their political development presents challenges to existing perspectives and raises questions about the utility of the war-making paradigm of state development. The experience of these two states also challenges some existing perspectives on states and economic development.

Norway has been frequently ignored in literature concerning European economic development and politics. With a small population and located on the periphery of the European continent, Norway remained poor and isolated until the twentieth century. From independence in 1905, the Norwegian economy rapidly grew and changed from one based upon agriculture to that of industry and services. The impact industrial production had upon Norway, and the response of the state in terms of organization, will be the focus of this case study. The South East Asian state of Malaysia will be

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<sup>1</sup> Charles Tilly, „Reflections on the History of European State-Making“, in Charles Tilly and Gabriel Ardant (eds.), *The Formation of National States in Western Europe*, Princeton University Press, Princeton, 1975, p.42.

examined as a historically subsequent case of industrialization. Malaysia lies on the periphery of the East Asia region, is small in size and its economy is heavily dependent upon trade. From the end of the 1960s Malaysia underwent a dramatic transformation of its economy, shifting into manufacturing and services. Rapid economic development impacted greatly upon Malaysian society and the institutions of the state. The purpose of examining the two case studies is to place the relationship between state development and industrialization under the microscope. It is not the primary aim of this research to develop new insights into Norwegian or Malaysian history. The findings from the evidence will rather inform an improved understanding of modern state development.

A direct comparison of Norway and Malaysia will not be undertaken initially, however, points of similarity will be discussed throughout the analysis. In presenting these particular cases it is necessary to point to some key differences and similarities now to provide a clear picture of the case studies and how they stand as an appropriate way to test the analytical approach of this thesis. The period of focus upon Norway is from 1895 to 1935. The industrialization of Malaysia will be analyzed from 1969 to 1999. Both periods have been selected because they lie in a period of great economic growth. In addition, because of significant political upheavals at the beginning and end of each respective chosen period, the case studies will permit an assessment of state development that identifies major state institutional changes over time. The time frames chosen thus make ideal entry and exit points for analysis.

Norway and Malaysia are located in different regions, making for quite different economic, cultural and geographic contexts. Norway has an ethnically homogenous population bar the small minority Sámi population in the far north. This homogeneity is reflected in a common language and an absence of cultural division. In contrast, Malaya (subsequently Malaysia), since it gained independence in 1957, has experienced considerable social and political tensions associated with relations between its three main ethnic groups. With each group having different religious faiths, social customs and economic niches, Malaysian society in the period studied is complex and diverse.

Whilst there are some key differences between the case studies they share some noteworthy similarities. Both underwent industrialization following independence gained from a colonial or occupying power. Their growth was rapid and followed a similar path in progressing from agriculture to light manufacturing and services. Both states as a consequence expanded their banking system, employment structure changed dramatically and living standards grew. Yet a major similarity that forms the basis for their utility as case studies is that inter-state war did not directly shape their territorial boundaries: rather, a process of post-colonial settlement dictated proceedings. Similarly, foreign investment from major regional economies played a crucial role in their respective economic growth. In both cases, foreign investment flowed in and had to be managed by the state in order to direct it toward profitable outcomes. It will be demonstrated that this investment, due to its rapidity and transformative effect, had a significant impact on state development in Norway and Malaysia.

The following thesis is therefore an attempt to apply a corrective to the European-derived understanding of state development. Many small and new states throughout the twentieth century did not encounter the same strategic, economic and political environment as did those of continental Europe in the seventeenth century. There are some important distinctions to be made in this respect. Many new states of the twentieth century had their boundaries determined for them by major powers and so the process by which territorial control was established did not occur in the same manner; war-making is a less significant factor in directly dictating their history. More significant as an explanatory factor is the impact of industrialization and the role such an economic process had in political change. Many small states were heavily engaged in trade and thus endured the difficulties and opportunities of exposed or open domestic economies. An additional consideration is the means by which many states sought security in the twentieth century. The twentieth century state can also be further distinguished by the possibility that development also reflects a deliberate political project on the part of certain social groups and political leaders. Industrialization, as the path to greater economic growth, can be considered as a vehicle for a project of modern state building. The case studies will demonstrate how the state, through policies and institutional development, shaped the process of industrial development.

Directly, this study addresses how the state as a bounded territorial space for social contestation and as a set of institutions has responded to and altered the economic process of industrialization. This is considered by an examination of two case studies - Norway and Malaysia - and the industrialization of their economies. This thesis suggests that industrialization, in its impact upon the state, became a political project by the state as well as an economic process. The institutions of the modern Norwegian and Malaysian states formed around the industrialization process. The state institutions then impacted upon industrialization by influencing the economic process through regulation and management of its components.

This argument will test the historical evidence of the case studies against existing concepts of state development. The case studies will provide the core of this thesis, laying the foundation for a reassessment of the concepts discussed in Part One. Theory will provide a guide to exploring history, but will itself be subjected to scrutiny by the evidence examined. By doing so, the thesis will place some important assumptions about state development under new light. The literature review in Part One will demonstrate that perspectives of the state often rest on one of two important assumptions. The first departure point for many concepts is that states are a historical consequence of various social processes. States, including their modern version, are from this perspective, organizational responses to forces and processes that occur in wider society. The state therefore, is conceived of as an arena in which social actors operate and influence political outcomes. The second view perceives states primarily as a set of institutions able to exercise control over society. Such a view, one that closely equates states with government, ascribes degrees of agency to the institutions of the state and makes their conduct the focus of analysis. Most perspectives of the state have taken one of these two directions, excluding the other to varying degrees; sometimes to the detriment of insightful analysis. To provide a basis for the literature survey that follows, a preliminary understanding of this thesis' approach to the modern state must be advanced. In this thesis, the modern state will be viewed from *both* the perspectives broadly outlined above. It is the purpose of Part One to argue why an examination of the modern state on such terms is useful. The discussion of various concepts will contribute to building a framework of analysis that incorporates these approaches. The case studies in Part Two will further demonstrate the utility of

such an approach. The historical analysis of Norway and Malaysia will show why, in the context of industrialization, perceiving the state as an arena and as a set of institutions together enhances analysis of the modern state in the context of industrialization. Such a definition, whilst it will be given further attention, is not atypical of literature on the subject, and further it is not the intention of this thesis to forward a new understanding of the state *itself*. A second and related issue to be addressed is the conceptual divide between the state and society found in much of the relevant literature. Social theory has often separated these two spheres for the sake of clarity. As Part One will discuss, such an approach has not always rendered a clear picture of the modern state and its development. Part One will suggest some ways to resolve this issue, chiefly through the development of an analytical framework that places interaction between the two spheres at its centre.

Both case studies will be handled in similar fashion. First, the industrial development of the economy is analyzed, identifying the key changes that occurred. This will set the context for an analysis of modern state development. Second, the key groups and organizations within the state will be identified and their response to industrialization analyzed. Industrialization impacted upon key social organizations such as political parties, trade unions and business organizations: the ways in which this occurred will be analyzed. Third, once the role of these groups is established, the process by which they interacted with each other and the institutions of the state in the context of industrialization will be examined. The questions asked of the case studies are: how were key social organizations within the state shaped by industrialization? How did these organizations interact with the institutions of the state during the process of industrialization? How did the state as a set of institutions respond to this dynamic? These questions will undergo refinement in Part One. The answers to these questions provided by the evidence will serve to address the central problem of this thesis.

## ***THESIS AND ARGUMENT STRUCTURE***

Part One of the thesis explores various concepts and perspectives of the state to ascertain their utility in understanding state development during industrialization. In building an approach and method, the literature will be directly engaged with to understand the state, industrialization and the relationship between the two. This part



analyzes existing concepts in order to formulate a method to approach the case studies with. Chapter One analyzes arguments that depict the state primarily as an arena and shaped by various social processes. Concepts of the state as a war-maker will be examined. It will then analyze Marxist, world systems and pluralist traditions and concepts of the state. The chapter examines perspectives of the state as an organizational form developing from the processes of war-making, capitalist production and other forms of interaction between social groups. These approaches portray the state as a consequence of these processes. Just how well these approaches consider industrialization as a factor in state development will be directly addressed. It will also address the concept of the *modern* state, to identify it as a particular form of the state. This chapter aims to build an approach to analyze the modern Norwegian and Malaysian states as arenas, as they underwent industrialization.

Chapter Two will examine contrasting perspectives that portray the state primarily as a set of institutions. Building on the approach of the previous chapter, this chapter will consider the state as a set of institutions with the ability to shape and influence society. The impact of industrialization upon the state is discussed in this light. The nature of industrialization and its unique impact upon society and the state will be discussed and incorporated into the approach. The aim of the chapter is to develop the tools by which to examine the relationship between industrialization and the institutions of the modern state. In particular, theories of the 'developmental state' will be scrutinized as these theories have come closest to exploring this relationship in ways that help address the problem of this thesis. It is necessary to canvass a wide body of literature as the context of major economic change requires an approach to the state that utilizes elements from an array of concepts. The framework developed will permit a flexible and responsive analysis of the case studies; one that understands the modern state development process as one which shapes economic outcomes, not just as an organizational response to industrialization.

Part Two of this thesis is devoted to the study of Norway and Malaysia. These case studies will serve to test the analytical framework developed from the literature review in Part One. The question 'how does industrialization interact with and shape the process of modern state development?' will be asked of the case studies. The historical studies will inform an improved understanding of the development process of the

modern state. Industrialization as an economic process will be analyzed, focussing on the ways Norway and Malaysia made a transition from labour-intensive to capital-intensive production. This part will consider the new economic sectors and their social impact. This will be followed by an analysis of the key social organizations in each state, what and who they represented, what their interests were, and how they interacted with each other. The remainder of the section examines how these organizations came to interact with the institutions of the state in the context of industrialization. How were group interests channelled or not into policy and actions? This analysis is crucial as it demonstrates important aspects of modern state development to be a result of interaction between state institutions and social and political groups. Importantly, this process of modern state development in turn had an impact on the process of industrialization. The case studies will demonstrate how economic development became a political project of state institutions and political leaders and increasingly supported by the many actors within the state arena. Chapters Three and Four examine Norway within this framework and Chapters Five and Six will treat Malaysia in the same way.

Part Three of this thesis draws conclusions from the case studies in order to make a contribution to the state development literature. The insight gained from the case studies will be used to present a conceptual picture of the relationship between modern state development and industrialization. The evidence will demonstrate that in the twentieth century an important driving imperative for the development of modern states has been industrialization. It has been the context whereby the modern state has emerged and developed. Therefore, the model of state formation based upon the war-making paradigm needs to be reconsidered in this light. Small states on the periphery of their economic regions in the twentieth century experience industrialization rather than war-making as the driving imperative in their development processes.