American Journal of Economics 2013, 3(2): 108-112
DOI: 10.5923/j.economics.20130302.08

Malaysia's New Economic Policy: Issues and Debate

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Abstract The aim of this paper is to discuss the issues concerning the New Economic Policy (NEP) of Malaysia. Even though the policy has ended nearly 20 years to-date, the issues of unequal treatments felt by the non-*Bumiputeras* and power struggle are still debatable. Regardless the outcry, it is undeniable that the NEP has great significant on putting the economic and social balance between ethnics in the country. The basic idea of NEP is as a plan to upscale the economic and to have an equal distribution of the national wealth without neglecting any parties as well as maintaining our country well-being.

Keywords NEP, Bumiputera, Racial Riot 1969

1. Introduction

The New Economic Policy (NEP) which compel between the years 1971 until 1990 had became a talking point even after 20 years its implementation. Some say it was a controversy policy and might be the most controversy among all. The policy enforced and mainly support the economy and the social development of the *Bumiputeras* (literally, sons of the soil which includes Malays and other indigenous group), however many found themselves been discriminated systematically especially those non-*Bumiputeras*. Two pronged objectives have been introduced under NEP, to reduce and eventually eradicate poverty; and the second is to accelerate the process of restructuring Malaysian society so as to eliminate the identification of race with economic function.

The debate about its implementation and its effectiveness had risen out many voices since the objectives highlighted were not only having a significant impact on economic issues but also on political aspects. As to date, the views on the policy are mixed up with different outlook and viewpoint based on what someone perceived. Some viewed the policy as exclusiveness or more favorable to a single race which was *Bumiputeras;* thus the policy postulated as injustice to other races. On the other hand, the majority of *Bumiputeras* holds it positively as the policy secured their long-lasting survival in economic and gradually improves their standard of living.

2. The Background of NEP

The inception of NEP was earmarked by the second Prime Minister of Malaysia, the late Tun Abdul Razak. The policy set up in response to the racial riots which took place in 1969 and upon frustration caused by serious economic imbalances especially within ethnic groups as well as uneven economic development across the sector (Khoo Boo Teik, 1995). *Bumiputeras* at that time failed to up-scale their economy and competing with other races in the country resulting from the divide and rule policy inherited from British; by which has left all the Malay folks in their villages operating their self-sufficient economy.

The outbreak of violence on May 13 was the result of an interaction of forces which include a generation gap and differences in interpretation of the constitutional structure by the different races in the country (The National Operation Council, 1969). This following the election result whereby during the campaign, election candidates and politicians, especially from the opposition, has raised up sensitive issues related to national language (Malay), the special position of Malays (*Bumiputeras*) and non-Malays citizenship rights.

It was later then the National emergency declared on the night of May 16, 1969 and the National Operation Council (NOC) was formed under the administration of Tun Abdul Razak and the Parliament was dissolved. After that, the May 13 tragedy had changed the political and economic landscapes of Malaysia: the change of political leadership from Alliance to Barisan Nasional (BN), as well as transforming the Malaysian economic system from laissez-faire to government intervention in mixed economy. This uprising put a vital signal to current ruling government to come out with an affirmative policy that can promote fairly distributional of income together with low-level poverty rate.

2.1. The Criticism on New Economic Policy

The implementation of NEP has sparked variety of

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Published online at http://journal.sapub.org/economics

criticisms. The NEP objectives are said have yet to be fully achieved to date although it was mended to consolidate all races in Malaysia. The critiques pertaining NEP extended to all aspect of economic planning; from scholarship granted to employment, from agriculture sector to industrial enterprises, from contracts and licensing to foreign investment, so on and so forth. Even though the critiques of this policy range widely, the discussion on this paper will focus more on major areas which are discussed by many; the political and economic aspects.

2.2. Economic Aspects

In order to support and accelerate the *Bumiputera*s' economic development, the Federal Government had taken the steps to determine the targets for them to achieve as it is important in making sure the assistance can be channeled accordingly. Thus, many aspects in the business rules and regulations is said were revamped to support the NEP aspiration.

The policy has become the most controversial issues where by the government has been said as practicing economic discrimination towards *non-Bumis* (Jesudason, 1990). In aligned with that, Khoo Boo Teik (1995) also has said that the NEP's implementation during its first 10 years generated inter-ethnic tensions and disagreements. The policy is said as 'favored Malay so much' tends to be resent as ethnic discrimination by non-Malay communities. The scenario could be seen in 1975, when the Industrial Coordination Act (ICA) was introduced; to ensure competition in manufacturing industry and there would be stricter in business licensing. Under this Act, Malaysian firms had to put aside at least 30 percent of their corporate equity for Malay interests. Because of it was directly linked with an enterprise's observance of the goals of the NEP; thus, all non *Bumiputeras* companies need to employ and train Malaysian citizens to reflect the multiracial composition of the country's population in all grades of appointment up to managerial level (Jesudason, 1990).

In addition, this act also has indicated that foreign firms had to provide 70 percent of ownership for Malaysians and out of which, a minimum of 30 percent was to go to Malay interests. As a result, it has been said as led to the decline of foreign investment in the nation. While the Malay share was to increase from 2.5 per cent to 30 percent, the foreign share was to decline from 59.6 per cent to 30 per cent ('Outline Perspective Plan 1970 – 1990', published with the Mid-Term Review of the Second Malaysia Plan 1971 -1975 as cited in Jesudason, 1990; Khoo Boo Teik, 1995). Many of the potential foreign investors were reluctant to invest in Malaysia for fear of NEP-sanctioned 'nationalization'. They were often reluctant to joint ventures with Malay partners since many of the latter were holding back payments or expected to be funded on easy terms. Others were refused to accept a minority position in a 'forced inter-racial corporate marriage'.

On top of that, in the late 1980's, Tun Mahathir has made a statement on NEP's objectives by saying that; "in trying to redress the imbalance it will be necessary to concentrate your effort on the Malays, to bring out more Malays entrepreneurs and to bring out, and to make Malay Millionaires, if you like, so that the number of Malays who are rich equal to the number of Chinese who are rich, the number of Malays who are poor equal to the number Chinese who are poor and the number of unemployed Malays equals to the number of unemployed Chinese, then you can say that parity has been achieved" (as cited in Muzaffar, 1989). Was him wrong to say so? No, he did not. What he meant was, Malays need to participate and succeed. It is only the first step to find the parity line, so that they could put their own efforts in the future. There was no virtue for the non-involvement of Malays in the capitalism.

2.3. Political Aspects

The ball kept on rolling. Many scholars have agreed that the major negative impacts brought about by the policy whereas it permits the Malaysian politicians on their own or on behalf of political parties to hold business post which is prone to money politics (Gomez, 1994; Crouch, 1996; Yik Koon Teh, 2002; Jesudason, 1990). It has been seen as a means to dispense patronage and also led to conflict of interest situation that drive to allegations of favoritism and corruption.

Thus, what is said as money politics? Money politics is getting illicit funds from business people and rich individuals with vested interests. It is done for securing their business favors for instances contracts, government projects, and other forms of business (Teh, 2002; Loh, 2004). Besides, it is also being defined as vote buying election includes using money, gifts and contracts to buy supporters or voters. Hence, Teh (2002) in his writing highlighted that the NEP gave greater state intervention in term of economy includes resource allocation, the public sector ownership and business enterprises.

Money politics in this sense can be divided into two categories; firstly is the direct way during the election time where money and presents distributed to voters and secondly is indirect way which purposely done to gain loyalty obedience from supporters for long term period. It is said as eventually results the subsidy mentality to *Bumiputeras* whereas led to patronage problems. It was done through giving out government contracts to the supporters, providing development projects in the supporters' areas. Although Section 19 of the Election Offences Act 1954, stipulates the maximum amount of money that a candidate can use as election expenses whereas, RM50,000 for the parliamentary election, RM30,000 for the state election, RM10,000 for the local authority election and RM3,000 for the local council election. However, in reality the expenses of the election will go beyond than the amount. In fact, the Members of Parliament have access of RM300, 000 of slush funds called minor-rural-project fund (MRP) (Teh, 2002; Crouch, 1996).

Crouch (1996), in his book described that in the 1960s, the

UMNO [1] was able to give supporters access to land, government employment, and commercial facilities, among which timber licenses were of great importance at the state level. It is not a problem for the candidates from the ruling party to provide those assistance to their supporters, since they have the access over the government assets whereas, the opposition parties would never have a chance to do that. Crouch in his writing has added that there are differences in serving the supporters in rural and urban areas by which the rural people are more convenient to be pleased because they are poorer, less educated and less informed. It would be more costly to please the rural people, for instances, they are rewarded with luxury holidays, hotel accommodation, business contracts, and some other forms of expensive gift. Meanwhile, the bribes for rural people is more simple like batik cloth, rice, cows and chickens for village celebration and some development projects or facilities provided in their areas.

Not only that, UMNO has been said as a more active player in business. However, they have different agenda which is to seek financial independence from the MCA and to gain control of the main newspaper company (Crouch, 1996). By doing this, they have better chances in the election because there will be nice report on them in the newspaper. As a burden of proof, Loh (2006) has stated that, although mainstream media ultimately support for BN, they also generate hype to bring people out to vote in General election 2004.

Gomez (1996) has added that in NEP, UMNO is not only has dominance over that state, they are also function as investment holding entities during 1970s. Among the business controversies associated with political parties were the *Bumiputeras* Malaysia Finance (BMF) involving UMNO in 1983, the MCA-linked Deposit-Taking Cooperatives (DTC) scandal in 1986 and the MIC's Maika Holding-STM share expose in 1992 (Gomez,1996). In addition, the public enterprise might be a major contributor to Malaysia's foreign debt problem due to poor management and money politics. In 1983, two-thirds of the government total expenditure was used to run twenty seven of the country's largest public expenditure.

On top of that, Multi-Purpose Holdings has a heavy political support from Malaysian Chinese Association (MCA) and it was utilized to acquire a number of publicly listed companies. In 1982, it was acknowledged as the second largest shareholder of Malaysian corporate stock and this reflected the MCA impressive performance in the 1982 General Elections. Meanwhile, the Maika Holdings Bhd which was launched by MIC in 1984 by which most of the directors comprise of MIC leaders preferred to remain as a holding company (Gomez, 1994).

The passing of NEP has eroded much of the Chinese supports over MCA. The affirmative policy such as ICA 1975 has led disagreement among the Chinese communities and the so-called greedy *Bumiputeras* to practice malicious ways in conducting the business. Thus, the Chinese reluctance to invest in the country and they pulled out their assets from this country and move it to other countries like Indonesia, Hong Kong and Singapore (Gomez, 1996). Besides, there are considerable number of *Bumiputeras* in top business positions; the functional company directors were predominantly Chinese, whereas *Bumiputera*s merely functioned in symbolic capacities (Gomez, 1996). The *Bumiputeras* who wants to get rich quickly would prefer to collect rentier profits as front-men for Chinese and trade their legal preferences without being actively involved in business. It is called as 'Ali-Baba' relationship (Jesudason, 1990 and Means, 1976).

Tun Mahathir Mohamed somehow has condemned the activities of 'Ali Baba businessman' that happened during the implementation season; where he accused some Malay businessmen taking for granted the assistance provided by the Government (Mahathir Mohamed, 1978). According to him, such assistance shall be converted into knowledge and skills instead of establishing a company which only takes percentages out of the contract awarded. In addition to that, Khoo Boo Teik (1995) has suggested that that kind of relationship also worked out when Malays, who might hold government contracts but having cash flow problem. A new generation of businessmen discovered rapid wealth in 'rent-seeking' alliances with Malay bureaucrats, top military personnel and members of the royal families who were invited to participate as shareholders. Thus, those Chinese businessmen will be able to procure licenses, permits, contracts and other business ventures regulated by the state by exploiting important sources of Malay capital such as Pernas, PNB and Peremba Berhad (Ariffin Omar, 2003). All of these were done due to limited access of the legal preference by Chinese businessmen.

3. The Analysis of the Situation

Despites of being said as the most controversy policy ever, at one point, we could say that, this policy has become the foundation of and the important yardstick for all economic and social policy as projected at least until year 1990. Although it has ended for a quite period of time, and other policies planned and executed, the impact of NEP is felt until today.

The main gist of the policy was pursued deliberately. It could be seen from the increasing of Malay's equity in their own land as they are the son of the soil. Although the government aim of 30 percent of equity ownership of *Bumiputeras* is not achieved, however, according to Ariffin Omar (2003), the two decades of implementation of NEP has resulted to 20.3 percent of it, which is still impressive. Not

[1] UMNO stands for United Malays National Organization. It forged an alliance with a Chinese businessman dominated organization called the Malayan Chinese Association (MCA) and Malayan Indian Congress (MIC), led mainly by Indian professional to contest election to the Federal Legislative Council in June 1955. The multi-ethnic Alliance won 51 of the 52 seats contested. Barisan Nasional (BN) was then formed in 1973 as the successor to the Alliance.

only that, there is emergence of new Malay entrepreneur as more Malay entry in business. Generally, the number of Malay retail establishments increased from 13 percent to 34 percent of total retail establishment between 1971 and 1981 (Jesudason, 1990). On top of that, the new class of Malay millionaires to name a few; Tun Daim Zainuddin, Tan Sri Azman Hashim, Tan Sri Wan Azmi Wan Sulaiman, Tan Sri Rashid Hussein and even members of royalty had their Chinese Business partner by which became their goldmine.

In matters of education, the Malays community has greater access to education as they have less opportunity in previous time. The assistance in education including the scholarships offered, the quotas for admission in universities, special training and remedial courses so on and so forth. By 1982, there were 50,000 Malaysian students pursuing education abroad, mostly in England, North America or Australia, with almost of them fully funded by the government (Means, 1976). As a result, there was an emergence of a Malay middle-class. The Malay middle-class has brought the national politics to not only focusing on the ethnic basis, but go beyond that. The civilized middle-class started to take place in the politics arena or at least have their own says on formal issues; like election, in the election and also in the informal issues like human rights.

The strongest argument for NEP is the policy had helped to bring about the political stability and national unity in the country. Paradoxically, not only Malaysia is having dilemma for policy grievances of discrimination against certain parties, there are similar problems also faced by other countries, to name a few such as America, Thailand, Indonesia and Singapore. Although this policy is seen as one kind of affirmative policy, however it does not practice the 'real' discrimination to the races other than Malay. If we turn the wheels from north to south, from east to west, the affirmative policy is being exercise in elsewhere with more abusive regulation to non-indigenous races compared to NEP in Malaysia.

Lily Zubaidah (2004) for examples wrote from the perspective of Singaporean Malay, where Malay is a minority there. The oppression against Malays in Singapore might be since its political independence in 1965 from Malaysia which has resulted serious ideological consequences. The shared name of Malay identity has been replaced by the national identity. The Malays who are perceived to have relationship or family ties in Malaysia are not only denied in participation in the nation, more than that, they are directly incorporated into the emergent nation and exhorted to participate in the national building project as it recognize their status as indigenous and their deprived economic situation.

In America, the phenomenon of the 'real' discrimination could be seen in the more abusive manner towards African American. They were discriminated in every aspect in their life. Raskin (1995) has explained that there were at least four political and legal techniques used to restore baseline of white supremacy there. It is including the disenfranchisement schemes such as through literacy tests, poll taxes and violent intimidation; the use of state law enforcement to marginalize, subordinate and terrorize the African American community; the dissemination of pseudoscientific racialist literature to support notions of African American inferiority and to justify inequality; and last but not least is the ideological and political assault on any use of race-conscious government policies or programs to uplift the social or economic position of the black community.

So do the discrimination that happened towards Chinese Indonesian. Winarta (2001) highlighted that Presidential Instructions and Decrees in 1967 limited the scope of traditional Chinese expressions to the family worship house and the Chinese, with the connotation that "such citizens shall be assimilated as to avoid any racial exclusiveness and discrimination" have to change their Chinese names to Indonesian names, the use of Chinese language and characters in newspapers and stores was prohibited in 1966 untill 2004 (as cited in Koning, 2006). On top of that, those non-indigenous need to have SBKRI (Surat Bukti Kewarganegaraan Republik Indonesia) as evidence to prove their Indonesian citizenry. All of these efforts were initiated in the New Order regime under Suharto which the Chinese Indonesian was not given opportunities for political expression (Winarta, 2001).

Based on the above arguments and reality, the majority-minority relations all over the world imposed indirect and direct systematic discriminations in their home country. Views on equal rights in a country seems to be partly as the 'imagined communities' which fought by the minority to ensure their ethnic groups are protected from continuous oppressions from the authority.

4. Conclusions

In the nutshell, as presented, there are merits and demerits of the implementation of NEP over the nation. But looking at the glass half full, we shall celebrate what we have. The increasing of Malay's equity and the emergence of new Malay middle class and entrepreneur has lessened considerably ethnic tensions. Not only that, the increase also contributed to higher purchasing power among the society that indirectly help out the economy to survive during economic aftermath. The highest contribution of this policy is regarding the harmonization and stabilization it brought along without practicing oppression and suppression to the races other than the son of the soil itself. Basically, the discrimination and inequality treatment towards minority is undeniable in all over the world and without exception to Malaysia. These systematic discriminations are perceived as normal submission where the majority usually gets higher benefits compared to the minority (Nur Zafifa, 2008). Discrimination on education, family and urban planning, denial of admission into the national university, was among the marginalization over minority to ensure the majority get what they deserved. But, somehow, NEP has been used as a

weapon to go against *Bumiputeras'* achievement. The basic idea of NEP is as a plan to upscale the economic and to have an equal distribution of the national wealth without neglecting any parties. However, the government did not foresee of the effects of it. It is undeniable that the implementation of NEP has brought along the unsavory issues. NEP has rewarded 'money politics', 'rent-seeking behavior', 'patronage', 'dependency syndrome' or 'subsidy mentality' and channeled much individual energy and activity into 'distributional coalitions'. The slopes of NEP have been fulfilled by opportunist. It is extensive and increase concentration of ownership in the hands of elite minority and also the political ties. Thus, they are the one should shoulder the blames and not the policy discussed.

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