

A Review on the 1970s Malaysian New Economic Policy from Economy, Society and Ethnic Problems

Leyi Lin^{1, *, †} Jianlin Wu^{2, *, †} Haoran Zheng^{3, *, †}

¹Duke Kunshan University, Kunshan, China

²Peking University, School of Foreign Languages, Beijing, China

³Shanghai Normal University, School of Humanities, Shanghai, China

*Corresponding author. Email: ¹ll340@duke.edu, ²1800018103@pku.edu.cn, ³1000465147@shnu.edu.cn

†These authors contributed equally.

ABSTRACT

This review focus on the New Economic Policy and the researches about it. Analyses the economy, society and interethnic relationships during that era. It is divided into three dimensions: the overview of the whole policy, the wealth redistribution and the interethnic problems. We conclude that the New Economic Policy was successful in improving the economy of Malaysia, but inequality was followed closely. However, our research review bases on literature analysis, so the information about the primary level of Malaysian society is limited. This review will give reference to the subsequent researchers and provide a summary of the New Economic Policy.

Keywords: *New Economic Policy, interethnic problems, equity target, wealth redistribution.*

1. INTRODUCTION

The New Economic Policy (NEP) is the first macroscopic policy launched by the government of Malaysia after the 1969 *13 May Incident*. The policy evidently changed the economic landscape in Malaysia. One of the most is the equity ownership policy, which enables the Bumiputera to have better economic conditions than the Chinese Malaysian. NEP also had a huge influence on the political and cultural. NEP significantly improved the economy of Malaysia, accelerated the progress of industrialization and modernization. But the policy was operated at the cause of ethnic minorities. As an economic policy, it is a reference for many developing countries, but it is also a negative example in the view of moral and Political Correctness.

The recent research from scholars focused on the redistribution of wealth during the NEP. Because of the high proportion of Chinese Malaysian in Malaysia, the Chinese scholars usually pay more attention to the interethnic relation, such as the unfairness in politics, economy and education. Hu and Mei are both very typical. They narrate the dilemma which Chinese Malaysian was facing precisely. In contrast, Western and local scholars focus on economic problems. Kui and Lee are theirs represents.

This paper organizes the research from both Chinese and Western scholars in three dimensions. The comprehensive impact of NEP, the Restructuring Efforts in the Corporate Sector and the interethnic relationship and cultural position of Chinese Malaysian. Literary analysis is used to review the consensus and conflicts between scholars from their researches in NEP.

2. THE OVERVIEW OF SOCIAL AND ECONOMIC IMPACT OF NEP

The research about Malaysian's NEP in the academic field has always been an important and interesting topic. Many academic researchers have given out a great number of essays on how NEP had impact Malaysia. Conclusion and most of these research articles are not only interesting but also essential for us to know how the NEP impacts the development of Malaysia's political economy and Malaysian society. Therefore, I shall briefly introduce ideas from famous researchers.

2.1. *The political economy impact of NEP*

Firstly, the NEP changed the political landscape in Malaysia and gradually became a tool to legalize the privileges of Malaysia's indigenous people [1]. Researcher Ren states in her article that, for Malaysians,

the NEP has also poisoned racial relations and shaped the country's political, economic system. Ren believes that the racial divide in Malaysian society is a deliberate product of British colonial rule, which was established to help develop the local economy assuming that the British colonial company would more easily control them. After independence, many Chinese Malaysian and Orang Indian Malaysians stayed in Malaysia and helped to dominate many non-government sectors. According to NEP, despite the effort that the Chinese and Orang India Malaysian spent on developing Malaysia, the local Malaysians were legally guaranteed a minimum 30% share in all economic sectors and representation in all industries. And many governments' procurement and licenses are reserved for Malay companies only.

The policy enjoyed broad public support at the beginning, for nearly all ethnic groups can share the benefits of the economy. However, some unexpected consequences followed as the NEP was gradually implemented.

2.2. The social impact of NEP

Thus, here comes the second impact: the indigenous Malaysians controlled political and economic power and gradually tended to oppress other ethnic groups. Author Ren wrote in her article in which she believed that the NEP has gone from being a redistribution tool to something that had enlarged the gap between indigenous Malaysians and other ethnic groups [1]. Ren states in the essay that, after the 1970s, there was a movement to rebuild Malaysia as a Malay state. With billions of support, dollars came from the NEP project. The Malay elite quickly discovered that almost anything could be justified in the name of "Malay rights". Suddenly, policies and projects that had nothing to do with the NEP began to emerge. Estate developers needed to give discounts to buyers from Malaysia. Banks have been told they must provide a proportion of loans, or even shares, to Malay firms, and certain government contracts can only be awarded to Malay companies. Ren claimed in her essay that Malaysia's economy and society are based on race, which in turn produces an official national narrative that Malaysians are indigenous to Malaysia and therefore entitled to certain benefits. While other ethnic groups were outsiders and had to obey the rules of the indigenous Malaysians. These kinds of policies sent out a powerful signal that Malaysians have indigenous rights while the rest are not considered to have full citizenship. Since then, all government programs have been designed to help and empower the indigenous population, thereby providing legitimacy for new forms of institutional racism in Malaysia. The term indigenous only became a standard language in advertising and the media. In Malaysia, all is considered normal. As an impact, the government has gone all out to support Malaysians, helping them dominate all professions and putting the Malay middle

class on track to own the share of the nation's wealth. And the transfer of wealth from non-Malays to Malays had speed up, which led to the rise of some Malaysian corporations through the privatization of state assets. Overnight, hundreds of Malay millionaires and a few Malaysian tycoons had emerged through the help of the NEP support.

2.3. The economic impact of NEP

However, the NEP is not so successful that some dissatisfaction and backwards also existed during this process. Author Shi declared in his article that, on closer provincial examination, a different kind of top-down politics runs parallel to Malaysia's great social engineering programmed [2]. Shi stated that large companies that wanted to list on Malaysia's stock exchange were legally required to allocate 30% of their shares to Malaysian investors approved by the government. Combined with the Malay's unique system of permits and easy loans, many Malaysian businessmen who receive preferred shares and permits immediately resell them to non-Malayans for immediate profit, which had defeated the purpose of helping Malays gain a permanent foothold in the economy by developing their own businesses. But the worst was yet to come. Malay businessmen who profited enormously from NEP soon became completely dependent on government contracts and patronage. But non-Malay businessmen who want government contracts must rely on a joint venture business model, in which a Malaysian is the majority shareholder. Still, the company is run by a non-Malaysian. These so-called Malaysian companies would then win lucrative government procurement programs for indigenous people only and gradually changed the core and essence of NEP.

To conclude, as a policy that has lasted for a few decades, the NEP does have a strong and long-lasting potential influence on Malaysia in many aspects. And studies of NEP in essays that I mentioned above have both closely followed the real situation of NEP. Still, it seems there are relatively rare details and certifications about whether these studies have a concrete and exact influence on the sense of reality in Malaysia. From my point of view, all these three articles have closely researched the NEP. However, one simple drawback appears in these essays: the NEP as a policy can be changed in the future to have a better influence on all Malaysian citizens. Thus, future studies on NEP would have more perspectives on how we can change the NEP and how could NEP be of a better use for the future of Malaysia.

3. THE OVERVIEW OF CURRENT TRENDS ON NEP'S EQUITY REDISTRIBUTION PLAN

Among published articles in the field's flagship journals and academic articles, critiques have concentrated on the Malaysian government's consistent efforts to redistribute corporate equity ownership according to ethnicity for decades. As the 30% Bumiputera ownership target introduced in the 1970s serves as a prototype and continues to hold a prominent position in the state's policy-making, reexamining the racial problem and economic deficiency of this plan pertaining to NEP has become a prevalent trend and critical theme in academia. The recently proposed policy Vision 2030 have restated the 30% target as its "perennial underachievement" [3], from which criticisms have been triggered, regarding the state's continuing efforts of using "positive discrimination" to achieve the alleged social equity as politically coercive and ethnically-biased. Stern opposition from the People's Justice Party of Malaysia (Parti Keadilan Rakyat) and public criticisms have been induced, making it more urgent to reassess the past 1970s NEP and official's justification for the justification pro-Bumiputera policies in the business sector [4]. Since the current Malaysian socio-economic circumstance is inevitably related to the lasting influence of NEP, careful reviews and reexaminations on scholars' critiques of NEP's equity ownership policy could offer instructive insights into the past trends and future promise of the Malaysian government's economic control in the corporate sector.

3.1. Critiques on the Excessive State-Intervention of the 30% Equity Target

In analyzing the selected five articles published in flagship journals and supported by research institutions including Southeast Asian Affairs, Malaysian Economic Studies and United Nations Research Institute, a prevalent concern is revealed by scholars and researchers about the excessive governmental control of NEP's 30% equity target.

Jomo and Amin's articles emphasize that the equity target acts as a major means to reach the NEP's overarching goal of "restructuring society" to reduce inter-ethnic disparities [4]. According to Jomo, under the 30% equity target, the Bumiputera share of corporate stock ownership is planned to rise from 1.5 per cent in 1969 to 30 per cent in 1990 [4]. Though Jomo affirms this target's effectiveness and economic achievements, as the equity gap has been significantly narrowed with steady domestic annual growth, scholars including Jomo, Chen and Ren show a collective concern over the growing state intervention in implementing the policy. Jomo points out the state's extensive use of public sector and state intervention in increasing the capital share of indigenous

Malays, especially of Malayan elites, including businessmen and professionals, instead of the underprivileged groups as Jomo states that, though government policy before the NEP was "basically laissez-faire in approach" [4], with equal supports regardless of race, the 1970s was marked by growing state intervention in favor of the emerging Malay elite. Ren further reveals the government's hidden agenda of this equity target, which serves to retrieve Bumiputera interests in the name of social equity while intrinsically holding a pejorative sense of ethnic discrimination [1].

3.2. Critiques on the Deficient Official Data Measurement in Evaluation of the Equity Target

On the topic of equity ownership data analysis, most scholars' and researchers' interpretations of the official statistics are based on a dubious premise of the true effectiveness of the data without conscious examinations of its validity. However, a few scholars, including Jomo and Lee, shed light on the inefficiency and inaccuracy of the officially published statistics, which the state has used as evidence to support the continuance of the equity plan.

As the official equity ownership data illustrates the 30% target as underachieved, which entails continuant pro-Bumiputera efforts, Jomo and Lee detect problems of the empirical measurement of the statistics. Lee argues that the official data "are clouded by the combined effects of including foreign ownership and excluding Malaysian government ownership" [5]. Jomo utters the same view while emphasizing a lack of transparency on the government data. According to Jomo, official figures render limited information for its sole concern on nominal share values while lacking other criteria, including market values, share prices and share ownership in lucrative private limited companies. He speculates that the 30% target might have already been achieved if these factors were taken into account since market values could reflect the increasing proportion of foreign and Bumiputera shares at the expense of the Chinese share. Therefore, Jomo argues that the official data of ownership distribution pertaining to the equity policy "does not accurately reflect wealth ownership in Malaysia" [4].

The reevaluations of the equity data are important as they may prove the ethnic gap in equity ownership as already fulfilled, thus providing potentially effective counter-arguments against the Malaysian government's motive of continuing the 1970s 30% equity target in 2021s.

3.3. Critiques on the Problem of Wealth Concentration in the Equity Target

Nearly 80% of the selected articles offer insightful critiques on the social objective of the equity target. The five articles are representative samples providing

constructive analysis into the social objective. They adopt sociological perspectives to unveil a disparity between the goal and outcome of the equity plan. Though the plan originally aimed at promoting economic equality, it actually enlarged the wealth gap in the process of implementation. Scholars argue that the state's political agenda of ethnic superiority is carried within the equity plan in the name of social equity.

A consensus is shown among scholars of the five articles that the equity target is a means of wealth concentration, as it is immediately associated with the interest of Malaysian elite groups while ignoring the welfare of vulnerable groups. Lee emphasizes that the Malay elites have profited tremendously from equity distribution policy. Jomo also claims that the state has prompted private wealth accumulation for "private aggrandizement" in the name of benefiting the entire Bumiputera community: "the issue of wealth ownership—whether of shares or other wealth—only involves the interests of a small elite" [4]. He introduces the ASN scheme (Amanah Saham Nasional) to explain the wealth concentration process directed by the state. ASN was a unit trust incorporated in 1979 aiming at effecting transference of equity ownership to individual bumiputeras, which shows a "high concentration of share capital ownership within each ethnic community" [4]. Hence, Jomo deems the plan's primal goal of helping the underprivileged Malaysians overshadowed by its benefit of the well-offs.

Ren and Chen further examine the economic conditions of the vulnerable groups being victimized under the equity policy. Chen argues that Chinese Malaysians' economic activities, especially small businesses, including the retail business (traditionally prevailed among Chinese Malaysians), had been devastated by the NEP's equity target, with its number dropping from 75% to 56% from 1970 to 1980 [6]. Ren and Jomo both insist that the small and middle-sized Chinese business community and the middle class were the primal victims of ethnic discrimination. While big Chinese enterprises managed to escape the equity restraints by joint venture enterprises like Alibaba: "an ethnic Malay partner secure rents for gaining access to government-determined business opportunities, and the ethnic Chinese partner with access to capital and business acumen getting the job done" [4]. Whereas Ren evaluates the subtle relationship between ethnicity and class under the equity policy. She suggests that the joint ventures stimulated by the equity redistribution veiled the distinction of ethnicity between elites while enlarging the gap among different ethnic lower classes, as the unemployment problem among the Chinese lower class were exacerbated. At the same time, that of Bumiputera was significantly improved. She further argues that the NEP functions to establish and expand the Malay capitalist and middle classes. Jomo similarly argues that the government's particular interest in ownership of the

modern corporate sector "reflects the dominance of capitalist interests in defining supposedly ethnic or communal interests" [4]. Ren and Jomo both criticize the Malaysian government's rhetoric and policy which establish an almost exclusive association between the "improved interethnic relations" and "reduced interethnic disparities" among respective business sectors, which has generated greater ethnic resentment and antagonism.

In general, they share a sociopolitical concern that the continuant equity policy has a detrimental agenda of disguising intra-class conflicts with interethnic conflicts, resulting in generalizing resentments among ethnic groups by associating the interests of the entire ethnic groups with their respective elites.

3.4. The Ignored Dimension of GLCs in the Past Research

While these scholars provide insightful and in-depth analysis on the ethnically biased motive and adverse impact of the equity target under the NEP, their critiques lack considering the positive dimension of the ownership redistribution policy. To yield a more comprehensive vision of corporate sector policy pertaining to NEP entails taking strengthened state-business ties embodied by GLCs into account.

Government Linked Companies (GLCs) is a particular embodiment of the Malaysian mixed economic system since GLCs provide a concrete example of the effectiveness of adequate state-control in the business sector. This dimension demonstrating the positive impact of the 1970s equity plan is generally overlooked by scholars on the topic of NEP evaluation. In the case of GLCs, state intervention in the corporate sector actually effectively boosted enterprise and technology development. Amin demonstrates in Policy Brief that "GLCs were used to nurture privately-owned enterprises, through joint-ventures and vendor programmes, as well as supply links and sub-contracting systems...They incorporate hybrid features and are required to fulfil a range of business and social duties" [7]. These quoted Government-owned enterprises show great "embeddedness" by effectively connecting government support with private sector bodies and public research institutions. For instance, according to Amin, the Malaysian Institute of Microelectronic Systems, a research powerhouse, was reorganized into a government company to develop chip technologies, serving as a bridge between the government and the business community [7]. He states that the government holding a substantial equity stake in the banking sector actually enables it to involve GLCs in capital intensive sectors and, in turn, advance heavy industries and high technology. However, the high participation and decision-making of government in the corporate sector also generated public criticisms of rent-seeking and cronyism, according to the scholars mentioned above.

The examination of the equity redistribution plan by the selected five articles discloses implicit problems of deficient statistic reports and wealth concentration while addressing the issues with similar concerns on excessive state-control. Scholars offer critical insights regarding the policy of equity redistribution, which is highly relevant to the current socio-economic situation in Malaysia, as the Malaysian government continues to push forward the ethnically biased equity policy in 2021s. This review further introduces a critical dimension of the positive role of GLCs. While ignored by scholars, it is indispensable in evaluating the state's positive role as it validifies the importance of state intervention in guaranteeing support for newly-emerged enterprises.

However, the review of the equity plan has certain limitations as it dwells upon the sociological perspective without providing an in-depth analysis of the functioning of business sectors. Overall, the review of past and current critiques provide constructive examinations of the rationale and impact of the equity plan, which could offer a more comprehensive view for scholars involved in policy-making research and socio-economic studies of the New Economic Policy of Malaysia.

4. THE OVERVIEW OF INTERETHNIC RELATIONSHIP AND CULTURAL POSITION OF CHINESE MALAYSIAN DURING NEP

4.1. The Political Position of Chinese Malaysian and the Interethnic Politic

Entirely, the political position of Chinese Malaysian is inferior comparing with Malayan. In this topic, the scholars nearly reached a consensus.

Jiang considered that Tunku Abdul Rahman kept the balance between United Malays National Organization (UMNO), Malaysian Chinese Association (MCA) and Malaysia India Congress (MIC) [8].

During his ruling era, he gave freedom to Chinese Malaysian and Orang India Malaysian in the economy and enhanced the political power of Malayan. Although the policy of Tunku was unfair to the Chinese Malaysian and Orang India Malaysian, the relatively loose implementation made the ethnic minority satisfied, and the imbalance between ethnicities seemed to be bearable.

After the 13 May Incident, Tunku resigned, and Tun Abdul Razak inherited the position of Prime Minister. Razak and the UMNO decided to put the unity between ethnics and the domestic steady as one of their most important aims. Jiang claimed that one of the major reasons for the 13 May Incident is the governing coalition could not represent all of the ethnicities in Malaysian. Still, the coalition refused to let the opposition parties join. Therefore, the conflict was sharpened. Razak

transformed Alliance to Nation Front to absorb more people to consolidate the foundation of the governing power. The ethnic policy of Razak is based on the Malayan privilege, the dominant position of Islam, and the central Malay language.

Mei had a similar view to Jiang. By quoting the opinion of professor He Guozhong, Mei claimed that many Malayan didn't treat Chinese Malaysian as compatriots but regard them as invaders. Although Malayan have special privileges in many fields, many Malayan still consider the ethnic minorities as the people who infringed their benefits. Elites of UMNO did not support enhancing political power of Chinese Malaysian and Orang India Malaysian [9].

Liang pointed out that Chinese Malaysians were satisfied with the compromising policy ran by Tunku. But the education condition was always a point to be criticized by Chinese Malaysian. MCA was the most powerful party to represent the benefit of Chinese Malaysian. Still, leaders of MCA focused on keeping the economic advance position of Chinese Malaysian and Malaysian Chinese have a little method to resist the trend of Malayan culture becoming major [10].

Hooker declared that Razak believed the tragedy on 13-5-1969 could be prevented. Razak transformed the Alliance into Nation Front and involved as many opposition parties as possible, and solved the problem together in Nation Front [11].

4.2. Policy in Primary and Middle School-Educational Assimilation

From scholars' view, the education in primary schools and middle schools was in a loose atmosphere at first. Still, the trend of education development was the majority of Malayan culture [12].

Liang deemed that the fourth Prime Minister of Malaysia, Mahathir bin Mohamad, considered Tunku's compromising assumption was ridiculous. The different rights between ethnicities had made the contradiction sharper and caused the 13 May incident.

In the primary education field, Liang thinks the Razak Report launched in 1956 was a crucial symbol. This report was about the primary education of Malaysia. The report formally accepted the Chinese Malaysian primary education as a legal type of education. But as time pass, some objectors appeared. The Talib Report declared that the policy should promote unity between ethnicities. The government of Malaysia tried to suppress Chinese primary education by cutting off school resources [10].

4.3. Policy in University and College- Ethical Entering Proportion

The inequality in higher education policy is mainly reflected in the chance to enter universities and colleges, regardless of domestic or foreign universities.

Liang considered the Malaysian government didn't pay too much attention to college education several years after independence in the college education field. But after 1968, they began to limit the Chinese Malaysian to get foreign education by requiring the diploma of Cambridge [10].

During the New Economy Policy, Malaysia school entering quota was determined by the ethnics. The relative proportion of Malayan was the highest among the three ethnics, and the enrollment rate for the Malayan was continually growing in the whole 1970s. There is no doubt that the policy would lead to the dissatisfaction of ethnic minorities.

Hu considers that in the early era, the hottest topic of Chinese Malaysian was nationality problem, civil rights problem, and Chinese educating schools problem. Later, the direction of struggle turned to anti-racialism and equality between different cultures. The Chinese Malaysian called for the giving up of cultural opposition to make a harmonious cultural environment [13].

In the education and culture field, Jiang focused on the National Culture Policy. It is a Policy aimed at establishing the dominant position of Malayan culture. The Chinese culture was inhibited, Chinese use was limited in Malaysian daily life.

4.4. The Reflection of Chinese Malaysian

As author Chen had introduced in his article, the last impact of NEP is that a large amount of highly educated or intelligent none-Malay-ethnic Malaysians gradually left Malaysia [7]. According to the official recording, Chen claims that more than two million Malaysians are estimated to have left Malaysia since the NEP was introduced, and most of them are non-Malays. Many of these people had migrated south to Singapore. This continuous situation is significant for Malaysia, for it has a relatively low workforce. Those who do manage to migrate are often the people with high intelligence and skills.

In sum, the scholars had the consensus that the Malaysian government was running the policy that put the Malayan and Islam culture in the major position. Compared with Malayan, the ethnic minorities were in an inferior position both in the political field and cultural field.

5. CONCLUSION

The new economic policy was successful in improving the economy of Malaysia. Comparing with the low growth rate during the First Malaysia Plan (1966-1970), NEP brought flourish to Malaysia, but inequality was followed closely. Most scholars pointed out the conflict between ethnicities and races. However, the government's effort was to prevent the sharpening of conflict instead of eliminating the interethnic conflicts. The people of Malaysia usually slowed the pace of national integration in Malaysia, and the ethnic identity was supreme to the citizenship identity of most Malaysian. So it is hard to conclude whether the research of NEP has an affection on the later economic and ethnic policy of Malaysia.

Since this review is based on literature analysis, we could access government policy more but know only a little about the primary level of the Malaysian society, and quantitative analysis was relatively limited.

This review summarises some common points about the research of the new economic policy of Malaysia and provides a reference for the subsequent researchers. The previous scholars analyzed NEP from many dimensions, but the cultural discrepancy somehow covered the religious problem. The religious problem can be a new view point.

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