

**THE CREATION AND IMPLEMENTATION OF THE NEW
ECONOMIC POLICY:
SUCCESS AND FAILURE, 1970 - 2008**

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FACULTY OF ARTS AND SOCIAL SCIENCES

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**THE CREATION AND IMPLEMENTATION OF THE NEW
ECONOMIC POLICY:
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ABSTRACT

The scope of this research pivots around the New Economic Policy (NEP). The research looks into several aspects namely, historical background, circumstances, other examples and the perspective of both local and international personalities concerning the necessity and formulation of the NEP. This research also looked into the conception of the Independence Documents, the accommodation of racial intolerance and the conscious decision to proceed with an unpopular mechanism to create the quota system. There were further decisions to create a middle-class tier through education and a balanced economic policy. This research throws insight into the roles of the leaders of the time in implementing the ideals of a peaceful, tolerant Malaysian society, especially with the circumstances surrounding Tun Abdul Razak, the Second Prime Minister. Any discussion regarding NEP is a constitutional matter, focusing on Article 153 which talks about the rights of all Malaysians. In this respect, the roles of the political parties and leaders of the time is discussed with regard to their hidden and open agendas, most especially the communist undercurrent concerning the loyalty of the Chinese to Malaysia. The conclusion of this research shows the success of NEP in bridging the economic gap and putting Malaysia in the path of a highly developed society in terms of education, economic and social achievement and well-being.

Keywords: New Economic Policy, Malaysia, Affirmative Action

ABSTRAK

Kajian ini memfokuskan kepada Dasar Ekonomi Baru (DEB) yang melibatkan beberapa aspek antaranya ialah latar belakang sejarah, halangan serta kepentingan Dasar Ekonomi Baru (DEB) daripada perspektif tempatan dan antarabangsa. Penyelidikan ini juga meneliti konsep *Independence Document*, toleransi antara kaum dan melihat kewujudan sistem kuota sebagai salah satu mekanisme perbincangan. Hal ini kemudiannya telah mendorong kepada usaha untuk mewujudkan golongan kelas pertengahan melalui peningkatan taraf pendidikan dan penstabilan dasar ekonomi. Penyelidikan ini turut membincangkan peranan yang dimainkan oleh pemimpin dalam membentuk masyarakat Malaysia yang aman dan bertoleransi terutamanya semasa zaman pemerintahan Tun Abdul Razak sebagai Perdana Menteri Malaysia yang kedua meskipun terdapat pelbagai halangan yang perlu ditempuh. Segala perbincangan berkenaan dengan DEB adalah tertakluk kepada perlembagaan dan memfokuskan kepada Artikel 153 perlembagaan persekutuan yang memperihalkan soal hak rakyat Malaysia. Justeru, peranan yang dimainkan oleh parti-parti politik dan pemimpin pada ketika itu dibincangkan tanpa menyembunyikan sebarang bentuk agenda terutamanya berkenaan dengan kekejaman komunis dan persoalan tentang tahap kesetiaan orang Cina kepada Malaysia pada ketika itu. Secara keseluruhannya, penyelidikan ini menonjolkan kejayaan DEB dalam merapatkan jurang ekonomi dan berhasil menempatkan Malaysia dalam kelasnya yang tersendiri dan membangunkan masyarakat dari segi pendidikan, ekonomi dan sosial.

I dedicate this study to

My parents and to my fellow Malaysians.

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After my retirement from government, I travelled a lot to Africa and Eastern Europe to learn more about these countries and their future. I got to know leaders there and they invited me to invest in their countries which I did in the banking sector, which I am familiar with. Because of my investments in these countries, they wanted to know more about Malaysia and how we managed our economy which in their eyes has been very successful. There were times I was asked to give speeches to civil servants or talks to ministers. In my talks and speeches, I invariably touched on our New Economic Policy and most wanted to know more about this. South Africa is one country that was very keen to learn more. To be honest, after some time I got bored repeating the same story though to different audiences. I told my family I should stop talking on this subject but instead my family advised me to enrol with a university and write a thesis on this subject and send the copies of my research to those countries interested in the subject.

I went to see the Vice Chancellor of the University of Malaya, YBhg Tan Sri Dr Rafiah Salim who encouraged me to enrol as a PHD student, which I did. That was in 2008. I wish to record my deep appreciation to her for the support. She introduced me to my supervisors namely Professor Dr Mohd Fauzi Yaacob and Professor Dato' Mohamad Abu Bakar and I met them. They advised me how to go about doing my research. To them too, I wish to record my thanks. Then there is YBhg Datuk Professor Dr Roziah Omar who took me under her care and gave a lot of her time to guide me until she was transferred out from the university to the Ministry of Higher Education but before then, she placed me under Associate Professor Dr Hamidin Abdul Hamid. I wish to record my thanks to Professor Datuk Dr Roziah Omar. Associate Professor Dr Hamidin Abdul Hamid has been most helpful and without his advice, guidance and supervision, I don't

think I could complete this thesis. He was there whenever I needed advice. I owe this thesis to him and I thank him for all the support and faith in me.

I must say after I finished my studies in 1959, I find it very hard today to go back to study. I was also travelling and spending about six months a year in Africa and Eastern Europe running my business. I found it very tough to handle business and studies at same time especially as I am no longer young. There was so much to read and the more you read, the more you find new things. Luckily I have Siti Rohani, my staff who could go to the library to get the books for me and my efficient Secretary, Chuan Mei Pheng who helped with the research and she did the typing of my draft but retired before I could complete the final version. I thank both of them. I wish to record my appreciation to those who gave me interviews and I apologise as I am not mentioning their names here.

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LIST OF ABBREVIATIONS

Federal Land Development Authority	FELDA
Foreign Direct Investment	FDI
Gross Domestic Product	GDP
Gross National Product	GNP
Majlis Amanah Rakyat	MARA
Malaysian Chinese Association	MCA
Malaysian Indian Congress	MIC
National Development Policy	NDP
National Operations Council	NOC
National Vision Policy	NVP
New Economic Policy	NEP
Non-Governmental Organisation	NGO
Poverty Line Income	PLI
Prime Minister's Office	PMO
United Malays National Organisation	UMNO

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CHAPTER 1: INTRODUCTION

1.1 RESEARCH BACKGROUND

This research deals with the Malaysian developmental process, especially within Peninsular Malaysia, as a nation and a society since the implementation of the New Economic Policy (NEP¹) in 1971. The NEP was introduced by the government after the racial riots of 13 May 1969. As a policy, it has been studied not only in Malaysia but also internationally², featuring as the main theme of many publications examining national economic policy in Malaysia between 1970 and 2000.

Policies to correct socio-economic imbalances are not a novelty³. Many countries⁴ practised such policies in one form or another. In 1970, Malaysian society was one of the most unequal in the world, with a daunting Gini Index of over 0.5⁵ and rising. This inequality alarmingly coincided with racial, cultural and linguistic divisions.

The majority of the Malays were by nature very traditional and respected their leaders and elders, both political and socioeconomic. They supported UMNO⁶ and were united in their fight against the Malayan Union⁷. At the time, UMNO was synonymous with the

¹ The NEP was known as Dasar Ekonomi Baru (DEB) in Bahasa Malaysia.

² For example, see Hart, Gillian. "The New Economic Policy and Redistribution in Malaysia: A Model for Post-Apartheid South Africa?" *Transformation* 23 (1994).

³ See Sowell, Thomas, *Affirmative Action Around the World: An Empirical Study*, (Yale University Press, 2005).

⁴ Ibid. Countries include South Africa, the United States of America, Nigeria, India and Sri Lanka.

⁵ Jomo Kwame Sundaram, *Growth with Equity in East Asia?*, (DESA Working Paper No 33, Sep 2006): 5. Accessed at http://www.un.org/esa/desa/papers/2006/wp33_2006.pdf

⁶ United Malays National Organisation (UMNO). Before 2018, all of Malaysia's Prime Ministers had been from the UMNO party. Their main political goals are to uphold the aspirations of Malay nationalism and to protect Malay culture as the national culture of Malaysia. UMNO has dominated Malaysian politics since independence, with their principles of right-wing conservatism and *Ketuanan Melayu* (Malay supremacy). In 2018 they suffered a major loss to the Pakatan Harapan government, and are now the main opposition party.

⁷ There are many historical literatures on the involvement of the Malays in resisting the Malayan Union in 1946-1947. See A.J. Stockwell, *British Policy and Malay Politics During the Malayan Union Experiment 1942-1948*, MBRAS Monograph No. 8, 1979, Adam, Ramlah, 1997. Dato' Onn Ja'afar 1895-1962. *Biografi Tokoh Pilihan Malaysia*. Kuala Lumpur: Penerbit Universiti Malaya. and Lau, Albert, *The Malayan Union Controversy, 1942-1948*, (Oxford University Press, 1991).

Malays. Conceptually, they were inseparable and mutually dependent. The Malays agreed with and supported UMNO in the fight for independence in 1957 because they were promised huge political and economic benefits⁸.

Upon independence, the Malays placed their faith in the Alliance government to determine policies which would improve their socio-economic position. They continued to support the Alliance government, and tolerated the UMNO leadership even after realising that government policies did not benefit them greatly. For instance, the Malays were systematically excluded from profitable agricultural activities such as rubber crops, and both educational and economic policies kept them pigeonholed as poor farmers and fishermen in rural areas⁹. Surprisingly, UMNO leadership was not challenged even when UMNO performed poorly in elections, as seen when its decisive hold of 58.9% of federal seats dropped drastically to 35.75% of parliamentary seats between 1955 and 1959¹⁰. The Malays continued to support the UMNO leadership so long as their position and power were not threatened. Once this power endangered, the leadership could no longer expect Malay support as a given.

Prior to May 13, Malaysia's development strategy was based on a *laissez-faire* approach in the area of national economic development¹¹. The role of the government was to provide infrastructure, education, health and social services. Its priority was to develop and assist the Malay community in the rural areas only¹². The economy, especially in industry,

⁸ Abdullah, Firdaus, 1985. *Radical Malay politics: Its origins and early development*. Pelanduk Publications.

⁹ Rahim, Azmi Sharin Abdul. "A critical assessment the contribution of the agriculture sector in the growth of the Malaysian economy." *Unpublished Article*. Retrieved from <http://economics.dstcentre.com/on> 16 (2014). See also Chapter 6 (Subsection 6.2) of this thesis.

¹⁰ See Carnell, Francis G. "The Malayan Elections." *Pacific Affairs* 28, no. 4 (1955): 315-330. See also Nohlen, Dieter, eds. *Elections in Asia and the Pacific: A Data Handbook: Volume II*, pp 152 (OUP Oxford, 2001).

¹¹ Faaland, Just, Parkinson, Jack R., & Saniman, Rais (1990). *Growth and ethnic inequality: Malaysia's new economic policy*. London: Hurst.

¹² Peacock, Frank. "Rural Poverty and Development in West Malaysia (1957-70)." *The Journal of Developing Areas* (1981): 639-654.

was left to non-Malays and foreigners. This was what Tunku Abdul Rahman wanted – politics to the Malays and business to the Chinese. Tunku was a traditionalist and feudalist. He had little faith in the Malays succeeding in business enterprises and maintained that the Malays confined themselves to an agrarian economy. Tunku only substituted himself for the British, whilst the colonial policies remained the same¹³.

May 13 was the response arising from the 1969 election results. Objectively, the election results were not a disaster for the Alliance, and certainly not for UMNO. The Alliance coalition won the election. The Alliance only lost the states of Penang and Kelantan. True, they had lost their two-thirds majority in Parliament but to interpret that as a loss was misleading their supporters. This interpretation had put their supporters in a state of panic. On the other hand, the opposition did not win although they did admittedly well. They interpreted the results as having won the general election. Their supporters were elated and had processions as if victory was theirs. UMNO members were in a state of despondency while the opposition parties were ready to celebrate. Both interpretations were misleading and mischievous. It was this misinterpretation of the results that led to the extreme reaction by their supporters. In the end, emotions took over and the celebrations and processions by the opposition parties went overboard with racial abuse and slurs, escalating into riots¹⁴.

The events of May 13 changed all previous intentions. It brought about the realisation that the old policies could no longer work in Malaysia and if Malaysia wanted to survive as

¹³ Stockwell, Anthony J. "Malaysia: The making of a neo-colony?." *The Journal of Imperial and Commonwealth History* 26, no. 2 (1998): 138-156.

¹⁴ See Majlis Gerakan Negara, *The May 13 Tragedy: a report*. (Kuala Lumpur: Jabatan Cetak Kerajaan, 1969). See also Kua, Kia Soong. *May 13: Declassified documents on the Malaysian riots of 1969*. Suaram, 2007. See also Kua, Kia Soong. "Racial conflict in Malaysia: against the official history." *Race & Class* 49, no. 3 (2008): 33-53.

a modern nation-state, a new approach was needed to bring back sanity and normalcy. National unity was the priority¹⁵. Until the fruits of independence could be shared by the various races in Malaysia by all Malaysians, there could not be national unity.

May 13 marked a new chapter in the economic development strategy of Malaysia. The economy had taken centre stage and top priority in the government's future strategy. The government realised that capitalism in its widely practiced form could not work in the country when a huge gap existed between the rich and the poor, and between urban and rural folks. Capital is needed to succeed in a capitalist economy. The rural people lived "*kais pagi, makan pagi*" or from hand to mouth. They had no opportunity to save. Without savings, there was no capital available for the Malays to be economically active and competitive under capitalism.

One immediate policy outcome of the May 13 riots was the formulation of NEP with its two-pronged objectives of eradicating poverty irrespective of race, and the restructuring of society so that economic functions are not identified with race¹⁶.

The implementation of NEP ended in 1990. To replace it, the Dasar Pembangunan Nasional (DPN), or National Development Policy (NDP) was initiated in 1991. Many studies and researches on the NEP from a myriad of aspects had since been done. Prof Just Faaland,

¹⁵ See Khai Leong, Ho. "Dynamics of policy-making in Malaysia: The formulation of the New Economic Policy and the National Development Policy." *Asian journal of public administration* 14, no. 2 (1992): 204-227. See also Milne, Robert Stephen. "" National Ideology" and Nation-Building in Malaysia." *Asian Survey* 10, no. 7 (1970): 563-573. See also Rogers, Marvin. "Malaysia/Singapore: problems and challenges of the seventies." *Asian Survey* 11, no. 2 (1971): 121-130.

¹⁶ (Tun) Abdul Razak Hussein, "Malaysia's New Economic Policy," speech in a broadcast to the nation on July 1, 1969. In Torii, Takashi. "The new economic policy and the United Malays National Organization—With special reference to the restructuring of Malaysian society—." *The Developing Economies* 35, no. 3 (1997): 209-239.

John Richard Parkinson and Rais Saniman¹⁷, had analysed in detail how the Malaysian Government under the leadership of Prime Minister Tun Abdul Razak formulated and executed the NEP to redress the social and economic imbalances within the country¹⁸.

It is most misfortunate that anything done to help the Malays is challenged by the non-Malays as they generally opposed them, and any compromise with the non-Malays is interpreted by the Malays as giving in to them. Such is the nature of racial prejudices in Malaysia and elsewhere. The truth is, if the country prospered, all will stand to benefit.

¹⁷ See Faaland, Just, Parkinson, Jack R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990).

¹⁸ Tun Abdul Razak Hussein's speech to the nation, July 1999 in Faaland, Just, Parkinson, Jack R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990).

1.2 LITERATURE REVIEW

This thesis pivots around the New Economic Policy of Malaysia. The NEP had two broad goals, namely the “eradication of poverty regardless of race” and to “restructure society to eliminate the identification of race with economic function”. In this sense, it was a grand feat of socioeconomic engineering as well as a political manifesto, using rapid economic growth as a means to achieve these two goals.

There is a large body of pre-existing literature that analyses the implementation and impact of the NEP. Research on the NEP can be broadly categorised into two different groups: those examining social impact (for example, Sundaram 2004)¹⁹ and those looking at the economic impact (for example, Yusof and Bhattasali 2008)²⁰. Patterns in the literature reveal that while the NEP has been lauded for its effectiveness as an economic plan, its social effects have received mixed reviews, with wide criticisms particularly in terms of propagating Malay supremacy and entitlement to affirmative action policies²¹.

With regards to academic study, Malaysia is also lucky in that it has a close neighbour – Singapore - with very similar historical background, ethnic makeup, and geographical location, that has diverged in terms of social and economic policy. To this end, this study will introduce direct comparisons with Singapore where necessary to highlight the

¹⁹ Jomo, Kwame Sundaram. *The new economic policy and interethnic relations in Malaysia*. Geneva: UNRISD, 2004.

²⁰ Yusof, Zainal Aznam, and Deepak Bhattasali. *Economic growth and development in Malaysia: policy making and leadership*. Washington, DC: International Bank for Reconstruction and Development/The World Bank, 2008.

²¹ Guan, Lee Hock. "Ethnic relations in Peninsular Malaysia: The cultural and economic dimensions." *Social and cultural issues* 1 (2000): 1-39.

differences and similarities between the Malaysian hinterland and its neighbouring island-state.

In terms of economic progress, the broad areas of study include privatisation, equity distribution, reduction of poverty²², and income inequality²³. Critical response towards the NEP in this field has been largely positive, with many praising the NEP²⁴ for its radical state-interventionist approach to economic development, and the huge strides that Malaysia has made over the 20-year implementation period. It is widely acknowledged that NEP achieved its broader goals of poverty eradication and societal restructuring, although the extent of its success is widely contested²⁵, and a lack of formal data makes objective evaluation of this success very difficult.

Reception towards the social impact of the NEP, however, has been mixed. Although the NEP served its purpose at the time to introduce political stability, its continued use in new manifestations (i.e. National Development Policy, NDP; and National Vision Policy, NVP) is a source of great controversy in the dialogue on race relations²⁶. Regardless, it should be acknowledged that the NEP successfully averted the possibility of an all-out civil war at the time of its implementation, successfully navigating the race relations that were growing

²² Abdullah, Firdaus Hj. "Affirmative action policy in Malaysia: To restructure society, to eradicate poverty." *Ethnic Studies Report* 15, no. 2 (1997): 189-221.

²³ Hashim, Shireen Mardziah. *Income inequality and poverty in Malaysia*. Rowman & Littlefield, 1998. See also Ragayah, Haji Mat Zin. "Income inequality in Malaysia." *Asian Economic Policy Review* 3, no. 1 (2008): 114-132.

²⁴ Narayanan, Suresh. "Fiscal reform in Malaysia: Behind a successful experience." *Asian Survey* 36, no. 9 (1996): 869-881. See also Shari, Ishak, and Ragayah Mat Zin. "Economic growth and equity in Malaysia: Performance and prospects." In *Fifth Tun Abdul Razak Conference, April*, pp. 12-13. 1995. See also Chowdhury, Anis, and Iyanatul Islam. "The institutional and political framework of growth in an ethnically diverse society: the case of Malaysia." *Canadian Journal of Development Studies/Revue Canadienne d'études du développement* 17, no. 3 (1996): 487-512. See also Snodgrass, Donald R. *Successful economic development in a multi-ethnic society: the Malaysian case*. No. 503. Harvard Institute for International Development, Harvard University, 1995.

²⁵ Ibid, Chapter 7.

²⁶ Gomez, Edmund Terence, and Johan Saravanamuttu. *The New Economic Policy in Malaysia: Affirmative action, ethnic inequalities and social justice*. NUS Press, 2013.

increasingly fraught at the time²⁷. There are several broad areas for study under social impact, namely education, rural development, and national unity vis-à-vis inter-ethnic relations²⁸.

The NEP was formed under a period of intense inter-ethnic tensions, cumulated over decades of mismanagement by the ruling administration, be they the colonial powers that reigned over Malaysia pre-*Merdeka*, or the Alliance government and its successors. In this light, it can be argued that at least at the end of the NEP implementation period in 1990, the NEP had fulfilled its role in managing inter-ethnic relations and creating a sense of political and economic stability in Malaysia²⁹.

It would seem that what is lacking in the current literature is works that explicitly draw a link between the history of the Malayan Union, dating back to the Melaka Sultanate, and how certain historical factors affected the ethnic makeup and economic activities of modern Malaysia. These historical factors, and the measures used by the British Administrators and subsequent Malay(si)an government to deal with these factors, would subsequently have a major influence on the policies and implementation plans formulated under the NEP. By digging deeper into the historical context of the NEP, this thesis will aim to provide a more nuanced understanding of the rationale behind many of the NEP's policies, particularly the more controversial ones regarding affirmative action and education policies.

²⁷ Colletta, Nat J., Teck Ghee Lim, and Anita Kelles-Viitanen, eds. *Social cohesion and conflict prevention in Asia: managing diversity through development*. World Bank Publications, 2001.

²⁸ Mohamad, Maznah. "Politics of the NEP and ethnic relations in Malaysia." *Multiethnic Malaysia: Past, Present, and Future*(2009).

²⁹ Unit, Economic Planning. "Malaysia: 30 years of poverty reduction, growth and racial harmony." In *Scaling up poverty reduction: A global learning process Conference, Shanghai, May*, pp. 25-27. 2004. See also Ramli, Shahriza Ilyana, Nur Zafifa Kamarunzaman, and Irlisuhayu Mohd Ramli. "Malaysia's new economic policy: issues and debate." *American Journal of Economics* 3, no. 2 (2013): 108-112.

Furthermore, it would appear that one of the NEP's greatest criticisms is not of the NEP itself, rather the government's inability to move on and adapt with the times as the NEP was never meant to continue indefinitely as it has via its many reiterations (the NDP and NVP respectively)³⁰. Many are of the opinion that the NEP is no longer applicable in the economy³¹ or social climate of today's Malaysia. To this end, this thesis will briefly discuss some key events and policies beyond the 20-year implementation period that ended in 1990, to highlight how the strengths of the NEP at the time of implementation have turned into outdated policies that Malaysia has now outgrown, but is unwilling to let go of.

The current thesis will therefore address four main gaps in the current literature, namely:

- a) The historical context of the NEP and how this influenced the National Operations Council and the Alliance government in policy-making;
- b) The use of education as a means to eradicate poverty;
- c) The use of rural development as a means to eradicate poverty; and
- d) The pursuit of rapid economic growth as a means to redistribute equity in line with the NEP benchmarks.

Many papers address the events of May 13, 1969 as a catalyst for the NEP³², but what many fail to address is the historical oppression of the Malays and indigenous *Orang Asli* groups from the beginning of colonialization, dating as far back as 16th century³³. These historical

³⁰ Rahman, Azly. "Slaying an immortal tiger: Malaysia's New Economic Policy'." In *Conference NA*. 2007.

³¹ Woo, Wing. "Getting Malaysia out of the middle-income trap." (2009). *See also* Hill, Hal, Tham S. Yean, and Ragayah HM Zin. "Malaysia: A success story stuck in the middle?." *The World Economy* 35, no. 12 (2012): 1687-1711.

³² Faaland, Just, John Richard Parkinson, and Rais Saniman. *Growth and ethnic inequality: Malaysia's new economic policy*. London: Hurst, 1990.

³³ Andaya, Barbara Watson, and Leonard Y. Andaya. *A history of Malaysia*. Macmillan International Higher Education, 2016.

events, from the Portuguese invasion in 1511, all had an impact on the decisions made by the Alliance government.

The NEP was born in a time of crisis³⁴, but it had to address decades of brewing socioeconomic inequality and racial tensions. The history of immigration into the Malayan states also plays a major role in how immigrant groups were perceived and received by the local Malays, and their subsequent political stance towards these groups in the Federation of Malaya Agreement of 1948³⁵. British policies of “divide and rule” also played a big role in inter-ethnic relations in early Malaya and has had profound effects that can be observed till this day in the socioeconomic chasms that exist between the races of modern Malaysia.

It is also important to acknowledge the bravery of Malaysian politicians of decades past in taking an approach that was greatly different from their international peers, in implementing a state-interventionist approach³⁶, in line with the Developmental State Theory. This was an important step in addressing the ethnic imbalances of employment, poverty incidence, education, and equity ownership that existed in the 1960s. Tun Abdul Razak’s socialist-communist inclinations played a big part in the NEP-led government intervention in both social and economic policies. In the context of the historically oppressed Malays, this level of state intervention served to even out the socioeconomic playing field, allowing them to compete on equal footing with their fellow Malaysians. However, this nuance is often missing from today’s discourse on the NEP, when socioeconomic conditions have changed drastically, as will be addressed in this thesis.

³⁴ Khai Leong, Ho. "Dynamics of policy-making in Malaysia: The formulation of the New Economic Policy and the National Development Policy." *Asian journal of public administration* 14, no. 2 (1992): 204-227.

³⁵ Malaya, "Federation of Malaya Agreement 1948", 1948. Accessed at http://myrepositori.pnm.gov.my/bitstream/123456789/2701/1/MN100091_TFOM.pdf

³⁶ Verma, Vidhu. *Malaysia, state and civil society in transition*. Lynne Rienner Publishers, 2002. See also Haque, M. Shamsul. "The role of the state in managing ethnic tensions in Malaysia: A critical discourse." *American Behavioural Scientist* 47, no. 3 (2003): 240-266.

The Alliance government also had the problem of overcoming historic exploitation by colonial powers, the British Empire being chief among them. Exploitation of natural and human resources had caused a huge wealth drain³⁷, as many primary resources were exported at little to no profit for the host nation. After World War II, Malaysia was the top contributor of export earnings to the British Empire³⁸, which has set the country back in its pursuit of economic growth. A similar predicament is faced by many of our fellow former colonies³⁹. Thus, the government at the time had the dual challenge of escaping the resource curse⁴⁰ as well as overcoming the historical exploitation of these natural resources by external parties.

Leading up to independence, the British had underestimated the local Malays, considering them lazy and uneducated, with little drive for political independence. They had also stifled educational opportunities for the Malays, fearing a repeat of the uprising of the educated elite in India⁴¹. Education was reserved for the elites, and the non-elite Malays were relegated to their “traditional” lifestyle of peasantry. While the British promoted pro-Malay policies and claimed to protect the special position of the Malays out of respect for local customs, many historians have described this as a mere ruse to ensure the continued ethnic divide between the different races of Malaya as a means of preserving the position of the

³⁷ Frankema, Ewout, and Jutta Bolt. *Measuring and analysing educational inequality: the distribution of grade enrolment rates in Latin America and Sub-Saharan Africa*. No. GD-86. Groningen Growth and Development Centre, University of Groningen, 2006. See also Kim, Wonik. "Rethinking colonialism and the origins of the developmental state in East Asia." *Journal of Contemporary Asia* 39, no. 3 (2009): 382-399.

³⁸ Sundaram, Jomo Kwame, and Tan Eu Chye. "External Liberalization, Economic Performance, and Distribution in Malaysia." *External liberalization in Asia, post-socialist Europe, and Brazil* (2006): 232.

³⁹ Mhango, Nkwazi N. *How Africa Developed Europe: Deconstructing the His-story of Africa, Excavating Untold Truth and What Ought to Be Done and Known*. Langaa RPCIG, 2018. See also Frankema, Ewout. "The biogeographic roots of world inequality: Animals, disease, and human settlement patterns in Africa and the Americas before 1492." *World Development* 70 (2015): 274-285.

⁴⁰ The “resource curse” refers to the idea that countries with an abundance of natural resources tend to lower levels of economic growth, democracy, and development progress as compared to less endowed nations. See Robinson, James A., Ragnar Torvik, and Thierry Verdier. "Political foundations of the resource curse." *Journal of development Economics* 79, no. 2 (2006): 447-468.

⁴¹ Metcalf, Thomas R. "Empire Recentered: India in the Indian Ocean Arena." *Colonialism and the Modern World* (2002): 25-39.

British⁴². The indigenous *Orang Asli* were even further neglected under British rule, and were not even consulted when it came to drafting the Federation of Malaya Agreement⁴³.

Failure of the Alliance government post-*Merdeka* to address these issues further aggravated racial tensions, as socioeconomic inequality grew worse over time⁴⁴. This led to the country adopting a Developmental State approach⁴⁵, using state-interventionist measures to redress socioeconomic imbalances⁴⁶. Malaysia was deliberate in her approach to socioeconomic reform, with mechanisms for monitoring and adaptation built into the NEP. The historical rationale behind these deliberations will be discussed in greater detail in Chapters 2 and 3.

Moving on to the impacts of the NEP on Malaysian education, this section will now highlight previous works which directly address the topic⁴⁷, with some specifically addressing higher education⁴⁸.

As mentioned above, educational opportunities for local Malays were stifled in the pre-NEP era. The policies for education under the NEP were meant to address these historical imbalances, improving the enrolment rates for Malays in all levels of education. This was a

⁴² Abdullah, Asma, and Paul B. Pederson. *Understanding multicultural Malaysia delights, puzzles and irritations*. Pearson Malaysia Sdn. Bhd., 2003. See also Rashid, Rehman. *A Malaysian journey*. Rehman Rashid, 1993.

⁴³ Subramaniam, Yogeswaran. "Affirmative action and the legal recognition of customary land rights in peninsular Malaysia: The Orang Asli experience." *AILR* 17 (2013): 103.

⁴⁴ Mehmet, Ozay. "Colonialism, Dualistic Growth and the Distribution of economic benefits in Malaysia." *Southeast Asian Journal of Social Science* 5, no. 1/2 (1977): 1-21.

⁴⁵ Embong, Abdul Rahman. "Social transformation, the state and the middle classes in post-independence Malaysia." *Japanese Journal of Southeast Asian Studies* 34, no. 3 (1996): 524-547.

⁴⁶ Douglass, Mike. "The 'developmental state' and the newly industrialised economies of Asia." *Environment and Planning A* 26, no. 4 (1994): 543-566.

⁴⁷ Lee, Molly NN. "Education and the state: Malaysia after the NEP." (1997): 27-40. See also Agadjanian, Victor, and Hui Peng Liew. "Preferential policies and ethnic differences in post-secondary education in Peninsular Malaysia." *Race Ethnicity and Education* 8, no. 2 (2005): 213-230.

⁴⁸ Selvaratnam, Viswanathan. "Ethnicity, inequality, and higher education in Malaysia." *Comparative Education Review* 32, no. 2 (1988): 173-196.

deliberate move by the Alliance government as they intended on building generational wealth amongst the Malays and establishing a Malay middle class, a goal which could not be achieved without first educating their communities⁴⁹.

Educational attainment of the Malays continues to be highly contested and remains an extremely emotional topic in the sphere of debate. Misuse of policies have exacerbated intra-ethnic inequality which will be discussed in further detail in this thesis. This starts from education, where scholarships are disproportionately distributed to wealthier families⁵⁰ and *Bumiputra*-only institutions⁵¹ are still in existence, 28 years post-NEP. These are points of contention for the non-*Bumiputra* community, as it has been argued that such provisions are unconstitutional, as will be discussed in later chapters.

Controversy aside, educational reform under the NEP has shown a marked improvement in performance for individuals of all races⁵², although admittedly the improvement of Malay education seems to have come at a cost to non-*Bumiputras* who experienced slower growth as compared to pre-NEP days⁵³. However, there has been a distinct reduction in gender inequality in education across Malaysian society, showing some promise for the national education policy.

⁴⁹ Lee, Hwok-Aun. "Affirmative action in Malaysia: Education and employment outcomes since the 1990s." *Journal of Contemporary Asia* 42, no. 2 (2012): 230-254.

⁵⁰ Mehmet, Ozay, and Yip Yat Hoong. "An empirical evaluation of government scholarship policy in Malaysia." *Higher Education* 14, no. 2 (1985): 197-210.

⁵¹ MARA educational institutions including UiTM, KKTM, and IKM explicitly state *Bumiputra* as an entry requirement.

⁵² Lillard, Lee A., and Robert J. Willis. "Intergenerational educational mobility: Effects of family and state in Malaysia." *Journal of Human Resources* (1994): 1126-1166.

⁵³ Agadjanian, Victor, and Hui Peng Liew. "Preferential policies and ethnic differences in post-secondary education in Peninsular Malaysia." *Race Ethnicity and Education* 8, no. 2 (2005): 213-230.

With improved education has come improved employment prospects, and it can be argued that Malaysia's radical education policy has been a significant factor in reducing the unemployment rate from 7.5% in 1970⁵⁴ to the current stable rate of 3.4%⁵⁵. In this case, the government made use of education as a means of escaping poverty, empowering its rural population with a means for improving their socioeconomic status over generations⁵⁶.

While many have acknowledged the improved educational attainment⁵⁷ and reduction of poverty⁵⁸ under the NEP respectively, this thesis will aim to highlight the link between these two and to provide a historical context for what is arguably the NEP's most controversial policy.

Under the NEP, rural development was a major key to the eradication of poverty as the poverty gap was not only between ethnic groups, but also between rural and urban folk⁵⁹. The goal of societal restructuring went hand in hand with rural development, as a vast majority of Malays were living in rural areas⁶⁰. It should be noted that the Malay contribution to total poverty stood at 81.2%, and the rural population contribution to total poverty made up 90%⁶¹.

⁵⁴ Zainal Abidin, Mahani. "Malaysia's Past and Present Economic Priorities". *FEA Working Paper No. 2002-8*. National Economic Action Council & Faculty of Economics and Administration, University of Malaya. (2002).

⁵⁵ Department of Statistics, Malaysia. *Key Statistics of Labour Force in Malaysia, June 2018*. Accessed at https://www.dosm.gov.my/v1/index.php?r=column/ctwoByCat&parent_id=123&menu_id=U3VPMldoYUxzVzFaYmNkWXZteGduZz09.

⁵⁶ Galobardes, Bruna, Mary Shaw, Debbie A. Lawlor, John W. Lynch, and George Davey Smith. "Indicators of socioeconomic position (part 1)." *Journal of Epidemiology & Community Health* 60, no. 1 (2006): 7-12.

⁵⁷ Lee, Hwok-Aun. "Affirmative action in Malaysia: Education and employment outcomes since the 1990s." *Journal of Contemporary Asia* 42, no. 2 (2012): 230-254.

⁵⁸ Roslan, Abdul Hakim. "Income inequality, poverty and development policy in Malaysia." In *International seminar on poverty and sustainable development, University Montesquieu-Bordeaux IV and UNESCO, Paris, November*, pp. 22-23. 2001.

⁵⁹ See Anand, Sudhir. *Inequality and poverty in Malaysia: Measurement and decomposition*. The World Bank, 1983. See also Anand, Sudhir. "Aspects of poverty in Malaysia." *Review of Income and Wealth* 23, no. 1 (1977): 1-16.

⁶⁰ Evers, Hans-Dieter. "Urban landownership, ethnicity and class in Southeast Asian cities." *International Journal of Urban and Regional Research* 8, no. 4 (1984): 481-496.

⁶¹ Kakwani, Nanak C. *Income inequality and poverty*. New York: World Bank, 1980.

As mentioned above, the low socioeconomic status of the traditional Malay peasant society was maintained in part due to British policies to sustain their rule over British Malaya⁶². In the pursuit of independence, it soon became clear that the rural Malay vote would be a main source of support for politicians seeking to govern over the nation⁶³. It therefore follows that the ruling government would seek to appease the majority Malays and implement policies that would improve the livelihoods of the rural Malay population⁶⁴. Under the NEP, the Alliance government sought to impose agrarian reform and land development schemes in tandem with rural development, as it was Malaysians in these sectors who were at a higher risk of poverty and economic insecurity⁶⁵.

It can be argued that Malaysia's rise to success was partly due to its focus on rural development and empowering rural folk. The NEP saw the establishment of the Ministry of Regional and Rural Development as well as the Ministry of Agriculture, both of which had the rural economy under their close purview⁶⁶. Although there was a huge shift away from primary production and agrarian activities, Malaysia's growth played on its strengths as an agrarian nation⁶⁷, and such agricultural activities continue to play a major role in today's economy. For instance, palm oil and rubber⁶⁸ plantations, with improved harvesting and processing technology, remain amongst Malaysia's largest industries to date. By adapting

⁶² Ibid.

⁶³ Rogers, Marvin Llewellyn. *Local politics in rural Malaysia: patterns of change in Sungai Raya*. Westview Press, 1992.

⁶⁴ Hirschman, Charles, and Yeoh Suan-Pow. "Ethnic patterns of urbanization in Peninsular Malaysia, 1947-1970." *Asian Journal of Social Science* 7, no. 1 (1979): 1-19.

⁶⁵ Arshad, Fatimah Mohd, and Mad Nasir Shamsudin. "Rural development model in Malaysia." Retrieved August 23 (1997): 2004.

⁶⁶ Ahmad, Abd Razak, Wan Fauziah Wan Yusoff, Haris Md Noor, and Ahmad Kaseri Ramin. "Preliminary study of rural entrepreneurship development program in Malaysia." *Journal of global entrepreneurship* 2, no. 1 (2012): 1-8.

⁶⁷ Henley, David. "The agrarian roots of industrial growth: Rural development in South-East Asia and Sub-Saharan Africa." *Development Policy Review* 30 (2012): pp 25-47.

⁶⁸ Barlow, Colin. *The natural rubber industry. Its development, technology, and economy in Malaysia*. Oxford Univ. Press, 1978.

the agricultural sector to focus on export crops, the Malaysian government has, to some extent, improved the livelihoods of agricultural communities⁶⁹.

Rural development was also important in the NEP's informal goal of creating a Malay middle class. This was encouraged via rural entrepreneurship programmes⁷⁰ and in the *Bumiputra* shift from rural to urban⁷¹ areas. However, the main focus of the Rural Development was to improve the standard of living for rural folk, in economic, social, and political terms⁷². This entailed a holistic approach to rural development, encompassing education, healthcare, and improved infrastructure in rural areas⁷³.

The Alliance government had many challenges in dealing with rural development, as infrastructure across the nation was not well-developed at the time⁷⁴, making access to rural communities difficult. The government also had to deal with the challenge of traditional systems that lacked a hierarchical structure and did not fit neatly into the British-inherited legal systems⁷⁵. Furthermore, the urbanisation of Malay Bumiputras through rural-urban migration presented an additional conflict with the goals of rural modernisation that had to be managed through public policy.

⁶⁹ Arshad, Fatimah Mohd, and Mad Nasir Shamsudin. "Rural development model in Malaysia." *Retrieved August 23 (1997): 2004.*

⁷⁰ Ahmad, Abd Razak, Wan Fauziah Wan Yusoff, Haris Md Noor, and Ahmad Kaseri Ramin. "Preliminary study of rural entrepreneurship development program in Malaysia." *Journal of global entrepreneurship* 2, no. 1 (2012): 1-8.

⁷¹ Shamsul, Amri Baharuddin. *From British to Bumiputera rule: Local politics and rural development in peninsular Malaysia*. Institute of Southeast Asian Studies, 1986.

⁷² Shahriar, Shawon Muhammad, Chamhuri Siwar, Rospidah Ghazali, and Norshamliza Chamhuri. "Prospects of Rural Transformation Centre (RTC) of Malaysia from the Perspective of Inclusive Rural Development." *Current World Environment* 9, no. 3 (2014): 639.

⁷³ Cook, Paul. "Infrastructure, rural electrification and development." *Energy for Sustainable Development* 15, no. 3 (2011): 304-313. *See also* Ariff, Kamil Mohamed, and Cheong Lieng Teng. "Rural health care in Malaysia." *Australian Journal of Rural Health* 10, no. 2 (2002): 99-103

⁷⁴ Windle, Jill, and Robert A. Cramb. "Remoteness and rural development: economic impacts of rural roads on upland farmers in Sarawak, Malaysia." *Asia Pacific Viewpoint* 38, no. 1 (1997): 37-53.

⁷⁵ Cramb, Robert A., and I. R. Wills. "The role of traditional institutions in rural development: community-based land tenure and government land policy in Sarawak, Malaysia." *World Development* 18, no. 3 (1990): pp 347-360.

As such, it was extremely important to have a holistic approach to rural development to ensure sustainable growth. The focus on industrialisation meant that the agricultural sector's share in the national economy would inevitably be reduced, so measures had to be put into place to ensure that socioeconomic progress would continue to take rural folk into consideration⁷⁶. The government at the time carefully balanced the needs of rural folk with the NEP's aim of economic growth, brazenly ignoring the worldwide pursuit of the free market. For example, there was heavy subsidising of paddy farming despite the sector's low productivity⁷⁷. However, it must be acknowledged that such measures of subsidies can only be a short-term measure and that social reform, via education and structural employment changes⁷⁸, is a more sustainable approach to poverty eradication. Microcredit loans ala Grameen Bank⁷⁹ were also particularly successful in empowering rural communities and female entrepreneurs⁸⁰.

In short, the literature demonstrates that despite its important role in uplifting the national economy, the role of rural development in eradicating poverty has not been given its due in the arena of academic research. This thesis will therefore attempt to do it justice by not only elaborating on current research, but also drawing a link between the historical nuances of the rural population and the rationale of the Alliance government addressing their needs under the NEP.

⁷⁶ Chamhuri, Siwar, and Hashim Nik Mustapha Nik. *Integrated rural development in Malaysia: an assessment*. No. 4. 1988.

⁷⁷ Alam, Md, Chamhuri Siwar, Md Murad, Rafiqul Molla, and Mohd Toriman. "Socioeconomic profile of farmer in Malaysia: study on integrated agricultural development area in North-West Selangor." (2010).

⁷⁸ Jomo, K. S., and Tan Eu Chye. "External Liberalization, Economic Performance, and Distribution in Malaysia." *External liberalization in Asia, post-socialist Europe, and Brazil*(2006): 232.

⁷⁹ Yunus, Muhammad. "Grameen Bank, microcredit and millennium development goals." *Economic and Political Weekly* (2004): 4077-4080.

⁸⁰ Gibbons, David S., and Sukor Kasim. *Banking on the rural poor in Peninsular Malaysia*. Centre for Policy Research, Universiti Sains Malaysia, 1990. See also Hulme, David. "Can the Grameen Bank be replicated? recent experiments in Malaysia, Malawi and Sri Lanka." *Development Policy Review* 8, no. 3 (1990): 287-300.

The NEP, as its name suggests, was first and foremost an economic policy. Its goals may have been poverty eradication and societal restructuring, but the main mechanism by which this was to be achieved was via rapid economic growth⁸¹. As such, the situation demanded that the Alliance government put into place a sophisticated and efficient financial system that could implement development measures and in turn sustain economic growth⁸².

The financial restructuring of Malaysia in the 1970s had an added layer of complexity as it required that the redistribution of equity, particularly into the hands of its *Bumiputra* population, was given priority. Some of the main areas for discussion under the topic of economic growth include Malaysia's privatisation policy, the industrial transformation, openness to foreign direct investment (FDI)⁸³, and the promotion of *Bumiputra* entrepreneurship⁸⁴.

Once again, it is important to understand the historical context of such initiatives. The non-elite Malays were historically smallholder farmers and fishermen who, having been "kept in their place" by the British Administrators, had not had the opportunity to accumulate generational wealth. Thus, while the NEP might have been pro-poor, it was also very pro-*Bumiputra*, as it was the Malays who made up the vast majority of the poor population⁸⁵. At the time of its inception, it could be argued that the vast majority of those living in poverty were Malay⁸⁶. However, in today's economy, that statement no longer rings true⁸⁷. Although

⁸¹ Abhayaratne, Anoma. *Poverty reduction strategies in Malaysia 1970-2000: Some lessons*. Faculty of Economics & Administration, University of Malaya, 2004.

⁸² Ang, James B. "What are the mechanisms linking financial development and economic growth in Malaysia?" *Economic Modelling* 25, no. 1 (2008): 38-53.

⁸³ Athukorala, Premachandra and Jayant Menon. "Developing with foreign investment: Malaysia." *Australian Economic Review* 28, no. 1.

⁸⁴ Abdullah, Syahida, and Amran Muhammad. "The development of entrepreneurship in Malaysia: State-led initiatives." *Asian Journal of Technology Innovation* 16, no. 1 (2008): 101-116.

⁸⁵ *Ibid.*

⁸⁶ Kakwani, Nanak C. *Income inequality and poverty*. New York: World Bank, 1980.

⁸⁷ Poverty rates as of 2012 were 2.2% for *Bumiputra*, 0.3% for Chinese, and 1.8% for Indians. Department of Statistics, Malaysia. *Higher Household Income, Lower Poverty Rates*. Accessed at https://www.dosm.gov.my/v1/index.php?r=column/cone&menu_id=UIV1bUxzUWo0L3FEaWZmUVg4ZFQzZz09.

the poverty rate for *Bumiputras* is still slightly higher than that of Indians and Chinese, it is no longer the huge disparity that existed prior to the NEP and therefore the Malaysian government can be proud of its achievement in alleviating the issue of poverty in the Malay community.

Despite the NEP's achievements, post-1990 there has been a trend towards increasing income inequality, both rural-urban and inter-ethnic⁸⁸. It would appear that the policies that were appropriate under the NEP were no longer as effective once the equity distribution had changed. Marred by cronyism and corruption⁸⁹, many of the institutions formed under the good intentions of the NEP morphed unrecognisably into vehicles of kleptocracy, undoing many of the achievements of the Razak, Hussein Onn, and Mahathir administrations. This thesis will unravel the historical context of why pro-*Bumiputra* policies were important, and how the policies of equity distribution were important both economically and socio-politically as a means of achieving national unity and alleviating racial tensions. That is not to say that the policies have been perfect in either their inception or their implementation, as there is still much room for improvement as will be discussed in Chapter 7 of this thesis.

To reiterate, the current thesis will therefore discuss four main areas of interest under the NEP. Firstly, the historical events preceding the NEP and how they influenced subsequent policy-making. Next, the roles of education and rural development respectively in the eradication of national poverty, regardless of race. And lastly, how the economic growth was

⁸⁸ Shari, Ishak. "Economic growth and income inequality in Malaysia, 1971-95." *Journal of the Asia Pacific Economy* 5, no. 1-2 (2000): 112-124.

⁸⁹ Johnson, Simon, and Todd Mitton. "Cronyism and capital controls: evidence from Malaysia." *Journal of financial economics* 67, no. 2 (2003): 351-382.

harnessed via state-interventionist practices to redistribute equity and address socioeconomic imbalances.

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1.3 PROBLEM STATEMENT

This research is based on the assumption that Malaysia, in 1971, had been governed by a regime, which can be considered to be a “Developmental State” because of the active and direct role played by the government in legislative and executive issues in preparing, implementing and examining the social-economic paradigms both at the macro and at the long-term levels. The NEP was first formulated and implemented by the Government simultaneously with the implementation of the Second Malaysia Plan (1971-1975). This initiative saw the beginning of the direct involvement of Parliament and the Malaysian State in all aspects of economic and social planning and development.

At the very core of this research is the fact that the NEP was formulated and implemented in 1971 at the behest of the State⁹⁰ and was controlled by the Malay political party UMNO. UMNO was established on 11 May 1946 and had successfully rejected the Malayan Union government as created by the British Colonial power then. The objective of the NEP was to liberate the Malays and the *bumiputras* of Sabah and Sarawak from poverty by providing better educational opportunities for the younger generation and giving them an opportunity to participate in the modern economy sector. All of these intentions are contained in Article 153, sections (2), (3), (6), (8) and (8A) of the Federal Constitution of Malaya 1957 (Malayan Constitution)⁹¹ and Malaysia in 1963 (Federal Constitution)⁹².

⁹⁰ Which during this period was the Majlis Gerakan Negara or MAGERAN, the National Operations Council (NOC), which had taken over the roles and functions of Parliament and the Cabinet.

⁹¹ Malaya: Federal Constitution, 31 August 1957, available at: <http://www.refworld.org/docid/3ae6b5e40.html>. Note that this is an unofficial consolidation. The original Constitution was first introduced as the Constitution of the Federation of Malaya on Merdeka Day (31 August 1957) and subsequently introduced as the Constitution of Malaysia on Malaysia Day (16 September 1963).

⁹² Constitution, Federal. "Laws of Malaysia." *Reprint Federal Constitution Incorporating All Amendments Up To 1* (2006).

This research projects the fact that a Developmental State as controlled by the Malays through the exegesis of UMNO and the NEP, hold within it a transformation plan for a Malay society. Although Article 153 has been consolidated in the Federal Constitution and has been effective since 1957 when the Federation of Malaya gained its independence, the said Article was never systematically and continuously implemented since that time.

Nevertheless, officially, the main objectives of the NEP include: reducing and finally eliminating poverty by increasing work opportunities for all Malaysians irrespective of race and ethnicity; and to hasten the process of restructuring society so as to address the socio-economic imbalance in order to eliminate racial and ethnic identification along economic functions.

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1.4 RESEARCH QUESTION

In this research, Malaysia can be considered a developing state, based on the initiation and implementation of the NEP since 1971. But Malaysia's experience(s) cannot be equated with the experiences of Japan, South Korea and Taiwan. This is because Malaysia has a unique social, economic and political history which is not comparable to the three aforementioned nations. This research takes into account how the different and differing plural society that is Malaysia has led to different negotiations and renegotiations as the nation traverses these issues to become a developmental state within the premise of the NEP. To explore these research territories, this research works on some specific questions and provides coherent answers through a sufficient analysis of various authoritative and primary sources. The research questions that will guide this study are as follows:

- a) What was the role of the Alliance government, and later National Front (Barisan Nasional) in introducing, implementing, and modifying the NEP?
- b) To what extent was the NEP successful during the implementation period between 1970 and 1990?
- c) What are the significant outcomes of the NEP on Malaysian society, economy, and public policy?

1.5 RESEARCH OBJECTIVE

A systematic examination of such contested policies needs to be contingent on specific purposes. This study is generally motivated by few main objectives. First, it is a known fact that there have been numerous studies and writings which have detailed and analysed the negative effects of the NEP, on the economic importance and issues of the non-Malays, especially of the ethnic Chinese⁹³. This research, on the other hand, is aimed at providing an objective and fair analysis of the NEP policy which is more sympathetic to the rationalisation and implementation of the NEP.

Second, the study is also motivated by the realisation of the importance of a strong, stable government as active initiator, planner and implementer of development both as short term and long-term measures. This research will attempt to carefully identify and locate the rationale behind the measures dictated by the government within the broader process of development of the post-colonial countries, as well as the immediate domestic challenges faced by the leaders of the country.

In short, this study will be guided by the following objectives:

- a) To discuss the historical context and rationale behind the some of the decisions made by the Alliance government in introducing, implementing, and modifying some of the features and directions of the NEP.

⁹³ See Jesudason, J.V., *Ethnicity and the Economy: The State, Chinese Business, and Multinationals in Malaysia*, (Singapore: Oxford University Press, 1989) and Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997).

- b) To analyse to what extent a developing State like Malaysia was successful in overcoming its limitation in fulfilling its developing agenda.
- c) To specifically understand the impact of the NEP through its policies on education, rural development, and equity distribution.

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1.6 METHODOLOGY AND APPROACH

This research deals with the developmental process as experienced by Malaysia, especially Peninsular Malaysia, as a nation and a society since the implementation of the New Economic Policy (NEP) in 1971. These experiences are seen from the perspective of social history, combining sociological insight and historical narrative. It will delve into various issues, within the Malaysian context, as it deals with development, the existence of a plural society, the practice of parliamentary democracy, the emergence of racial conflicts, the creation of a developmental state and capitalism. All these concepts are important and crucial to the formulation and conceptualisation of this research.

Using history and developmental sociology disciplines, specifically the 'Developmental State Theory' approach, this research will also analyse the roles and functions of the State in developing Malaysia. It will study the causes and effects of the social, political, economic dimensions and the rules and laws of the Nation State which enabled and empowered the Nation to play important and far reaching roles. This research also aims to delve into the different aspects of the successes and weaknesses of the agenda towards the achievement of a Developed Nation State status.

To delve into this complex economic and political programme this study employs a qualitative research approach to enable a contextual examination of the implementation and the outcome of NEP policies. It shall make use of primary sources such as official documents and records, personal documents as well as interviews. This research also refers to secondary sources from published and unpublished documents such as theses, books, articles, working papers, newspapers and journals from overseas and local libraries. All the data are then

assessed descriptively, analytically and critically using to address the research question listed in the previous section. This research also draws upon the author's personal experience of serving firstly as Non-Executive Chairman of PEREMBA in 1979, Senator in the Upper House of Parliament in 1980, and subsequently as Minister of Finance within the Malaysian Cabinet from 1984 to 1991, the final years of the NEP implementation period.

This research departs from the theoretical premise which stipulates that the achievement of rapid development of a developing Nation State is closely related to the role and function of the State as active initiator, planner and implementer of development both as short-term and long-term measures. Here, the important assumption is that such a Nation has the capability to implement what it plans to do. Moreover, it will have a significant autonomy to overcome whatever challenges or opposition it might face from the sector of capital (be it domestic national or international capital). This assumption contains within its suggestions that such a State might use military power or the police to enable it to truly govern and administer. Or such a Nation has the means and the power to change, initiate and implement rules, regulations and laws in a dictatorial manner to enable it to face challenge and weaken and even nullify its opponents. Thus, there are studies on this Developmental State associating the power of such a nation to a dictatorial system and administration practices as done by a dictator and the military cohorts.

The "Developmental State Theory"⁹⁴ was developed as a result of the studies and observation by scholars of several East Asian nations, especially Japan, South Korea and Taiwan. These nations developed rapidly under capitalism whilst succeeding in practising a

⁹⁴ See Woo-Cumings, Meredith (ed), *The Developmental State*, (Cornell University Press, 1999).

political system based on democratic principles. Nevertheless, the leaders of these nations have also fully exploited their legislative and executive powers to intervene in the economic activities of their nation by monitoring the behaviours of their investors and industrial movers even as they shrewdly defended the principles of the market economy. This happened because the leaders lead a strong, stable government, thus ensuring that their wants are obeyed by the main players of the market economy.

The involvement of the State in the industry and economic development plans have been much debated. Chalmer Johnson⁹⁵ used the term “developmental state” in delineating how Japan transformed to develop and industrialise their nation rapidly because its Government had succeeded in planning and implementing a long-term developmental plan under capitalism. This differs from cases in the West and especially of the United States of America and other European nations where the Government had played the role of initiator and implementer of rules and laws which must be obeyed by the capitalists and the business people.

South Korea is an example most often cited as a developing nation.⁹⁶ This is because the whole of Korea was once colonised by Japan (1910-1945) and South Korea came into being as a result of the demarcation of Korea into two nations in 1948. North Korea however, emerged as a Marxist regime and became the nemesis to South Korea - popularly known as a regime which practises capitalism and democracy. During the Korean War (1950-1953), the regime of South Korea had the support of the capitalist-democratic block, especially that

⁹⁵ See Johnson, Chalmer, *MITI and the Japanese Miracle: the Growth of Industrial Policy, 1925-1975*, (Stanford: Stanford University Press, 1982).

⁹⁶ See Amsden, Alice Hoffenberg, *Asia's Next Giant: South Korea and Late Industrialization*, (Oxford University Press, 1989) and Clifford, Mark L., *Troubled Tiger: Businessmen, Bureaucrats and Generals in South Korea*, (Sharpe Incorporated, 1994).

of the United States of America. The US, in fact, built an important military base in South Korea at a time when it was in the midst of the Vietnam War (1955-1975). During the era of the Vietnam War, South Korea developed rapidly and emerged as an exemplary model of a successful developmental nation. In 1960, South Korea was originally a poor agricultural nation. By 1987, South Korea emerged as a progressive industrialised nation with a high income (according to World Bank statistics). Today, this nation of 50.48 million people, has a GDP as high as USD1,308 billion (April 2014 estimates). The economy of South Korea is today ranked 14th in the world⁹⁷.

Taiwan is also regarded as a successful developing nation by many scholars.⁹⁸ Taiwan emerged as an independent nation when the Kuomintang, led by Chiang Kai Shek, built a base on the island in 1950. Undergoing almost the same transformation as South Korea, Taiwan succeeded to develop from an agricultural country to an industrial nation. In 2014, with a population of just above 23 million, Taiwan has a GDP of USD502 billion. Taiwan is indeed a developed nation with a high income⁹⁹.

If we were to scrutinise the history of these two nations, we would realise that both were once colonised by Japan. They achieved independence after Japan was defeated in World War II. These two nations also had the support of the US as both nations chose the capitalism system as the basis of their economy. Both nations too, before practising full democracy, were led by a dictator backed by a military regime. In addition, both nations are

⁹⁷ Knoema website, *World GDP Ranking 2014: Data and Charts*, (n.d.). Accessed at <<http://knoema.com/nwnfkne/world-gdp-ranking-2014-data-and-charts>> and The Statistical Portal website, *South Korea: Total population from 2004 to 2014 (in million inhabitants)*, (n.d.). Accessed at <<http://www.statista.com/statistics/263747/total-population-in-south-korea/>>

⁹⁸ See Wu, Yu-Shan, *Taiwan's Developmental State: After the Economic and Political Turmoil*, (*Asian Survey*, 2007), vol 47, issue 6, pp 977-1001 and Greene, Megan J., *The Origins of the Developmental State in Taiwan*, (Harvard University Press, 2008).

⁹⁹ Knoema website, *World GDP Ranking 2014: Data and Charts*, (n.d.). Accessed at <<http://knoema.com/nwnfkne/world-gdp-ranking-2014-data-and-charts>> and Geoba.se website, *Taiwan: Population-2014* (n.d.). Accessed at <<http://www.geoba.se/country.php?cc=TW>>

examples of a homogeneous nation, having only one ethnic group, the Korean and the Chinese, respectively¹⁰⁰. The historical, political and social backgrounds coupled with the aid and cooperation of the US can also be regarded as factors which have helped South Korea and Taiwan realise their economic strategies. Keeping these significant differences in mind, the central aim of the study is therefore, to utilize the “Developmental State Theory” as the main analytical framework in assessing the implementation and the outcomes of NEP, without losing the sight of the distinctive domestic challenges it has to face within the duration of its implementation.

¹⁰⁰ Daud, Sity. "Globalisasi dan Negara Pembangunan (Globalisation and National Development)." *Akademika* 64, no. 1 (2004).

1.7 SCOPE AND LIMITATION

This research shall cover the whole 20-year implementation period of the implementation of the New Economic Policy (NEP), beginning from its inauguration in 1970 until its closing in 1990. As the NEP had far-reaching consequences on Malaysian public policy and economy, this research will also review some related policies in the years following that are closely attributed to the NEP. The research looks into several aspects namely, historical background, circumstances, other examples and the perspective of both local and international personalities concerning the necessity and formulation of the NEP. In order to provide a fair and objective assessment of NEP, it shall examine few crucial dimensions of the Plan:

- a) The historical context of the NEP
- b) Educations as a means to eradicate poverty under the NEP
- c) Rural development as a means to eradicate poverty under the NEP
- d) Economic growth as a means to redistribute equity and therefore reduce racial economic imbalances under the NEP

All of these dimensions formed an important direction for NEP and were embedded in its goals since its inception.

1.8 SIGNIFICANCE OF RESEARCH

Corresponding to the all aspects that have been raised above the research is expected to provide the following significant contributions:

- a) The study shall provide a meaningful contribution to the body of theoretical and practical knowledge and literatures in dealing with the discussion of NEP and the nature of Affirmative Action programmes in developing states. By combining theories, empirical data, and the author's own experiences working within the administration, the study shall make a good source for scholars, policy makers or anyone that intend to learn from Malaysian's developmental experiences.
- b) The study is intended to shed light and add new insights to the relationship between the nature of state's intervention in the economy and the trajectories of Malaysian economic and societal development. As stated in the previous section, the study is expected to show how and why a strong and stable administration is important in addressing the social and economic imbalances within the country.

1.9 THESIS STRUCTURE

The present thesis consists of eight chapters, which are organized in an integrated structure. Chapter 2 will re-live the realm of the Malay World, the Malay Peninsula once under the British from 1874–1957. Other colonial powers before the British included the Portuguese, the Dutch and the Japanese during World War II. It has a multi-racial and multi-ethnic population which has evolved since the beginning of the 19th century. The Nation State practised capitalism since its colonial days, and also engaged in a parliamentary democracy since it achieved independence in 1957. The population of Peninsular Malaysia comprises of different ethnic groups including the Malays, Chinese, Indians and others, each of which practices its own cultural autonomy. Each ethnic group has its own way of living, particularly in language, religion, cultural and traditional practices, and economic values.

Within the context of social-history, the economic activities of the three main ethnic groups differed noticeably since the 19th century whereby generally, the Malays practised farming and fishing activities¹⁰¹; the Chinese were actively engaged in mining activities, besides being rubber magnates/holders and businessmen¹⁰²; and the Indians worked as labourers in the rubber estates or were affiliated with the Jabatan Kerja Raya (JKR), the Public Works Department¹⁰³. For more than a century, these divisions propounded by economic activities, continued¹⁰⁴.

¹⁰¹ Lim Teck Ghee, *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, (Oxford University Press, 1977), p 4.

¹⁰² Ibid, pp 20, 70.

¹⁰³ Wiebe, Paul D., and S. Mariappen. *Indian Malaysians: The view from the plantation*. Manohar Publishers, 1979.

¹⁰⁴ Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 35.

Chapter 3 discusses the steps not initiated when Malaya achieved its independence in 1957, to change the ethnic stereotyping of the socio-economic structure of the nation. Consequently, at the end of the decade of the 1960s, the Malays continued to be poor and backward whilst the Chinese generally grew to be rich and prosperous. The ethnic conflict of 13 May 1969 (May 13), was seen by several groups especially by the government of Malaysia as being the outcome of a gaping social distance and the existing socio-economic divides between the poor-backward ethnic Malays and the rich and prosperous Chinese¹⁰⁵. It also discusses how the National Operations Council (NOC), which governed Malaysia when Parliament was suspended¹⁰⁶, gave the United Malays National Organisation (UMNO) the golden opportunity to formulate a new and comprehensive policy without incurring opposition in Parliament.

Chapter 4 delves into the NEP and outlines the principles and policies of developing and restructuring society along socio-economic lines. The Malaysian Nation, (a combination of the legislative and executive arms) held the responsibility of reformulating and implementing these new policies, starting in 1971. This chapter addresses the question of whether Article 153 of the Malayan Constitution can be considered and accepted as the foundation of the rules and laws which has enabled the Nation to formulate and implement the NEP in a rational and legal manner.

Within the context of this research, the NEP will be considered as the agent for the design, restructure and implementation of the policies of the Malaysian Nation for purposes of becoming a developed Nation State. Chapter 5 will discuss the impact of the

¹⁰⁵ See Mahathir Mohamad, *The Malay Dilemma*, (Kuala Lumpur: Federal Publications Sdn Bhd, 1970) and Abdul Rahman, Tunku, Putra Al-Haj, *May 13 – Before and After*. (Kuala Lumpur: Utusan Melayu Press, 1969).

¹⁰⁶ From 16 May 1969 until 1971, following the 13 May 1969 racial riots.

implementation of the NEP on UMNO as a political party which was supported predominantly by the poor and underdeveloped Malays. It will also touch on the Malaysia Plans, which embodied the principles of the NEP, as well as the NEP's impact on the 3 largest ethnic groups of Malaysia.

The bulk of this thesis is contained in Chapters 6 and 7, which address the achievements and criticisms of the NEP respectively. In these two chapters, this thesis aims to discuss to what extent the NEP has achieved its stated goals within the 20-year implementation period and its positive influence on subsequent policy, as well as the negative aspects of the NEP and its unintended side effects on Malaysian society.

Chapter 8 provides a conclusion to this thesis, directly addressing each of the research questions stated above, and how each chapter relates to the stated research objectives.

CHAPTER 2: TRACING EARLY HISTORY

2.1 INTRODUCTION

This research focuses on Malaysia's capability in designing and implementing the NEP. To understand why it was introduced, we have to go back in Malaysian history. Without understanding her history, we will be unable to understand Malaysia's economic, political and social development leading to the NEP. It is by knowing the history that we can appreciate why the NEP was introduced after the May 13 racial riots.

This chapter highlights the historical oppression of the Malays, clarifying how they went from being a successful maritime society to being subservient under colonial rule. In addition, the colonial powers at the time exploited both land and resources of the Malay Peninsula, as well as implemented land ownership and immigration policies that were to the detriment of the indigenous Malays. Many of these policies also exacerbated racial tensions between the Chinese and Malay ethnic groups, further fuelled by other external forces including the Japanese occupation and the Communist insurgency. All of these factors led to the poor economic conditions of the Malays, alongside the identification of ethnic groups with their economic functions.

With relation to the research question, this chapter attempts to explain the historical context for the socio-economic inequalities that the NEP had aimed to address in its implementation period, as well as a brief history of the political climate of Malaysia. It also highlights the extractive nature of the Malaysian economy under colonial rule, thus clarifying the rationale behind the Alliance government's decisions to establish secondary and tertiary economic sectors in later chapters.

2.2 PRE-MALAYA

The *Sejarah Melayu* or Malay Annals¹ recorded the founding of Melaka by Parameswara² in 1396, the burgeoning port's relationship with its neighbours, the lineage, administration and history of the Melaka Sultanate, as well as the arrival and spread of Islam. Parameswara's conversion to Islam in 1409 endeared him to Muslim merchants, encouraging greater trade and a key moment in Melaka's early prosperity. During the reign of Melaka sultanate, Islam began to spread to the rest of the Malay peninsula, the Malay regions in Sumatra, and throughout the trade networks within Indonesian archipelago³.

By the time of Megat Iskandar Shah's (1414-1424) reign, Melaka was also recognised as a cosmopolitan trading centre with strong diplomatic ties to other countries. Melaka's international success can be explained due to two factors. Firstly, Melaka embodied 'a laissez-faire attitude not just towards trade, but also towards governance and culture'⁴, and secondly, the multiculturalism practices in Melaka. This can be seen from the various editions of the 15th century Melaka Laws⁵, formulated under Sultan Muzaffar Shah which combined Islamic Shariah and traditional Malay customs. Collectively, the *Undang-Undang Melaka* (Laws of Melaka, also known as *Hukum Kanun Melaka* and *Risalat Hukum Kanun*),

¹ The Malay Annals is a chronological Malay literary work that recounts the history of the establishment of Melaka Sultanate and narrates 600 years of Malay Peninsula history. It is believed to be compiled and edited by Tun Sri Lanang, the Bendahara of the Royal Court of Johor and commissioned by Sultan Alauddin.

² The Portuguese Gordinho D'Eredia, son of a Portuguese mariner and a Melakan lady from Macassar, referred (circa 1600) in his writings to a Melakan ruler called "Permicuri." See Mills, J.V. (trans) *Eredia's Description of Malacca, Meridional India and Cathay*, (Singapore: s.n., 1930).

³ Another source of information about the beginning of the spread of Islam in the Malay Archipelago is provided by Marco Polo. He visited the Port of Perlak, which he called "Felech" on the northern coast of Sumatra in 1292AD on his return voyage to Europe through the Straits of Malacca. Marco Polo remarked in his later writings that many inhabitants of Perlak had been converted to Islam by foreign merchants who frequently called there. See Latham, R. (trans), *The Travels of Marco Polo*. (London: The Folio Society, 1968).

⁴ See Shawnakim Blake Lowey Ball, Unpublished thesis 'Liquid Market, Solid State: The rise and demise of the great global emporium at Malacca, 1400-1641' (Yale University: 2015), p. 13

⁵ See Liaw, Yock Fang (ed), *Undang-Undang Melaka, a critical edition*, (Leiden: Koninklijk Instituut voor Taal-, Land- en Volkenkunde, Martinus Nijhoff, The Hague, 1976).

and the *Undang-Undang Laut Melaka* (the Maritime Laws of Melaka)⁶ were the legal and formal text of Melaka.

Melaka's growing maritime importance enabled it to spread Islam across the archipelago. It became the centre of Islam and the first Muslim state in South East Asia. At the peak of the Melaka Empire, the Sultanate controlled the majority of present-day Peninsular Malaysia, Singapore and a great part of the Sumatran shores. Meanwhile, Melaka was the most important port in the East at the time. Ships from Burma and Thailand brought merchandise into Melaka, while junks from Luzon, Philippines carried gold and forest products. At times, over 4,000 traders were housed in special quarters, with warehouses available to store their goods. The Sultanate established a network of palace officials appointed to ensure the security and safety of the traders, as well as to cater to their daily needs. This period marked the height of Malay culture.

Melaka also fostered a remarkably cosmopolitan society where more than 80 languages were spoken⁷. Melaka significantly adapted and refined the primitive Malay language that had been used in the kingdom of Srivijaya into a language of the Malay elite. Such was Melaka's prestige that all who passed through the entrepôt sought to imitate it, and by the 16th century, Malay was the most widely used language in the archipelago. It is in this spirit that in 1512 Tome Pires wrote "*...whoever is Lord of Melaka has his hands on the throat of*

⁶ The Melaka Undang-Undang Laut (or Maritime Code) is the key indigenous guide to the system of trade and shipping Melaka at its height. Winstedt, Richard, and P. E. De Josselin De Jong. "The Maritime Laws of Malacca." *Journal of the Malayan Branch of the Royal Asiatic Society* 29, III (1956) pp 46.

⁷ Hashim, Muhammad Yusoff. *The Malay sultanate of Malacca: a study of various aspects of Malacca in the 15th and 16th centuries in Malaysian history*. Dewan Bahasa dan Pustaka, 1992.

Venice⁸.” He rated Melaka “...of such importance and profit that it seems to me it has no equal in the world⁹.”

At the beginning of the 16th century, under the reign of Sultan Mahmud Shah, Melaka began attracting the attention of the West. Goods were traded and taken to Europe, where spices were considered more precious than gold as they were essential in preserving and flavouring meat during winter. The “Blue Water Trade” was the most lucrative trade in the Straits. It was the collection and distribution of spices¹⁰, tea, porcelain, and silk sent via the Middle East and Venice to Europe. Control of the Straits meant wealth and dominance over their rivals for the Europeans. The importance of Melaka as the centre for trade did not escape the attention of the Portuguese.

The Portuguese, who were already established in Goa, decided to mount an expedition to the Asian spice islands of Maluku¹¹ to conquer and control the spice trading network. A fleet of 16 ships setting out from Goa under Dom Afonso d’Albuquerque, the Viceroy of all the Portuguese in the East, landed in Melaka in June 1511. A fierce fight ensued, and the Portuguese successfully captured Melaka in August 1511. Albuquerque immediately garrisoned Melaka and established a new administration, minted a new currency and ordered the building of fortresses¹² on the south side of the river to protect the city¹³. The

⁸ Tome Pires (1468-1540) <www.bdbiography.com/Tome-Pires.php>. A Portuguese apothecary and diplomat who spent 1512 to 1515 in Melaka. See Pires, Tome, Cortesao, Armando (ed), *The ‘Suma Oriental’ of Tome Pires: An Account of the East, from the Red Sea to China, Written in Malacca and India in 1512-1515*, In 2 Volumes, Vol. II (New Delhi: Asian Educational Services, 2005).

⁹ Pires, Tome, Cortesao, Armando (ed), *The ‘Suma Oriental’ of Tome Pires: An Account of the East, from the Red Sea to China, Written in Malacca and India in 1512-1515*, In 2 Volumes, Vol. II (New Delhi: Asian Educational Services, 2005), pp 285.

¹⁰ The spice trade had been of major economic significance throughout history and had particularly helped spur the Age of Exploration. Spices brought to Europe from distant lands were some of the most valuable commodities for their weight, sometimes rivalling gold. The word “Spice” derives from the Latin “species”, which in its later history came to mean goods or products, often of small volume and high value.

¹¹ See Ricklefs, Merle Calvin, *A History of Modern Indonesia C.1300 to the present*, (London: Macmillan, 1981).

¹² See Irwin, Graham W. (1983). ‘Melaka Fort’. In Kernial Singh Sandhu and Paul Wheatley (eds), *Melaka: the Transformation of a Malay Capital, c 1400-1980*, Kuala Lumpur: Oxford University Press, vol. 1, pp.782-805.

¹³ There were four towers and its walls were 2.4m and in some parts 4.5m thick and 18m high. Only one of the entrances to the famous fortress A Formosa (Porta de Santiago) remains standing and is a popular tourist attraction till today. It is still one of the oldest surviving remnants of European architecture in Asia.

victory of the Portuguese signalled the end of the glorious era of the Melaka sultanate, ushering in the era of colonisation and imperialism in the Malay Archipelago. The Portuguese continued to hold Melaka for 130 years before surrendering to Dutch powers when they conquered the city in 1641.

In 1600, the Dutch joined forces with the local Hituese of Ambon against the Portuguese, in return for which the Dutch were given the sole right to purchase spices from Hitu. The Dutch government, in response to the English's monopoly enterprise of the East India Company¹⁴, sponsored the creation of a single "United East Indies Company" better known as the Dutch East India Company¹⁵ (Verenigde Oostindische Compagnie, VOC), based in Ambon.

Despite being the heart of the spice production areas, Ambon's distance from the Asian trade routes and other VOC areas of activity made it an unsatisfactory location for the VOC's headquarters. It thus became crucial for the VOC to secure a position in the west of the archipelago, and the Melaka Straits proved to be an enticing locale. In 1640, the Dutch captured Melaka with the aid of the Johor Sultanate, and immediately set up its Dutch

¹⁴ The East India Company was founded as The Company of Merchants of London Trading into the East Indies by a group of enterprising and influential businessmen. It was granted an English Royal Charter by Queen Elizabeth I on 31 Dec 1600, with the intention of favouring trade privileges in India. The Royal Charter effectively gave the newly created company a 21-year monopoly on all trade in the East Indies. The Company transformed from a commercial trading venture to one that virtually ruled India and other Asian colonies as it acquired auxiliary governmental and military functions. It was only by the Government of India Act 1868 that the British Crown assumed direct rule, following the Indian Mutiny of 1857. The Company was finally dissolved on 1 Jan 1874. See Keay, John, *The Honourable Company – A History of the English East India Company*. (London; Harper Collins, 1991).

¹⁵ Established in 1602, the VOC made Batavia (now Jakarta) their headquarters. Other colonial outposts were also established in the East Indies which include Moluccas and Banda Islands where the VOC forcibly maintained a monopoly over nutmeg and mace. Methods used to maintain the monopoly included the violent suppression of the native population, not stopping short of extortion and mass murder. In addition, VOC representatives sometimes used the tactic of burning spice trees in order to force indigenous population to grow other crops, thus artificially cutting the supply of spices like nutmeg and cloves. Around 1670, its trade was on the decline due to loss of profitable trade with Japan and loss of its outpost on Formosa (Taiwan) related to internal turmoil in China. By 1683, the VOC came close to bankruptcy; its share price plummeted from 600 to 250. See Ames, Glenn J., *The Globe Encompassed: The Age of European Discovery 1500-1700*, (New Jersey: Pearson Prentice Hall, 2007).

Administration centre¹⁶. From their new base in Melaka¹⁷, the Dutch tried to reinforce their monopoly of the tin trade by entering into trading agreements with several Malay Peninsula states.

By the 1660s, Dutch trade in Melaka was in serious decline as they started to develop Batavia as their primary trading city instead. In the meantime, the British needed a port for their ships to dock while en-route to China. Francis Light who was engaged as an agent by the English Indian Company (EIC) befriended the Sultan of Kedah and offered protection of the fort against the aggressive Siamese. But the EIC was not willing to commit militarily¹⁸. Light's expedition then sailed to Penang and arrived in 1786 to present his authority from the Governor-General to the Sultan. In place of the promise of protection, the EIC only undertook to keep an armed vessel to guard Penang and the adjacent coast belonging to Kedah. The Sultan, who had anticipated more, was reluctant but eventually agreed to sign. The name of Prince of Wales Island was given to the settlement but was subsequently changed to "Georgetown" in honour of King George III. By 1795¹⁹, the British firmly established their supremacy in the region when they assumed direct control of Dutch possessions in the Malay-Indonesian archipelago.

¹⁶ The massive town hall, the Stadthuys, remains standing today.

¹⁷ Unlike the Portuguese who ruled under the royal crown, Melaka under the Dutch were owned by the Dutch East India Company (VOC). Life for the senior Dutch officials was good but the lower-ranking employees of the VOC suffered through their tenure in Melaka. There was shortage in basic supplies caused by shipwrecks, piracy and few people were willing to work outside the fortress for fear of wild animals and the fierce Minangkabaus who had settled just north of Melaka.

¹⁸ The war between Britain and Dutch had great significance to South East Asia. The 1784 treaty allowed the English navigation in Dutch controlled seas. Their presence in local waters encouraged local princes to seek protection from East India Company. This was how Penang was given away by the ruler of Kedah.

¹⁹ In 1795 when the Netherlands was captured by French Revolutionary armies (Napoleonic War), Melaka was handed over by the Dutch to the British to avoid capture by the French. They knew if Melaka fell into the hands of the French, it would seriously jeopardise their trade with China. No longer was Melaka occupied for reasons of a strategic trading entrepôt but rather to position garrisons in expectations of war. This was the first in a series of "swaps" to and from each country regarding this area. The British returned Melaka to the Dutch in 1818 after the Napoleonic War. However under the Anglo-Dutch Treaty of 1824 it was soon given over to the British once again in exchange for Bencoolen, Sumatra. This treaty was the demarcation of their respective spheres of influence in the Malay-Indonesian archipelago. The importance of Melaka faded.

2.3 THE MALAY PENINSULA UNDER THE BRITISH RULE

In 1800, Kedah leased the district of Prai to the EIC. In 1819, a treaty was signed between Stamford Raffles and the territorial chief of Singapore allowing them to establish a foothold on the island. Singapore became the dominant trading centre in the south whilst Penang remained an important entrepôt in the north.

The British wanted to avoid direct undertaking or political control, but still influence the autocratic policy in Malaya. In 1826, the British combined Singapore, Melaka, Penang, Prai (then known as Province Wellesley), and Dindings (now part of the state of Perak) under a single administration called the Straits Settlements and as a British Crown Colony. This was a period of trade expansion and a growing population. That same year, British law was imposed, and Melaka became the official penal colony where convicts provided cheap labour for public works projects.

In 1867, the Straits Settlements was administered from Calcutta by the EIC, an arrangement that continued until 1946. The EIC had little interest expending its resources to enforce direct control of Malay territory. It did not even object when James Brooke acquired Sarawak in 1846 as a private kingdom. When the EIC lost its monopoly of the China trade, Melaka lost its importance as the central trading hub, as did the rest of Peninsular Malaya, especially Perak and Selangor. This was due to the rivalry and violent conflict involving Chinese traders, commercial farmers and tin miners.

In their book, Andaya and Andaya²⁰ provided a detailed description of the early years of the nineteenth century, when the Chinese began dominating commercial agriculture in Malaya and Singapore. They were very successful in planting and commercialising sugar, tapioca, coconut, pepper and gambier. Around 1850s, they began to actively participate in tin mining. By the early 1870s, their dominant position in commercial agriculture and tin mining not only sparked fierce rivalry among themselves, especially between the Ghee Hin and the Hai San triads, but also between them and the Malays. The leaders of the Ghee Hin and Hai San triads hoped to control the tin-rich area of Larut, Perak – an ambition soon realised through the help of Raja Abdullah who claimed to be the true successor for the Sultan of Perak. The success of the Malaysian tin-mining industry, coupled with the Industrial Revolution, proved to be a catalyst in the economic rise of the ethnic Chinese in Malaya²¹.

In 1874, the Pangkor Engagement²² was signed with the rulers of Perak. This was initiated by the British to bring the Peninsular states under their direct supervision. The British wanted the Perak chiefs to accept a British resident and to take his advice on all matters except for religion and *adat* (custom). The British Resident was empowered to oversee revenue collection and overarching regulation of the administration. On paper, the role of the Resident was merely advisory, but in practice, he held immediate control over the entire administrative machinery of the state. The Resident System promptly encountered major challenges in Perak when the Malay chiefs resisted the Resident's attempts to re-

²⁰ See Andaya, Barbara and Andaya, Leonard, *A History of Malaysia*, MacMillan Asian Histories (1984).

²¹ See Gomez, Edmund Terence. *Chinese business in Malaysia: accumulation, ascendance, accommodation*. Vol. 2. Psychology Press, 1999. See also Loh, Francis Kok-Wah. "Beyond the tin mines: coolies, squatters and new villagers in the Kinta Valley, Malaysia, c. 1880-1980." (1988).

²² Also known as the Treaty of Pangkor. This treaty was signed on 20 Jan 1874 on board the British steamer Pluto, just off the island of Pangkor as a result of the Larut Wars among the Chinese secret societies over the rights to tin mining concessions in Perak, causing conflicts amongst the Rulers and subjects. During this time, the demand for tin increased due to the US Civil War and the opening of western part of US. Business relations with the Malay states became unreliable with increasing competition for tin by other countries due to the opening of the Suez Canal in 1869. In spite of increase in demand for tin, investors were not keen to invest because of political instability. Investors wanted assurance from British that their investment would be safe. British merchants pressed Colonial Office to act. The Chinese merchants petitioned the British to intervene. Then the Malay chiefs signed letter to the Straits Settlement Association requesting British intervention. In this treaty, Perak ceded Dindings and Pangkor Island to the British.

organise revenue collection in the State. Eventually, it led to the assassination of James Birch, the first Resident of Perak, by local Malays on 2 November 1875.

The Pangkor Engagement was the first official British involvement in the policies and politics of the Malays, subsequently acting as a blueprint for how the British imperialism would be implemented throughout Malaya. The Pangkor Engagement was then extended to other states. By 1896, feedback on the federation's development was requested from the Malay rulers of Selangor, Negeri Sembilan, and Pahang²³. Soon after, Penang, Perak, Negeri Sembilan, and Selangor were consolidated as the Federated Malay States (FMS), under the purview of a Resident General based in Kuala Lumpur.

²³ In Selangor, civil wars broke out in 1867 to 1874. The main issue concerned the lucrative collection of duties on tin exports at the Klang river estuary into which the cargoes of tin from and around Kuala Lumpur arrived for export. Meanwhile, the British Straits Settlement was becoming increasingly dependent on the economy of Selangor. Since Selangor's security affected tin trade, the British felt it needed to have a say in Selangor politics. Selangor through the 19th and 20th centuries was one of the world's major tin producers.

2.4 THE BRITISH RESIDENTS AND ADVISORS

Despite their name, the Federated Malay States, FMS was more unitary than federal, with the Resident General issuing instructions directly to Residents. Recurring meetings for the Malay rulers and British Residents gave the impression of advisory function but the truth remained that the new constitutional arrangements provided nothing more than the appearance of Malay rule, a mere farce by design. Under the FMS, the Malay Rulers were reduced to trifling ceremonial figures²⁴.

The British also began to be involved in the affairs of the Malay states, particularly in disputes over royal successions to the Sultanates. In the 1860s and 1870s, British interference in succession claims in Perak, Selangor and Sungei Ujong in Negeri Sembilan transformed the disputes from the usual short feuds to long and violent civil wars²⁵. In each case, the victorious party had to listen and give in to his British allies.

By 1895, the Resident system where British indirect authority was institutionalised was firmly established in Perak, Negeri Sembilan and Pahang. The British brought these Malay states under their formal control. This was an important step in the development of the modern Malaysian administrative state, and also a landmark in British colonial policy. It brought fundamental changes to the way of life, both economically and in their functions as Malay states. The seeds of the political revolution were sown to eventually lead to a modern Malaya. It also coincided with the growth of the tin mining and tin smelting industries, as well as agricultural changes especially in plantation agriculture.

²⁴ Sadka, Emily. *The protected Malay states, 1874-1895*. University of Malaya Press, 1968.

²⁵ See Lim Teck Ghee, *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, (Oxford University Press, 1977).

Under the FMS (comprising Negeri Sembilan, Pahang, Perak and Selangor) the Resident-General had administrative powers as executive head that superseded that of the Malay Sultans²⁶. This marked the beginning of the subjugation of the Malay rulers, and subsequently the Malay people, as the British Residents implemented policies that were to the benefit of the crown, oftentimes at the cost of the local Malays²⁷.

British control over the entire Malay Peninsula was formally complete with the signing of the Anglo-Siamese Treaty of 1909 when Siam transferred sovereignty over Terengganu, Kelantan, Kedah and Perlis to the British. These became the Unfederated Malay States (UMS). Penang, Melaka and Singapore became Straits Settlements while the rest of the Malay states were British Protectorates. The UMS (comprising Johor, Kedah, Kelantan, Perlis and Terengganu) opted for the Johor-type arrangement, whereby British Advisors were accepted but without the states becoming members within the FMS²⁸.

²⁶ See Sadka, Emily, Tregonning Kennedy G. (ed), *The State Councils of Perak and Selangor, 1877-1895*. International Conference of Southeast Asian Historians (Singapore: 1 Jan 1961).

²⁷ See Gullick, John Michael. *Rulers and residents: influence and power in the Malay States, 1870-1920*. Oxford University Press, 1992.

²⁸ By 1914, the political organisation of Malaya (Malaysia) comprised of: THE STRAITS SETTLEMENTS: British Crown colonies headed by a British governor, consisting of Singapore, Melaka, Penang, Labuan, the Cocos Isles and Christmas Isle. Capital: Singapore; THE FEDERATED MALAY STATES: British protectorate headed by a British High Commissioner (Governor of the Straits Settlements) consisting of the states of Negeri Sembilan, Pahang, Perak and Selangor; THE UNFEDERATED MALAY STATES: British protectorate under the tutelage of a British adviser in each State responsible to the British High Commissioner, consisting of Johor, Kedah, Kelantan, Perlis and Terengganu; SARAWAK: British protectorate ruled by the Brooke family. Capital: Kuching; and SABAH: British protectorate, ruled by the Chartered Company of British North Borneo. Capital: Jesselton (Kota Kinabalu).

2.5 THE RUBBER AND TIN INDUSTRY

There were pockets of Chinese groups established in most of the states, but after 1820 a throng of Chinese immigrants were brought in to the tin-mining areas. By 1850, the tin mining industry was predominantly Chinese. Secret societies began to emerge and there was a sense of lawlessness²⁹. The period of mass immigration of the Chinese and their involvement mainly in the tin-mining growth coincided with the period of rapid growth of the country's economy which led the Chinese to feel that they played important roles in the economic development of the country³⁰.

There were also small pockets of the Indian population existing in trade work at the West Coast ports. However, a large-scale immigration drive from India and Ceylon³¹ was encouraged towards the end of the 19th century to assist with the introduction of rubber work³². The mass migration of both Chinese and Indian immigrants to the Malay Peninsula coincided with the rise of British colonialism, and soon these migrant communities began to put down roots in Malaya.

This early wave of immigration lay the foundation for the multi-ethnic tapestry of modern Malaysian society. Just as the different ethnic groups were easily distinguished by their appearances, languages and traditionally, they were conventionally remained within the

²⁹ Blythe, Wilfred. *The impact of Chinese secret societies in Malaya: A historical study*. Oxford University Press, 1969. See also Comber, Leon. *Chinese secret societies in Malaya: a survey of the Triad society from 1800 to 1900*. No. 6. Published for the Association for Asian Studies by JJ Augustin, 1959.

³⁰ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), pp 193-194.

³¹ Sri Lanka.

³² Sandhu, Kernial Singh, and A. Mani, eds. *Indian Communities in Southeast Asia*. Institute of Southeast Asian Studies, 1993 (First Reprint 2006).

economic activities of their forefathers – with Malays as farmers and fishermen, Chinese as tin miners and businessmen, and Indians as rubber tappers³³. Thus began the identification of different economic activities along racial lines, and as time went on, the widening economic gap between these ethnic groups³⁴.

Following the formal establishment of the FMS, it was agreed to change leasehold to permanent settlement by adopting the Torrens title land registration and transfer system in 1898, which would confer freehold ownership to the purchaser³⁵. Land revenue obtained by the government under this system could then be used to build infrastructure that would cater to the needs of the plantation owners³⁶.

Up until the end of the 19th century, most applicants seeking vast land plots were looking to obtain tin concessions, or to grow plantation crops such as tapioca and coffee. This changed with the advent of the rubber boom, when British-owned companies began to seek land for rubber plantations, thus causing a drastic increase in demand. In the early 19th century, tin ore was discovered in Perak, leading to the growth of the Malayan tin mining industry and the establishment of administrative and transportation infrastructure facilitate growth.

³³ Vincent, Jeffrey R., Rozali Mohamed Ali, C. Y. Tan, J. Yahaya, K. A. Rahim, L. T. Ghee, A. S. Meyer, M. S. H. Othman, and G. Sivalingam. *Environment and development in a resource-rich economy: Malaysia under the New Economic Policy*. Harvard Institute for International Development, Harvard University, 1997.

³⁴ Freedman, Maurice. "The growth of a plural society in Malaya." (1960): 158-168. See also Furnivall, John Sydenham. *Netherlands India: A study of plural economy*. Cambridge University Press, 2010.

³⁵ Hagan, James, and Andrew Wells. "The British and rubber in Malaya, c1890-1940." (2005).

³⁶ Lim Teck Ghee, *Origins of a Colonial Economy: land and agriculture in Perak, 1874-1897*, (Penang: Penerbit Universiti Sains Malaysia, 1976), p 40.

The British leveraged their position to devise and implement systems of landholding that favoured the budding plantation estate capitalist, building upon traditional Malayan customs and practices. One such traditional practice recognised by the Sultans was a type of land tenancy whereby taxes were imposed to be paid in kind. This practice was modified to accept cash as payment for lease or purchase of land³⁷. As the Head of State was bestowed power over all lands, the sale and lease of thousands of acres of virgin lands was made possible with legal titles and locals who owned land by way of customary tenure converted into ownership were also able to sell it off.

Leasehold tenure, as practiced by the Government of the time, especially favoured the aspiring plantation owner through the implementation of “permanent settlement”, whereby it was possible for a lease to cover a maximum tenure of 999 years without any increase in the fees levied. This facilitated the transfer of titles for thousands of acres of estate lands at the cost of nominal peppercorn rents³⁸. Due to the low rents levied, revenue from land sales and fees became increasingly crucial, particularly since the value of land would only improve following development and cultivation. Furthermore, the resistance of the British Colonial Office towards income and company taxes thus excluded them as additional revenue sources.

Many local Malays owned land by way of converting their customary tenure into legal titles. Amongst them, a great number were selling off both farming and family lands to any cash buyers – a practice that the FMS Government had misgivings about. Both Rulers and Advisors were concerned that the continued sale of Malay lands would eventually result in

³⁷ Lim Teck Ghee, *Origins of a Colonial Economy: land and agriculture in Perak, 1874-1897*, (Penang: Penerbit Universiti Sains Malaysia, 1976), p 6.

³⁸ *Ibid*, p 13. Sir Frank Swettenham, then Resident of Selangor, but later to become High Commissioner of the Federated Malay States, justified the system on the grounds that both cheap land and security of tenure were necessary to attract a sufficient number of investors.

the extinction of the Malay peasant class³⁹. This resulted in the introduction of the Malay Reservation Act to prevent the non-Malays from purchasing the Malay land as well as to protect the Malay economic interest.

In 1913, the Act was passed, by which time the Malays had already spent years cultivating rubber on both customary tenure and purchased land, most of which were family lands. The Government claimed that these smallholdings were neglected and subsequently ridden with weeds and plants diseases which would spread to plantations, thus incurring substantial costs for the owners in question⁴⁰. This was the pretext used by the land offices for their discriminative practices against Malays seeking land for rubber production⁴¹. This included the reservation of virgin lands that were near to main roads and railways for purchase by foreign non-Malays, and their outright refusal to sell any land to Malays for the purpose of rubber planting between 1915 and 1917.

As the Malays were scattered all over the peninsular, foreigners were brought in to exploit the rich tin mine land in the Kinta Valley (the richest in the world), and to open up new lands for rubber cultivation. To the British, this method was a faster way to profit.

As the rubber plantation industry expanded, the main policy with regards to Malayan land was for it to be offered on highly favourable terms to buyers from overseas, chief among them the British. These favourable terms included attractive loan offers to potential British

³⁹ See Lindblad, Thomas J., *Foreign Investment in Southeast Asia in the 20th Century*, (Houndmills: Macmillan in association with the Australian National University, 1998).

⁴⁰ Lim Teck Ghee, *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, (Oxford University Press, 1977), p 111.

⁴¹ See Kratoska, Paul H. "'Ends that we cannot foresee': Malay Reservations in British Malaya." *Journal of Southeast Asian Studies* 14, no. 1 (1983): 149-168. See also Voon, Phin-Keong. "Rural land ownership and development in the Malay Reservations of Peninsular Malaysia." (1977).

investors, giving the British the best deals against native Malays in choice of sites⁴². By 1914, Malaya was producing over half of the global rubber supply. The discriminatory land practices during this period of economic success was only the beginning in the burgeoning inequality that would lead to the economic repression of the Malays.

University of Malaya

⁴² Ibid.

2.6 MASS IMMIGRATION

With a booming economy, the British allowed and encouraged an open-door policy (at least up to 1931) of mass immigration for many Chinese and Indians. The Rulers and the Malays were not happy with the situation they were in. The British promised them protection and to teach them a better form of administration but instead they were more interested in exploiting the land. Their priority was to open up the country and make huge profits quickly.

To keep the Rulers and their subjects happy, the British administrators encouraged traditional forms. The British emphasised the Malay-ness of the Malay states and ensured the Rulers would have their Durbars. The British created the impression that they were there to advise the Sultans and painted a picture of the Rulers as absolute monarchs, that they were there to assist Sultans to control their unruly subjects, that while they were there to advise, the government was a Malay government, staffed by Malay bureaucrats⁴³.

In 1921, Malaya consisted of 1,627,108 Malays, 1,173,354 Chinese, 471,628 Indians and less than 46,000 Europeans⁴⁴. Ten years later, a census indicated that Malays were an overwhelming majority no longer. From 49.6% in 1921, the Chinese and Indian population increased to a combined 53.2% of the total population in 1931. In the FMS, The Malay population stood at a mere 36.3% in the FMS, and in the Straits settlements, a paltry 28.5%. Despite the Immigration Restriction Ordinance 1929, free migration into Malaysia was still allowed⁴⁵. This state of affairs alarmed the Malays and their Rulers. The Aliens Ordinance

⁴³ Khoo, Kay Kim. *Malay society: transformation & democratisation: a stimulating and discerning study on the evolution of Malay society through the passage of time*. Pelanduk Publications (M), 1991.

⁴⁴ See Bayly, Christopher Alan, and Timothy Norman Harper. *Forgotten Armies: The Fall of British Asia, 1941-1945*, (Harvard: Harvard University Press, 2005), and Beck, Sanderson, *South Asia 1800-1950: Summary and Evaluation*, (World Peace Communication, 2008).

⁴⁵ Palmer, Norman J. *Colonial labor policy and administration: a history of labor in the rubber plantation industry in Malaya, c.1910-1941*, (Locust Valley, N.Y.: Published for the Association for Asian Studies by J.J. Augustin, 1960), p 30.

of 1933 was then passed to restrict immigration with set quotas, allowing entry for women only.

While outwardly, this Ordinance tried to please the Malays and their Rulers, it was clear that the intentions of the British colonials at that time was to ensure that immigrants could find wives amongst the new immigrants, and stay permanently to exploit the land for British profit and interest.⁴⁶

The immigrant communities were segregated on racial, social, geographic, and economic bases. The Chinese were mostly labourers within the tin mining industry, whereas the Indians were concentrated in the rubber and railway industries⁴⁷. The four Sultanates making up the FMS witnessed an extraordinary rapid population growth in a relatively short time from 418,500 in 1891 to 1,713,100 in 1931⁴⁸.

Immigration into Malaya was completely open. The flow of Chinese and Indian immigrants continued throughout the rubber boom and well into the 1920s. When the general economy plummeted during the 1930s Depression-era, there was widespread unemployment following the closure of tin mines and rubber estates. Many Chinese left Malaya and their population reduced.

Nevertheless, the phenomenal growth of immigrants had a distinct effect on the Malays, permanently reshaping the racial composition of the Malayan population. As the

⁴⁶ Hock, Saw Swee. *The Population of Peninsular Malaysia*. Institute of Southeast Asian Studies, 2007.

⁴⁷ Blythe, Wilfred Lawson. "Historical sketch of Chinese labour in Malaya." *Journal of the Malayan Branch of the Royal Asiatic Society* 20, no. 1 (1947): 64-114.

⁴⁸ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), pp 194-195.

population ratio slowly tipped in favour of the non-Malays, so did the ratio of economic dominance, instilling fear in the Malays who claimed native ownership to the Malayan soil. This fear, coupled with resentment against British colonialism, was among the early factors which gave rise to Malay nationalism⁴⁹.

By the 1940s, with the emergence of Malay cultural organisations and publications, an ethnic Malay identity began to emerge. Despite their distinct political ideologies, they shared the view that the Malays were single ethnicity, with certain shared characteristics such as religion and language, namely Islam and Malay. They encouraged support for the burgeoning Malay nation, attempting to unite the disparate Malay groups whose loyalties and identities were bound to their respective states and Sultans as opposed to that of a shared Malay race. The Chinese and Indians, on the other hand, identified with their economic activities as opposed to any particular Malayan locality⁵⁰.

Even before the 1931 Census, British officials had publicly declared their obligation to uphold the special status of the Malays. The likes of WGA Ormsby Gore⁵¹ and Sir Hugh Clifford⁵² articulated this sentiment in no uncertain terms. They claimed that the British government, as “trustees”, had a duty to ensure that the rights of indigenous Malays and their rulers were both preserved and uplifted, and that failure to do so would constitute a “betrayal”. It can be argued that these speeches were in reality a commitment to the social system which facilitated and legitimised their position of power, rather than a commitment

⁴⁹ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 194.

⁵⁰ Hirschman, Charles. "The making of race in colonial Malaya: Political economy and racial ideology." In *Sociological Forum*, vol. 1, no. 2, pp. 330-361. Kluwer Academic Publishers, 1986.

⁵¹ Ormsby-Gore, William George Arthur. "Report by the Right Honourable WGA Ormsby Gore, MP (parliamentary under-secretary of state for the colonies), on his visit to Malaya, Ceylon, and Java during the year 1928." (1928).

⁵² Clifford, Hugh. Federal Council Records, Kuala Lumpur 1927 B 112. in de V. Allen, J. "Two Imperialists: A Study of Sir Frank Swettenham and Sir Hugh Clifford." *Journal of the Malaysian Branch of the Royal Asiatic Society* 37, no. 1 (205 (1964): 41-73.

to the welfare of the indigenous Malays. British colonial policies in the realm of education, political independence, citizenship and land ownership were debatably detrimental to Malay interests. Despite their fine words, the British had betrayed the Malays' trust by their actions, and did nothing to remedy the situation.

Furthermore, the British held a disdain for the Malays, revealing contempt in their publications and correspondence to one another. Ernest Birch, a Resident of Perak, in his description of the Malays, stated that:

... to sit in the shade and tap rubber trees will surely appeal to his temperament as an attractive way of earning a wage. The one drawback is that the Malay will not work for longer periods or with greater regularity than his inclination moves him⁵³.

Frank Swettenham, in his book entitled *The Real Malay* published in 1899, wrote:

...the heir to the inheritance.the leading characteristic of the Malay of every class is a disinclination to work The Malay has no stomach for really hard and continuous work, either of the brain or the hands ... Under present conditions the Chinese are the bone and sinew of the Malay States. They are the labourers, the miners, the principal shopkeepers, the contractors, the capitalists, the holders of the revenue farms, the contributors to almost the whole of the revenue; we cannot do without them. The Hindu, the Tamil, the native of Southern India.... Is very useful, whether as a labourer on a plantation, a cattle keeper and cart driver, a washerman, or a barber⁵⁴.

This depiction of the lazy and unmotivated Malay, the industrious yet cunning Chinese businessman, and the hardworking but lowly employed Indian was a notion

⁵³ See Kratoska, Paul H, *Rice Cultivation and the ethnic division of labour in British Malaya*, (Journal: Comparative Studies in Society & History, Vol 24, Issue 2, 1982).

⁵⁴ See Birch, KCMG, Sir Ernest, from the writings of Sir Frank Swettenham, GCMG, C.H, *The Malay* in Lagden, Sir Godfrey, KCMG, (ed), *The Native Races of the Empire*, Vol 9 of The British Empire: A Survey in 12 Volumes (London: Henry Holt & Co., 1924).

that would persistently be recalled the subsequent development of British social policy in the Malay states. Nevertheless, some also viewed the Chinese immigrants poorly. Sir Hugh Low stated, "*they are of all men the most rude, conceited and ignorant....*"⁵⁵. Sir Frederik Weld compared them to the Indian labourers, commenting that "*...labour from the outside was vital, that Indians were preferable to the unruly Chinese, and that over the years, they would be a useful counterweight to that troublesome race.*"⁵⁶.

On 8 December 1941, Japan invaded Malaya before occupying Sarawak, Brunei and North Borneo. They captured Singapore on 15 February 1942. The Japanese invasion of Malaya and British Borneo showed the local population that western European powers could be defeated. It unleashed the forces of nationalism. Japanese forces occupied Malaya but ceded the Unfederated Malay States in the north to Siam in October 1943.

The Japanese occupation exacerbated the already strained relations between the Malays and the Chinese. The Malays gained employment within the Malay Military Administration of the Imperial Japanese Army, and though they and the Indians endured hardship, it was not comparable to the atrocities committed against the ethnic Chinese. The Chinese were targeted for their allegiance to and financial support for mainland China in the 1930s war against Japan⁵⁷. Tens of thousands of Chinese were killed by the Kempeitai throughout Malaya, starting with the Sook Ching massacres in Singapore which spread northwards, claiming entire villages in a single swoop⁵⁸.

⁵⁵ See Purcell, Victor, *The Chinese in Malaya*, (London: Oxford University, 1948).

⁵⁶ See Heussler, Robert, *British Rule in Malaya: The Malayan Civil Service and Its - Predecessors, 1867-1942*, (Westport: Greenwood Press, 1981.)

⁵⁷ The dreaded Japanese secret police, the *Kempeitai*, subjected sympathisers especially the Chinese, to humiliation and torture

⁵⁸ Gunn, G.C., 2007. Remembering the Southeast Asian Chinese Massacres of 1941-45. *Journal of contemporary Asia*, 37(3), pp.273-291.

Eventually, continued persecution of the Chinese community resulted in the scantily armed guerrilla movement, largely led by the Malayan Communist Party (MCP). To protect their interests, the British via Force 136 made contact with the Malayan People's Anti-Japanese Army (MPAJA), agreeing to provide supplies and weapons if the MPAJA would accept their directions. It took some 2 years before the Allied forces would follow up on their promise for significant material support⁵⁹. In August 1945, the United States dropped two atomic bombs in Hiroshima and Nagasaki respectively, bringing the war in Malaya to an abrupt, and to the guerrilla combatants, surprising, end with the Japanese surrender. The power void left by the Japanese was quickly filled by the MPAJA, who were celebrated as heroes, especially by the Chinese communities.

The Japanese rule also awakened a sense of Pan-Asianism⁶⁰, specifically via catchphrases such as "Asia Untuk Orang Asia"⁶¹. Although the greater Pan-Asian movement did not succeed, this mindset would later prove troublesome to the British as both Malays and Chinese began to lose faith in the British Administration. In the midst of this political awakening, the radical leftist movement of Malaya began to gain traction, marking the beginning of Malay nationalism and the socialist influence on Malayan politics⁶².

When the British reimposed their colonial authority in Malaya in September 1945, they found a new political Malaya. The three-and-a-half years of Japanese occupation of Malaya changed the people's attitude and perception of British colonial authority. The British, whom

⁵⁹ Kheng, C.B., 1981. Sino-Malay conflicts in Malaya, 1945–1946: Communist vendetta and Islamic resistance. *Journal of Southeast Asian Studies*, 12(1), pp.108-117.

⁶⁰ An ideology that promoted the unity of Asian people, particularly against European imperialism.

⁶¹ "Asia for Asian People", a catchphrase of the Pan-Asian movement used by the Japanese in Malaysia. Lee, Sin Lian. *Sejarah*. Pelangi Publishing Group Bhd, pp 280.

⁶² Roff, William R., and Ahmad Boestamam. *Nasionalisma Melayu*. (1975). See also Boestamam, Ahmad. *Merintis jalan kepunchak*. Penerbitan Pustaka Kejora, Kuala Lumpur, 1972.

Malayans once held in awe, were no longer invincible. They had been defeated and humiliated by an Asian power. Japanese influence, such as the links between Major Iwaichi Fujiwara and Kesatuan Melayu Muda⁶³, had bred anti-British sentiment amongst the Malays who felt that they had been abandoned by the British during the Japanese Occupation.

Malaya became a country that was socially divided. This gave the MCP an advantage, as they began expand their support base beyond the Chinese to include Malayans as a whole. With the MCP's influence and growing social unrest, the British were pressed for a solution to maintain control over Malaya⁶⁴. The British recognised the threat to their rule, and they could not sit back and risk losing their prized protectorate. Malaya was rich in natural resources, which they had thus far successfully exploited. In their desperation to maintain power, they employed their time-tested "divide and rule" strategy. Try as they did to perpetuate the racial divisions in Malayan society both socially and economically, the uprising had begun and they could not prevent the wave of post-war strikes⁶⁵. The post-war workers movement rallied supporters from the Chinese, Malay and Indian communities. It was no longer just a matter of economic liberation. It was a united fight for freedom.

Meanwhile, pressure was rapidly building for some sort of union in Malaya. There had been talk of it for years among officials. As early as 1874, Sir Andrew Clarke, Governor of the Straits Settlements between 1873 and 1875, foresaw a Federation on the Malay Peninsula⁶⁶. The Labour government thus proposed a "Malayan Union" as the future Malaya.

⁶³ Young Malays Union, the first leftist and national political establishment in British Malaya. See Sani, Rustam A. "Social roots of the Malay left." *Strategic Information and Research Development Centre, Petaling Jaya* (2008).

⁶⁴ Stockwell, Anthony J. "The white man's burden and brown humanity: colonialism and ethnicity in British Malaya." *Asian journal of social science* 10, no. 1 (1982): 44-68.

⁶⁵ Stockwell, Anthony J. "'A widespread and long-concocted plot to overthrow government in Malaya?': the origins of the Malayan emergency." *The Journal of Imperial and Commonwealth History* 21, no. 3 (1993): 66-88.

⁶⁶ See Parkinson, Cyril Northcote, *British Intervention in Malaya. 1867-1877*, (Kuala Lumpur: University of Malaya Press, 1964).

Singapore was to be excluded in the plans and separated as a city state and naval base. This idea was to give the Malays the notion of being a majority in the Malayan Union and to induce them to accept the proposal, as the Chinese population would be reduced⁶⁷.

The British also dissolved the Straits Settlements. In January 1946, a new Malayan Union was formed when Penang and Melaka were merged with the other nine Malay States of the Peninsular. Sarawak, British North Borneo and Labuan (which became part of British North Borneo) became British colonies replacing the former Brooke and Chartered Company regimes. The Malay Sultans were coerced into signing the agreement without much time for reflection or consultation amongst themselves and their advisors.

The treaties provided that the Sultans⁶⁸ were to accept “*such future constitutional arrangements for Malaya as may be approved by His Majesty*” and “*full power and jurisdiction*” was transferred to Britain⁶⁹. These provisions were aimed at nullifying the legal sovereignty of the Sultans so that the British Government would have a free reign in instituting constitutional reforms. It also offered citizenship to the immigrant Chinese and other races – a move which agitated the Malays.

The authors of the Malayan Union professed to “*create a Malayan citizenship to give everyone a share in the political and cultural development of a united country*”⁷⁰. Britain’s Labour government wanted Malaysians to believe that by insisting on citizenship rights, it was

⁶⁷ See Bayly, Christopher, Harper, Tim N., *Forgotten Armies: The Fall of British Asia, 1941-1945*, (Harvard: Harvard University Press, 2005).

⁶⁸ Sultan Badlishah of Kedah was singled-out as one of the Rulers who signed under protest. Stockwell, A.J. (ed), *British Documents on the End of Empire*. (London: HMSO, 1995), Series B, Vol 3, Part I, pp 180-186.

⁶⁹ Some British officials also became critics of Malayan Union when it was put forward. MacDonald and Edward Gent later sympathised with the Malays. Belatedly they felt the Rulers should have been allowed to consult their people before signing the new treaties presented to them by MacMichael. Ibid, pp 219-372.

⁷⁰ Stockwell, Anthony John. "British Policy and Malay Politics during the Malayan Union Experiment, 1942–1948 (Kuala Lumpur, 1979)." *Google Scholar* (1942). See also Lau, Albert. *The Malayan union controversy 1942-1948*. Oxford University Press, 1991.

being true to its cause of promoting freedom and justice. It said it could not continue to discriminate against the non-Malays whose status in British Malaya was vague, at best. To that end, the British decided to withdraw their longstanding recognition of the Malays' "special position" which symbolised the protection of Malay birth right and heritage, nary an attempt to consult the indigenous population in question. This was hardly a comforting gesture to the Malays⁷¹.

Response against the proposed Malayan Union was swift and effective, with nationalistic Malay organisations and newspapers such as *Utusan Melayu* leading the way. Mass protests were organised in the various States throughout the peninsula barely days after the White Paper on Malayan Union was presented in the House of Commons on 22 January 1946⁷². The White Paper became a rallying call for "all politically-minded Malays." On 24 January 1946, the mercurial Dato' Onn Jaafar, then *Menteri Besar* of Johor, published a letter in the Malay-language newspaper *Majlis*, calling for a Pan-Malayan Malay Congress to show united Malay opposition to the Malayan Union⁷³.

Objection towards the Malayan Union was instrumental in rallying and unifying the Malays, who had previously been more aligned to their states rather than to the concept of a shared Malay identity. It would appear that the outcry against the Malayan Union, and their

⁷¹ Lau, Albert. "Malayan Union Citizenship: Constitutional Change and Controversy in Malaya, 1942–48." *Journal of Southeast Asian Studies* 20, no. 2 (1989): 216-243.

⁷² The massive Malayan Union protests in 1946 were centred on two specific issues: The Malay Rulers' loss of sovereignty and the new citizenship regulations was an important turning point in the rise of nationalism. Others argued that the process is more discernible in the post 1948 period particularly after the introduction of local elections in 1951. Following the agreement reached between the British Colonial administration and UMNO and the implementation of the Federation of Malaya Agreement on 1 Feb 1948, the political crisis was "neutralised", and a sense of "normality" returned. See Fernando, Joseph M., *Founding Fathers – The Campaign for Merdeka*, (The Star, June 2007).

⁷³ Funston, N. John. *Malay Politics in Malaysia: A Study of the United Malays National Organisation and Party Islam*. Heinemann Educational Books (Asia), 1980.

desire to assert dominance over Malaya, led to an organised political representation of the Malays⁷⁴.

In March 1946, UMNO was formed by Dato' Onn Jaafar to oppose the Malayan Union. Malays from all walks of life held mass demonstrations and rallies throughout the country, driven by a sudden fear of being overrun by the non-Malay communities⁷⁵. These were protests of a magnitude that the British colonial power had never expected. To the Malays, it seemed that they were in danger of losing their country.

The new Union would have reduced the political status of the Malay States to that of a British colony. The opposition centred on two issues: the reduction of Malay Rulers' power, and the full citizenship status granted to non-Malay immigrants and their descendants. The Malays were especially opposed to the granting of citizenship for the Chinese, due to the vast differences both racial and religious, as well as their growing economic superiority. These issues aroused widespread political consciousness among the Malays.

The British were taken aback by the aggressiveness of the Malay political leadership who successfully mobilised Malay public opinion through UMNO⁷⁶. A people who only a decade earlier had seemed docile and subservient were suddenly awakened, making their views known through mass demonstrations. The strength and unity of the Malays convinced the British that they had miscalculated. They found that the experience of the Japanese occupation had transformed the Malays to be more assertive.

⁷⁴Suryadinata, Leo. (Ed.). (2000). *Nationalism and globalization: east and west*. Institute of Southeast Asian Studies.

⁷⁵ I was a mere 8-year old boy in 1946 when my father, brothers and almost the whole of Alor Setar file towards the town *padang* to protest to the British that we would not accept the Malayan Union. I did not recognise the significance of the event then.

⁷⁶ Smith, Simon C. "Moving a little with the tide": Malay monarchy and the development of modern Malay nationalism." *The Journal of Imperial and Commonwealth History* 34, no. 1 (2006): 123-138.

2.7 THE FEDERATION OF MALAYA AGREEMENT 1948

The Malayan Union was never fully realised following strong political opposition by the Malays and the Rulers to the scheme. Its collapse saw the British organising the Anglo-Malay constitutional conference that eventually led to the Federation of Malaya Agreement of 1948⁷⁷. It came into effect on 1 February 1948, after long bitter discussions with the Malay Rulers, UMNO and other concerned parties.

The Federation of Malaya Agreement was to be an interim arrangement. The British would rule during this period in which greater local participation would take place in government while the final constitution and structure of an independent Malaya would be decided. The proposals in the Constitution eventually formed the basis of the political arrangement that we now have in the country, most notably the ‘special’ privileges for the Malays and the setting up of the modern Malayan sultanates.

In the place of a British Governor, there would be a British High Commissioner in Malaya who would act as the head of the central government. The sovereignty of the States and the positions of the Sultans would be maintained as in the pre-war period. Government powers were to be divided between the States and the Federal government. The post of *Menteri Besar*, would be created in various Malay states who would be responsible for their respective State administrations.

⁷⁷ Stockwell, Anthony John. *British policy and Malay politics during the Malayan Union experiment, 1945-1948*. No. 8. Printed for the Council of the MBRAS by Art Printing Works, 1979.

The special position of the Malays was guaranteed, and the Sultans and High Commissioner were its guarantors. Citizenship laws for immigrants were to be stricter than those proposed in the Malayan Union proposal and would be finalised before independence.

Legislative Councils for the States and the Federation were established, but the majority of the Malayan members of these councils would be drawn from the Malay community. Prior to independence, the agreement effectively meant that the Malays would now control the levers of government.

The Federation of Malaya Agreement of 1948⁷⁸ resulted in Malay sovereignty being anchored in the Malay Sultans. It also included the addition of the Straits Settlements of Melaka and Penang and later, a new Federal Territory of Kuala Lumpur. In return, the Malay leaders agreed in principle to extend citizenship to increasing numbers of Chinese born in Malaya⁷⁹.

In practice, the concessions were made largely toward the Malay community, reflecting their newfound unity and ability to mobilise popular sentiment⁸⁰. The Chinese failed to assert their economic weight and political strength to challenge the Malay reaction as their top leaders had left for India during the war⁸¹. The Malayan Chinese were unable to defend the

⁷⁸ Malaya, "Federation of Malaya Agreement 1948", 1948. Accessed at http://myrepositori.pnm.gov.my/bitstream/123456789/2701/1/MN100091_TFOM.pdf

⁷⁹ As early as 1932, Tan Cheng Lock was already addressing the Straits Settlements Legislative Council on the rights for the Malaya born Chinese who regarded Malaya as their country of birth. The Indian members in the Legislative Council did likewise. It was during this period that the slogans: "Malaya for the Malays" was coined by the Malays, and "Malaya for the Malaysians" coined by the non-Malays. Raj, J.J., *The Struggle for Malaysian Independence*, (Petaling Jaya Selangor: MPH Group Publishing, 2007), p 5.

⁸⁰ Siddique, Sharon, and Leo Suryadinata. "Bumiputra and pribumi: Economic nationalism (indiginism) in Malaysia and Indonesia." *Pacific Affairs* 54, no. 4 (1981): 662-687.

⁸¹ Stubbs, Richard. *Hearts and Minds in Guerrilla Warfare: The Malayan Emergency 1948-1960*. 1989. See also Wang, Gungwu. *Community and nation: Essays on Southeast Asia and the Chinese*. No. 6. Published for the Asian Studies Association of Australia by Heinemann Educational Books (Asia), 1981.

advantage opened up to them by the British in their Malayan Union proposals and it was from this point that Malay political dominance of the post-war era began, leading to Malay political hegemony⁸².

Despite the resentment among certain quarters of the Chinese and Indian communities, most of the Malaysians were willing to give the Federation of Malaya Agreement a chance to succeed.

However, an armed revolt by the Malayan Communist Party (MCP) against the Federation led to the declaration of Emergency⁸³ in June 1948⁸⁴. During this period, the country was faced with economic chaos and political uncertainty. The MCP used labour unions to create havoc. This led to the implementation of the Briggs Plans, which successfully introduced repressive measures to curb disturbances. Restrictions on people's free movement through curfews and the establishment of New Villages to re-settle the Chinese⁸⁵ were among the more notable measures adopted to cut off the Communists from their major supply bases.

The British, however, did allow political parties to be formed despite economic upheavals. The Emergency had undeniably shaped party activities during the period⁸⁶. The

⁸² See Barber, A., *Malaya – The Making of a Nation 1510-1957*, (Kuala Lumpur: A B & A, 2008).

⁸³ The post-war years and the Emergency was a difficult and dangerous juncture for the community. The Chinese were deeply divided and their loyalty was under scrutiny.

⁸⁴ The Emergency lasted until 1960.

⁸⁵ The objective was to isolate the rural Chinese community from the guerrillas. Hundreds of thousands of Chinese were evicted from their homes and re-settled in the new villages set up by the British government.

⁸⁶ By late 1951, the Communist revolt that broke out in June 1948 posing a serious threat to the colonial administration was very much contained. The Communist Party of Malaya, shifted its strategy following its October Resolution adopted in 1951, and the armed struggle was relegated to second priority. It was argued by Dr. Joseph Fernando in his book *The Alliance Road to Independence*, that the influence of the communists on the process of independence was marginal after 1951. See Fernando, Joseph M., *The Alliance Road to Independence*, (Kuala Lumpur: University of Malaya Press, 2009).

Malayan Chinese Association (MCA), with British support, was formed in 1949 under the leadership of (Tun) Tan Cheng Lock out of the need to stop the ethnic Chinese in Malaya from being repatriated⁸⁷ to China during the Emergency. MCA came to represent the Chinese community. Three years later, the Malayan Indian Congress (MIC)⁸⁸ was formed under the leadership of John Aloysius Thivy as their first President.

Just as how UMNO was born out of an urgent need for political representation in a time of crisis, MCA and MIC originated from similar circumstances. Thus, began the political representation of non-Malays, and of race-based (communal) politics in Malaysia.

⁸⁷ The British planned to deport the Chinese for their involvement in guerrilla activities. The move was halted by the birth of the MCA which took immediate plans to build houses to help resettle the Chinese in new villages. It also provided food, medicine and monetary aid for those affected. After the resettlement, the MCA helped in securing electricity and piped water in the new villages.

⁸⁸ MIC was first established in August 1946 to fight for Indian independence from British colonial rule. After India gained its independence, MIC involved itself in the struggle for the independence of Malaya. It positioned itself for representation of the Indian community in the post-war development of the country.

2.8 THE ELECTIONS

The Federation had no popularly-elected government until 1951 but the democratisation process quickly gathered momentum. The transition to self-government began in early 1950 with the appointment of leading political figures to ministerial responsibility, more or less as members of the High Commissioner's Executive Council. In discharging their duties, the "Members" as they were called, had expatriate civil servants to assist them in their duties⁸⁹.

Elections were first held in the Federation of Malaya in 1952⁹⁰. Prior to 1952, political parties⁹¹ were, understandably only pressure groups which sought popular support on the basis of their own ideas about the most suitable constitutional future for the country, dedicating themselves to influencing official policy without actually thinking in terms of participating in government. From 1952 onwards however, parties found it necessary to compete more directly with each other with the aim of winning elections. The need to compete had a profound effect on the goals and methods of political parties.

In 1952, an *ad hoc* Alliance was formed between UMNO and MCA in order to stand for elections at the municipal level in Kuala Lumpur on 26 February 1952⁹², as well as the subsequent local elections in the other 16 municipalities across the Federation. The support was palpable, with the Alliance filling a total 9 seats out of the 12 contested. By 1953, UMNO and MCA had begun to realise that some form of inter-communal effort was necessary, not

⁸⁹ Barber, Andrew, *Malaya – The Making of a Nation 1510-1957*, (Kuala Lumpur: A B & A, 2008), p 114.

⁹⁰ Only municipal and town council elections were held between 1952 and 1955. The first national elections were not held until July 1955.

⁹¹ Political parties constituted on popular lines are essentially a post-war phenomenon. These included the *Kesatuan Melayu Singapura* (Singapore Malay Union), the *Kesatuan Melayu Muda* (Malay Youth Movement) and the *Persaudaraan Sahabat Pena* (Brotherhood of Pen Friends), which were restricted to limited circles. See Ratnam, Kanagaratnam Jeya. *Communalism and the Political Process in Malaya*. (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965).

⁹² *Ibid.*

merely in terms of electoral success but also to prepare the ground for future constitutional progress. Both political parties agreed to cooperate as ‘an alliance of equals’ where they would each preserve their separate identities, character and structure.

In 1954, an UMNO-MCA-MIC Alliance (the Alliance, or *Parti Perikatan*) was formed to resolve their differences and make decisions beneficial to all in terms of public policy. By strategically presenting candidates from component parties based on the dominant ethnic group of each constituency, the Alliance successfully avoided local level electoral competition. It effectively united the three parties in a political partnership to win seats in the Federal Legislative Council elections of 1955, very nearly making a clean sweep in securing 51 out of the 52 seats contested. The large mandate gave the Alliance the leverage they needed to make demands for an early independence.

Independence negotiations with Britain soon followed and on 20 February 1956, Alliance leader Tunku Abdul Rahman announced the news of the approaching independence at Bandar Pahlawan in Banda Hilir, Melaka. The Reid Commission headed by Lord Reid was set up to draft the Merdeka Constitution.

2.9 INDEPENDENCE

With the imminent attainment of independence and the drawing up of the new Constitution, attempts to represent the constitutional demands of the different communities continued,⁹³ with increased emphasis on the demands of Malay nationalism.

Various amendments and ratification of the new Constitution by The Federal Legislative Council and a host of other bodies pursued with assorted ratifications and amendments to the new Constitution to result in the proclamation of Malaya's independence on 31 August 1957. Tunku's first words to the newly-independent Malaya via a radio address were immortalised as follows:

Independence was won by the spontaneous support of all communities in this country – Malays, Chinese, Indians and others who regard Malaya as their home⁹⁴.

Tunku Abdul Rahman was made the first Prime Minister and the *Yang di-Pertuan Besar* of Negeri Sembilan was installed the first Paramount Ruler. Malaya adopted a democratic system of government under a constitutional monarchy with a constitutional *Yang di-Pertuan Agong* (Head of State) elected for a five-year period from a number of Sultans of the States. The *Yang di-Pertuan Agong* would appoint the Prime Minister, as the leader of the majority in the House of Representatives. Islam became the official religion whilst other religions could be practised freely. Malay would be the official national language. The formal recognition of the special position of the Malays was spelt out in the Constitution under Article 153. To sum up, the leaders of the Alliance agreed to give political domination

⁹³ A two-third majority in Parliament is needed for constitutional amendments. This clearly proves the futility of any attempt to change the Constitution for purely communal ends.

⁹⁴ Cheah Boon Kheng, *Tunku Abdul Rahman, Father of Independence*, (*The Sun*, 13 July 2007).

and special rights to the Malays and in return, non-Malays obtained citizenship, a role in the political process and the right to practise their religions and customs. This Article 153 would subsequently be referred to as ‘The Constitutional Contract’ or the ‘Social Contract.’”

It is very clear that Malaya could not have gained its independence from the British had the “Social Contract” or deal entered into by the leaders of the Alliance not been accepted and endorsed by their members together with the British and the Rulers. The British decided to deal with the Alliance because they won the 1955 election with a large majority of the *rakyat* (ordinary people). It was right for the British to deal with them. It was the compromise made by the leaders that opened the path to independence. It was the sacrifice of right-thinking Malaysians that ensured the country got its *merdeka*.

2.11 CONCLUSION

This chapter provides a historical context for understanding the rich racial tapestry of modern Malaysia, and the reasons behind the socio-economic divide between the races. In particular, the identification of different ethnic groups by their economic functions and their subsequent economic power as a result of the success of these industries played a major role in drawing clear distinctions between the ethnic groups of Malaysia. Furthermore, this chapter demonstrates how the Malays were side-lined by each successive colonial power, and how they came to become a race with great political power, partly due to their numbers, but poor economic power as a result of being pigeonholed into low-wage industries. By understanding the history of Malaysia, we also understand the reasons underlying the nation's racial tensions, particularly between the two largest ethnic groups (the Malays and the Chinese), that was perpetuated by external forces, including the British colonialists, the Japanese occupation, and the Communist insurgency.

Unfortunately for Malay(sia), the racial tensions grew increasingly strained over the following 12 years, eventually cumulating in the riots of May 13 that eventually acted as a catalyst for the Alliance government to take action and implement the NEP. The uneasy compromise reached for the sake of independence would eventually prove to be a weak foundation for national unity, as will be discussed in the Chapter 3 analysis of the May 13 tragedy.

CHAPTER 3: MAY 13, 1969

3.1 INTRODUCTION

The New Economic Policy (NEP) was formulated as a response to the racial riots that occurred on 13th May 1969 (May 13). In hindsight, it must be admitted that May 13 was not a sudden surprise. Rather, it would appear the simmering racial tensions that existed from pre-independence times, as highlighted in the previous chapter, boiled over on the disastrous events on May 13, the worst racial riot in Malaysian history¹. May 13 was a tipping point, the culmination of years of civil unrest, despite it being a preventable event with many preceding incidents (most notably the Race Riots of Singapore in 1964²) that should have been red flags for the government to act upon. The tragedy of May 13 forced the government into taking direct action to address issues of racial harmony in an outright manner, which explains many of the drastic measures outlined by the parties involved in the drafting of the NEP.

With relation to the research question, this chapter will outline the events leading up to the May 13 riots, and how they affected the rationale behind many of the policies subsequently outlined in the NEP.

¹ Kua, Kia Soong. *May 13: Declassified documents on the Malaysian riots of 1969*. Suaram, 2007.

² Cheng, Adeline Low Hwee. "The past in the present: memories of the 1964 'Racial Riots' in Singapore." *Asian Journal of Social Science* 29, no. 3 (2001): 431-455.

3.2 WHY DID MAY 13 HAPPEN?

The National Consultative Council (NOC)³ blamed the Malayan Communist Party and secret societies for the riots, stating that they were guilty of “inciting racial feelings and suspicion”⁴ following the results of the General election..

But the racial incident was not a spontaneous combustion that happened only in May 1969. Many of the underlying causes and situations, among them are the practices of communalism in the cities⁵, were left to simmer and fester, when it could and should have been dealt with from early on. There was an emergence of a strong allegiance to individual ethnic groups rather than national identity, or society as a whole. The Malay versus Chinese undercurrent was prevalent before, during and after the drafting of the National Constitution. This festering can be traced back from after the Japanese surrender, whereby communist (majority Chinese) terrorist activities were directed towards the Malays, as they had been seen as sympathetic to the Japanese who were intolerably cruel in their treatment of the Chinese⁶. The pendulum then swung from this, to the Federation of Malaya where the Malays were granted special rights instead⁷.

³ Formed as a result of the May 13 incident, to restore and administer normalcy to the country.

⁴ The National Operations Council, *The May 13 Tragedy, A Report*, (Kuala Lumpur, 9 Oct 1969), p ix.

⁵ Zainon Ahmad *The Tragedy of May 13, 1969*, (*The Sun*, 26 July 2007).

⁶ Carnell, Francis G. "Communalism and communism in Malaya." *Pacific Affairs* 26, no. 2 (1953): 99-117.

⁷ Andaya, Barbara Watson, and Leonard Y. Andaya. *A history of Malaysia*. Macmillan International Higher Education, 2016.

3.3 ISSUES PRE-1969 ELECTION

Signs of conflict had begun to emerge from within the Alliance even before the first Elections post-Independence. The first sign of trouble came from the MCA. Its leader, (Tun) Tan Cheng Lock, lost his post to (Tun) Dr. Lim Chong Eu in a March 1958 party election and drastic changes soon followed.

The MCA under Dr. Lim had a serious political divergence with then Prime Minister Tunku Abdul Rahman. On the eve of the 1959 election, the MCA leadership made demands on the Alliance. MCA wanted 40 Parliamentary seats. It also wanted Mandarin recognised as an official language and fundamental changes to the education policy as championed in the Alliance campaign. *“Firstly, we want equality in this country”* Dr. Lim declared. *“Secondly, we are for an assurance of our way of life, our language⁸ and our schools”⁹*. The escalation of demands to 40 seats seemed to transgress the bargaining limits between the Alliance partners, especially given UMNO’s earlier generosity in the 1955 Federal Elections when they conceded 29% of the Alliance nominations to the MCA, despite Chinese voters making up a mere 11% of those registered. By publicising these demands, it would appear that the MCA leadership was prepared to risk peace amongst the communities and the pragmatic Alliance proposition, with the possibility of rekindling sensitive communal

⁸ “A memorandum on Chinese Education was issued jointly by MCA and the Chinese educationist bodies on March 31 1954 opposing the educational policy of the colonial government. This memorandum was historically significant and had far-reaching implications... The government issued the 1954 Education Report at end 1954 and the people opposed it strongly. The report suggested that pupils of various races should attend the same classes, using the same medium of instruction and textbooks. As this would alter the nature of Chinese education, MCA and the Chinese educationist bodies opposed it vehemently and demanded for its abolition. The MCA and Chinese educational bodies met Tunku in January 1955 to pursue the development of Chinese education, requesting that the Alliance election manifesto include Chinese language as the second official language of the country. In response, Tunku said the matter was not suitable at the moment as it would split the unity of the Malaysians to fight for Independence.” He, however, undertook that the Alliance government would never abolish vernacular languages, culture and educational facilities. Accessed at <<http://www.scribd.com/doc/25756825/Introduction-History-of-Party-Formation-The>>

⁹ Von Vorvys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), p 163.

issues¹⁰. Tunku subsequently increased the number of Federal seats allocated to MCA from 28 to 31 but this compromise was abandoned, and the relationship deteriorated¹¹. By a narrow margin, the MCA eventually accepted Tunku's terms.

Race was also a core issue for the opposition, including the People's Progressive Party (PPP), a former Alliance member¹² ideologically inclined towards Socialism and Chinese chauvinism¹³. The most outstanding demands¹⁴ listed in the PPP's 1959 Election Manifesto, which called itself a 'blueprint for equality and progress', included a call for the principle of *jus soli* to be applied with regards to granting equal citizenship for all¹⁵; equal rights and privileges for all Malaysians; and the amendment of immigration and education laws to ensure equal treatment for all races. They also called for Chinese and Tamil to be acknowledged as official languages of Malaya, but with the status of Malay as the national language preserved¹⁶.

Its Manifesto laid considerable emphasis on education, which was understandable after disagreement over the Government's education policy flared up just a few months before the elections. It maintained that the mother tongue should be the medium of instruction and examination in all vernacular schools (though Malay should be made a compulsory subject). It promised that educational institutions of all the communities and teachers of all schools

¹⁰ Ibid, p 164.

¹¹ During the one year period under Dr. Lim's leadership, the MCA was under tremendous pressure from within and outside.

¹² PPP later became one of the founding members of Barisan Nasional, when it was formed in 1973.

¹³ See Ratnam, K.J., *Communalism and the Political Process in Malaya*, (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965).

¹⁴ Ibid, pp 170 to 171. It is interesting to note that each of the mentioned components is in direct conflict of the demands made by the PMIP. In fact, the PPP is as strongly dedicated to abolishing Malay privileges as the PMIP is to increasing them.

¹⁵ *Jus soli* (Latin: right of the soil). Ratnam, K.J., *Communalism and the Political Process in Malaya*, (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965), p 170, 73n. Also known as birthright citizenship. "The Party sought to amend citizenship laws so as to establish for all time in Malaya only one class of citizens, all enjoying the same rights, privileges, security, and owing the same obligations."

¹⁶ *The Straits Times*, 6 Aug 1959, p 2. In this connexion, it was stated that "Malay, Chinese and Tamil should stand recognized recognised side by side for practical purposes and for the protection of the cultures of the races."

(vernacular or otherwise) would be treated impartially and that students from all recognised schools (i.e. including students from Chinese schools as well) should be treated equally as regards to employment prospects after graduation. The manifesto also promised to lift the travel restrictions placed on students in the Federation.¹⁷

Meanwhile, the Pan Islamic Malaysian Party (PMIP),¹⁸ the Islamic party, exploited the mood of the Malays by playing the racist card¹⁹. In the heat of the hustling, as Tunku Abdul Rahman later recalled,²⁰ PMIP attacked UMNO for being “pro-Chinese” and circulated pictures of Cabinet minister Mohammad Khir Johari in Mandarin attire. Efforts were also made to exploit Malay hopes and ambitions for Malays to hold sole ownership over the nation, and therefore pushing for the expansion and immortalisation of their “special rights”. They also purported that the country should also constitute the basic features of a Malay national state.

PMIP unreservedly allied itself to this view, demanding, among others,²¹ that citizenship laws be made more stringent for non-Malays²². Furthermore, it advocated for Islam to be established as the State religion, and demanded that only Malays be allowed for certain government positions, including those of *Menteri Besar*, ministers, governors and heads of the armed forces. PMIP also promised that immigration laws would be made more

¹⁷ These restrictions were placed by the Government for fear that closer links might be established between Chinese school students in the Federation and their counterparts in Singapore, who were accused of being chauvinistic and partly Communist-infiltrated. See Ratnam, K.J., *Communalism and the Political Process in Malaya*, (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965).

¹⁸ Later known more widely by its Malay name, Parti Islam Semalaysia or PAS.

¹⁹ PAS's threat to the UMNO (and hence the Alliance) derived not only from the support of Malay rural community but also from the attraction which the programme holds for UMNO dissidents. Religious teachers played an active part in conducting the PAS's campaign.

²⁰ See Abdul Rahman, Tunku, Putra Al-Haj, *May 13 – Before and After*. (Kuala Lumpur: Utusan Melayu Press, 1969).

²¹ This list of demands was compiled from the party's 1959 Election Manifesto, and from various public pronouncements made by its leaders. Ratnam, K.J., *Communalism and the Political Process in Malaya*, (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965), pp 170-172.

²² In a party broadcast before the 1959 Federal elections, Dr. Burhanuddin expressed the opinion that the principle of *jus soli* was ‘a sharp tool to destroy the ownership and absolute rights of the Malays’. *Utusan Melayu*, 3 Aug 1959.

restrictive for non-Malays. It demanded Malay be ratified as the sole official and national language, for a shift in education policies towards a more prominent Malay orientation; and for the introduction of a “*Melayu*” (Malay) nationality²³.

The narrative above highlights the intra- and inter-party conflict that was brewing at the time. With race rising as the dividing factor, politicians and their followers were becoming increasingly polarised on the race issue, and moderates were failing to hold the line. Malaysia witnessed a rise of ethno-nationalism amongst both the *Bumiputras* and the non-*Bumiputras*. Many Malays struggled to come to terms with the idea that the “immigrant” communities, especially the Chinese, could no longer be viewed as such – they were settled, second and third generation settlers who held a strong claim to Malaysia. While the tensions among the *rakyat* grew, politicians on both sides fanned the flames, playing on racial sensitivities to gain traction and political support.

²³ This demand was also earlier advocated by the leftist Putera-AMCJA coalition, largely at the insistence of the Malay Nationalist Party, some of whose members are now in the PMIP.

3.4 LANGUAGE

The *Bahasa* issue was inherited from a built-in fault line, with all the warning signs of a coming eruption. Back in 1947, a letter had been sent to the Colonial Secretary in London, Arthur Creech Jones, by the Governor-General for the British Territories in South East Asia, Malcolm Macdonald, who saw the dissatisfaction and anxiety of the Malays over the future as targeted towards the Chinese²⁴, and understood the issue pertaining to *Bahasa* as an expression of that anxiety and a gesture to preserve the domination of the Malays in country.

Still, up until the Independence everyone displayed a desire to accommodate and compromise. The Education Committee of 1956, or the “Razak Report of 1956”²⁵ made Malay and English compulsory subjects at primary and secondary level in all schools. Meanwhile, the use of Mandarin and Tamil as the language of instruction was allowed in if there is a demand from the parents of 15 children from the school.

The Constitution of the Federation of Malaya 1957 categorically stated that “*the national language shall be the Malay language*”. Though it accorded English concurrent official status, it stipulated that this status should only be guaranteed for ten years from the date of Merdeka, and that subsequent status would be up to Parliament to decide. The “*period of ten years*” ended on 31 August 1967. Anticipating this, the Malaysian Parliament passed the National Language Acts 1963 which stipulate that the national language should be used

²⁴ Letter from Malcolm MacDonald to Arthur Creech Jones, dated 28 Apr 1947. Stockwell, A.J. (ed), *British Documents on the End of Empire*. (London: HMSO, 1995), Series B, Vol 3, Part I, pp 321-322.

²⁵ Ministry of Education, *Report of the Education Committee 1956, (The Razak Report)*, Ch V, s 63. (Kuala Lumpur: Government Press, 1956).

for official purposes²⁶. As 1967 approached, the question of language use and language instruction sparked intense debate, threatening the stability and peace of the country.

Generally, it was agreed that a common language was necessary to unite the various disparate communities, but many Malays resented the subsidiary use of other languages, seeing it as a threat to Malay nationalism. Others, such as the University of Malaya's Malay Language Association (PBMUM) saw the enshrining of Malay as the national language as a necessary step to both preserve and also provide fertile grounds for Malay arts and culture to flourish, thus leading to their restructuring exercise in 1969 to play a larger political role in defending Malay as the national medium for education²⁷.

The basis for choosing Malay as the common language was stipulated in the Constitution, an argument that is rarely disputed. However, the Chinese and Indian communities nevertheless wished to safeguard their cultural heritage, which manifested in these communities demanding for Chinese, Tamil and English to be similarly recognised as official languages and for the government to guarantee their freedom of use²⁸. There was also an underlying fear the Malay nationalism was critically dependent on the recognition of Malay as the national and sole official language, and that its continued propagation would further fuel Malay jingoism.

As various communities heatedly debated the *Bahasa* issue, (Tun) Syed Nasir Syed Ismail,²⁹ the first full time Director of the *Dewan Bahasa dan Pustaka*³⁰ (DBP), did everything he could to hasten and ensure that Malay would unquestionably become the (only)

²⁶ Abdul Rahman, Tunku, Putra Al-Haj, *Viewpoints*. (Kuala Lumpur: Heinemann Education Asia, 1978), pp 198.

²⁷ Arkib Negara, *Hari Ini Dalam Sejarah: The Establishment of University Malaya's Malay Language Association*, 29 January 1955.

²⁸ See Roff, Margaret, *The Politics of Language in Malaya*, (Asian Survey, Vol VII, No. 5, 1967).

²⁹ Syed Nazir Syed Ismail was born in Johor and was of a prominent UMNO politician; he also served as the Speaker of the Dewan Rakyat from 1978 till his demise in 1982.

³⁰ The Institute of Language and Literature.

national language. Syed Nasir regularly sponsored national language months, publicly proclaiming loyalty to the Alliance leadership, but at the same time consciously promoting his own powerbase in UMNO. He called on all citizens to embrace Malay as the language of their nation and place of birth, and to pledge sincere allegiance to the nation³¹. His regular addresses at National Language Months or the openings of libraries and exhibits carried the constant theme: Malay will necessarily become the only official language on 1 September 1967, and the country was ready for it.

The Chinese and Indian communities could not seriously accept Syed Nasir's declaration of goodwill and his interpretation of the Constitution. Some ridiculed his claims of inflated achievement³² and many chose to ignore him. Whilst recognising Syed Nasir's energetic commitment in the Malay language promotion, the Alliance leadership found itself in a quandary. Whilst Syed Nasir was not an extremist, he articulated Malay communal opinion convincingly, and he also adhered to the Constitutional contract.

Whilst the MCA and MIC leaders tried to be discreet, they were agitated and repelled by his single-minded determination. The MCA felt it was UMNO's responsibility to restrain the Malay community. However, the Alliance felt compelled to accept Syed Nasir's conversion of a minimum guarantee for the concurrent status of English into a maximum tolerance.

Syed Nasir sent a strong confidential memorandum to the Prime Minister and Cabinet Ministers, claiming to speak for the Malay community - defining "*its aims and objectives*"

³¹ See Syed Nasir, Tun, *Koleksi Ucapan Tun Syed Nasir*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1996).

³² A charge by Lim Kean Siew, Kuala Lumpur, *The Sunday Times*, 14 Aug 1960.

as bringing to the notice of the government, the Constitutional commitment on the national language and the consequences if the demands to liberalise the use of the Chinese language were considered. In the note, he also outlined the historical origins and development of the Malay language, and emphasised in detail the terms of the Constitutional contract and the appropriate role of the English language³³. In the memorandum advised the Malay leaders to pay attention to the feelings of the Malays who had grown restless owing to the Chinese demands with regards to language use, and to recall the sacrifices that the Malays have done by allowing the Chinese to control the national economy undisturbed³⁴.

Without intending to make further concessions on the issue, Tunku was concerned that due to Syed Nasir's initiatives, the establishment of Malay as the sole official language would be perceived not only as a national event but also a Malay communal victory. Tunku anticipated the disturbing prospect of communal feelings being unnecessarily roused, as the MCA became vulnerable to charges by the Chinese communal elements of having sold out to the Malays. Tunku ensured that the National Language Bill³⁵ was balanced and that, while it would grant a slight edge to the Malays by re-interpreting the ten-year minimum to that of a maximum provision, the protection of secondary languages would also be restated. "*We want everyone to accept the (national) language of his own free will,*" Tunku emphasised³⁶.

³³ Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), p 203.

³⁴ Ibid, pp 204-205.

³⁵ The National Language Bill was introduced in Parliament on 24 Feb 1967. It provided that the national language would become the sole official language; that 'translations of official documents or communications in the language of any other community in the Federation' may be used by the Federal and State governments 'for such purpose as may be deemed necessary in the public interest', and that 'the *Yang Di Pertuan Agong* may permit the continued use of the English language for such official purposes as may be deemed fit'. Other clauses dealt with specific provisions involving languages in the courts, Parliament, the State Assemblies and in the text of laws. 13 Malay lawyers submitted a memorandum to the government on this Bill.

³⁶ Roff, Margaret, *The Politics of Language in Malaya*, (Asian Survey, Vol VII, No. 5, 1967), p 325.

Syed Nasir and his supporters, however, saw no reason to compromise on an issue long debated. Members of various associations - including the teachers' association, national writers' associations and Malay student organisation at the University - opposed the Bill and united behind the National Language Action Front to demand a change. Students of the Muslim College picketed. A rally at the *Dewan Bahasa & Pustaka* saw speaker after speaker condemning the Bill. Emotions ran high and copies of *Utusan Melayu* were ritually burnt in a coffin to display their displeasure, but a protest march to the Parliament was averted. Debate in the House was fierce over two days, 2 and 3 March 1967. Although faced by attacks from both sides charging the Alliance with betrayal for not following an amicable course, the Bill was passed. In the end, the much-compromised Bill pleased no one³⁷.

The debate revolving around the National language amplified the existing dissatisfaction between each ethnic group. The pressure for the wider use of Malay³⁸ intensified from the UMNO 'ultras' and Malay nationalists ahead of the 1969 polls. (Dato' Seri) Harun Idris, *Menteri Besar* of Selangor predicted that the language issue³⁹ would be fodder for people out to score electoral points in 1969. This is consistent with the analysis put forward in the Summary Report on Malaysia: Future Development dated 24 September 1969⁴⁰ from the British Acting High Commissioner in Malaysia to the Secretary of State for

³⁷ Guan, Lee Hock, Guan Lee Hock, and Suryadinata Leo. "Ethnic politics, national development and language policy in Malaysia." *Language, nation and development in Southeast Asia* (2007): 118-149.

³⁸ Abdul Rahman, Tunku, Putra Al-Haj, *Viewpoints*. (Kuala Lumpur: Heinemann Education Asia, 1978), p 198. Tunku called for an all-out effort to promote the use of Malay, under the slogan *Bahasa Jiwa Bahasa* which was displayed on posters, banners and road signs all over the country, though at the same time, he made it clear that he felt that English would have to be used as the language of higher studies for a long time to come.

³⁹ As it happened, the Razak Report on education released in April 1956, suggesting that Chinese primary schools be included into the national education system and emphasising that all schools have the same curricula and examinations, was strongly opposed by the Chinese community and Chinese educational groups. It was feared that the ultimate objective was to have Malay as the main medium of instruction for all schools. Later, when Education Minister Abdul Talib released the "Talib Education Report" in 1960, it shocked the whole Chinese community even further. The report was described as "a knife hanging over Chinese education" and even before the release of this report, the MCA had organised a pan-Malayan Conference of Chinese Guilds and Associations on 26 Apr 1959 in Ipoh and unanimously passed the "General Demand on Education by The Chinese Community". By 1961, Parliament passed the 1961 Education Act empowering the Education Minister to convert national-type primary schools (either Chinese or Tamil) to national primary school (Malay medium school). See <http://tilianker.blogspot.com/2010_04_01_archive.html>

⁴⁰ The National Archives of the UK. September 24, 1969. FCO 24/476: Internal political situation in Malaysia, (Formerly in FWM ½), Malaysia: Future Development - Report from the British Acting High Commissioner in Malaysia to the Secretary of State for Foreign & Commonwealth Affairs. 1969. Kew Gardens, UK..

Foreign & Commonwealth Affairs. The report suggests that the Bill was “so full of loopholes contrived to placate the non-Malays that the status quo was little changed”. In short, the report summarised that:

..the implementation of Malay-based education is unlikely to satisfy the Malays for long and may indeed disappoint them. It is likely to produce a sharp reaction amongst the Chinese, especially amongst those who are already Left-oriented.

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3.5 THE RELATIONSHIP WITH SINGAPORE

On 27th May 1961, Tunku Abdul Rahman made the first public proposal of a 'Grand Malaysian Alliance'⁴¹ - merging Malaya with Singapore, Sarawak, British North Borneo and Brunei⁴² - at the Foreign Correspondents' Association of Southeast Asia meeting in Singapore⁴³. There had been meetings discussing the said proposals between the three governments; the Federation of Malaya, Federation of Singapore and the British since January 1961.

Singapore's first Prime Minister Lee Kuan Yew realised that some form of merger was essential to his political survival. The People's Action Party (PAP), having won the 1959 Singapore general election⁴⁴, announced its program on 9 June 1961 that they would seek independence through merger, either with or without the Borneo territories in the 1963 Constitutional talks⁴⁵. Singapore's desire for independence and self-government had started to become immediate. As the ruling party, PAP was able to form a fully elected new government of Singapore. They had the freedom to venture into a new domestic policy without redressing the Colonial administration.

For the Malays, there was the concern by including Singapore in the merger, the racial composition of proposed Malaysian Alliance would be skewed in favour of the Chinese

⁴¹ The idea of the Malaysian Alliance was not new. It had first been proposed by Lord Brassey in 1887, and Malcolm MacDonald had mooted the idea during his tenure as British Commissioner-General of Southeast Asia (1949-1952). In more recent times there had been several other organisations and persons who had advocated the same amalgamation. Refer to Mohamed Noordin Sopiee, *From Malayan Union to Singapore Separation: Political Unification in the Malaysian Region 1945-1965*, 2nd edn, (Kuala Lumpur: University Malaya Press, 2005) pp 125-128.

⁴² Brunei eventually withdrew, preferring to continue its special protectorate arrangements with Britain. It was likely because the financial arrangements of the whole concept would not be in Brunei's favour, especially as Brunei is an oil-rich state.

⁴³ Clutterbuck, Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), pp 155-156.

⁴⁴ The British still controlled external affairs such as the military and foreign relations, therefore Singapore was not fully independent. However, the Constitution of Singapore was revised in 1958, (replacing the Rendel Constitution of 1955) that granted Singapore self-government and the ability for its own population to fully elect its Legislative Assembly.

⁴⁵ Abdul Rahman, Tunku, Putra Al-Haj, *Looking Back, Monday Musings and Memories*, (Kuala Lumpur: Pustaka Antara, 1977), pp 82-85.

seeing as their population was over 75% Chinese⁴⁶. Additionally, there was a niggling fear of the left-leaning politics of Singapore, and for those ideologies to spread to Malaya. Soon, Tunku displayed his considerable reservations, announcing that Singapore could not be accommodated within the Federation until its people had proved that they were loyal to Malaya as a whole⁴⁷.

Singapore's brewing political problems and PAP's defeat in a crucial by-election in April 1961 by a rival party (UPP) brought Tunku back to the idea of merger. Lee Kuan Yew persuaded Tunku that the communist elements were jeopardising the position of the ruling PAP government, and that by excluding Singapore from Malaysia, he was putting Malaya at great risk. Additionally, both had agreed that the economic problems which caused the by-election defeat could only be resolved by merger – or at least by the formation of a common market. By 27 May, Tunku was convinced that the two countries should work together in the interests of 'national security' (in view of the risk of people of Singapore rallying to the leadership of extremists) and 'mutual economy'. He would do better to make a positive move of support for Lee⁴⁸. Moreover, through the inclusion of British Borneo and its predominantly indigenous population, a balance between the different races in favour of the indigenous people could be maintained⁴⁹.

After a series of consultations, negotiations and referendums beginning in May 1961 on 16 September 1963, Malaysia was born.

⁴⁶ Singapore Department of Statistics, *singstat.gov.sg. Population Trends*.

⁴⁷ Singapore *Nanyang Siang Pau*, 8 May 1961, quoted in Osborne, Milton, E., *Singapore & Malaysia*, (New York: Cornell University, 1964), p 14.

⁴⁸ Osborne, Milton, E., *Singapore & Malaysia*, (New York: Cornell University, 1964), p 15.

⁴⁹ *Ibid*, p 57.

Approaching the 1964 election, PAP tactically supported and applauded both UMNO and Tunku, while criticising and attacking the MCA. However, this proved to be a poor strategy when the results of the 1964 Federal Election were revealed. Out of the nine who contested, Devan Nair was the only PAP candidate to be elected, and even then by a slim majority of 2% votes. The PAP faced a shattering electoral defeat.

The PAP subsequently established the Malaysia Solidarity Consultative Convention, a bloc of opposition parties who were united under the banner of a fight for “Malaysian Malaysia”, with a view to stay relevant and advance its cause in Malaysia. There were public debates on several issues namely Malay special rights, citizenship rights, education, language and culture. Their manifesto stated that “the nation and state is not identified with the supremacy, wellbeing, and interest of any one community race”⁵⁰. They championed a drive for the Chinese to reject MCA in the upcoming elections as the MCA had sold out by acceding to the Malays. For the UMNO ‘*ultras*’, this served as affirmation that the PAP stand was in direct contradiction to that of UMNO. The PAP was accused of undermining racial harmony by the Malaysian Radio and Television programmes. The Singapore Radio and Television networks however ran a series of ‘Malaysian Malaysia’ programmes and called for greater meritocracy and removal of quotas.

The Malaysian Malaysia campaign invited backlash coloured in racial terms. UMNO’s secretary-general Syed Jaafar Albar delivered a series of provocative speeches in Singapore, a sentiment of anti-Chineseness that was reflected in the publications of *Utusan Melayu*⁵¹. Matters worsened when a series of riots erupted as a result of racial conflict between the

⁵⁰ Gullick, John M., *Malaysia: Economic Expansion and National Unity*, (London: Ernest Benn Ltd, 1981), pp 118-119.

⁵¹ Lin, Tang Weng. "Topic 3 'Singapore's inability to reconcile Singaporean nationalism with Malaysian nationalism was the fundamental cause of the island's separation from Malaysia in August 1965.' Discuss."

Malays and Chinese, driven by the rapidly deteriorating rift between the predominantly Chinese PAP government of Singapore and the predominantly Malay central government in Kuala Lumpur⁵². In July 1964, a clash between Chinese and Malays occurred in Singapore during a Muslim procession celebrating the Prophet's birthday. 22 people were killed and about 500 injured⁵³. Singapore was placed under curfew. In September, racial riots broke out again in Singapore⁵⁴. By May 1965, race relations were at a breaking point, particularly between the Chinese and Malays. The Malays faced an impetus to act – they no longer held the status of majority group, and political power, their final stronghold, was slipping away.

After months of tribulation, on 9 August 1965 in an announcement to *Dewan Rakyat*, Tunku officially declared that Singapore would have to separate from the Malaysian Federation. Singapore was subsequently expelled, gaining independence albeit against their will. There was little doubt that if left to drag on, the conflict would have resulted in an unprecedented level of violence and bloodshed between the Chinese and Malays. It was the only way to prevent the fighting, especially since there was little scope for sensible debate amidst the climate of anxiety and suspicion. A year later, Tunku noted an afterthought, “*If we had not separated there would have been blue murder*”⁵⁵.

The merger with Singapore, as part of a wider Malaysian Federation, created serious anxieties. From the outset, Malaysia was made up of a diverse population, yet stubbornly

⁵² Clutterbuck, Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), pp 161, 283.

⁵³ Tunku blamed the riots on Indonesian subversive element who aggravated the legitimate grievances of the Singapore Malays, as it was the time of Indonesian confrontation with Malaysia. See Fletcher, Nancy McHenry, *The Separation of Singapore from Malaysia*, (New York: Cornell University, 1967).

⁵⁴ This incident coincided with the landing of Indonesian para-troops in the southern part of Peninsular Malaysia. Tunku again pointed out how easy it would be for Indonesia troublemakers to exploit the neglect of the Singapore Malay community by the Singapore government which “made no provision for special treatment of one particular race or community.” See Fletcher, Nancy McHenry, *The Separation of Singapore from Malaysia*, (New York: Cornell University, 1967).

⁵⁵ Milne, R.S., Mauzy, Diane, *Politics and Government in Malaysia*, (Singapore: Federal Publications, 1978), p 74.

void of integration between its constituent ethnic groups⁵⁶. There was however, a tacit understanding between the Malays and Chinese via their political leaders, namely UMNO and MCA. The implied agreement was that as long as the Malays' special rights were not questioned, nor their political predominance challenged, the Chinese would be unhindered in their continued undertaking of their traditional and industrial activities.

The Malays had been circumspect when it came to Singapore and its overwhelmingly Chinese population⁵⁷. With the separation and the departure of Singapore, it was the Chinese of Malaysia who became worried instead, as suddenly their numbers were drastically reduced. At this stage, the multi-racial existence needed constant buffeting and comforting. The Chinese turned to their local leaders for reassurances on issues most dear to them, notably, the fate of their mother tongue.

⁵⁶ Loh, Philip Fook Seng, *Seeds of Separatism – Educational Policy in Malaya 1874-1940*, (Kuala Lumpur: Oxford University Press, 1975).

⁵⁷ Comber, Leon (ed), *13 May 1969: A Historical Survey of Sino-Malay relations*, (Kuala Lumpur: Heinemann Asia, 1988), p 58.

3.6 EMERGING PARTIES

After Singapore left Malaysia in 1965, the PAP⁵⁸ in Peninsular Malaysia renamed itself the Democratic Action Party (DAP) and formally cut its links with the PAP. This Malaysian offshoot of the PAP was led by Dr. Chen Man Hin of Seremban as chairman and Devan Nair, the Malayan-born Member of Parliament in Malaysia, as secretary-general. The DAP enthusiastically embraced the “Malaysian Malaysia” ideals of equal rights and meritocracy advanced by Lee Kuan Yew which the Malays perceived as a move to rob them of their constitutionally enshrined special rights. The DAP and PAP were in agreement in the campaign for multi-lingualism, rejecting the notion that Malay should be the national language and sole medium of instruction for schools⁵⁹. DAP’s main thrust was against the MCA, whom it accused of betraying the Chinese, not least in passing the National Language Act of 1967 and especially in accepting the enforcement of the exclusive use of Malay as the language of instruction in schools.

Goh Hock Guan denied any racist consideration in DAP’s strategy, but many Malays have disputed this by pointing out that the majority of DAP’s members were Chinese, while the party fought for Chinese rights and demanded equality, regardless of the social contract.

In 1968, Gerakan Ra’ayat Malaysia was launched. It was a non-communal party that acknowledged Malay sentiments for the need to preserve their rights and status in the

⁵⁸ Even after the expulsion of Singapore from Malaysia, the PAP continued to concern itself with the position of the Chinese in Peninsular Malaysia. The central government decided that the PAP branch in Malaysia would have to be wound up since it had become a ‘foreign’ party. In March 1966, the solitary PAP member of the Dewan Rakyat registered a ‘new’ party called the Democratic Action Party (DAP) which, while having a separate legal identity from the PAP, was clearly a successor in Peninsular Malaysia. Means, G.P., *Malaysian Politics*, 2nd edn, (London: Hodder and Stoughton, 1976), p 356; Vasil, R. K., *The Malaysian General Election of 1969*, (Singapore: Oxford University Press, 1972), pp 14-17.

⁵⁹ See Zakaria Haji Ahmad (vol ed), *The Encyclopaedia of Malaysia – (Vol 10) Government and Politics [1940-2006]*, (Kuala Lumpur: Editions Didier Millet, 2006).

growing multi-racialism of Malaysia. Its formation was inspired mainly by two respected Chinese politicians, (Tan Sri) Dr. Tan Chee Khoon who left the Labour Party and (Tun) Dr. Lim Chong Eu, formerly of the MCA and UDP. The Gerakan leaders maintained that Malay special rights and the national language policies were discriminatory, but pledged to retain Islam as the national religion. This approach made them considerably appealing to Chinese and Indian voters, especially among the smaller merchant groups⁶⁰.

⁶⁰ Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 293.

3.7 BREWING RACIAL INTOLERANCE

By 1968, (Tun) Dr. Mahathir who held close ties with the people on the ground foresaw a “pent-up reservoir of ill-feelings” that may soon overflow, resulting in clashes among the races. Noting the racial intolerance and conflict occurring in the United States, United Kingdom, Africa and neighbouring Asian nations, Mahathir suggested the Alliance to take notice of the existing “signs” and “symptoms” and to engage preventive measures to avoid it happening in Malaysia before it was “too late”⁶¹. His grim prediction would come true just a year later.

The Alliance knew that compromise between the member organisations was necessary to preserve internal unity, but it made them extremely vulnerable to criticism. Thus, while sections of the Malay community accused UMNO of having ‘sold out’ the interest of the Malays, sections of the Chinese accused the MCA of having side-lined Chinese rights, and busying themselves with the work of appeasing UMNO instead.

The racial tension leading up to the May General election has also invited comments by international observers as revealed in newspapers and declassified documents at British National Archives. On 16 April 1969, the Financial Times reported that the Alliance is “losing its grip on the country”⁶², while A. A. Duff, British Deputy High Commissioner, reporting to Home on 18 April 1969, indicated that the Alliance “will retain its comfortable

⁶¹ Mahathir Mohamad, *Disparities: Helpful Suggestions Needed*, *The Straits Times*, (9 March 1968). Refer to Mahathir Mohamed, *The Writer: The Early Years 1947-1972*, (Kuala Lumpur: Berita Publishing Sdn Bhd, 2010) pp 135-136.

⁶² *The National Archives of the UK*. April 16, 1969. FCO 24/475: Internal political situation in Malaysia, (Formerly in FWM ½), Kuala Lumpur Correspondent. "Pressures on the Alliance." *Financial Times* (London).1969. Kew Gardens, UK.

majority in Parliament⁶³”. These reports concur with some of the analyses made by local political leaders, hinting that the Alliance is gradually losing the trust of both ethnic groups.

In the 1969 general election campaign, there was a party or group of parties on either side of the main racial divide – the PMIP telling Malays to abandon UMNO because it was ‘selling them out to the immigrant races’ and the DAP and Gerakan telling the Chinese that the MCA and MIC were ‘selling them out to the Malay hierarchy’. Racial issues openly became a major factor in the election for the first time. Even the PAP’s ‘Malaysian Malaysia’ debate revived over the campaign period leading up to 10 May 1969.

With this in the background, the Chinese, who were looking for leadership, were disappointed with the MCA handling of the education-conscious Chinese’s demand just as the nationwide polls were within sight. They were upset by a certain phrase used by the English-speaking MCA leader Tan Siew Sin with regards to their attempt at establishing the Merdeka University by referring to their efforts as “like expecting iron trees to produce flowers”⁶⁴.

Meanwhile, the Malays were unhappy about their general lack of economic advancement. Many were also left disillusioned and smarting from the government’s handling of the National Language legislation, which they saw as an insult to *Bahasa Melayu*.

⁶³ *The National Archives of the UK*. April 18, 1969. FCO 24/475: Internal political situation in Malaysia, (Formerly in FWM ½), Anthony A Duff, *Summary: The Malaysian General Election, May 1969*. 1969. Kew Gardens, UK.

⁶⁴ “The MCA Central Committee decided on 3 Feb 1968 that the Party would support the proposed Merdeka University suggested by Chinese groups. On 23 March 1968, at the Party Delegates’ Conference, a resolution was passed urging the government to speedily set up higher colleges so that graduates from secondary schools could be enrolled into these colleges. Party President Tan Siew Sin said on 15 Apr 1969 that it was difficult to render support for the setting up of the Merdeka University under the prevailing circumstances. This statement angered the Chinese community as a whole. The government approved the registration of the Merdeka University as a non-profit company on 9 May 1969. (The University and University College Act was not in existence then and one needed only to register a company in order to set up a higher learning institution). MCA Central Education Committee Chairman Khaw Kai Boh and a few educationists met with the governors of the Merdeka University and decided that both institutions should cooperate closely.” See http://tilianker.blogspot.com/2010_04_01_archive.html. See also Speech by Lim Kit Siang, DAP Organising Secretary and Parliamentary Candidate, *Merdeka University Malay-ised?*, on 30 Apr 1969. Accessed at <<http://bibliotheca.limkitsiang.com/1969/04/30/merdeka-university-malay-ised/#sthash.ErvbDMUC.dpuf>>

The Malays also felt betrayed when the Chinese communities challenged the compromise on the question of *jus soli* citizenship to the immigrants.

A fortnight before polling day, on 24 April, Labour Party workers killed an UMNO man in Jelutong, Penang, and painted his body red. Ten days later, three police constables got into a scuffle with a group of youths in Kepong, resulting in serious injury to one of them, Lim Soon Seng, aged 24, allegedly a Communist. He was taken to the General Hospital and died soon after, but instead of taking his body back to Kepong, it was sent for temporary keeping at a parlour in Chinatown, in the heart of Kuala Lumpur. Relatives of the deceased and others accompanying them sought the police's permission to have the funeral procession back to Kepong on 10 May – polling day. The police refused a permit for that particular day but allowed the procession to be held a day earlier.

Tensions ran high on 9 May. The procession attended by about 10,000 flouted police instructions and took routes outside the permitted area. They crossed through the heart of Kuala Lumpur so that traffic stood still, carrying portraits of Mao Zedong and the Red flag and brazenly sang *The East is Red*. They chanted Mao slogans and other politically-motivated racist remarks and threats such as “*darah bayar darah*” outside places such as the UMNO headquarters.⁶⁵

The chants provoked Malay bystanders, setting the stage for what was to follow in the ‘celebrations’ on 11 and 12 May. The police had great difficulty in restraining retaliation by young Malays. According to then Chief of Traffic Police for Kuala Lumpur, Tan Sri Mansor

⁶⁵ The official post-mortem on the event highlighted three possible causes. One was candidates trying to win votes on racial lines; another was communist agents from the Labour Party turning the procession into a Maoist-slogan shouting demonstration; and third, the work of secret societies.

Mohd Noor, “*The behaviour of the funeral crowd was most provocative and if the Police had not exercised tolerance and patience there would certainly have been an outbreak of violence that day.*”⁶⁶

Abdullah CD⁶⁷, the leading Malay communist of the era, said⁶⁸ at the time, he did not know what the non-Malay communists were up to, which suggests that even the Communist Party of Malaysia (CPM) to which he was the Chairman was racially divided, with the various factions pursuing different causes within itself.

May 13 came amidst deep-seated communal fears and mistrust that finally manifested through racist slurs in the run-up to and immediately after the elections of 10 May⁶⁹. The 1969 election was clearly “*dominated by communal sentiments over the questions of language, education and equality.*”⁷⁰ The atmosphere was choked with rumours after the electoral results favoured a strong Opposition.⁷¹ One rumour that especially unnerved the Malays was that a Chinese would be installed as the *Menteri Besar* of Selangor, where the Federal capital of Malaysia was located and where the *Yang di-Pertuan Agong* presided over Islamic affairs and Malay customs.

⁶⁶ See Abdul Rahman, Tunku, Putra Al-Haj, *May 13 – Before and After*. (Kuala Lumpur: Utusan Melayu Press, 1969).

⁶⁷ Abdullah CD (Cik Dat bin Anjang Abdullah) served as Chairman and General Secretary of the Communist Party of Malaya.

⁶⁸ Meeting with Abdullah CD on 22 March 2006.

⁶⁹ Bloody incidents were not new to the country. There were post-war racial clashes in 1945, in a January 1957 Chingay riot incident in Penang saw four people killed and there were minor clashes between small groups of Malays and Chinese, and Penang was shut down for 10 days. Without emphasizing the 1964 racial riots in Singapore, there were the Hartal riots of Penang in 1967 when the devaluation of the Straits dollar led to an economic boycott and clashes between the Malays and Chinese which ended with five people killed, 92 injured and 1,600 persons detained; Penang was put on a 24-hour curfew. The ethnic tension spread to Perlis, Kedah and Perak where curfews were also imposed. November 1967 witnessed the political demonstrations spreading in Perak and Kedah, resulting in 25 people being killed. Refer <http://www.aliran.com/index.php?option=com_content&view=article&catid=28:2006-6&id=140:the-slide-in-ethnic-relations>

⁷⁰ Wong Chin Huat, *Watershed Elections of 1969*, *The Sun* (26 July 2007).

⁷¹ Editorial, *Scotch That Snake*, *Sunday Times*, (18 June 1969), talked about inflammatory rumours. There were a few other editorials over that period which discussed the prevalent rumours.

In a prelude of what to expect, the countdown period to the May 1969 national polls saw its share of anger and violence. Such was the intensity of discord and racial fury that immediately preceded the general elections. Emotions were already running high in Kuala Lumpur when the first of the 10 May election results began to come through the next day.

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3.8 THE 1969 ELECTION RESULTS

The results were shocking at both the Federal level as well as in the States. Not only did the racial issues attract many Malays and Chinese to the opposition – they also undermined the whole basis of the UMNO-MCA-MIC electoral pact. Tunku's Alliance won just 66 parliamentary seats, down from the 89 it won in 1964. Essentially, at the Federal level, the Alliance won 66 parliamentary seats against 37 by the equally surprised Opposition – DAP (13), PMIP (12), Gerakan (8) and PPP (4). Not only had the Alliance continued to lose to PMIP in Kelantan, it was embarrassingly defeated in Penang by the 'new kid', Parti Gerakan, winning only four of the 24 seats contested there. The results in Selangor and Perak were staggering, as the Alliance won half of the 28 State seats in Selangor and 19 out of 40 in Perak.⁷²

The worst hit was the MCA, which lost heavily to DAP and Gerakan, causing great resentment amongst its UMNO partners who had mobilised the Malays to vote for the MCA to no avail. Similarly, UMNO lost seats to the PMIP because the MCA failed to deliver the necessary Chinese voters to support the UMNO candidate due to the intervention of a DAP or Gerakan candidate. On the other hand, the Malays were frightened by the imminent disintegration of the Malay-dominated government.⁷³

The Alliance was similarly caught unawares in some of the simultaneous elections for State Assemblies. It barely held Terengganu and Kedah, with majorities of just two and four

⁷² Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 294 and 296.

⁷³ East Malaysia did return a greater majority in the Federal Parliament. Refer Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 294.

respectively. More disastrous were its losses to 'immigrant' parties in Penang, Perak and Selangor. The Alliance had already lost Kelantan to PAS some years back⁷⁴.

Gerakan won a landslide two-thirds victory over the 24 seats in Penang. Due to the Chinese majority and a clear result, this posed limited racial tension. The uncertainty from the 'upset' election was most felt in the Federal capital, Kuala Lumpur. The 'hung' situation quickly precipitated a frenetic 'horse-trading' or electoral pacts, which was in those years unprecedented in Malaysian politics (although it would become an almost expected feature of the general elections many years later).

In Selangor, the Alliance won exactly half the seats. With 14 seats each, the Alliance and DAP-Gerakan could not form the State government, and tensions rose dramatically during the next two days. Harun Idris, the incumbent Selangor *Menteri Besar*, had comfortably retained his own seat and made overtures to Dr. Tan Chee Khoon of Gerakan, who had won both a State and Federal seat, to form a coalition government in Selangor. He was turned down, heightening the fear of the Malays that the Federal capital may fall into Chinese hands.⁷⁵

If the election results had shocked Tunku and his Alliance colleagues, the results were as much of a surprise to the Opposition parties, specifically the DAP and Parti Gerakan, the latter cutting its teeth in a most spectacular way in its first elections outing. Despite their overall win, supporters of the Alliance still felt they had lost. Supporters of the Opposition,

⁷⁴ Ibid, p 295.

⁷⁵ Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 297.

which won the Penang, Kelantan and Terengganu states but lost other states and the Federal Government, felt and behaved like victors.

The jubilant Chinese and Indians who had supported the Opposition parties saw the victory as theirs. On the evening of 11 May, there were spontaneous 'victory celebrations' by groups of young DAP and Gerakan supporters who toured the streets, and particularly through and on the fringes of Malay districts of the city and suburbs, shouting taunts and insults at the Malays.

MCA's humiliation in both the Federal and State elections was intensely felt. Several Malay representatives laid blame for the Alliance's losses squarely on MCA (20 out of 33 candidates defeated) during an Alliance meeting. Dejected and weakened, MCA's Tan Siew Sin announced at a press conference on 13 May that the party, having been rejected by Chinese voters in a democratic vote, would not participate in either Federal or State Governments⁷⁶. The announcement however caused more alarm and resentment amongst Malays, many of whom felt that the MCA, which had already let the Alliance down, was now trying to abandon it. What appeared at first as punishment of the MCA by UMNO, instead contributed further to the deepening of racial tensions and anxieties.

Outside of Kuala Lumpur, Gerakan's Dr. Lim Chong Eu as the nominated Chief Minister of Penang, in consultation with Tun Razak, had come to a decision on the night of 12 May that they would remain neutral in Selangor and Perak. Such decision, according to

⁷⁶This was tactical move to induce Chinese voters to reflect on the disadvantages of having no Chinese representation in the government, in the hope that they would return to the MCA in the next election. Analysis by Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), pp 317-318 and 334-335. Refer Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 295.

Clutterbuck, might have the capability to diffuse the tension if it is not after the rioting in Kuala Lumpur was already beyond control⁷⁷.

Meanwhile, Dr. Tan Chee Khoon obtained formal police permission on behalf of Gerakan, for 1,000 participants⁷⁸ to have a celebratory victory walk in Kuala Lumpur on the evening of 12 May. The turnout grew to 4,000 people, subsequently disbanding into splinter groups who led mini ‘demonstrations’⁷⁹. These over-zealous demonstrators, joined by the DAP, continued taunting the Malays. One group broke into the grounds of Harun Idris’s residence and demanded he moved out of the house as he was no longer Selangor’s Chief Minister.

(Dato’ Seri) Harun was under strong pressure from community leaders to approve an UMNO counter demonstration for the next evening (Tuesday, 13 May) and found himself unable to refuse as the Gerakan demonstration had been allowed the evening before. Harun, nevertheless, was confident that he was best placed to control it, given his popularity particularly among young Malays. He directed that the gathering be treated as a joyous celebration despite the taunts, as the Alliance did in fact still have the majority in the Federal government, and had not, in fact, lost Selangor. UMNO members in their thousands arranged to meet at his residence, where the demonstration was scheduled to start at 7.30pm on 13 May⁸⁰. This tit-for-tat action, however, was a formula for disaster.

⁷⁷ Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 297.

⁷⁸ Clutterbuck. Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 298.

⁷⁹ Zainon Ahmad, *The Tragedy of May 13, 1969*, *The Sun* (26 July 2007).

⁸⁰ The National Operations Council, *The May 13 Tragedy, A Report*, (Kuala Lumpur, 9 Oct 1969), p 39.

3.9 MAY 13

Tension was high throughout the day. Many young Malays (especially the fanatical *Corps of Rugged Youth*⁸¹), young Chinese (led by the secret societies⁸²), ruffians and hooligans of both races were filtering into Kuala Lumpur. Most were armed with weapons, ready for a showdown. Serious violence and fighting began at around 6.00 pm that evening, starting in Setapak. A Malay group from Gombak carrying banners and shouting slogans, was making its way to Harun's house to join the UMNO demonstrations when clashes broke out on the streets between them and other youths. *Parangs* or machetes were used, as were other makeshift weapons including iron pipes and wooden planks. News on the happenings in Setapak spread like wildfire through the crowd and grew with the telling. Meanwhile, demonstrators gathering outside Harun's house had grown into thousands, many of them carrying weapons. They were in an ugly mood. Taunts from a passing busload of Chinese and Indians set the Malays amok. Harun was forced to swallow his words and call the Tunku to report that he had lost control of his followers⁸³.

By 6.40 pm the first casualty was reported – “*three Chinese dead beside the road, pulled off their vehicles and hacked to death. Malay mobs wielding weapons were heading off to the Chinese districts nearby.*”⁸⁴ Later at 7.20 PM, an order for an immediate curfew throughout the state of Selangor was issued.⁸⁵

⁸¹ Also known as the *Pemuda Tahan Lasak*. See Sundaram, Jomo Kwame, and Ahmed Shabery Cheek. "The politics of Malaysia's Islamic resurgence." *Third World Quarterly* 10, no. 2 (1988): 843-868. See also Halim, Ku Hasnan Ku, Ainudin Lee Iskandar Lee, and Suhaimi Sulaiman. "UMNO DAN KRISIS; PENELITIAN KEPADA KRISIS DALAMAN-KES TERPILIH." *Journal of Techno Social* 4, no. 2 (2012).

⁸² Mak, Lau-Fong. *The sociology of secret societies: A study of Chinese secret societies in Singapore and peninsular Malaysia*. Oxford University Press, 1981.

⁸³ Sheppard, Mubin. "Tunku: His life and times." *Petaling Jaya: Pelanduk Publications* (1995): 116.

⁸⁴ Clutterbuck, Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), p 300.

⁸⁵ *Ibid*, p 300.

The Police security level colour code on 13 May 1969 shot up from green (normal) to red (danger), by-passing amber (standby). The handling of the riots is generally the responsibility of the police, but soon the military began to take over after Tun Razak signed the Public Order Ordinance form.⁸⁶

Colonel Syed Hamzah Syed Abu Bakar,⁸⁷ the 37-year-old army officer in charge of Kuala Lumpur and Petaling Jaya, had during the course of the election campaign, worked out a standard operating procedure to mobilise his men from Sungai Besi if the need arose. At 7.00pm, in a completely unprecedented move, the military was deployed in the city.

In total, 2,000 soldiers and 3,600 police were deployed. By the night of 13 May, both Malay and Chinese districts were turned into virtual fortresses, with barricades at the entrances. Groups of young Malays were still running wild, killing, looting and setting Chinese areas on fire. The curfew was difficult to enforce on the Malays as thousands of them had come into town from outlying villages for the procession and had nowhere to go. The police and army tried to cordon off Kampong Baru as one large curfew area with Malays milling about in the streets, whereas in the nearby Chow Kit area, many Chinese houses were set on fire. The country was *de facto* under martial law.

⁸⁶ Interview with Gen. (Rtd) Datuk Syed Hamzah on 2 Jul 2005 and again on 24 Jan 2011.

⁸⁷ General (Rtd) Datuk Syed Hamzah gave his account in an interview for this research. He was my senior at the Sultan Abdul Hamid College, Alor Star.

The worst of the rioting and looting had died down after the first night of violence, which continued into the early hours of 14 May. Police reports recorded 196 deaths⁸⁸, 149 injured persons, 753 cases of arson, and 211 vehicles destroyed. Independent agencies place the death toll at up to ten times of the official figures, with 75% of the casualties Chinese⁸⁹. Of the 6,000 people in Kuala Lumpur who had lost their homes in the fires, over 5,400 were Chinese⁹⁰. Sporadic violence continued for some days in Kuala Lumpur and spread into Perak and a number of other states, though none of it was as severe as that first night. Tension remained high in Selangor, Perak and Penang and to a smaller extent in Melaka and other states where the Alliance had suffered heavy losses. There was a deep feeling of insecurity amongst the races. The Federal Ministers were extremely worried that the whole country could erupt into civil war. A State of Emergency was declared on 16 May.

After two days of agonised discussion, parliamentary government was suspended indefinitely⁹¹. Federal and State Assemblies and Executive Councils were similarly suspended on 16 May and a *Majlis Gerakan* or a National Operation Council (NOC) was established to rule the country by decree until further notice. Tunku appointed Tun Razak⁹² as Director of Operations to preside over the NOC, declining the position himself⁹³. Razak appointed General Ibrahim Ismail⁹⁴ as Chief Executive of the NOC.

⁸⁸ Hwang, In-Won, *Personalized Politics: The Malaysian State under Mahathir*, (Singapore: Institute of Southeast Asian Studies, 2003), p 72.

⁸⁹ Kua, Kia Soong. *May 13: Declassified documents on the Malaysian riots of 1969*. Suaram, 2007.

⁹⁰ Various other casualty figures have been given, with one thesis from Time magazine, putting the total dead at ten times the government figure. Refer Hwang, In-Won, *Personalized Politics: The Malaysian State under Mahathir*, (Singapore: Institute of Southeast Asian Studies, 2003), p 88. and *Time Magazine, Malaysia: Preparing for a Pogrom* (19 July 1969), p 1.

⁹¹ This a contingency for which the Constitution had allowed.

⁹² Tun Razak as Deputy Premier was also Defence Minister and Minister of Home Affairs then.

⁹³ With the suspension of Parliament and the setting up of the NOC, it effectively marked the end of Tunku's tenure though he did not formally retire as Prime Minister until September 1970.

⁹⁴ General Ibrahim, a Johorean, was familiar with both Razak and Hussein Onn. He had been a classmate of Hussein and both had served as cadets in the Johor Military Force (JMF) as well as attended training at the Dehra Dun military college. Later, on returning to Malaya as a Force 136 officer, Ibrahim was the supervising officer to Razak and Ghazali Shafie, who were with the *Wataniah* resistance force in Pahang during the Japanese Occupation. In 1946, Ibrahim joined UMNO and was appointed deputy chief of *Pemuda UMNO*. He was subsequently offered the post of UMNO secretary-general by Dato Onn Jaafar, but he turned it down to focus on his military career.

The objective of the NOC was to co-ordinate the work of the civil administration, military and police in an all-out effort to restore peace⁹⁵. Efforts to restore law and order were implemented by the NOC. This instituted the founding of the Vigilante Corps, an unarmed territorial army, as well as police force battalions. The NOC was very much a military government and the daily assessments and requests of its police and military members were nearly always accepted. In practice, Tun Razak exercised almost dictatorial powers for the next one-and-half years as Director of Operations through a structure of National, State and District Operations Councils.⁹⁶

Razak was to report directly to Tunku. Members of the NOC included the MCA and MIC leaders, Tun Tan Siew Sin and Tun VT Sambanthan respectively, two other Malay ministers, Tun Dr. Ismail Abdul Rahman and Tan Sri Hamzah Abu Samah, the Chief of Staff of the Armed Forces,⁹⁷ the Inspector General of the Police (Tan Sri Mohd Salleh Ismail) and two senior civil servants,⁹⁸ (Tan Sri Ghazali Shafie and Tan Sri Abdul Kadir Shamsuddin). At the same time, members were nominated for State Operations Councils to govern the states in place of the suspended State Executive Councils.⁹⁹

Curfews persisted throughout the nation, but were slowly phased out. It was finally lifted in mid-June 1969, though it remained in force in the border areas because of the resurgence of Communist guerrilla activities. There was one more serious outbreak of

⁹⁵ See Abdul Rahman, Tunku, Putra Al-Haj, *May 13 – Before and After*. (Kuala Lumpur: Utusan Melayu Press, 1969).

⁹⁶ The National Operations Council governed Malaysia by decree until 1971.

⁹⁷ The Armed Forces chief at the time of the May 13 episode was General Tunku Osman Jawa, a nephew of the Prime Minister. Tunku Osman had also been member of Force 136 and had parachuted back into Kuala Nerang shortly before the Japanese surrendered. By November 1969, Tunku Osman retired and was succeeded by General Abdul Hamid Bidin.

⁹⁸ A suggestion by Dr. Tan Chee Khoon of Gerakan and other Opposition leaders that should be an all-party venture was rejected.

⁹⁹ See The National Operations Council, *The May 13 Tragedy, A Report*, (Kuala Lumpur, 9 Oct 1969).

violence in Kuala Lumpur between the Malays and Indians on 28 June 1969 claiming five lives,¹⁰⁰ but generally the NOC managed to keep the peace until it was safe to restore parliamentary government in February 1971.

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¹⁰⁰ Zainon Ahmad *The Tragedy of May 13, 1969*, (The Sun, 26 July 2007).

3.10 THE INTERNATIONAL REACTIONS TO MAY 13

(Tan Sri) Maurice Baker was Singapore's first High Commissioner to India and had just presented his credentials for a three-year term in 1967. Soon after the 1969 riots, there was a concern over military takeover, of which Tun Razak assured that such speculation is not true. Tun Razak's assertion was confirmed by General (Rtd.) Ibrahim Ismail, when he was asked in 2005,¹⁰¹ whether there was any danger of a military takeover in May 1969. "*Never crossed our mind,*" came the reply.

Singapore's concern in the Malaysian political scene was also further reflected in few other official documents; the 16 May 1969 report by J.O. Morton of the British High Commission; and in "Secret UK Eyes Only" telegrams dated 22 May, 24 May, and 2 June 1969 respectively. J. O. Morton raised several concerns in the report relating to control of UMNO by the "ultras", the disastrous prospect for racial harmony if a pact between UMNO and PMIP was formed, and the possibility of Tunku being ousted by the Malays¹⁰².

In a series of telegrams sent by Sir Arthur De La Mare, one can see Lee Kuan Yew's involvement in making sure Malaysia did not fall back to "*Emergency situation of the late forties and fifties*". He was deeply saddened by the "setback" of the multicultural agenda set by Malaysian government, and tragic casualties emerged from the incident. In 2 June 1969 telegram, Sir Arthur De La Mare¹⁰³, reported that Lee Kuan Yew also indicated his support

¹⁰¹ Interview with Gen. (Rtd) Ibrahim Ismail, 16 July 2005.

¹⁰² *The National Archives of the UK*. FCO 24/483: United Malays National Organisation (UMNO). 1969. Kew Gardens, UK.

¹⁰³ Former British High Commissioner to Singapore. See *The National Archives of the UK*. FCO 24/486: Records of the Foreign and Commonwealth Office and Predecessors - Civil disturbances in Malaysia following general election. June 2, 1969. De La Mare, Arthur. 1969. Kew Gardens, UK.

for Tunku by acknowledging his competence, but also admitted that “*Tengku could never again rule Malaysia*”. In this sense, he welcomed Tun Razak’s assumption of power and looks forward to resume conversation on the possibility of repairing relations between his island republic and Malaysia¹⁰⁴.

A search for correspondences kept at the British National Archives revealed interesting insights into the reactions of Britain, neighbouring and other foreign powers to the May 13 mayhem and its aftermath. The first British response to the election results found that racial divisions in West Malaysia was rapidly worsening, throwing into question the continued validity of the Alliance brand of inter-racial compromised policies. Just a day after the riots, the British High Commissioner in a confidential telegram to Home reported:

Results have produced political crisis which may end Alliance party as now constituted. They have illustrated wide gap between Malays and Chinese in this country... This evening MCA on 13 May announced their withdrawal from all government pots at Federal and State levels. UMNO was not consulted. Tun Tan told press off the record. Decision final but subject of re-examination. But Tun Razak publicly praised it.¹⁰⁵

The telegram suggested three options, of which they advised for UMNO to opt for (a).:

- (a) UMNO alone form Cabinet with MCA and MIC parliamentary support.
- (b) UMNO seek alternative or additional Chinese support from one or more moderate Opposition parties, and;
- (c) UMNO abandon Alliance Inter-racial policy and seek accommodation with PMIP.

¹⁰⁴ *The National Archives of the UK*. FCO 24/486: Records of the Foreign and Commonwealth Office and Predecessors - Civil disturbances in Malaysia following general election. June 2, 1969. De La Mare, Arthur. 1969. Kew Gardens, UK.

¹⁰⁵ *The National Archives of the UK*. May 14, 1969. FCO 24/475: Internal political situation in Malaysia, (Formerly in FWM ½), Telegram No. 484 - Elections and Disturbances. 1969. Kew Gardens, UK.

As part of finding solutions to the problem of racial division in the society, the political leaders begin to assess the credibility of Tunku's leadership. Many had indicated that Tunku's reign was over. A 29 May 1969 letter from Acting High Commissioner to Malaysia, A.A. Duff to Secretary of State, Michael Stewart, informed that this tragedy signalled "*end of the long reign of the Tunku as effective PM*" and the possibility for him to make a comeback is grim.

Much later, A. A. Duff made a record of his conversation with (Dato' Seri) Harun Idris soon after the May 13, noting in his 16 June report:¹⁰⁶

I called on Dato Harun, Menteri Besar of Selangor, this morning. He launched straight into his views on the political situation. He said that the chief Malaysian problem was to work out how Malays and non-Malays were to live together and really become Malaysian instead of Malay, Chinese and Indian. The solution ought to start in the schools, where the system should provide for all Malay language instruction with special provision for Chinese and English language teaching. But the trouble was that to introduce this would cause a great deal of discontent and the communists were already, he supposed, organizing themselves to take advantage of disaffection. However, he supposed that the Government must simply do what they thought to be right and put up with the criticism.

Duff's report continued to emphasize on the "Government now to be seen to be promoting Malay interests, in education, in scholarship, and in business." He also indicated that the economic and education gap between the Chinese and the Malays must be addressed via some form of affirmative measures.

¹⁰⁶ *The National Archives of the UK*. June 16, 1969. FCO 24/475: Internal political situation in Malaysia, (Formerly in FWM ½), Record of Conversation with Dato Harun. 1969. Kew Gardens, UK.

A two-page report dated 20 June 1969 prepared by the British High Commission (for the use of the Governor of Fiji in briefing his Chief Minister on indigenous rights), used an interesting analysis of the Malaysian 1969 general election results and political scene as an example. The report gave few pointers on what had actually happened in 1969 election;¹⁰⁷ “(1) support for the Alliance dropped, from the peak it reach in 1964 in the face of the external threat of the Confrontation by Indonesia, to a level comparable with that of earlier years; (b) at the same time, the predominately Chinese opposition parties improved their position by organizing themselves into electoral pacts so that the anti-Government Chinese was not split; (c) on the other flank, the ultra-conservative Pan-Malayan Islamic Party (PMIP) made considerable gains at the expense of the government’s UMNO.” The report later argues that b) and (c) above go to the heart of the matter. An economic concern was raised with regards to the Malays, as the report says, “their [Malays] own relative lack of advancement as being attributable to the Chinese stranglehold on the economy”.

The legal adviser to the Ministry of Foreign Affairs, R Ramani¹⁰⁸, blamed the Malays for the ‘disunity’ and doubted their capabilities, in a record of conversation dated 23 June 1969¹⁰⁹ conducted by a British officer. According to the papers, Ramani was “*critical of the way the Alliance had conducted its election campaign*”. To Ramani, the polarization is due to the Malays’ refusal to embrace the non-Malays and move beyond their special rights.

A 4 July 1969 letter from the British High Commissioner G.C. Duncan reporting on the tense political situation of Malaysia, stated:

¹⁰⁷ See The British National Archives, Surrey, UK – Declassified papers.

¹⁰⁸ Ramani, an Indian immigrant, besides being Adviser to the MFA, was also Malaysia’s representative to the UN for six years. He was an active partner to the law firm Messrs Braddell & Ramani, and had been in Malaysia for 40 years at time of the interview.

¹⁰⁹ *The National Archives of the UK*. June 25, 1969. FCO 24/476: Internal political situation in Malaysia, Note of conversation with Ramani on Monday, 23 June 1969. Kew Gardens, UK.

In the interval, the NOC Government have continued planning their immediate future policies so that there have been no startling developments, but their intentions, particularly in the economic and educational fields, are now beginning to emerge. On the political front, they remain committed to the idea they will hold on to the NOC until they have re-established sufficient support for themselves to be able to contemplate some still vaguely defined democratic alternative¹¹⁰.

From the report it was also very clear that the NOC remained convinced that a Malay-based Government is the only feasible possibility, without an exclusion of the non-Malays. They also reiterated their commitment to 1957 Constitutional bargain, defined as “citizenship for the Chinese in return for special rights for the Malays”. As the matter of strategy, the NOC had to devise a scheme that would address the grievances of both the Malays and the Chinese.

¹¹⁰ *The National Archives of the UK*. July 4, 1969. FCO 24/476: Internal political situation in Malaysia. Kew Gardens, UK.

3.11 MOVING FORWARD FROM MAY 13

The immediate result of the May 13 was the formation of National Consultative Council whose goal was to restore normalcy and subsequently parliament, by way of promoting and strengthening racial harmony. Meanwhile, Tunku was made the biggest scapegoat of the bloody street riots of May 1969. It was noted that Tunku was heavily criticised by the young Malay nationalists within his own party, Mahathir being chief amongst them. Tunku subsequently retired and handed over power to Tun Razak on 21 September 1970, citing his refusal to serve under his nephew, the next *Yang Di-Pertuan Agong*.

A new prime minister was sworn in 18 months after May 13. Instead of pursuing a military option, as Singapore had feared, the central characters who patched up the recriminations introduced new political ideas. These were the origins of *Barisan Nasional*; a détente with Communist China, an UMNO Finance Minister; and the New Economic Policy. The answer to political instability is economic progress.

Tun Razak Hussein, the new Prime Minister, had over the years networked quietly. He had worked with Parti Gerakan's Dr Lim Chong Eu from their days in the pre-*Merdeka* Federal Legislative Council, and in the aftermath of May 13, he also had a word with the secretary-general of the DAP, Goh Hock Guan. Razak also dispatched two Sarawak politicians to speak with Syed Hussein Alatas of Gerakan about joining the government.

The brilliant orator Asri Muda, became the president of PMIP in 1969 and it was under his stewardship that the party became known by its modern acronym, PAS. He was personally asked by Razak to join the government Cabinet. Asri agreed with Razak's grand

idea for the political parties to come together to strengthen political stability. Dr. Lim Chong Eu was also happy to accept¹¹¹ the idea of working together with Razak, thus Gerakan's decision to join Barisan Nasional. Syed Hussein Alatas was not so easily swayed. A man of principle, he felt that Gerakan had gone to the polls and was elected as an Opposition party, thus it should honour that understanding reached with the voters.

Understandably, the Barisan Nasional original formula – with PAS as a component party – did not last. However, it lasted long enough to steer Malaysia free from the turmoil and uncertainties caused by the riots of 1969.

The May 13 riots were formally credited towards the disparity in Malaysia's inter-racial, social-economic and political divisions. It warranted a transformation in Malaysian society. Malaysians, young and old, should never be allowed to forget May 13. Aptly recorded in his book upon retirement, Tunku Abdul Rahman wrote:

.... May 13 is a lasting reminder to us all how dangerous it can be to disregard the Constitution and to play about with the sensitivities, traditions and customs of the various races, especially in our highly mixed society of so many races and creeds.¹¹²

What lessons would be learned? Was May 13 the culmination of political issues that had troubled the nation in the preceding 30 years? Could it have been the frustrations of the economic situation felt by the Malays who were fearful that they were being marginalised by the commercial prowess of the Chinese?

¹¹¹ Personal interview with Tun Dr. Lim Chong Eu, 7 Sep 2005.

¹¹² See Abdul Rahman, Tunku, Putra Al-Haj, *May 13 – Before and After*. (Kuala Lumpur: Utusan Melayu Press, 1969).

The Second Malaysia Plan of 1971-1975 describes the decade between 1960-1970 as a period of significant progress, but admitted that economic imbalance persisted within Malaysia. Despite efforts and some success in restructuring the racial composition of the different economic sectors, there remained a large proportion of rural folk who were trapped in low-income activities. They had not succeeded in dismantling the income gap both between rural and urban folk, and within these populations. The Plan highlighted that the reasons for these continued inequalities lay in “*differing opportunities for education, employment and ownership of or access to entrepreneurial resources*”¹¹³. And most importantly, they stated that the folks who were most affected by these gaps were the Bumiputeras.

Another interesting section in the Second Malaysia Plan clearly highlights the perceived loss by the Malays in the Malaysian economy, most keenly felt in ownership patterns, wealth distribution, and participation in the modernisation and developmental process¹¹⁴. There was a genuine fear that the non-Malays had outpaced and even discarded the Malays economically, and that swift action was necessary to reverse this ongoing decline.

Meanwhile, development was mostly taking place in urban areas, leaving out the rural *kampung* areas. The Malays were most concentrated in these rural areas, while the majority of town inhabitants were non-Malays. The 41% of Chinese urban-dwellers, or 19% of all the Chinese in Peninsular Malaysia resided in the main town areas by late 1969.¹¹⁵ The economic imbalance was viewed in racial terms, with the Chinese enjoying the higher standards of

¹¹³ *The Second Malaysia Plan 1971-1975*, (Kuala Lumpur: Printed at the Govt. Press, 1971), p 13.

¹¹⁴ *Ibid*, pp1-48 Pasim. See also Gullick, John M., *Malaysia: Economic Expansion and National Unity*, (London: Ernest Benn Ltd, 1981), pp 221-241.

¹¹⁵ Comber, Leon (ed), *13 May 1969: A Historical Survey of Sino-Malay relations*, (Kuala Lumpur: Heinemann Asia, 1988), p 57.

living as well as better social amenities and economic opportunities in the urban areas, whereas the Malays were left languishing in the rural areas¹¹⁶.

One of the early signs of Malay dissatisfaction was showcased in Abdul Aziz Ishak's unconventional and persistent actions taken to champion for the Malay rural population, the majority of whom were poor *padi* (rice fields) planters and fishermen. Appointed as the first Minister of Agriculture of the Federation under Tunku's premiership, he gradually built his image as a champion of rural Malaya. He had announced plans for rural cooperatives to be established and granted rice trade monopolies, and even accused Singaporean businessmen of taking advantage Malay fishermen on the East Coast, going so far as to ban fishing stakes, commonly used by the Chinese, claiming that they caused damage to fishing nets, on which the Malays were reliant¹¹⁷. He famously incited his Malay listeners at a meeting in Sungai Kembong that they had an average income of RM60 to RM70. "*Why should this be so?*" he asked. "*The reason is that you work hard and your actual earnings are being exploited by the 'middlemen'. What you should therefore do is to do away with them.*"¹¹⁸

Mercurially temperamental and blunt, Aziz did not endear himself to his Cabinet colleagues or Tunku. Aziz had written in his memoirs that the 1955 Cabinet was plagued with policy differences on several matters, including the issue of "Malayanisation", or the replacement of expatriate British officers with Malaysians¹¹⁹. Aziz's several other provocative antics tested the patience of UMNO's leadership, while his policies resulted in the alienation

¹¹⁶ Ibid, p 57. "In 1969, the Malays had only 1% share of the share capital of resident limited companies in Peninsular Malaysia, although the Chinese and 22.8%, and foreign controlled companies or branches of companies incorporated overseas had the largest share of all."

¹¹⁷ Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), p 172.

¹¹⁸ *Malay Mail*, 14 Nov, 1961.

¹¹⁹ Irked by his persistent and arrogant ways, Aziz was transferred from the Agriculture Ministry to the Health Ministry. He resigned from the Cabinet in 1963 following his transfer and subsequently expelled from UMNO. He was detained under the ISA between 1965 to 1966 accused of being a traitor and collaborating with Indonesian agents during the 1963 Confrontation between Malaysia and Indonesia. He denied the charges.

of MCA leadership. They took offence to his dogged assault on Chinese middlemen and fishermen. They felt he transgressed the terms of the Constitutional contract, as he both established cooperatives to aid the rural Malays as well as granted them the monopoly to expropriate Chinese businesses for practical purposes, as he claimed.

The MCA finally lost patience when he expanded his crusade for cooperative rice mills into northern Perak, subsequently revoking the licences of over 350 Chinese middlemen, clearly contravening the Constitution. To stop Aziz, (Tan Sri) Dr. Lim Swee Aun, a Cabinet member and a native of Perak himself, led a campaign to remove him from the Ministry of Agriculture. Aziz refused the decision and in his response to the Prime Minister's rejection to his appeal against the transfer in July 1962, argued that his drastic actions were necessary to empower those Malays that occupied the bottom rungs of the economic ladder. He went on to state that despite Malaysia's wealth of natural resources, the Malays continued to receive a small fraction of their fair share, particular rural Malays. He also accused the UMNO leadership of being interested in enriching the top tiers of society, and stated that they needed courage to fight against the capitalist class building an impenetrable upper class that would perpetuate the socioeconomic imbalances. Aziz went on to state,

I am afraid you cannot stop the tide that is flowing fast and what you can do now is to be realistic, to face facts and to change your policy¹²⁰ before it is too late

.....¹²¹

Aziz¹²² remained very much a Malay folk-hero in his own right. His forthrightness and volatile chauvinism set a precedent for many Malay 'ultras' to follow in later years.

¹²⁰ Admittedly there were flaws in the economic policies of the government before 1969. The Treasury was concerned with a balanced budget and not sensitive to meet the conditions of the Constitutional contract.

¹²¹ Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), pp 180-181.

¹²² Aziz Ishak was the only member of the pre-war Kesatuan Melayu Muda (KMM) to have served in both in the 1955 and post-Merdeka Cabinets under Tunku Abdul Rahman.

One might argue that the riots of May 13 could possibly be the by-product of the Left versus Right political ideologies; or what remained of the ideology of the Chinese political leaders of Singapore versus the Malay political class in the peninsula; or perhaps Malaysia versus Indonesia. None of these forces on their own, however, would have sparked rioting.

On the other hand, many believed the trigger was the ‘hung’ State Assembly in Selangor. The political uncertainty about the capital, Kuala Lumpur, and the vicious rumours about Malays losing control of the nation’s administrative centre caused great unrest among the Malays. Segments of UMNO took to inciting other members and the Malay community that they would lose their power and control in KL and Selangor to the Chinese. The victory processions of the Opposition and their taunting slogans did little but worsen the already tense environment. The rioting of May 13 was not the product of a flawed democracy; rather, it was an accident of democracy and a result of political instability.

The Official Paper released after May 13 blamed the Opposition’s victory parades, the communists, the exploitation of racial issues; and elements within the Labour Party. “*But declassified British Intelligence have pointed to other causes.*”¹²³

In Tunku Abdul Rahman’s book *May 13 Before and After*¹²⁴, written within months of the riots, he pointed to communist agitators and their leftist sympathisers within the Labour Party as the main culprits¹²⁵. Tunku also blamed the provocative celebrations in the largely

¹²³ Wong Chin Huat, *Watershed elections of 1969*, *The Sun* (26 Jul 2007).

¹²⁴ Rahman, Abdul. *May 13: Before and after*. Utusan Melayu Press, 1969.

¹²⁵ The Labour Party chose to boycott the 1969 general election but showed off its strength at the funeral march of a member, Lim Soon Seng, held in Kepong on 8 May.

Malay areas of Kampong Baru by the supporters of opposition parties Gerakan and DAP. The power struggle within UMNO and emanation of the Malay ‘ultras’ were cited as additional factors.

Interestingly, Dr. Kua Kia Soong (former DAP member and former Member of Parliament) in his book *May 13: Declassified Documents on the Malaysian riots of 1969*, alleged that the incident was not an improvised revolt but an organised coup to topple Tunku by some UMNO members¹²⁶. He asked for a setting up of a commission to investigate the truth of the matter. Former Inspector-General of Police, Tun Hanif Omar rebutted this claim in a Sunday Star column on 3 June 2007:

Is the NOC Report accurate without touching on the plot to topple Tunku? To me it is. ...As the coordinator of the Special Branch investigations into the incident and having read all the statements from eye-witnesses which formed the basis of the NOC Report, I am convinced of its accuracy ... The unhappiness that some UMNO members had with Tunku by 1969 was real but it did not feature a cause of the May 13 incident. The incident, however, sharpened the unhappiness of the Malays with Tunku and fuelled the movement to replace him with his Deputy, Tun Abdul Razak.¹²⁷

Prof. Datuk Dr. Shamsul Amri Baharuddin, founding director of Universiti Kebangsaan Malaysia’s Institute of Ethnic Studies, commented that pinpointing any sole factor as the cause of the riots was in fact the most common misinterpretation of May 13. “*In reality, it was the result of multiple factor there can be many vantage points to May 13, official, personal and even conspiratorial*¹²⁸”.

¹²⁶ Kua, Kia Soong. *May 13: Declassified documents on the Malaysian riots of 1969*. Suaram, 2007.

¹²⁷ Vengadesan, Martin, *May 13, 1969 – Truth and Reconciliation*, *The Star*, 11 May 2008.

¹²⁸ *Ibid.*

3.12 CONCLUSION

As described above, the tragedy of May 13 forced the Alliance government to openly acknowledge the worsening racial tensions, and to formalise a policy that would address the social ills that plagued the country. The policy needed to both placate the Malay insecurity of their special position as indigenous people of the land, as well as to satisfy the Chinese both in terms of their status as Malaysian citizens as well as the protection of their cultural identity and economic interests. In the aftermath of the riots, many pointed fingers at Tunku's leadership, at communal politics, at radical political groups as well as the Alliance government's negligence in addressing racial tensions from early on¹²⁹. Regardless of who was to blame, it became clear that firm direct action was necessary to prevent an all-out civil war, and to halt the growing economic inequality between races.

Chapter 4 highlights how the NEP was formulated as a solution to these pressing matters. It demonstrates the Alliance government's role in formulating and implementing the NEP, and the steps taken to draft a policy that would be satisfactory to all Malaysians.

¹²⁹ Many have criticized the First Malaysian Plan as having failed to achieve progress in the area of income inequality between ethnic groups, and as having contributed to the racial tensions that led to the May 13 riots. Vreeland, Nena, Glenn B. Dana, Geoffrey B. Hurwitz, Peter Just, Philip W. Moeller, and R. S. Shinn. "Area handbook for Malaysia." *Area handbook for Malaysia*. 3. ed. (1977). See also Andaya, Barbara Watson, and Leonard Y. Andaya. *A history of Malaysia*. Macmillan International Higher Education, 2016.

CHAPTER 4: THE NEP: DEBATE ON THE COURSE AND THE PATH TO TAKE

4.1 INTRODUCTION

As illustrated in the previous chapter, May 13 was a pivotal point that resulted in the need for a formal action plan to address socio-economic inequality in Malaysian society. The *Bumiputras* were subject to economic exploitation during the colonial era, which was exacerbated throughout Malaya's history as they continued to occupy low-paying sectors of the economy. In stark contrast, the Chinese had been involved in the lucrative tin industry and held economic power in the country, but were increasingly worried about the preservation of their cultural heritage and their status in Malaysian society. Despite the racial nature of the riots of May 13, it soon became clear that the tensions were highest when socio-economic status was imbalanced, and that the NOC's main challenge would be to address the issue of poverty and economic imbalance along racial lines. This chapter will paint a picture of the socio-economic issues at the time, and how they influenced the policies formulated under the NEP, and the parties consulted in consideration of the civil unrest at the time.

In relation to the research question of this thesis, this chapter aims to highlight the rationale behind many of the decisions made by the Alliance government in the formulation of the NEP.

4.2 ARTICLE 153

Article 153 of the Constitution of Malaysia¹ confers on the *Yang di-Pertuan Agong* the responsibility “...to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities...”² and specifies the mechanisms for such safeguarding, including the establishment of quotas for entry into the civil service, public scholarships and public education. The Article 153 is set against the background of the colonial legacy of the ‘ethnic division of labour’ that operates within the economic sphere³, and is intended to protect the Malays and the natives from further economic exploitation. As shown from the previous chapter, by the mid-20th century, the economy of Malay community was still rural and unchanged whilst the domestic economy was mostly dominated by the Chinese. Such inequality and imbalances of power relations between the different racial communities has resulted in collective anxieties, as manifested through the May 13 incident. The period succeeding the May 13 tragedy has seen the importance of Article 153 of the Constitution in providing the umbrella for NEP to seek its legitimacy.

Immediately after the May 13 riots, the newly elected Parliament was suspended, and a state of emergency was declared. Two important institutions were immediately set up to overcome the imminent political and administrative challenges – the National Consultative Council (NCC), a ‘substitute’ to the suspended Parliament although it functioned as a

¹ Article 153 is one of the most controversial articles in the Malaysian Constitution. Critics consider it to create an unnecessary racial distinction between Malaysians of different ethnic backgrounds. See *Constitution, Federal. "Laws of Malaysia." Reprint Federal Constitution Incorporating All Amendments Up To 1 (2006).*

² *Constitution, Federal. "Laws of Malaysia." Reprint Federal Constitution Incorporating All Amendments Up To 1 (2006).*

³ Khoo Boo Teik, *Ethnic Structure, Inequality and Governance in the Public Sector, Malaysian Experiences*, Democracy, Governance and Human Rights Programme Paper No 20 (United Nations Research Institute for Social Development, Dec 2005), pp 8.

consultative rather than legislative body, and the National Operation Council (NOC) which was the “*additional executive branch of the government.*”⁴ The country was run for 21 months by the NOC. NOC’s role was to solve and address the political and economic problems facing the country.

The return to Parliamentary democracy in February 1971 was preceded by amendments⁵ to certain Articles of the Constitution to restrict ‘communal politicking’⁶ which many believed exacerbated the racial polarisation in the mid-1960s and resulted in the tragedy of May 13. The *Rukunegara*, a new set of guidelines for citizens to observe in their everyday life to ensure unity, was implemented. The political system was also strengthened. UMNO negotiated with all major parties to form a coalition government under Barisan Nasional (BN or National Front) to work towards restoring racial harmony⁷. Only DAP stayed out.

⁴ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 201.

⁵ This included some controversial amendments to the Sedition Act that prohibited discussion of repealing certain articles of the Constitution, including Art 153, even in the Houses of Parliament.

⁶ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), p 264.

⁷ Ooi, Keat Gin, ed. *Southeast Asia: a historical encyclopedia, from Angkor Wat to East Timor*. Vol. 1. Abc-clio, 2004.

4.3 ECONOMIC IMBALANCE

Prior to the May 13 tragedy, the Malay poverty rate was worryingly high at 65%.⁸ Even though the bulk of the economy was controlled by big English conglomerates, the Malays were most angry with the Chinese, who held control of 34% of the economy at the time⁹, as it was with them that the Malays had the most daily economic interaction. To them, it was also a much more obvious economic disparity, as the Malays could clearly see the Chinese experiencing financial prosperity, while the concept of English wealth was much more far-removed from their daily lives.

The following tables from the Federation of Malaya 1957 Census Reports sadly reflected the dismal standard of life and survival of the local Malays:

Table 4.1
Distribution of Malays and Chinese in Agriculture and Fishing¹⁰

Occupation	Total	Malay	Chinese
Owners, operators and other workers in small estates and vegetable farms	502,884	427,316	68,573
Forestry	24,935	13,454	11,268
Fishing	60,620	41,271	18,741

Source: Federation of Malaya, Department of Statistics: *1957 Population Census*.

⁸ *Dasar Ekonomi Baru*. (n.d.), (Pusat Maklumat Rakyat website) Accessed at <<http://pmr.penerangan.gov.my/index.php/maklumat-kenegaraan/237-dasar-ekonomi-baru-.html>> (accessed 28 July 2008).

⁹ See Jomo, K.S., *The New Economic Policy & Inter-ethnic Relations in Malaysia*, Identities, Conflict and Cohesion Programme Paper Number 7, (United Nations Research Institute for Social Development, 1 Sep 2004).

¹⁰ See Federation of Malaya, Department of Statistics: *1957 Population Census, Report No. 14* (Kuala Lumpur, 1960)

Table 4.2
Distribution of Malays and Chinese in the Agricultural Sector¹¹

Occupations	Total for All Ethnic Groups	Malays	Chinese
Managers, Asst. Managers and Conductors	6208	488	2523
Rubber Tappers	482492	234279	152242
Weeders	72204	13023	24673
Collectors, Gatherers & Todi Tappers	12382	5573	1716
Estate Workers (Excluding Plantation Workers)	23684	6327	8367
Drivers of Agricultural Machines	1608	373	408
Owners & farmers in small estates & Market gardens	502884	424316	68573
Forest Workers	24935	13454	11268
Fishermen	60628	41271	18741
Hunters, Trappers & Game Wardens	122	65	32
Gardeners & Grass Cutters excluding Vegetable Gardeners	15059	5992	2912

Source: Federation of Malaya, Department of Statistics: *1957 Population Census.*

¹¹ Ibid.

Data from a Household Budget Survey of August 1957¹² revealed a shockingly stark economic gap between the two largest ethnic groups as shown below:

Table 4.3
Household Budget Survey (M\$) based on Ethnicity¹³

Household Budget	Malays	Chinese	Indians	Total
Aggregate of individual incomes (M\$)	1,125	1,975	475	3,675
Percentage % of total	30%	54%	13%	100%
Population (million)	3.13	2.33	0.7	6.28
Avg annual income p/head (\$)	359	848	691	585
Avg annual income per adult male (\$)	1,433	3,264	2,013	2,128

Source: Federation of Malaya, Department of Statistics.

¹² Household Budget Survey, report of the Inland Revenue Dept., 1958, and Census of Malaya 1957, quoted in T.H. Silcock and E.K. Fisk, *The Political Economy of Independent Malaya*, cited by Vasil, R.K., *The Malaysian General Election of 1969*, (Singapore: Oxford University Press, 1972), p 20.

¹³ Department of Statistics, Malaya.

The Means Income of Households by ethnic group 1957 to 1970 (Peninsular Malaysia) revealed further economic disparity.¹⁴

Table 4.4
Means Income of Households by ethnic group 1957-1970¹⁵

Means Income of Households	1957 / 1958		1967 / 1968		1970	
All Ethnic groups	\$199	138%	\$217	167%	\$264	153%
Bumiputra	\$144	100%	\$130	100%	\$172	100%
Chinese	\$272	189%	\$321	247%	\$394	229%
Indian	\$217	151%	\$253	195%	\$304	177%
Others	n.a.	n.a.	\$839	645%	\$813	473%

Source: Sudhir Anand, Inequality & Poverty in Malaysia – Measurement & Decomposition.

The *Bumiputra* economic share did not significantly increase in the period following Independence¹⁶. Even as late as 1970, the *Bumiputras* held a paltry estimate of 2.4% of the economy with the balance in the hands of the Chinese and foreigners¹⁷. By the late 1960s, this socioeconomic situation was breeding resentment amongst a large segment of Malay society. A new breed of so-called ‘Malay *ultras*’ within UMNO reiterated their dissatisfaction. They voiced their views in two *Bumiputra* Economic Congresses held in 1965 and 1968, calling for intensive state-interventionist actions to rectify the economic imbalances among the races¹⁸. The Congresses resolved that the government “*must act as the*

¹⁴ The economic disparity can be further highlighted by figures computed in the early 1970s of the communal composition of ownership of various economic sectors, taking into consideration the value of private properties in then Kuala Lumpur, owned by the Malays (less than 5%) whereas the Chinese owned more than 75%; ownership of public property companies listed in the Stock Exchange (1.3% by Malays and 89.2% by the Chinese); and capital ownership in limited companies dealing with various businesses (1.5% by Malays and 22.8% by the Chinese). Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), p 242.

¹⁵ For years up to 1970: Sudhir Anand, *Inequality & Poverty in Malaysia – Measurement & Decomposition*, cited by Rais Saniman, p 147. See also Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 200.

¹⁶ Ho, Andy, *Reviving NEP, UMNO's race card, again?*, *The Straits Times*, 6 Aug 2006.

¹⁷ Ariff, K. A. M. "Economic development of Malaysia: pattern and perspective." *The developing economies* 11, no. 4 (1973): 371-391.

¹⁸ Heng Pek Koon, *Chinese Responses to Malay Hegemony in Peninsular Malaysia 1957-96*, (SEA Studies, Vol 34, No 3, Dec 1996), pp 48-50.

*helper, protector, enforcer and promoter of Bumiputra economic interests in entrepreneurship, industry, mining, transport, marketing, capital investment and training*¹⁹.”

It was already accepted that the economic gap between the two main ethnic groups was a fact. Such inequality is also understood in political terms. The debates surrounding the economic domination of each community were often linked in contrast to the political control between the two main ethnic groups. In Goh Keng Swee’s words,

...there is broadly a division of the populations into a group whose members wield political power but possess very little economic strength and another whose members possess economic strength but very little political power.²⁰

The leaders from both ethnic groups understood this economic and political arrangement well. Considering the 1964 election campaign speech by MCA President (Tun) Tan Siew Sin, who said “*..the Chinese are economically stronger than the Malays. The Malays therefore, feel that in order to counter balance their weak economic position, they have got to have political power*²¹.” The same consideration can be read from Tun Razak’s radio interview with the New Zealand Broadcasting Corporation of April 1967:

... It is true at the moment that political power is in the hands of the Malays and economic power in the hands of the Chinese. That is why we must try “and balance things out.” This is why we are doing our best to try and give the Malays a little bit of share in the economy to enable them to feel safe in the country. After all these are the original settlers.²²

¹⁹ Ibid., pp 39.

²⁰ Goh Keng Swee, *Entrepreneurship in a Plural Economy*, (Malaysia Economic Review, Vol III, Apr 1958) pp 3.

²¹ Roff, Margaret. "The Malayan Chinese Association, 1948–65." *Journal of Southeast Asian History* 6, no. 2 (1965): 40-53.

²² Ibid., p 5.

It was argued that the socio-economic status was 'intolerable' in view of the fact that *Bumiputras* were the traditional residents of the country²³ and that they should be assisted to improve their socio-economic standing. The mounting Malay dissatisfaction was becoming a serious threat to the Alliance and to Malaysia as a sovereign nation.

The source of the dissatisfaction was highlighted by (Tan Sri) Professor Just Faaland, a Norwegian economist who would eventually become one of the main architects in the inception and formulation of the NEP, observed in his study entitled *Racial Disparity and Economic Developments*:

...the Bumiputera who constituted more than half of the population had received less than one third of the increase of GNP which accrued from growth in the economy in the period from Merdeka up to the riots of 1969²⁴.

He summarised the nature and magnitude of the racial economic imbalance by suggesting several generalisations of the average Malay in comparison to the average non-Malay²⁵. Firstly, he cited the lower standard of living experienced by the average Malay versus the average non-Malay. Secondly, the higher proportion of Malays living in rural areas and in poorer States as opposed to towns and richer states. Thirdly, the Malays generally worked in less productive occupations, comprising a greater percentage of the work force in low productivity traditional agriculture, and participated less in modern industry and

²³ See Mahathir Mohamad, *The Malay Dilemma*, (Kuala Lumpur: Federal Publications Sdn Bhd, 1970). Political, social, cultural, economic, historical, racist and pseudo-genetic arguments are highlighted as part of this effort. It argued that the Malays were the original or indigenous people of Malaya, and should be accepted as the "definitive race". It rejected non-Malay claims to political, linguistic and cultural parity with the Malays, but not on the grounds that the Malays were superior in any way. Just like other countries which required a certain minimal assimilation of migrants to their own national culture, the Malays should expect the non-Malays to do likewise. In practice, the settlers would need to speak Malay and be educated in Malay although they would not be required to adopt Islam.

²⁴ This document was reproduced in Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), pp 271-302.

²⁵ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 207.

commerce which were of higher productivity. When they did participate in industry and enterprise, Malays tended to hold less prestigious positions, and physical situations being equal, the Malays tended to display a lower level of motivation and productivity. Furthermore, it was estimate that the Malays had ownership or property rights over a mere 30% of agricultural land, as well as a substantially lower share of capital in commercial and industrial ventures.

Heng Pek Koon also observed that despite the truth in the statement that Chinese economic domination was more prominent than that of Malays and Indians, at the national level they were still not the major player. Pek Koon commented that Chinese capital was still significantly less than Western capital, which was largely British²⁶. This is due to the fact that most of the Chinese were wage-earners employed in the tin and rubber industry and unskilled urban sector jobs, earning low wages. Only a minority were self-employed small proprietors, with fewer still being affluent capitalists²⁷. For the next 13 years following *Merdeka*, British capital continued to dominate the Malaysian economy, with the shares standing at foreign (mainly British) 63.3%, the non-Malay (mainly Chinese) 32.3%, and Malays at 2.4%²⁸.

A similar distribution of racial imbalance presented in the various professional fields, from just after Independence to the culmination of the NEP, as shown below:

²⁶ See Heng Pek Koon, *Chinese Responses to Malay Hegemony in Peninsular Malaysia 1957-96*, (SEA Studies, Vol 34, No 3, Dec 1996).

²⁷ See Heng Pek Koon, *Chinese Responses to Malay Hegemony in Peninsular Malaysia 1957-96*, (SEA Studies, Vol 34, No 3, Dec 1996).

²⁸ See *The Second Outline Perspective Plan 1991-2000*, (EPU: Government of Malaysia), <<http://www.epu.gov.my/en/second-outline-perspective-plan-1991-2000>>

Table 4.5**Relative Participation of Malays and Chinese in Administration and Management (not Inclusive of Small Businesses)³⁵⁸**

OCCUPATION	TOTAL			MALAYS			CHINESE		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Administrative & Executive Officers, Government and Local Staff	5040	4933	107	2990	2973	17	952	918	34
Directors, Managers & Owners	19443	19058	385	1290	1272	18	14320	14037	283
Directors and General Managers	299	280	19	27	21	6	148	138	10
Managers, Assistant Managers and Commercial Assistants	5239	5083	156	271	269	2	3555	3470	85
Owners & Contractors	13905	13695	210	994	984	10	10617	10429	188
High Commissioners, diplomats and foreign consuls	49	42	7	8	7	1	3	1	2

Source: Census Report 1957, Federation of Malaya.

³⁵⁸ See Census Report, Federation Of Malaya, 1957. Note the figures have been re-arranged to give more ready contrast between the two communities.

Table 4.6
Relative Participation of Malays and Chinese in Lower Level Administration and Management (including Small Scale Businesses)³⁵⁹

Occupation	Total			Malays			Chinese		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Sales and related occupations	182266	164292	17974	28981	21403	7578	120382	110562	9820
Owners and Managers of Small Businesses	58549	53275	5274	14295	11245	3050	34986	32898	2088
Insurance Agents, Brokers And Auctioneers	1141	1119	22	209	202	7	728	714	14
Motor Traders, Canvassers and Producers' Agents	321	290	31	11	11	-	265	235	30
Salesmen and shop Assistants	67365	63995	3370	4902	3931	971	48173	45900	2273
Hawkers and Vendors	45481	37539	7942	7680	4745	2935	30143	25413	4730
Stall keepers	8424	7185	1239	1704	1100	604	5455	4852	603
Other Salesmen (unspecified)	985	889	96	180	169	11	632	550	82

Source: Census Report 1957, Federation of Malaya.

³⁵⁹ See Census Report, Federation Of Malaya, 1957.

Table 4.7
Distribution of Malays and Chinese in Selected Professional Fields³⁶⁰

Occupation	Total for All Ethnic Groups	Malays	Percentage Malays	Chinese	Percentage Chinese
Total for All Fields	65,673	26,934	41.01%	24,989	38.05%
Architects, Surveyors & Engineers	2,104	394		356	
Chemists & Physicists	111	5		32	
Veterinarians, Biologists, related professionals	263	102		44	
Doctors, Surgeons, Dentists & other specialists	1,498	66		940	
Nurses & Midwives	7,326	2,761		2,514	
Specialist Nurses	1,366	165		778	
Midwives	2,191	1,536		568	
Hospital Assistants, Dressers & Nurses, n.e.c.	3,769	1,060		1,168	
Medical Workers, Medical Technicians & others	3,449	678		2,289	
Chinese & Indian Medical Specialists (sinsehs)	1,930	79		1,745	
Teachers	39,636	19,491		14,264	
Priests, Kathis & related religious officials	2,870	1,127		880	
Muslim Religious Officials	1,159	1,113		4	
Lawyers, Judges, Magistrates	246	45		80	
Other professional, technical & artistic workers	8,170	2,266		3,581	

Source: Census Report 1957, Federation of Malaya.

³⁶⁰ See Population Census Report, Federation Of Malaya, 1957.

Table 4.8
Membership of Registered Professionals by Ethnic Group 1970³⁶¹

Profession	Bumiputra	%	Chinese	%	Indian	%	Others	%	Total
Architects	12	4.3	224	80.9	4	1.4	37	13.4	227
Accountants	40	6.8	387	65.4	47	7.9	118	19.9	552
Engineers	66	7.3	643	71.0	122	13.5	75	8.3	906
Dentists	20	3.1	579	89.1	33	5.1	18	2.8	650
Doctors	79	3.7	954	44.8	857	40.2	241	11.3	2,131
Veterinarians	8	40.0	6	30.0	3	15.0	3	15.0	20
TOTAL	225	4.9	2,793	61.0	1066	23.3	492	10.8	4,536

Source: Report of National Economic Consultative Council, 1991.

³⁶¹ Laporan Majlis Perundingan Ekonomi Negara (Report of National Economic, Consultative Council) Percetakan Negara, Kuala Lumpur, 1991, pages 94-95.

Such concerning disparity was acknowledged by Tun Razak in his speech delivered in November 1969. In the speech he emphasized on the need to be transparent with regards to the “*fundamental and sensitive problems of our multi-racial society*”³⁶², admitting the ineffectiveness of the government’s policies in overcoming the vast disparity of both income and productivity between the races, dating back to *Merdeka* times. This is supported by a study by Professor Just Faaland³⁶³, whose observations were back by statistics on the racial disparity in several fields³⁶⁴.

One such disparity of the time includes the estimated disparity ratio of almost 7:4 or USD1250 per worker at a minimum. Additionally, he stated that the inequality was so deeply ingrained in the economic machinery of the nation that the Government would require both a clear cut strategy as well as political resolve in order to resolve the disparity. Such a strategy would require consistent monitoring and *ad hoc* measures to finetune the strategy along the way. The strategy would require likely cause friction between the goals of growth and equitable distribution, and those in power would necessarily need to choose equitable growth over maximum growth in order to succeed with societal restructuring. Importantly, he stated that failing to act was as much a political resolution as was the decision to act, clearly signalling what the government viewed as important.

Professor Faaland also importantly outlined the areas which any affirmative action policy to redress these imbalances would need to focus on. He listed the main issues of employment within the modern rural sector, land development and resettlement programmes,

³⁶² Arkib Negara Malaysia. *Ucapan-ucapan Tun Haji Abdul Razak bin Hussein, 1969*.

³⁶³ Faaland, Just, John Richard Parkinson, and Rais Saniman. *Growth and ethnic inequality: Malaysia's new economic policy*. London: Hurst, 1990.

³⁶⁴ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), pp 207-208.

industrialisation and commercialisation of rural areas, and direct state-intervention in order to ensure that the Malays were the main benefactors of such economic advancement. There was a major emphasis on the importance of developing a Malay entrepreneur class, to ensure that Malays were able to reach financial independence and not be confined to the role of dependent wards of state. Nevertheless, he predicted that the government would need to prepare for major obstacles that would arise with such development policies: namely, city planning in light of the inevitable rural to urban migration, and unemployment, which he viewed as the “most serious economic, social and political problem”.

In any case, he had consistently stressed that the most important factor for the successful implementation of the policy would be a comprehensive strategy backed by political will, and a firm determination to carry through on the policy. He emphasised that the Government would need to be consistent in its implementation, and to persevere through the challenges that awaited. It was clear that the Alliance had to be united in order to succeed.

However, when (Tun) Razak assumed office in September 1970, he had to deal with a factionalised UMNO.³⁶⁵ There was the immediate former President Tunku Abdul Rahman and his followers, Dato’ Harun who led the UMNO Youth (Pemuda) wing, and then there were those who were his own supporters, which apart from those in his inner circle, included Dr. Mahathir Mohamad, Dato’ Musa Hitam and Tengku Razaleigh. Understandably, sharp antagonism existed between the groups and the young members of the Razak faction, and conflicts of policies were alarmingly visible³⁶⁶.

³⁶⁵ Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 223.

³⁶⁶ Case, William F. "The new Malaysian nationalism: Infirm beginnings, crashing finale." *Asian Ethnicity* 1, no. 2 (2000): 131-147.

This stemmed from Tunku believing that as long as politics was left to the Malays and business to the Chinese, Malaysia would continue to do well with peace and stability. This belief was challenged in the 1969 election which showed the philosophy to be defective. Tun Razak's administration however blamed the 1969 riots on the economic policies inherited from the colonial period and that Tunku Abdul Rahman did little to counteract the same.

The 'UMNO *ultras*' blamed the liberal leadership³⁶⁷ of Tunku Abdul Rahman for allocating important Cabinet portfolios,³⁶⁸ and for allowing the Chinese to do business without restrictions.³⁶⁹ The 'UMNO *ultras*' strongly made demands for intensive state intervention to rectify the economic imbalances between Malays and non-Malays. Some decisive and immediate measures had to be taken to pacify their demands, hence, the crafting of the New Economic Policy. With Malay deprivation diagnosed as the root of the current state of malaise, national unity was set as the overarching objective.

With the party turmoil fermenting, Tun Razak restructured UMNO, officially taking on leadership of both the government and the ruling party³⁷⁰. By the late 1970s, Tun Razak

³⁶⁷ Young Malay nationalists associated with Dr. Mahathir, Musa Hitam (then Assistant Minister) and Abdullah Ahmad (Political Secretary to Tun Razak) felt the "Social Contract" had failed, that UMNO had conceded too much to the Chinese, and the country must be "returned" to the Malays. They held the Tengku responsible and felt he should be removed. On 17 June 1969, Dr. Mahathir wrote the infamous missive to the Tengku. Having been reprimanded by the Tengku for commenting on the delicate political situation publicly, Dr. Mahathir sent a copy of the letter to political scientist Karl von Vorys to represent the "mood of many Malays". It said the Tengku's pro-Chinese policies were directly responsible for the May 13 riots. Malays, whether UMNO or PAS "really hate you..... I wish to convey what the community really thinks, which is that it is high time you resigned as prime minister and head of UMNO." He accused the Tengku of playing poker "with your Chinese friends" during the emergency, using police vehicles and escorts to find players. Dr. Mahathir said he felt the responsibility to speak up even if he might be put into jail. Wain, Barry, *Malaysian Maverick: Mahathir Mohamed in turbulent times*, (Basingstoke: Palgrave Macmillan, 2009), p 26. In his March 2011 launched memoir: A Doctor in the House: The Memoir of Tun Dr. Mahathir Mohamad, he admitted "On hindsight, I was unforgiving and deliberately provocative in my letter. I could have been milder, but I wanted to hurt the Tunku, to shock him into realizing all that he had been avoiding. I wanted him to know that he was the cause of all our nation's troubles. I now regret the harsh tone very much." *New Straits Times*, 9 Mar 2011, p 6.

³⁶⁸ Political scientist John Funston offered the reason for the lack of Malay progress that UMNO did not have control of the political system despite what was almost universally believed. UMNO fielded most candidates in elections but it was its Chinese partner, the MCA that provided most of the Alliance funds which held the two key portfolios, Finance and Commerce & Industry. While it was true that power was concentrated in the Tengku, he was unfortunately no typical Malay and did not always represent their interest. Wain, Barry, *Malaysian Maverick: Mahathir Mohamed in turbulent times*, (Basingstoke: Palgrave Macmillan, 2009), pp 24-25.

³⁶⁹ The controversial Aziz Ishak was removed as Cabinet Minister at the request of Tan Siew Sin over the construction of the urea fertilizer plant.

³⁷⁰ Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 221. The restructuring of the UMNO during the 1971-1973

was championing the notion of “*kerajaan berparti*” (party run government) or “*dasar parti dengan kerajaan*”³⁷¹. In his speech made at a seminar organised by the Economic Bureau of UMNO in August 1971, Tun Razak pinpointed sustained economic growth as a most important factor, and calling on the Malays and other *Bumiputras* to amend their perspective and therefore benefit from the tremendous opportunities offered by the Second Malaysia Plan³⁷². He also emphasised the scarcity of manpower, with a special mention to skilled and semi-skilled young personnel.

The policies of the Tun Razak government, comprising of public enterprises and trust agencies policies, were subsequently put into force before the end of 1973. The Food Industries of Malaysia (FIMA) was established in 1971 as a leading example. Emphasis was extended to attract foreign investment³⁷³ to promote rapid economic growth as the view was taken that “*without expanding the economic pie, some particular ethnic groups would feel a sense of deprivation in the process.*’ *A labour-intensive manufacturing sector was developed to absorb the otherwise idle young rural labour force.*”³⁷⁴ This was the introduction or shifting of the Malay labour force into professional jobs and modern industries as per the NEP employment restructuring goals.

period was an important step to reconstruct and expedite the implementation of the NEP post the 1969 general election bearings. The UMNO centre consolidated their power under its Supreme Council and establishes specialised party organs which included the Bureaus of Politics, Finance, Education, Labour and Labour Union, Religion, Culture, Social and Welfare and Economics, all directly under the Supreme Council.

³⁷¹ Abdul Razak Hussein, *Ucapan-Ucapan Tun Abdul Razak bin Hussein*, (Kuala Lumpur: National Archives and PM’s Department, Kuala Lumpur Department of Government Printer, 1971), p 38.

³⁷² “Ucapan Perdana Menteri sementara merasmikan seminar Biro Ekonomi UMNO Malaysia di Dewan al-Malik Faisal, Universiti Kebangsaan Malaysia, Petaling Jaya, pada 6 hb Ogos, 1971”, in *Ucapan-ucapan Tun Haji Abdul Razak bin Hussein, 1971*, ed. National Archives and Prime Minister’s Department (Kuala Lumpur: Percetakan Nasional Malaysia Berhad, 1971). In Torii, T. *The New Economic Policy and UMNO*. (Sep 1997).

³⁷³ The Free Trade Zone was enforced in 1971, founded after the Investment Incentive Act of 1968. Electronic Industry firms were accorded ten-year tax-free privileges, which was two years longer than for other industries.

³⁷⁴ Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), pp 219-220.

4.4 THE NEP

The NEP was drawn up by the Economic Planning Unit (EPU)³⁷⁵ and the Department of National Unity (DNU, created by Tun Razak), two divisions attached to the Prime Minister's Department. The EPU, headed by (Tan Sri) Thong Yaw Hong (a Chinese) and staffed by several senior Chinese economists, and the DNU, led by (Tan Sri) Ghazali Shafie and (Datuk) Dr. Agoes Salim, were tasked to formulate policies that asserted the revision of structural imbalance in income, employment and ownership between the Malays and non-Malays, which led to the first draft of the NEP.

The Chinese consultation came from the EPU and the National Consultative Council, a multiracial forum comprising members from the federal and state governments, political parties and functional groups. Accordingly, Thong said that the DNU proposal included “*extreme interventionist measures*” which would gravely undercut Chinese businesses³⁷⁶. He pursued to safeguard non-Malay interests and revised it to include critically important sentences like;

It (the government) will spare no efforts to promote national unity and develop a just and progressive Malaysian society in a rapidly expanding economy so that no one will experience any loss or feel any sense of deprivation of his rights, privileges, income, job or opportunity.³⁷⁷

Thong was also responsible for a crucial revision expanding the purview of the poverty eradication agenda to include all Malaysians, as opposed to just Malays³⁷⁸.

³⁷⁵ EPU was set up in 1961 to formulate and review economic policies.

³⁷⁶ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), p 266.

³⁷⁷ *Ibid.*, p 266.

³⁷⁸ *Ibid.*

With regards to policy making, there were two schools of thought on how to resolve the economic problems arising from the May 13 disturbances. EPU, Treasury and Bank Negara preferred the *status quo*. It is not surprising as before May 13, they were in charge of the economy and involved in economic planning and implementation. If any changes were made, it would amount to admitting failure and responsibility for May 13. Meanwhile, the DNU group proposed radical change. They strongly felt that old policies would not solve the ethnic tensions in Malaysia. The root cause was the socio-economic imbalances in the economy. Tun Razak sought advice from many quarters including James Puthuchery, Sidney Woodhall and (Tan Sri) Samad Ismail, the Malaysians banished from Singapore³⁷⁹. Their socialist background influenced their thinking and convinced Tun Razak that a totally free capitalist economic model could not have solved Malaysia's economic problems³⁸⁰.

Throughout the 1960s, Tunku Abdul Rahman took a moderate approach to Malay special rights policies. He emphasised his stance against hence against allowing for Malay special rights to come at a detriment to the Chinese³⁸¹. Some UMNO leaders like Tun Razak and (Tun) Ghazali Shafie had received a British education, and while in London were members of the Malayan Forum³⁸². As a result, they were inclined to more liberal ideologies as a basis for governance in multi-ethnic Malaysia, and therefore incorporated concepts of equity and justice into the NEP.

³⁷⁹ Crouch, Harold A. *Government and society in Malaysia*. Cornell University Press, 1996. See also Raslan, Karim. "Towering Malaysian of Yesteryear." *The Star Online*, August 31, 2010. Accessed August 14, 2018. <https://www.thestar.com.my/opinion/columnists/ceritalah/2010/08/31/towering-malaysian-of-yesteryear/>.

³⁸⁰ Teik, Khoo Boo, and Khoo Khay Jin. "The Political Economy of Poverty Eradication in Malaysia: An Overview." In *Policy Regimes and the Political Economy of Poverty Reduction in Malaysia*, pp. 1-27. Palgrave Macmillan, London, 2012.

³⁸¹ Putra, Tengku Abdul Rahman. "Looking back: The historic years of Malaya and Malaysia." *Pustaka Antara, Kuala Lumpur* (1977). pp 243.

³⁸² Tun Razak and Goh Keng Swee (of PAP Singapore and subsequently Deputy Prime Minister, Singapore 1973 to 1984) formed the Malayan Forum in the 1950s, basically an anti-colonial movement in Malaya and Singapore then.

They knew that in a free market, one required capital in order to succeed. The Malays had no capital. Tun Razak understood the viewpoints of Malay economic nationalists, and wished to calm their anxieties. Meanwhile, both Tun Razak and Ghazali Shafie were convinced that the old economic model had failed and supported the proposals put up by DNU group³⁸³. Thus, the affirmative NEP was introduced³⁸⁴. However, in an act of fair play, Tun Razak agreed with Thong and specifically inserted in the official declaration of the NEP the phrase “*the government will ensure that no particular group or community will feel any sense of deprivation or loss*”, and that the eradication of poverty shall be irrespective of race³⁸⁵.

The stated goal of the NEP was poverty eradication and economic restructuring. It was to eliminate the identification of economic activities along ethnic lines. Its initial target was to redistribute economic ownership in Malaysia from a ratio of 2.4:33:63 (*Bumiputra*: Other Malaysians: Foreigner) ownership to a 30:40:30 ratio. This increase in *Bumiputra* enterprise ownership from the then 2.4% to 30% was to be achieved via redistribution of equity. The 30% target for *Bumiputra* equity was an arbitrary figure proposed by (Tun) Dr. Ismail Abdul Rahman³⁸⁶.

Under the NEP, state-interventionist policies were implemented to raise Malay income through poverty reduction policies in the rural sector, through expansion of employment opportunities in the urban sector, and through raising the Malay share of corporate wealth from 2.4% to 30% by 1990. The Chinese share would be allowed to grow to 40% and the foreign share would be reduced to 30% These goals represented

³⁸³ Dr. Agoes Salim, chaired the working groups which helped formulate the Rukunegara and was deeply involved in the discussions leading to its outgrowth, the NEP. In an interview in 1986, Dr. Agoes was quoted as saying “If you ask me, however, who really pushed it through, it was Tan Sri Ghazali Shafie. He was behind it all the way and ensured that the NEP was incorporated into the development plans. *The Star*, 4 Oct 1986.

³⁸⁴ The NEP was launched together with the Second Malaysia Plan 1971-1975 which stressed that its ultimate and overriding objective was to forge national unity. Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 201.

³⁸⁵ Gullick, John M, *Malaysia: Economic Expansion and National Unity*, (London: Ernest Benn Ltd, 1981), p 141.

³⁸⁶ *Snag in Policy Implementation*, *New Straits Times*, 31 Dec 2006, pp 8-9. See further, interview with Dr. Salim Agoes on 8 Oct 2008.

a victory for Malay economic nationalism as unrestricted play of free market force would be stopped and MCA influence on economic policy would be stopped.³⁸⁷

As stated previously, the NEP also aimed to increase economic growth. This was closely related to the redistribution of wealth amongst ethnic groups, as increasing absolute terms of economic value was key in ensuring that the improvement of *Bumiputra* economic conditions did not come at the cost of the business shares of other Malaysians. Some referred to this as the “expanding pie theory³⁸⁸”, indicating that rapid economic growth would ensure that there would be “more for everyone”. The quote above highlights how the state-interventionist approach would be applied to the growing Malaysian economy to ensure that equity shares would be redistributed in line with NEP benchmarks.

In January 1971, (Tan Sri) Khir Johari as Minister of Trade & Industry, an affiliate of the Tunku Abdul Rahman group³⁸⁹, continued to place emphasis upon the importance of an ethnic quota system for employees in the state rules and further suggested that it should be legislated that Malays are to make up at least 50% of the total employees in factories and hotels³⁹⁰. Khir Johari subsequently clarified at the June 1972 UMNO General Assembly that the government did not intend to use legal means to force companies into complying, despite a resolution having already been tabled that called for 50% of new stocks issued to be set aside for *Bumiputras*³⁹¹. Interestingly this proved that even from those early days, the Tunku

³⁸⁷ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), p 265.

³⁸⁸ IQ Mtungwa, *The Black Spot: a critical look at transformation in the workplace*, (CreateSpace Independent Publishing Platform, March 25, 2008), pp 128.

³⁸⁹ Tunku Abdul Rahman’s accommodationist leadership was criticised for allowing MCA leaders to hold important Cabinet portfolios in finance, trade and industry, and for allowing the Chinese to do business without restriction. They refer especially to the MCA President and Finance Minister, Tan Siew Sin. He fended off the Malay nationalist pressures in the urban domains and influenced Tunku to dismiss his Agriculture Minister Abdul Aziz Ishak for attempting to replace Chinese-owned rice-milling enterprises with state-owned co-operatives.

³⁹⁰ *Straits Times*, 12 Jan 1971.

³⁹¹ *Straits Times*, 28 June 1972.

Abdul Rahman group was already leaning towards potentially coercing individual companies in complying with NEP targets.

It is noteworthy however that although Khir Johari was advocating the use of legislation in pursuit of NEP targets, he was only concentrating on matter of Malay employment but opposed such measures for the target of *Bumiputra* equity ownership. This was a reflection of the views of the Tunku camp, who were proponents of ethnic conciliation, and their acceptance of the Tun Razak camp's proposals to take legislative action to achieve NEP goals³⁹². Meanwhile, in the Tun Razak camp, Tengku Razaleigh who was president of the Associated Malay Chambers of Commerce at the time, spoke positively about the hope of introducing such legislature to facilitate the restructure of equity ownership³⁹³.

In 1970, the ratio of agricultural workers in Peninsular Malaysia was 70:20:10 for Malays:Chinese:Others, but for administrative and managerial positions, the ratio stood at 22:66:12. Under the NEP, the targets to be achieved by 1990 were Malay 53.6%, Chinese 35.3% and Indians 10.4%³⁹⁴. These targets aimed to delineate ethnicity from economic function, thus restructuring the ratios in every field and occupation to realign with the national ethnic composition.

There was however, a simultaneous need to create the Malay middle class to avoid the population concentration and industry within the capital Kuala Lumpur and the Klang Valley areas. The strategy was to form a balanced development throughout the country with “new

³⁹² Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 224.

³⁹³ Speaking at the Bumiputra Economic Seminar in April 1973. Refer *Straits Times*, 8 Apr 1973.

³⁹⁴ Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 82.

growth centres.” Moving Malay employment into fields that were not “traditionally Malay” was assisted without rural-to-urban migration. Thus, it was the government’s intention that by creating rural centres for commerce and industry, other industries such as agro-based industry and small-scale manufacturers would be stimulated in the rural areas as well, thus leading to more professional employment opportunities in these areas.

As the NEP moved into its actual implementation stage, the pro-Razak faction amassed power within UMNO. It was embodied in the Second Malaysian Plan³⁹⁵ which was tabled in Parliament in 1971, when Parliamentary rule was re-established³⁹⁶. Tun Razak, in a speech given in 1973, visualised post-NEP Malaysia as “*a stable society with a middle class like Switzerland, the Netherlands or Japan*”³⁹⁷. There was never a statement in the NEP with regards to the creation of a middle class even though the objective was so, to enable the Malays into a stabilising force. Tun Razak also emphasised that the government would take a state-interventionist approach, both by directly intervening in the market as well as participating in economic activities by way of state administrative agencies and government-funded joint ventures³⁹⁸.

The government expanded job opportunities for the Malay community by focusing primarily on education, particularly in technical and higher education, and job creation. Overrepresentation of Malays in agriculture was slowly reduced, with Malays moving into

³⁹⁵ Second Malaysia Plan 1971-1975, (EPU, Prime Minister’s Department, 1971).

³⁹⁶ Mohamad Rais bin Saniman, “Fifty Years of Merdeka: The Role of the New Economic Policy (NEP) In Building a United Malaysian Nation in Diversity”, <https://bigdogdotcom.wordpress.com/2008/08/10/the-role-of-the-new-economic-policy-nep-in-building-a-united-malaysian-nation-in-diversity/>. See also Jauhar, Junaimah Binti, Ahmad Bashawir Abdul Ghani, and Rabiul Islam. “Malaysia’s Development Policies.” In *Brain Drain*, pp. 33-49. Springer, Singapore, 2016.

³⁹⁷ Speech at the 26th UMNO General Assembly held in 1975. One of Tun Razak’s closest aides, Tan Sri Ghazali Shafie, recalls “Our aim in introducing NEP was not the creation of a wealthy upper class of Malays, but rather a Malay middle class.” *The Star*, 4 Oct 1986.

³⁹⁸ Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 215.

other sectors. To achieve this, three concurrent policies were applied, the first of which was a state-interventionist approach in restructuring higher education, particularly through the quota system and special preferential matriculation privileges for *Bumiputra* students³⁹⁹. Secondly, founding and growing public enterprises and trust agencies (see Table 4.9) which were empowered to conduct their own businesses, consolidate existing organisations under their own structure of subsidiary and associated companies⁴⁰⁰, as well as establish and manage joint ventures with non-Malays both foreign and local. The final prong was in the form of policy intervention, most notably the Industrial Coordination Act 1975⁴⁰¹ in the private sector.

Following the encouraging results in the agricultural sector and rural development, government intervention soon extended into the industrial and commercial fields. The government focused on the *Bumiputra* business community, building up enterprises and entrepreneurs as well as empowering individual Malay shareholders. This was paramount in restructuring both the commercial industrial sector as well as Malay equity ownership⁴⁰².

³⁹⁹ See Chapter 6: Achievements and Benefits of the NEP, of this research.

⁴⁰⁰ Subsidiaries and associated companies were established most frequently from 1971-1975. SEDCs have under its wing 76 associated companies (not including subsidiaries); Pemas 14 subsidiaries and 49 associated companies, and MARA 10 subsidiaries and 12 associated companies. Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 219.

⁴⁰¹ "The Industrial Co-ordination Act 1975 (ICA) was introduced with the aim to maintain an orderly development and growth in the country's manufacturing sector. It requires manufacturing companies with shareholders' funds of RM2.5m and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence for approval by the Ministry of International Trade & Industry (MITI). ... Applications for manufacturing licenses are to be submitted to the Malaysian Industrial Development Authority (MIDA), an agency under MITI in charge of the promotion and coordination of industrial development in Malaysia. 'Manufacturing activity' is defined as the making, altering, blending, ornamenting finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal, and includes the assembly of parts and ship repairing." See MIDA: Invest in Malaysia, Getting Started. Approval of Manufacturing Projects, www.mida.gov.my/env3/index.php?page=approval-of-projects

The ICA was passed only after Tun Tan Siew Sin resigned a Finance Minister. Although Tun Siew Sin publicly supported the NEP, he had strong misgivings about it. The MCA's success in moderating the impact of the NEP between 1971 and 1974 was facilitated by the presence of strategically placed senior Chinese bureaucrats in the Ministry of Finance and the EPU. Implementation of the ICA after 1976 brought difficult times for the Chinese community. The equity re-structuring provision of the ICA enabled the UMNO to implement the NEP's second prong – that of correcting income and employment imbalances between Malays and non-Malays more vigorously. Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), pp 267-269.

⁴⁰² This led to the introduction of the Petroleum Development Act (PDA) in 1974, the Industrial Co-ordination Act (ICA) in 1975 and the establishment of Permodalan Nasional Berhad (PNB) and Amanah Nasional Saham Berhad (ASNB) in 1978.

Table 4.9
List of Major Public Corporations Up To 1974

Established before NEP
<u>Before 1965</u>
Rural Industrial Development Authority (RIDA)
Federal Land Development Authority (FELDA)
Malay(sian) Industrial Development Finance Berhad (MIDF)
<u>After 1965</u>
Bank Bumiputra Malaysia Berhad
Federal Land Consolidation & Rehabilitation Authority (FELCRA)
Majlis Amanah Rakyat (MARA)
Malaysian International Shipping Corporation (MISC)
Perbadanan Nasional Berhad (Pernas)
State Economic Development Corporations (SEDCs) ⁴⁰³
Federal Agricultural Marketing Authority (FAMA)
Established after NEP started
<u>In 1971</u>
Lembaga Padi & Beras Negara (LPN)
Pahang State Agricultural Development Corporation (Pahang-SADC)
Southeast Pahang Development Authority (DARA)
Urban Development Authority (UDA)
Food Industries of Malaysia (FIMA)
Malaysian Rubber Development Corporation (MARDEC)
<u>In 1972</u>
Selangor State Agricultural Development Corporation (Selangor-SADC)
Southeast Johor Development Authority (KEJORA)
Komplex Kewangan Berhad
Rubber Industry Smallholders' Development Authority (RISDA)
<u>In or after 1973</u>
Central Terengganu Development Authority (KETENGAH); 1973
Petroleum Nasional Berhad (Petronas), 1974

Source: Chan Tuck Hoong, Paul. *The New Economic Policy and Restructuring of the Corporate Sector*, 1986⁴⁰⁴

⁴⁰³ All the SEDCs in Peninsular Malaysia except Perlis (1973) were founded before the end of the 1960s: Selangor (1964), Penang (1965), Terengganu (1965), Pahang (1965), Johor (1966), Kedah (1967), Kelantan (1967), Melaka (1967), Negeri Sembilan (1967), and Perak (1967). Those founded after 1971 are Sabah (1971) and Sarawak (1972). Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 220.

⁴⁰⁴ Chan Tuck Hoong, Paul, *The New Economic Policy and Restructuring of the Corporate Sector* in Chan Tuck Hoong, Paul and Horii, Kenzo (eds), *The Impact of the New Economic Policy on Malaysian Economy*, (JRP Series No 56, Tokyo: Institute of Developing Economies, 1986), p 38, Table 1.15.

In the early days of the NEP, the major economic players still comprised mostly of non-Malays. To address this, the government decided to bank on public corporations and foreign enterprises linked to the export industry to create employment opportunities which will lead to growth.

The government established many federal and state public corporations. Among them were Pernas, MARA, SEDC, UDA, FAMA, Bank Bumiputera Development Bank and PNB. The government had direct control over these organisations, which gave them a free hand in restructuring their recruitment and hiring processes, as well as that of their affiliates and subsidiaries⁴⁰⁵. However not long after, the government realised they could not rely solely on public enterprises, as many were inefficient and incurred losses due to poor management. The government then shifted its attention to attracting foreign capital for economic growth, covered in the next chapter.

⁴⁰⁵ See Mohamed, Rugayah, *Public Enterprises*, in Jomo K.S. (ed), *Privatizing Malaysia: Rents, Rhetoric, Realities*, (Boulder, Colorado, Westview Press, 1995).

4.5 PUBLIC TRUST AGENCIES

Based on the reactions of the UMNO leaders in the 1970s, there seemed to be a mutual agreement on the need to use legislative means to advance Malay employment. The Youth group supporters of Tun Razak however had higher ambitions to implement legislation that would also increase the Malay share of equity. With these conflicts persisting, the views of Khir Johari and Tengku Razaleigh were however consequently adopted in the implementation of the Industrial Coordination Act 1975 (ICA)⁴⁰⁶, the basic idea of which was originally proposed in the UMNO General Assembly in the early 1970s.

Tun Razak unfortunately passed away in January 1976, and Tun Hussein took his place as Prime Minister. Tun Hussein decided to review the NEP implementation process and divided it into two phases. The 1975 ICA was amended first to adjust the NEP implementation process. The second concentrated on the shifting the ownership of *Bumiputra* equity from corporations into the hands of individuals. This encompassed public enterprises and trust agencies, including UDA, SEDC, MARA and PERNAS⁴⁰⁷. To achieve this, a unit trust scheme was established to transfer ownership to *Bumiputra* individuals. The UMNO Economic Bureau in its Economic Seminar in 1976, questioned the matter of *Bumiputra* equity changing hands, and based on its report,⁴⁰⁸ Dr. Agoes Salim presented the argument that *Bumiputra* stocks should be transferred from trust agencies to individuals during his speech at the 1977 UMNO General Assembly⁴⁰⁹. A resolution was passed at this assembly,

⁴⁰⁶ The Industrial Co-Ordination Act 1975 better known as ICA advocated against a backdrop of growing dissatisfaction with the Malay society was set to hasten the pace of the NEP enforcement. During this process, the office of the Ministry of Trade & Industry was passed on from Khir Johari (a Tunku Abdul Rahman group member) in 1974 to Dato Hamzah Abu Samah (a member of the Tun Razak group) who was precisely in charge of legislation of ICA as Minister of Trade & Industry.

⁴⁰⁷ Urban Development Authority of Malaysia (UDA). Majlis Amanah Rakyat (MARA). Perbadanan Nasional Berhad (PERNAS).

⁴⁰⁸ The working paper *Kajian Rancangan Malaysia keDua menjelang Rancangan Malaysia Ketiga* – submitted by UMNO Economic Bureau to the seminar.

⁴⁰⁹ In Torii, Takashi, *The New Economic Policy and The United Malays National Organization* - With Special Reference to the Restructuring of Malaysian Society, (The Developing Economies Vol 35, No 3, Sep 1997), p 235.

calling for agencies to be set up with the goal of promoting individual *Bumiputra* equity agency.

Resulting from the NEP, *Bumiputera* equity ownership improved from 2.4% to a 20.3% share, with 14% in individuals' hands. Although it was short of the 30% target, the accomplishment was nevertheless noteworthy in light of the 3.7 time national increase in total stock value, from RM528.9 million in 1970 to RM109.8 billion in 1990. The absolute value of *Bumiputra* equity rose from RM100.49 million to RM2,228.94 million, equivalent to a 22-fold increase⁴¹⁰. The NEP also successfully created a new class of Malays, namely the middle class and the entrepreneur community.

The ultimate aim of NEP was to “*reduce and eventually eliminate the identification of race with economic function*”⁴¹¹, i.e. to overhaul the existing social framework where specific ethnic groups were identified to certain specific occupations, to eliminate the economic imbalance of the Malays⁴¹² and achieve national unity. It was therefore necessary to force more Malays up the social standing by encouraging them to enter the professional ranks, and to take up jobs at the managerial and specialist level. In other words, to nurture the growth of a newer and wider Malay middle class. Political leaders of that era stated that the NEP was designed to redress racial inequality, both social and economic⁴¹³, and to instate stability

⁴¹⁰ Torii, Takashi, *The New Economic Policy and The United Malays National Organization - With Special Reference to the Restructuring of Malaysian Society*, (The Developing Economies Vol 35, No 3, Sep 1997), p 235.

⁴¹¹ Second Malaysia Plan 1971-1975, (EPU, Prime Minister's Department, 1971), p 1.

⁴¹² While it is true that during the colonial period, the Chinese economic role was much bigger than that of Malays who were mainly subsistence rice farmers and rubber smallholders, and Indians who were mainly rubber plantation workers, Chinese capital played a subordinate role to Western, primarily British capital. The large majority of Chinese were lowly paid wage-earners employed in tin mines, rubber plantations and unskilled urban sector jobs. A minority were self-employed small proprietors and even fewer were affluent capitalists. Ref. Puthucheary J.J., *Ownership and Control in the Malayan Economy*, (Singapore Eastern University Press, 1960), pp 123-125.

⁴¹³ As late as 1970, 13 years after independence, British capital still dominated the Malaysian economy: foreign (mainly British) 63.3%, the non-Malay (mainly Chinese) 32.3%, and the Malay share was 2.4%. See, *The Second Outline Perspective Plan 1991-2000*, (EPU: Government of Malaysia), <<http://www.epu.gov.my/en/second-outline-perspective-plan-1991-2000>>

throughout Malaysian society, via the creation of a Malay middle class, with a view to achieve national unity. The NEP confronted the problem of extreme ethnic inequality directly by the inclusion of the second thrust⁴¹⁴ in order to create gradually over time an ethnically balanced economy which would erase economic function with race identification. In doing so, the national ideology of the *Rukunegara* aimed at the creation of a Malaysian nation operating in diversity, would be achievable.

⁴¹⁴ The legal and moral foundations of the second thrust were derived from the Social Contract of 1957 where citizenship for non-Malays were granted to help the Malays economically, the *Rukun Negara*, and Art. 153 of the Federal Constitution.

4.6 CONCLUSION

As discussed above, this chapter illustrates the painstaking process behind the formulation of the NEP, and the difficult circumstances under which the government of Malaysia had to create it – a period of uncertainty and racial turmoil, marked by a national tragedy that cost the lives of many civilians. Due to the civil unrest, the government was wise to include a multiracial forum in the consultations, and each group had understandably different priorities for the people they represented. As the saying goes, drastic times call for drastic measures, and the NOC called for state intervention that many deemed extreme. However, internal conflict within UMNO presented a problem as right-wing extremists demanded policies that were even more radical. The NOC had to consider not only the racial turmoil of the time, but also the potential backlash from both the Malays and the Chinese should the policies not be satisfactory to both parties. By framing the problem as an issue of national poverty, the government was able to justify its aggressive approach to rapid economic growth.

The next chapter will move on to discuss the policies and key principles of the Second, Third, Fourth and Fifth Malaysia Plans. These national economic development plans were the embodiment of the NEP, and it was through these plans that the NEP was implemented and updated throughout the 20-year implementation period.

CHAPTER 5: THE NEP: THE MALAYSIA PLANS AND RESPONSES

5.1 INTRODUCTION

As discussed in the previous Chapter 4, the government sought advice from various experts to assist in formulating the NEP. These included Professor Just Faaland, many of whose recommendations were adopted. In designing the basic thrust and framework of the NEP, its earnest drafting in 1969-1970 involved comprehensive and pioneering analysis, methodology innovation and statistical research, discussions and tedious evaluation and assessment by the DNU under then Prime Minister Tun Razak. The discussions that followed centred on the arguments, rationale and recommendations of the DNU. There were also documents from the EPU (backed by The Treasury, Bank Negara, Statistics Department and FIDA) and DNU.¹

The EPU approach and strategy dealt with the Malay problems of poverty and inequality indirectly. The planning objective was confined to the rectification of economic imbalances along racial lines, and eradication of race identification with economic functions. On the other hand, DNU emphasised the correction of the slanted economic imbalances prevailing amongst the Malays as the most crucial objective of development to be incorporated into the Second Malaysia Plan. To the DNU, the overall objective was national unity and survival. If a trade-off was necessary, the objective of correcting the economic differences as between major ethnic groups would not be sacrificed in favour of growth, other things being equal. The main requirement was to develop policies that would raise the income of the Malays and facilitate their entry into the modern sector on the basis of equal

¹ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 29.

opportunity and non-discrimination. Economic imbalances in three specific sectors were identified as main issues, namely income, employment and ownership².

As mentioned before, the NEP was implemented via a series of 5-year national economic development plans, namely the Second, Third, Fourth, and Fifth Malaysian Plans³. This chapter will examine the key principles and mechanisms outlined in these plans in delivering the two objectives of the NEP, namely the eradication of poverty and societal restructuring. In the later section, the thesis will also discuss some of the responses from various groups and political parties on the implementation of the NEP. This section is important in understanding how each ethnic group interpreted and internalised the implementation of the NEP in between 1970 to 1990.

With regards to the research question, this chapter will address the implementation of policies throughout the 20-year implementation period and the targets set by the Alliance government in terms of NEP benchmarks. It will also address the responses from the Malay, Chinese, and Indian communities respectively, thus highlighting the impact of the NEP on Malaysian society.

² Ibid., pp 32-33.

³ Economic Planning Unit, Prime Minister's Department, Malaysia.

5.2 THE MALAYSIAN PLANS

The Second Malaysia Plan (1971-1975)⁴ embodying the NEP was submitted to Parliament in July 1971. It was “*launched with the hope that a new Malaysian society would gradually emerge with a common value system transcending ethnic, cultural and socioeconomic differences.*”⁵

It contained a two-pronged⁶ development programme. Its overriding objective was the promotion of national unity by a urgently nurturing racial integration across Malaysian society, and to redistribute economic power in a more equitable manner, especially in terms of income and employment opportunities, therefore ensuring that the *Bumiputras* would become “*full partners in all aspects of the economic life of the nation.*”⁷

Tun Razak also emphasised in his Foreword to the Second Malaysia Plan 1971-1975, that the NEP would not deprive the non-Malay citizens or non-citizens of their rights. He announced that:

...the government will spare no efforts to promote national unity and develop a just and progressive Malaysian society in a rapidly expanding economy so that no one will experience any loss or feel any sense of deprivation of his rights, privileges, job or opportunity⁸.

⁴ Ibid.

⁵ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 25.

⁶ The two prongs could be summed up as distributive objectives and restructuring objectives. See Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), pp 201-202.

⁷ Ibid.

⁸ Tun Razak bin Hussein. *Kata Pendahuluan*. Second Malaysia Plan 1971-1975, (EPU, Prime Minister’s Department, 1971). Accessed at http://www.epu.gov.my/sites/default/files/rmk2_bm_kata_pendahuluan.pdf

This meant economic growth without interfering with the existing wealth and income of non-Malays. The goal was a significant reduction in the income gap between Malays and non-Malays. The government was to provide special, privileged access for Malays to the modern sectors of the economy – urban and rural.

As recounted in Chapter 4, the NEP's twin prongs were: 1) the eradication of poverty irrespective of race; and 2) the restructuring of society to eliminate the idea of jobs and economic activities being identified by race. The goal for the first prong was to increase employment and income levels for all Malaysians, regardless of race as a way to tackle the poverty problem. The second prong was designed more for the Malays and other indigenous people. It involved modernising the rural community to be in tandem with the rapid urban growth. There was a creation of a Malay commercial and industrial community, covering all levels, so that they are able to be involved in all aspects of the nations' economic life.

In addition to economic and social restructuring, Tun Razak understood that one of the main reasons for the riots of May 13 was Malay dissatisfaction with the opportunities available to them for educational advancement. In his words, "...*the Malays felt a growing sense of insecurity upon seeing the widening gap between them and non-Malays, particularly in the economic and educational spheres*⁹." At the 1971 UMNO General Assembly, Tun Razak stressed that education was the key to Malaysia's progress¹⁰, emphasising the need for educational programmes that would empower the *Bumiputras* to enter the job market and

⁹ Such expressions can be seen in Tun Razak's speeches, replies to interviews and debates recorded in the *Dewan Rakyat* (House of Representatives) between 23 Feb and 3 Mar 1971. Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 232.

¹⁰ Abdul Rahman Abdul Aziz and Mustapa Kassim (comps), *Amanat Presiden: Demi Agama, Bangsa dan Negara: 1970-1975, Tun Abdul Razak Hussein*, (Kuala Lumpur: Berita Publishing, 2009), p XXV.

rebalance the racial makeup of national employment, as well as the need for “a visible Malay commercial and industrial community”.¹¹

This was implemented by amending Clause 8A in Article 153 of the Federal Constitution in 1971¹². Clause 8A of Article 153 reads as below:

... to ensure the reservation of such proportion of such places for Malays and natives of any of the States of Sabah and Sarawak as the Yang di-Pertuan Agong may deem reasonable..¹³

This amendment has been used to justify the quota system in higher education, allocation of scholarships, as well as in the establishment of *Bumiputra*-only educational institutions¹⁴. The problem of education and how it was dealt under the NEP will be discussed in detail in the following chapter. For now, it is sufficient to say that the issues pertaining to education has been one of the main priorities for the government.

Meanwhile, UMNO was split into two factions. One took a hard-line stand in their approach to economic development from the Malay economic nationalism perspective, and the other a more liberal stand founded on fair play and cooperation between all races. These divisions played a major role in how the NEP was eventually drafted and implemented.¹⁵

¹¹ Malaysia, Government of 1973, *Mid-Term Review of the Second Malaysia Plan, 1971-1975*, (Kuala Lumpur: Government Printer, 1973), p 184.

¹² The amendments were instrumental in implementing the NEP after the May 13 riots. Article 10 was revised to make it possible to forbid any public or congressional debates on “sensitive issues”, including Art 153.

¹³ Federal Constitution of Malaysia. *Ibid.*

¹⁴ *Ibid.*

¹⁵ Please see Chapter 4 of this research.

Under the NEP, steps were taken to ensure the *Bumiputras* would enjoy a greater measure of future economic growth,¹⁶ specifically, by calling for a rise in Malay corporate ownership to 30% by 1990. Allocations for foreigners would be reduced to 30%, while other Malaysians were allocated up to 40%. 30%, the arbitrary figure chosen by Tun Dr Ismail, became the quota for *Bumiputra* ownership, covering various ventures including company ownership, government contracts, public share listings, employment and new private housing plans.

State-interventionist policies were implemented under the NEP in order to raise the Malay income in the rural areas. It was done by establishing Malay employment opportunities and in tandem raising the Malay shares in the industrial and commercial sectors to 30%. The government could not depend on free market forces to regulate the economy, and would take steps to directly intervene¹⁷. It was noted however, that Tun Razak was torn between his sympathy to the Malay economic nationalists' demands for state-intervention and his liberal instincts.

State-intervention facilitated and secured full employment of *Bumiputras* at every level in all major sectors of the economy.¹⁸ The objective for the Government intervention in acquiring employment for the Malays and other *Bumiputras* is to create an elite *Bumiputra* commercial and industrial community.

¹⁶ Malaysia, like India, is a multi-lingual, multi-religious developing country which achieved independence from British colonial rule in the mid-twentieth century. Although there are cultural, social, economic and political similarities between the two countries, the *Bumiputra* policies of Malaysia differ fundamentally from the preferential policies of India as they apply to Dalits, tribals and 'other backward classes'. The Indian policy is much closer to American affirmative action which favour historically oppressed minorities. In India and the US, preferential policies were designed to mitigate the severe disabilities suffered by disadvantaged minorities. See Nesiiah, Devanesan, *Discrimination with Reason?: the policy of reservations in the United States, India and Malaysia*, (Delhi, New York, Oxford University Press, 2000).

¹⁷ Free market is not perfect. It creates imbalance in the economy. Those with no capital cannot participate.

¹⁸ See Glazer, N, Huntington Samuel, Nash, Manning and Weiner, Myron, *Social Science Research for National Unity: A confidential Report to the Government of Malaysia*, (New York: Ford Foundation, 1970).

Notably, the Second, Third, Fourth and Fifth Malaysia Plans¹⁹ implemented the above policies. The content and objectives of the NEP were reflected in the Third Malaysia Plan (1976-1980) announced in July 1976. For its second objective (modernisation and restructuring society), the measures introduced included²⁰:

- (1) restructuring the employment distribution pattern;
- (2) creating 'new growth centres' in rural Malaysia with a modern commercial and industrial sector and urban functions; and
- (3) fostering Malay businesses and entrepreneurs, known as the Bumiputra Commercial and Industrial Community (BCIC).

The Fourth Malaysia Plan (1981-1985)²¹ witnessed the initial provisions of the state-intervention plan weakened due to the unfavourable economic conditions²² at the time. Economic recovery became a priority and replaced the original economic redistribution. The measures taken included reducing the range of enterprises needed to obtain the Industrial Coordination Act 1975 (ICA) approval, and the easing of regulations with regards to equity ownership in foreign direct investment. The ICA²³ was also relaxed to allow private enterprises unrestricted participation and development in the economy.

¹⁹ See EPU, *The First Malaysian Plan 1966-1970, Second Malaysia Plan 1971-1975*.

²⁰ Third Malaysia Plan 1976-1980, (EPU, Prime Minister's Department, 1976).

²¹ Statistics in the 4th Malaysia Plan covered Malays as an ethnic group and Peninsular Malaysia only. However, all Malaysia Plans after the 5th Malaysia Plan expanded the coverage of all Bumiputra and the whole of Malaysia (incl. Sabah and Sarawak). See Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003).

²² In the early 1980s, developed countries around the world experienced the "Volker shock" which in turn led to the international collapse of world commodity trade. This resulted in huge declines of Malaysia's overall export price index and the subsequent "Commodity Shock" of 1985. See Athukorala, Prema-chandra. *Malaysian economy in three crises*. No. 2010-12. 2010.

²³ The ICA was "originally instituted to impose licensing conditions on the establishment of industries and was considered a bane to private, especially non-Bumiputra, entrepreneurs. The new investment regime retracted the disincentives that came with the 1975 ICA, which "makes the conduct of medium and large-scale manufacturing enterprise subject to license" and was widely regarded as "having a stifling effect on private investment". Snodgrass, Donald R., *Inequality and Economic Development in Malaysia*, (Kuala Lumpur: Harvard Institute for International Development, Oxford University Press, 1980), p 220.

In 1985, Malaysia was hit by an economic recession, triggered by the worldwide drop in commodities prices. During this period, the non-Malays were not investing. The only way out was to attract foreign investment. If they could be lured to invest, unemployment, which stood at 6.9%, could be solved²⁴. It was a calculated but bold gamble. The shift in policy proved to be correct, despite many Malays' unhappiness towards the suspension of part of the NEP. With employment increasing and with consumption growing, the recession ended, and the economy returned to its growth path²⁵. With resumed growth, government could return to its distribution policy.

During the recession, the government faced increasingly dire fiscal deficits at every level. Mahathir realised that the distribution policy that had assisted the Malays through various subsidies had pushed the boundaries of the national economy. He therefore refocused, switching to a development-oriented policy, reducing government involvement in the economy and shifting to heavy industrialisation.²⁶ This was a new and capital intensive sector in which the non-Malays were hesitant to invest. The aim was to simultaneously improve industrial technology and realise the BCIC program. Mahathir essentially expanded the initial scope of NEP from raising the economic and social position of Malays, to paving the way for professional Malays to take charge of the Malaysian economic development.

The Fourth Malaysia Plan proposed a development spending of RM42.8 billion to accelerate the NEP targets for *Bumiputra* economic participation. Two major development

²⁴ Bank Negara Malaysia. *The Real Economy – Chapter 1*. September 1, 1998.

²⁵ See Okposin, Samuel B., and Yu Cheng Ming. *Economic crises in Malaysia: Causes, implications and policy prescriptions*. Asean Academic Press, 2000.

²⁶ With the adoption of Mahathir administration's heavy industrialisation strategy, emphasis shifted to the new middle-class element of professional/technical experts. With this shift and the adoption of privatization policies, experimenting began in creating selective new middle class. The creation of middle class was one of the BCIC programs and a major policy target of the Mahathir administration. Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (*The Developing Economies*, XLI-2, June 2003), p 240.

policies, Malaysia Incorporated²⁷ and heavy industrialisation, emerged. These were modelled largely on the Japanese experience. Amongst the major projects in the industrial and infrastructure sector included a RM900-million bridge connecting Penang to Seberang Perai, and a RM600-million automobile manufacturing plant, Heavy Industries Corporation of Malaysia (HICOM)²⁸ for a Malaysian car.²⁹ These two were launched in 1985. Steel projects, cement manufacturers, motorcycle-engine factories, an oil refinery as well as a pulp and paper mill were developed despite the global recession³⁰. During this period, Mahathir introduced the 'Look East' policy³¹ for Malaysia to emulate successes of Japan, South Korea, and Taiwan by importing technology from these countries. An important element in this 'Look East' policy was to emulate the work culture and ethics of the advanced East Asian societies. Malaysia duplicated the Japanese *sogo shosha* structure, a type of general trading company.

Several *sogo shoshas*³² were established in the 1980s, including four outstanding examples of Malaysian-style *sogo shoshas*:

²⁷ Malaysia Incorporated was modelled on Japan Inc. whereby the Government and private business must cooperate closely to enable companies to flourish. More efficient and prompt government services would increase prospects for company profits, hence creating more jobs and related enterprises, paying more taxes and spreading income to people who would in turn purchase goods, some of which would also be taxed.

²⁸ Originally incorporated in 1980 as the Heavy Industries Corporation of Malaysia Berhad (HICOM), it experienced rapid growth and in 1996 merged with Diversified Resources Berhad (DRB) to form the biggest conglomerate in Malaysia. The government through its investment arm, Khazanah Nasional Berhad, owns a 5.39% stake in the publicly listed DRB-Hicom. HICOM negotiated JVs mostly with Japanese and South Korean companies, usually taking 70% of the equity. By 1983, heavy industry plans were expected to require more than RM8 billion in investments. See www.drb-hicom.com/cms/PublishedDocument/DRB10_E.pdf

²⁹ The first Proton Saga rolled off the assembly line in Sep 1985.

³⁰ Abdullah, Syahida, and Amran Muhammad. "The development of entrepreneurship in Malaysia: State-led initiatives." *Asian Journal of Technology Innovation* 16, no. 1 (2008): 101-116.

³¹ The 'Look East' policy in the late 1981 was to shift the Malaysian mentality, especially in the Malaysian dominated bureaucracy, to eliminate the influence of the long-gone British. Dr. Mahathir declared the West was in decline and had lost the values that made it great. Malaysians were urged to consider Japan, South Korea and Taiwan as models of economic developments. Wain, Barry, *Malaysian Maverick: Mahathir Mohamed in turbulent times*, (Basingstoke: Palgrave Macmillan, 2009), pp 92-93.

³² *Sogo shosha* is a Japanese term referring to a very large company that trades internationally in a wide range of goods and services. They are a key component in the *keiretsu* (system) business model, where a set of companies with interlocking business relationships and shareholdings form an informal business group.

- (1) Sime Darby Pernas Trading Corporation Sdn.Bhd., a joint venture between Sime Darby and Pernas;
- (2) Multi-Purpose International Trading Corporation, a JV between Multi-Purpose Holdings Bhd. with Luxembourg giant ITM SA International;
- (3) NASTRA, formed by the Malaysian Mining Corporation, Petronas, Felda and Kuok Brothers; and
- (4) MATRA, a venture between Kumpulan FIMA, Kumpulan Perangsang Selangor, UMW and Palmco Holdings.

From the Malaysian perspective, *sogo shoshas* were necessary for several reasons. Firstly, the *sogo shosha* was an important component of the Japanese model of economic development, playing a pivotal and crucial role in the successful penetration of Japanese products into the world market. Malaysia needed *sogo shoshas* to serve as a vanguard for its export drive and as catalysts for the development of the manufacturing and resource-based industry. *Sogo shoshas* were meant to assist Malaysian manufacturers in exporting products and acting as overseas sales and purchasing agents. They can provide advice and information on overseas market requirements, particularly in terms of product design, quality and packaging.

They also act as a consortium allowing a number of manufacturers to execute large orders from overseas buyers, which a single manufacturer may be unable to meet on its own. They also serve as a risk buffer between suppliers and purchasers.³³

³³ See Yoshino, Michael Y. and Lifson, Thomas B., *The Invisible Link: Japan's Sogo Shosha and the Organization of Trade*, (The MIT Press, 1986).

The Fifth Malaysia Plan³⁴ (1986-1990) diverted slightly from the goals of the NEP to counter the deteriorating prices of oil and other exports, with more emphasis placed on industrialisation and foreign investment, particularly in export industries. Definitive objectives were developed to guarantee that the commercial and industrial sectors would be represented by the following ratio in terms of ownership and participation: 30% *Bumiputra*, 40% other Malaysians, and 30% foreign. The government decided that the best way without upsetting the non-*Bumiputras* was for the Government to fund the purchases of foreign-owned shares on the *Bumiputras*' behalf, in a bid to increase the *Bumiputra* share to 20% by 1990. This approach embodied the updated national development policy, despite abandoning the original timelines and targets. Growth thereafter was unprecedented³⁵, and the Malaysian political process became more stable.

A detailed analysis of each 5-year plan subsequent to the Fourth Malaysia Plan showed the government's true motive with regards to the Malay middle classes over the Mahathir period³⁶. Both the Fourth and Fifth Malaysia Plans brought about immense changes from one 5-year plan to the next. The first was the change in the absolute figures for employees in individual occupational categories. The second change was the distribution rate - determined by the percentage of new jobs occupied by *Bumiputras* as compared to other races.

³⁴ *Fifth Malaysia Plan 1986-1990*, (EPU, Prime Minister's Department, 1986).

³⁵ Economic Planning Unit. "Mid-Term Review of the Sixth Malaysia Plan, 1991-1995." *Kuala Lumpur: Prime Minister's Department* (1993).

³⁶ Torii, Takashi. "The Mechanism for State-led Creation of Malaysia's Middle Class." *The Developing Economies* 41, no. 2 (2003): 221-242. See also Khan, Mr Mahmood Hasan. *When is economic growth pro-poor? Experiences in Malaysia and Pakistan*. No. 2-85. International monetary fund, 2002.

A review of both the Fourth and Fifth plans showed that the employment of *Bumiputra* in white-collar sectors exceeded 50%, reflecting the government's emphasis at that time. Emphasis was given more to jobs at a professional and technical levels, as opposed to those that were administrative and managerial. The lowered priority on the latter became even more pronounced in light of the restructuring of the ethnic group distribution³⁷.

The year 1990 signalled the conclusion of three major economic development plans. These were the Fifth Malaysia Plan 1986-1990; the first Outline Perspective Plan (OPPs) 1971-1990; and the NEP (1971-1990)³⁸.

The government undertook efforts to privatise the economy, thus embarking on a new policy to enlarge and accelerate the middle class in the Malay community, at the risk of alienating the non-Malays in the community. After going through the recession, the government nevertheless decided that growth was the most important mechanism for creating a substantial Malay middle class. Consequently, privatisation was linked to promoting the BCIC. The government encouraged a 'Management Buy-Out' (MBO) Policy. The goal was to cultivate a *Bumiputra* entrepreneurial class via equity transfer to management groups. Then, a 'Build, Operate, and Transfer' (BOT) policy with the aim of reducing the government's role in infrastructural development was introduced. For the purpose of this research, only two companies will be discussed in further detail in Chapter 7. These two companies are MAS³⁹ and UEM⁴⁰, as both attracted great public interest and debate.

³⁷ EPU, Prime Minister's Department, *Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony*, (A case study from "Scaling Up Poverty Reduction: A Global Learning Process and Conference", Shanghai, 25-27 May 2004). Accessed at <unpan1.un.org/intradoc/groups/public/documents/apcity/unpan021601.pdf>

³⁸ The following year Mahathir announced a new National Vision Policy (Vision 2020), which was to be more development-oriented. The NEP was originally replaced by the National Development Policy (NDP), which ran from 1990 to 2000. The NDP was replaced by the National Vision Policy (NVP), which lessened the aggressive affirmative action of the NEP and NDP.

³⁹ Malaysian Airlines Berhad, formerly known as Malaysian Airline System Berhad.

⁴⁰ United Engineers (Malaysia) Berhad.

5.3 THE MECHANISMS OF THE NEP

The restructuring of the employment distribution pattern was precisely tied to the objective of creating a Malay middle class. The Tables in Chapter 4 show the ethnic distribution in the various occupations during the early days of the NEP (1970s). The following Table 5.1 reflects the period during the NEP:

Table 5.1
Distribution of Labour Force by Major Occupation for Three Main Races, 1970 and 1980 (During NEP)⁴¹

Occupation	1970			1980		
	M	C	I	M	C	I
1. Professional and Technical	4.3	5.3	6.0	7.6	7.1	6.8
2. Administrative and managerial	0.3	1.4	0.6	0.5	2.0	0.6
3. Clerical	3.5	6.8	7.2	8.1	9.6	8.0
4. Sales	3.9	16.6	9.1	5.5	18.0	7.5
5. Services	7.6	9.3	10.7	10.3	7.8	10.1
6. Agricultural and related workers	66.8	29.3	44.8	46.2	18.6	36.1
7. Production and related workers	13.5	31.4	21.6	21.8	37.0	30.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: Saw, S.H., Singapore Institute of Southeast Asian Studies 2007. "The Population of Peninsular Malaysia."

Notes: M = Malay, C = Chinese, I = Indian

In terms of the composition of Malays in the workforce, Malay workers in the agriculture industry dropped to 36.3% from the initial 65.3%. Two groups of new occupations in the service industry were created to fill the 36% void. On top of this, 30% of

⁴¹ Saw, Swee-Hock, *The Population of Peninsular Malaysia*, (Singapore: Institute of Southeast Asian Studies, 2007), p 247.

these new occupations were in the production sector, with a further 9% in the technical and clerical fields⁴².

In the initial stages of the NEP, more emphasis was placed on fostering the type of occupations that belonged to the existing middle class as compared to the new emerging middle class. The targets set out that 44% of the entire Malay workforce would comprise of white-collar workers, which included another 14% of the Malay new middle class from this portion⁴³.

Upon examination of the racial composition of the newly created occupations, the government's intention is clear. The aim was to introduce a new social structure which would ensure there would be fluidity so that occupations that traditionally belonged to specific ethnic groups would be opened up to specifically Malays, to address the economic inequality between the Malays and other ethnicities. Following from the NEP, a forecast was made stating that an estimated 50% of all new jobs would be occupied by Malays, with the exception of the agricultural sector. The government also treated administrative and managerial occupations as "important among the targeted middle classes", as these types of occupations were planned to account for 61.4% of new jobs⁴⁴.

⁴² Lee, Hwok-Aun. "Affirmative action in Malaysia: Education and employment outcomes since the 1990s." *Journal of Contemporary Asia* 42, no. 2 (2012): 230-254.

⁴³ Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 226.

⁴⁴ Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), pp 226-228.

In creating a band of white-collar workers, there was line drawn between the contemporary middle class being fostered by the NEP policies and the old middle class⁴⁵. There was an assumption that by implementing the NEP, the middle classes of every ethnic group would emerge and also benefit from the rapid growth under the stimulus of rapid economic growth. According to Takashi Torii's observations,⁴⁶ the development process took place in three phases, the first of which included creating the middle classes at the launching of the NEP in 1971 to 1981, which was inclusive of the newly created middle class as well as a subsection of the pre-existing middle class which he termed "*the ambiguous middle class*".

In the second phase, the Mahathir administration attempted to link development policies with heavy industrialisation. At this point, the middle class became noticeable as the government nurtured more *Bumiputra* professionals and technicians, and *Bumiputras* became active players in the economy. The third phase commenced in the 1990s, with Mahathir leading the initiative to facilitate the growth of *Bumiputra* middle-class entrepreneurs. According to Torii, his 3-phase policy resulted in Malaysia's middle class contributing to over 34% of its total workforce.⁴⁷

Economic growth slowed down in the early 1980s⁴⁸. The Mahathir administration persisted with the NEP system from their ascension to power in 1981 but Malaysia subsequently fell into an economic recession during the second half of 1984 and into 1986.

⁴⁵ Embong, Abdul Rahman. "Social transformation, the state and the middle classes in post-independence Malaysia." *Japanese Journal of Southeast Asian Studies* 34, no. 3 (1996): 524-547.

⁴⁶ *Ibid.*, pp 221-231.

⁴⁷ Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 223.

⁴⁸ Shari, Ishak. "Economic growth and income inequality in Malaysia, 1971-95." *Journal of the Asia Pacific Economy* 5, no. 1-2 (2000): 112-124.

In 1985, the real growth rate fell to minus 1%⁴⁹ marking the peak of the recession. Unemployment rate was high at 6.9%, and especially affected the Malays by slowing down the creation of their middle class. Due to the poor performance in the non-agricultural industry, particularly the electronics industry, many Malays retreated back into agricultural work, undoing the progress achieved under the Fourth Malaysia Plan.

Faced with global economic recession coupled with declining prices of commodities exported by Malaysia, the Mahathir administration showed its pragmatism and put economic recovery as a priority⁵⁰. The goals of the NEP were temporarily shelved because there was no growth⁵¹. The government found it necessary to sharply reduce public-sector development expenditure and to slow down restructuring programs to deal with the economic crisis.

Mahathir made adjustments when the country faced recession for about 18 months, starting in June 1984. Key policy changes were made both in terms of priorities and implementation. This drew objections from within UMNO, which resulted in the split in 1987 as Mahathir's leadership was challenged in 1986⁵². The DNU was against any changes in any NEP policy. The Mahathir administration believed that changes were necessary. The recession took its toll on the economy. These economic fluctuations caused short-term alterations over the course of the Fourth and Fifth Malaysia Plans (1986-1990) to the original

⁴⁹ Athukoralge, Prema-chandra, *Crisis and Recovery in Malaysia: The Role of Capital Controls*, (Edward Elgar Publishing, 2001), p 14.

⁵⁰ Sundaram, Jomo Kwame, ed. *Malaysian industrial policy*. NUS Press, 2007.

⁵¹ This author had personal insight into the difficulties of shelving the NEP goals as this period overlapped with this author's term as Minister of Finance. It had been difficult for many in the UMNO base to accept, but economic growth was a prerequisite for the expanding pie theory of equity redistribution to work.

⁵² Tengku Razaleigh, popularly known as Ku Li, challenged Mahathir for the UMNO presidency in the 1987 UMNO elections. Mahathir retained his position but UMNO was split into two factions as Tengku Razaleigh and his followers were dissatisfied with the results. He went on to establish a new party, the now defunct *Parti Melayu Semangat 46*". See Chin, James, and Wong Chin Huat. "Malaysia's electoral upheaval." *Journal of Democracy* 20, no. 3 (2009): 71-85. See also Shamsul, A. B. "The" battle royal": The UMNO elections of 1987." *Southeast Asian Affairs* (1988): 170-188. See also Singh, Hari. "Tradition, UMNO and political succession in Malaysia." *Third World Quarterly* 19, no. 2 (1998): 241-254.

aims of the NEP. This was a reflection of the flexibility in NEP implementation in response to the changing social and economic pressures of the time.

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5.4 RESPONSES TO THE NEP

5.4.1 UMNO

The NEP was UMNO's answer to the May 13 riots, and UMNO's political relevance to the Malay community was enhanced with the NEP. UMNO controlled the narrative when it came to interpreting the NEP. In more recent years, the Malays became the backbone of UMNO only due to their dependency on the rewards of the NEP, in exchange for political loyalty.

Arguably, the Malay leadership had the chance to make use of their political dominance in the early *Merdeka* years to make a significant change through productive affirmative action measures. The statistics in Table 5.2 show their indisputable support from the Malay electorate in these early years.

Table 5.2
Electorate Percentage in Malaysia by Ethnicity⁵³

Community	Electorate 1955	Electorate 1959
Malays	1,078,000 (82.2%)	1,217,000 (56.8%)
Chinese	143,000 (11.2%)	764,000 (35.6%)
Indians	50,000 (3.9%)	159,000 (7.4%)
Others	9,000 (0.7%)	4,000 (0.2%)
Total:	1,280,000	2,144,000

Source: Ratnam, K.J. *Communalism and the Political Process in Malaya*. (University of Malaya Press, 1965)

⁵³ Ratnam, Kanagaratnam Jeya, *Communalism and the Political Process in Malaya*, (Kuala Lumpur: published for the University of Singapore by the University of Malaya Press, 1965), pp 197-200.

That affirmative action was long delayed raises the question as to why UMNO were neglected to harness their political power to affect socio-economic change, and uplift the Malays out of poverty. It is possible that they misread the political situation, hoping that both the Malays and non-Malays would forever be grateful to UMNO for our independence and the constitutional bargain of 1957. UMNO believed a status quo situation would remain and the *rakyat* would continue to give whole-hearted support to the party.

The UMNO and the Alliance had been winning elections since the country's independence. This led them to believe that their policies were correct. They misinterpreted that winning elections meant support for their policies and no changes were needed. The 1969 election results came as a rude awakening. Suddenly, they realised they were not as popular as they had imagined, and especially among Malays who felt the compromise with the non-Malay community had not brought them much economic benefit. Despite voicing their discontentment in the 1965 and 1968 Bumiputra Economic Congresses, the government had been very slow in rectifying the situation⁵⁴. While conventional Malays demanded for more participation in the economy, younger, modern Malays wanted more participation in politics.

UMNO's response in 1970-1990s, including that of its Youth wing, towards the NEP was very firm. In a February 1989 economic congress, UMNO Youth looked into various aspects of national development, focusing on four main areas: national economic policy after 1990, privatisation, poverty and the development of human resources. Under the banner 'Our share must equal our numbers', the resolutions passed included:

⁵⁴ Shamsul, Amri Baharuddin. *From British to Bumiputera rule: Local politics and rural development in peninsular Malaysia*. Institute of Southeast Asian Studies, 1986.

- 1) the implementation of policies to restructure society and for the distribution of wealth to be based on then population composition according to ethnic groups;
- 2) the eradication of poverty to be carried out irrespective of race. But it must be reminded that poverty is still a *Bumiputra* phenomenon in both rural and urban areas;
- 3) the level of economic achievement by *Bumiputra* to be enhanced;
- 4) the formulation of a long-term overall systematic strategy for the development of human resources; and
- 5) the government to continue its active role in fulfilling the objectives of the New Economic Policy. It must therefore review the direction of the economic management of the country.⁵⁵

(Datuk Seri) Najib Tun Razak declared that since the *Bumiputra* community made up 57% of the population, then “...in a just and equitable society, the future must reflect the division of the population between the *Bumiputras* and non-*Bumiputras*”⁵⁶ stressing that from the historical point of view, the Malays had been accommodating and fair to the non-Malays, and had made numerous concessions. The redistribution of wealth, according to him, had not really taken place. He therefore wanted a new and firm approach to the issue, and further assured that “*UMNO Youth will not allow the Malays to lose their dominance because of their weak economic position.*”

⁵⁵ *New Straits Times*, 20 Feb 1989.

⁵⁶ See *Asiaweek*, 30 Oct 1987.

(Dato') Dr. Jamaluddin Jarjis, then Chairman of the influential Economic Bureau of UMNO Youth, rejected the 20-year time constraint of the NEP and its 30% target⁵⁷ of corporate equity for the Malay community. His rationale was that the Malays, having been colonised for centuries with devastating effect on their society and their economy, would find it impossible to reverse the trend in 20 years⁵⁸.

5.4.2 The Chinese

All political parties representing the non-Malay community expressed their views on the NEP. While Barisan Nasional component parties supported the NEP in principle, many individual members were still very critical of its implementation.

Chinese political leaders across party lines conveyed their initial endorsement of the NEP, albeit a wary one. They were especially concerned⁵⁹ with the mechanisms of implementation, and whether UMNO would practice good faith towards the other communities in pursuing their goals⁶⁰. The Chinese, through their political parties (MCA and Gerakan), generally accepted the NEP, particularly its poverty eradication objectives as this also benefited the Chinese poor both in the urban and rural areas. However, the majority

⁵⁷ Tunku Abdul Rahman had opposed the 30%, arguing in the 1980s that "an attempt was made to fill the target without thought for the ability and capability of attaining it. Some became rich overnight while others became despicable Ali Babas and the country suffered economic setbacks". Abdul Rahman, Tunku, Putra Al-Haj, *Political Awakening*. (Pelanduk Publications, 1986), p 98.

⁵⁸ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 182.

⁵⁹ For instance, when the MCA 'endorsed' the NEP, as a precaution, it also at its annual general assembly in 1972, passed resolutions calling for the NEP's proper and fair implementation, safeguards for free enterprises, and minimal state intervention in the private sector (Ref: MCA 1972, pp21-22). When opposition's Lim Kit Siang 'supported' the NEP at the Parliamentary debate on the Second Malaysia Plan in July 1971, he emphasised that the NEP's restructuring goals should not be targeted primarily at the Chinese since "real wealth of the count was not in the hands of the Chinese". Lim also stressed that the NEP Goal of poverty reduction should also benefit Chinese new village population as well as the large numbers of impoverished Indian rubber estate workers. Lim Kit Siang, *Time Bombs in Malaysia: problems of nation-building in Malaysia*, (Petaling Jaya: Democratic Action Party, 1978), pp 55, 78, 88.

⁶⁰ When MCA endorsed the NEP at its annual general assembly in 1972, the party also passed resolutions calling for the NEP's proper implementation, safeguards for the principle of free enterprise, and minimal state intervention in the private sector (MCA 1972, pp 21-22).

of them felt the NEP restructuring objective should have been dismantled, perceiving it to be discriminatory and unfair to the Chinese community.⁶¹

Despite their justified concern over the potentially adverse effects of the NEP, they were nevertheless confident that the damage to their interests would not be significant. UMNO leaders assured them they had nothing to lose, to calm the initial fear among the Chinese that the NEP would be divisive. The overall objective of NEP was national unity. Without national unity, the country would disintegrate, and no community would benefit.

When the NEP was first conceptualised as a national economic policy, the Chinese community's greatest concern was their economic status. The UMNO leadership assured them that the NEP was promised on an expanding cake and there was nothing to fear as government had no intention to take away what was legitimately theirs. In the first few years, from 1971 to 1975, the impingement on Chinese business was negligible primarily because the policy was not fully institutionalised until the enactment of the ICA⁶² in 1975.

Between 1976 and 1986 however, Chinese interests across economic, educational and cultural lines began to be broadly affected⁶³ leading to discontentment among their ranks.

⁶¹ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 160.

⁶² This legislation was viewed unanimously by Chinese business interests as the most draconian of all NEP measures, originally requiring non-Malay manufacturing firms with more than RM100,000 in shareholders' funds and employing more than 25 workers to divest at least 30 percent of their equity to Malay interests. They were also required to incorporate into their workforce a number of Malay employees to reflect the Malay proportion in the country's population, at least 50%. Jesudason, J.V., *Ethnicity and the Economy: The State, Chinese Business, and Multinationals in Malaysia*, (Singapore: Oxford University Press, 1989), pp 135-137). Subsequently EPU penned critical safeguards for non-Malay interests which were included in the Second Malaysia Plan. The Act was reviewed from time to time. If this was view of most draconian, other policies on education and quotas on housing were also strongly opposed.

⁶³ Two major issues made the non-Malays particularly the Chinese, feel marginalised: "(i) A new Educational Policy was implemented in 1971 making Malay the main medium of instruction in all State-run educational institutions, from primary schools to universities. After the implementation of the Malay language policy as the dominant language of education, there was a backlash from non-Malays. Threatened by the policy, they reacted by adhering more strongly to their mother-tongue languages and campaigned for their retention in schools and everyday social interaction... During this period, enrolments in Chinese schools increased to high levels. By 2000s, the proportion of Chinese students in national schools (fully government-aided) had declined to about 2%, and among Indians it was 4%, and less than 3% among others outside the Chinese and Indian group. (Independent Committees on the issue of ethnic segregation in schools, 2002, and (ii) A National Cultural Policy to promote Islamic values and a Malaysian culture based on Malay culture. When the policy was implemented,

When the ICA was implemented, it brought with it frustration and hardship to the Chinese in the years after 1976. The ICA provided for equity re-structuring, which facilitated the UMNO-led emphasis on the implementation of the second prong of the NEP by UMNO, namely rectifying the ethnic imbalances in terms of income and employment opportunities rather than the poverty eradication goal. In calling for an end to discrimination against the Chinese, (Dato') Kok Wee Kiat, then MCA Vice President and Deputy Minister of Trade and Industry said:

...The NEP came into being in 1970 with the tacit consent of all races. The consent was expressed for 20 years. The 20-year period expires in 1990. When it expires in 1990, let it forever lie in peace. When it lies in peace, with it goes a terrible spectre of racial polarization. With it will be buried the 'they' and 'we' approach in our Malaysian way of life. Let Malaysians start all over again on the basis of unity, harmony and comradeship that gave us Merdeka in 1957.⁶⁴

MCA's David Chua opined that the NEP threatened national unity because of serious defects in its implementation and the effects of restructuring in the field of education and culture,⁶⁵ a view reinforced by (Tan Sri) Dr. Ting Chew Peh. According to Dr. Ting, there were three main causes of frictions in Malaysian society, namely,

...First, the dissatisfaction of the non-Malay communities toward some government policies – the NEP, Education Policy and Cultural Policy Second, there has been too much emphasis (in practice especially) on racial and ethnic differences in the allocation of opportunities – economic, educational and political It is a negative factor in fostering 'we-feeling' and national unity.

it ignored non-Malay cultural traditions and propagated only Malay and Islamic elements. At the same time, Chinese political participation became increasingly marginalised as the government consolidated its control over the political process." See Singh, Jasbir Sarjit and Mukherjee, Hena, *Education and national intergration in Malaysia: Stocktaking thirty years after independence*, (Elsevier: International Journal of Educational Development, Vol 13, Iss 2, Apr 1993), pp 89-102; Kua, Kia Soong, *The Chinese schools of Malaysia: a protean saga*, (Selangor: Dong Jiao Zong Higher Learning Centre, 1999).

⁶⁴ Dato' Kok Wee Kit, "Facing the Future" in Ling Liong Sik *et al*, *The Future of Malaysian Chinese*, (Kuala Lumpur, MCA, 1988), p 19.

⁶⁵ David Chua, "The Chinese Education and Cultural Vision" in Ling Liong Sik *et al*, *The Future of Malaysian Chinese*, (Kuala Lumpur, MCA, 1988), p 65.

Third, the attitudes of some groups who are still reluctant to accept the multi-ethnic nature of our society.⁶⁶

The Malays were puzzled by the Chinese attitude towards education and culture.⁶⁷ Historically, when the British allowed large-scale Chinese immigration, they came to work, make money and return to their homeland. Despite their temporary presence, they demanded to be allowed to establish their own schools so that when they returned to China, their children would not be handicapped. Their demands were met by the British colonial administration. This was unique in the world as nowhere else were immigrants allowed to establish their own system of education in their adopted country. The Malays argued that this unprecedented system failed to unite the various communities in the country. Quoting Lim Teck Ghee:

There were several reasons for the failure of Chinese and Indian agricultural colonization of the Malay States...In the first place, the colonial administration had only a paper commitment to non-Malay peasant colonization...Moreover, the Chinese and Indian immigrants and, to a lesser extent, Malaysian immigrants from the Archipelago were not intent on making the Peninsula their permanent homes; it was merely a source of livelihood which they intended to leave as soon as they had made their fortunes.⁶⁸

To appease the Chinese, the government amended laws that gave power to the Education Minister to change vernacular schools to national type schools. The Malays felt whatever compromise the government agreed to in education and culture, Chinese leaders

⁶⁶ Dr. Ting Chew Peh, "The Problem of National Unity" in Ling Liong Sik *et al*, *The Future of Malaysian Chinese*, (Kuala Lumpur, MCA, 1988), p 131.

⁶⁷ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), pp 169-177.

⁶⁸ Lim Teck Ghee, *Peasants and their Agricultural Economy in Colonial Malaya 1874-1941*, (Oxford University Press, 1977), p 20.

would continue to criticise and use these very sensitive issues to stir up the Chinese community.⁶⁹

Other reasons cited by the MCA to replace the NEP included accusations that the data released by the EPU on the implementation of the NEP, as stated in the Five Year Plan documents, were manipulated to infer that the Malays has failed to achieve the given targets as compared to the actual situation on the ground⁷⁰. Despite its pronounced support for the NEP justification the pursuit of political stability necessitated that Malays achieved economic progress, the MCA was stuck in an impasse. They had to prove that they were sincere in their intention to deal fairly with their fellow Malaysians by showing support to the NEP, even though they felt it harmed Chinese political, economic and cultural interests.

In 1974, the MCA Economic Congress set out a framework for a race-based strategy as a means to overcome the threats to Chinese business interests that arised as a result of the a NEP – a strategy that subsequently ended in failure, as noted by Heng.⁷¹ He further stated that the MCA was concerned that Chinese businesses were unable to compete with the much larger state-owned enterprises who were acting in Malay interests, partly due to their size and lack of capital⁷². The MCA urged small family-owned Chinese firms⁷³ to restructure and transform into large corporations and have them listed in the KLSE. It argued Chinese firms that could match the size and economic strength of state enterprises would have the ability to

⁶⁹ Darmi, Ramiza and Albion, Peter, *English language in the Malaysian Education System: Its existence and Implications*, presented at the 3rd Malaysian Postgraduate Conference, NSW Australia, 3-4 July 2013, pp 2-5.

⁷⁰ As reported by Ismail, Rose, *Much Ado over Statistics*, *New Straits Times*, (6 Aug 1986).

⁷¹ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (*The Developing Economies*, XXXV-3, Sep 1997), p 271.

⁷² Non-Bumiputra capital is too small even to match foreign capital.

⁷³ Almost all Chinese businesses were (and have remained) enterprise owned and controlled by families. They continue to be paternalistic organizations with decision making powers concentrated in the founder who is helped by other family members. See Redding, Gordon S., *The Spirit of Chinese Capitalism*, (Berlin: de Gruyter, 1993).

employ a greater number of Malay workers thus contributing to the NEP's targets, as compared to smaller family businesses that hired family members only.

The MCA established the Deposit Taking Cooperatives (DTCs) that functioned as 'quasi-banks'. The DTCs took deposits, mainly from Chinese investors, and most of whom were from underprivileged backgrounds, with the promise of high returns⁷⁴. The Chinese co-operatives movement was established by the MCA in 1968, so a year prior to the NEP, Koperatif Serbaguna Malaysia (KSM) being the largest co-operative society. This was to counter the aggressive demands of the Bumiputra Economic Congresses.

In 1975, Multi-Purpose Holdings Berhad (MPHB) was incorporated to amalgamate Chinese capital under a single conglomerate with the aim of reinvesting for their benefit. As the same time, more Chinese cooperatives were established, many who were associated with specific MCA branches. By the recession of the 1980s, 35 such DTCs⁷⁵ estimated at RM4 billion mushroomed⁷⁶. Furthermore, illegal DTCs flourished. Between them, they had an estimated 588,000 individual depositors, which an MCA leader estimated as being equal to 50% of all Malaysian Chinese families holding some level of investment in any one of those organisations⁷⁷.

⁷⁴ Brown, Graham K. *Balancing the Risks of Corrective Surgery: The political economy of horizontal inequalities and the end of the New Economic Policy in Malaysia*. Oxford: Centre for Research on Inequality, Human Security and Ethnicity, University of Oxford, 2005.

⁷⁵ The Chinese Deposit-taking Cooperatives offered high interest rates, hence attracted up to 600,000 depositors to the tune of RM500 million collected. High-risk businesses bloomed under this scheme. However, the recession hit in 1986 and along with some cases of mismanagement, virtually wiped out the depositors' assets and life savings. Many held the MCA responsible and held furious riots demanding that MCA persuade the government to implement a ringgit-to-ringgit rescue package, to which the government refused. The government's refusal led to accusations of ethnic discrimination as in 1970, the government bailed out Bank Rakyat, a cooperative bank with mainly Malay investors and had also rescued Bank Bumiputra from almost RM1 billion losses in the Hong Kong property market in a scandal that implicated high-ranking UMNO politicians. Rakyat and Bank Bumiputra were under the supervision of the government where government guarantees deposits. Hence the question of race does not arise. It is a question of policy.

⁷⁶ See *Far Eastern Economic Review*, 28 Aug 1986.

⁷⁷ See *Far Eastern Economic Review*, 9 Aug 1987.

While the DTCs were the Chinese layman's economic link to the MCA, it was MPH B that was to take on MCA's flagship quest to defend Chinese capital against the NEP⁷⁸. MPH B's crucial objective, in the words of MCA President (Tan Sri) Lee San Choon, was to free Chinese businesses "*from the strait jacket that is their family business and organize themselves into larger combines to be run on a modern and efficient basis.*"⁷⁹ MPH B's intended purpose as a safeguard against the NEP was evident. After the government blocked MPH B's attempted takeover of United Malayan Banking Berhad (UMBC), the third largest bank in Malaysia at the time, UMNO Youth leader (Datuk) Suhaimi Kamaruddin insinuated that there was "*a series of strategies carried out in secret to cripple the plans carried out by the government to improve the economic standing of the Malays and other Bumiputra acquisitions.*"⁸⁰

By 1984, MPH B had acquired stakes in over a hundred subsidiaries at the state level, but these companies floundered to develop as active corporate players. Having already failed in their pursuit of liberalisation of ICA provisions in 1977, the Chinese diverted their attention to nurturing strategic relationships with potential Malay business partners, especially those who were politically-linked.

Many shrewd, discerning and experienced Chinese entrepreneurs, who wished to maintain control over and expand their enterprises into larger corporations, seized the

⁷⁸ Compared to the Malays, Chinese had superior access to capital and credit through their associations, and Chambers of Commerce which were established in Malaya after 1906. These organizations served as networks for members to gather and exchange information on market conditions, and as sources of credit and capital for starting or expanding one's business. At the same time, due to a shared Confucian heritage extolling values such as propriety, trustworthiness and importance of social relationships, Chinese business activities were underpinned by trust and strong obligation to fulfil business commitments. This modus operandi considerably lowered the costs and risks of business transactions for Chinese entrepreneurs. See Redding, Gordon S., *The Spirit of Chinese Capitalism*, (Berlin: de Gruyter, 1993).

⁷⁹ Gale, Bruce, *Politics & Business – A study of Multi-Purpose Holdings Berhad*, (Petaling Jaya; Eastern Universities Press, 1985), p 53.

⁸⁰ *Ibid.*, p 144.

opportunity to exploit the restructuring requirement of the ICA and were successful under the NEP. They included today's well-established tycoons⁸¹, such as (Tan Sri) Robert Kuok (Perlis Plantations, Federal Flour Mills and Shangri-la Hotels, Malaysia); the late (Tan Sri) Lim Goh Tong (Genting), (Tan Sri) Quek Leng Chan (Hong Leong Industries and Hume Industries Malaysia), and the late (Tan Sri) Loh Boon Siew (Oriental Berhad).

Gerakan's acceptance of the NEP was similar to the MCA's. Its ideological orientation announced on 15 April 1968 was "*comprising socialism and democracy with some recognition of the special rights of the Malays.*"⁸² In reviewing Gerakan's stance in the book "Strategies for Tomorrow – The National Economic Policy – 1990 and Beyond", published in 1984, the Far Eastern Economic Review posted that the book "*echoes the concerns of many non-Malays regarding current policies and future plans*" which includes "serious reservations about the thrust of current government efforts"⁸³. In the book Gerakan challenged the validity of the official statistics on the racial distribution of corporate shares ownership.

The Review also reported a policy statement by Gerakan president, Datuk Lim Keng Yaik, featured in the book. The statement asserted that, as reported by Far Eastern Economic Review, the NEP '*has not brought the country any closer to national unity*'. Datuk Lim Keng Yaik argues that ethnic polarization has become even more intensified due to the official distinction made between Bumiputras and non- Bumiputras within the NEP framework.

⁸¹ Koon, Heng Pek, Timothy Brooks, and Hy V. Luong. "Robert Kuok and the Chinese business network in Eastern Asia: A study in Sino-capitalism." *Culture and Economy: The Shaping of Capitalism in Eastern Asia* (1997): 155-181. See also "Malaysia's 50 Richest People." Forbes. Accessed August 14, 2018. <https://www.forbes.com/malaysia-billionaires/list/>.

⁸² Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 173.

⁸³ Gale, Bruce (rev), *The National Economic Policy – 1990 and Beyond*, (Review of Parti Gerakan Rakyat Malaysia's Strategies 1984), (FEER, 18 April 1985).

Gerakan proposed that the post NEP era, which initially planned to conclude in 1990, should be replaced by a National Economic Policy which emphasizes redistribution of wealth to the poor, regardless of their racial background.⁸⁴

Like the MCA, Gerakan asked the government to set up a body in the form of a National Consultative Council to evaluate the NEP. At the opening of the Gerakan's National Economic Seminar 1989, Dr. Lim Keng Yiak gave his view in greater detail of what the elements of the post-1990 policy should be, stressing "*balance growth, social justice and equitable distribution unrelated to race or religion with emphasis on poverty.*"⁸⁵

Following the May 13 riots, the Chinese-dominated opposition party, DAP, rejected the invitation to be incorporated into ruling coalition. Lim Kit Siang, who continues to be very active firstly as national chairman and later advisor, led the DAP with spirited rhetoric. He was outspoken in his fierce criticism of the implementation of the NEP and mounted attacks on most if not all elements of the policy. DAP claimed the NEP had enriched a handful of elite businessman and politicians, leaving the actual problems unsolved and the *rakyat* languishing in poverty. DAP accused the NEP of crippling national unity by creating new forms of discrimination and inequality.

During the parliamentary debate on the Second Malaysia Plan, Lim Kit Siang articulated his major criticisms of the NEP. At this debate in July 1971, he made his stand against the goals of restructuring society coming at the expense of Chinese community, stressing that the Chinese did not truly hold Malaysia's wealth in their hands:

⁸⁴ See Gale, Bruce (rev), *The National Economic Policy – 1990 and Beyond*, (Review of Parti Gerakan Rakyat Malaysia's Strategies 1984), (FEER, 18 Apr 1985).

⁸⁵ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 173.

... Since May 13 1969, the government's New Economic Policy has been obsessed with the concept of racial economic imbalance between Malays and non-Malays, strengthening the myth that all Malays are poor and downtrodden, while all Chinese and Indians are rich and wealthy. In actual fact, the overwhelming majority of the Chinese, Malays and Indians are poor. Furthermore, the real wealth of the country are not in the hands of the Chinese.⁸⁶

He also emphasised that the NEP prong to reduce poverty should benefit all Malaysians regardless of race, which was inclusive of both the Chinese community living in new villages, and the Indian community based in impoverished rubber estates⁸⁷. In a collection of speeches published by DAP seven years later, he outlined several more flaws. Firstly, that the NEP had failed to improve the welfare of poor Malaysians, regardless of race or locale, and instead had neglected the rights of the working class and underprivileged groups. Furthermore, he claimed that the NEP had heightened racial polarisation through its large-scale discrimination against non-Malays, whilst further aggravating class polarisation by "*breeding a parasitic Malay rich exploiting the Malay poor*". He also blamed the NEP for the spawn of 'money politics' and the worsening levels of corruption within UMNO. He also stated that the education arm of the NEP had been counterproductive, and had lowered the standard of education in Malaysia, especially at the tertiary level. Lastly, he stated that it hindered economic efficiency as well as encouraged bureaucratic waste.

Goh Hock Guan, taking the Opposition line, interestingly remarked at the 3rd Parliamentary session of 25 February 1971:⁸⁸

⁸⁶ Lim Kit Siang, *Time Bombs in Malaysia: problems of nation-building in Malaysia*, (Petaling Jaya: Democratic Action Party, 1978), p 55.

⁸⁷ Ibid., pp 78-88.

⁸⁸ Goh Hock Guan, *Penyata Rasmi, Dewan Ra'ayat, Parlimen ketiga, Penggal Parlimen Pertama*, (Jilid 1, Bil. 4, Hari Khamis, 25 Feb 1971), p 269.

Our job is to ensure that the great divides that separate the races in this country are closed rapidly and simultaneously, because unless this is done, a simultaneous onslaught on rural and urban problems is carried out, there will always be sharp feelings of dissatisfaction either with one group or the other, or worse still, with all groups. I want to see more Malay doctors, engineers, scientists, technologists, economists, people who can lead and modernize Malay society. I want to see the Malay peasants begin to earn not \$40 a month, but \$400 a month, if not more. I want to see the Alliance succeed in their task, where they have failed to succeed so badly these last 14 years.

In continuing his criticism on the effect of the NEP on national unity and restructuring objectives, Lim Kit Siang wrote in his DAP 1982 article *Malaysia in the Dangerous 80s* to challenge the implementation of NEP in achieving National Unity. He asserted that “restructuring is a process of Malaysianisation of all sectors of Malaysian life, and not Malay-isation, nor Chinese-isation or Indian-isation⁸⁹”, which means that the government should convince the people that “NEP is not meant for one race only” through its action by restructuring all areas of national life, including the Malay dominated working sector like “the government services, armed forces and police.⁹⁰”

Over the years, the DAP mobilised its efforts to attack and oppose every facet of the NEP and other policies of the government, ranging from alleged human rights abuses, language policy, education policy, employment policy, housing and hawker problems, to under-representation of the Chinese as FELDA settlers⁹¹.

⁸⁹ Malaysia. *Parliamentary Debates*. Fifth Parliament, First Session. (Volume 1 No 54, 29th March, 1979), p 5729-5730. Accessed at www.parlimen.gov.my/files/hindex/pdf/DR-29031979.pdf

⁹⁰ Lim Kit Siang, *Time Bombs in Malaysia: problems of nation-building in Malaysia*, (Petaling Jaya: Democratic Action Party, 1978), p 153.

⁹¹ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 166.

The Chinese leaders across the borders of politics, business and education were concerted in their grievance over the overstepping of the boundaries that were stated in the original intent and scope of the NEP. Taking advantage of the unifying sentiment, the DAP witnessed a strong increase in supporters, essentially from Chinese voters, throughout the early NEP period, gaining more than 20% of the national vote in the 1986 election⁹².

Although the DAP was the loudest in its criticism of the NEP in the late 1980s, the parties that actually held the political clout to sway the UMNO leadership were MCA and Gerakan Rakyat Malaysia. The MCA made demands on behalf of the Chinese community in all socio-economic and political aspects of Chinese society. Politically, the party aspired for the Finance Minister post to be reserved for the MCA and lamented the fact that only the President of UMNO could be appointed as Prime Minister. In the educational field, they felt that Chinese schools were neglected and that the Chinese were under-represented in various institutions of higher learning. They protested the suppression of Chinese culture and were disinclined to compromise on the use of the Chinese language⁹³. Towards the end, the DAP, MCA and Gerakan merged their stand as one. Unsurprisingly, they are all Chinese political parties, fighting for Chinese votes.

5.4.3 The Indians

The MIC through its president, (Tun) Samy Vellu, had taken a more accommodating stance on the NEP in reflecting its strength in the Alliance⁹⁴. MIC policies were generally supportive

⁹² Nohlen, Dieter, Florian Grotz, and Christof Hartmann, eds. *Elections in Asia and the Pacific: A Data Handbook: Volume I: Middle East, Central Asia, and South Asia*. OUP Oxford, 2001.

⁹³ Clutterbuck, Richard, *Conflict and Violence in Singapore and Malaysia 1945-1983*, (Singapore: Graham Brash, 1984), pp 290, 315.

⁹⁴ *Ibid.*, p 291.

of the NEP so long as the Indian community also received its proportionate share of benefits. However, the Indian community in general remains ambivalent. The MIC, as a political party, supports the NEP with modifications. However, influential professionals and academics campaigned vigorously against the NEP⁹⁵.

Muzaffar Desmond Tate documented in *The Malaysian Indians*, that “in 1969, the total Indian stake in equity ownership in Malaysian companies stood at a mere 0.9%, compared to 2.5% for the Malays and 22.8% for the Chinese. Even by 1990 (two decades later), the Indian share had only increased by 1% against a Malay stake of 20.7%, and a Chinese share of 44.9%⁹⁶.” He noted that a post-Merdeka generation of young English-educated Indian university graduates had begun to take notice of the plight of the plantation workers. As result of their research and studies into the community’s problems, there emerged a clear picture of how Indians were losing out in all fields, including employment, ownership of land and capital, and education⁹⁷. This revelation aroused great concern amongst many educated and professional Indians and sparked vigorous debate about these issues within the Indian community.

The MIC produced a blueprint entitled ‘NEP and the Malaysian Indians: MIC Blueprint for Action’ in 1974 to be endorsed by the series of economic seminars that discussed NEP and how it affected the poorer of the Indian community. In its recommendations, it stressed:

⁹⁵ Although fewer than the Chinese, the Indian opposition in terms of influence have been very successful in their campaign against the NEP. See Anbalakan, K., *The New Economic Policy and Further Marginalisation of the Indians*, (Universiti Sains Malaysia, *Kajian Malaysia*, vol XXI, nos 1 & 2, 2003).

⁹⁶ Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008), p 136.

⁹⁷ Ibid. See Tate, M.D. *The Malaysian Indians*. 2008.

The NEP is doubly important for Malaysian Indians. It is vital for achievement of national unity based on a just and equitable society, as well as crucial to bring about substantial improvement to their own position in Malaysian society and economy⁹⁸.

The document offered proposals regarding job and vocational training on the estates to overcome unemployment, and the alienation of public land to Indian settlers. It also called for a fixed quota for the admission of Indians into institutions of higher learning (as with the Malays), and also proposed the setting up of a unit trust fund to encourage Indians to invest in the stock market⁹⁹.

Unfortunately, the report failed to make any 'constructive suggestions' on ways to achieve the affirmative action desired, and was hence severely criticised.¹⁰⁰ Nevertheless, the blueprint did indicate the main areas of backwardness and neglect faced by the Indian community.

The implementation of the NEP immediately and most seriously affected Indian labourers. Post May 13, one of the first measures included in the administration of Tun Razak, was to reduce the number of foreigners employed in the country to provide more employment for the locals¹⁰¹. The Indian working class in the Peninsular, employed mainly in the plantation sector, had lived in the country for a long time, and had already been granted permanent residence status. Although they were fully eligible to apply for citizenship, many

⁹⁸ Malaysian Indian Congress. "The New Economic Policy and Malaysian Indians: MIC Blueprint." Kuala Lumpur: Malaysian Indian Congress, 1974.

⁹⁹ Ibid., p 135.

¹⁰⁰ Ramachandran, S., *Indian Plantation Labour in Malaysia*, (Kuala Lumpur: S. Abdul Majeed & Co., Pub. Division, 1994), p 30.

¹⁰¹ Under the Employment (Restriction) Act of 1968, a work permit system to keep tabs on foreigners employed in 12 specified occupations was introduced. In June 1969 within a month of the May 13 incident, a new schedule was added to the Act, extending the registration of foreign workers to another 2,000 employment categories, including the commercial plantation industry.

had failed to do so¹⁰². Work permits now implemented ranged from two years for the highly skilled to two months for ordinary, unskilled workmen. The first work permits to be issued were also stamped 'not renewable'. This, along with the imposition of fixed racial ratios in various occupations, made it virtually impossible for many Indians who were not registered as citizens to continue working in the country. As a result, 60,000 of them returned to India in 1970 under an official repatriation scheme that provided a free passage plus a modest sum of money¹⁰³.

The rigid enforcement of the work permit policy hit the Indian plantation workers hard, causing near panic in some estates. Over a third of those applying for work permits in June 1969 were workers from this sector. The relaxed work permit availability resulted in a steady influx of rural dwellers into towns in search of work. New job opportunities were created in industries in or near urban centres, which inevitably attracted young Indian workers. These new 'urban immigrants' soon discovered the higher wages they received were not enough to sustain them due to higher living costs in the town centres. As they were mostly uneducated, low-skilled rubber tappers who lacked other opportunities, these neglected Indians became sources of social problems for the government and the security agencies¹⁰⁴.

After the NEP was introduced, a number of significant shifts took place in the agriculture sector affecting mostly Indian estate workers. The most basic of these shifts was

¹⁰² Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008), p 127. It was soon discovered that about one-fifth of the Indian residents in the Peninsula eligible for citizenship had not applied for it, and so faced the immediate prospect of losing their jobs. Most of those affected were found working in the estates. This episode had put the MIC and the NUPW in a very poor light. To this date, there are still thousands of stateless Malaysian Indians whose citizenship statuses are ambiguous at best. While the actual figure is disputed, reported figures range from 3,853 to over 300,000. See The Malaysian Insight. "Ministry taking easy way out, says ex-MP of stateless Indians issue". *The Malaysian Insight*, 27 August 2018. Accessed at <https://www.themalaysianinsight.com/s/91059>.

¹⁰³ Ibid.

¹⁰⁴ Nagarajan, Subramaniam. "Indians in Malaysia: Towards vision 2020." *Rising India and Indian communities in East Asia* (2008): 375-398.

their displacement by the manufacturing sector as the main contributor to the GDP and largest source of foreign exchange. Towards the end of the 1970s,¹⁰⁵ two other developments had a further adverse impact on the Indian estate workforce. One was the official movement to replace foreign ownership¹⁰⁶ of the rubber and palm-oil¹⁰⁷ estates with Malaysian ownership.

The other was the influx of cheap, illegal Indonesian labour¹⁰⁸ by the 1980s. It was also a development encouraged by many employers as a source of cheap labour free of contractual obligations.¹⁰⁹ This directly affected the wage levels and bargaining power of the Indian estate workers. It was clear by the end of the 1970s (the first decade of the NEP), the position of the Indians in the plantation sector had barely improved, despite the progress achieved in other sectors of the national economy. It was noted that the NEP did not extend benefits to the commercial plantation sector because estate labourers were employees of financially strong, private limited companies (which owned the estates) and therefore not considered a government responsibility. Considering the declared aim of the NEP to eradicate poverty “*regardless of race*”, Indian workers were a deserving target group who should have been taken into account under the policy.

¹⁰⁵ Conditions in “the rubber estates were particularly bad in the first half of 1970s. The world market price for rubber, to which the labourers’ wages were pegged, was at its lowest for decades, and later rose by 1.8% a year during the period of the Second Malaysia Plan. Cost of living index rose much faster at 7.3% a year. These factors plus the continued process of fragmentation of estates, resulted in more than 1,000 plantation labourers losing their jobs between 1971 and 1975. Also there was an increase of 1% in the number of Indians living below the poverty line.” Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008), p 134.

¹⁰⁶ In 1940, three quarter of the area planted with rubber and oil palm was foreign owned. By 1972 foreign ownership had shrunk to over one-fifth of the total area of the total area under rubber, and by 1990 accounted only for one-tenth. See Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008).

¹⁰⁷ Oil palm cultivation dethroned the importance of rubber in Malaysia’s leading agricultural export in the 1980s. This adversely affected the rubber estate workers as more and more large estates switched from rubber to oil palm cultivation. This meant fewer job opportunities in the estate because oil palm cultivation is both seasonal and far less labour intensive than rubber cultivation.

¹⁰⁸ The Indonesians easily found employment in Malaysia in labour-starved estates, prompted by high wages (by Indonesian standards).

¹⁰⁹ By 1980, the estimated number of Indonesians engaged in estates in the Peninsular was 20,000-30,000. Adding to this number, the total official figure of 167,000 Malaysian estate workers shows that Indonesian already constituted 10-15 percent of the total estate workforce. See Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008).

When Deputy Prime Minister Datuk Musa Hitam stated that the government was considering fresh strategies to eradicate poverty and restructure society after the expiry of the NEP in 1990, Samy Vellu responded¹¹⁰ by welcoming the new proposal, and suggested six requirements for incorporation into the new strategy:

- 1) that the policy would ensure larger goals of income growth, equity and employment;
- 2) that it will ensure that economic development results in a massive spin-off and diffusion of benefits to all sections of the population;
- 3) that the benefits resulting from advances in technology would be diffused to a larger section and proportion of the society;
- 4) that it will ensure that industrialisation and economic development do not widen existing disparities in Malaysian society;
- 5) that it will improve the learning capacity of all sections of society so that none are left behind; and
- 6) that it will upgrade the human productivity of all communities so that everyone can play a role in helping to improve the production base of the country.

The MIC at its 1986 General Assembly focused on the NEP and passed no less than 13 resolutions on matters such as housing and citizenship, among other issues. The MIC Youth wing asked the Barisan Nasional to set up a body to monitor the progress and implementation of the NEP. Deputy Vice President Datuk S. Subramaniam pointed out that Malaysian Indians have a rightful share of 10% in the corporate and employment sector. He accepted

¹¹⁰ *New Straits Times*, 21 Aug 1985.

that much progress had been already been made in education: “... *The quota of Indian students in universities which at one time was between 3 and 4 percent has been increased to 9 percent through representations made by the MIC. Although we have not reached the 10 percent target, we are still working on it.*”¹¹¹

In 1988, MIC Youth proposed that the Indian community be defined as a deprived group so that it could benefit from all the programmes designed to eradicate poverty and restructure society.¹¹²

On a more positive note, the open discussion and criticism of the NEP, led by MIC, along with the criticism from other quarters including the Chinese, made an impact on government thought which was reflected in subsequent political statements made by Tun Razak and his successor, Tun Hussein Onn. In his address at the MIC Annual General Meeting in July 1997, Tun Hussein Onn placed great emphasis on the NEP being designed for all the Malaysian poor: “*I am talking about the poor; I am talking about poverty. Poverty is not only confined to Malays. It also applies to other races*”¹¹³.” Emphasis was also reflected in the Third Malaysia Plan (1976-80), both in the comments on the policy’s progress to-date, and in its proposals for development over the next five years.

In its review of the progress achieved under the Second Malaysia Plan (1970-1975), the authors of the Third Malaysia Plan¹¹⁴ admitted that the aim of eradicating poverty in the

¹¹¹ *New Straits Times*, 7 Jan 1987.

¹¹² *New Straits Times*, 27 June 1988.

¹¹³ *New Straits Times*, 4 July 1997.

¹¹⁴ The program clearly outlined that the NEP was applied on all races. It specifically identified major categories of the poor to which poverty eradication measures should be extended. These included rubber and coconut smallholders (as their number is small and they are self-employed), *padi* planters and fishermen, New Village residents (virtually all Chinese), the urban poor, Orang Asli and plantation workers. Assistance was given to meet their basic needs in terms of housing, health and sanitation, water and electricity supplies, and

plantation sector had not made progress. The review revealed that two-fifths of estate workers were living below the poverty line, and that the unemployment rate amongst them was high, despite government efforts made to improve the situation. Realising that they could not rely on much-needed government support, the MIC¹¹⁵ proceeded to implement the salient proposals contained in its blueprint of 1974, based on a co-operative approach. Between 1974 and 1980, the MIC established three cooperative societies¹¹⁶ and in 1976 setup the MIC Unit Trust. None of these were successful and two¹¹⁷ went into liquidation. Indian workers were too poor to participate in a substantial part, while Indian capitalists who were few in number, were not seriously interested.

On the whole, MIC had not been hostile towards the NEP. Tun Samy Vellu's suggestion to "*Keep the NEP*" was reported in the New Straits Times of 17 March 1989 while former Assistant Minister Dato' Pathmanaban, who was involved in the NEP formulation, summed up on behalf of the MIC that "*It's (NEP) still one of the finest strategies*".¹¹⁸

Nevertheless, criticisms of the NEP from the Indian community persisted. Some pointed out that even when national data showed Indians were performing better than Malays on average, sharp intra-group inequalities remained. Although a number of Indian professionals were doing well by today's standards, a large Indian working class was not. It was also felt that the NEP had not been successful in eradicating poverty in the plantation

education. A special revolving RM10 million fund was set up to improve estate housing and provide free medical attention and vocational training on the estates, and efforts made to ensure the Indians get their fair share of job opportunities in the manufacturing and commercial sector.

¹¹⁵ MIC was at a great disadvantage when compared to the MCA which had greater financial resources from the Chinese community.

¹¹⁶ NESA Cooperative (1974); Maju Jaya Cooperative (1978) and Cooperative Pekerja Jaya (1978).

¹¹⁷ Both NESA Cooperative and Maju Jaya went into receivership in 1988.

¹¹⁸ *The Star*, 4 Oct 1986.

sector between 1970 and 1990. As a result, the majority of plantation workers, many of whom were Indians, were left out of the mainstream of development¹¹⁹. (Tun) Samy Vellu himself complained that Indians in Kelantan had been unfairly treated on matters concerning welfare, and allegations had been made that the civil service had been practicing discrimination against Indians in its recruitment and promotion procedures¹²⁰. Others believed that the MIC, lacking a strong political base, was “*completely dependent upon UMNO support and could play no independent political role.*”¹²¹

¹¹⁹ Tate, Muzafar Desmond, *The Malaysian Indians: history, problems, and future*, (Petaling Jaya, Selangor: Strategic Information and Research Development Centre, 2008), pp 146-149.

¹²⁰ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), pp 175-176.

¹²¹ Stenson, M. R., *Industrial conflict in Malaya: prelude to the Communist Revolt of 1948*, (London: Oxford University Press, 1970), p 194.

5.5 RESPONSE FROM THE BRITISH

Interestingly the British had in their own way ‘supported’ the NEP. In a lengthy response of 8 October 1971 to higher British officials, Sir John Johnston of the British High Commission offered his analysis¹²² on the Second Malaysia Plan. He acknowledged that Malaysia is facing a dilemma shared by most developing nation; that is to allow “tax concessions” while maintaining the expenditures to improve the rural areas. Sir John Johnston also recognized that “*The Plan is as much a political as it is an economic document. It is designed to secure the Government’s Malay base without alienating the Chinese*”. He further explained:

In the first of these objectives, while it cannot achieve the restructuring of society within its own life, it probably goes far enough to satisfy the majority of the Malay community that the Government is setting out to advance their interests, as to win the support of all but the irreconcilable chauvinists. So far as the Chinese are concerned, the Plan purports to provide for the Malays out of the growth element of the economy and not at the expense of existing interest; but this still means that the Chinese cannot expect a full share of the growth¹²³.

In some other part of the response, Sir John Johnston also expressed his support for NEP in “its broad effects on British interests”. The British were convinced that the prospect for their investment on Malaysia remains positive. It is apt, in this regard, to quote Sir John Johnston at length:

It [NEP Plan] offers a reasonable degree of assurance against political upheavals. This, together with the emphatic endorsement of the private enterprise system to which the Plan commits the Government and the emphasis on the encouragement of more foreign investment, gives as good an assurance as is ever likely to be attainable that the partially suppressed resentment towards the predominance of

¹²² *The National Archives of the UK*. FCO 24/1154: Political developments in Malaysia. Kew Gardens, UK.

¹²³ *Ibid.*

foreign ownership of share capital in limited companies in Malaysia will not within the Plan period mature into actions of a positively damaging character against our large existing investment. The Plan offers opportunities for increased sales of British goods to Malaysia¹²⁴.

The NEP would soon become a tool for the decolonisation of the Malaysian economy post-independence, as the NEP stipulated that redistribution of equity into *Bumiputra* hands would be achieved by reducing foreign shares from 63% to 30%¹²⁵. As a greater part of these foreign shares were British owned, it would soon affect their stake in the Malaysian economy and result in a resistance towards embracing the NEP¹²⁶.

¹²⁴ Ibid.

¹²⁵ Yacob, Shakila, and Nicholas J. White. "The 'Unfinished Business' of Malaysia's Decolonisation: The Origins of the Guthrie 'Dawn Raid'." *Modern Asian Studies* 44, no. 5 (2010): 919-960.

¹²⁶ Yacob, Shakila, and Khadijah Md Khalid. "Adapt or Divest? The New Economic Policy and Foreign Businesses in Malaysia (1970-2000)." *The Journal of Imperial and Commonwealth History* 40, no. 3 (2012): 459-482.

5.6 CONCLUSION

In summary, Chapter 5 has focused on the implementation of the NEP via the national economic development plans, namely the Second, Third, Fourth and Fifth Malaysia plans. It is important to note that driving principles of the NEP have had an influence on Malaysian public policy far beyond its intended implementation period and has been reiterated in the NDP and NVP.

This chapter highlights how the internal debates within UMNO and the reactions from each ethnic group in Malaysia had a strong influence in how the Malaysian Plans changed over the years to adapt to public opinion. The responses to said policies were racially polarised, as to be expected from a social engineering initiative as radical as the NEP.

In the next chapter, this thesis will discuss the achievements and benefits of the NEP, thus addressing the question of whether or not the NEP met its objectives, and whether its impact on Malaysian society and economy was a positive one.

CHAPTER 6: ACHIEVEMENTS AND BENEFITS OF THE NEP

6.1 INTRODUCTION

The NEP has been lauded by many as a prime example of successful implementation of affirmative action¹, particularly in its achievements both economically and socially. In the Southeast Asian region, Malaysia stands out in terms of its rate of economic growth and poverty reduction. Between the 1970s to the 1990s, gross domestic product grew more than 6% annually², except during the 1985-1986 recession and the financial crisis in 1997. Per capita income grew from USD 900 in 1970 to USD 3400 in 2000, a figure which placed Malaysia as second highest in Southeast Asia³.

To recap the previous chapter, the stated goals of the NEP were two-pronged: the elimination of poverty, and the restructuring of society – in particular the elimination of identification of economic activities along racial lines. In the broader sense, the NEP succeeded in achieving these goals, as absolute poverty across Malaysian society was reduced, and Malaysia went from a low-income agrarian society to a middle-high income manufacturing and services economy. In terms of societal structure, the NEP resulted in the creation of a Malay middle class, with many Malays entering the realm of business and manufacturing.

¹ See Meerman, Jacob. "The Malaysian success story, the public sector, and inter-ethnic inequality." *Globalization and Autonomy: The Experience of Malaysia, Institute of Southeast Asian Studies (ISEAS) jointly with the Institute of Malaysian and International Studies (IKMAS)* (2008): 76-115. See also Lall, Sanjaya. "Malaysia: industrial success and the role of the government." *Journal of International Development* 7, no. 5 (1995): 759-773.

² Lane, Philip R., and Gian Maria Milesi-Ferretti. "The external wealth of nations mark II: Revised and extended estimates of foreign assets and liabilities, 1970–2004." *Journal of international Economics* 73, no. 2 (2007): 223-250.

³ World Bank Group. "World development indicators 2000". (March 2000).

While economic growth was an important factor, the large reduction in poverty would not be possible without the additional steps taken under the NEP. Much of the success can be attributed to the relentless efforts of the government in formulating specific policies and programmes aimed at eradicating poverty, particularly through education, rural development, and improvements in healthcare, employment opportunities and living standards. This thesis focuses on 3 main strategies: eradication of poverty through education, eradication of poverty through rural development, and redistribution of equity via rapid economic growth. These three broad areas will be discussed in detail, underlining the policies and successes of the NEP with regards to its stated goals.

In this chapter, the thesis will address to what extent the NEP was successful in achieving its stated goals, and its positive impact on public policy in the years following its implementation period.

6.2 ERADICATING POVERTY THROUGH EDUCATION

The government's commitment towards education is stipulated in the Federal Constitution and later emphasised in the Education Act of 1996.

Education played a vital role in the effort to achieve the NEP's twin goals of eliminating poverty and restructuring society. With education, there is the widespread benefit of higher wages to improve one's livelihood. Better education for Malays was seen as key in increasing the number of *Bumiputras* employed in the industrial and commercial sectors, in line with the national ethnic composition. Critics, however, argued that the NEP had a negatively affected the national education system during its implementation⁴.

Aside from market supply and demand conditions, the income of an individual depends on their skills, developed both in school and on the job. Generally, most occupations require little formal training with the exception of professionals, managers and technicians. However, academic qualification was the basic key to getting and holding a job. Furthermore, an improved quality of education was vital in the quest to develop human capital in Malaya and subsequently the shift from primary industries to secondary and tertiary sectors.

As mentioned in earlier chapters, most local Malaysians were either illiterate or never had access to proper education under British colonial rule, who in turn established secular schools in the Straits Settlements. The British implemented a dual education system which

⁴ Selvaratnam, Viswanathan. "Ethnicity, inequality, and higher education in Malaysia." *Comparative Education Review* 32, no. 2 (1988): 173-196.

segregated the Malay masses from the aristocracy. Vernacular schools for the Chinese and Indian communities were established subsequently.

The said dual system served different functions for the British. The Malay masses were afforded a rural-based Malay vernacular education and restricted to four years of rudimentary education⁵. This was a requirement that the Chinese and Indians were not subjected to, according them the benefit of an English education⁶. The only available option for the Malay masses to further their education was to switch to Malay Special Classes in government English schools, at grades 4 and 3 for boys and girls respectively⁷. There were no Malay-language secondary schools provided during the British colonial governance, hence requiring a shift from Malay to English during the transition from primary to secondary. This language barrier proved to be an insurmountable challenge for many Malays, preventing them from pursuing higher education. It must be clarified that this was no mere oversight, rather a means of social control over the rural population for the British⁸. Replying to complaints of this policy, the British Director of Education stated:

It would be contrary to the considered policy of government to afford to a community, the great majority of whose members find congenial livelihood and independence in

⁵ Assistant Director of Education R.O. Windstedt recommended in early 1916 that the basic character of Malay education should be rural and with a strong manual, agricultural bias in which basket making and handicraft were to be given emphasis in order to instil the idea of dignity of labour. He recommended the inclusion of handiwork, gardening and netting in the Malay school curriculum. He also recommended the reduction of schooling from five to four years. The Windstedt Report in fact laid the foundation for rural biased Malay education. Maaruf, Shaharuddin, *Malay Ideas on Development: From Feudal Lord to Capitalist*, (Singapore: Times Books International, 1988), p 56; Nagendralingan, R., *The Social Origins of the Educational System in Peninsular Malaysia*, (Tanjong Malim: Penerbit UPSI, 2007), p 34; Roff, W. R., *The Origin of Malay Nationalism*, (New Haven and London: Yale University Press, 1967), p 137.

⁶ Tao Yao Sua and Santhiram Raman, *The British Educational Policy for the Indigenous Community in Malaya*, (Cenpris WP 103/09 Working Paper Series, June 2009).

⁷ Chai Hon Chan, *Education and Nation-building in Plural Societies – The West Malaysian Experience*, (Canberra: Development Studies Centre, Australian National University, 1977), pp 18-19.

⁸ The British were concerned that the backlash of 'over-education' among the Malay masses would lead to an emergence of political awareness and a repeat of the rebellion experienced in the Indian sub-continent. Malakar, S.N. and Chittaranjan, Senapati, *Ethnicity, Religion and Culture Based Discrimination: A Study of Malaysia*, (New Delhi: Indian Institute of Dalit Studies, Working Paper Series, 2010), Vol IV, no 4, p 24.

agricultural pursuits, more extended facilities for the learning of English which would be likely to have the effect of inducing them to abandon those pursuits.⁹

Malay representatives in the then Federal Council (and legislative Council of Singapore) severely asserted against the school system, with one calling the British policy “*a policy that trains the Malay boy how not to get employment*” by excluding the Malays from learning in the “*bread-earning language of Malaya*”¹⁰ Despite their protests, Malay vernacular schools could only provide limited educational knowledge to the Malay masses.

The British however provided the Malay aristocracy, who were held in high regard by the Malay masses, work within the British colonial administration by equipping them with an elite English education. By doing this, the British managed to achieve political mileage from their alliance with the Malays’ traditional leaders¹¹. The British were obviously nervous that over-educated Malays would result in a political awakening that was contrary to their political and economic interests¹². Hence, they applied their “divide and rule” tactic via the dual-system of education, a move calculated at bolstering their own political position in Malaya.

The British wanted to rule Malaya with a minimum number of their citizens as it was costly to bring in too many over to Malaya. To achieve this, they trained local Malays¹³ to

⁹ Puthuchery, Mavis, *The Politics of Administration: The Malaysian Experience*, (Kuala Lumpur: Oxford University Press, 1978), pp 9-10.

¹⁰ *Ibid.*, p 10.

¹¹ This strategy of the British proved to be effective as these elites adopted a pro-British stand and neutralized challenges from other radical Malays. Yahya, Zawiah, *Resisting Colonialist Discourse*, (Bangi: Penerbit UKM, 2003), p 64.

¹² Contrary to British expectations, Malay education later became one of the agenda of Malay radical nationalism denouncing the legitimacy of the British colonial rule. Driven by their threatened position from encroachment of the immigrant communities, particularly the Chinese and sparked by Indonesia nationalist movement, the radical Malays soon adopted an anti-British stance.

¹³ The British established the Malay College Kuala Kangsar. It was mainly intended only to educate low-level civil servants, and not meant to prepare students for entrance to higher institutions of education. Puthuchery, Mavis, *The Politics of Administration: The Malaysian Experience*, (Kuala Lumpur: Oxford University Press, 1978), pp 10-11.

be employed at the lower level of its bureaucracy. The Malays were known to obey and remain loyal to those above them, and the British used their civil service manned by Malay civil servants to control the Malay masses. It was this relationship between the British, royalty and Malay civil servants that ran the Federal and Unfederated Malay States prior to the Japanese occupation.

The British unwillingness to set up Malay secondary schools and their reluctance in using the Malay language in government departments had severely hampered the educational advancement of the Malays. As Malays were encouraged to engage in traditional rural activities, the modern sector remained largely dominated by the Chinese. The Malays were therefore relegated to an insignificant role, left out from the modernisation and economic development of Malaya¹⁴. The backward position of the Malays under the British colonial masters quickly became a rallying point for Malay radicals and Malay masses.

Table 6.1 below illustrates the enrolment statistics of the three main races in English schools within the FMS between 1919 and 1937:

¹⁴ Firdaus Abdullah, *Radical Malay Politics: Its Origins and Early Development*, (Petaling Jaya: Pelanduk Publications, 1985), p 2.

Table 6.1**Total Enrolment in English Schools in the Federated Malay States (by Percentage) ¹⁵**

Year	Total	Malays	Chinese	Indians	Europeans & Eurasians	
					Others	Others
1919	8456	9	48	30	10	3
1920	9208	10	48	30	10	2
1921	10125	13	47	29	9	2
1922	10450	15	46	29	9	2
1923	11594	18	46	26	8	2
1924	12806	18	48	24	7	3
1925	13768	19	49	23	7	2
1926	14509	19	49	23	7	2
1927	16283	18	49	25	6	2
1928	16185	17	49	26	6	2
1929	17113	16	50	26	6	2
1930	17997	16	49	27	6	2
1932	17477	15	50	27	6	2
1933	16417	17	49	27	6	1
1935	16496	16	50	27	6	1
1937	17161	15	50	28	6	1

Source: Annual Reports on Education in the Federated Malay States. (1975)

By the 1930s, the immigrant communities had developed roots and were comfortable in Malaya. The assertiveness of these communities, particularly the Chinese, in making demands to the colonial government over their rights further agitated the Malays. The influx of immigrants and their economic dominance raised discontent among the Malay masses,

¹⁵ Annual Reports on Education *FMS* 1919 to 1937. Cited from Loh, Philip F.S., *Seeds of Separatism – Educational Policy in Malaya 1874-1940*, (Kuala Lumpur: Oxford University Press, 1975), p 106.

especially as the British seemed unconcerned that the educational, social and economic disparities were remaining unchecked.

The British discrimination of the locals had lasting consequences. Even by the late 1950s, the number of Malays in the colonial civil service had not improved by much:

Table 6.2

Distribution of Malays, Chinese And Others in The Malayan Civil Service 1957-1960¹⁶

ETHNIC GROUP	1957	1958	1959	1960
Expatriate	220	154	105	62
Malays	128	123	166	193
Chinese	9	11	13	-
Indians	3	4	9	33
Others	-	-	6	-

Source: Tilman R.O. *Bureaucratic Transition in Malaya* (1964).

Chinese, Tamil, and mission schools were state-funded in the early years prior to independence. They were allowed to maintain their chosen language of instructions so long as they agreed to deliver the national curriculum. By the 1950s, several proposals with regards to national education policy had been drafted, namely the Malay-preferred Barnes Report¹⁷, which was subsequently modified into the Ordinance Report. There was also the Fenn-Wu Report¹⁸ which was more favourable to the Chinese and Indian communities, and

¹⁶ Tilman, Robert O., *Bureaucratic Transition in Malaya*, (Durham NC: Duke University Press, 1964), pp 322-324.

¹⁷ Malaya Committee on Malay Education and Barnes, Leonard. *Report of the Committee on Malay Education, Federation of Malaya*. Government Printer, South Africa, 1951.

¹⁸ Fenn, William Purviance, and Deyao Wu. *Chinese schools and the education of Chinese Malaysians: The report of a mission invited by the federation government to study the problem of the education of Chinese in Malaya*. Printed at the Government Press by HT Ross, 1951.

the Razak Report which represented a compromise between the aforementioned report. In 1952, the Education Ordinance was enacted, which implemented proposals from the Barnes Report, drawing protests from the Chinese and Indian community¹⁹.

In 1956, the Razak Report²⁰ was embraced as the national framework for educational policy in soon-to-be independent Malaya. One of the suggestions was for a homogenous national curriculum to be implemented at both primary and secondary level, regardless of the medium of instruction. In terms of medium of instruction, primary schools would be divided into “national” namely Malay-medium, or “national-type”, namely Chinese, Tamil, and English-medium. At the secondary level, only Malay and English schools would be allowed.

By 1969, Chinese-medium schools were finding it difficult to get financial support from Chinese parents, who preferred English schools as they saw better prospects for their children. They preferred their children to be educated in English, following the lead of the Chinese in Singapore and sensing a brighter future in English education²¹.

By the 1970s, schools across the nation had begun the conversion process into Malay-medium national schools. The change applied to primary schools that were English-medium, and all secondary schools that were not already English or Malay-medium²². All schools were compliant with the national language policy by end 1982. However, the jump to Malay-medium put them in a spot, with the non-Malays protesting and campaigning for the retention

¹⁹ Brown, Graham K. "Making ethnic citizens: The politics and practice of education in Malaysia." *International Journal of Educational Development* 27, no. 3 (2007): 318-330.

²⁰ Ministry of Education, *Report of the Education Committee 1956, (The Razak Report)*, (Kuala Lumpur: Government Press, 1956).

²¹ Pennycook, Alastair. *The cultural politics of English as an international language*. Routledge, 2017.

²² Adelaar, K. Alexander, and D. J. Prentice. "Malay: the national language of Malaysia." *Atlas of languages of intercultural communication in the Pacific, Asia, and the Americas* (1996): 729-733.

of mother-tongue languages. As they saw limited future in the national schools, they went back to supporting Chinese-language schools instead.²³

Since independence, Malaysian education had been widely revamped from the original fragmented system. Formal educational policies came into place. The new government established a national education system, upholding Malay as the national language, but also ensuring that the language and cultures of the non-Malays were preserved and sustained. The Education Act 1961,²⁴ which incorporated the Razak Report²⁵ and the Rahman Talib Report,²⁶ became the sole basis of education policies for three decades.

Undeniably, the education policy of the NEP was among the more crucial and controversial of the Plan's points. Malay backwardness in education was an acute problem in ensuring progress of the Malays. Radical changes to correct the imbalance were crucial. (Tun) Dr. Mahathir observed in his 26 September 1948 news article "Malay and Higher Education" that the rise in the enrolment to the school among the Malays was a positive development but the participation is still very much uneven as the Malays "*have to compete with an even greater number of rivals.*"²⁷

²³ See Lee Ting Hui, *Chinese Schools in Peninsular Malaysia: The Struggle for Survival*, (Singapore: Institute of Southeast Asian Studies, 2011).

²⁴ The Education Act 1996 repealed the Education Act 1961. It is the present and most comprehensive legislation on education and covers all levels of education under the National education system (except for international schools). The Act stipulates the use of the national Language as the main medium of instruction, a national curriculum and common public examinations. It provides for pre-school education, primary school education, secondary school education, post-secondary education, teacher education, special education, private education, and technical education. This Act gives greater prominence to values in education and aims to ensure relevance and quality in the education system. See <www.ibe.unesco.org/International/ICE/natrap/Malaysia.pdf>

²⁵ The Razak Report asserted a uniformed centralised and national education system that has a Malay-oriented curriculum. There was to be one type of national secondary schools with Bahasa Malaysia as the main medium of instructions. The English and Malay language remains compulsory.

²⁶ The main features of the Rahman Talib Report comprised of free primary and universal education, automatic promotion of students to Form 3, religious and moral education as a basis for spiritual development and Bahasa Malaysia remains the main medium of instructions. The was emphasis on teacher training and the establishment of the Schools Inspectorate. See Ministry of Education, *Report of the Education Committee 1960, (The Rahman Talib Report)*, (Kuala Lumpur: Government Press, 1960).

²⁷ Mahathir Mohamad, *The Early Years 1947-1972* (Berita Publishing, 1995), pp 9-10.

The Government started at the beginning. The Child Care Centre Act 1984 (Act 308) regulates all Early Childhood Care and Education (ECCB) programmes for children under age four. Several government agencies, private bodies and voluntary organisations provide pre-school education (kindergarten) for children aged four to six, charging fees for the service. All pre-schools are registered with the Ministry of Education. Early childhood development programmes with the mandatory implementation of compulsory primary education (a period of six years) for all children between the ages of 7 and 12, prepared the country's young to participate in future nation building. It offered an equal education opportunity to every child whether from urban or rural areas.

To further education opportunities for the disadvantaged, a few schemes were introduced. Among them was the Textbook Loan Scheme that was introduced in 1975. The scheme aimed to "*reduce the financial burden of poor parents so that children were not deprived of a basic education because they could not afford to purchase textbooks*"²⁸. In 1993, the Government spent a total of RM 63 million to give over 90% of all students in government schools support via the scheme²⁹.

Additionally, the Applied Food and Nutrition Programme and the School Health Programme, aimed at improving the standard of pupils' health by educating them on proper nutrition and healthy lifestyle practices, were integrated in 1976 by the government³⁰. The scheme provided supplementary foods to needy primary school student with an aim to

²⁸ UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), p 29.

²⁹ Ibid

³⁰ Jaafar, S., M. R. Suhaili, K. Mohd Noh, F. Z. Ehsan, and F. S. Lee. "Malaysia: Primary health care key to intersectoral action for health and equity." *World Health Organization and Public Health Agency of Canada*. http://www.who.int/entity/social_determinants/resources/isa_primary_care_mys.pdf. Accessed 15 (2010).

enhance their general health and ensure normal physical growth. The scheme covered over half a million students from over 5,000 primary schools nationwide³¹. Another government intervention measure undertaken was to provide residential units for pupils from underprivileged backgrounds, namely those identified as low-income and disadvantaged rural groups. This initiative covered both primary and secondary level, with the aim of giving these students a “*better living environment conducive for learning.*”³²

Special needs education to ensure that differently-abled children are catered to had not been overlooked. Those children deemed capable of coping with the standard national curriculum were enrolled in conventional classes alongside their peers under the “inclusive education policy.”³³

The following table taken from the Ministry of Education and the Seventh Malaysia Plan reflects the large number of new entrants into Grade 1 who were previously enrolled in any version of organised early childhood pre-school development programme for a year. Percentage of new entrants have been 80% and above for the period between 1990 through 1995. Meanwhile, the increasing enrolment statistics in primary and secondary schools between 1990 and 1995 clearly reflected the government’s concerted effort in education.

³¹ A total of RM51.5m was budgeted for this activity in 1998. UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), p 30.

³² *Ibid.*, p 29.

³³ UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), p 27.

Table 6.3**Enrolment in Primary and Secondary Schools (1990-1995)³⁴**

Level of Education	1990	1995	Annual Rate of Increase % (1990 – 1995)
Primary	2,447,206	2,827,627	3.1
Secondary	1,366,068	1,651,684	4.18
Total	3,813,274	4,479,311	

Source: Ibid.

Table 6.4**Number of Primary and Secondary Schools (1990-1995)³⁵**

Years	Number Of Schools	
	Primary	Secondary
1990	6828	1327
1991	6859	1359
1992	6891	1409
1993	6912	1409
1994	6932	1437
1995	6993	1476

Source: World Education Forum. (2000).

³⁴ Ibid., paras 6.21-6.26.

³⁵ World Education Forum, *The EFA 2000 Assessment: Country Reports – Malaysia*, paras 6.27-6.28, <http://www.unesco.org/education/wef/countryreports/malaysia/rapport_2.html>

The country had also pledged to eradicate illiteracy by 2000. Various adult literacy and functional literacy programmes were implemented, targeted at inculcating a culture of life-long education. Adult functional-literacy and reading promotion programmes, intended to cater to those in the lower income bracket, were advocated through the Ministry of Rural Development and other relevant ministries. There was no age limit or restriction of gender for entrance into these programmes.

Table 6.5

Literacy Rates of 15–24 Year Olds by Sex, Malaysia 1970–2000 (%)³⁶

Year	Female	Male	Person
1970	68.0	83.0	75.0
1980	89.9	94.0	91.9
1991	95.3	95.9	95.6
2000	97.3	97.2	97.2

Source: United Nations Development Programme. (2005).

Despite a later start by the *Bumiputra* youth, data from the Department of Statistics confirmed an increase in their literacy rates, as per Table 6.6 below.

³⁶ United Nations Development Programme, *MDG 2 Achieve Universal Primary Education*, (Malaysia: UNDP, 2005), p 69.

Table 6.6**Literacy Rates of 15-19 Year Olds by Ethnic Groups in Malaysia 1970-1991****(%)³⁷**

Year	Bumiputra	Chinese	Indian
1970*	91.0	94.0	87.0
1980*	96.0	97.0	92.0
1991	96.9	98.4	96.9

Source: Malaysia, Department of Statistics.

As the data above shows, the benefit of improved literacy rates was felt across the different races, which an exponential improvement for Indians. By the end of the NEP implementation period, the Bumiputra and Indian populations were on par for literacy rates, and by the year 2000, less than 2% of 15-19 years olds from any of the 3 main ethnic groups were illiterate³⁸.

Data on the level of literacy available from the Department of Statistics (DOS) and the EPU³⁹ revealed several key achievements in 1991, for example that the literacy rate for 15 to 24-year age group had increased, notably as a result of the primary education system in the country. For Malaysians over the age of 10, the literacy rate had reached 85%. In addition, the 1981 general census, including a survey on literacy, indicated a 72% literacy rate, a 14% increase from 1970.

³⁷ Department of Statistics of Malaysia.

³⁸ United Nations Development Programme, *MDG 2 Achieve Universal Primary Education*, (Malaysia: UNDP, 2005), p 70.

³⁹ See World Education Forum, *The EFA 2000 Assessment: Country Reports – Malaysia*, paras 6.76-6.85, <http://www.unesco.org/education/wef/countryreports/malaysia/rapport_2.html>

The subsequent 1991 general census highlighted that the population had by then achieved a higher level of education, whereby 84% of Malaysians over six years old, equivalent to 12.4 million people, had attended school. Of this subset, 38% had attended secondary school. This was a significant increase in comparison to 1980. While primary and secondary education were growing steadily, tertiary education had surpassed their growth rate. From 1981-1991, there had been a 10% annual increase for Malaysians holding higher education qualifications in STPM, diploma level, and undergraduate degrees.

This increase was especially important in light of the conclusions from special report on Campus Life commissioned by the National Operations Council not long after the 1969 riots⁴⁰. The Majid Ismail Committee, who constrained their research for the report on the years 1959-1970, reflected on the wide gap in between the different ethnicities across the various faculties. Their greatest concern was with regards to the Malay students, who were in the first place a scarce population, and secondly, were underrepresented in virtually every field except the Arts and Social Sciences. In higher education, the University of Malaya enrolment record for 1962-63 academic period revealed that the entire student body consisted of only 20% Malays, and their representation in the Science and Engineering faculties stood at a mere 4.6%:

⁴⁰ *Report of the Committee appointed by the NOC to Study Campus Life of Students of the University of Malaya* (Majid Ismail Report), Kuala Lumpur, 1971.

Table 6.7**Student Enrolment in Each Faculty at the University of Malaya by Race
(1962/1963 Session)⁴¹**

	Malay	Chinese	Indians	Ceylonese	Eurasians	Others
Faculty of Agriculture	6	56	6	6	0	0
Faculty of Arts	247	319	90	42	9	16
Faculty of Engineering	5	185	24	9	4	1
Faculty of Science	16	228	41	25	3	5

Source: University of Malaya, *Malaysian Politics*. (1976).

Until the adoption of the NEP and the 1971 Constitutional Amendments, admission to college education was on the basis of race-neutral academic criteria. The Malays did not have a tradition of involvement in higher education comparable to the Chinese and Indians.⁴²

⁴¹ University of Malaya, Document No. AR 344/62 p 2, cited in Means, G.P., *Malaysian Politics*, 2nd edn, (London: Hodder and Stoughton, 1976), p 20.

⁴² The Bumiputras were disadvantaged by low incomes and residence in rural environments lacking good education institutions. Consequently, they were significantly under-represented in higher education. Early British education system was deemed as 'devious'. Although they appreciated the major effect education could play to upgrade the Malays, and had set up the MCKK for the Malay elites, the British were suppressing education opportunities for the peasant Malays by confining them to role of farmers for fear that they will face the same rebellious nature of the British Indians in India.

Table 6.8
Total Graduates by Community Group (1959-1970)⁴³

	Malay	Chinese	Others
Bachelor of Arts	1369	1404	603
Bachelor of Science	69	1488	150
Bachelor of Engineering	4	408	41
Bachelor of Agricultural Science	40	162	21
Diploma in Education	229	626	216
MBBS	12	108	9
Bachelor of Economics	112	185	31
TOTAL	1905	4381	1071

Source: Firdaus Hj Abdullah. *Affirmative Action Policy in Malaysia*. (1997).

Firdaus Abdullah echoed the findings of the Majid Ismail report, observing that aside from their 61% representation in the Faculty of Arts, Malay students were woefully underrepresented, constituting under 25% in all faculties as of 1970. Meanwhile, the Chinese students were concentrated in Engineering, Medicine and Science, making up an overwhelming 90% majority. The Indian and Ceylonese students also outnumbered the Malays in Science, Engineering, and Education, despite being a significantly smaller proportion of the student body at 14% until 1965. Firdaus also highlights that the ethnic imbalance extended to the teaching faculty as well, whereby the Malays made up a mere 13%, while the Chinese, Indians, and Others (Expatriates) were 36%, 19% and 30% respectively⁴⁴.

⁴³ Firdaus Hj Abdullah, *Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty*, Ethnic Studies Report (Sri Lanka), Vol. XV, No 2 (July 1997), p 210.

⁴⁴ Ibid.

A quota system⁴⁵ was also introduced to expand access to tertiary education for *Bumiputras*. Through the student admission quota system, a designated percent of undergraduate seats in higher institutions of learning were reserved for *Bumiputras*.⁴⁶ The quotas were fixed and were based on the 1970s population figures used to calculate the percentage ratio for undergraduate seats. This meant that the *Bumiputras* were thereafter, actually apportioned a lower percentage of places, as originally intended. The government nevertheless removed these quotas in 2003 after they were considered as unfairly rewarding the *Bumiputra* by the non-*Bumiputras*, despite the said lower percentage of places.

Prior to 1969, there were only two universities in the entire country, the University of Malaya established 1905 and University of Penang established 1969 (subsequently known as University of Science, Malaysia). In the three years that followed, nine new public universities were founded. Nine more have since been established.

The Universities and University College Act 1971 (UUCA)⁴⁷ was enacted to provide for the establishment, maintenance and administration of public universities to enhance competitiveness among universities and turn them into centres of human capital development. This Act was amended in 1996 to corporatise and privatise the governance and management of universities⁴⁸. This was another pivotal point in Malaysia's education system, as the Private Higher Educational Institutions Act 1996 was enacted, to allow for

⁴⁵ The quota system was implemented by way of Clause 8A of Article 153 and remains one of the most controversial aspects of the NEP and Bumiputra rights.

⁴⁶ Since then, increases in the number of places reserved for *Bumiputras* in both tertiary education and employment, as well as their visible presence in these sectors in large numbers, created confidence that they can adequately fill those places.

⁴⁷ Undang-Undang Malaysia. Akta 30: Akta Universiti dan Kolej Universiti 1971. Accessed at <http://www.management.utm.my/download/academic-guide/227-akta-universiti-dan-kolej-universiti-1971-auku/file.html>

⁴⁸ Undang-Undang Malaysia. Akta 30: Akta Universiti dan Kolej Universiti 1971. "Akta A946: Akta Universiti dan Kolej Universiti (Pindaan) 1996).

private universities to be established and empowering them to confer their own degrees. This led to the mushrooming of private higher education institutes across the country.⁴⁹

However, the UUCA was also seen as stifling freedom of speech, as it stipulated that students were not allowed to participate in political activities without explicit permission from their universities. The Act was amended in 2012 when 4 students challenged the legality of this aspect of Act, condemning it as unconstitutional⁵⁰. Controversy around the Act continues to this day, with many calling for its abolishment as it is seen as stifling political awareness amongst Malaysian youth.

Another key development in *Bumiputra* education was the establishment of the MARA group of educational institutes. In 1966, the Rural & Industrial Development Authority (RIDA) was substituted with the Council of Trust for the *Bumiputras* (MARA). In that same year, the professional courses as administered by the British Institute of Management (BIM) came to be replaced by MARA's own Diploma in Business Studies. This was due to the directive from BIM to end the practice of external examinations. Maktab MARA, nevertheless continued to grow, eventually rebranding as Institut Teknologi MARA in October 1967, establishing itself as the principal component amongst the MARA Training Division.. By August 1999, the Institute was raised to university status and eventually renamed as Universiti Teknologi MARA (UiTM). It also provides a wide range of vocational

⁴⁹ By year 2002, there were ten public universities, four public university colleges and one international university funded by the Government. In 2004, there were 19 polytechnics throughout the country. A total of 36 polytechnics to be established by year 2010. UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), pp 25-26.

⁵⁰ The UKM4 were a group of students who were arrested under the act on the grounds of having attended a by-election with a political activist who was carrying political flyers in their car. They challenged the act and won their case. Since then, notable cases include the UM8 and the UM6, for organizing events that were "reasonably construed" as expressing political support which the University Board "deem unsuitable". See Kulasagaran, Priya. "Standing their ground". *The Star*, 21 December 2014. Accessed at <https://www.thestar.com.my/news/education/2014/12/21/standing-their-ground/>. See also "Litigants shocked but happy with ruling". *The Malaysian Bar*. 1 November 2011. Accessed at http://www.malaysianbar.org.my/legal/general_news/litigants_shocked_but_happy_with_court_ruling.html.

and training programmes ranging from business to technical skills for *Bumiputras* to increase the number of trained workforce for the commercial and industrial sectors. Today, it has more than 300 academic programmes and several learning centres to promote academic excellence and innovation for young *Bumiputras*⁵¹.

Education can be considered a major success of the NEP. The massive investment in the education system coupled with educating and training the general workforce up to acceptable levels over the years has enabled all Malaysians to continue to compete and prosper in today's world economy. Success in this sector also opened up vast opportunities for the *Bumiputras*. The government has taken active measures to improve the national quality of education, most notably through curriculum reforms in 1983, 1995 and 1999 and by harnessing the benefits of technology in education⁵². The National Education Philosophy of 1988 stated that:

...education in Malaysia is an on-going effort to further develop the potential of individuals in a holistic and integrated manner, so as to produce individuals who are intellectually, spiritually, emotionally and physically balanced and harmonious, based on firm belief in and devotion to God. Such an effort is designed to produce Malaysian citizens of high moral standards, knowledgeable, and competent, and who are responsible and capable of achieving a high level of personal well-being as well as being able to contribute to the harmony and betterment of the family, the society and the national at large⁵³.

The principles and doctrines of this philosophy were translated into the school curriculum, thus supporting the advancement of a stock of human capital that is balanced,

⁵¹ Universiti Teknologi MARA, *University Profile* (30 Sept 2011).

⁵² UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), p 2.

⁵³ Ministry of Education Malaysia, 1988. Cited in UNESCO-IBE: *World Data on Education, 6th Edition*, 2006/07. Accessed at http://www.ibe.unesco.org/fileadmin/user_upload/archive/Countries/WDE/2006/ASIA_and_the_PACIFIC/Malaysia/Malaysia.pdf.

well-rounded, trained and skilled who share a common aspiration for national unity. Through the National Education Policy 1988, the government outlined its developmental policy and role in financing education through public expenditure⁵⁴. The Policy also outlines that there is to be “no discrimination against any citizen in terms of access to education and financial support for the maintenance of pupils or students in any educational institution”⁵⁵, a notion reaffirmed by a subsequent UNESCO report.

The Policy reaffirmed the status of *Bahasa Melayu* as the national language, outlining that it was a compulsory subject in all schools. Prior to this, a national movement to change the medium of instruction in all schools except vernacular primary schools from English to *Bahasa Melayu* had begun in 1970, with the transition concluding in 1980⁵⁶. By 1982, the first generation of university entrants who had started their early education under the fully *Malay*-medium system had started their courses. This was a notable achievement under the NEP. Malaysians have ‘unknowingly’ become bilingual along the way, and *Bahasa Kebangsaan* became the common language of Malaysia. This is another achievement of the NEP.

Nevertheless, a major criticism of this arm of the NEP is that it has resulted in a “brain drain”, with many educated Malaysians choosing to emigrate. Furthermore, many have

⁵⁴ Education for All (EPA) programmes in Malaysia prepared in 1991 were developed and implemented in tandem with other educational development programmes. The Plan of Action was spelt out in the form of projects and activities under the purview of various government agencies and ministries. It synchronised with the efforts to mould a national identity and to achieve unity in a multi-ethnic society to develop its human resources essentials for progress. Publicity on the importance of formal and non-formal education was disseminated through the mass media and other government information networks. The subsequent implementation of both the Sixth Malaysia Plan (1991-1995) with budget of RM8 million and the Seventh Malaysia Plan (1996-2000) with budget of RM10 million alone, is evident that although faced with the Asian Financial Crisis then, the thrust is still placed on increasing accessibility and quality of education to all Malaysians. See *Seventh Malaysia Plan 1996-2000*, (EPU, Prime Minister’s Department, 1996).

⁵⁵ UNESCO IBE, *World Data in Education, 6th ed – Malaysia*, (2006/2007), p 10. “The trend maintained in Education financing amounts to about 5% of the GNP and 15-18% of the total annual government’s expenditure. There are indications aimed at encouraging participant of the private and corporate sectors in education financing thus reducing the burden on the government, especially in providing for some of the infrastructural requirements and technological advancement in tertiary education.”

⁵⁶ Schools in Sarawak and Sabah made the transition much later.

argued that the NEP is also responsible for the worsening racial polarisation within Malaysian society, and the marginalisation felt by the non-Malays.⁵⁷

To counter this criticism, it must be remembered that the success of the NEP strategy relied heavily on a strong and effective education system. This is an area where the NEP has played a significant role - public funds were used for the establishment, expansion and operation of schools at all levels. For instance, in the early years after Merdeka, the country had only one national University compared to the present 12, although admission until 2003 has still been regulated by quotas to ensure a student body with a major *Bumiputra* component. In recent years, there has been a mushrooming of private sector institutions of higher learning. They operate through twinning arrangements by teaming up with reputed foreign universities mainly in the United States, United Kingdom and Australia. New universities, university colleges, branch campuses, polytechnics and community colleges have mushroomed across the country⁵⁸.

The expansion of the school system and the preference under the NEP given to *Bumiputra* through the generous allocation of scholarships as well as the application of quotas for admission, have resulted in the rapid growth and massive transformation of the Malaysian economy. It brought about the gradual shift of the *Bumiputra* workforce into modern sectors of industry and services. It is through education that Malays could be employed in white-collar jobs and in other professional fields. Without education, they would have continued to languish in rural poverty.

⁵⁷ Goh, Melissa, *Educationalist in Malaysia concerned that NEP may cause race polarisation*, (21 Nov 2006), (accessed from Malaysia Today website).

⁵⁸ In year 2005 there were already 71 such public institutions and 559 in the private sector. Given a population of 26.75 million in 2005, it meant that there was one higher education institution for every 42,460 people, which is enviable even to the most developed nation.

The youth development programme was aimed at inculcating positive values and providing skills development to enable them to contribute to nation building. The future of the country depends very much on the present generation of youth as they have to face an increasingly competitive and challenging world of tomorrow. Today's progress will not have been possible without the government giving strong emphasis on education. The various government initiatives undertaken to eradicate illiteracy during NEP and after, had achieved desirable results.

The late (Tan Sri) Ghazali Shafie⁵⁹ in his interview with Professor Snodgrass on 23 November 1992, made a notable statement that the objective of the NEP was to dismantle the compartmentalisation of occupations and ethnic groups, as well as to create a Malaysian middle class. To achieve this, Ghazali stated that we first needed to achieve political stability - the main pre-requisite of economic development⁶⁰. Economic growth without human capital cannot restructure society and consequently, the non-identification of race with jobs would not have succeeded⁶¹.

Terence Gomez (2009) in his on-line article, *The Good of the NEP*, although basically critical of the NEP, acknowledged that:

...There is, however, an important lesson from Malaysia's implementation of affirmative action that has not been sufficiently acknowledged in debates about this policy. This issue pertains to the provisioning of quality education at an early stage in a person's life. ... But, Malaysian history also indicates that when the

⁵⁹ Tan Sri Ghazali Shafie was the principal ideologist responsible for the final formulation of the NEP.

⁶⁰ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), p 12. Accessed at <http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>

⁶¹ Ali, Muhammad, Abiodun Egbetokun, and Manzoor Hussain Memon. "Human capital, social capabilities and economic growth." *Economies* 6, no. 1 (2018): 2. See also Mankiw, N. Gregory, David Romer, and David N. Weil. "A contribution to the empirics of economic growth." *The quarterly journal of economics* 107, no. 2 (1992): 407-437.

NEP was first introduced and the emphasis then was on providing poor children with quality education, the outcomes had been laudable. Young Bumiputras were plucked out of rural areas, sent to well-equipped residential schools and then provided preferential access to tertiary education. The early beneficiaries of such quality education from an early state of their life have now emerged as the new middle class who are a growing presence as a community with entrepreneurial capacity. This system remains in place, but an inadequate number of young Bumiputras are recipients of high quality primary education.....Regional differences have also been exacerbated by the limited capacity of the rural poor to make good use of their access to higher education, an issue reliant on a sound primary education⁶².

By the end of the NEP, it was common to find that almost every Malay household in the village had at least one member of its family with a university education. Through the NEP, many Malays have benefited from education and the resulting economic opportunities. This has created a respectable middle class of Malay professionals and businessmen, as well as a dramatic rise in Malaysian human capital, regardless of race. In present times, while some pockets of the older generation continue to lack a formal education, many of their children have been positively affected by national education policies.

The main elements of the NEP have remained relevant and continue to be reflected in different forms in various Malaysia Plans in the subsequent years. This emphasis on education, especially within the *Bumiputra* community, has often been tied back to the influence of the NEP, and thus continues to be lauded as one of its great achievements.

⁶² Gomez, Edmund Terence, *The Star*, 21 Feb 2009.

6.3 ERADICATING POVERTY THROUGH RURAL DEVELOPMENT

Poverty can be measured in either absolute or relative terms, as explained below. As the NEP aimed to eradicate poverty, economic growth was a necessary condition to achieve this goal, but so was the eradication of inequality to ensure a fair distribution of this economic growth⁶³. To this end, the Alliance government formed policies that would focus on the development of rural areas and communities, to avoid a concentration of wealth and progress in urban areas⁶⁴.

The measurement for poverty is generally based on Poverty Line Income (PLI). PLI is defined as “*as an income sufficient to purchase a minimum basket of food to maintain household members in good nutritional health and other basic needs such as clothing and footwear, rent, fuel and power, transport and communications, health care, education and recreation.*”⁶⁵.

From this measurement one can derived the ‘Absolute hardcore poverty’, defined as:

‘..a condition to which the gross monthly income of a household is less than half of PLI. This definition was introduced in 1988 to enable more accurate targeting of poverty readjustment projects towards the hardcore poor.’⁶⁶

⁶³ Warr, Peter. "Poverty and Growth in Southeast Asia." *ASEAN Economic Bulletin* 23, no. 3 (2006): 279-302. <http://www.jstor.org/stable/41316950>.

⁶⁴ Shari, Ishak. *Pembangunan desa dan kemiskinan di Malaysia dalam tempoh dasar ekonomi baru, 1972-1990*. 1996.

⁶⁵ United Nations Public Administration Network, *Chapter 4 – Building a United Equitable Society*, p 86. Accessed at <<http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN003660.pdf>>

⁶⁶ EPU, Prime Minister’s Department, *Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony*, (A case study from “Scaling Up Poverty Reduction: A Global Learning Process and Conference”, Shanghai, 25-27 May 2004), p 18. Accessed at <unpan1.un.org/intradoc/groups/public/documents/apcity/unpan021601.pdf>

The term ‘relative poverty’ is a concept defining income disparity between groups – as is when a group’s mean income is lower than another. Under this definition, it is possible to interpret a group as being in relative poverty to another even though their mean income exceeds PLI, for example, rural versus urban dwellers. Relative poverty has been measured by using income disparity ratios of different populations, such as those in different income brackets, ethnicities, or across the urban-rural divide. Other measures include the widely-used GINI coefficient.

Even years before the NEP, the government in 1959 under the then Deputy Prime Minister Tun Abdul Razak, had set up the Ministry of Rural and National Development. Rural development carried out in several phases was the key focus of the Malaysian economic policy then under the First Malaysia Plan (1956-1960) – The Red Book Programme⁶⁷. The indigenous population including the Malays comprised the majority of the low productivity and low-income group in the rural areas, creating economic imbalances. There was also a lack of basic economic infrastructure.

The ultimate objective of the NEP was to create national unity. It was thought that unity could not be achieved without correcting socio-economic imbalances in society, particularly the poverty gap between those living in urban and rural areas, as well as income inequality in general. The NEP’s targets included reducing the incidence of poverty in the Peninsular

⁶⁷ Tun Razak’s Red Book Programme provided a blueprint for development. It had the simple objective “to fast track the development of rural areas through the building of infrastructure such as roads, bridges, schools, clinics and community halls in these areas. The opening of FELDA schemes in remote locations provided the impetus for the acceleration of the Red Book Programme and both projects implemented together was able to achieve significant results that uplifted the economic status of the rural areas and its people.” The Plan earmarked M\$16.5 million for rural cooperative societies to extend short-term credit for the seasonal requirement of individual farmers and for group purchases of supplies like fertilizers, medium-term credit for a variety of agriculture projects including redemption of charged properties, purchase of new land, improvement of old holdings, mechanization of operations, and processing and marketing schemes. Talib, Rokiah, *Nation Building – The Felda Model, The Genesis of Felda, 2009*, (Lecture presentation), p 6. Accessed at <http://www.unirazak.edu.my/tpl/upload/files/tarls/tarls3_felda_model.pdf>

from 49.3% in 1970 to 16.7% in 1990,⁶⁸ with a focus on reducing gaps between ethnic groups.

As discussed in previous Chapters 4 and 5, under the early British policies, the livelihood of Malaysians particularly the peasant Malays was the last to benefit from economic changes in the country until independence⁶⁹. The colonial policy merely encouraged the Malays to be better farmers and better fishermen, while the non-Malays would be left alone to make their fortunes in the towns and cities. Hence, most peasant Malays retained their traditional way of life, as *padi* farmers, fishermen or rural smallholders⁷⁰. The rural smallholders were restricted by the hostile and suppressive policies of the British,⁷¹ which further discouraged Malays from getting themselves out of poverty. Abject poverty was thus a common feature in the rural environment.

Following the May 13 tragedy, the government through Tun Dr. Ismail openly admitted its failure to implement the 'Merdeka Bargain' properly. In the words of Tun Dr. Ismail: "*...On the first fundamental issue – the special position of the Malays The Government must also admit that in the past the implementation of this had left much to be desired.*"⁷²

⁶⁸ Numerical targets were not set for Sabah and Sarawak since there were no reliable figures on poverty incidence in 1970. See Abu Bakar, Mohd. Arif B., *Poverty Reduction in Malaysia, 1971-1995: Some Lessons*. Accessed at <http://www.unescap.org/rural/doc/beijing_march97/malaysia.PDF> (accessed on 14 Oct 2010).

⁶⁹ See Lim Teck Ghee, *Peasant Agriculture in Colonial Malaya: its Development in Perak, Selangor, Negeri Selangor and Pahang 1874-1941*, (Thesis (Ph.D), Australian National University Library, 1971).

⁷⁰ These include rubber and coconut smallholders. Not only were they denied financial loans because of their small set-up and hence forced to rely on their own limited resources, they had also to wrestle with official disapproval and obstruction.

⁷¹ The British Colonial government, professing to be preserving the Malay's way of life, took measures to obstruct ordinary farmers to plant rubber by alienating the most suitable land for European estate planting only, and legislated that the Malay peasants be prohibited from switching to rubber. See Chapter 2 of this research: Tracing Early History.

⁷² *The Straits Times*, 3 Aug 1969.

In a speech to the Senate, Tan Sri Ghazali Shafie suggested “... *the imaginative programmes ... aimed at the increase of income and the upliftment of the economic condition of the Malays ... did not suffice to blunt the edges of conflict among the major races ... (but) it successfully erected important infrastructures in the economy and thus provided foundations for the (new) Plan.*”⁷³

In the 1960s and 1970s, much of Malaysia’s economy depended on its agriculture output, which contributed to the country’s export earnings and growth. The rural sector then was dominated by agriculture with more than 70% of the population engaging in activities such as livestock and farming⁷⁴. The main contributors to the nation’s economic growth were commodities like rubber, palm oil, coconut, cocoa, etc. which amounted to 30% of the Gross Domestic Product (GDP). In the 1970s, there were almost 300,000 households, involving over one million people, engaged in *padi* cultivation.⁷⁵

The *padi* farmers’ income was mainly dependent on the size of the farmland cultivated, the farms’ productivity and the cost of production. The *padi* land, traditionally inherited family holdings, was normally small, and therefore limiting the amount of earned income. Fishermen used small boats unsuitable for deep-sea fishing, confining many to inshore fishing as a living. Incomes were low due to low outputs and backward production techniques. Low incomes resulted in a lower standard of living. This continued problem of poverty among farmers and fishermen was very much a direct result of the British colonial administration’s agriculture policy.

⁷³ Speech to Senate on 2 Aug 1971 (Mimeographed copy).

⁷⁴ Fatimah Mohd Arshad, Mad Nasir Shamsudin, *Rural Development Model in Malaysia*, (Paper presented to the Hon. President of Peru, Mr. Alberto Fujimori, Lima, Peru, 13 Oct 1997), p 1.

⁷⁵ See Tan Tat-Wai, *Income Distribution and Determination in West Malaysia*, (Thesis PhD, Harvard University, 1977), Appendix Table 1. See also Shukor Kasim, Gibbons, David, Todd, Halinah, *Poor Malays Speak Out: paddy farmers in Muda*, Maricans Academic Series, (Kuala Lumpur: Marican, 1986).

Rural development and poverty eradication are closely associated. The success of rural development and poverty eradication initiatives are attributed to several factors, including efficient policy making, clear targets, and strategic use of government funds to maximise effectiveness⁷⁶: Even prior to the NEP, there had already existed well-planned and concerted efforts to develop the rural areas and eradicate poverty that had started since the time of independence. The government had consistently allocated development budgets for basic infrastructure, education and social amenities, which were specifically formulated to uplift rural folk out of poverty. The policies and plans for rural development and poverty eradication are co-related and crucial elements of national development, with the success of lowering poverty rates across the country being largely attributed to rural development efforts.

The success of the rural development and poverty eradication measures are also attributed to the strong political will and full commitment of the existing government in providing political stability conducive for continuous economic growth. The government led the way for rural development, fostering an environment that would enable strategic cooperation between the rural population, NGOs and the private sector. This was achieved via explicit policy statements with specific targets, as well as a sound administrative machinery geared for the effective implementation of said policies. The administration also took great care to clearly identify target group that would be recipients of related initiatives, and in the matching of suitable initiatives with the needs of these target groups. More importantly, the target groups understood their own roles in assisting the government to realise the overall poverty reduction objectives.

⁷⁶ Ministry of Rural Development Malaysia, *Sustainable Rural Development and Poverty Reduction through Institution Building*, (June 2001). Accessed at <<http://info.worldbank.org/etools/docs/library/7648/Malaysia.htm>>

These examples are a clear example of pragmatic policy making, whereby the use of data analysis revealed that a vast majority of poor folk were rural dwellers, and that the initiatives to reduce poverty rates would therefore need to target this population. It was also a great sign of leadership that the government made sure that different stakeholders were consulted and involved in both policy-making and implementation to ensure a broad range of solutions were introduced both to address the immediate issues faced by poverty-stricken individuals, as well as to stem the issue from its roots and prevent generational transfer of poverty by providing sufficient infrastructure and education to empower these communities.

To achieve the objective of eradicating poverty, primary strategies concentrated on empowering the poor with chances to work in more lucrative jobs, thus raising their household earnings above the poverty threshold⁷⁷. Amongst the major strategies were encouraging movement from low productivity sectors to high productivity sectors, thus moving changing the industry they traditionally occupied. The government also sought to introduce cutting-edge technology and increase efficiency within the low productivity occupations, thus facilitating and increase in both productivity and income for these groups.. Furthermore, the government aimed to expand social services that catered to uplifting the poor, and to improve their quality of life.

Here, the pre-requisite for poverty eradication as identified earlier, was for the government to provide education and training for underprivileged communities, especially

⁷⁷ Ministry of Rural Development Malaysia, *Sustainable Rural Development and Poverty Reduction through Institution Building*, (June 2001). Accessed at <<http://info.worldbank.org/etools/docs/library/7648/Malaysia.htm>>

their young. These strategies were specifically selected to prevent the inter-generational transfer of poverty and thus empower poor individuals to break free of the poverty cycle.

To ensure the sustainability of the national poverty eradication and economic growth initiatives, the government explicitly focused on the improvement of human capital. This was implemented by intensifying human resource development and quality of life programmes with an emphasis on income-generating projects. These projects included training to induce a shift in mindset, beginning with inculcation of positive work attitudes and values to motivate the rural poor. Then, the projects included more practical subjects like farming techniques. These tools were to provide families with the means break free from the cycle of poverty and given time, embed in them a sense of self-worth and independence. The administration also introduced targeted redressal programmes and schemes targeted towards eradicating poverty based on geography and social markers. Welfare hand-outs were used but to a lesser extent, in the hopes of encouraging self-sufficiency and therefore the sustainability of poverty eradication efforts⁷⁸.

Aside from human capital, there was also a major drive in providing infrastructure and social amenities as part of the efforts to improve quality of life. This included the provision of portable piped water, electricity, roads, medical and health care services, schools and rural hostels. All of the abovementioned initiatives were included in the Ministry of Rural Development's publication clarifying their approach to sustainable rural development and poverty reduction. The strategies above illustrate how the government took on a holistic approach to poverty eradication, particularly in how poverty was framed as a social issue and

⁷⁸ Devereux, Stephen, and Rachel Sabates-Wheeler. "Editorial introduction: debating social protection." *IDS Bulletin* 38, no. 3 (2007): 1-7.

not just an economic one, taking clear steps to redress structural imbalances in the societal structure of the time.

As a remedy, a coordinated and integrated approach to balanced rural development and poverty eradication was adopted. Basic infrastructure and institutions to provide linkages to the rural economy were set up to modernise the sector and improve productivity and income.

Vast areas of undeveloped land⁷⁹ were opened and developed under Federal Land Development Authority (FELDA)⁸⁰ for rubber and palm oil cultivation by way of new land development and settlement schemes.⁸¹ In a bid to achieve self-sufficiency in the field of rice production, the government introduced and expanded on crop diversification and double-cropping policies. Agricultural projects like animal husbandry were encouraged. Amongst fishermen, the provision of training and new equipment including boats and engines had encouraging results. Co-operatives and other commercial institutions were established with the provision of credit on easy terms were implemented. Rural industrialisation increased employment, productivity and income of the rural population. The creation of statutory bodies like MIDF, PERNAS, MARDI, FAMA, also allowed the pursuit of the government's initiatives in an aggressive manner. By the 1960s, Rural Industrial Development Authority (RIDA)⁸² was launched to improve the wellbeing of rural communities by establishing

⁷⁹ Land alienation to the poor from the rural areas rather than to foreign controlled plantation house had a strategic advantage to win support of the people and prevented them from falling prey to subversive leftist propaganda. It helped to alter the electoral landscape and changed the voting patterns of various constituencies.

⁸⁰ FELDA was set up at the beginning of the First 5-Year Malaya Plan (1956-1960) mainly to help poor and landless Malays. Through its FELDA Jengka Tiga Segi scheme in Pahang, more than 60,000 acres of land were opened up. This scheme was one of the main basic attempts to raise the standard of the Malays to the same level of other races economically.

⁸¹ Interview with Tan Sri Hanafiah Hussein (former General Manager, FELDA) on 1 Jun 2006. FELDA's settler emplacement programme allowed the government to redistribute population from population surplus states to those with surplus land for development. Settlers from virtually all the states voluntarily 'flowed' into Pahang, Negeri Sembilan, Malacca and northern Johore. It led to a more systematic development of the country by releasing burden from the more densely to less populated areas.

⁸² RIDA later expanded into MARA (or The Council of Trust for Indigenous People), whose role was included to providing training and educational facilities to Malays to further their education and their subsequent involvement in the urban industrial sector.

cottage industries. It witnessed a rise of Malay entrepreneurial class, petty traders and those who owned small to medium business owners.

In the 1980s, during the later NEP years, the provision and development of infrastructure and basic amenities to serve socio-economic objectives of poverty eradication was further prioritised. The policy helped to balance regional development and redress economic disparities. The National Agricultural Policy 1984 (NAP) had the objective of taking a holistic approach to agricultural development⁸³. Its sole purpose was to establish a balanced and sustained rate of growth in the agricultural sector in relation to the rest of the economy. The NAP intended to revive the agriculture sector and increase its contribution to the national economy through optimisation of resources, therefore ensuring that the country's income would be maximised. Agriculture development strategies continued to accelerate with emphasis placed on agricultural-industrial linkages development for export. This was implemented through agro-based industries like the processing, storage and handling of agriculture commodities.

From 1987 to 1993, the Malaysian government an improvement in the PLI for each region. For the Peninsular Malaysia the PLI of RM350 per month for a household of 5.14 increased to RM405 per month for a household size of 4.8 persons. For Sarawak, RM429 for a household size of 5.24 persons to RM495 for a household of 5.1. And for Sabah, RM533 for a household size of 5.36 persons in Sabah to RM582 for a household size of 5.1⁸⁴.

⁸³ Fatimah Mohd Arshad, Mad Nasir Shamsudin, *Rural Development Model in Malaysia*, (Paper presented to the Hon. President of Peru, Mr. Alberto Fujimori, Lima, Peru, 13 Oct 1997), p 8.

⁸⁴ Mohammed B. Yusoff, Fauziah Abu Hasan, Suhaila Abdul Jalil, *Globalisation, Economic Policy, and Equity: The Case of Malaysia*, (Paris: *Poverty and Income Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalisation*, 30 Nov – 1 Dec 2000), p 43. Accessed at <<http://www.oecd.org/countries/malaysia/2682426.pdf>>

Progress in the reduction of poverty incidence over the NEP implementation period is further evidenced in Table 6.9 below. Nationwide, poverty incidence dropped from 52.4% to an astounding 9.6%. In urban areas, this was a mere 4.1% and the rural areas reported 16.1%⁸⁵.

Poverty largely stemmed from a distinct lack in employment opportunities, especially those in high productivity sectors. Target communities including rubber smallholders, *padi* farmers and fishermen managed to both reduce dependency on traditional activities as well as diversify their income streams, breaking out of the typically low paying and low productivity sectors⁸⁶. The aim of reducing poverty was possible with the availability of new jobs, the condensing of the labour market, and the shift among rural households to salaried jobs. Additionally, with the provision of educational and health facilities together with improved infrastructure, the poor was able to engage in various economic activities, thus improving their standards of living. Increased income and productivity gave these target communities a sustainable means of graduating from poverty.

The government at the time also made huge strides in improving the infrastructure and accessibility for the rural community. There were extensive developments to enhance the connectivity between different the rural towns and their links with industrial areas by way of new rural roads. A central network of highways connecting urban areas and roads to connect the underdeveloped areas were also constructed, not to mention the infrastructure of village roads both within and between villages. With these improvements in connectivity came the improved wellbeing and livelihood of the rural population⁸⁷.

⁸⁵ Ragayah Haji Mat Zin, *Growth with Equity: Policy Lessons from the Experience of Malaysia*, (Bangkok: United Nations/ESCAP, *Growth with Equity: Policy Lessons from the Experiences of Selected Asian Countries*, 1999,) (ST/ESCAP/2007), p 123.

⁸⁶ *Ibid.*, p 125.

⁸⁷ Balwi, Mohd Koharuddin Bin Mohd. "Pembangunan Luar Bandar di Malaysia: Gerakan Desa Wawasan (GDW) Sebagai Mekanisme Pembangunan Masyarakat Luar Bandar". *Sains Humanika* 42, no. 1 (2005).

Further focus was also given to providing electricity and water to rural areas nationwide. The national electricity and water coverage expanded by 80% in 1990. Rural electricity and water coverage rose significantly by 67% in 1990.⁸⁸ Water supply coverage especially in the remote areas was also improved by constructing pipe connections from public water mains to rural areas and upgrading existing water treatment plants and water supply systems⁸⁹.

Access to adequate affordable and quality housing improved as well. A plethora of social and public amenities including community halls, recreational facilities, sewerage, and libraries were built for villages. Safeguarding and improving the health status of individuals, families and communities were accorded higher priority. Since independence, medical and health care services including hospital, clinic, rural clinic and community clinics were constructed, expanded and upgraded.

Rural development received the largest share of public sector development expenditure in the Malaysia Plans, especially in the first 30 years.⁹⁰ The government's total investment in infrastructure and rural development over the period 1970 to 1990 was RM234,251 billion or 19% of RM127.718 billion allocated for the national development:

⁸⁸ Safurah Hj. Jaafar *et al*, *Malaysia Primary Health Care Key to Intersectoral Action for Health and Equity* (Final Draft, 30 Aug 2007), p 23. Accessed at <http://www.who.int/social_determinants/resources/isa_primary_care_mys.pdf>

⁸⁹ Antah Biwater was awarded huge contract for rural water supply.

⁹⁰ During the 6MP until 9MP, at least 12%-23% has been allocated for rural development. In later years 2000 and above, focus was given to human capital, infrastructure development, especially in Sabah and Sarawak. See Economic Planning Unit, Prime Minister's Department.

Table 6.9**Allocation for Rural development (1971-1990)⁹¹**

Malaysia Plan	Duration	Total Allocation (RM Billion)	Rural Development Allocation (RM Billion)	Percentage (%)
2 nd MP	1971 – 1975	10.256	2.368	23.1
3 rd MP	1976 – 1980	31.147	6.464	20.8
4 th MP	1981 – 1985	49.025	7.992	16.3
5 th MP	1986 – 1990	37.290	7.427	19.9

Source: Ministry of Rural and Regional Development, Malaysia.

Improved irrigation and farming methods under various land development schemes were launched for further land development and modernisation of the agriculture sector. Investments were made for replanting, rehabilitating and consolidating existing agricultural activities to raise productivity. Programmes were introduced to improve rubber production through the development of higher-yielding varieties, and to support diversification away⁹² from rubber into palm oil production.

The Green Book Programme introduced by Tun Razak in December 1974 effectively reduced the rate of inflation caused by the drop in rubber prices and the economic crisis in

⁹¹ See Ministry of Rural and Regional Development, Malaysia. To note that 1971-1990 was during the recession period.

⁹² By the end of 1995, about RM75.7 million in the form of dividends and bonuses had been paid to hardcore poor households who had participated in the scheme. See Abu Bakar, Mohd. Arif B., *Poverty Reduction in Malaysia, 1971-1995: Some Lessons*. Accessed at <http://www.unescap.org/rural/doc/beijing_march97/malaysia.PDF> (accessed on 14 Oct 2010).

the early 1970s. The Programme raised the population's income through involvement in agriculture either on a part-time or full-time basis.⁹³

The replanting of crops with new high-yielding clones, and improved planting techniques were introduced. Various techniques to improve and supplement income from main crops including double-cropping, inter-cropping and mixed farming were greatly encouraged⁹⁴. Price support by guaranteeing a minimum price to *padi* farmers for the staple food of the country. Rural industries, including petty trading, cottage industries, livestock, aquaculture and commercial production of food crops, were actively encouraged to generate employment, increase productivity and income of the rural communities through Integrated Rural Development (IADP) schemes. Interest-free loans were also granted to the hardcore poor to acquire shares in unit trust schemes, as an alternative income stream.

The Red Book II programme launched in 1987, which attempted to revise the success of the Red Book Plan of the 1960s, spearheaded a new approach, where the districts would play a greater role in rural development. An integrated strategy using group farming, rural industries, cooperatives, rural urbanisation, regrouping and restructuring of traditional villages and commercialisation of agriculture activities was adopted. The level of agricultural employment in 1990 was marginally higher than that of 1985 with improved mechanisation and automation of important production activities. Between 1986 and 1990, labour

⁹³ Under the Green Book Programme, the concept of "backyard farming" was popularised by planting chilli in flower pots, fruit trees in the garden and domestic breeding of chicken. The Programme emphasised more on involvement in agriculture and vegetable farming for their own consumption while the rest would be sold to the public. It maximised land development involving short-term crops, group farming, breeding of freshwater fish, and enhancing the marketing of agricultural product besides increasing national food production and raising the people's income to reduce inflation. See Syed Azwan Syed Ali, *Green Book to Face Global Food Shortage*, (FAMALink website). Accessed at <<http://web6.bernama.com/client/fama/news.php?lang=&id=331031>>

⁹⁴ The establishment of farmers' market in urban centres to enable farmers to sell their produce directly for higher returns instead of using middlemen was popular then and even now.

productivity grew by 3.7% annually while the manufacturing sector grew by 4.7%⁹⁵. By 1990, declines in rural poverty were registered as tabled below:

Table 6.10
Incidence of Poverty and Number of Poor Households in Rural Areas
(1970-1990)⁹⁶

	1970	1980	1990
Incidence of Poverty (%)	58.6	37.7	21.8
No. of Poor Households ('000)	705.9	568.5	530.3
Incidence of Hardcore Poor (%)	-	-	5.2
No. of Hardcore Poor Households ('000)	-	-	126.8
TOTAL HOUSEHOLDS	1,203.4	1,500.7	2,431.9

Source: Economic Planning Unit, Prime Minister's Department Malaysia.

In the 1960s, a distinct gap between the races in terms of property ownership within Kuala Lumpur was recorded, as outlined in Table 6.11. Malay ownership stood at under 5% as while the Chinese owned 75% of land in Kuala Lumpur. Details extracted from the files of the Kuala Lumpur Municipal government revealed:

⁹⁵ Fatimah Mohd Arshad, Mad Nasir Shamsudin, *Rural Development Model in Malaysia*, (Paper presented to the Hon. President of Peru, Mr. Alberto Fujimori, Lima, Peru, 13 Oct 1997), p 8.

⁹⁶ Muhamad Idris, *Rural Development and Poverty Eradication in Malaysia*, (Paper presented at CIRDAP, 27-20 Apr 2009), (EPU, Prime Minister's Department), p 22.

Table 6.11
Communal Composition of Land Ownership in Kuala Lumpur, 1968⁹⁷

Communal Groups	Number of Properties	Value MS
Malays	2,875	4,619,487
Chinese	13,398	66,223,890
Indians	2,447	7,318,936
Others	1,063	14,204,526
TOTAL	19,783	92,366,839

Source: Von Vorys, Karl, Democracy Without Consensus: communalism and political stability in Malaysia. (1975).

Although nothing much was done in the urban area by way of innovative programmes and schemes, the NEP enabled new and extensive tracts of land to be opened outside of town centres. Large-scale land development schemes were launched and led by FELDA. Landless farmers and those with uneconomic assets were resettled and aided to work in these new land development schemes, and eventually own, the rubber or oil palm plots. Smaller farms were encouraged to merge with more productive and larger ones.

The economic exploitation of these lands was mainly reserved for Malays. Industrial and economic expansion⁹⁸ in the rural areas and smaller towns were subjected to preferential and discriminative, restrictive and supportive policies ensuring growth of Malay entrepreneurship, ownership and work force. The government acted comprehensively to ensure Malay participation in direct government operations. Extensive new land areas,⁹⁹

⁹⁷ Von Vorys, Karl, *Democracy Without Consensus: communalism and political stability in Malaysia*, (Princeton University Press 1975), p 242.

⁹⁸ Provisions of industrial and vocational training, as well as micro credit and other support facilities, to enable the rural population to be employed in non-farm occupations in both rural and urban areas was promoted.

⁹⁹ The Second Malaysia Plan 1971-1975, (EPU, Prime Minister's Department, 1971), pp 133-134.

about 750,000 acres, were targeted for development in West Malaysia between 1971 and 1975, creating additional job opportunities for the population:

By 1990, when FELDA ceased its land development activities, a total of 853,313 hectares of land had been developed, out of which 608,100 hectares were planted with oil palm. During the 1997 Asian financial crisis when Malaysia suffered the effects of a downturn in various sectors (such as electrical and electronics, tourism and property), palm oil prices remained high and the agricultural sector emerged as the second largest contributor to GDP after petroleum. In 1998, FELDA contributed 25% of the palm oil produced in Malaysia and 9% of global palm oil production.¹⁰⁰

With the overall improvement of their environment, the earning power naturally and consequently improved for the rural people. With the benefits from the various agricultural schemes and rural development policies, they were able to have a better income for their labour. The government through various ministries brought development to rural areas where most *Bumiputras* live, providing easy accessibility between urban and rural areas. Roads, schools, clinics, electricity and water supply were provided for the rural poor.

Under the NEP, the rural and urban Malay migrants could obtain jobs more easily in the modern sector and earn more. The pressure exerted in the private sector helped to hire Malay executives to secure high-paying jobs for at least some of Malay graduates.¹⁰¹ The rapid urbanisation of Kuala Lumpur and the concentration of factories in the Klang Valley

¹⁰⁰ Talib, Rokiah, *Nation Building – The Felda Model, The Genesis of Felda, 2009*, (Lecture presentation), p 7. Accessed at <http://www.unirazak.edu.my/tpl/upload/files/tarls/tarls3_felda_model.pdf>

¹⁰¹ “The starting pay of a college or university graduate varies with his field and degree. The RM750 per month figure was the pay for a new graduate with B.A. (Honours) degree working in the civil service. In fact, since 1970, several pay revisions had been given whereby by 1980, the pay at each level of Government service, from the labourers right up to then professionals, had become more than competitive with the private sector.” Tan Tat Wai, *Income Distribution and Determination in West Malaysia*, (Kuala Lumpur: Oxford University Press, 1982), p 129.

during this period also saw an influx of rural migrants, seeking better career opportunities in the capital and the Klang Valley.

During the 1970-1997 period, absolute poverty in the population as a whole dropped from 50% to 6.8%.¹⁰²

Table 6.12
NEP Benchmarks¹⁰³

NEP Benchmarks	1970 (%)	1990 (%)	2004 (%)
Bumiputra's equity	2.4	19.3	18.7
<i>Bumiputra's equity</i>	<i>(RM477m)</i>	<i>(RM20.9b)</i>	<i>(RM73.2b)</i>
Overall poverty	52.0	17.1	5.0
Rural poverty	59.0	21.8	11.0
Household income	RM660	RM1,254	RM2,996

Source: Noore Alam Siddiquee, *Public Management and Governance in Malaysia: Trends and Transformations*. (2013).

Poverty eradication under the NEP, according to Professor Donald Snodgrass was an undeniable success. Compared to the 1970 statistic of 49.3%, household poverty declined to 15.0% in the Peninsular in 1990, achieving far more than the First Outline Perspective Plan's (OPP1)¹⁰⁴ target of 16.7%. The national statistic for Malaysia in 1990 was 17.1%.¹⁰⁵ Malaysia is one of the few countries which has managed to achieve such spectacular success.¹⁰⁶ Between 1970 and 1990, Malaysia ranked fourth in the world in terms of

¹⁰² Funston, John N., *Government and Politics in Southeast Asia*, (London: Zed Books Ltd., 2001), p. 193.

¹⁰³ Noore Alam Siddiquee (ed), *Public Management and Governance in Malaysia: Trends and Transformations*, (Routledge, 2013) p 219.

¹⁰⁴ This was published originally as part of the *Mid-Term Review of the Second Malaysia Plan 1971-1975*, (Kuala Lumpur: Government Press, 1971).

¹⁰⁵ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), p 10. Accessed at <http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>

¹⁰⁶ See Saniman, Mohamed Rais, *Response to EU Ambassador's criticism of the NEP*, *New Straits Times*, 25 June 2007.

improvement in the Human Development Index developed by the United Nations Development Program.¹⁰⁷ Malaysia generally performed well in terms of life expectancy and education and health measures.

In the early 1970s, 49.% of rural *Bumiputras* were living below the poverty line.¹⁰⁸ One of the most significant strategies implemented to address was the improvement of the nutritional status. In response, the healthcare system underwent a major restructuring exercise, with the highest priority given to rural health services catered to the poor.

The Rural Health Service developed since 1966 was expanded to provide main and health centres where midwife clinics and quarters were provided. Under the Mid Term Review of the Second Malaysia Plan (1971-1990), the level of care provided by rural health services was upgraded. A referral network was established between health clinics and district and state hospitals to include common policies and operating procedures to facilitate more efficient management of referred cases.

To further overcome the issues arising out of poor nutrition that was rampant in rural communities, the Applied Food and Nutrition Programme (AFNP) was launched in 1972 as a collaboration between the Department of Agriculture and the Ministries of Local Government, Health and Education. This was a long-term poverty-reducing initiative aimed at increasing the local production of nutritious foods, improving nutritional education, health and basic education and promoting supplementary nutrition for lactating mothers and school-going children.

¹⁰⁷ United Nations Development Programme, *Human Development Report 1992*, (New York: Oxford University Press, 1992), p 24.

¹⁰⁸ Safurah Hj.Jaafar *et al*, *Malaysia Primary Health Care Key to Intersectoral Action for Health and Equity* (Final Draft, 30 Aug 2007), p 14. Accessed at <http://www.who.int/social_determinants/resources/isa_primary_care_mys.pdf>

The School Health Programme was originally launched in 1967, pre-NEP. It was simultaneously relaunched along with the amalgamation of Family Planning under the Maternal and Child Health projects¹⁰⁹. These commendable initiatives were among those prioritised in the rural health and rural development programmes. High child mortality rates noted in the 1970s showed marked reductions by year 2000.¹¹⁰ This reflected the correlation between poverty and infant mortality rates. The general improvement in socio-economic development was a major factor in driving these significant reductions. Specific measures to improve socio-economic status included improvements in infrastructure, education, water and sanitation, nutrition and access to health care services made possible by the constituent ministries who were given central support of the government's political will on the matter.

The Development Programme for the Hardcore Poor initiated in the 1970s included, among others, a nutritional programme targeted at the rehabilitation of malnourished children under five years old. The number of underweight children associated with moderate and severe malnutrition declined by a remarkable 50%.¹¹¹ Trained personnel from the Ministry of Health made concerted efforts to reach children in isolated areas. The Primary Health Care Programme was also launched in 1978, largely to improve the living standards of the rural population.

In 1983, the Ministry of Agriculture in collaboration with local milk manufacturers launched a School Milk Programme which focused on providing milk to the rural population. This programme, which also aimed at improving school attendance, was carried out in

¹⁰⁹ Ibid.

¹¹⁰ Ibid., pp 16-17.

¹¹¹ Safurah Hj.Jaafar *et al*, *Malaysia Primary Health Care Key to Intersectoral Action for Health and Equity* (Final Draft, 30 Aug 2007), p 18. Accessed at <http://www.who.int/social_determinants/resources/isa_primary_care_mys.pdf>

tandem with the Supplementary Food Programme, an initiative that began when concerns were raised about school children attending school without breakfast. Healthcare services were improved by way of mobile dental teams, village health teams, and a flying doctor service which were also deployed to rural regions. In addition, about 94% of rural poor households and almost all the urban poor were within nine kilometres of a primary school, while about 60% in rural areas and 96% in urban areas within the same distance of a secondary school.¹¹²

In keeping to its belief that poverty was the main underlying cause of ill health, among the rural population, the government successfully overcame the urban-rural differentials through improvement in health and medical services. The following table reflects the degree of importance placed on Health Care by the government during period 1970-1990:

¹¹² See Abu Bakar, Mohd. Arif B., *Poverty Reduction in Malaysia, 1971-1995: Some Lessons*. Accessed at <http://www.unescap.org/rural/doc/beijing_march97/malaysia.PDF> (accessed on 14 Oct 2010).

Table 6.13
Federal Government Development Expenditure by Sector,
Malaysia 1970-1990 (% of total development expenditure)¹¹³

Sectors	1970	1980	1990
Security	23.7	16.4	9.9
Social Services	11.2	15.9	24.5
a) Education	6.1	7.5	15.3
b) Health	2.8	1.1	4.3
c) Housing	-	4.0	0.4
d) Others	-	-	4.5
Economic services	62.2	64.8	62.7
a) Agriculture & Rural development	27.3	15.2	12.1
b) Public utilities	2.8	8.9	7.5
c) Trade and industry	13.8	20.8	25.5
d) Transport	11.0	13.8	17.3
e) Communication	7.3	5.7	0.0
f) Others	-	-	0.3
General administration	2.9	3.0	2.9

Source: UNDP, Malaysia: Achieving the Millennium Development Goals. (2005).

With the easy availability of education for the population, in particular for the Malays and the rural community, the opportunities for securing better jobs improved by leaps and bounds. By 1990, the distribution of ethnic groups by occupations namely professional/technical, clerical, and service field, clearly improved from the period before the NEP¹¹⁴ or even during the 1950s:

¹¹³ United Nations Development Programme, *Malaysia: Achieving the Millennium Development Goals, Successes and Challenges*, (Malaysia: UNDP, 2005), p 20.

¹¹⁴ However "targets were not realised in three other occupations, namely administration/managerial, sales and production workers (in particular, there was a gap of more than 20 percent between target and achievement in the first two categories). A main reason why targets were not realised in the professional/technical category was its reliance on employment in the public sector (school teachers and nurses). Similar results were also found in the distribution of occupations for the year 2000." Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 236.

According to Professor Donald Snodgrass's study, employment restructuring was greatly successful.¹¹⁵ The number of *Bumiputra* "working in the industrial sector (mining, manufacturing, construction, utilities and transport) in the Peninsular soared from 173,000 in 1970 to 918,000 in 1990. Similarly, *Bumiputra* employment in the service sector went from 213,000 to 1.2 million. These totals substantially exceeded the Second OPP (OPP2) targets."¹¹⁶

Full employment was partially successful, but the private sector continues to practise a 'discriminatory' policy against Malay labour.¹¹⁷ The one area in which a considerable number of Malays held high-level jobs, namely the public sector, became even more Malay-dominated and is now a major contributor for *Bumiputra* entry to high-level jobs. More Malays are now domiciled in the urban areas, and more Malays are now being employed in the non-rural, modern and more economically productive sectors. This is a notable result of the re-vamped education policy during the NEP period.

A comparison of employment data figures in 1967 (pre-NEP) with those in 1970 and 1980 clearly confirms the significant improvement in the employment pattern of the Malays.

¹¹⁵ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), p 10. Accessed at <<http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>>

¹¹⁶ *Ibid.*

¹¹⁷ See Saniman, Mohamed Rais, *Response to EU Ambassador's criticism of the NEP*, *New Straits Times*, (25 June 2007).

Table 6.14

Employment by Industry and Race - West Malaysia 1967 (Pre-NEP)¹¹⁸

Category of industries	Total employment (‘000)	Malays		Non-Malays	
		(‘000)	%	(‘000)	%
Commerce	338	69	18	311	80
Rubber Estates	232	62	27	167	72
Manufacturing	222	42	19	178	80
Construction	67	21	31	46	68
Mining and quarrying	69	20	29	48	70

Source: Economic Planning Unit, Prime Minister’s Department. (1969).

Table 6.15

Distribution of Labour Force by Major Occupation for Three Main Races, 1970 and 1980 (During NEP)¹¹⁹

Occupation	1970			1980		
	M	C	I	M	C	I
1. Professional and Technical	4.3	5.3	6.0	7.6	7.1	6.8
2. Administrative and managerial	0.3	1.4	0.6	0.5	2.0	0.6
3. Clerical	3.5	6.8	7.2	8.1	9.6	8.0
4. Sales	3.9	16.6	9.1	5.5	18.0	7.5
5. Services	7.6	9.3	10.7	10.3	7.8	10.1
6. Agricultural and related workers	66.8	29.3	44.8	46.2	18.6	36.1
7. Production and related workers	13.5	31.4	21.6	21.8	37.0	30.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: Saw, S.H. *The Population of Peninsular Malaysia*. (2007).

Note: M = Malay, C = Chinese, I = Indian

¹¹⁸ See (1) *The Employment Problem in West Malaysia, 1962-1975*, (EPU, July 1969); (2) *The Census of Mining Industries*, (1967); (3) *The Census of Distributive Trades*, (1966); (4) *The 1967 Manufacturing Survey*.

¹¹⁹ Saw, Swee-Hock, *The Population of Peninsular Malaysia*, (Singapore: Institute of Southeast Asian Studies, 2007), p 247.

When compared to the census taken in 1957, the numbers reflect the commendable improvement in the livelihood of Malaysians. Undeniably, with the introduction of compulsory primary education, life for the locals improved tremendously compared to the early days of the British colonial administration.

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6.4 SOCIAL RESTRUCTURING VIA GROWTH OF *BUMIPUTRA* EQUITY

When the NEP was implemented in 1970, one of its stated targets was to achieve a 30% share of equity in *Bumiputra* hands. At its inception, the *Bumiputra* had only 2.4% equity ownership in terms of shareholding in listed companies. In 1990, after 20 years of implementation, it was acknowledged that the *Bumiputra* share of total capital had grown to 20.3%, made up of 14.0% individually-owned shares and 6.3% trust-held¹²⁰. This was encouraging as 69% of the *Bumiputra* share was in the hands of individuals, and the remainder 31% in the hands of trust agencies. Overall, national wealth also grew, demonstrated by the exponential growth in per capita GNP from RM1,142 to RM12,102 between 1970 and 1997. Capital ownership rose from 1.3% to over 20%¹²¹. Nevertheless, share capital in Limited Companies based in West Malaysia remained an issue, with Malay ownership standing at 1.5% and Chinese ownership estimated between 2-8%. Details as per Table 6.16 below:

¹²⁰ Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.) p 3. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

¹²¹ See Saniman, Mohamed Rais, *Response to EU Ambassador's criticism of the NEP*, *New Straits Times*, 25 June 2007.

Table 6.16

Communal Composition of Share Capital Ownership in Limited Companies in West Malaysia, 1969¹²²

Community	All Industries (RM million)
Residents	
Malays	49,294
Malay Interests	21,339
Chinese	1,064,795
Indians	40,983
Federal and State Governments	21,430
Nominee companies	98,885
Other individual and locally controlled companies	470,969
Foreign controlled companies in Malaysia	282,311
Non-residents	1,235,927
TOTAL	3,285,933

Source: Economic Planning Unit, Prime Minister's Department Malaysia. (1971).

...The simultaneous increases in the *Bumiputra* and non-*Bumiputra* shares were made possible by a sharp decline in foreign ownership share, from 63.3%, one of the highest in the world in 1970, to a much more moderate 25.1% in 1990. Malaysians thus went from owning less than 40% of their corporate sector in 1970 to owning three-fourths of it in 1990, which was a major achievement.¹²³

¹²² The Second Malaysia Plan 1971-1975, (EPU, Prime Minister's Department, 1971), p 40.

¹²³ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), p 11. Accessed at <<http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>>

Professor Donald Snodgrass viewed¹²⁴ the 30% target for restructuring corporate ownership and wealth as the most ambitious of the NEP targets and was one of the most difficult to achieve. Official figures indicated a *Bumiputra* ownership share of RM20.9 billion or 20.3% in 1990, which was commendable compared from the starting point of RM477 million equating to 2.4% in 1970. This clear increase in *Bumiputra* equity was an indicator of success in line with NEP targets¹²⁵, regardless of the controversy surrounding the true figures.

Following the NEP, several prominent Bumiputras rose to leadership positions in public listed corporations. The likes of (Tan Sri) Azman Hashim, (Tan Sri) Halim Saad, (Tan Sri) Tajuddin Ramli, (Tan Sri) Wan Azmi Wan Hamzah, (Tan Sri) Razali Abdul Rahman, (Datuk) Hassan Abas, (Tan Sri) Rashid Hussain, (Datuk) Ishak Ismail, (Tan Sri) Syed Mokhtar Albukhari, (Tan Sri) Mokhzani Mahathir, (Tan Sri) Shahril Shamsuddin and the late (Tan Sri) Yahya Ahmad, to name a few, became prominent *Bumiputra* businessmen¹²⁶.

The NEP had uplifted the status of Bumiputras through the creation of a new well-educated middle class that is actively engaged in nearly all sectors of the economy on par with non-Bumiputras in terms of their competence and capacity to compete. The now wealthier and educated Bumiputra middle class emerged as a new entrepreneurial community, playing prominent roles in the development of new enterprises.¹²⁷

¹²⁴ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), pp 10-11. Accessed at <<http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>>

¹²⁵ Mamat, Mohamad Asrol Arpidi, Ishak Saat, and Khairi Ariffin. "Impak Dasar Ekonomi Baru ke atas Peningkatan Ekonomi Bumiputera Selepas Tragedi 13 Mei 1969." *Jurnal Perspektif*6, no. 3 (2014): 138-151.

¹²⁶ Ng, Jason. "14 Successful Malay Entrepreneurs in Malaysia." *Next Up Asia*. May 25, 2013. Accessed August 27, 2018. <http://www.nextupasia.com/14-successful-malay-entrepreneurs-in-malaysia/>.

¹²⁷ Centre for Public Policy Studies, *Corporate Equity Distribution: Past Trends and Future Policy*, (n.d.), p 16. Accessed at <http://www.cpps.org.my/resource_centre/Corporate_Equity_Distribution.pdf>

A number of large firms including banks¹²⁸ like United Malayan Banking Corporation (UMBC), D&C Bank and United Asian Bank (UAB) which were originally owned by foreigners and non-*Bumiputras* have come under *Bumiputra* or government control.

Others like shipping firm Malaysian International Shipping Corp (MISC) and automotive giant United Motor Works (UMW), newspaper giant New Straits Times Press (NSTP), mining firm Malayan Mining Corp (MMC), major plantation firms like Sime Darby, Golden Hope, Island & Peninsular and Kumpulan Guthrie, construction giant United Engineers (UEM) and manufacturing enterprises like Cement Industries of Malaysia (CIMA), Malayawata Steel and United Malayan Flour Mills are now managed almost exclusively by *Bumiputras*.¹²⁹ *Bumiputra* dominance was not confined to equity ownership but expanded to the recruitment of staff and management of huge private enterprises, GLCs and the national regulatory and administrative agencies. A large *Bumiputra* presence in senior executive positions of the country's leading enterprises is indisputable.

Bumiputra partnerships with non-*Bumiputra* became increasingly inter-ethnic in nature¹³⁰, with a principle of skills and knowledge sharing from equally competent business partners. A 1998 review¹³¹ of the 28 smaller firms quoted on the Bursa, revealed that 12 firms, or nearly half of the entire list were Chinese-owned, either individual or family, with only 2 representing intra-ethnic partnership between Chinese owners. A further 8 were

¹²⁸ Ibid., p 14. "In 1999, the government proposed to merge Malaysia's 58 financial institutions into ten (10) anchor banks – originally it was six. When the original proposal of just six anchor banks was presented, there was open discontent among non-Bumi bankers about this consolidation exercise as the merger of some of their most enterprising banks would diminish their presence in the Banking sector. The number of Chinese-owned banks was subsequently increased from two (i.e. Public Bank and Southern Bank) to three, when Hong Leong was also given anchor bank status." With the merger, *Bumiputra* dominance in Banking is now clearly visible.

¹²⁹ Centre for Public Policy Studies, *Corporate Equity Distribution: Past Trends and Future Policy*, (n.d.), p 14. Accessed at <http://www.cpps.org.my/resource_centre/Corporate_Equity_Distribution.pdf>

¹³⁰ Hamid, Abdul, and Nor Fuad. "Family Business Culture, Entrepreneurial Orientation and The New Economic Policy on Family Business Survival: A Study Between The Malays and Chinese of Micro-and Small-Sized Family Businesses in Malaysia." PhD diss., University of York, 2013.

¹³¹ Gomez, Edmund Terence and Ghee, Lim Teck, 2006. *Corporate equity distribution: Past trends and future policy*.

partnerships between Chinese and *Bumiputras*, and only one, the famous family business Habib Corporation Berhad, was a fully *Bumiputra*-owned firm. None of the firms were an intra-ethnic partnership *Bumiputras*. Several other firms were under the control of government corporations. This period marked a decline in the ‘Ali-Baba’ practices, as the *Bumiputra* partners in the inter-ethnic partnerships appeared to be on the same level of capability as their Chinese partners.

These partnerships indicated the advent of a new *Bumiputra* middle-class contributing to improved inter-ethnic social relations among Malaysians¹³². These partnerships were a reflection of the newly-found confidence of the *Bumiputra* middle-class, of their abilities and skills that they had acquired under the government interventions of the NEP. It also indicated that the links between them were not based on a common ethnic identity, rather a genuine acknowledgement of business acumen of both Chinese and *Bumiputras*. Academician Professor Wazi Karim saw this new trend as:

...significant structural shifts in partnerships or changes from traditional Chinese family-based organizations to Sino-Bumiputra alliances. There was a time when many of these alliances were linked to Ali-Baba enterprises, or sleeping partnership, but it appears that the combination of socio-political patronage, business acumen and access to finance capital is not necessarily dichotomized in terms of what “Malays are best at” or “what the Chinese can do better” Malay entrepreneurs have proven their prowess at this game just as purely Chinese business acumen in family-based companies appear limiting in the wake of global competitiveness.¹³³

¹³² By year 2000, the new middle class expanded further with *Bumiputra* making almost 30% (28.9%) of the work force. Torii, Takashi, *The Mechanism for State-led creation for Malaysian’s Middle Classes*, (The Developing Economies, XLI-2, June 2003), p 238.

¹³³ Centre for Public Policy Studies, *Corporate Equity Distribution: Past Trends and Future Policy*, (n.d.), pp 17-18. Accessed at <http://www.cpps.org.my/resource_centre/Corporate_Equity_Distribution.pdf>

Admittedly, the Malay community benefited the most from the NEP, even amongst their fellow *Bumiputras*. However, in the course of rapid economic growth under the NEP, non-Malay society also benefited indirectly through the cause-and-effect relationship among the races.¹³⁴

As *Bumiputra* involvement in the economy grew, the government set up several new agencies and bodies to provide business and financial facilities for *Bumiputra* entrepreneurs. The NEP had developed and provided a cache of Malay human capital, tapped by non-*Bumiputra* entrepreneurs when forming joint venture companies. More *Bumiputras* are now more affluent compared to the pre-NEP days.

From the mid-1960s, when individual *Bumiputras* lacked capital and expertise, the government established state-owned enterprises to enter businesses on their behalf. All thirteen states set up development corporations or State Economic Development Corporations (SEDCs)¹³⁵, registered companies that were given *Bumiputra* status. These initiatives included the exploiting of their own natural resources to promote and ensure the development of new industries. Existing State-owned enterprises were strengthened, and new ones created. Rural development efforts were intensified, directed mainly at the rural Malays.

Corporations were thus established to effectively hold shares on behalf of the *Bumiputras* when a company expanded or was initially listed. To then transfer these holdings to individuals, the government established the National Equity Corporation (PNB) in 1978,

¹³⁴ This was convincingly argued by researchers like Abdul Rahman Embong (1995, 1996, 1998, 2002) and Crouch (1993) in their studies of the rise of the Malay middle class. Torii, Takashi, *The Mechanism for State-led creation for Malaysian's Middle Classes*, (The Developing Economies, XLI-2, June 2003), pp 238-239.

¹³⁵ "The number of state-owned enterprises rose from 54 in 1965 to 656 in 1980, and 1,010 in 1985. Overall, they performed poorly, losing RM6.8 billion in 1984." Wain, Barry, *Malaysian Maverick: Mahathir Mohamed in turbulent times*, (Basingstoke: Palgrave Macmillan, 2009), p 89.

an investment and asset management company. PNB then invested on behalf of the *Bumiputras*, actively investing in Bursa Malaysia, and then channelled its portfolio into unit trusts. Some of these unit trusts, managed under Amanah Saham Nasional Berhad (ASNB) and Amanah Mutual Berhad (AMB), are specifically reserved for *Bumiputras*.

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Table 6.17**Financial Development Institutions of Malaysia**

Institution	Year of Establishment	Mandate
Malaysia Industrial Development Board (<i>MIDF</i>)	1960	Promote development of the industrial sector through provision of financing for manufacturing SMEs
Bank Bumiputra Malaysia Berhad (<i>Now CIMB</i>)	1965	Enhance Bumiputra participation in the national economy
Bank Pertanian Malaysia (<i>Now Agrobank</i>)	1969	Development finance institution directly involved in financing agriculture sector
Credit Guarantee Corporation (<i>CGC</i>)	1972	Assisting SMEs, especially those without adequate collateral and business track record to gain access to financing.
Bank Pembangunan Malaysia Berhad	1973	Assisting SME entrepreneurs to increase Bumiputra participation and involvement in the national economy.
Lembaga Tabung Haji	1969	Assisting the Muslim Bumiputra community in investing their savings to fund costs of Hajj pilgrimage
Lembaga Tabung Angkatan Tentera	1972	Assisting members of the Armed Forces in investing their savings and providing retirement and other benefits.

Source: Original table, data collated from various Ministry websites.

Table 6.18**Economic Development Institutions of Malaysia**

Institution	Year of Establishment	Mandate
Federal Agricultural Marketing Authority (<i>FAMA</i>)	1965	Monitor, co-ordinate, control and market Malaysian agricultural produce.
Urban development Authority (<i>UDA</i>) ¹³⁶	1971	Launch and oversee urban development projects related to business, industry and housing.
Perbadanan Nasional Berhad (<i>PERNAS</i> , now known as <i>Tradewinds Corporation Berhad</i>) ¹³⁷	1969	Purchasing businesses and participating in joint ventures with private companies as well as to develop newly established Bumiputra industries.
Permodalan Nasional Berhad (<i>PNB</i>)	1978	Operating unit trust schemes to increase Bumiputra equity in the Malaysian economy by encouraging Bumiputra to save and invest.
Bank Pembangunan Malaysia Berhad	1973	Assisting SME entrepreneurs to increase Bumiputra participation and involvement in the national economy.
Perbadanan Usahawan Nasional Berhad (<i>PUNB</i>)	1969	Funding Bumiputra entrepreneurs in the manufacturing and engineering sectors to increase the quality of Bumiputra participants.

¹³⁶ UDA was later publicly listed on the Main Board, KLSE in 1999.

¹³⁷ Following its privatisation via a MBO by Pemas International Holdings Berhad, the entity became known as PNS in the early 1990s. Today PNS supports franchise businesses in Malaysia mainly by providing term loans, to generate more business savvy and competent franchise entrepreneurs. Majority of PNS's entrepreneurs are young, aged between 26-35 years old which is below the national average age of entrepreneurs at 45-64 years old. As a source of revenue, PNS invests in growth-stage companies in the form of equity. See Ethos Analysis, *Assessing the impact of entrepreneur development organizations in enhancing Bumiputra participation in the economy*, (30 Aug 2010: Interviews with PNS), pp 33-46; Ethos & Company, *Assessing the restructuring instruments to enhance the Bumiputra participation in the Economy*, (2011). Accessed at <http://www.ethos.com.my/index.php?option=com_content&view=article&id=78&Itemid=73>

Several Financial Development Institutions (Government-owned banks) were incorporated and had their services tapped during the NEP period. The major ones are summarised in Table 6.17 above. Additionally, several government agencies were also established to monitor and enhance *Bumiputra* economic progress. Among the more prominent ones are summarised in Table 6.18 above.

In summary, there were many government-led initiatives to actively improve *Bumiputra* participation in the new economic sectors, which led to organic growth of inter-ethnic partnerships as a means of each ethnic group contributing their specific expertise from generations of racialised economic activities. Each of the steps highlighted above were part of the NEP thrust of equity distribution in favour of the *Bumiputras*.

6.5 INCREASE IN ECONOMIC GROWTH

The NEP years were a time of remarkable economic growth, but were also marred by the 1985 economic crisis. This section highlights how the NEP both facilitated growth and wealth redistribution, but also how the government needed to take unpopular measures in prioritising economic growth over the recession period. The most notable strategies of the time were privatisation and the encouragement of Foreign Direct Investments (FDI).

A great deal of Malaysia's economic growth was driven by the oil and gas industry. The novel discovery and subsequent extraction of petroleum reserves off Terengganu prompted the establishment of a state-owned oil and gas company when oil prices rocketed in 1973. These were the years when financial control over the global oil industry was increasingly in the hands of the OPEC, who at the time had control of over 90% of the entire industry. When the oil crisis hit in 1973¹³⁸, the government also took notice of how dependent it was on foreign oil, and on a larger scale, foreign capital. This was what led to the establishment of PETRONAS, to act as a state-owned company and secure international capital, and at the same time allow Malaysia to steer clear of disputes with foreign oil companies or governments.

The establishment of PETRONAS was also spurred on by the NEP, as it encouraged *Bumiputras* to regain control over the modern industries including petroleum. By that logic,

¹³⁸ The period 1973-1974 also saw steep price inflation which pinched the purchasing power of income worldwide. Partly as a result of this, three major Government wage and salary revisions were implemented. Introduction of labour-intensive manufacturing activities such as electronics, textiles, were intensified. The income of farmers of paid, rubber and oil palm improved due to concurrent improvement in commodity prices in the wake of petroleum price increase and world inflation in addition to on-stream rural development projects undertaken by the government. Tan Tat Wai, *Income Distribution and Determination in West Malaysia*, (Kuala Lumpur: Oxford University Press, 1982), pp 170-178.

a state enterprise would take back control from foreign companies like Exxon, Esso and Shell that held the concessions at the time. It was modelled after PERTAMINA, its Indonesian equivalent. In 1974, Malaysia was producing 81,000 barrels of crude oil on a daily basis (12,900m³/d)¹³⁹. The increased revenue from petroleum exports funded a great deal of government expenditure, allowing the government to spend more without any drastic increase in foreign borrowings.

Having created Petronas, the government had several options in awarding its legal monopoly on oil and gas activities to private oil companies. Oil royalties were accorded to both Federal and State governments. This greatly increased the country's economic wealth and growth. Malaysia's economic growth was one of the highest in the world during the NEP period (of 20 years). Economic restructuring was notably successful from 1970-1987.

Since 1987, growth averaged nearly 9% per annum, leading to full employment (reversing the resurgence of unemployment caused by the 1980s recession and subsequent retrenchment measures), and significant worker migration from neighbouring countries.¹⁴⁰

Subsequently, Malaysia's almost perfect timing of investment liberalisation in 1985-1986 in response to the recession coincided with other timely factors cropping up in the advanced East Asian nations. Japan, Korea, Taiwan and Hong Kong were experiencing exchange rate appreciation, loss of GSP trading preference and rising wages. This helped to

¹³⁹ Petroliam Nasional Bhd (Petronas), *Reference for Business, Company History Index*, (n.d.), p 1. Accessed at <<http://www.referenceforbusiness.com/history2/79/Petroliam-Nasional-Bhd-Petronas.html>>

¹⁴⁰ Snodgrass, Donald, R., *Successful Economic Development in a Multi-Ethnic Society: The Malaysian Case*, (n.d.), (Paper prepared for the Salzburg Seminar), p 8. Accessed at <<http://www.earthinstitute.columbia.edu/sitefiles/file/about/director/pubs/503.pdf>>

increase Malaysia's attractiveness at precisely the right moment to trigger a massive response to the policy reform¹⁴¹.

Many argued the NEP deterred FDI, which in turn would have a negative impact on both economic growth and development. However, economic growth from 1970 – 1980 was 7.8% on average, and from 1982 to 1984 continued at an impressive 6.9%. In 1985, Malaysia experienced a deep recession, which the government responded to with a loosening of the rules governing FDI. The increase in FDI during this period attributed to Malaysia's commitment to attracting foreign capital through preferential policies toward foreign investors, in the form of the *Promotion of Investment Act 1986*, *Investment Incentives Act 1968* and *Import-Substitution through Industrialization (ISI)*¹⁴². In the late 1980s, Malaysia then underwent a period of rapid growth, driven by export-oriented manufacturing.

Malaysia's objective of developing an export-based economy and provision of attractive terms to foreign investors led to an impressive growth in foreign participation in the national economy, reflected in the 171,646 jobs created by foreign firms between 1980 and 1990 in the manufacturing industry alone¹⁴³. Riding on increased demand of foreign firms, Malaysia established Free Trade Zones (FTZ) such as the Penang FTZ under the Free Trade Zones Act 1971 to further encourage participation of foreign firms in the economy. This approach has shown long-term success in creating an electronics manufacturing cluster in Bayan Lepas, Penang contributing to Malaysia's world-leading semiconductor manufacturing capability which is now the Nation's largest export earner¹⁴⁴.

¹⁴¹ Investment Liberalization took effect during my 1984-1991 tenure as Finance Minister.

¹⁴² *Economic Growth and Development in Malaysia: Policy Making and Leadership* Zainal Aznam Yusof Deepak Bhattasali (Commission on Growth and Development, World Bank)

¹⁴³ Malaysian Industrial Development Authority, MIDA. <http://www.mida.gov.my/home/electrical-and-electronic/posts/>

¹⁴⁴ See *Globalisation, Economic Policy, and Equity: The Case of Malaysia* by Mohammed B. Yusoff, Fauziah Abu Hasan, Suhaila Abdul Jalil (OECD)

Manufacturing for exports had become a main source of FDI. Notable projects such as Perusahaan Otomobil Nasional (PROTON), a joint-venture effort between Mitsubishi Motors and Heavy Industries Commission (HICOM) in 1983 to produce Malaysia's first national car.¹⁴⁵ The long-term benefits of technology transfer, increased employment and increased exports from FDI can be seen in the growth of current-day PROTON, now capable of automobile development from the ground-up as seen in the production of the PROTON Waja, Malaysia's first locally-designed car launched in 2000.

The government also took active steps to jump-start the economy via privatisation measures. In 1983, in order to revive the flagging economy, which was affected by the global recession, the government took a dramatically new direction in the national development strategy and announced its commitment to privatisation. This move aimed to save costs, both monetary and administrative, especially in terms of the services and infrastructure previously provided by the government. It switched from government-led growth to allowing the private sector to take the lead, whilst also encouraging foreign investment via the privatisation policy¹⁴⁶. The relaxation of the NEP was seen as critical to ensuring that economic growth could continue. Economic growth was a crucial tenet of the NEP, as without growth, there would be no increase in equity to be redistributed amongst Malaysian society.

In relation to the *Guidelines on Privatization*,¹⁴⁷ privatisation was to “*promote competition to improve efficiency, to increase productivity and to facilitate economic growth*

¹⁴⁵ PROTON. *About Us: Our Journey – History of Proton*. Accessed at <https://www.proton.com/en/Corporate/About-Us/Brand-Story>

¹⁴⁶ Privatised ventures had to meet the NEP target of at least 30% *Bumiputra* equity and employment participation. Salazar, Lorraine Carlos, *First Come, First Served: Privatization under Mahathir*, in Welsh, Bridget (ed), *Reflections: the Mahathir Years*, (Washington D.C.: School of Advanced and International Studies, Johns Hopkins University, 2004), p 284.

¹⁴⁷ In 1985, EPU of the Prime Minister's Department announced its *Guidelines for Privatization*, spelling out the official rationale and broad guidelines for Malaysian privatisation. It remained as the main official document on privatisation until early 1991, and was replaced by the government's publication of the *Privatization Masterplan* document in February 1991.

through private entrepreneurship and investments.”¹⁴⁸ The wave of privatisation aimed to create a more effective system of public amenities by reducing the economic control of the public sector, which was inefficient partly due to its tendency to act as a market monopoly and its inherent requirement for bureaucratic support. Privatisation was to help the government achieve the NEP goal of restructuring Malaysian society by way of increasing *Bumiputra* equity and to redistribute wealth to the *Bumiputras*.

Privatisation intensified up to mid-1984. 37 projects were privatised by various means from the initial privatisation policy through the 1990s¹⁴⁹. Early cases of privatisation that were successful include Sports Toto Malaysia, a lottery betting company founded by the government in 1969, was privatised through sale of equity. The Ministry of Finance sold its 70% equity for RM35 million in August 1985. It was purchased by Vincent Tan through his company B&B Enterprise Berhad, via a non-tender privatisation exercise. Melewar Corporation Berhad subsequently bought 10% of equity over from B&B Enterprise Berhad¹⁵⁰. There was an immediate enhancement of Toto with improved market share after its privatisation. Had it remained under the government, its potential would unlikely be tapped as it involved gambling¹⁵¹.

The government also licensed a private television network, System Televisyen Malaysia Berhad (STMB) with the setting up of TV3 alongside RTM's Two channel in 1983. TV3 was launched and began broadcasting in the Klang Valley in June 1984. By January 1988, TV3 was listed on the Main Board of the KLSE, and in April 1988, it went public and

¹⁴⁸ Har Wai Mun (ed), *Malaysian Economic Development, Issues and Debates*, (2007), p 72. Accessed at <http://harwaimun.com/Malaysian_Economics_Development.pdf>

¹⁴⁹ Har Wai Mun (ed), *Malaysian Economic Development, Issues and Debates*, (2007), p 72. Accessed at <http://harwaimun.com/Malaysian_Economics_Development.pdf>

¹⁵⁰ Jomo, K. S. (ed), *Privatising Malaysia: Rents, Rhetoric, Realities*, (Boulder, Westview, 1995), p 104.

¹⁵¹ See Salleh, Ismail Muid, *Malaysia: Growth, Equity and Structural Transformation*, (UKM, 1994).

was placed together with the New Straits Times Publishing under Malaysian Resources Corporation Berhad. Through privatisation, TV3 introduced some element of competition into an industry previously monopolized by the public sector and set new standards to benefit the viewing public and consumers.

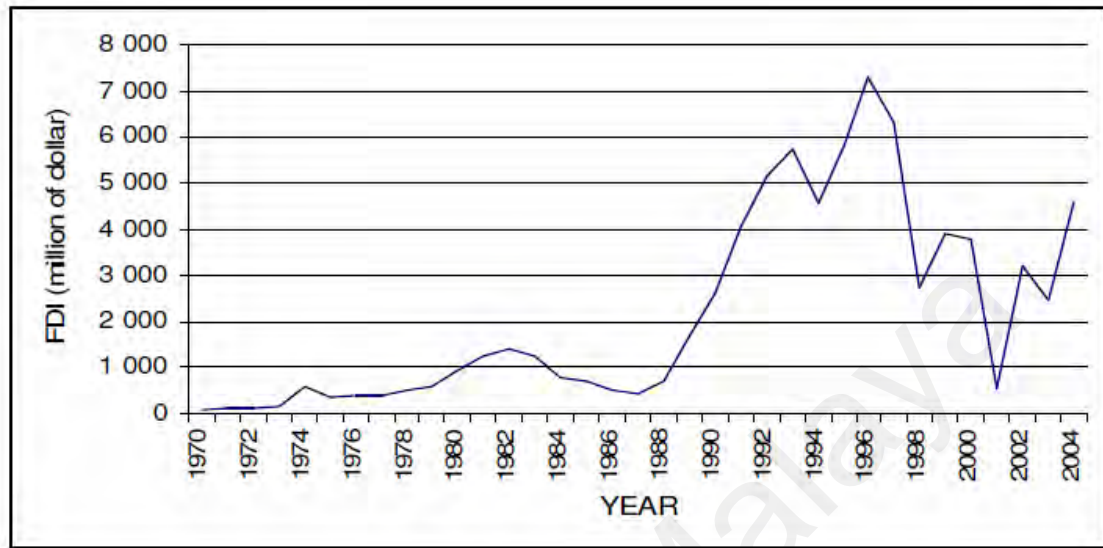
As mentioned previously, the government also temporarily suspended the NEP over the recession of 1985-1986. This was most obvious in the relaxation of legislation covering FDI. This was a show of pragmatism from the ruling government, as they acknowledged that foreign capital would be necessary to weather the storm of the recession. Most notably, the restrictions of the Industrial Coordination Act 1975 (ICA) were relaxed. As the non-Malays had reduced their capital investment, the government took their place by pumping in state investment and intensive promotion of foreign investment, especially from Japan.

Diagram 4 below illustrates the pattern of incoming FDI over the 1970-2004 period. FDI stocks in Malaysia started to appreciate slowly by 1970s. Between 1970 and 2000, there was a 20 time increase in FDI, ballooning from USD94 million to USD2.6 billion.

After the 1985-1986 recession, the Malaysian economy accelerated tremendously from late 1986, with export-led industrialization using imported components and equipment. Exports and imports continued to grow rapidly in the late 1980s and early 1990s. From 1987 to 1990, annual growth of exports and imports was in excess of 20%.¹⁵²

¹⁵² Jomo, K. S. and Tan Wooi Syn, *Privatization and Renationalization in Malaysia: a Survey*, (n.d.) p 29. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

Figure 6.19
FDI Inflows to Malaysia (in million dollars), 1970-2004



Source: United Nations Conference on Trade and Development (UNCTAD), various issues.

In January 1987, the provision of telecommunication services and networks by Jabatan Telekom Malaysia (Telecommunications Department) was taken over by Syarikat Telekom Malaysia Berhad (now known as Telekom Malaysia), the nation's first privatised entity. Its improved services included the reduction of errors in billing, improved counter services and quicker responses to applications for telephone installations. In 1990, a portion of the government's equity was divested to the public through a public flotation. "Upon listing, the government retained 75% of the shares, including a 'golden share' that entitles it to veto major decisions that have major interest implications."¹⁵³ Today, it holds a monopoly over fixed-line networks and as well as a significant share of the mobile communications market¹⁵⁴.

¹⁵³ Rowley, Chris and Warner, Malcom (eds), *Whither South East Asian Management: The First Decade of the New Millennium*, (Routledge, 2011), p 144.

¹⁵⁴ For a new global brand image, Telekom Malaysia subsequently changed its name to TM Berhad in Apr 2005.

In May 1988 the government announced its decision to privatise the National Electricity Board (NEB), and by 1990 it had been succeeded by Tenaga Nasional Berhad (TNB). All of NEB's assets were transferred to TNB, and the government then divested 30% of its share in TNB to the public by way of a public flotation in May 1992, allowing it to be privatised through corporatisation¹⁵⁵. At present, TNB has a power supply system to the National Grid, which is energised with the Kerinchi Pylon, the tallest electricity pylon in Malaysia and Southeast Asia. The privatisation of TNB has proved to have worked out in TNB's favour, as it is both Malaysia and Southeast Asia's largest power company, controlling over RM69 billion in assets. They are also manufacturers and have an active research and development division, with sights on expanding into nuclear energy if permitted by the government¹⁵⁶.

In terms of maritime ports, the Klang Container Terminal (KCT) privatisation was initiated to increase efficiency by the Klang Port Authority through the sale of shares in 1986. Improvements and changes in management were seen immediately resulting in cost-efficiency gains. *“From 1983 to 1986, output growth seemed to grow with real GDP, but after divestiture, it grew faster..., the difference could be attributed to efficiency gains from privatization.”*¹⁵⁷

For roads, the North-South Expressway project was privatised via open tender to United Engineers (Malaysia) Berhad in 1988 through a Build-Operate-Transfer award. The completed North-South Expressway¹⁵⁸ running 966 km from Bukit Kayu Hitam on the

¹⁵⁵ Jomo, K. S. (ed), *Privatising Malaysia: Rents, Rhetoric, Realities*, (Boulder, Westview, 1995), p 207.

¹⁵⁶ Tenaga Nasional Berhad Website, accessed at <http://medlibrary.org/medwiki/Tenaga_Nasional#History>

¹⁵⁷ Jomo, K. S. and Tan Wooi Syn, *Privatization and Renationalization in Malaysia: a Survey*, (n.d.) p 30. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

¹⁵⁸ Completed in 1994, and is also known as PLUS Expressway, named after the highway's concessionaire, Projek Lebuhraya Utara Selatan Berhad.

northern border of the Peninsula to Johor Bahru in the south remains an asset to Malaysians with the assurance of good road conditions, safety and reduced travelling time. This has lowered vehicle operation costs and is one of the biggest indirect contributors to Malaysia's economic development, creating new growth areas and generating new economic activities. In 1987, the Jalan Kuching-Jalan Kepong interchange project worth RM86 million was privatised. Other highways privatised in subsequent years included the SILK highway, KESAS and the Kajang-Cheras Highway, which offers similar benefits to road users.

Additionally, in October 1990, the Food Industries of Malaysia Bhd. (FIMA) and Peremba Berhad, the development and investment arm of UDA, were privatised through management buy-outs.

By the late 1980s, the privatisation programme had begun to bear fruit, with the State-owned enterprises and price stability. "*Malaysia's financial depth, as measured by the ratio of M2 to GNP, rose from 31% in 1970 to 75% in 1987.*"¹⁵⁹ By the end of March 1990, "*there were 1,158 State-owned Enterprises (78% of them operational) with total paid-up capital of RM23.9 billion. Of these companies, 396 were 100% government-owned, a further 429 were majority government-owned and the remaining 333 (30%) saw the government holding minority equity stakes.*"¹⁶⁰ State-owned Enterprises were broadly spread across all sectors in finance, services and manufacturing.

This accelerated pace of growth can be partly attributed to the privatisation of inefficient state-owned enterprises. Through privatisation, these enterprises were

¹⁵⁹ The World Bank, *WDR 1989: Financial Systems and Development*, (Oxford University Press, 1989), p 64.

¹⁶⁰ Jomo, K. S. and Tan Wooi Syn, *Privatization and Renationalization in Malaysia: a Survey*, (n.d.) p 6. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

subsequently subject to commercial pressure to perform better. It dismantled government monopolies in certain sectors, and subsequently facilitated private entrepreneurship in these areas. Resources released for corporate expansion brought efficiency gains. This attracted foreign funds to stake investments generating a fluid local money market and stock exchange. In turn, this created the contingency for local businesses to carry out infrastructure developments by raising capital on the KLSE. Rapid industrialisation was created to meet the demands to quickly develop areas like the telecommunications, highways and power generations.

The privatisation momentum surged in 1991-1995 when a total of 204 projects¹⁶¹ were awarded to the private sector, but dropped to 68 during the 1996-1998 economic slow-down. The end goal of the NEP was to create a viable Malay capitalist class who could contribute to the nation's economic growth, and privatisation was merely another mechanism to achieve this goal. Privatisation provided job opportunities in most privatised companies to the public who held various different skillsets from within different industries, and ultimately helped to further reduce unemployment.

¹⁶¹ Among the major projects were: Dec 1992 Phase One of the Light Rail Transit System to System Transit Aliran Ringan; Government and Indah Water Konsortium signed a RM6.2b concession to privatise the development, upgrading and refurbishing of the national sewerage system in Dec 1993; the privatising of the RM15b Bakun Hydroelectric Dam project in Sarawak to Ekran Berhad in early 1994.

6.6 CONCLUSION

To sum up, this chapter highlights the accomplishments of the NEP, particularly in terms of poverty eradication and societal restructuring. Malaysia has been exemplary in its approach to education, rural development, and improved health care, particularly for rural populations. It has been particularly successful in terms of improving education for the Malay masses, and in reducing poverty from 52.4% in 1970 to only 5.5% in 2000, with incidence of hard-core poverty standing at 0.5% in 2000¹⁶². This was a clear-cut success for the first prong of the NEP's goals.

The NEP has also been a global exemplar of affirmative action policy, particularly in its unique nature of targeting a majority group. Few nations have had the challenge of addressing the marginalisation of a majority group (i.e. South Africa), and this lack of examples of best practice has made Malaysia's achievements in the area even more of an accomplishment. Within the 20-year implementation period, the Alliance government had succeeded in creating a Malay middle class, expanding the numbers of the Malay elite, and to a certain extent, breaking down the racialisation of economic activities.

These achievements were only possible due to the exponential economic growth which was the main agenda of the government in its implementation of the NEP to improve the livelihood of the Malays without cost to other Malaysians. This was achieved via establishment of various specialised financial and economic development institutions focused on the Bumiputera agenda. In the meantime, policies promoting privatisation and

¹⁶² Abhayaratne, Anoma. *Poverty reduction strategies in Malaysia 1970-2000: Some lessons*. Faculty of Economics & Administration, University of Malaya, 2004.

foreign direct investment in State-owned enterprises reinvigorated the post-recession Malaysian economy; continuing to demonstrate the gains of affirmative action policies in redistributing wealth within the Malaysian economy.

In spite of the achievements, there have been many criticisms of the policies enacted under the NEP. The next chapter will highlight these arguments as well as discuss the negative impact of the NEP on the Malaysian society and economy.

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CHAPTER 7: SHORTCOMINGS AND CRITICISMS OF THE NEP

7.1 INTRODUCTION

The previous chapter portrayed the contribution of the NEP to social harmony and economic development through its affirmative action for the *Bumiputras*. The affirmative action had benefited the *Bumiputras*. Their corporate ownership, income and educational attainment increased as well as their participation in economic activities. Notwithstanding, that chapter also noted that the NEP, which ended in 1990, failed to fully achieve its many goals.

This chapter reviews the criticisms against the NEP along the following dimensions: education, poverty eradication, corruption, privatisation, equity participation and the capacity of government in implementing the NEP. Furthermore, there is an element of corruption that has shadowed the NEP negatively. The chapter argues that the achievements of the NEP were mixed. In the recent years, the NEP has been attacked as an inefficient and race biased system in its race-related policies. The legality of the affirmative policies has also been questioned.

With regards to the research question, this chapter address to what extent the NEP failed to achieve its stated goals, and what role the Alliance government had in these failures. It should also be noted that as a whole, the main criticisms directed at the NEP are not of the policy itself, but rather the approach, interpretation, and implementation. The headings chosen below simplify the broad areas this chapter deals with, addressing the policies under the NEP and several of the unintended consequences that have arisen as a result of misinterpretation and failure to adapt policies to changing socio-political

circumstances. It also avoids overlapping and repeating of issues by being structured in an orderly fashion.

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7.2 THE CONSTITUTION

The Malaysian Federal Constitution contains specific clauses that protect the wealth and ownership of business of the non-Malays, but nonetheless provides a limited scope within which the Developmental State is able to manoeuvre with the explicit goal of helping the *Bumiputras*. It was, and still is, important that affirmative action policies and state-interventionist direct action does not contract the Federal Constitution, rather that it helps and protects all Malaysian citizens within legal boundaries. The NEP is no different and should not be allowed to circumvent the Federal Constitution.

Article 153 of the Federal Constitution states: *“It shall be the responsibility of the Yang di-Pertuan Agong to safeguard the special position of the Malays and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities in accordance with the provisions of this Article.”*

It is on these grounds that quotas, most prominently in the awarding of public scholarships, business licenses, as well as the recruitment for civil service positions, has been permitted⁷⁰³. The reservation and quotas permitted by the Constitution under Article 153(8A) were directed primarily at public sector activities.

Affirmative action policies are permissible within the agencies of the federal and state governments. The Constitution has a lacuna in that statutory bodies, quangos and local authorities have not been expressly authorised to participate in such policies.' In actual practice, statutory bodies including universities, public corporations, government-owned companies and municipal corporations enforce “Bumiputera policies vigorously. What legal basis they have for their practices has not yet been questioned in a court of law.”⁷⁰⁴

⁷⁰³ Kim Quek, “Special rights: Getting to the bottom of Article 153”, *Malaysiakini*, 7 December 2004, Accessed at <https://www.malaysiakini.com/letters/31948>

⁷⁰⁴ Shad Saleem Faruqi, *Affirmative Action Policies and the Constitution*, (*Kajian Malaysia*, vol XXI, nos 1 & 2, 2003), p 40.

Reading Article 153(8A) and Article 12(1) together, the fact that State agencies have used their powers to pressure the private sector into enforcing quotas that benefit the *Bumiputras* is likely unconstitutional.

Furthermore, it is important to note that Article 153 does not specifically address the *Orang Asli* population of Peninsular Malaysia, thus leaving their *Bumiputra* status as ambiguous at best. Definitions of what constitutes a *Bumiputra* vary throughout different government institutions and have often excluded Peninsular *Orang Asli* from receiving the special benefits afforded under the NEP, despite their arguably stronger claim to indigeneity than the Malays⁷⁰⁵. Excluded from Article 153 of the Constitution, and although granted certain special privileges, their rights are not protected to the extent that the rights of their fellow *Bumiputra* are⁷⁰⁶.

In light of the systemic oppression and exclusion of the *Asli* community since colonial times, the government has failed to protect this vulnerable stratum of society despite their stated goals of protecting the indigenous people of Malaya and uplifting the poorest members of Malaysian society. The failure of the NEP and subsequent government policy to address the issues of the Peninsular *Orang Asli* is exemplified in the failure to address poverty amongst this community. In the early NEP years, the government launch the *Rancangan Pengumpulan Semula (RPS)* or Regroupment Scheme, which was meant to eradicate poverty amongst the *Asli* population. However, as of 2000, at least 80.8% of *Orang Asli* live below the national poverty line, while 49.9%

⁷⁰⁵ Nah, Alice M. "Negotiating indigenous identity in postcolonial Malaysia: beyond being 'not quite/not Malay'." *Social Identities*9, no. 4 (2003): 511-534.

⁷⁰⁶ Subramaniam, Yogeswaran. "Ethnicity, Indigeneity and Indigenous Rights: The *Orang Asli* Experience." *QUT L. Rev.*15 (2015): 71.

are amongst the hard-core poor⁷⁰⁷. This is in stark contrast to the national statistics of 8.5% poverty and 2.5% hardcore poverty respectively.

Furthermore, the fluid definition of *Bumiputra* with regards to *Orang Asli* from the Peninsular is particularly concerning when it comes to tracking the achievements of the NEP with regards to its stated goals, as the extreme poverty and low educational attainment of this community can significantly affect measurements of success, and therefore arguments for the continued use of *Bumiputra*-centric affirmative action policies. While the NEP has succeeded in uplifting the Malay community, non-Malay *Bumiputras* across the nation lag behind in terms of educational and economic progress⁷⁰⁸, and continue to be a sore reminder of the shortcomings of the NEP.

Perhaps most interesting is the idea that Article 153 in its present form was never meant to be a permanent feature of the Constitution. Just as the NEP was always meant to be transient in nature, Article 153 was formulated as a response to the racial tension of the time, but with the view that it should be revised when Malaysian society had reached a point at which it was no longer necessary. Tunku Abdul Rahman, one of the chief architects of the Federal Constitution, specifically wrote in 1965:

I must point out that although the Constitution provides for a special position for the indigenous peoples at present, it also provides for periodic review of the position when necessary. Ultimately the time will come when it will be possible by legislative action to amend the Constitution because this special position will no longer be needed.⁷⁰⁹

⁷⁰⁷ Nicholas, Colin. *The Orang Asli and the contest for resources: Indigenous politics, development, and identity in Peninsular Malaysia*. Vol. 95. International Work Group for Indigenous Affairs; Subang Jaya, Malaysia: Center for Orang Asli Concerns, 2000. See also Nicholas, Colin. "Orang Asli resource politics: Manipulating property regimes through representivity." *Digital Library of the Commons* (2003).

⁷⁰⁸ Lee, Hwok-Aun. "Affirmative action in Malaysia: Education and employment outcomes since the 1990s." *Journal of Contemporary Asia* 42, no. 2 (2012): 230-254. See also Al-Mekhlafi, Hesham M., Mohammed A. Mahdy, Atiya A. Sallam, W. A. Ariffin, Abdulsalam M. Al-Mekhlafi, Adel A. Amran, and Johari Surin. "Nutritional and socio-economic determinants of cognitive function and educational achievement of Aboriginal schoolchildren in rural Malaysia." *British journal of nutrition* 106, no. 7 (2011): 1100-1106.

⁷⁰⁹ Tunku Abdul Rahman, *Malaysia: Key Area in South East Asia*. Foreign Affairs, 43 (1964): 659. Accessed at <https://www.foreignaffairs.com/articles/asia/1965-07-01/malaysia-key-area-southeast-asia>.

With that, the sentiment is clear that neither Article 153 nor the NEP were intended to be permanent fixtures of Malaysian legislation. By design, Article 153 and the NEP required stringent reviews to ensure that they are still relevant to the current socioeconomic climate. Just as Article 153 required strengthening shortly after the events of May 13, the changing political and economic landscape of Malaysia will require that the stipulated “special position” be reviewed to ensure the continued peace and progress of the nation.

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7.3 EDUCATION

This section highlights the education system engineered under the NEP. The education policy of the NEP has been both crucial and controversial. The policy was launched to expand *Bumiputra* human resources, by focusing on the higher levels of education. The key objective was to increase the number of Malay and *Bumiputra* graduates, particularly from local universities. However, many academics now claimed this policy has contributed to a decline in academic standards and outcomes⁷¹⁰.

Lim Tek Ghee claimed that the NEP policies has made several important impacts on the universities which is worth citing *verbatim*⁷¹¹:

- a) Race, and not merit, has been the main criterion of entry of students and recruitment of academic staff in universities.
- b) Ethnic quotas system and other forms of Malay ethnic preference have been pursued in various forms and permutations often discreetly hidden from the public.
- c) Bright non-Malay talent has been marginalized often through outright exclusion. When recruited into the staff, they have little incentive to do their best or to stay in service in a Malay-dominated system.
- d) Teaching and research performance and standards have fallen because a system of meritocracy is only partially in place and is secondary to race and political-based criteria.
- e) Most academics in the public universities are resigned to the fact that race (and political connections) is a critical -- and often the major -- factor determining recruitment, promotion prospects, and access to perks and opportunities that are part of the academic system.

⁷¹⁰ Lim Teck Ghee, *Malaysian Universities and the NEP*, (Centre of Policy Initiative website, 9 Oct 2009). Accessed at <http://english.cpiasia.net/index.php?option=com_content&view=article&id=1747:malaysian-universities-and-the-nep&catid=141:lim-teck-ghees-contribution&Itemid=93> He opined that "if higher education expansion is accompanied by a lowering of standards, then the process becomes a double edged knife. Not only is the investment in higher education not optimized but creates a great mass of graduates produced to become un-employable or is unsuitable for the needs of the labour market. Instead of developing the young to their full potential, these graduates end up with glorified paper qualifications and skills. Resulting from UMNO's domination in the Barisan Nasional, Malay preferential policies have become the key policy thrust in public higher education since the 1970s."

⁷¹¹ Ibid

In Malaysia, the divergence in the academic path commences from primary schools when many *Bumiputras* enter public schools (*sekolah kebangsaan*) whilst most non-*Bumiputra* are enrolled in vernacular schools with Chinese or Tamil as the case may be, as the medium of instruction. In the *sekolah kebangsaan* public secondary schools, the two groups sit for the same exams until Form 5, after which, most *Bumiputras* enrol in matriculation, while non-*Bumiputras* take Sijil Tinggi Pelajaran Malaysia (STPM). Much of the criticism of the NEP's education policies stem from this division between the different ethnic groups.

The education system under NEP actively promoted *Bahasa Malaysia* by enforcing its use as the medium of instruction in the last remaining English-medium schools. The ultimate objective was to strengthen national unity, as outlined in the Razak Report of 1956⁷¹². However, the number of pupils in Chinese schools, both primary and independent⁷¹³, as well as Tamil schools surged⁷¹⁴ as many non-*Bumiputras* were unable to accept the new medium of instruction throughout the NEP's working period. This has led to further fragmentation of Malaysian society. Children of different races who would have otherwise had an early exposure to interracial interaction at a young age ended up going to raced-based schools, leading to further segregation and racism. It was argued that, contrary to NEP's objective, national unity has not been achieved.

⁷¹² Ibid.

⁴ Puthuchery, Mavis, *The Politics of Administration: The Malaysian Experience*, (Kuala Lumpur: Oxford University Press, 1978), p 9.

⁵ "If national unity is to be achieved, abolishing vernacular schools would do no good. In April 2005, the government had announced that all national schools will begin teaching Chinese and Tamil to attract more students into secular schools, not as mother tongue courses but as elective courses. However, parents still prefer to send their children to vernacular schools." Krishnamoorthy, Kumuthaavalli, *Secular vs Vernacular*, *New Straits Times*, (7 May 2013). Accessed at <<http://www.nst.com.my/channels/niexter/secular-vs-vernacular-1.316854>>

Table 7.1**Ethnic Chinese Student Enrolment in Primary Schools, 1973 – 2005⁷¹⁵**

Year	% Chinese students in SRJK-C (Government Chinese Primary School)	% Chinese students in SRK (Government Malay Primary School)
1973	82.4	17.6
1978	88.2	11.8
1995	89.0	11.0
1998	90.6	9.4
1999	90.9	9.1
2005	94.7	5.3

Source: Lee, HG. Education of the Chinese in Malaysia. (201).

The United Chinese School Committees Association of Malaysia, or Dong Jiao Zong – the stronghold of Chinese – argued that British colonial policy (1786-1957) allowed for the continued development of vernacular language schools. It claimed that Chinese-medium education had flourished under these policies. Since Independence, Dong Jiao Zong believed, rightly or wrongly, that the government had a hidden agenda to eradicate Chinese and Tamil schools through enforcing a ‘national school’ policy with Malay as the primary language of instruction in all schools. In October 1987, they held a gathering of over 2,000 people which united Chinese political leaders across the different parties, resulting in a boycott to protest the appointment of non-Chinese educated staff to Chinese vernacular schools⁷¹⁶.

⁷¹⁵ Lee, H.G. (2012). Education of the Chinese in Malaysia. In H.G Lee and L. Suryadinata (Eds.), *Malaysian Chinese: Recent Developments and Prospects*. Singapore: ISEAS, pp. 166-192.

⁷¹⁶ This boycott was officially postponed to allow the government time to respond, but 57 schools proceeded to strike regardless. This event, as well as a response rally led by UMNO Youth, are tied to the infamous Operasi Lalang or Ops Lalang of 27 October 1987. See Crouch, Harold A. *Government and society in Malaysia*. Cornell University Press, 1996.

While it is true that the British colonial powers allowed the setting up of Chinese medium schools, it was because they viewed it as necessary for the children of the migrant races to attend their native language schools as they would be returning to their homeland at some point, very much similar to the presence of, for example the French, German and Japanese schools currently here in Malaysia. It is also important to note that the establishment of Chinese and Indian medium schools are a vestige of the British “divide and rule” policy, which prevented cooperation and integration of the *Bumiputra*, Chinese and Indian groups, thus facilitating British control⁷¹⁷. In today’s Malaysia, the communal school system now acts as a barrier to national unity, as inter-ethnic contact is limited throughout a child’s formative years, therefore exacerbating racial segregation⁷¹⁸.

Furthermore, the abolishment of English as the medium of instruction in schools (contrary to the recommendations of the Razak Report of 1956) has proven to be an institutional mistake, as many *Bumiputras* lost out with this decision. Many *Bumiputra* communities, particularly those from rural areas, experienced a decline in English proficiency, and therefore lost out on educational and employment opportunities⁷¹⁹. While bilingualism in Malaysia is common, it would appear that the commonly tri-lingual Chinese (and to some extent Indians) now have an upper hand, with better employability prospects, at least partly due to their language fluency⁷²⁰. It would appear that a new report must be commissioned to evaluate how the Malaysian education system can move forward, which would acknowledge the importance of mother tongue education (namely Malay, Mandarin, Tamil, and Urdu, amongst others), but in compromise to a shared national language as a *lingua franca*. It remains to be seen whether the language of unity

⁷¹⁷ Amaleen Aishah, *Reformasi dalam Pendidikan*.

⁷¹⁸ Ahmad, Yasmin, and Najeemah Mohd Yusof. "Ethnic boundary among students in Malaysian primary schools and social interaction: A conceptual framework." *Procedia-Social and Behavioral Sciences* 7 (2010): 82-91.

⁷¹⁹ Ismail, Noor Azina. "Graduates' characteristics and unemployment: A study among Malaysian graduates." *International journal of business and social science* 2, no. 16 (2011).

⁷²⁰ Lee, Hwok-Aun, and Muhammed Abdul Khalid. "Discrimination of high degrees: race and graduate hiring in Malaysia." *Journal of the Asia Pacific Economy* 21, no. 1 (2016): 53-76.

should be the Malay language, or if the English language can just as readily play an important role in inter-ethnic communication and therefore as a conduit for national unity⁷²¹.

Many have also argued that the NEP deprived deserving non-*Bumiputras* of higher education via the reservation of university places for *Bumiputra* students. In 1970, Malaysian universities saw a disproportionately higher ratio of Chinese students as compared to Malays. This ratio has since equalised to match the composition of the national population:

Table 7.2
Proportion of Enrolment in Tertiary Education by Race (Percentage)
(Covers the First Degree As Well As Post-Graduate Enrolments)⁷²²

Year	Bumiputra	Chinese	Indian	Others	Total Number
1970	40.2	48.9	7.3	3.6	7677
1980	47.3	42.2	9.7	0.8	40279
1988	61.8	31.1	6.6	0.5	48539

Source: Economic Planning Unit, Prime Minister's Department Malaysia. (1986).

Under the NEP, student admission quotas were introduced to ensure that a specific percentage of undergraduate seats in higher institutions of learning were reserved for *Bumiputras*⁷²³. The policy on quotas ended formally in 2003. However, many *Bumiputra*-only institutions remain, which are a cause for dissatisfaction amongst non-*Bumiputra* groups⁷²⁴.

⁷²¹ Tan, Peter KW. "The medium-of-instruction debate in Malaysia: English as a Malaysian language?." *Language problems and language planning* 29, no. 1 (2005): 47-66.

⁷²² See *Fourth Malaysia Plan 1981-1985*, (EPU, Prime Minister's Department, 1981), *Fifth Malaysia Plan 1986-1990*, (EPU, Prime Minister's Department, 1986), *Mid-term review of the Fifth Malaysia Plan 1986-90*, (Kuala Lumpur, National Printing Department, 1989), p 274.

⁷²³ Since then, increases in the number of places reserved for *Bumiputras* in both tertiary education and employment, as well as their visible presence in these sectors in large numbers, created confidence that they can adequately fill those places.

⁷²⁴ *Ibid.*

The implementation of quotas required non-*Bumiputra* students to significantly outperform their *Bumiputra* counterparts, facing the uncertainty of non-admission to local universities as there is always limited places in universities compared to the number of applicants. Consequently, the non-*Bumiputras* felt that race, not merit, became the primary requirement for both student and academic staff recruitment. This created a feeling of resentment amongst non-*Bumiputras* and a lowering in the self-esteem of *Bumiputras* who entered university with comparable results as their non-*Bumiputras* counterpart but yet were dismissed as second rate. This did not help in the social integration of the student population in universities. Maznah Mohamad contended that the inter-ethnic interaction on campuses did “worsen with the NEP due the lack of trust and credibility in the system”.

The by-passing of academic merit and competition to accommodate the quota system, the rise in Islamic religiosity as a marker of bumiputera identity hegemony and the wielding of the political stick on every aspect of academic policy created a sense of alienation among the nonbumiputera academic community matched only by the vigour of misplaced assertiveness among the bumiputera. While recognizing that it built up Bumiputera group confidence, The NEP was not a successful instrument for alleviating interethnic mistrust, not in overcoming inter-ethnic inequality...⁷²⁵

Similar observations were made by Graham Brown in his paper⁷²⁶ *Making Ethnic Citizens: The Politics and Practices of Education in Malaysia*. In the paper he argues that the expansion of private tertiary education during the 1990s has largely “ameliorated non-Malay concerns”. The mechanism and state apparatus set via NEP has pacified these “ethnic citizens” at the university and pre-university level to only “participate in the Malaysian nation uncritically through the virtual worship of development symbols and unquestioning deference to political leadership”.

⁷²⁵ Mohamad, Maznah, *Ethnicity and Inequality in Malaysia: A Retrospect and a Rethinking*, (CRISE, University of Oxford, Working Paper 9, February 2005), p. 13, Accessed at <<http://www3.qeh.ox.ac.uk/pdf/crisewps/workingpaper9.pdf>>

⁷²⁶ Brown, Graham., *Making ethnic citizens: The politics and practice of education in Malaysia*, (CRISE Working Paper No 23, Oct 2005), p 3.

R. Provencher noted:

*As Malay students became numerous in the university, they began to pressure authorities to increase these quotas even more, to speed the process of displacing English with Malay as the language of instruction, and also to establish Islamic Studies Programmes.*⁷²⁷

As a whole, Malay students obtained considerably poor results, with many opting for the liberal arts instead of STEM subjects. Most Malays confined themselves to Islamic Studies, Malay Studies and Malay language. Today even when the quota system has been abolished, *Bumiputra* students continued to populate the general arts subjects whilst in the science, technology and professional courses are mostly populated by non-*Bumiputra* students. This is highlighted in the tables below.

Table 7.3
Participation of Ethnic Groups in Arts and Science Stream in Higher Education⁷²⁸

Year	<u>Bumiputra</u>		<u>Chinese</u>		<u>Indians</u>		<u>Others</u>	
	Arts	Science & Tech	Arts	Science & Tech	Arts	Science & Tech	Arts	Science & Tech
1985	66.7	58.7	27.2	32.6	5.4	7.9	0.7	0.8
1988	63.8	59	29.8	33	5.9	7.5	0.5	0.5

Source: National Printing Department, Malaysia. (1989).

⁷²⁷ See Provencher, R., *Covering Malay humour magazines: Satire and parody of Malaysian political dilemmas*, (*Crossroads/Journal of Southeast Asian Studies*, 1990), Vol 5(2), pp 1-25.

⁷²⁸ *Mid-term review of the Fifth Malaysia Plan 1986-90*, (Kuala Lumpur, National Printing Department, 1989), p 274.

Table 7.4
Registered Professionals by Ethnic Group (Percentage)⁷²⁹

Profession	1970				1990			
	Bumi	Chinese	India	Others	Bumi	Chinese	India	Others
Accountant	6.8	65.4	7.9	19.9	11.2	81.2	6.2	1.4
Architects	4.3	80.9	1.4	13.4	23.6	74.4	1.2	0.8
Doctors	3.7	44.8	40.2	11.3	27.8	34.7	34.4	3.1

Source: Economic Planning Unit, Prime Minister's Department, Malaysia. (1986).

To address the poor performance of Malay students, the government set up a host of residential science schools to prepare Malay students for entry into the technical courses at the various colleges and universities. Boarding schools and colleges were established for *Bumputeras*, including residential schools and MARA junior science colleges where students could circumvent the more rigorous STPM route to higher education admission⁷³⁰. The government has also promoted STEM subjects through these colleges, but to date, an assessment made by Chandran seems to indicate that “with regard to education, R&D and other fundamental mechanisms to accelerate the process of innovation was still absent in Malaysia.”⁷³¹ At the university level Suet-Ling observed that:

...under the NEP, university education became the terrain of ethnic contest.....Under the NEP, a quota system was instituted such that Malay predominance was ensured in the university population of students, faculty and staff. Almost four out of every five university scholarships were awarded to Malay students... who only needed to possess the minimum requirements for admission..⁷³²

⁷²⁹ See *Seventh Malaysia Plan 1996–2000*, (EPU, Prime Minister's Department, 1996) and *Fifth Malaysia Plan 1986-1990*, (EPU, Prime Minister's Department, 1986).

⁷³⁰ Pak, Jennifer. "Is Malaysia university entry a level playing field?" *BBC News*. *BBC 1* (2013). Accessed at <https://www.bbc.com/news/world-asia-23841888>

⁷³¹ Chandran, V.G.R., Sundram, V.P.K., Mohamed Hashim, M.K., Zin, I. and Farha, A.G. (2005). Science, technology and innovation in Malaysia: What do the key indicators suggest? Paper presented at the Seminar IRPA, Universiti Teknologi MARA, Putrajaya, 26-27 February. Pg 1.

⁷³² Pong, Suet-ling. *Ethnicity and Schooling in Malaysia – The Role of Policy*, (n.d.), p .5. Accessed at Committee for International Cooperation in National Research in Demography (CICRED) website: <http://www.cicred.org/Eng/Seminars/Details/Seminars/education/ACTES/Com_Pong.PDF>

As mentioned previously, the Malaysian government also continues to fund *Bumiputra*-only colleges and higher learning institutions, such as Universiti Teknologi MARA (UiTM), vocational colleges (Pusat GIATMARA and Kolej Kemahiran Tinggi MARA) and the MARA Junior Science Colleges (MRSM). Proposals to open up these institutions to non-*Bumiputra* applicants have consistently been shrouded in controversy and met with outrage from the Malay community⁷³³. For instance, when MRSM changed their policy to admit 10% non-*Bumiputra* students in 2001, it was met with a significant backlash from the Malay community, and a lukewarm response from the non-*Bumiputra* community out of concern for poor educational experience amidst such controversy⁷³⁴. This has understandably bred further resentment amongst the non-*Bumiputra* community.

Meanwhile, years after the NEP had officially ended, specific quotas on *Bumiputra* and non-*Bumiputra* recipients of the Public Services Department (JPA) scholarships remained. Tony Pua (Member of Parliament for DAP) in his *Education in Malaysia – Scholarship Quotas* blog of 16 May 2006⁷³⁵ highlighted the JPAs's discrimination in awarding overseas scholarships. Drawing upon statistics released by (Tan Sri) Abdullah Mat Zin, Minister in the Prime Minister's Department during (Tun) Abdullah Badawi's tenure, also published in *Sin Chew Jit Poh*, he found that 80% of overseas scholarships went to *Bumiputra* students while the balance of 20% were awarded to non-*Bumiputra* students annually since 2000 as per Table 7.5 below. (Statistical data prior to this year is not available.)

⁷³³ Bernama. "UiTM Alumni Association protests against Hindraf's demands". *The Edge Markets*, 29 May 2018. Accessed at <http://www.theedgemarkets.com/article/uitm-alumni-association-protests-against-hindraf-demands>.

⁷³⁴ "MARA colleges hope to attract more non-bumis." *The Star Online*. 24th August 2004. Accessed at <https://www.thestar.com.my/news/nation/2004/08/10/mara-colleges-hope-to-attract-more-nonbumis/>

⁷³⁵ Pua, Tony (blog), *Education in Malaysia: Scholarship Quotas*, (16 May 2006). Accessed at <http://educationmalaysia.blogspot.com/2006/05/scholarship-quotas.html>

Table 7.5
Overseas Scholarship Distribution 2000-2005⁷³⁶

Year	<i>Bumiputra</i>		<i>Non-Bumiputra</i>		Total
2000	598	79.95%	150	20.05%	748
2001	609	80.03%	152	19.97%	761
2002	999	79.98%	250	20.02%	1249
2003	1314	79.98%	329	20.02%	1643
2004	1187	79.99%	297	20.01%	1484
2005	1040	80.00%	260	20.00%	1300
TOTAL	5747	79.99%	1438	20.01%	7185

Source: Ibid.

Pua further highlighted that JPA had obviously allocated a mere 30% of local undergraduate scholarships to non-*Bumiputras*, with the balance set *Bumiputras*.

Table 7.6
Local Undergraduate Scholarship Distribution Ratio to
Bumiputra & Non Bumiputra 2002-2005⁷³⁷

Year	<i>Bumiputra</i>		<i>Non-Bumiputra</i>		Total
2002	350	70.00%	150	30.00%	500
2003	350	70.00%	150	30.00%	500
2004	350	70.00%	150	30.00%	500
2005	350	70.00%	150	30.00%	500
TOTAL	7147	71.81%	2038	22.19%	9185

Source: Pua, T. Education in Malaysia: Scholarship Quotas. (2006).

Pua argued that the scholarship distribution ratio in this situation was a gross discrimination, carried out by and for the ethnic majority, under the guise of affirmative

⁷³⁶ Ibid.

⁷³⁷ Pua, Tony (blog), *Education in Malaysia: Scholarship Quotas*, (16 May 2006). Accessed at <<http://educationmalaysia.blogspot.com/2006/05/scholarship-quotas.html>>

action. He also argued that the awarding policy could have been balanced to provide for the more financially constrained students with outstanding academic qualifications.

The opacity of how the scholarships are awarded has given rise to negative perceptions amongst Malaysians. There should be transparency as to the criteria and the list of scholarship holders must be released to the public so that it can be clearly seen that only the deserving are given scholarships. At the university level Suet-Ling observed that:

...under the NEP, university education became the terrain of ethnic contest.....Under the NEP, a quota system was instituted such that Malay predominance was ensured in the university population of students, faculty and staff. Almost four out of every five university scholarships were awarded to Malay students... who only needed to possess the minimum requirements for admission..⁷³⁸

The statement above suggests that the achievement of increased Malay participation in higher education has come at a distinct cost to their fellow Malaysians⁷³⁹.

Critics argued that the lack of meritocracy demonstrated by the NEP's education policy has led to mass migration, with at least 29.4%⁷⁴⁰ of people with tertiary education migrating to OECD (Organisation for Economic Co-Operation and Development) nations by 1990. Following the implementation of the NEP, a surge in Malaysian emigration to the United States and Australia was observed.

⁷³⁸ Pong, Suet-ling. *Ethnicity and Schooling in Malaysia – The Role of Policy*, (n.d.), p .5. Accessed at Committee for International Cooperation in National Research in Demography (CICRED) website: <http://www.cicred.org/Eng/Seminars/Details/Seminars/education/ACTES/Com_Pong.PDF>

⁷³⁹ Lillard, Lee A., and Robert J. Willis. "Intergenerational educational mobility: Effects of family and state in Malaysia." *Journal of Human Resources* (1994): 1126-1166.

⁷⁴⁰ A study by ICapitalEducation, *Malaysia's Economic History: New Economic Policy (Part 7)*. Accessed at ICapitalEducation website: <<http://www.icapitaleducation.biz/index.php?section=5&sub=16q>>

It was further argued that greater non-*Bumiputra* student enrolment and employment abroad caused a massive loss of Malaysian capital and that the quota system had also encouraged migration among disillusioned non-*Bumiputras*, many of whom were highly skilled and children of the middle and upper echelons of society, resulting in a brain drain⁷⁴¹. The Malaysia Economic Monitor: Brain Drain Report (2011) released by World Bank has cited a paragraph from PEMANDU that suggests that the NEP has resulted in unintended consequences involving “*a sense of deprivation, discrimination and even resentment felt by the non-Bumiputeras, which was attributed to the overzealous attitude and approach in implementation by some officers in certain agencies.*” These issues have resulted in the exodus of Malaysians, especially from the professional sectors, seeking employment abroad, in countries that are both more economically advanced and that offer better wages, greater exposure and opportunities, as well as a better quality of life and education for their children⁷⁴².

The argument that the NEP led to increased migration of non-*Bumiputras* is open to criticism if a comparison is made with Singapore which does not have the NEP yet faces a high rate of migration of its educated population. The Migration Policy Institute released statistical data in 2012 relating to the concern of brain drain. For example, approximately 192,300 Singaporeans were in foreign domicile at the time, and that an estimated 1,200 Singaporeans renounce their citizenships annually. They also discovered that on a monthly basis, approximately 1,000 Singaporeans applied for a “Certificate of No Criminal Conviction” – a prerequisite of getting permanent residence overseas⁷⁴³. All of these have shown us that brain drain problem is multifaceted problem relating to

⁷⁴¹ Tyson, Adam D. "The brain drain cycle in Malaysia: Rethinking migration, diaspora and talent." *Malaysian Journal of Economic Studies* 48, no. 2 (2011): 85-92.

⁷⁴² The Malaysia Economic Monitor Brain Drain Report (2011), World Bank. Accessed at <http://siteresources.worldbank.org/INTMALAYSIA/Resources/324392-1303882224029/malaysia_ec_monitor_apr2011_ch3.pdf>

⁷⁴³ Yeoh, Brenda and Lin, Weiqiang, Rapid Growth in Singapore's Immigration Population Brings Policy Challenges, (Migration Policy Institute, 3 April 2012) Accessed at <<http://www.migrationpolicy.org/article/rapid-growth-singapore-immigrant-population-brings-policy-challenges>>

uneven world development, and not necessarily a result of the NEP policies. It is also interesting to note that the spike in the exodus of non-*Bumiputra* emigration began in 1990⁷⁴⁴, which may signify that it is dissatisfaction with the continued use of NEP policies past the 20-year implementation period that is the main source of resentment for these groups.

Since the liberalisation of the education policy by the Government, apart from the public universities (where the entry requirements create the most dissatisfaction), there are now about 491 private universities today where the majority of the students are non-*Bumiputras*. Affirmative action policies that have kept a large proportion of non-*Bumiputras* out of public universities for decades have pushed them towards private education. This has had an unintended effect of creating a divide between *Bumiputra* and non-*Bumiputra* students at the higher education level, as well as producing more *Bumiputra* graduates from local institutions that are less internationally recognised while non-*Bumiputra* graduates often emerge with more prestigious qualifications⁷⁴⁵ from internationally lauded institutions.

In 2003, 13 years post-NEP, the Government decided to remove the quotas accorded to *Bumiputras* for admissions to public universities and had replaced the same with a meritocracy system instead. According to Muhammed Abdul Khalid, this has resulted in the increased intakes of Chinese students by 27% in 2003 as compared to 2002. Despite the ensuing criticisms, *Bumiputra* students have reclaimed 74.3% of the merit-based intake for first degrees 2013/2014 in public institutions of higher learning.⁷⁴⁶ However, he made the following observation:

⁷⁴⁴ Foo, Gregory. "Quantifying the Malaysian brain drain and an investigation of its key determinants." *Malaysian Journal of Economic Studies* 48, no. 2 (2017): 93-116.

⁷⁴⁵ Lee, Hwok-Aun. "Affirmative action in Malaysia: Education and employment outcomes since the 1990s." *Journal of Contemporary Asia* 42, no. 2 (2012): 230-254.

⁷⁴⁶ Muhammed Abdul Khalid, *The Colour of Inequality*, (MPH Group Publishing Sdn Bhd, 2014), p 169.

...it is likely that the beneficiaries are the urban and rich students – of all ethnic groups – and not the students from poor families, as the former have higher chances of getting good grades compared to poor students from rural areas. Priority must be given to those from the disadvantaged background, regardless of ethnicity, to have an equal chance to obtain quality tertiary education, otherwise the poor will remain in the vicious cycle of poverty and low income.⁷⁴⁷

Despite the criticisms, the intention of the NEP and its Education Policies was to elevate the poorest sections of society, of those would not have been able to better their social positions had it not been for a chance to pursue their academic ambitions. It was to bypass the neglect in their environment and giving a chance of at least earning more than their parents could under their circumstances. Therefore, it can be argued that the NEP has achieved this objective. The quotas have since been removed, although some controversy still lingers as there are still some organisations that practice “unofficial policies” of *Bumiputra* quotas. These unofficial practices will require specific and direct government intervention to overcome, as the concept of these quotas are deeply ingrained in Malaysian society, be they in business, education, or land ownership practices.

⁷⁴⁷ Ibid.

7.4 ERADICATION OF POVERTY

The NEP benefited many Malays and *Bumiputras* in education and economic opportunities, resulting in the emergence of a respectable middle class of Malay professionals and businessmen. However, critics have argued that a large proportion of the hardcore poor remain relatively neglected, particularly those in Sabah and Sarawak.

The Second Outline Perspective Plan 1991-2000 (OPP2) report highlighted that:

Many of those who belong to the poorest groups in the remote and traditional kampong and settlements, in plantations and villages, and among the urban poor, continue to feel that they have not been given adequate attention in the Government's development efforts. Thus although there has been an improvement in levels of income and standards of living for the country as a whole, there are groups within the society, especially those in the states of Kedah, Perak, Kelantan, Sabah and Sarawak, who feel that they have been left behind with limited access to basic services and amenities...

The report also stated that the rural-urban income differentials have been narrowed but the gap remains wide. The disparity between rural and urban income in 1990 was a persistent feature throughout Peninsular Malaysia, Sabah and Sarawak, with rural income standing at 42%, 40%, and 46% less than the urban income in each of the respective regions.

In Malaysia, poverty is measured by the poverty line index (PLI). Reported declines in poverty levels have been disputed partly as a result of the poverty line being lowered. In addition, it was questioned whether the methods used in the various data collection surveys conducted to determine household income had been standardised. Furthermore, whilst the PLI approach is based on measuring absolute poverty, pockets of communal groups in this category, e.g. shifting cultivators, rice farmers, rubber smallholders,

fishermen were omitted, especially those in the very remote areas of Sabah and Sarawak.⁷⁴⁸

Admittedly, the poorest Malay farmers did not significantly benefit from rural development in the early 1970s because the major irrigation projects, completed in 1969 or later, generally had not benefited the smaller farmers.⁷⁴⁹ The overall income of many *padi* farmers would have dramatically improved had the Muda, Kemubu and Besut irrigation projects been made operational earlier in the 1970s. Furthermore, most land development programmes were only accelerated in the 1970s. Even in areas accorded with development projects, the extremely poor and less efficient farms were either unable to take advantage of farm improvement because of capital constraints or because their land holdings were too small and not economical.

For example, the rubber replanting programme for the smaller and poorer smallholders, though producing a higher yield, were disappointing as shown by the decline in prices up to the early 1970s.⁷⁵⁰ Although most smallholders undertook some replanting, rubber trees normally took six to eight years to mature before they could be tapped for latex. Hence, replanting one's holding in stages was crucial to ensure a minimal income flow during the waiting period. After the first production, a tree can, on the average, produce for another 20 years before latex production tapers off, requiring another round of replanting⁷⁵¹. As a result, smallholders could only rely on the smaller acreage of mature rubber in their possession. Smallholders have also become the target of discrimination by larger and better-organised rubber estates.

⁷⁴⁸ Jomo, K.S., *The New Economic Policy & Inter-ethnic Relations in Malaysia*, Identities, Conflict and Cohesion Programme Paper Number 7, (United Nations Research Institute for Social Development, 1 Sep 2004), p 9.

⁷⁴⁹ See Shukor Kasim, Gibbons, David, Todd, Halinah, *Poor Malays Speak Out: paddy farmers in Muda*, Maricans Academic Series, (Kuala Lumpur: Marican, 1986).

⁷⁵⁰ Tan Tat Wai, *Income Distribution and Determination in West Malaysia*, (Kuala Lumpur: Oxford University Press, 1982), p 126.

⁷⁵¹ Nugawela, A., Maximizing Yields in Rubber Plantations, Bulletin of the Rubber Research Institute of Sri Lanka, (1987) 37, 62-65. Accessed at <<http://dl.nsf.ac.lk/bitstream/handle/1/9290/BRRISL-37-62.pdf?sequence=2>>

At the Second Congress of Malay Intellectuals held at Universiti Kebangsaan Malaysia in July 1989, and reported in the *New Straits Times*,⁷⁵² Professor of Economics Sharil Abdul Karim cited in his paper, “*Poverty in Malaysia: Between Imagination & Reality*,” that the government programmes should be divided into two categories - one for infrastructure purposes and another for direct poverty eradication. Similarly, Professor Annur Razak in his paper “*Future problems of the Village and Some Solutions*” highlighted that several government agencies failed to effectively implement programmes to help the poor.⁷⁵³

Professor Just Faaland noted that problem of rural poverty can be attributed to three main causes; low productivity, neglect and exploitation. The problem of exploitation is the most severe and the failures of the government to develop an effective measure to “*eliminate exploitation, for example in the field of rural employment where Malay labour greatly predominates, labour laws, industrial relations and social security laws are not being implemented effectively.*” In the plantation and timber industry, labour conditions are relatively taken care of by the Inspectorate of the Ministry of Labour.⁷⁵⁴

As Table 7.7 shows, the incidence of poverty declined almost three-fold from 49% in 1970 to 17% in 1990. This precipitous decline was due largely to government efforts at alleviating poverty as it was due to economic growth over these years.

⁷⁵² *Second Congress of Malay Intellectuals: Figures may not reflect real poverty*, *New Straits Times*, 2 July 1989, p 2.

⁷⁵³ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 199.

⁷⁵⁴ *Ibid.*, p 350.

Table 7.7
Poverty Statistics (% Households): 1970-2009⁷⁵⁵

	1970	1975	1980	1985	1990	1995	1997	1999	2002	004	2007	2009
Poverty rate ⁷⁵⁶	49.3	37.7	37.4	20.7	17.1	8.9	6.1	8.5	6.0	5.7	3.6	3.8
Hardcore poverty	n.a	n.a	n.a	6.9	3.9	2.1	1.4	1.9	1.2	1.0	0.7	0.7

Source: Zin and Xavier, Poverty Alleviation Strategies and the New Economic Model in Malaysia, 2014.

Despite the NEP's achievements in lowering poverty and unemployment in the Bumiputra community, studies show that there remains an income gap between the Malays and Chinese, with the Chinese community faring significantly better. The difference in income not accounted for by education and experience were mainly due to the fact that the *Bumiputra* were in different industries than the Chinese, and that the *Bumiputra* were employed at different levels of a particular industry. The aforementioned factors could either be due to choice or labour market discrimination. Additionally, the *Bumiputra* received lower wages for the same occupation in the same industry, due partly to discrimination.⁷⁵⁷

By the end of the 1970s, the Malays had proven to be formidable competition in traditionally Chinese sectors: construction, transportation and distribution. Many existing workers, mostly non-*Bumiputras*, were edged out of industries like mining and quarrying

⁷⁵⁵ Mohd. Zin, M. and Xavier, J, *Poverty Alleviation Strategies and the New Economic Model in Malaysia*, (A paper presented at the II International Conference on Applied Research in Business, Management, Economics and Finance Pattaya, Bangkok, 2 August 2014).

⁷⁵⁶ The household poverty line was RM 760 for Peninsula Malaysia, RM 1050 for Sabah and RM 910 Sarawak. The absolute poverty line was RM 460 for Peninsula Malaysia, RM 630 for Sabah and RM 590 for Sarawak. See Mohd. Zin, M. and Xavier, J, *Poverty Alleviation Strategies and the New Economic Model in Malaysia*, (A paper presented at the II International Conference on Applied Research in Business, Management, Economics and Finance Pattaya, Bangkok, 2 August 2014).

⁷⁵⁷ CHR Michelsen Institute (CMI) Report: *Growth with distribution – Strategies for improved income distribution in Malaysia*, Final Report, (EPU, Prime Minister's Department, 18 Dec 2005), pp 68-69

to make way for the Malays⁷⁵⁸. Furthermore, the Indian community suffered a decline in wages and living standards, and to this day continue to hold less than 2.0% equity, despite making up 7% of the country's population⁷⁵⁹. This highlights that the NEP failed to uphold its promise to promote the economic interests of the *Bumiputras* without cost to other Malaysians. Rather, it would appear that a minority elite from each community has benefited from the policies of the NEP, while the lower income brackets of society continue to suffer.

⁷⁵⁸ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), pp 273-274.

⁷⁵⁹ See Osman, Mohamed Nawab Mohamed. "Marginalisation and the Indian community in Malaysia." (2007). See also Malaysia, Department of Statistics. "Current Population Estimates 2016-2017". (2017).

7.5 MALAYSIA'S DEVELOPMENT UNDER THE NEP

When the NEP was first introduced in the 1970s, Malaysia's GDP per capita was on par with that of Singapore, Hong Kong and Taiwan. To date, the GDP per capital of the same countries have overtaken Malaysia's, and they are referred to as developed nations. Is the NEP retarding the present system of government in the country's growth? Why is Malaysia falling behind our neighbours? Because of the controversy over its policies, it was often alleged that the NEP indirectly contributed to a decrease in foreign investment during its lifespan. By 1991, the NEP was taken over in newer reiterations and policies such as the National Development Policy (NDP).

Rather than impose affirmative action policies such as the NEP, Singapore, Hong Kong and Taiwan freely practised meritocracy to improve competitiveness and efficiency. They realised that the infrastructure for economic advancement was built upon education. Even countries with limited natural resources are able to surmount this barrier by creating an invaluable base of human capital. This in turn is achieved by providing a good education to high-achieving students. While it may be true that the NEP's greatest achievement was in the field of education, even in this field much can be done to improve. Malaysia would do well to use the abovementioned countries as a framework and benchmark for pinpointing our own shortcomings, strength and areas where policy attention and future investments are needed⁷⁶⁰.

The answer to a great extent may also lie in these countries' foreign policies. These countries are pro-American, and America opened its market to them. All started as

⁷⁶⁰ Faaland, J., Parkson, J.R., Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 51.

authoritarian governments, with limited freedoms. For the purpose of this research paper, this chapter will use Singapore as a case comparison.

In the case of Singapore, the country claims to be multi-racial but is made up of a 74% majority Chinese population, with a 13% Malay and 9% Indian minority⁷⁶¹. They have done well because of their geographical position, with Malaysia and Indonesia as their hinterland. Much of these two countries' funds are parked in Singapore. Furthermore, the largest proportion of the Malaysian diaspora resides in Singapore, with approximately 40% of all Malaysian migrants choosing to live and work within their closest neighbouring nation⁷⁶². It has been argued that many Malaysians opt to move to Singapore in search of greener pastures, making Singapore one of the greatest beneficiaries of the Malaysian "brain drain" phenomena.

Unlike Malaysia which has jealously guarded its neutrality, Singapore has been very pro-America and the United States has rewarded them with a large market for Singapore products. Singapore is also China's largest foreign investor, and China has reciprocated by making Singapore its largest investment destination within the Asian continent, with a total trade value between the two nations amounting to SGD115.2 billion⁷⁶³. But Singapore's success was not a mere matter of luck and circumstance - it has also planned its strategy well with a clear vision of its future with a clean and competent government⁷⁶⁴.

⁷⁶¹ Department of Statistics, Singapore. Ministry of Trade and Industry, Singapore. *Population Trends 2017*. (September 2017), pp 5.

⁷⁶² World Bank. *Malaysia Economic Monitor: Brain Drain*. (April 2011), pp 90. See also Joarder, Mohd Hasanur Raihan, Muhammad Subhan, and Rabiul Islam. "Brain drain to Singapore: A conceptual framework of Malaysians' diaspora." *The social sciences* 10, no. 6 (2015): 702-711.

⁷⁶³ Aggarwal, Narendra. "S'pore is China's largest investor". *The Business Times*, November 6th, 2015. Accessed at <https://www.businesstimes.com.sg/hub/business-china-special/spore-is-chinas-largest-investor>

⁷⁶⁴ Balbir Bhasin and Sivakumar Venkataramany: *Modifying Culture to Advance Economic Development and Stimulate Growth: The Case of Singapore*

But not all is well with Singapore. Singapore per capita GDP is at USD55,182 compared to Malaysia's USD10,457. But the spending power of Singaporeans is far lower than the spending power of the average Malaysian. Wage share of GDP in Singapore is at 42% which is lower than Hong Kong, Korea and most developed countries⁷⁶⁵. By November 2008, Singapore officially lost USD108 billion from her investments worldwide.

In 1996⁷⁶⁶ and 2007⁷⁶⁷, the late Lee Kuan Yew even suggested that a re-merger of Singapore and Malaysia would one day be possible. This suggestion, while sparking outrage in Singapore, highlighted that even the former Prime Minister of such an internationally renowned successful nation state had his worries about the island that a merger with Malaysia might remedy – public debt, inflation, land scarcity, lack of natural resources, and an aging population. Nevertheless, the fact remains that Singapore has outpaced Malaysia in terms of GDP per capita and Gross National Income⁷⁶⁸. It stands to reason that being our closest neighbours as well as due to our close historical relations and demographic similarities, knowledge transfer between our two nations is a major key to learning from each nation's successes and mistakes, and for identifying key areas for future collaboration.

⁷⁶⁵ Ong Hean Teik: Objective comparison of Malaysia and Singapore 50 years after separation., (1 April 2015), p. 1.

⁷⁶⁶ Richardson, Michael. "*Singapore Comments Called Insulting : In Malaysia, Mistrust*" 12th September 1996. Accessed at <https://www.nytimes.com/1996/09/12/news/singapore-comments-called-insulting-in-malaysia-mistrust.html>

⁷⁶⁷ "Kuan Yew happy to rejoin Malaysia if.. " Bernama. 11th October 2007. Accessed at <http://news.asiaone.com/News/Latest+News/Story/A1Story20071011-29532.html>

⁷⁶⁸ CIA World Fact Book. Accessed at <https://www.cia.gov/library/publications/the-world-factbook/>

7.6 EQUITY OWNERSHIP

The critical discourse surrounding the NEP policies continues to be emotionally fraught. Under the NEP, *Bumiputra* equity ownership was set a target of 30% and calculation of equity continues to be shrouded in controversy. In reality, the 30% *Bumiputra* ownership target was never reached although inequality in between ethnic groups decreased, reaching 20.3% at the end of 1990. Data from the EPU revealed that a peak of 20.5% was achieved just after 1990.

Table 7.8
Equity Ownership in the Corporate Sector by Ethnicity⁷⁶⁹

Equity ownership	Year 1990	Year 2000
<i>Bumiputra</i>	19.3%	19.1%
Non- <i>Bumiputra</i>	46.8%	40.3%
Nominee Companies ⁷⁷⁰	8.5%	7.9%
Foreigners	25.4%	32.7%

Source: Economic Planning Unit, Prime Minister's Department Malaysia, 1991

A number of additional problems were noted in relation to the equity ownership policies⁷⁷¹, chief among them being the practice of *Bumiputras* selling off their entitlements to non-*Bumiputras*, and non-*Bumiputras* evading the Industrial Coordination Act 1975 (ICA) requirements through having Malay sleeping partners. In addition, a worrying trend was emerging whereby the benefits afforded by such policies were accrued and concentrated in the hands of a small group of well-connected Malay elites which increased asset inequality within the Malay group. Furthermore, a significant share

⁷⁶⁹ *Review of the Second Outline Perspective Plan, 1991-2000*, (EPU, Prime Minister's Department, 1991), p 53.

⁷⁷⁰ Nominee companies include companies where the ethnic ownership is hard to identify due to complex corporate set-ups

⁷⁷¹ Shafii, Zurina, Abuddin, Norhasni and Ahmad, Abdul Razaq, *Ethnic Heterogeneity in the Malaysian Economy: A Special Reference to the Ethnic Group Participation in Financial Planning Activities*, (*The Journal of International Social Research*, Vol 2/8, Summer 2009), p 399.

of *Bumiputra* ownership of corporate capital continued to be held through trust funds, as distinct from equity held by an individual *Bumiputra*. It was also difficult to devise a transfer to *Bumiputra* individuals or groups without the appearance of favouritism. Lastly, ICA requirements made entrepreneurs limit enterprises to below RM250,000, which was costly since small businesses were less capable to exploit economies of scale, and less likely to enter technology demanding industries⁷⁷².

Calculation of the *Bumiputra* equity share has been contested in recent years. Although official data from the EPU states that *Bumiputra* are yet to achieve the 30% equity target, a report by the Asian Strategy and Leadership Institute (ASLI) stated that the *Bumiputras* had already achieved 45% equity. Many *Bumiputra* leaders have rebutted this report, and it has since been withdrawn by ASLI. Dr. Lim Teck Ghee, in his statement to the media, noted "*It is the fundamental right of the Malaysian public to question all government statistics and policies, more so when they are not transparent or defensible.*"⁷⁷³ He also raised doubt over the rise of the marginalized community, such as the Malays, that took place so quickly as claimed by the several reports.

The controversial NEP target of 30% *Bumiputra* equity has long been debated, and it has been argued that this target requires a structural review. In light of the historical context of the historical subjugation of the Malays, it can be argued that such a target was necessary in order to provide a realistic and quantifiable goal for NEP-based policies. Interestingly, the Malaysiakini.com in November 2006 reported that *Bumiputra* equity had in fact hit the NEP target ten years ago:

⁷⁷² See CHR Michelsen Institute (CMI) Report: *Growth with distribution – Strategies for improved income distribution in Malaysia*, Final Report, (EPU, Prime Minister's Department, 18 Dec 2005).

⁷⁷³ *Lim stands by reports, quits Asli (updated)*, *The Sun Daily*, 11 Oct 2006. Accessed at <<http://www.thesundaily.my/node/172448>>

Table 7.9:
Comparison of Three Studies on *Bumiputera* Equity Ownership⁷⁷⁴

Government (2005)	ASLI (2006)	University of Malaya Study (2002)
Bumiputeras own 18.9%	Bumiputeras own 45%	Bumiputeras own 33.7% in 1997
Study involved 600,000 registered companies	Study involves top 1,000 listed companies in 2005	Study involves public listed companies in KLSE
Calculation based on par value shares	Calculation based on market value of shares	Calculations based on par value of shares
GLC not included as bumiputera ownership	70% of GLC shares classified as bumiputera	GLC not included as bumiputera ownership

Source: Malaysiakini. *Bumi equity hit target 10 years ago*. 1 November 2006.

The controversy over the *Bumiputra* equity statistic is longstanding. Many have alleged the understated figures are an intentional manipulation by the government to justify the perpetuation of NEP-like policies. For example, the NEP has lived on in the NDP (1990-2000) and NVP (2000-2010), with official figures placing the *Bumiputra* share stubbornly below the 30% mark⁷⁷⁵ therefore justifying the continued need for such policies. Meanwhile, ASLI's report in 2006 estimated *Bumiputra* equity to be 45%, a far cry from the government's official statistic of 18.9%. Universiti Malaya placed the figure at 33.7%.

⁷⁷⁴ Beh Li Yi, *Bumi Equity Hit NEP Targets 10 Years Ago*, *Malaysiakini.com*, (1 Nov 2006). Accessed at <<http://www.malaysiakini.com/news/58885>>

⁷⁷⁵ Ahmad Abdul Razak and Chow Kum Hor, *The Nation's economic pie in perspective*, (*New Sunday Times*, 22 Oct 2006), pp 20-21.

One of ASLI's more controversial moves was to include government-linked companies (GLCs)⁷⁷⁶ as *Bumiputra*-owned, which largely contributed to their significantly higher figure. Despite the subsequent withdrawal of their report, the debate continued. UMNO leaders, including then Education Minister and UMNO Youth Chief (Datuk Seri) Hishamuddin Hussein and Deputy Youth Chief Khairy Jamaluddin argued that the Malays were still lagging behind their Chinese counterparts. The former argued that at current rates, Malays would need another 120 years before they could reach income parity. He went on to recite a statistic that frames the income disparity between Malays and Chinese as such: for every RM1 earned by a Malay, a Chinese earns RM1.64. Khairy on the other hand proposed that the 30% target should in fact be increased if it had already been met, as the Malays were clearly "*still left behind*"⁷⁷⁷. It perhaps should have been argued instead that if the ASLI report insisted that GLC holdings are *Bumiputra* holdings, then UMNO would accept the assertions that Petronas and GLCs were part of *Bumiputra* holdings and request that the government transfer these entities to PNB.

On the flip side, the government's method of using nominal or par value (as opposed to market value) of shares as a measure of *Bumiputra* equity had also caused a major dispute⁷⁷⁸. Some critics held the study by University of Malaya as mentioned previously had utilised par value, and reached a figure of 33.7% for *Bumiputra* equity⁷⁷⁹. The government said the ASLI study was based on companies listed on the Stock Exchange, whereas government based its analysis on all companies under the Registrar

⁷⁷⁶ Here the question arises: Do GLCs belong to *Bumiputras* or the government? If they belong to the *Bumiputras*, they should then be transferred to PNB. Does company like Petronas belong to *Bumiputras*? If so, the government should not collect dividends? Dividends should go to *Bumiputras*. 40% of government revenue came from Petronas and used in Budget for all. Year 2009 saw four States under the Opposition control. Do SEDCs belong to the *Bumiputras*?

⁷⁷⁷ Hong, Carolyn, *Stop Debate on Race and Religion: UMNO Youth*, *The Straits Times*, (15 Nov 2006), p 15.

⁷⁷⁸ See Ho, Andy, *Reviving NEP, UMNO's race card, again?*, *The Straits Times Interactive*, (6 Aug 2005). Accessed at <http://cpps.org.my/resource_centre/RevivingNEP_STI_article_1.pdf>

⁷⁷⁹ See Beh, Lih Yi, *Bumi equity hit NEP target 10 years ago*, *Malaysiakini*, (1 Nov 2006). Accessed at <<http://www.malaysiakini.com/news/58885>>

of Companies. It is to be noted that under NEP, *Bumiputras* were to control 30% of the total economic sector.

Several scholars have raised some concerns over the huge gaps between ASLI's and the government's figures and the potential for manipulation triggered some ethnic tension. The Universiti Kebangsaan Malaysia's Institute of Malay World and Civilisation director was concerned that much of the debates on the issue has been "ethnicised" and done within each respective "racial prism". Such a huge disparity between the two figures has created tension and sense of mistrust towards the government. He added that,

This only infuriates the non-Bumiputera who feel cheated. Not surprisingly, calls for the government to make public its methodology for calculating Bumiputera equity came primarily from the non-Bumiputera.⁷⁸⁰

The above debate on this was really a diversion from the true issue: the eradication of poverty irrespective of race. The government's primary priority should have been to eliminate poverty to ensure that all Malaysians prospered in stability. In the context of this thesis, this would be highlighted as a failure in setting clear attainable goals for the NEP that would allow the policy to achieve the aim of equitable economic growth. While the NEP has benefited a great proportion of Malaysian society, it should be noted that the biggest beneficiaries of the NEP are the middle- to upper-class society regardless of race, indicating that the new problem for Malaysian society is the intra-ethnic poverty gap.

⁷⁸⁰ Ahmad Abdul Razak and Chow Kum Hor, *The Nation's economic pie in perspective*, (*New Sunday Times*, 22 Oct 2006), pp 20-21.

7.7 MALAYSIA'S PRIVATISATION POLICY

Privatisation has been commonly defined as “*the transfer of enterprise ownership from the public to the private sector, and the changing of status of a business, service or industry from state, government or public control to private ownership*”⁷⁸¹.” Privatisation can also be given a more strict definition, restricted to instances where the state-owned enterprises are completely sold to private shareholders. However, this is not conventionally practised in Malaysia, where the government continues to hold substantial stakes in the private sector through equity or management by way of various agencies and investment arms, including the sovereign wealth fund, Khazanah, and the Employees Provident Fund (EPF).

Alongside the successfully privatised projects there were a few major failures. The Malaysian Airlines (MAS), privatized in 1985, was one such failure⁷⁸². By the financial year 1992-93, MAS reported an operating loss of RM179.6 million. MAS's continued losses prompted the government to sell its stake in MAS.⁷⁸³ Tajudin Ramli, the chairman and managing director of Naluri Berhad,⁷⁸⁴ bought over the government share in late 1993 as the government persuaded him to do so as a ‘national service’, namely, to find solutions to the many problems faced by Bank Negara Malaysia (which then had lost some RM10 to 30 billion in forex trade) and MAS.⁷⁸⁵ The purchase price was RM8.00 as against the market price of around RM3.50 per share⁷⁸⁶. He had to pay a

⁷⁸¹ Mun, Har Wai. "Malaysian Economic Development. Issues and Debates." *Journal of Islamic Marketing*, 2 (5) (2007).

⁷⁸² Jomo K. S. (ed), *Privatising Malaysia: Rents, Rhetoric, Realities*, (Boulder, Westview, 1995), p 107.

⁷⁸³ When the Government decided to privatise MAS, it wanted an established *Bumiputra* to take over its equity stake.

⁷⁸⁴ Naluri was involved in the transportation business which included helicopter services, shipping through Perbadanan Nasional Shipping Line Berhad, aircraft maintenance and repair Airod Sdn.Bhd. and other investments.

⁷⁸⁵ From 1992 to 1994, Bank Negara Malaysia was holding MAS shares on behalf the Government, and suffered massive foreign exchange losses due to speculation in the foreign currency markets, estimated to be between RM10-30 billion. The investment in MAS had therefore to be disposed of, initially 10% in June 1992, bringing the investment in MAS to 32%. Gomez, Edmund Terrence and Jomo, K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, (Cambridge University Press, UK, (1999), p 95.

⁷⁸⁶ Morgan Stanley Dean Witter Asia Ltd., Hong Kong in its letter of 15 Dec 2000 recommended to the Government “to force a re-assessment of MAS shares by closing a valuation gap between market value (approximately RM4 at the time) and fundamental value (reflected a Adjusted Net Tangible Asset Value – approximately RM8 at the time).

fat premium to compensate for the loss of government management control over MAS. Tajudin borrowed to pay for the shares at an inflated premium⁷⁸⁷.

With an eye on the bottom-line, Tajudin wanted to shrink an over-staffed establishment, cut unprofitable routes and increase domestic fares⁷⁸⁸. However, these initiatives were anathema to a government that wanted to transform the KLIA as a regional hub and wanted MAS to serve the government's socio-political objectives⁷⁸⁹. Given the incompatible objectives, in 2000, the government bought back its controlling stake in MAS from Tajudin at the same price Tajudin had originally bought it. That raised a public outcry as, at the point of purchase, MAS shares were trading at roughly RM3.60⁷⁹⁰. Under Tajudin, MAS had accrued a RM9.4 billion debt by close of 2000, six years of losses by close of 2001, and with gloomy forecasts for the immediate future in light of the effects of September 11, 2001 on the global aviation industry⁷⁹¹.

The government also privatised infrastructure development. Amid accusations of inexperience, lack of expertise, corruption and conflict of interest, law-makers and the public queried how United Engineers Malaysia (UEM) - owned by Halim Saad - secured the North-South Expressway concession from the government in 1986⁷⁹². Indeed, none

⁷⁸⁷ Tajudin Ramli had to borrow RM1.792 billion from a consortium of lenders led by RHB Sakura Merchant Bankers Berhad to acquire 32% equity interest in MAS from Bank Negara Malaysia in 1994. See Tajudin Ramli's letter of 25 Feb 2002. From 1992 to 1994, Bank Negara Malaysia was holding MAS shares on behalf of the Government, and suffered massive foreign exchange losses due to speculation in the foreign currency markets, estimated to be between RM10-30 billion. The investment in MAS had therefore to be disposed of, initially 10% in June 1992, bringing the investment in MAS to 32%. Gomez, Edmund Terrence and Jomo, K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, (Cambridge University Press, UK, (1999), p 95. See also Hill, Christine. *The Tycoon Who Fell to the Earth*. 4th September 1995, Bloomberg. Accessed at <https://www.bloomberg.com/news/articles/1995-09-03/the-tycoon-who-fell-to-earth-intl-edition>.

⁷⁸⁸ The government later allowed MAS to offer early retirement for its staff.

⁷⁸⁹ See Tajudin Ramli's letter of 25 Feb 2002.

⁷⁹⁰ Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.) p 42. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>. Further, the parties reached an agreement for the Government to buy back the MAS shares at RM8.00 per share. The monies were paid to Naluri. On 29 May 1996, MAS announced the company had undertaken a private placement of 70 million new ordinary shares at RM8.00 each. This resulted in a deduction of debt to equity ratio to 1.6 times. Source: MAS Group Communications Department, May 1996.

⁷⁹¹ Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.) p 42. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>.

⁷⁹² United Engineers (Malaysia) Berhad was a listed company in KLSE whose trading was suspended in 1985. It was thereafter Malaysia's largest construction group while Renong Group was Malaysia's biggest industrial group. Renong held 37.1 percent of UEM shares. It must also be noted that UEM included in its submission a complete financing package which was one of the key requirements of the bid proposal.

of the six bidders for the project was qualified as, at that time, none had the experience of undertaking any contract larger than RM50 million⁷⁹³. Notwithstanding, UEM successfully raised the required capital and hired the correct expertise to complete the highway 15 months ahead of its original schedule. However, global inflationary pressures caused a cost overrun from RM3.4 billion to RM5.9 billion⁷⁹⁴.

Lim Kit Siang, then the Opposition Leader in Parliament, instituted, in his capacity as a road user, civil proceedings against the government for conflict of interest and corruption in the award of the tender to UEM. He claimed that Hatibudi Sdn.Bhd., a company owned by nominees of and held in trust for UMNO, was the owner of UEM⁷⁹⁵. UMNO certainly did not own Renong which UEM bought⁷⁹⁶.

During the 1997 Asian financial crisis, Halim Saad of UEM, on the advice of the then Finance Minister, acquired shares in the Renong Group from the open market⁷⁹⁷. This purchase was done to prop up the then weak stock market – given a highly depreciated ringgit - and to avoid losing control of assets to foreign entities at fire sale prices, particularly, the highly prized, but yet unlisted, PLUS expressways⁷⁹⁸ which UEM owned fully⁷⁹⁹.

⁷⁹³ See Tate, Muzafar Desmond and Syed Mohd. Bakar, *Projek Lebuhraya Utara-Selatan: The Anatomy of an Expressway*, (Kuala Lumpur: PLUS Berhad, 1994).

⁷⁹⁴ See Tate, Muzafar Desmond and Syed Mohd. Bakar, *Projek Lebuhraya Utara-Selatan: The Anatomy of an Expressway*, (Kuala Lumpur: PLUS Berhad, 1994).

⁷⁹⁵ See Tate, Muzafar Desmond and Syed Mohd. Bakar, *Projek Lebuhraya Utara-Selatan: The Anatomy of an Expressway*, (Kuala Lumpur: PLUS Berhad, 1994). What was obviously missing in Lim Kit Siang's claim was that at the time of the Letter of Intent was issued by the Government to UEM and even up to the time of his filing the application for an injunction in August 1987, Hatibudi was not yet a shareholder of UEM. Hatibudi at that time was given the right to acquire UEM Singapore's loan stock in UEM, for which it had not yet paid and as such not its legal owner.

⁷⁹⁶ This is clear when the UMNO Treasurer (under the tenure of PM Tun Abdullah Badawi) was mandated with the task of collecting and restructuring of all UMNO's assets, Renong was not a part of it, whereas Realmild and Gabungan Kesturi (the major shareholder of Media Prima Bhd.) were in the UMNO portfolio of companies. See Shanmugan, M., *Big Money: Halim's blast from the past*, *The Edge*, 6 Sep 2010. Accessed at <http://www.theedgemaalaysia.com/commentary/174339-big-money-halims-blast-from-the-past.html>

⁷⁹⁷ This amounted to about RM3.2 billion. Source: Interview with Halim Saad in Dec 2010.

⁷⁹⁸ In 2010, PLUS Expressways were worth RM23 billion. Malaysian Insider, *EPF, Khazanah to buy out PLUS in RM23b deal*, (15 Oct 2010). Accessed at <http://www.themalaysianinsider.com/business/article/epf-khazanah-to-buy-out-plus-in-rm23b-deal>

⁷⁹⁹ Mustapha Kamil and Rashid Yusof, *Tan Sri Halim Saad Speaks Up: Gross Injustice done to me*, *New Straits Times*, (2 Sep 2010), p 10. Halim Saad said that he was prepared to fulfil his obligations with regard to the Put Option. He also toyed with the option of taking UEM private, an exercise that would have extinguished the Put Option. See also Shanmugan, M., *Big Money: Halim's blast from the past*, *The Edge*, (6 Sep 2010). Accessed at <http://www.theedgemaalaysia.com/commentary/174339-big-money-halims-blast-from-the-past.html>

During the 1997 financial crisis, UEM remained afloat without any government capital injection⁸⁰⁰. It did so through the issue of PLUS bonds to cover the Renong-UEM Group's debts of 5%. Eighty percent of that debt had gone to financing the Group's PLUS highway and subsequent privatised projects, chiefly, Penang Bridge, Malaysia-Singapore Bridge and Putra LRT⁸⁰¹. In mid-2001, the government announced that Khazanah Nasional, the investment arm of the Ministry of Finance Incorporated, would take over the Renong-UEM group. to prevent a systemic risk to the banking system in Malaysia.⁸⁰² To Halim this was not the valid reason as the bonds were only due to be redeemed in 2006 and the Group had managed to repay all its debts.

Despite claims to the contrary, *Bumiputra* companies in financial trouble, especially, after the 1997-1998 financial crisis, did not seek government bail-outs or asked the government to assume their debts.⁸⁰³ A case in point is neither UEM nor Renong nor even Halim Saad sought assistance from the Government. MAS made a proposal to restructure the company. However, the government rejected it. The Renong-UEM Group was not in default. The financial crisis was temporary. With time these companies recovered from their financial malaise⁸⁰⁴. The privatisation policy did bring about economic growth and development to the country. However, poor performance of privatised entities was partly due to the incompatibility of the privatisation policy with the existing institutional framework. Privatisation was often undertaken despite insufficient and inaccurate information to ensure viability⁸⁰⁵.

⁸⁰⁰ Nathan, Rabindra and others, *Country Paper for Malaysia* (ADB/OECD/World Bank, 2nd Asian Roundtable on Corporate Governance, 31 May to 2 Jun 2000, HK), p 8. Accessed at <<http://www.oecd.org/daf/ca/corporategovernanceprinciples/1931212.pdf>>

⁸⁰¹ The bonds issued by PLUS in 1999 were A-rated and were adequately secured by the Group's internal assets and PLUS cash flows. The bonds were due for redemption in mid-2006.

⁸⁰² Based on the facts, the Group did not require any bailout as there was already a put-option alternative. Halim Saad was however inexplicably restricted from making a General Offer of Renong and UEM for no valid reasons.

⁸⁰³ Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.) pp 43, 44. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

⁸⁰⁴ Mustapha Kamil and Rashid Yusof, *Tan Sri Halim Saad Speaks Up: Gross Injustice done to me*, *New Straits Times*, 2 Sep 2010, p 10.

⁸⁰⁵ A case in point was the 1993 award without tender process, of the RM6 billion national sewage-disposal project to Indah Water Konsortium Sdn.Bhd. under Vincent Tan. "The contract involved privatisation of 143 local water authorities throughout Malaysia to manage, operate and maintain the urban sewerage system for 28 years (Malaysian Business, 16 Dec 1993)". The privatisation was

In his paper, *Privatization and Re-nationalization in Malaysia: A Survey*,⁸⁰⁶ Professor Jomo said *Bumiputras* in financial trouble after the 1998 financial crisis rushed to the government to bail them out and asked the government to take over their debts. The facts do not justify such a sweeping conclusion. There was no evidence to support this finding. As it was, MAS made a proposal to restructure the company, which was rejected by the government. Renong and UEM Group were not in default. Furthermore, neither UEM nor Renong nor (Tan Sri) Halim Saad sought assistance and funding from the Government.

The evidence does not support Professor Jomo's conclusions. In the case of MAS and Renong, they were large companies whose owners paid billions to win control and who had no reason to surrender away their assets. The financial crisis was temporary. Given time they would recover. This was proven in the case of the Lion Group and AM Bank. But the government was hostile to them, pandering instead to market forces, especially from speculators who gambled, lost, and looked to the government to absolve their mistakes, which the government willingly obliged at a high cost to the interest of the *Bumiputras*.

If, as Professor Jomo says that they were bailed out, then necessarily by virtue of the term they would have had government help and still be in control of their companies. How can it be, and is therefore not a bailout, when they lost their companies?

riddled with information and institutional problems. "Poor data on asset condition and performance raised operating costs and affected the concessionaire's ability to meet service and environmental targets... the government also crucially failed to account for consumer unwillingness to pay tariffs which affected the project's viability." Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.) pp 22, 37. Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>
⁸⁰⁶ Jomo, K. S. and Tan Wooi Syn, *Privatization and Re-nationalization in Malaysia: a Survey*, (n.d.). Accessed at <http://www.jomoks.org/research/pdf/IPD_Privatization_Renationalization.pdf>

7.8 ECONOMIC OPPORTUNITIES

The implementation of the Industrial Co-ordination Act (ICA) 1975 caused hardship to the non-*Bumiputras* by implementing numerous requirements to be met pertaining to *Bumiputra* participation before licences were granted⁸⁰⁷. There is a widespread perception that the Malay government officials responsible for approving business licences and permits were discriminatory in their treatment towards the Chinese business community⁸⁰⁸.

A number of policies were implemented to allocate special privileges to *Bumiputras*, “...such as explicitly directing government departments to give *Bumiputra* suppliers preference in the consideration of tenders and quotations for the supply of goods and services”⁸⁰⁹. Since neither their political parties nor businesses were able to influence the government, the non-*Bumiputra* interest groups were left to cope using their own devices, which often opened the floodgate to unhealthy practices of bribery and patronage at all levels in order for them to move forward⁸¹⁰.

One example was the unhealthy practice of giving *Bumiputras* preference in public procurement, whereby government contracts for construction or other works are tendered via direct negotiation, thus allowing *Bumiputra*-controlled firms to be awarded contracts without an open tendering process. Negotiated tenders were frequently given out to inexperienced contractors – many of whom were mere rent-seekers, spinning the contract out to non-*Bumiputras* in what was commonly known as an “Ali Baba partnership”,

⁸⁰⁷ Heng Pek Koon, *The New Economic Policy and the Chinese Community in Peninsular Malaysia*, (The Developing Economies, XXXV-3, Sep 1997), p 274.

⁸⁰⁸ *Ibid.*

⁸⁰⁹ See *i* Capital, *Malaysia's Economic History: New Economic Policy (Part 7)*, (n.d.). Accessed at <http://www.icapitaleducation.biz/index.php?section=5&sub=16q>

⁸¹⁰ National Economic Advisory Council, *New Economic Model for Malaysia, Part 1*, (Putrajaya: NEAC, 30 March 2009), p 61.

encouraging crony capitalism, wastage and corruption⁸¹¹. In a typical Ali-Baba partnership, the Malay partner was essentially a sleeping partner, allowing the Chinese partner to make use of their name and therefore access to Bumiputra privileges – chief among them being political connections and access to certain sources of capital as well as subsidies⁸¹². This was particularly detrimental as it meant that the Malay partner would learn little in terms of business acumen, while reaping financial rewards, and that the Chinese partner, being the acting partner and the one left to run the business, would often develop resentment towards their Malay partner⁸¹³. This was hardly a beneficial joint venture as no transfer of knowledge or technology took place.

Another common practice was price discrimination, whereby it was made compulsory for land developers to afford discounts to *Bumiputra* buyers. *Bumiputra* firms who tendered for government contracts commonly enjoyed an inflated fee. Additionally, 30% of shares in Initial Public Offerings (IPOs) were reserved for *Bumiputras*. Even loans that were given to *Bumiputra* small and medium-scale industries were often subsidised⁸¹⁴.

The key policy used was the quota. First, companies were encouraged or persuaded over the long term to restructure their pattern of ownership to reflect the macro 30:40:30 policy target. Second, companies that planned to grow had to set aside at least 30% of their share capital to *Bumiputra* interests (individuals or institutions). Third, new companies, especially those in the manufacturing sector, were required to fulfil the *Bumiputra* ownership quota. Fourth, active take-overs and acquisitions of foreign-owned by state-owned institutions, particularly in the plantations and mining sectors, increased *Bumiputra* ownership.⁸¹⁵

⁸¹¹ See Navaratnam, Ramon, *Bumiputera Congress should not fear NEM*, (Centre of Policy Initiative, 2 June 2010). Accessed at <http://english.cpiasia.net/index.php?option=com_content&view=article&id=1940:bumiputera-congress-should-not-fear-nem-&catid=219:contributors&Itemid=189>

⁸¹² Whah, Chin Yee, "From tin to Ali Baba's gold: the evolution of Chinese entrepreneurship in Malaysia." (2007). See also Norhashim, Mariati, and Kamarulzaman Ab Aziz. "Smart partnership or cronyism? A Malaysian perspective." *International Journal of Sociology and Social Policy* 25, no. 8 (2005): 31-48.

⁸¹³ Whah, CHIN Yee, and LEE Yok Fee. "Chambers of commerce and Chinese business enterprise in Malaysia." *Malaysian Journal of Chinese Studies* 1 (2012): 1-17.

⁸¹⁴ Centre for Public Policy Studies, *CPPS Policy Factsheet: National Unity*, (n.d.), p 3. Accessed at <http://www.cpps.org.my/downloads/factsheets/National%20unity%20factsheet.pdf>

⁸¹⁵ Inter-Regional Inequality Facility, *Policy Brief 13: Affirmative Action – Malaysia*, (Feb 2006), p 2. Accessed at <http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4078.pdf>

Various policies and schemes were implemented to make almost every trade and service require licenses and permits, in the name of regulating trade practices. The participation of other races, apart from the Malays, in almost every licensed trade was extremely low to non-existent. It was not unusual for other races to acquire or rent permits from the middle Malay licence holders,⁸¹⁶ causing further racial discontentment and corruption and encouraging Ali Baba business practices. Meanwhile, non-*Bumiputras* began to draw back on their capital investments. In response, the government pumped in funding through state investment, making use of revenue acquired from the petroleum industry⁸¹⁷.

Additionally, the NEP has been accused of failing to address the problem of wealth distribution and economic inequality directly. By basing their wealth redistribution initiatives on an institutionalised system of handouts that covered the blanket of all Malays, it has been argued that the NEP did little for the intended beneficiaries of the NEP, namely the poor. *Bumiputras*, regardless of their economic position, were entitled to the same benefits. Thus, the equity target could have just increased the wealth in the hands of a small proportion of Malay elite, and the NEP could still claim to have achieved its targets. By not discriminating between the different classes, the NEP had a blind spot towards the poor, regardless of race. When it came to Chinese and Indians specifically, there was no clear strategy to facilitate their pursuit of 40% equity⁸¹⁸.

⁸¹⁶ HINDRAF, *Malaysian Indian Minority & Human rights Violations Annual Report 2010*, p 31.

⁸¹⁷ *Ibid.*

⁸¹⁸ Mtungwa, I. Q., *The Black Spot: A Critical Look at Transformation in the Workplace*, (Blacks, 2008), p 131.

However, before the NEP, it should be noted that for example, businessman Robert Kuok had the monopoly of sugar, rice, flour and other essential goods. The NEP bought in the *Bumiputra* participation into these markets to try and break the monopoly. A casino license monopoly was given to Lim Goh Tong and similarly a 4-digit forecast to another Malaysian Chinese.⁸¹⁹

When the 'Look East' policy was first initiated in late 1981, Japanese and South Korean constructions companies swamped the Malaysian market, securing approximately RM5 billion worth of major contracts within the first three years,. The foreigners were awarded both private and government contracts⁸²⁰, frustrating local builders. The government's defence was that the Japanese and Koreans would facilitate a "technology transfer", which would include new management skills and cutting-edge building techniques. Their governments sponsored Japanese and Korean languages being taught in local Universities, for the purposes of the local students continuing their technical skills on those two countries.

Despite this, the *Bumiputra* engineering companies that the foreign partners were required to cooperate with, voiced concerns that the language classes and so-called partnerships were a simple ruse to maintain good relations with the government, stating that no technology transfer was taking place. Nevertheless, some *Bumiputra* companies still benefited from the partnerships. For instance, Peremba worked closely with these companies, learnt to work with the Japanese and Koreans and later succeeded in bidding

⁸¹⁹ Tong, Lim Goh. "My Story: Lim Goh Tong." (2004). See also Whah, C. Y. "From tin to Ali Baba's gold: the evolution of Chinese entrepreneurship in Malaysia." (2007).

⁸²⁰ These included the office block and convention centre for UMNO, a new headquarters for the National Equity Corporation, and a 55-storey tower for state controlled Malayan Banking Bhd. Even the Dayabumi complex which contract was RM313 million being then Malaysia's most expensive building was awarded to two Japanese companies although a local company bid RM71 million less. Wain, Barry, *Malaysian Maverick: Mahathir Mohamed in turbulent times*, (Basingstoke: Palgrave Macmillan, 2009), p 93.

for overseas contracts⁸²¹. In the case of Dayabumi Complex, the Japanese introduced the system of steel structures, the first of its kind in Malaysia⁸²².

University of Malaya

⁸²¹ Personal interview with Tan Sri Razali, the Executive Chairman of Peremba (Malaysia) Sdn Bhd in 2010. He said, "Peremba, UEM, Muhibbah Engineering, WTC, went overseas to bid for projects in various countries including India, Qatar and the UAE. This began in 2005 and was completed in 2007."

⁸²² Prasad, Chris. "*KL's white beacon of pride*". Property 360, 16 May 2016. Accessed at <http://www.klcc.com.my/doc/pr/KL%20white%20beacon%20of%20pride.pdf>.

7.9 CORRUPTION AND PATRONAGE

Affirmative action in Malaysia has been equated with corruption and patronage. The notion of a positive movement towards enabling the majority to have a stake in the nation's prosperity has created divisions within the races.

There have been accusations that the NEP has transformed UMNO into a patronage machine, with frequent handouts of projects, permits and licenses. For example, approved permits, taxi licenses, negotiated tenders, and housing discounts were awarded to *Bumiputras*, especially to those with political connections⁸²³. However, the reality is that whilst small class F contractors may be exclusively Malay and given small jobs in the big multibillion projects, the non-Malay industrialist have been the biggest beneficiaries⁸²⁴.

Petronas Twin Towers is one example of government intervention to help *Bumiputras* that, intentionally or unintentionally, also helped non-*Bumiputras*. Ananda Krishnan, a local non-Malay industrialist, was given the lease of the land. Thereafter, even before developing the land, Ananda sold 51% stake in Sri Kuda Sdn. Bhd – the company that developed the KLCC – to PETRONAS for RM 681 million and pocketed a hefty profit from that sale (against his total cost of RM430 million). Subsequently, he sold his remaining share in the newly-renamed KLCC Holdings Bhd. for an undisclosed sum that is speculated to be about RM1.2 billion.⁸²⁵

⁸²³ Gomez, Edmund Terence Jomo, KS, Malaysia's political economy politics, patronage and profile pg 620.

⁸²⁴ Gomez, Edmund Terence Jomo, KS, Malaysia's political economy politics, patronage and profile pg 48.

⁸²⁵ Ng, Jenny and others, *Cover Story: Ananda's big buyout*, (*The Edge*, 2 Aug 2010). Accessed at <http://www.theedgemaalaysia.com/features/172312-cover-story-anandas-big-buyout.html>

Besides profiting from the KLCC project, Ananda Krishnan benefitted too from the privatised gaming sector. Additionally, he moved to the rapidly expanding telecommunications industry. Through Binariang Sdn. Bhd., Ananda obtained various licences to develop various telephone and broadcasting services including a licence to launch the Mearsat 1 satellite in 1995.⁸²⁶

Despite protestations to the contrary Yeoh Tiong Lay of YTL Corporation too profited from government largesse under the NEP privatisation programme. That was the time when the government meted out contracts through direct negotiations and not via open tender. Among the initiatives that enabled YTL Corp. to enjoy part of this largesse was the government purchase of power from independent power producers. YTL was the first to get an IPP licence in 1993. It was guaranteed a return of 20% for 21 years. YTL raked in a huge fortune as electricity sales became one of its biggest revenue earners⁸²⁷. Additionally, YTL Corp. profited from construction projects such as hospitals, highways and the KLIA Express. YTL owns a 50% stake in the line and a 30-year concession from the government to run it with an option to extend the concession for another 30 years⁸²⁸. The project was financed by Tabung Haji.

Another non-*Bumiputra* beneficiary under the NEP programmes was Vincent Tan. As with the other non-*Bumiputras*, his success in the arena of business has been at least partly linked to his strategic relationships with prominent Malay political figures.

⁸²⁶ Gomez, Edmund Terrence and Jomo, K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, (Cambridge University Press, UK, (1999), p 83.

⁸²⁷ Nadaraj, Vanitha, *Crony Comments Put YTL in Bad Light*, (*The Establishment Post*, 9 Jun 2014). Accessed at <<http://www.establishmentpost.com/crony-comments-puts-ytl-bad-light/>>

⁸²⁸ See Bursa Malaysia website. Accessed at <[http://announcements.bursamalaysia.com/EDMS/subweb.nsf/7f04516f8098680348256c6f0017a6bf/46a5ab61c34d46554825722700260a48/\\$FILE/YTL-Cover%20to%20Page%2034%20\(2MB\).pdf](http://announcements.bursamalaysia.com/EDMS/subweb.nsf/7f04516f8098680348256c6f0017a6bf/46a5ab61c34d46554825722700260a48/$FILE/YTL-Cover%20to%20Page%2034%20(2MB).pdf)>. Accessed on 23 May 2015.

In 1985, he bought Sports Toto by direct negotiations when the government privatised the lottery agency, thereby, further fortifying his fortune.⁸²⁹

However, these privatisations that advantaged the non-*Bumiputra* community did not go well with the *Bumiputra* community. During the UMNO General Assembly in 1992, the members criticised such a move despite knowing that the *Bumiputras* did not have what it took to undertake such privatised projects. The government was adamant in dishing out privatised projects to those it felt had the requisite capabilities irrespective of race⁸³⁰. Unfortunately, corruption has been a persistent side effect of the NEP, and has seeped into business practices both in the private and public sector, regardless of race.

⁸²⁹ Project Gutenberg Self-Publishing Press, *Vincent Tan*, (n.d.). Accessed at <http://self.gutenberg.org/articles/vincent_tan>

⁸³⁰ Gomez, Edmund Terrence and Jomo, K.S., *Malaysia's Political Economy: Politics, Patronage and Profits*, (Cambridge University Press, UK, (1999), p 88.

7.10 FAILURE OF GOVERNMENT AGENCIES

While the government had good intentions in creating state-owned enterprises to strengthen and promote *Bumiputra*'s business acumen and opportunities, many such agencies unfortunately did not meet the mark due to poor internal controls and inefficient management. A few of these agencies are discussed below.

7.10.1 Majlis Amanah Rakyat (MARA)

One of MARA's main aims is to create and increase the number of *Bumiputra* entrepreneurs by encouraging wholesale, retail and low value-add *Bumiputra*-led services. MARA extends term loans for small businesses and start-ups, grants for consultancy, certification and business development. But due to the lax control in approving its loan processes,⁸³¹ poor management and monitoring of its funding programmes, MARA is saddled with high non-performing loans (NPLs). MARA relies largely on loan repayments to fund its financing schemes. It also funds high risk groups, including new start-ups and small enterprises, which have high failure rates and were more sensitive to the business cycle.

⁸³¹ Loan approvals do not require collateral which hampers enforcement efforts. Tenants of MARA premises enjoy wide ranging perks including low rental rates, discount, exemptions and long term tenure security leading to complacency and lack of drive among the entrepreneurs in expanding their business and moving out to the other better located premises. In addition, lack of strong enforcement lead to many non-performing entrepreneurs being contented to continue using the premises at the expense of new start-ups and enterprises. Hence although MARA provide large amounts of funding and managed to create new entrepreneurs under its retail mentee programme, these entrepreneurs are generally still very poor. Ethos Analysis, *Assessing the impact of entrepreneur development organizations in enhancing Bumiputra participation in the economy*, (BKK MARA, 30 Aug 2010), pp 24-30.

7.10.2 Urban Development Authority (UDA)

Among the agencies created to support the NEP was the Urban Development Authority (UDA), established by the government in 1971. A statutory body, its corresponding Act gave massive powers to the agency to help *Bumiputras* acquire properties in towns or for *Bumiputra*-related businesses.

When UDA was first announced, many non-Malay businesses were apprehensive. The government's intention was to help *Bumiputras* to own properties or to locate suitable sites to do business. The non-*Bumiputras*' fear was that UDA would take over its businesses as the government had set aside a substantial fund for UDA to achieve its target. Like many other government agencies, however, UDA soon fell prey to corruptive practices, which were eventually detrimental to *Bumiputra* interests.

When property prices took a dive in the 1970s, many non-*Bumiputra* companies faced a financial crisis. They approached UDA, who agreed to buy 30% of their development or shares in their company. Those in the property business knew that if 30% of properties were sold, the project would be saved, and profits made. The justification was that by buying 30% from non-*Bumiputras*, the *Bumiputras* now had a 30% share. It was quick, and results were immediately shown. UDA on its part never considered going directly to the banks, negotiating to buy the whole company from the banks, or taking a controlling interest. Generally, UDA failed in its objective to expand *Bumiputra* equity.

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⁸³² Unit, Economic Planning, and UN Country Team. "Malaysia: achieving the millennium development goals: successes and challenges." Launched on Jan 25 (2005): 2005.

UDA was also provided land that was not profitably developed for the benefit of *Bumiputras*. An example was when prime land in Jalan Kelawai in Penang was used to build low cost houses. Similarly, Tanjong Tokong, a Malay settlement over 100 years old, was given to UDA, solely for the rehabilitation, reconstruction and renewal of the village. Instead, UDA proposed to redevelop the land, sell the apartments for a profit and to re-site the present occupants (who in most cases had been living there for over 150 years) in low-cost apartments.⁸³³ A better approach from the government would have been to upgrade infrastructure and allow these people to stay put and allow them to rebuild themselves.

UDA land in Brickfields was developed with no consideration for Malays when a good master plan could have produced a modern development to assist Malays⁸³⁴. UDA has since been privatised, which raised further questions on its role. How could a private entity take over the role of government in helping to acquire properties for *Bumiputras*? How does private sector help to urbanise the Malays?

The government has since formed another agency Pelaburan Hartanah Bumiputra Berhad (PHBB)⁸³⁵ to replicate the role of UDA. They were given cheap land.⁸³⁶ It is unlikely to be successful unless managed by competent and honest management with integrity, and if those responsible genuinely understood and implemented the government policy.

⁸³³ Ariffin, Lisa J., UDA, Penang solve four-decade-old Tanjong Tokong issue, *The Malaysian Insider*, (16 Jun 2012), Accessed at <http://www.themalaysianinsider.com/malaysia/article/uda-penang-solve-four-decade-old-tanjung-tokong-issue>

⁸³⁴ Edmund Terrence Gomez, *Chinese Business in Malaysia, accumulation, ascendance, accommodation*, pg 169.

⁸³⁵ PHBB wholly owned by Yayasan Amanah Hartanah Bumiputra, was incorporated in May 2006 with RM2 billion capital, to raise Bumiputra property ownership and enhances opportunities for *Bumiputra* businesses to operate in prime commercial properties. It acquires and develops land banks and commercial properties in prime locations in major cities in Malaysia. Recently PHBB was in the limelight for paying KTMB a fraction of land value in acquiring a 8 ha site behind the former Unilever headquarters along Jalan Bangsar *The Sun, An Unfair Deal?*, 27 Aug 2010, p 1.

⁸³⁶ *Ibid*. Other prime land acquired by PHBB includes Dataran Perdana in Jalan Davis and the Rubber Research Institute land in Jalan Ampang.

7.10.3 Yayasan Bumiputra Pulau Pinang (YBPP)

YBPP,⁸³⁷ an UMNO-linked agency, grabbed headlines when two NGOs and 33 individuals sued the agency.⁸³⁸ It was alleged that 280 ha of land went to Hunza Properties Bhd. (which was not controlled by Malays or *Bumiputras*) in ratio of 30:70 in favour of Hunza.

7.10.4 Penang Regional Development Authority (PERDA)

PERDA was established in 1983 and is another government agency which had obtained government land, is under a management uninterested in long term investments. One piece of property in land-scarce Penang had been zoned for Tourism and was allocated to PERDA to build hotels. It was instead used to build houses for a quick profit. If the agency had opted to develop a hotel, this would have been a long-term job-creating investment. It would also have brought pride to Malays, as the only 5-star beach hotel owned and operated by *Bumiputras*.

7.10.5 The Sarawak Economic Development Corporation (SEDC)

SEDC was established in 1972, and is a statutory body owned by the state government whose main purpose is to promote the commercial, industrial and socio-economic development of Sarawak.

While the Federal government formed various agencies to help achieve the NEP targets, the states followed suit by forming state development corporations. State owned

⁸³⁷ YBPP was formed in 1980 as a result of an economic convention by UMNO that resolved to set up the organisation for the benefit of Malays in Penang.

⁸³⁸ *The Sun, Suit against agency over transfer of land*, 8 Sep 2010, p 6.

companies involved themselves in almost all sectors of the economy including, in the case of Sabah and Sarawak, the banking sector.

Half of the companies were profitable while the rest made losses. They went into sectors with little expertise. While they entered joint ventures with non-*Bumiputra* businesses, in most cases, their role was just to hand over capital to these companies. Even in the property sector where there were Malays who could enter into joint venture enterprises, they often opted to do so with non-Malay companies. The main objective to help *Bumiputras* was ignored. Some Economic Development Corporations like JCorp of Johor even expanded operations nationwide and internationally. How this helped the Johoreans is difficult to explain.

7.11 GOVERNMENT-LINKED COMPANIES

Companies like Tenaga Nasional Bhd (TNB), Telekom Malaysia (TM), Keretapi Tanah Melayu (KTM) have huge land banks in strategic areas. However, these companies were often profit-driven and played little role in the development of the NEP. Many of their properties were sold to non-*Bumiputra* owners. In the most glaring example, KTM sold their land in Kenny Hills to Bolton and their Sentul lands to YTL. Had they played their roles, *Bumiputra* holdings in the property sector could have increased especially in strategic areas. Proper management of their property portfolios would have also helped solve their financial problems.⁸³⁹

The popular Mid-Valley Mega Mall development is another example where a government agency sold its prime land to a non-*Bumiputra* developer. Again, the development was allowed simply because those entrusted were either irresponsible, corrupted or simply ignored government policy to enhance *Bumiputra* ownership in urban areas⁸⁴⁰.

It has been commented that banks like Bank Bumiputra and Bank Rakyat had overplayed their designated roles to help *Bumiputras*. Bank Bumiputra was established to assist *Bumiputras* in financing their projects. It eventually side-lined its original role and was involved in giving out massive loans to a Hong Kong-based company that had nothing to do with *Bumiputras*. This evolved into an international scandal, which led to the government having to bail out the bank twice.

⁸³⁹ Indian Railways is a good case study.

⁸⁴⁰ Edmund Terrence Gomez, *Chinese Business in Malaysia, accumulation, ascendance, accommodation*, pg 169.

Similarly, Bank Rakyat was a co-operative bank aimed at helping *Bumiputras* establish businesses through co-operative set-ups. Instead, it went into activities like the promotion of boxing (the Mohamed Ali vs Joe Bugner match staged in Kuala Lumpur). The Bank recorded a massive loss of RM75 million. It too had to be bailed out by the government, although today it has been proven that by going back to its core business it is now profitable.

Banks designated to assist *Bumiputras* in their businesses also tended to ignore appeals when these businessmen were financially down and out. The relaxation of borrowing terms or waiver of interest was often not considered,⁸⁴¹ and the banks would require them to hold assets⁸⁴² to guarantee any loans taken. As a result, many small *Bumiputra* businessmen were made bankrupt.

Abuses of power and Malay 'misbehaviour' were illustrated by the Carrion saga in the 1980s⁸⁴³. The case involved the numerous misdeeds of a Hong Kong company, which subsequently collapsed owing billions of dollars, with the biggest chunk to state-controlled Malaysian bank, Bank Bumiputra - a bank that, by the 1980s, had become the country's largest with prestigious overseas set-ups. Several renowned personalities including bankers, lawyers and accountants were beneficiaries of the scam. It also brought about the murder of a Malaysian bank officer in Hong Kong, whose body was found in a banana plantation, bringing discredit to Malaysia worldwide before the courts.

⁸⁴¹ An example – Segar Suria Sdn. Bhd.'s appeal dated 2 Sep 2010 to AmBank Berhad for lowering of BLR. BLR quoted at the counter was 7%-7.4% but when actually charged, a fixed rate of 18.75% plus penalty is applied. They had been clients of the bank for the previous 13 years and yet there was no sense of goodwill from the bank.

⁸⁴² A recent example is Stellar Empire Sdn. Bhd.'s application for L/C facilities. It was prepared to pledge shares from a certain counter to a certain Bank. However, the Bank declined as it required the applicant to pledge shares from more than one counter (in fact they specified three) as security with a cap of 3% imposed on every Ringgit released. Such was the shrewdness faced by *Bumiputra* businessmen that the question arises whether Banks are genuinely out to assist *Bumiputras*.

⁸⁴³ See Chen, Albert Hung-yee, Litton, Henry and Clarke, William. *The Carrion trial: the aftermath*. (Hong Kong Law Journal, 1988) 18 HKLJ 5, 10-13.

Now, banks are well controlled and regulated, preventing this type of episode from happening again. It is important for robust anti-corruption mechanisms to be put into place as well, to protect the Malaysian economy from such abuses that might occur from within the ranks of the government.

Local Councils on the other hand were tasked with helping *Bumiputras* in areas under their control, but often failed due to widespread corrupt practices. Often in municipalities, licensing and enforcement officers often harassed petty traders. Zoning and plot ratios could be changed upon illegal payment to relevant officers. Bribery and corruption has also contributed to uneven development. For example, it was now common to see a 10-storey building being built next door to a 4-storey building, as a result of developers paying the council in exchange for approvals to build higher density and higher floors. Many have also criticised Malay civil servants for their perceived willingness to be bribed.⁸⁴⁴

⁸⁴⁴ A good example is the Mid-Valley City project in Kuala Lumpur.

7.12 THE *BUMIPUTRA* MINDSET

Arguably, the NEP had its most lasting impact on the *Bumiputra* psyche. The perception is that many *Bumiputras* are now seen as lacking motivation, energy, drive or productivity, having relied heavily on favourable NEP policies and extensive government assistance. There is also a great sense of Malay entitlement to their special rights and beyond⁸⁴⁵, most often in reference to the “constitutional bargain”. Under the NEP, the *Bumiputras* gained most of the vehicle Approved Permits (APs), the rights to most (albeit small) contracts circumventing open tenders, concessions, the majority of university places, full control of GLCs, and a near monopoly of the Civil Service appointments. This dependency on government assistance is a manifestation of the “institutionalisation of mediocrity”⁸⁴⁶, creating a generation of *Bumiputras* who are unprepared to face the global challenges that await them.

The privatisation policy, the preferential share allocations, the large government awards for contracts, quotas in ownership of public company stock and house ownership etc., have made some *Bumiputras* instant millionaires. Such policies, apart from being discriminatory, have led many to see *Bumiputras* as ‘over-pampered’ and uncompetitive. In contrast, non-*Bumiputras* have been ‘forced’ to adopt a more competitive attitude as they have learned from the implementation of the NEP system that, in order to move forward, they need to work harder. Ironically, the NEP had led to the *Bumiputras* becoming an entitled group, embodying the phenomenon of the “self-fulfilling prophecy”⁸⁴⁷ whereby they internalise stereotypes about themselves thus resulting in

⁸⁴⁵ Neo, Jaelyn Ling-Chien. "Malay nationalism, Islamic supremacy and the constitutional bargain in the multi-ethnic composition of Malaysia." *International Journal on Minority and Group Rights* 13, no. 1 (2006): 95-118.

⁸⁴⁶ Osman-Rani, Hassan, 1990. Malaysia's New Economic Policy: After 1990. *Southeast Asian Affairs*, 17, p.204.

⁸⁴⁷ Jussim, Lee, Jacquelynne Eccles, and Stephanie Madon. "Social perception, social stereotypes, and teacher expectations: Accuracy and the quest for the powerful self-fulfilling prophecy." In *Advances in experimental social psychology*, vol. 28, pp. 281-388. Academic Press, 1996.

what has now been termed the *Bumiputra* mindset. Non-*Bumiputras*, on the other hand, developed an exceptional work ethic, having been made to work twice as hard in order to make comparable gains in Malaysian society.

Critics have argued that *Bumiputras* need to face the reality of the globalised world of open competition to really succeed. To begin with, *Bumiputras* must change their mindset and attitude, and put in more effort to achieve success. Others the target of 30% *Bumiputras* should have included a caveat that only those who were qualified and authorised would be appointed to company boards, and would thus have represented better equitability in terms of opportunity.

Some *Bumiputras* have in fact suggested contracting or eliminating the NEP altogether. Tunku Abdul Rahman had written in opposition of the 30% target as far back as the 1986:

..an attempt was made to fill the target without thought for the ability and the capability of attaining it ... Some became rich overnight while others became despicable Ali Babas and the country suffered economic setbacks⁸⁴⁸.

One criticism of the 30% target is that there was little to no thought with regards to how the 30% should be distributed throughout the Malay community, and therefore it stands to reason that a small proportion of the Malay elite could do exceptionally well under the NEP and leave their fellow *Bumiputra* to languish in poverty⁸⁴⁹.

Professor Just Faaland in expressing his disgust in Malay behaviour for being 'overnight' millionaires through the NEP, noted:

⁸⁴⁸ Abdul Rahman, Tunku, Putra Al-Haj, *Political Awakening*. (Pelanduk Publications, 1986), p 98.

⁸⁴⁹ See Tzannatos, Zafiris. "Reverse racial discrimination in higher education in Malaysia: Has it reduced inequality and at what cost to the poor." *International Journal of Educational Development* 11, no. 3 (1991): 177-192.

...These are the ones who argue that the NEP should create more Malay millionaires, as if by creating a few more, one could solve the problems of the Malays in the outlying rural areas or in urban low productivity activities. To make it worse, some members of the Malay nouveaux riches indulge in highly conspicuous consumption...It is a major weakness of the outcome of the implementation of the NEP, not so much the strategy itself.⁸⁵⁰

The ethnic polarisation that was exacerbated under the NEP has had a lasting impact on how the *Bumiputras* view their position and entitlement within Malaysian society. However, it is not the *Bumiputras* alone who were affected, as the further impact on the psyche of non-*Bumiputras* is undeniable, having been treated as second-class citizens. Many have adopted a defeatist attitude, feeling forced into playing into the corruption and money politics that drive the Malaysian economy. Furthermore, many are disillusioned by the blatant discrimination they face both in business and in the workplace, leading to worsening race relations. It can be argued that the NEP institutionalised the rent-seeking practices that permeate Malaysian businesses to this day.

⁸⁵⁰ Faaland, Just., Parkson, John Richard, Rais Saniman (eds), *Growth and Ethnic Inequality*, (Kuala Lumpur: Dewan Bahasa & Pustaka, 1990), p 191.

7.13 CONCLUSION

This chapter analysed the shortcomings of the NEP. It continued the critique of the NEP in the previous chapter which highlighted the achievements of the NEP. The NEP was noble in its intention. However, its implementation was in some cases taken to the extreme. Such cases included university enrolment, scholarships and land development schemes for the *Bumiputras*. In other cases, such urban land development, non-*Bumiputras* too profited from the activities of public agencies.

Notwithstanding, non-Bumiputra interests were not championed to the extent Bumiputra interests were. Compared to the debate on whether the NEP had restructured society, the debate over poverty eradication irrespective of race was muted. As such, the NEP implementation did not significantly foster racial integration. The NEP's greatest achievement was in the field of education.

While regional land development schemes in the 1970s helped the poor and landless Malays, the development of entrepreneurs among *Bumiputras* had only limited success. This was partly because the NEP implementation was also plagued with issues of transparency, corruption, political patronage, conflict of interest and the failure of institutions to be focused on the NEP agenda. Public agencies that were specifically set up to promote the NEP became side-tracked as considerations of profitability took priority over the social objectives of the NEP. And the achievement of the 30% *Bumiputra* equity ownership remains contested.

Much of these weaknesses was due to inadequate structural reform in the agencies tasked with implementing the NEP. Government-linked companies created subsidiaries

that competed against the very *Bumiputra*-SMEs that they were to help. There was also a failure in execution of the policies⁸⁵¹. It can be concluded that one of the greatest criticisms of the NEP was the misinterpretation and poor implementation of many of its policies, thus producing unintended effects of increased racial tension and a sense of dependence on affirmative action policies.

As highlighted in Chapters 6 and 7, the NEP has achieved a great deal despite the difficult circumstances under which it was born, but there is still a long way to go in terms of creating the prosperous and unified Malaysia that was the goal of the original NEP.

In Chapter 8, this thesis will address the overall success of the NEP, and future directions for research and public policy with regards to addressing economic and social inequality in Malaysia.

⁸⁵¹ Mahavera, Sheridan, '*Bumi equity would be 50% now if policies carried out*', (*Edge Financial Daily*, 27 May 2015), p 21. Accessed at <http://tefd.theedgemarkets.com/2015/FDsetia/FDsetia_20150527axtdc.pdf>

CHAPTER 8: CONCLUSION

8.1 INTRODUCTION

This research was conducted with the aim of raising awareness of the New Economic Policy (NEP): what led to its creation, its achievements, shortcomings and abuses. To recap, it has attempted to elucidate the historical context behind the socioeconomic imbalances and inter-ethnic tensions that led to the inception and implementation of the NEP. Secondly, it has highlighted the implementation and outcomes of policies in relation to poverty eradication and societal restructuring, with specific attention to education, rural development, and economic growth as a means of accomplishing these policy goals. Lastly, this study aimed to provide a fair and balanced evaluation of the impact of the NEP and the Alliance government's state-interventionist approach on Malaysian society and economy as a whole.

Currently, many Malaysians are still asking the penetrating question: How much longer do the Malays want or need the NEP? Many right-thinking Malays have pondered whether the NEP had truly benefited the majority of Malays or only the minority elite groups of all races. Many Malaysians, especially non-Malays, have argued that the NEP's restructuring goals have been achieved and in some cases, overreached, and hence should be phased out¹.

The NEP had two broad goals: to eradicate poverty for all Malaysians, regardless of race, and to restructure society such that the distinction of the different ethnic groups was no longer tied to specific economic activities. This chapter will discuss to what extent

¹See Navaratnam, Ramon, *Bumiputera Congress should not fear NEM*, (Centre of Policy Initiative, 2 June 2010). Accessed at <http://english.cpiasia.net/index.php?option=com_content&view=article&id=1940:bumiputera-congress-should-not-fear-nem-&catid=219:contributors&Itemid=189>

these goals were achieved under the branches of education, rural development and economic growth. It will also address the mistakes the Alliance government made in the past, as well as future directions to correct these mistakes. Lastly, it will cover a brief discussion of the continued relevance of the NEP in today's Malaysia.

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8.2 THE HISTORICAL CONTEXT

A 20-year period to achieve the NEP objectives was unrealistic if the historical background of Malaysia and the gap between the achievements of the various races pre-NEP are taken into account. The Chinese, who are credited for hard work, thrift and business savvy, took 200 years to achieve 28%. The achievements of the Malays were remarkable exceeding the target of 40% in a tenth of the time. The plan was too ambitious, considering that the Malays at the time were rural peasants with hardly any education, aiming for a 27.6% increase in equity within 20 years. In most countries when target dates were fixed, some policies were extended indefinitely. The target of 6.5% growth per year overlooked events outside Malaysia that could adversely affect our own economic growth, as reflected by the recession of 1985.

The two most important elements of the NEP strategy were the eradication of poverty and the correction of racial economic imbalances. Each of the other elements was of importance by itself, but in the NEP strategy they were seen more as sub-elements or the means to achieve the two overall objectives. The existence of mass poverty prevailing in the midst of affluence, where there were notable conspicuous differences in living standards along racial lines was not acceptable. The improvement in racial economic balance and the eradication of the identification of race with economic functions was therefore deemed vital for improving inter-communal relations.

The NEP strategy was therefore much more than an ordinary 5-year plan. It set out to achieve a complete social and economic shift and to lay the foundation and structure for a new Malaysian order. It sought to achieve the emergence of a new Malaysian society which would eclipse existing ethnic, cultural, religious and economic differences. The

NEP created opportunities to help advance the country's population. In the aftermath of the 1969 riots, there was no other option, otherwise the country would revert to anarchy and chaos.

The actual implementation of the NEP was characterised by flexibility and also by some inconsistency in its implementation, especially in changing economic and political circumstances - most notably, the retreat in the mid-1980s from the policy then in force for Malay ownership of shares in investment and even for Malay participation in employment. We have seen economic inefficiency in the early years of the NEP's implementation due to the "*the emphasis on increased public expenditure, accompanied by numerous restrictive regulations, procedures and licensing requirements.*"²

The introduction of the status quo also sometimes brought inefficient and unqualified Bumiputras into many managerial positions, but this slowly improved after the emergence of small group of Malay business elites. This group restored the sense of confidence among the Malay community and appears as a role model for aspiring Malay entrepreneur. Such improvement in their performances and profitability enabled the Malay business elites to be more perceptive to de-regulation and opening up the market³.

The Federal and State governments and their various agencies and institutions played an interventionist role so as to ensure that the Malays would have an impartial opportunity to gain increasing access to and equality within the modern sectors. New institutions were set up and old ones fine-tuned to assist the Malays. The elaboration of a consistent policy package of the foregoing elements and the implementation of a

² Mohamad, Maznah, *Ethnicity and Inequality in Malaysia: A Retrospect and a Rethinking*, (CRISE, University of Oxford, Working Paper 9, Feb 2005), p 12.

³ Ibid.

comprehensive system for economic and social data gathering and analysis to ensure that the programs and projects were properly monitored and conformed with stated objectives, and where necessary, redirected and adjusted.

The continued relevance of the NEP is the subject of intense debate amongst politicians as well as think tanks, human rights groups, and average citizens. A survey from the Merdeka Centre for Opinion Research in 2008 claimed that 71% of Malaysians are in agreement that the race-based affirmative action policy as practiced by Barisan Nasional is outdated and no longer relevant, therefore necessitating a replacement that is based on merit rather than ethnicity⁴. During a nationally televised debate, Former UMNO Deputy Youth Chief Khairy Jamaluddin and MCA Vice President Chua Jui Meng came to an agreement that a national committee should be established to review the NEP.⁵

In light of the achievements of the NEP across the fields of poverty eradication, social restructuring, and economic growth, it can be concluded that the NEP in its embodiments under the Second, Third, Fourth, and Fifth Malaysian Plans achieved a great deal in line with its benchmarks within the 20-year implementation period. However, it must also be acknowledged that implementation of these policies was not perfect, and certain quarters of Malaysian society, most notably those living in poverty and the non-*Malay* minority groups, were victims of neglect. Despite its failings, this thesis does posit that many of the criticisms against the NEP are exaggerated and unfair, failing to take into consideration the historical context of its inception. It is hoped that Chapters 2 and 3 of this study have provided sufficient context for the conditions that

⁴ Teoh, Shannon, *Polls shows most Malaysians want NEP to end*, *The Malaysian Insider*, (9 Oct 2008). Accessed at <http://merdeka.org/media/73-091008.html>. The result also showed that up to 65% of Malays who were asked the question agreed that race-based affirmative action should be done away, compared with 83% of Chinese and 89% of Indian respondents

⁵ Bernama, *Chua Proposes A National C'tee to Discuss NEP*, (30 July 2005). Accessed at <http://web10.bernama.com/maritime/news.php?id=147654&lang=en>

necessitated the radical race-based state-interventionist approach of the Alliance and National Front governments.

Having said that, this thesis also puts forth that it is high time for a systematic review of the NEP, and a renewed needs-based approach to affirmative action, to ensure that this country is able to move forward both economically and socio-politically.

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8.3 POVERTY ERADICATION

The first goal of the NEP was to decisively reduce both urban and rural poverty for all Malaysians, irrespective of race. It was clear to all observers and the government that from 1969 to 1970, poverty remained high in many rural areas and occupations, largely but not exclusively populated by Malays. Meanwhile, the standards of living for population in urban areas, often dominated by non-Malay but increasingly by Malays, were in most cases, unacceptably low.

To this day, one of the greatest successes of the NEP was its achievements in reducing poverty across the nation, particularly the ethnic imbalances in poverty. This was clearly highlighted in the statistics whereby poverty in Peninsular Malaysia has reduced from 49.3% to 15.0% over the NEP implementation period, and a further reduction of 7% from 1990 – 2010⁶.

One of the mechanisms by which the NEP aimed to reduce poverty was by decreasing unemployment for the citizens of Malaysia. The full employment policy was an indispensable strategic element of the NEP. The Second Malaysian Plan stated that its overall strategy was driven by the approach to encourage active participation, without disruptive distribution. A more active employment policy was pursued to not only cater to the unemployed labour force, but also to create opportunities for new entrants to the labour market and those moving from traditional to new economy-based roles⁷. This helped in improving the general income level and participation from all races in the economy.

⁶ Department of Statistics, Malaysia. *See also* World Bank Group. *World development indicators 2010*. World Bank Publications, 2010.

⁷ *Ibid.*

However, it is widely acknowledged that poverty amongst Malays still exists. Furthermore, a new problem has emerged, namely the intra-ethnic poverty gap⁸, and therefore new solutions are needed to address this new problem. To address this issue of the intra-ethnic poverty gap through a lens of ethnic economic imbalance is to do an injustice to poor Malays, as the policies created under the NEP would only serve to further increase the gap between rich and poor Malays, unless adapted to fit the needs of modern Malaysian society.

As discussed in earlier chapters, the NEP's greatest success was in the field of education. Improving access to education improves the human capital and leads to increases in wage earnings capabilities. Improving the education system through reforms was therefore crucial to improving the overall welfare of this multi-ethnic nation. Education reform not only affects the returns to society as a whole, but also has distributional implications in terms of the benefits they bring to different groups. In order to achieve reform that was beneficial not only to the average individual but also benefited the relatively disadvantaged groups or region, one had to calculate the relative returns to different sub-groups of the population. Under the NEP, the *Bumiputras* benefited relatively more from education reforms at all levels compared to the rest of the population, particularly the Chinese, but then again, if they start from the lowest rung they have more room to grow.

New data shows the impact of the government's measures on higher education enrolment and in changing the labour market conditions for graduates. Prior to the NEP

⁸ See Roslan, Abdul Hakim. "Income inequality, poverty and development policy in Malaysia." In *Internasional seminar on poverty and sustainable development, Université Montesquieu-Bordeaux IV and UNESCO, Paris, November*, pp. 22-23. 2001. See also Gomez, Edmund Terence. "Targeting horizontal inequalities: Ethnicity, equity, and entrepreneurship in Malaysia." *Asian Economic Papers* 11, no. 2 (2012): 31-57.

and its affiliated quota policy, only 40% of all university students were Malay. By the 1980s, this has increased to 60%. Employment opportunities for this growing population of university-educated Malays increased greatly. The 1981-1990 Labour Force Survey conducted by the then Ministry of Labour⁹ recorded that approximately 80%-90% Malay graduates found employment. This shows that the government's educational quota system provided the means for Malays to receive tertiary education that in turn enabled them to secure middle-class jobs¹⁰.

This research has shown that *Bumiputras* have succeeded in the field of education. The opportunities given by the government to the *Bumiputras* was a challenge for them to do well and they have succeeded with great success. They are now more confident and ready to compete. With this success, the NEP policies on education – including the quota for scholarships and the mastery of the English language - should be reviewed. Since 1996, many private universities have been established to meet the educational demands of the young. The government has also lifted enrolment quotas at local public universities.

The way scholarships are being awarded, however, is still being questioned. At the educational level some concerns were raised about the effectiveness of the quota system introduced in special residential schools, public universities and various tertiary institutions under the NEP policies. Maznah cited a study from Ozay Mehmet and Yip Yat Hoong¹¹ which revealed that a mere 12 of *Bumiputra* scholarship recipients actually came from poor families, and despite the provision of government scholarships, poor Malay families were less likely to have a university-going child than poor families of Chinese and Indian origin. She also highlighted that most scholarship recipients, of whom

⁹ Known today as the Ministry of Human Resources.

¹⁰ Ibid, p 239.

¹¹ Mehmet, Ozay, and Yip Yat Hoong. "An empirical evaluation of government scholarship policy in Malaysia." *Higher Education* 14, no. 2 (1985): 197-210.

most are *Bumiputras*, end up working within the civil service, concluding that this reflected a failure of the universities to provide a suitable training ground for “*fulfilling technical and professional manpower needs*”¹².”

Scholarships should be awarded on merit. For Malaysia to progress and remain competitive, the best brains must serve the nation. *Bumiputras* must not fear that they will be left out. Even during the colonial era, there were Malays who won the King’s scholarships to study in England. With better and modern facilities, there is no reason for *Bumiputras* to not be able to compete. In addition, special funds have been set up by the government to assist *Bumiputras* from low-income backgrounds.

It must be admitted that *Bumiputra* advancement in education has not come without a cost. Inter-ethnic relations have also begun to deteriorate at some level in universities¹³. The rise in Islamic fundamentalism and the political interference on every aspect of academic policy, created a sense of estrangement among the non-*Bumiputra* academic community. While the NEP helped to build up *Bumiputra* group confidence, it was not an outstanding instrument for removing inter-ethnic mistrust. The policy had no doubt increased *Bumiputra* presence in the modern sector. Nevertheless, *Bumiputra* continue to lag behind their fellow Malaysians in their participation rates in high-waged occupations, in tertiary education and earnings (household incomes)¹⁴.

¹² Mohamad, Maznah, *Ethnicity and Inequality in Malaysia: A Retrospect and a Rethinking*, (CRISE, University of Oxford, Working Paper 9, Feb 2005), p 13.

¹³ Ibid, Chapter 7.

¹⁴ Ibid, Chapter 7.

8.4 SOCIETAL RESTRUCTURING

The second prong of the NEP was to bring about a radical shift in terms of societal restructuring, both from an economic as well as a social perspective. The aim was to redistribute equity in favour of the *Bumiputras*, thus eliminating the identification of economic function with ethnic groups.

Within the 20-year time frame of the NEP, the social landscape of most metropolitan centres, most especially in the capital Kuala Lumpur, has certainly changed. Today, an increasing number of affluent Malays are flourishing. The increase in the number of Malay business establishments is a reflection of the expanding purchasing power of the Malays. Malay students in institutions of higher learning increased and continue to do so¹⁵. By and large, the Malays have certainly benefited from the NEP affirmative action programmes, as they are performing better both socially and economically than they were prior to its inception.

To reiterate, the NEP aimed for a definitive reduction in the racial economic imbalances¹⁶ in terms of income, employment, and wealth. These were realised through changes in the economic system itself. Steps were taken to ensure that the Malays could actively participate in all sectors of the economy at all levels with the other races. The system of 'apartheid' constructed against them, openly or indirectly, by the colonial masters was torn down. The strategy was one of active participation and equal partnership rather than of disruptive distribution and hand-outs to the Malays; like everybody else

¹⁵ "Between 1969 and 1999, nine new universities were established. Another nine public universities have been set up, giving the country today, a total of 20 public universities to cater to a larger segment of the young for the country's development. Lim Teck Ghee, *Malaysian Universities and the NEP*, (Centre of Policy Initiative Asia website, 9 Oct 2009). Accessed at <<http://www.cpiasia.net/v3/index.php/141-cpi-writings/lim-teck-ghees-contribution/1747-malaysian-universities-and-the-nep>>

¹⁶ See EPU, Prime Minister's Department, *Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony*, (A case study from "Scaling Up Poverty Reduction: A Global Learning Process and Conference", Shanghai, 25-27 May 2004). Accessed at <<http://info.worldbank.org/etools/docs/reducingpoverty/case/25/fullcase/Malaysia%20Full%20Case.pdf>>

they would have to work and raise their productivity and thus ultimately gain a higher standard of living. However, the system would be designed such that it would help them to achieve parity.

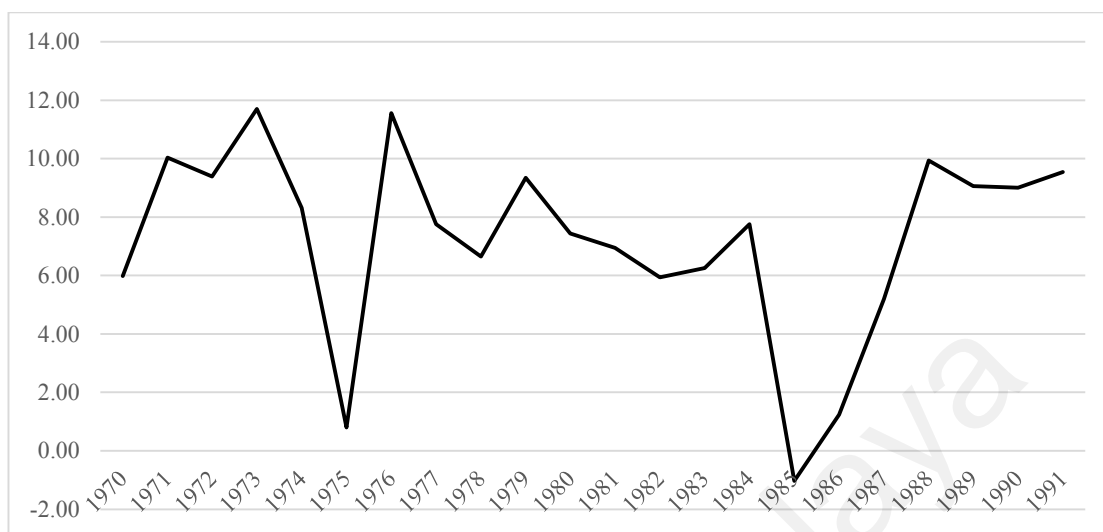
Policies were put into place to ensure that as the country developed, opportunities for the Malays to share in the creation of new wealth more equally than before were made available to them. To deal with the unequal levels of development in different regions, specific programs were developed to ensure that rural populations did not lose out while national development took place. Regional development programs were stepped up in order to grow under-developed states such as Kelantan, Terengganu, and Pahang, which were also predominantly Malay-inhabited. The number of integrated land schemes of the FELDA type were increased. Peasant agriculture such as *padi* farming and the like, underwent a series of reforms and reorganisation to enable farmers to increase the productivity and marketability of their products, so as to raise the income and welfare of the rural poor and the Malays. Such forms of rural development were crucial to societal restructuring, as at the time poor, rural folk was almost always synonymous with the Malays.

A target annual rate for GNP growth was set at 6.4% in real terms. This target was considered achievable concurrent with the firm implementation of the poverty and restructuring objectives. It would give an overall growth rate superior to the performance of the economy during the First Malaysia Plan for the late 1960s. Furthermore, such rapid growth was seen to be a necessary condition for the achievement of the overall targets. The need for high growth was self-evident., as it was a necessary pre-requisite for achieving the goal of poverty alleviation in tandem with redistribution of equity¹⁷.

¹⁷ See Saniman, Mohamed Rais, *The Role of the New Economic Policy (NEP) in building a united Malaysian Nation in diversity*, (published 11 Aug 2008). Accessed at <<http://bigdogdotcom.wordpress.com/2008/08/page/2/>>

Analysts found that it would be possible to have both fairly rapid growth and an improvement in equitable distribution across racial groups, but warned there would be a limit past which these two objectives could become competitive rather than complementary. The government exercised its discretion and the political leadership was seen as dependent on improvement in the state of economic balances between races. The pursuit of national unity through improvement in the state of ethnic economic balances overrode the growth objective in case of conflict. However, the Government successfully managed to navigate the delicate balance between growth and racial harmony, resulting in an average GDP growth rate of 7.22% between 1971 and 1991 after considering the economic downturns of 1975 and 1985.

Figure 8.2
Malaysia GDP Growth, 1970-1991



Source: World Bank¹⁸

Unlocking the potential for *Bumiputra* economic growth contributed heavily to the above-average growth figures during the NEP period. Development of large land banks, modernisation of the largely traditional agricultural economy and harnessing of *Bumiputra* capital through new economic development institutions such as Permodalan Nasional Berhad, Perbadanan Usahawan Nasional Berhad and Perbadanan Nasional Berhad led to an unprecedented increase in *Bumiputra* equity from 2.4 % in 1970 to about 20% in 1990¹⁹ under Malaysia's affirmative action policies to nurture the *Bumiputra* economy.

Entrepreneurial efforts of the *Bumiputras* were supported heavily by newly-created institutions such as Majlis Amanah Rakyat (MARA), creating a new generation of capitalist *Bumiputras* operating small and medium enterprises (SMEs) in a myriad of

¹⁸ World Bank Databank Accessible at <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=1991&locations=MY&start=1971>

¹⁹ United Nations Development Program, Malaysia Human Development Report (Published 2013) Accessible at <http://hdr.undp.org/en/content/malaysia-human-development-report-2013> p 38

industries. Supporting institutions such as Bank Bumiputra Berhad and Credit Guarantee Corporation offered access to capital for new entrepreneurs, creating an environment where the new *Bumiputra* industrialists would prosper.

The flexibility of the NEP had also allowed Malaysia to weather the global recession between 1985 – 1986, with Malaysia taking a stand to invite foreign direct investment to pursue an export-based economy and import substitution through a series of preferential policies favouring foreign investors especially in the manufacturing industries.

With a well-skilled *Bumiputra* capitalist class now within the Malaysian economy, the nation pursued privatisation of several strategic resources to redistribute wealth to the *Bumiputras*. Transfer of these resources to private entities within *Bumiputra* control contributed to the NEP's objective of increasing *Bumiputra* share equity in areas of infrastructure, telecommunication, transport and several other industries. These rapidly growing corporations absorbed much of Malaysia's new supply of technically-skilled graduates to manage the wide range of businesses now under private ownership.

Modernisation of the Malaysian economy through redistribution of wealth and wide-ranging privatisation had also brought about efficiency gains for the Government. Releasing strategic resources in key industries to private entities encouraged competition and attracted foreign investment into the Malaysian market, allowing for rapid industrialisation to meet growth demands of the economy which had grown tenfold from USD 4.224 billion in 1971 to USD 49.143 billion in 1991²⁰.

²⁰ World Bank databank, accessible at [\[https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=1991&locations=MY&start=1971\]](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=1991&locations=MY&start=1971)

On the flip side, critics have lambasted the NEP as an anti-Chinese discriminatory policy, robbing them of what they already owned. But evidence suggests that under the NEP, and subsequently the NDP, foreign capital, which once dominated the country's economy, has been replaced by Chinese capital. Jomo has observed that the Chinese ownership of share capital actually increased from 22.8% to 45.5% over the NEP implementation period, and it was the share held by foreign residents that was drastically reduced. Meanwhile, the Indian share has remained relatively stable, from 0.9 to 1.5%²¹, indicating that there remains much work to be done to empower the Indian community.

Some also argued that the NEP facilitated political confidence rather than a true economic uplifting for the Malays, evidenced by the failure to reach the economic targets. Following the disastrous events and results of the 1969 election, UMNO managed to reconstruct their credentials and legitimacy among the Malay communities through the NEP. Maznah rightly observed that the NEP was used as a means for UMNO to establish its political support base, chiefly by way of political patronage. The NEP became an excuse for many questionable transactions, thus leading to the slippery slope of 'money politics' that has since facilitated UMNO's stronghold over the Malay community²².

The re-distribution policies continue to cause some inter-ethnic resentments. However, there existed a long period of time where the tensions although simmering under the surface, did not rise to open violence between the races. In that sense, the NEP was successful in alleviating the racial tensions that led to its creation in the first place, by taking direct and radical action to correct the imbalances that existed in Malaysian society at the time. Furthermore, it cannot be denied that the NEP has, at least to some

²¹ K.S, Jomo, *The New Economic Policy and Interethnic Relations in Malaysia, Identities, Conflict and Cohesion Programme Paper* Number 7 September 2004.

²² *Ibid.*, pp 16-17.

extent, corrected the socioeconomic imbalances of 1969 in favour of the *Bumiputras*. Pre-NEP, it was observed that Malays held political power, while the Chinese held economic power. There is no doubt that Malaysian society has changed drastically in its structure, as economic power and political power have both been redistributed such that the Malays and Chinese have both had respective nett gains where they were lacking previously.

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8.5 FORGOTTEN CHILDREN OF THE NEP

The NEP has achieved a great deal in its time, having an undeniably lasting impact on the socioeconomic landscape of Malaysia. However, it is clear that there have been specific communities that have been side-lined by the NEP. Although poverty eradication had largely been effective among the disadvantaged ethnic communities namely the Malays and Indians²³, the NEP had failed to provide sufficient assistance to uplift many Indians out of the poverty cycle²⁴. A lack of similar preferential policies to favour the Indian community has resulted in them recording the lowest income growth of 6.76% during NEP implementation compared to 8.95% for the Malays and 7.26% for the Chinese respectively²⁵.

Efforts to increase Bumiputra equity had unfortunately shadowed the plight of the Indian community, which today are still minority participants in the Malaysian economy with a mere 3.1% of equity under Indian ownership.²⁶ Indian community participation in higher learning institutions has been lagging in comparison to other ethnic groups, leading to new measures to increase Indian enrolment in public universities such as allocation of seats in tertiary institutes.²⁷

Property ownership by the Indian community is alarming, with 34% of Indians stating a lack of property assets under their ownership²⁸. Despite this, the Indian community was not provided preferential treatment in comparison to the Malays which

²³ Willford, Andrew C. *Tamils and the haunting of justice: History and recognition in Malaysia's plantations*. NUS Press, 2015.

²⁴ Singh, Karmveer. "Challenges to the Rights of Malaysians of Indian Descent." (2015).

²⁵ United Nations Development Program, Malaysia Human Development Report (Published 2013) Accessible at [<http://hdr.undp.org/en/content/malaysia-human-development-report-2013>], p 34

²⁶ United Nations Development Program, Malaysia Human Development Report (Published 2013) Accessible at [<http://hdr.undp.org/en/content/malaysia-human-development-report-2013>] p 58

²⁷ Government Helps Indian Students Enrol in Higher Learning Institutions, (October 8 2017) Accessible at [<https://www.nst.com.my/news/nation/2017/10/288851/govt-helps-indian-students-enrol-higher-learning-institutions#>]

²⁸ Belle, Carl Vadivella. *Tragic Orphans: Indians in Malaysia*. Vol. 496. Institute of Southeast Asian Studies, 2014.

were protected with Malay Reserve Land under the Malay Reservation Enactment (FMS Cap 142)²⁹. Continued lack of consideration toward the economic status of the Indian community has led to the current crisis of Indian capital and asset ownership.

Another unsettling outcome of the NEP was the negligence towards the *Orang Asli* of Peninsular Malaysia, who remain excluded from Article 153's Constitutional Protection of indigenous special rights and continue to have their *Bumiputra* status shrouded in ambiguity³⁰. The *Orang Asli* continue to be make up a disproportionately high percentage of the poor and hardcore poor, with low educational attainment and low equity shares, not to mention challenges to the preservation of their traditions and culture. The NEP, in pursuing modernity and development for the Malays, had in many cases not only sidelined the *Orang Asli* but also actively discriminated against them, chiefly in the exploitation of customary *Orang Asli* land for the purpose of rural development schemes.³¹ To this date, their community continues to suffer in negligence, despite their strong claim to indigeneity on Malaysian soil. A recent call by SUHAKAM demanded that parliamentarians take notice of the historical injustices committed against the *Orang Asli*, rallying for greater awareness of their communities and protection of their land rights in particular³².

Malaysian Indians and the *Orang Asli* in particular, model the lowest strata of Malaysian society with regards to economic ownership. The *Orang Asli* of Peninsular Malaysia are not even recognised as *Bumiputra* under the Federal Constitution despite their irrefutable indigeneity. The Aboriginal People's Ordinance 1954 (revised in 1974),

²⁹Department of Director General of Lands and Mines [<https://www.jkptg.gov.my/en/content/malay-reserves-enactment>]

³⁰ Ibid.

³¹ Means, Gordon P., 1985. The orang asli: aboriginal policies in Malaysia. *Pacific Affairs*, pp.637-652.

³² "The new government should implement the UN Declaration on the Rights of Indigenous Peoples – SUHAKAM". The Malay Mail. 9th August 2018. Accessed at <https://www.malaymail.com/s/1660801/the-new-government-should-implement-the-un-declaration-on-the-rights-of-ind>

otherwise known as Act 134, “*effectively sets up the Orang Asli as wards of the state, which thus limits their rights as full citizens of Malaysia*”³³. It is therefore clear that in reviewing the NEP, relevant bodies must take the historic oppression of the Malaysian Indian and *Orang Asli* communities into careful consideration, just as they had considered the historical context of Malay subjugation before them. In consideration of Tunku Abdul Rahman’s assertions that Article 153 should be periodically reviewed and amended as necessary³⁴, the political leadership of this country may eventually see this review as a responsibility owed towards the *Orang Asli* community.

³³ Idrus, Rusaslina, *The Discourse of Protection and the Orang Asli in Malaysia*, (*Kajian Malaysia*, vol 29, sup 1, 2011), p 54.

³⁴ *Ibid*, Chapter 7.

8.6 REVISITING THE NEP AND FUTURE DIRECTIONS

Malaysia has been a success story and an exemplary model for many third-world countries. Quoting from Joseph Stiglitz's comments on Malaysia in his "The Malaysian Miracle" article, where he summarises Malaysia's miraculous transformation from being one of the poorest nations in the world to its now respectable position on the global economic stage³⁵. He also states the nation's exemplary performance in poverty eradication and traces the success of the Malaysian economy to a "strong job creation". Throughout the 50 years of independence, Malaysia had successfully created 7.24 million jobs, equal to a 261% increase in the labour market.

Consistent with the pursuit of national unity and economic growth, Malaysia has introduced and developed a set of policies characteristic to the NEP. These economic policies have raised much controversy and debate. Their further elaboration and implementation require determined political will, informed through analysis and debate. The implementation of the NEP was closely monitored so that the public could judge for itself whether the country had achieved its goals. It has to be accepted that comparative unity will take time to accomplish and would not be attainable within just a few years. In the last 30 over years, it has to be noted that some progress has been made in reducing racial discourse and the foundations are now in place for further growth and progress.

Policy makers today can draw on the NEP experience, including the effectiveness and otherwise of the various discriminatory provisions as formulated and actually practiced. It is not only a question of a balanced assessment of real costs and benefits, but also of perceptions as felt by individuals directly concerned, as expressed by intellectuals

³⁵ Stiglitz, Joseph E., *View: The Malaysian Miracle, Daily Times*, (14 Sep 2007). Accessed at <<http://archives.dailytimes.com.pk/editorial/14-Sep-2007/view-the-malaysian-miracle-joseph-e-stiglitz>>

and opinion markers, and as variously interpreted within the political and administrative system. What emerges from the analysis therefore is not a blueprint for the future, but only a commentary on choices to be made. So far, the NEP and Malaysia's distinctive, ethnicity-based political system have worked, that is they have served to appease Malay nationalism and promote *Bumiputra* mobility at all levels without undermining the economy.

The country has enjoyed an extended boom only briefly interrupted by the short recession of the mid 1980s and 1990s. Malaysia should be proud that it led the way for the world to follow – on how to contain, perhaps overcome, serious national ethnic economic problems while retaining the human rights of its ethnically diverse society. Its experience can provide a model for other countries that may need similar NEP-type policies of growth with equity but adapted to local conditions. Barring any extended recession, chronic stagnation or any other state intervention, Malaysia has set her sights on achieving a Developed Country Status by 2020.

A continuing contradiction in Malaysia is between the objective of a capitalist economy dominated by a modern progressive private sector, and that of *Bumiputra* domination of the economy, the political system, social and cultural values. The former objective may require liberal secular policies, relaxation of controls over the private sector, and progressive privatisation of state-managed sectors of the economy. The latter objective may require the extension of *Bumiputra* preferences, a tighter grip on the private sector, and expansion of the state sector. The government desires more private investment and envisages an aggressive private sector spearheading export-led growth. Foreign capital is desired to stimulate and sustain the economy. *Bumiputra* capital, given the opportunity, can be as productive as Chinese and Indian capital.

As mentioned previously, it is time for an overhaul of NEP-related policies and their implementation in Malaysian society. In 1969, most Malays were poor, and most of the poor were Malays. This is no longer true, and so policies must change to reflect the needs of today's society. For example, discounts for *Bumiputra* housing above a certain price range should be abolished. Except for government-subsidised, low-cost housing for the poor, sales should be based on those who can afford to pay. Special privileges should not be extended to wealthy Malays. Empowering the Malays can be concentrated on poor Malays. The government's procurement policy should also be revamped to allow greater competition. To assist *Bumiputras*, 30% of government contracts should be reserved for them to compete in open tender among themselves.

While there has been some success in societal restructuring, there are still notable racial preferences in employment, with a majority of Chinese working in private businesses, and Malays in the government sector. The government should therefore encourage more non-Malays to join the civil service, while Malays should be encouraged to join the private sector. In the past, the non-Malays were reluctant to work for the government as the salaries were considered too low. The civil service although 1 million strong, is nothing compared to the private sector which employs about 11 million. The *Bumiputras* must be allowed to join the ranks of private sector to show there is no discrimination and economic function was not based on race, and vice versa.

On the evidence presented in this thesis, it can be surmised that the NEP was useful and successful in contributing to the country's political stability, which brought about peace and economic growth benefitting all Malaysians. It saved the nation at its most

critical stage after the May 13 racial riots. Its legacy has and continues to affect every Malaysian in one way or another. In other words, the NEP has stood the test of time.

Nevertheless, there is a clear need for an open and thorough review of its components, if not its thrust, in the light of the relatively rich experience we now have at hand and the changing opportunities and constraints foreseen for the coming years. Despite its imperfections, the NEP as a whole with its specifics of policy, be it equitable growth policy, growth with equity policy, broad based growth policy or pro-poor policy – is now a standard policy prescription by the United Nations and its agencies, including in the European Union itself.³⁶ This ‘role model’ status of Malaysia is something all Malaysians should be proud of. Armed with the correct policies and direction, it has been able to construct and maintain a vibrant, multi-racial, multi-religious, multi-lingual, multi-cultural society among its population of today.

³⁶ Saniman, Mohamed Rais, *Letter re. EU Ambassador’s Criticism of the NEP*, 25 Jun 2007, (*New Straits Times*, 28 Jun 2007).

8.7 CONCLUSION

The original aim of this thesis was to address two main questions, first of which was to evaluate the role of the Alliance government, and later National Front (Barisan Nasional) in introducing, implementing, and modifying the NEP. The NEP has been widely criticised, but many fail to acknowledge the context under which it was created, and the historical backdrop of why such drastic measures were necessary. One of the unique strengths of this thesis is the way it specifically addresses the historical basis for many of the decisions made by the Alliance government in introducing, implementing, and modifying some of the features and directions of the NEP.

While the events of May 13 might have acted as the catalyst for the inception of the NEP, this thesis elaborated on the prior ethnic tensions that had existed from pre-colonial times, and the external powers that further exacerbated these tensions. It also provided a historical backdrop for the extreme inter-ethnic inequality that went unchecked as a result of the administrative mismanagement by both local and colonial governments. Furthermore, it demonstrates the wisdom and bravery of the NOC under the leadership of Tun Razak, who was revolutionary in his approach to handling the pressures of rebuilding national unity. Malaysia as a developing nation may have been lacking in experience and resources, marred by civil unrest and the vestiges of a colonial mindset, but Tun Razak displayed great foresight by recruiting economic experts and a multi-ethnic board to deliberate on the policies that would then make up the NEP. His controversial state-interventionist approach also proved to be exactly what Malaya needed at the time, re-establishing economic and political stability within a remarkably short period.

Secondly, the paper evaluated to what extent the NEP was successful during the implementation period between 1970 and 1990. To recap the conclusions of this chapter, the NEP achieved major successes in the reduction of poverty, with the near complete eradication of hardcore poverty and the creation of a Malay middle class. Furthermore, significant progress in the redistribution of equity was achieved, with a major reduction in foreign equity shares. Education and employment prospects were also improved for Malaysian society as a whole, indicative of the nation's progress as a developing nation. Due to some "incomplete" goals, the NEP lives on in the NDP and NVP, continues to influence public policy and parliamentary debates to this day. Regardless of one's opinion on the effectiveness of the NEP, it must be admitted that it is one of the most influential pieces of legislation in Malaysia.

Admittedly, the scope of this study is limited, and there is much more that the research community stands to learn from the NEP. As a means of self-reflection, the author would suggest a few specific areas that would be scope for future research to complement the currently existing literature on the NEP. Firstly, it should be noted that much of the existing literature focuses on the impact of the NEP on the Malay and Chinese communities. It would be of particular interest to investigate the NEP's specific effects on other communities (i.e. the *Orang Asli* of Peninsular Malaysia, *Bumiputra* of Sabah and Sarawak, the Indian community) and how to address any inequality that still exists amongst these groups. Furthermore, it would be important to identify key areas in which today's Malaysian society differs from the Malaya of 1969, as these key differences will play a major role in how public policy should be formed to ensure that Malaysia continues to make positive progress in terms of economic growth and national unity.

In carrying out the research for this paper, it was noted that there is also a distinct lack of primary research and key statistics that would help stakeholders understand how the NEP specifically affected the intra-ethnic poverty gap. This research would be important as it would appear to be one of the greatest problems faced by Malaysia today, and the reduction of the intra-ethnic poverty and income gap is a key issue that the government should aim to address as such forms of inequality will continue to sustain poverty and further polarise society into divisions of rich and poor. The NEP was successful in reducing the disparity of poverty rates between ethnic groups, so it stands to reason that it may be adapted and evolved to serve the purpose of eradicating the intra-ethnic poverty gap in the near future.

Another point of interest would be to run direct comparison with other countries that have a historically marginalised majority groups. Malaysia is one of few in this category, and despite its imperfections, is a success story in that it successfully re-established socio-political stability. One particular nation that would serve for a good case comparison would be South Africa³⁷, where the indigenous African groups have been historically marginalised under Apartheid, and where drastic redistribution policies will be necessary to return equity into the right hands.

In conclusion, the NEP has served its purpose, in spite of some setbacks along the way and certain parties who chose to abuse the policies that were meant to help all citizens of Malaysia, regardless of race. Much of the dissatisfaction with the NEP stems from the fact that despite achieving many of its goals, many of its policies still have influence today, even when Malaysian society has come such a long way from the political turmoil of 1969.

³⁷ Hart, Gillian. "The New Economic Policy and Redistribution in Malaysia: A Model for Post-Apartheid South Africa?" *Transformation* 23 (1994).

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