

The New Economic Policy and Interethnic Relations in Malaysia

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Acronyms

ASB	Amanah Saham Bumiputera (<i>Bumiputera Unit Trust</i>)
ASN	Amanah Saham Nasional (<i>National Unit Trust</i>)
BCIC	Bumiputera Commercial and Industrial Community
BN	Barisan Nasional (<i>National Front</i>)
BPMB	Bank Pembangunan Malaysia Berhad (<i>Development Bank of Malaysia</i>)
CICU	Central Information Collection Unit
CPI	consumer price index
FIMA	Food Industries of Malaysia
FDI	foreign direct investment
ICA	Industrial Coordination Act, 1975
IPO	initial public offer
KKMB	Kompleks Kewangan Malaysia Berhad (<i>Malaysian Finance Complex Limited</i>)
KLSE	Kuala Lumpur Stock Exchange
LCC	locally controlled companies
LUTH	Lembaga Urusan dan Tabung Haji (<i>Muslim Pilgrim Saving and Management Authority</i>)
MARA	Majlis Amanah Rakyat (<i>Council of Trust for Indigenous People</i>)
MCA	Malaysian Chinese Association
NDP	National Development Policy
NEP	New Economic Policy
NVP	National Vision Policy
OPP	Outline Perspective Plan
PERNAS	PERNAS International Holdings Berhad
PLI	poverty line income
PNB	Permodalan Nasional Berhad (<i>National Equity Corporation</i>)
PPK	Parti Perhimpunan Kebangsaan (<i>National Convention Party</i>)
RM	Malaysian ringgit
SEDCs	state economic development corporations
SUPP	Sarawak United People's Party
UDA	Urban Development Authority
UMNO	United Malays National Organisation

Glossary

Bumiputera	Indigenous Malaysians
Konfrontasi	Confrontation
Partai Rakyat Malaya	Peoples Party of Malaya

Summary/Résumé/Resumen

Summary

Malaysia's New Economic Policy (NEP) was first announced in 1970 as the principal policy response to the post-election race riots of May 1969, which also resulted in a significant regime change. This paper suggests that the events of May 1969 also involved a widespread popular rejection of the ruling Alliance coalition as well as a "palace coup" within the ruling United Malays National Organisation (UMNO) as the "Young Turks" supporting then-Deputy Prime Minister Tun Abdul Razak sidelined Prime Minister Tunku Abdul Rahman, who had led the UMNO from 1951 and the country to independence in August 1957. The Rahman regime was seen by the new Razak regime as having been too conciliatory toward the ubiquitous Chinese business community. The Razak NEP regime, through the NEP, was therefore committed to increased ethnic affirmative action, or positive discrimination policies, on behalf of the ethnic Malays in particular and *bumiputera* (indigenous Malaysians) in general.

The NEP had two prongs, namely "poverty eradication regardless of race" and "restructuring society to eliminate the identification of race with economic function". The NEP was supposed to create the conditions for national unity by reducing interethnic resentment due to socioeconomic disparities. In practice, the NEP policies were seen as pro-*bumiputera*, or more specifically, pro-Malay, the largest indigenous ethnic community. Poverty reduction efforts have been seen as primarily rural and Malay, with policies principally oriented to rural Malay peasants. As poverty reduction efforts had been uncontroversial and had declined in significance over time, the NEP came to be increasingly identified with efforts at "restructuring society" efforts to reduce interethnic disparities, especially between ethnic Malay and ethnic Chinese Malaysians.

The NEP has been associated with the *First Outline Perspective Plan [OPP] for 1971–1990*. The OPP sought to reduce poverty from 49 per cent in Peninsular Malaysia in 1970 to 16 per cent in 1990. The actual poverty rate in the peninsula in 1990 was 17 per cent, while the national rate was slightly higher. The NEP's main restructuring target was to raise the *bumiputera* share of corporate stock ownership from 1.5 per cent in 1969 to 30 per cent in 1990. The government's data suggest that *bumiputera* ownership rose to about 18 per cent in 1990 and slightly over 20 per cent in 2000. Although the government originally envisaged that much of the *bumiputera* corporate wealth would be held by trust agencies, private individual *bumiputera* ownership has risen from less than a third to over 90 per cent. Much of the measurement of NEP achievement has been subject to dispute. This has been exacerbated by the lack of transparency on socioeconomic data deemed sensitive.

The NEP has since ostensibly been replaced by the National Development Policy associated with the *Second Outline Perspective Plan for 1991–2000*, and then by the National Vision Policy linked to the *Third Outline Perspective Plan for 2001–2010*. Although the new policies have put far greater emphasis on achieving rapid growth, industrialization and structural change, there is the widespread perception that public policy is still dominated by the NEP's interethnic economic policies, especially wealth redistribution or "restructuring" targets.

These policies are believed to be especially important in terms of influencing public policies affecting corporate wealth ownership as well as other areas, notably education and employment opportunities. In other words, ethnic discrimination primarily involves the business community and the middle class, where interethnic tension is most acute. Interethnic business coalitions have become increasingly important over time, often with an ethnic Malay partner securing rents for gaining access to government-determined business opportunities, and the ethnic Chinese partner with access to capital and business acumen getting the job done. Such joint ventures have generated considerable resentment, especially among those denied access to such business opportunities.

With privatization opportunities from the mid-1980s largely decided on a discretionary basis by the government leadership, there has been growing resentment and criticism of rent-seeking and cronyism. Such disbursement of privatization opportunities also strengthened the leadership's means for patronage, in turn encouraging competition for party and government political office and upward mobility. The selective nature of the bail-out processes and procedures following the 1997-1998 currency, financial and economic crises have strengthened, rather than undermined, these tendencies.

While there is little doubt that specific socioeconomic targets of the NEP have been largely achieved, later rather than sooner, it is not clear that such achievement has led to national unity, understood in terms of improved interethnic relations. Associating improved interethnic relations almost exclusively with reduced interethnic disparities among the respective business communities and middle classes has in fact generated greater ethnic resentment and suspicion on both sides. Ethnic affirmative action policies as implemented and enforced in Malaysia have associated the interests of entire ethnic groups with their respective elites, thus generalizing resentments associated with interethnic, intra-class competition. Thus, it is unlikely that the ethnic affirmative action policies will achieve the end of improved interethnic relations. An alternative approach needs to be found to create more lasting conditions for improved interethnic relations.

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Résumé

En Malaisie, la Nouvelle politique économique (NPE), annoncée pour la première fois en 1970, était principalement une riposte politique aux émeutes raciales postélectorales de mai 1969, qui ont aussi entraîné un important changement de régime. L'auteur voit dans les événements de mai 1969 un vaste rejet populaire de l'Alliance au pouvoir, l'UMNO, ainsi qu'une "révolte de palais" au sein de celle-ci, lorsque les "jeunes Turcs", qui soutenaient Tun Abdul Razak, alors Vice-Premier Ministre, ont mis sur la touche le Premier Ministre Tunku Abdul Rahman, qui était à la tête de l'UMNO depuis 1951 et avait conduit son pays à l'indépendance en août 1957. Le nouveau régime considérait que le gouvernement Rahman avait été trop conciliant envers les milieux économiques chinois, omniprésents en Malaisie. Avec sa NPE, il était donc résolu à renforcer la lutte contre la discrimination ethnique pour redresser la situation en faveur des Malais de souche en particulier et des autochtones, dits *bumiputera*, en général.

La NPE avait un double objectif, soit "l'éradication de la pauvreté sans distinction de race" et "restructurer la société pour abolir l'identification de la race à une fonction économique". Elle était censée créer les conditions de l'unité nationale en atténuant la rancœur interethnique due aux disparités socio-économiques. En pratique, les mesures relevant de la NPE ont été perçues comme favorisant les *bumiputera*, ou plus spécifiquement les Malais, soit la plus grande communauté ethnique autochtone. L'action menée pour réduire la pauvreté est apparue comme dirigée essentiellement vers le monde rural et malais, les mesures prises visant essentiellement les paysans malais. Comme cette action n'avait pas été contestée et a perdu de son importance avec le temps, la NPE a été progressivement assimilée aux efforts de "restructuration de la société", destinés à réduire les disparités interethniques, en particulier entre les Malais de souche et les Malaisiens de souche chinoise.

La NPE a été associée au premier *Plan prospectif général* [Outline Perspective Plan – OPP] pour la période 1971-1990. Ce plan visait à ramener la pauvreté de 49 pour cent dans la péninsule malaise en 1970 à 16 pour cent en 1990. En 1990, le taux de pauvreté effectif dans la péninsule était de 17 pour cent, tandis que le taux national était légèrement supérieur. Le principal objectif de restructuration de la NPE était de porter la part des actions d'entreprises aux mains des *bumiputera* de 1,5 pour cent en 1969 à 30 pour cent en 1990. Les statistiques gouvernementales

laissent à penser que la part que possèdent les *bumiputera* a atteint environ 18 pour cent en 1990 et dépassait légèrement les 20 pour cent en 2000. Bien qu'initialement le gouvernement ait prévu que les biens sociaux des *bumiputera* seraient détenus dans une large mesure par des sociétés de gestion, la propriété privée individuelle chez les *bumiputera* a progressé, passant de moins du tiers à plus de 90 pour cent. La quantification des résultats obtenus grâce à la NPE a donné lieu à de nombreuses querelles, qui ont été exacerbées par le manque de transparence des données socio-économiques jugées sensibles.

Depuis lors, la NPE a été ostensiblement remplacée par la Politique nationale de développement associée au *Deuxième plan prospectif général 1991–2000*, puis par la Politique de vision nationale, rattachée au *Troisième plan prospectif général 2001–2010*. Bien que les nouvelles politiques accordent beaucoup plus d'importance à une croissance rapide, à l'industrialisation et à l'aménagement des structures, la majorité de la population continue à penser que les orientations économiques interethniques de la NPE, en particulier les objectifs de redistribution des richesses ou de "restructuration sociale" continuent à dominer la politique publique.

Si ces orientations sont jugées importantes, c'est essentiellement parce qu'elles influeraient sur les politiques publiques touchant à la propriété des biens sociaux et à d'autres domaines, notamment l'éducation et l'emploi. Autrement dit, la discrimination ethnique est essentiellement le fait des milieux des affaires et de la classe moyenne, où la tension interethnique est la plus forte. Les associations économiques interethniques ont pris une importance croissante avec le temps; elles réunissent souvent un associé de souche malaise qui prend en charge le loyer pour bénéficier des possibilités économiques offertes par le gouvernement et un associé de souche chinoise qui a assez de capitaux et de sens des affaires pour faire marcher l'entreprise. Ces associations ont suscité une rancœur considérable, en particulier chez ceux qui se voyaient refuser ces chances de progrès économique.

L'équipe gouvernementale décidant dans une large mesure et de manière discrétionnaire des modalités de la privatisation depuis 1985 environ, le copinage et la recherche du profit sont de plus en plus montrés du doigt et suscitent un ressentiment grandissant. Ces rachats ont aussi renforcé les moyens dont disposent les dirigeants pour se faire une clientèle, ce qui a à son tour favorisé la course aux fonctions politiques au sein du gouvernement et dans les partis et la mobilité dans le sens de l'ascension sociale. Au lieu d'atténuer ces tendances, les méthodes sélectives appliquées dans le sauvetage des entreprises après la crise monétaire, financière et économique des années 1997–1998, les ont aggravées.

S'il n'est guère contestable que les objectifs socio-économiques de la NPE ont été largement atteints, plutôt tard que tôt d'ailleurs, il n'est pas certain que l'unité nationale en ait été renforcée, si l'on entend par là une amélioration des relations interethniques. En se bornant pratiquement, pour améliorer ces relations, à réduire les inégalités entre les milieux d'affaires et classes moyennes des diverses ethnies, on a en fait nourri la rancœur et la méfiance des deux côtés. Les politiques ethniques d'action corrective telles qu'elles ont été appliquées en Malaisie ont assimilé les intérêts de communautés ethniques entières à ceux de leurs élites respectives, ce qui a généralisé le ressentiment qui va de pair avec la concurrence entre les ethnies ou à l'intérieur d'une même classe. Il est donc peu probable que les politiques ethniques d'action corrective atteignent leur but et améliorent les relations interethniques. Il faudra trouver un autre moyen pour créer des conditions qui permettent d'améliorer durablement ces relations.

Au moment où il rédigeait cette étude, Jomo K.S. était professeur au département d'économie appliquée de l'Université de Malaya, Kuala Lumpur, Malaisie.

Resumen

La Nueva Política Económica (NEP) de Malasia fue dada a conocer por primera vez en 1970 como la principal respuesta política a los disturbios raciales postelectorales que tuvieron lugar

en mayo de 1969 y que también condujeron a un cambio de régimen importante. En este documento se indica que los eventos de mayo de 1969 también supusieron el rechazo popular general a la coalición de la Alianza, la agrupación política dominante, al igual que un “golpe de Estado” al interior de la Organización Nacional para la Unidad Malasia (UMNO por sus siglas en inglés), el partido en el poder; ya que los “Jóvenes Turcos” que apoyaban al entonces Viceprimer Ministro Tun Abdul Razak rechazaron al Primer Ministro Tunku Abdul Rahman, dirigente de la UMNO desde 1951 y que había llevado al país a su independencia en agosto de 1957. El nuevo régimen de Razak estimó que el régimen de Rahman había sido excesivamente conciliador con los ubicuos círculos comerciales chinos. Por consiguiente, el nuevo régimen de la NEP de Razak se comprometió a fomentar la acción afirmativa étnica, o las políticas de discriminación positiva, en nombre de los malasios étnicos en particular y de los indígenas *bumiputera* en general.

La NEP tenía dos enfoques: “la erradicación de la pobreza con independencia de la raza” y la “reestructuración de la sociedad para eliminar la identificación de la raza con la función económica”. En teoría, la NEP debía crear las condiciones para la unidad nacional, al reducir el resentimiento interétnico debido a disparidades socioeconómicas. En la práctica, las políticas de la NEP se percibieron como pro-*bumiputera*, o más específicamente como pro-malasios, haciendo referencia a la comunidad étnica indígena más grande. Los esfuerzos desplegados para reducir la pobreza fueron considerados esencialmente rurales y malasios, con políticas fundamentalmente orientadas a los campesinos malasios. Dado que estos esfuerzos no habían sido polémicos y habían perdido importancia con el tiempo, la NEP se identificó cada vez más con iniciativas encaminadas a la “reestructuración de la sociedad” para reducir las disparidades interétnicas, especialmente entre malasios étnicos y chino-malasios étnicos.

La NEP se ha asociado con el primer *Plan General de Perspectivas* [Outline Perspective Plan—OPP] para 1971–1990. El OPP pretendía reducir la pobreza en Malasia Peninsular del 49 por ciento en 1970 al 16 por ciento en 1990. En 1990, la tasa real de pobreza en la península se estimó en el 17 por ciento, mientras que la tasa nacional fue ligeramente superior. El principal objetivo de reestructuración de la NEP era aumentar el porcentaje de los accionistas *bumiputera* del 1.5 por ciento en 1969 al 30 por ciento en 1990. Según los datos del gobierno, éste ascendió al 18 por ciento en 1990 y a algo más del 20 por ciento en 2000. Aunque el gobierno preveía inicialmente que gran parte del capital en acciones de los *bumiputera* estaría en manos de compañías fiduciarias, el porcentaje de accionistas *bumiputera* individuales ha aumentado de menos de un tercio a más del 90 por ciento. La evaluación realizada de los logros obtenidos por la NEP ha sido motivo de gran polémica, exacerbada por la falta de transparencia sobre los datos económicos considerados confidenciales.

Desde entonces la NEP parece haber sido reemplazado por la Política de Desarrollo Nacional asociada con el *Segundo Plan General de Perspectivas para 1991–2000*, y luego con la Política de Visión Nacional vinculada con el *Tercer Plan General de Perspectivas para 2001–2010*. Aunque las nuevas políticas han puesto mucho más énfasis en lograr el crecimiento rápido, la industrialización y el cambio estructural; en general se percibe que la política pública sigue estando dominada por las políticas económicas interétnicas de la NEP, concretamente la redistribución de la riqueza o los objetivos “de reestructuración”.

Estas políticas se consideran especialmente importantes en términos de políticas públicas influyentes que afectan la propiedad del patrimonio corporativo, así como otras áreas, en particular las oportunidades de educación y empleo. En otras palabras, la discriminación étnica abarca fundamentalmente los círculos comerciales y la clase media, donde la tensión interétnica es mayor. Las coaliciones de empresas interétnicas han adquirido una creciente importancia con el tiempo; en muchos casos cuentan con un socio malasio étnico que consigue el crédito para poder acceder a oportunidades comerciales determinadas por el gobierno, y con un socio chino étnico que tiene acceso al capital y suficiente perspicacia en los negocios para llevar la tarea a buen término. Tales empresas conjuntas han generado un resentimiento considerable,

particularmente entre aquellos a quienes se les ha negado el acceso a tales oportunidades comerciales.

La captación de rentas y el favoritismo dieron lugar a críticas y resentimiento, debido al hecho de que las autoridades gubernamentales, desde mediados del decenio de 1980, decidían sobre las oportunidades de privatización de manera discrecional. Tal manejo de distribución de las oportunidades de privatización también aumentó los recursos de las autoridades para el patrocinio, lo que a su vez fomentaba la competencia para los cargos políticos y dentro del partido, al igual que la movilidad ascendente. La naturaleza selectiva del proceso y de los procedimientos que acompañan las licitaciones, sumados a la crisis monetaria, financiera y económica de 1997-1998 contribuyeron más bien a fortalecer que a debilitar esas tendencias.

Si bien no cabe duda de que la mayoría de los objetivos socioeconómicos específicos de la NEP se han alcanzado, más bien tarde que temprano, no está claro que este logro haya propiciado la unidad nacional, entendida en términos de unas mejores relaciones interétnicas. Asociar casi exclusivamente unas mejores relaciones interétnicas con la reducción de las disparidades interétnicas entre los respectivos círculos comerciales y las clases medias ha generado de hecho más resentimiento étnico en ambas partes. Las políticas de acción afirmativa étnica tal como se han llevado a cabo en Malasia, han asociado los intereses de grupos étnicos enteros con sus respectivas elites; por lo que se ha generalizado el resentimiento asociado con la competencia interétnica y dentro de las clases sociales. Así pues, es poco probable que las políticas de acción positiva étnica logren mejorar plenamente las relaciones interétnicas. Es preciso hallar una estrategia alternativa para crear condiciones más duraderas que mejoren las relaciones interétnicas.

En el momento de escribir este texto, Jomo K.S. era Profesor en el Departamento de Economía Aplicada en la Universidad de Malaya, Kuala Lumpur, Malasia.

Introduction¹

Malaysia's New Economic Policy (NEP) was announced in 1970 as part of a package of measures introduced after the political crises of May 1969. It sought to "eradicate poverty" and to "restructure society to eliminate the identification of race with economic function" in order to create the conditions for national unity. Since then, poverty in Malaysia has decreased tremendously, as it has in neighbouring Thailand and Indonesia, which did not have comparable commitments to poverty reduction, but also experienced rapid economic growth and structural transformation. Not surprisingly, the NEP has been principally associated with "restructuring", that is, efforts to reduce interethnic economic disparities between the *bumiputera* (indigenous ethnic Malaysians) and the non-*bumiputera*, and especially between ethnic Malays and Chinese. Hence, "restructuring" has come to be associated with "positive discrimination" or "affirmative action" on behalf of the mainly Malay *bumiputeras*. Such state interventions have resulted in significantly greater *bumiputera* wealth ownership, business participation, educational opportunities and public sector employment and promotion, as well as representation among professionals and managers/administrators.

However, these measures have also resulted in greater resentment by those who feel deprived by such policies, resulting at various times in emigration, capital flight and ethnic mobilization. Resentment is arguably greatest among the middle classes, where ethnic rivalry is perceived to be greatest. Hence, while it is doubtful that the NEP has created the conditions for national unity, it has probably mitigated *bumiputera* resentment of non-*bumiputera* domination of business and the professions. Rapid economic growth over the last three decades, some economic and educational liberalization since the mid-1980s, as well as greater recognition of external challenges, have also served to mitigate interethnic resentment. Thus, it is useful to initiate a careful analysis of the Malaysian experience with a brief review of the background to the NEP.

Background

Malaya achieved independence in 1957 and formed Malaysia, including the Borneo states of Sabah and Sarawak in 1963. (Singapore joined in 1963, but seceded in 1965.) About half of the population of the peninsula at that time comprised ethnic Malays, with almost 40 per cent Chinese and 10 per cent Indians. In Sabah and Sarawak, there were almost no Indians, and over one-third of the population was Chinese. Of the indigenous *bumiputera* population, Muslims and non-Muslims were almost evenly balanced in Sabah, while less than a quarter of the population of Sarawak was Muslim.

During the 1960s, economic development not only maintained, but apparently even increased, income inequalities, including the income gaps within each major ethnic group in Peninsular Malaysia. Income distribution in Peninsular Malaysia apparently worsened between 1957 and 1970, with the rich becoming richer and the poor becoming poorer in all ethnic groups, especially among the Malays. While most Indians and many Chinese comprised the bulk of the working class, the vast majority of smallholder farmers in the peninsula were Malays. In Sabah and Sarawak, there were fewer wage earners and more working the land.

The ruling Alliance coalition in the 1960s was essentially a coalition of mainly ethnic-based parties led by the United Malays National Organization (UMNO). After the virtual elimination of the legal Left in the mid- and late 1960s,² essentially racist³ political

¹ At the time of writing, Mahathir Mohamad was still Prime Minister of Malaysia.

² The incumbent government used the legal Left's opposition to the formation of Malaysia in September 1963 and the subsequent *Konfrontasi* (confrontation) by Indonesia to arrest and detain—indefinitely without trial—almost all leaders of opposition political parties and thousands of activists associated with the Socialist Front, including the Labour Party of Malaya, the Partai Rakyat Malaya (People's Party of Malaya) and the Parti Perhimpunan Kebangsaan (PPK, or National Convention Party), as well as the Sarawak United People's Party (SUPP).

ideologies faced little competition. Consequently, the deteriorating socioeconomic and political situation in the 1960s came to be seen and interpreted primarily in ethnic terms. Many ethnic Malays believed ethnic Chinese economic hegemony to be responsible for Malay economic underdevelopment, though in the late 1960s, the commanding heights of the Malaysian economy were still primarily dominated by foreign (mainly British) investors. On the other hand, many non-Malays believed the UMNO-led Malay-dominated Alliance government to be responsible for official government discrimination against them. Most businessmen were ethnic Chinese and most government officials were Malays. Hence, Chinese capitalists, together with the Malay administrative-political elite, enjoyed most of the fruits of rapid economic growth in the 1960s.

In the third federal elections held after independence in May 1969, the ruling Alliance coalition retained a reduced parliamentary majority despite securing less than half the popular vote with the help of gerrymandered constituency delineations. In the May 1969 election, half of the Malays and the majority of non-Malays voted against the Alliance government. Though undoubtedly manipulated by certain politicians, the post-election race riots were easily triggered in the federal capital of Kuala Lumpur. As noted above, tensions had already been brewing before the elections due to ethnically perceived frustrations reflecting underlying class relations. After the elections, race riots broke out, apparently due to culturally offensive behaviour by jubilant opposition party supporters as well as armed mobilization by youthful supporters of an incumbent chief minister who had not secured a majority in his state legislative assembly.

After the 1969 election results and the subsequent riots, the prime minister, Tunku Abdul Rahman, was gradually eased out by his deputy, Abdul Razak. Razak, the deputy leader of the ruling party and coalition, is believed to have staged a “palace coup”—with the greater military-police role in response to the race riots—to take over political leadership with the support of party critics of Tunku, the incumbent party leader and prime minister. Thus, the replacement of the old UMNO leadership also reflected the ascendance of the so-called Young Turks within UMNO, who had challenged Tunku’s leadership since the late 1960s. After the traumatic events of May 1969, UMNO dominance of the ruling coalition became more pronounced as it co-opted most opposition parties, which were also largely based on ethnicity, although they mobilized less explicitly along ethnic lines, unlike the parties in the ruling coalition. It is generally agreed that Malaysian economic policy making changed rather drastically in the aftermath of the race riots and the UMNO palace coup associated with 13 May 1969.

While government policy before the NEP was generally considered to be basically laissez-faire in approach, and responsive to, as well as supportive of, both foreign and domestic (predominantly Chinese) private sector interests, the 1970s were characterized by growing state intervention, primarily in favour of the emerging Malay elite. While such intervention generally did not threaten property rights per se, particular business interests—usually Chinese or foreign—felt threatened at various times. Seen against this background, the economic policies of Malaysia’s fourth prime minister, Dr. Mahathir Mohamad, in the 1980s, suggest efforts to retreat from the excesses of 1970s-type state interventionism, for example through privatization, as in the creation of the concept of “Malaysia Incorporated”,⁴ deregulation and “flexibility in NEP implementation”.

³ From the late 1940s, the British encouraged political mobilization along ethnic lines. The leaders of these parties came together in the early 1950s to form the multiethnic Alliance Coalition, which won the first-ever 1955 federal elections. This coalition has continued to rule the country ever since. In the mid-1970s, it changed its name to the Barisan Nasional (National Front) as it expanded significantly to include some previous opposition parties after the traumatic post-election race riots of May 1969.

In popular discourse, ethnic groups are referred to as racial groups, and such parties are seen as racial parties. Insofar as they seek to mobilize all of those belonging to a particular ethnic group, they have been referred to as racialist. Racialism is thus the common term used to refer to ethno-populism in Malaysia, that is, cross-class mobilization of particular ethnic groups. Some early political scientists have introduced the term “communalism”—used in India to refer to religious populism—as a surrogate for racialism.

⁴ Although originally modified from the term “Japan Incorporated”, referring to the close relationship between the Japanese state and business interests, the term has come to refer to efforts to ensure that the bureaucracy better serves private business interests after

Adoption of the NEP was announced after the events of 13 May 1969 as one of several efforts to achieve national unity in view of the socioeconomic inequality inherited from the colonial period and consolidated in the post-independence years. The NEP was ostensibly declared to create the socioeconomic conditions for achieving “national unity” through redistributive policies. The NEP had two objectives, namely to “eradicate poverty” regardless of race and to “restructure society” to eliminate the identification of race with economic function. An *Outline Perspective Plan [OPP] for 1971–1990* (Government of Malaysia 1971, 1973) identified medium- and long-term targets en route to 1990 for both NEP objectives.

The OPP included specific targets for poverty reduction and *bumiputera* wealth ownership in particular. It is often forgotten that these distributional goals assumed an average annual growth rate of 8 per cent over the OPP period. Initially, the NEP was widely accepted across ethnic lines, especially after the traumatic May 1969 events. Subsequent political developments enhanced UMNO and Malay political hegemony as several opposition parties joined the newly broadened Barisan Nasional (BN) ruling coalition.

The next section examines the extent to which the NEP’s declared aims have been achieved. This survey is seriously constrained by the nature of publicly available official statistics, which improved briefly in the late 1980s, only to be reduced again in the 1990s and thereafter. Most older Malaysians seem to think that interethnic relations deteriorated in the 1970s and 1980s, and many were inclined to attribute this—at least partly—to the implementation of the NEP. On the other hand, there has undoubtedly been considerable success in achieving specific NEP objectives, as the following review demonstrates. According to available government statistics on NEP implementation, it appears that the OPP targets had, by and large, been achieved by 1990, except for a shortfall in Malay corporate wealth ownership. The final section examines implications of the legacy of the ethnic divide and its pre-eminence in the public imagination. This has had served as a huge constraint on political, as well as economic, options, and is likely to shape future political mobilization, as well as coalition building and economic policy packages.

NEP Targets, Expenditures and Achievements

Poverty reduction

The OPP stated that the official poverty level should be reduced from 49 per cent in Peninsular Malaysia in 1969 to 16 per cent by 1990. According to official government planning documents, the poverty rate had been reduced from 40 per cent in 1970 to 18 per cent in 1984 and 17 per cent by 1987. Tables 1 and 2 summarize official data on the incidence of poverty in Peninsular Malaysia by sector for various years since 1970. They point to an overall poverty reduction from 49.3 per cent in 1970 (official estimate)—or 56.7 per cent, according to Anand (1983)—to 39.6 per cent in 1976, 18.4 per cent in 1984 and 17.3 per cent in 1987 in Peninsular Malaysia alone. In absolute terms, the number of poor households dropped from 791,800 in 1970 to 764,400 in 1976 and to 483,300 in 1984, before rising slightly to 485,800 in 1987. Poverty incidence in all of Malaysia, including Sabah and Sarawak, fell to 6.1 per cent in 1997, rose to 7.5 per cent in 1999 and fell again to 5.1 per cent in 2002.

the former’s ascendance during the 1970s, during the first decade of the NEP, when government intervention and the public sector grew significantly.

Table 1: Incidence of poverty, 1970–2002 (*per cent*)

	1970	1980	1990	1997	1999	2002
Malaysia total*	49.3	29.2	16.5	6.1	7.5	5.1
Rural	58.6	37.7	21.1	10.9	12.4	11.4
Urban	24.6	12.6	7.1	2.1	3.4	2.0
Hard-core poor	—	—	3.9	1.4	1.4	1.0

Source: Government of Malaysia (1973, 1981, 1991a, 1999, 2001a, 2003).

* Peninsular Malaysia only for 1970–1997

Table 2: Incidence of poverty by state, 1970–2002 (*per cent*)

	1970	1976	1984	1987	1990	1995	1997	1999	2002
Malaysia total	56.7 ^a	37.7	20.7	19.3	17.1	8.7	6.8	7.5	5.1
No. of poor (<i>thousands</i>)	791.8 ^a	879.3	649.4	649.1	619.4	370.2	294.4	360.1	267.9
Johor	45.7	29.0	12.2	11.1	10.1	4.2	1.6	2.5	1.8
Kedah	61.0	61.0	36.6	31.3	30.0	12.2	11.5	13.2	10.7
Kelantan	74.1	67.1	39.2	31.6	29.9	22.9	19.5	18.7	12.4
Kuala Lumpur	—	—	—	—	—	9.5	0.1	2.3	0.5
Melaka	34.1	32.4	15.8	11.7	12.4	3.2	3.6	5.7	2.7
Negri Sembilan	50.5	33.0	13.0	21.5	9.5	5.3	4.5	2.5	2.2
Pahang	56.1	28.9	15.7	12.3	10.3	6.8	4.1	2.7	3.8
Perak	52.2	43.0	20.3	19.9	19.3	4.9	4.5	9.5	7.9
Perlis	63.2	59.8	33.7	29.1	17.2	11.8	10.6	13.3	10.1
Pulau Pinang	52.7	32.4	13.4	12.9	8.9	9.1	1.6	2.7	1.4
Sabah	—	58.3	33.1	35.3	34.3	26.2	22.1	20.1	16.0
Sarawak	—	56.5	31.9	24.7	21.0	10.0	7.5	6.7	5.8
Selangor	42.7	22.9	8.6	8.9	7.8	2.2	1.3	2.0	1.1
Terengganu	65.1	60.3	28.9	36.1	31.2	23.7	17.3	14.9	10.7

^a For Peninsular Malaysia only

Source: Government of Malaysia (1976, 1981, 1986, 1989, 1991a, 1999, 2001a, 2003).

Official statistics suggest very impressive reductions in poverty in the 1970s and early 1980s, especially in Peninsular Malaysia. Although there are many legitimate reservations about the quality and nature of this data, there are few observers who would doubt that poverty, as officially defined, has been significantly reduced, even though part of the decline in poverty may have been due to a lowering of the poverty line. In view of the generally rapid growth of the Malaysian economy in most of the 1970s and part of the 1980s, poverty – as defined by the government – could have been further reduced, if more just and effective redistributive policies had been implemented, government waste minimized, and government allocations ostensibly for poverty eradication used effectively for reducing poverty instead of enriching politicians and contractors securing rural development projects. More significantly, it appears that per capita income levels have generally risen with growth.

However, the significance, consistency and credibility of this data have been challenged on several grounds.⁵ There is much doubt as to whether the definitions of income used in the various surveys concerned have been consistent, for example, with regard to the valuation of services provided by the government, how these have been calculated in determining household incomes, and the actual measurement and estimation of poverty.⁶ Other problems in using an income-based determination of economic welfare have also not been given adequate attention. While incomes undoubtedly influence economic welfare, it would be wrong to assume that welfare reflects expenditure, which is in turn largely determined by income. Another problem involves the estimation of income—and hence poverty—on a household basis rather than on a per capita basis. The *Mid-Term Review of the Fifth Malaysia Plan, 1986–1990*, suggests that if per capita income—instead of household income—is used, the official poverty rate in Peninsular Malaysia would go down fairly significantly. While this is quite plausible and even likely, the plan document did not elaborate on why this would happen.

It also seems likely that some methods of measurement may have changed. For example, the *Fifth Malaysia Plan, 1986–1990* (Government of Malaysia 1986:83) explicitly favoured a more comprehensive concept of income, which “takes into account the imputed values for own produce consumed at home and owner-occupied housing” as well as “the full value of public services enjoyed by households, either free or at subsidized rate (including) health, education, transport and utilities, and the various subsidies granted by the Government”. There are, of course, merits in the income concept proposed, especially as a measure of living standards or economic welfare, but reducing poverty incidence by broadening the income concept, or by comparing essentially incomparable data, raises serious doubts about the actual extent of poverty reduction.

Nevertheless, for want of more acceptable alternative data sources, official figures will be used. The prevailing official poverty measures have used a household, rather than a per capita, poverty line income (PLI) yardstick.⁷ According to the *Mid-Term Review of the Fifth Malaysia Plan, 1986–1990* (Government of Malaysia 1986:45), the PLI⁸ has been defined as the minimum expenditure level to secure a certain standard of living, and “updated annually using the Consumer Price Index (CPI) to reflect changes in price levels”. The PLI should be adjusted to reflect changes in the costs of specific items making up the PLI, as their relative weights differ

⁵ For example, the poverty reduction between 1984 and 1987—reported in the *Mid-Term Review of the Fifth Malaysia Plan, 1986–1990* (Malaysia 1989), and based on the presumably consistent first and second Household Income Surveys—raised more troubling questions. For instance, while the number of poor rubber smallholding households was reported to have risen from 68,500 in 1984 to 83,100 in 1987, poverty incidence among them was said to have fallen from 42.7 per cent to 40.0 per cent! This decline would require the total number of rubber smallholding households to have fallen by 23 per cent—from 207,800 to 160,400—over the same three-year period, a development unsupported by other evidence. And while the number of poor rubber smallholders is reported to have increased, poverty incidence among estate workers was inexplicably supposed to have dropped by 29 per cent—from 16,400 to 11,700—over the same period! Meanwhile, the number of poor rice farm households was reported to have dropped by 23 per cent—from 70,500 to 54,400—despite the reduction of government subsidies (for example, for fertilizer) and the officially fixed rice price from 1980 to 1990.

Similarly, the disclosure of the official poverty line in mid-1989 suggests that at least some of the poverty reduction, especially between 1976 and 1984, may have been due to the reduction of the per capita poverty line income from RM (Malaysian ringgit) 33.00 in 1970 to RM30.30 in 1987 in 1970 prices, or from RM74.15 in 1970 to RM68.09 in 1987 in 1987 prices (\$1=RM3.8). There is also no way of independently verifying the comparability of the data, for instance, in terms of methods of measurement, since they are not publicly available. Also, the different nature of the three kinds of surveys involved means that they are not strictly comparable from a statistical point of view.

⁶ For instance, a household may well enjoy government-subsidized services valued above or below the value assumed in estimating the poverty line income (PLI). But if the full value of the services it enjoys pushes the household above the poverty line, whereas taking into consideration only the minimum quantum for the PLI would keep it below the poverty line, then clearly, the household is not receiving certain other basic needs despite being considered to be above the poverty line.

⁷ The *Mid-Term Review of the Fifth Malaysia Plan, 1986–1990* (Government of Malaysia 1989:47) noted that if a per capita measure is used instead of a household measure, the official poverty rate in 1987 would have been 12.4 per cent, instead of 17.3 per cent, in Peninsular Malaysia.

⁸ The different PLIs first published in the *Mid-Term Review of the Fifth Malaysia Plan, 1986–1990* for Peninsular Malaysia, Sabah and Sarawak emphasize the considerable variation in living costs within a small country like Malaysia. For 1987, the PLIs were estimated at “about RM350 per month for a household of 5.14 persons in Peninsular Malaysia, RM429 per month for a household of 5.24 in Sarawak, and RM533 per month for a household of 5.36 in Sabah”. Hence, the per capita PLI was 19.8 per cent higher in Sarawak and 45.5 per cent higher in Sabah than in Peninsular Malaysia. Yet, there have not been separate PLIs for urban and rural areas, implying that the true extent of urban poverty may well be underestimated compared to rural poverty, since the urban cost of living is significantly higher, especially in the Kelang Valley and Johor Baru areas. The PLI for 1999 was RM510 per month for Peninsular Malaysia for an average household size of 4.6, RM685 per month for Sabah for an average household size of 4.9, and RM584 per month for Sarawak for an average household size of 4.8 (Malaysia 2001b).

from the breakdown of the CPI. Also, per capita consumption expenditure is probably a far better gauge of economic welfare than household income.

The current PLI approach to poverty measurement is based upon a notion of absolute poverty. There seems to be less official interest in, and concern about, relative poverty, that is, inequality and income distribution. There should be closer monitoring of distributional trends in economic welfare, expenditure, income and wealth to provide a more comprehensive and accurate picture of the welfare of the Malaysian population in relation to economic growth generally, and as a consequence of the implementation of the NEP – and successor policies – specifically. It is quite possible that such statistics would show relatively greater increases in incomes of poorer groups in all ethnic communities, as well as a significant reduction in differences among the average incomes of the major ethnic communities – trends which the Malaysian government could well be proud of. Available income data and the basket of goods and services constituting the PLI should also be made publicly available to facilitate meaningful public scrutiny of income and poverty reduction trends.

Under the NEP, there was no official commitment to reducing income inequality except between ethnic groups, particularly between the *bumiputeras* and non-*bumiputeras*. Since poverty is officially conceived in absolute rather than in relative terms in relation to a poverty line income, income inequality can grow as the poverty rate declines if economic growth is sufficiently high. Income distribution trends do provide important indications of the welfare implications of economic growth and recession, especially as they affect interethnic, spatial⁹ and other income inequalities.

Table 3: Mean monthly household income by ethnic group and stratum, Peninsular Malaysia, 1970–2002 (RM¹⁰)

	1970	1973	1976	1979	1984	1987	1990	1995	1999	2002
Peninsular Malaysia total	423	502	566	669	792	760	1,167	2,020	2,472	3,011
Bumiputera (B)	276	335	380	475	616	614	940	1,604	1,984	2,376
Chinese (C)	632	739	866	906	1,086	1,012	1,631	2,890	3,456	4,279
Indian (I)	478	565	592	730	791	771	1,209	2,140	2,702	3,044
Other	1,304	1,798	1,395	1,816	1,775	2,043	955	1,284	1,371	2,165
Urban (U)	687	789	913	942	1,114	1,039	1,617	2,589	3,103	3,652
Rural (R)	321	374	431	531	596	604	951	1,326	1,718	1,729
Disparity ratio (C/B)	2.29	2.21	2.28	1.91	1.76	1.65	1.74	1.80	1.74	1.80
Disparity ratio (I/B)	1.73	1.69	1.56	1.54	1.28	1.26	1.29	1.33	1.36	1.28
Disparity ratio (U/R)	2.14	2.11	2.12	1.77	1.87	1.72	1.70	1.95	1.81	2.11

Note: The figures shown for 1970 to 1987 are in constant 1978 prices, and the figures shown for 1990 to 1999 are in constant 1990 prices. **Source:** Government of Malaysia (1981, 1989, 1996, 2001b, 2003).

Tables 3 and 4 show income distribution trends in Malaysia, especially Peninsular Malaysia, since independence, and particularly after the NEP was adopted. Between 1957 and 1970, income inequality apparently grew, with the rich getting richer and the poor getting poorer, though serious doubts (Anand 1983) have been raised about the comparability of the data involved. Some evidence since then points to growing income inequality during the 1970s, that

⁹ Urban/rural and by state.

¹⁰ RM is the Malaysian currency, ringgit (\$1=RM3.8 since 2 September 1998).

is, from 1970, through 1973 and 1976, to 1979, but other data suggest otherwise. For example, in the 1970s, the average real income of the bottom 40 per cent increased, according to the *Fourth Malaysia Plan, 1981–1985* (Government of Malaysia 1981:37). These trends suggest that rising incomes and poverty reduction in the 1970s may have been accompanied by growing income inequality, but there is other evidence to suggest that income inequality declined during the 1970s and 1980s, and has not changed much since then. Average interethnic income disparities also declined during the NEP period, but appear to have risen in the 1990s.

Table 4: Income share by income group, 1970–1999 (*per cent*)

	1970	1973	1976	1979	1984	1987	1990	1999
Malaysia total								
Top 20	55.9	53.7	61.9	54.7	53.2	51.2	50.0	50.5
Middle 40	32.5	34.0	27.8	34.4	34.0	35.0	35.5	35.5
Bottom 40	11.6	12.3	10.3	10.9	12.8	13.8	14.5	14.0
Urban^a								
Top 20	55.0	—	—	—	52.1	50.8	—	48.9
Middle 40	32.8	—	—	—	34.5	35.0	—	36.7
Bottom 40	12.2	—	—	—	13.4	14.3	—	14.9
Rural^a								
Top 20	51.0	—	—	—	49.5	48.3	—	48.0
Middle 40	35.9	—	—	—	36.4	36.7	—	36.7
Bottom 40	13.1	—	—	—	14.1	15.0	—	15.6
Gini Index	0.50	0.50	0.57	0.49	—	—	0.44	0.44
Theil Index	0.48	0.43	0.71	0.42	—	—	—	—

^a The published figures for urban and rural Malaysia in 1990 and 1999 do not add up to 100 per cent, and the 1990 calculations have been omitted from this table because of the much greater disparities involved. **Source:** Government of Malaysia (1973, 1976, 1979, 1981, 1986, 1991b, 2001b).

The first official Household Income Surveys in 1984 and 1987 suggest declining overall income inequalities in the 1980s. Inequalities between *bumiputeras* and non-*bumiputeras*, as well as those between town and country, appear to have declined fairly steadily from the 1970s in Peninsular Malaysia. The 1985–1986 recession apparently reduced all major income disparities with the relatively better off being more adversely affected than the relatively worse off. Evidence for Sabah and Sarawak, only available for 1984 and 1987, suggests greater inequality there, as well as similar disparity-reducing consequences of the mid-1980s recession.

The government probably has a successful story to tell with its data, and the credibility of the story would only be enhanced by better public access to it. It may also be useful to reconsider the composition of the PLI and to compare it with detailed consumer price trends in order to make more accurate inflation adjustments to the original PLI, and also to determine a more meaningful PLI with the benefit of hindsight and the experience of the last two decades of NEP implementation. Needless to say, significant regional and locational variations in living costs—for example, between urban and rural areas and perhaps even some of the major metropolitan centres (for instance, Kelang Valley and Johor Baru)—should be taken into consideration.

Despite the ostensible official concern about poverty, it is quite remarkable that after more than three decades of the NEP, there is still relatively little detailed information about the characteristics of the poor, which could help ascertain the reasons and causes of poverty, as well as appropriate, effective and efficient measures and efforts to overcome poverty. Such detailed analytical poverty profiles are especially urgent in view of the increasingly recognized

phenomenon of “hard-core poverty”, said to be relatively unaffected by existing poverty eradication policies.

The absence of a clearer understanding of the phenomenon of poverty has allowed policies to continue regardless of their efficacy with regard to its eradication. Of course, once certain policies are implemented, interest groups benefiting from such policies tend to ensure their continuation regardless of their effectiveness in terms of their ostensible aims. This has led to the suspicion that such policies are maintained to facilitate patronage by the ruling political coalition and for the benefit of certain rural interest groups and among contractors and other business interests, rather than for the purpose of poverty reduction, as claimed.

A great deal of what is officially classified as poverty eradication actually refers to expenditure for rural and agricultural development, much of which is certainly not for the benefit of the poor. Hence, it is crucial that expenditure for poverty eradication be provided in meaningful detail in order to ascertain the extent to which such expenditure actually benefits the poor. Such evaluation is crucial in order to minimize abuses in the name of poverty eradication. Careful comparative studies can also ascertain the degree to which poverty eradication expenditure actually contributes to relieving poverty.

The evidence so far seems to suggest that poverty reduction has been largely due to rising incomes. In rural areas, especially among the peasantry, it seems to be largely attributable to increasing productivity. However, rising productivity mainly benefits those who own their own economic resources, especially land. Inequality in resource allocation, both in terms of ownership as well as access, has therefore meant that such productivity gains have tended to benefit the well-to-do more than others. Hence, it is very likely that expenditure ostensibly for poverty eradication has actually brought greater benefits to the relatively affluent rather than the poor.

The demographic factor also needs greater consideration. The reduction of poverty among some of the “target groups” has been achieved by a reduction in the population involved, for instance, in rice cultivation, small-scale rubber growing, fishing and plantation labour. Hence, despite continued population growth, there have not been corresponding increases in the number and population shares involved in these activities. On the contrary, there may well have been significant declines, at least in some rural occupations.

With the ageing of the rural population as a consequence of urban migration largely by the young, it appears that the economically active proportion of the population involved in agriculture has declined, exacerbating the phenomenon of idle agricultural land, also due to the uneconomic size of the farm land involved.¹¹ With the average Malay fertility rate about double the Chinese rate at the end of the 1980s, and with the Indian rate slightly higher than the Chinese, it is also quite possible that per capita Malay income levels will continue to remain low, and poverty correspondingly high, simply due to larger household sizes.

The official focus on Malay peasant poverty has emphasized productivity-increasing efforts for self-employed rural producers at the expense of other measures to reduce poverty, consequently adversely affecting other impoverished groups. Even among the Malay peasant population, those with less access to economic resources, especially land, are ignored by the main thrust of poverty eradication efforts. Hence, peasant agricultural labourers have little to thank the NEP for. If their condition has improved, it has been due more to other extraneous reasons, such as full employment or productivity increases that have accounted for a rise in their wages, rather than as a consequence of NEP poverty eradication measures.

¹¹ Millions of acres of farmland have been abandoned, especially in parts of Peninsular Malaysia, for a variety of reasons. The most important reason is believed to be the uneconomic returns from continuing to farm the land, especially in the context of near full employment and the option of higher and/or more stable incomes as well as less onerous off-farm work. Old or absentee landowners can no longer find tenants or farm labourers to work their land for them at the incomes (crop share or wage) they are prepared to pay or at the rental rates they expect.

Similarly, other rural labourers—such as estate workers and mine workers, as well as public works and land development contract labourers—have been ignored by the NEP. The importance of immigrant and contract labour for some of these jobs has only served to worsen general working conditions and lower wage rates for these occupations, rendering them even more unattractive to Malaysians and depressing wage rates more generally in the labour market, especially for unskilled labour.

The current approach has also tended to ignore the poor, other than the primary target groups, namely the rice farmers, rubber smallholders, coconut smallholders and fishermen. Hence, the majority of the poor in Sabah and Sarawak are largely unaffected by poverty eradication measures, while some—for example, shifting cultivators as well as hunter-gatherers—feel their interests threatened by the logging, land development and other trends that go by the name of development. Those in the towns also feel ignored by poverty eradication measures that they perceive to be primarily, if not exclusively, rural in orientation.

However, while there are many groups of poor that have been bypassed by official poverty eradication measures, they may feel less neglected by official development efforts. Since “development”, particularly the provision of infrastructure and social services, is intimately connected with government and party patronage, these poor communities—especially the *bumiputeras*, and particularly the Malays—do not necessarily feel themselves ignored by government development efforts generally, although they have not benefited from the government’s poverty eradication measures.

“Restructuring society”

Despite the popular rhetorical commitment by politicians to poverty eradication, the 1970s and early 1980s saw growing emphasis on the NEP’s other pronounced objective to “restructure society”: to abolish the identification of ethnicity with economic function, especially to create, expand and consolidate the Malay capitalist and middle classes. As officially interpreted, “restructuring” is not meant to abolish or change socioeconomic relations between classes or economic interest groups; in practice, it mainly seeks to increase *bumiputera* capital ownership and ethnic proportions in the more attractive—mainly professional—occupations.

In practice, then, restructuring efforts have been largely aimed at increasing the share of *bumiputera* capital, as well as the number of *bumiputera* businessmen and professionals in the context of continued open capitalist development by using public sector and state intervention extensively. The NEP’s restructuring strategy mainly involves the redistribution of corporate stock ownership, employment and education, with the latter two sometimes considered together. There is particular interest in ownership of the modern corporate sector, though only a small minority of the population is actually involved, reflecting the dominance of capitalist interests in defining supposedly ethnic or communal interests.

Wealth distribution

However, wealth restructuring—particularly the 30 per cent target for *bumiputera* share ownership by 1990—has remained the main obsession in most discussions about the NEP. Table 5 reflects the distribution of ownership of the corporate sector by ethnicity and residence between 1969 and 2002. The *bumiputera* share rose sharply during the 1970s until the mid-1980s from 1.5 per cent in 1969 and 2.4 per cent in 1970. While the original *Mid-Term Review of the Second Malaysia Plan, 1971–1975* target (Government of Malaysia 1973:84, table 4.8) of 9.0 per cent *bumiputera* ownership by 1975 was surpassed, only 12.5 per cent of the corporate sector was in *bumiputera* hands by 1980 (instead of the projected 16.0 per cent) and 19.1 per cent in 1985 (instead of the 23.0 per cent expected). Instead of the 30.0 per cent targeted for 1990, the *bumiputera* share hovered at around 19.4 per cent in 1988, 19.3 per cent in 1990, 20.6 per cent in 1995, 19.1 per cent in 1999 and 18.7 per cent in 2002.

Meanwhile, the ownership of share capital by foreign residents fell from 63.4 per cent in 1970 to 42.9 per cent in 1980, 33.6 per cent in 1983, 26.0 per cent in 1985, and 24.6 per cent in 1988, before rising to 25.4 per cent in 1990, 27.7 per cent in 1995, 32.7 per cent in 1999 and then dropping slightly to 28.9 per cent in 2002. Meanwhile, the Chinese share rose from 22.8 per cent in 1969 to 45.5 per cent in 1990¹² (when ethnically anonymous ownership of locally controlled companies was largely assigned to the Chinese), before declining sharply to 40.9 per cent in 1995, 37.9 per cent in 1999 and rising to 40.9 per cent in 2002. Meanwhile, the Indian share rose slightly from 0.9 per cent in 1969 to 1.2 per cent in 1985 and 1988, and 1.5 per cent in 1995, 1999 and 2002.

The government statistics that are most often cited tend to mislead by exaggerating the shortfall from the 30 per cent target (originally for 1990), with *bumiputera* ownership¹³ hovering above 18 per cent since 1983. It is likely that *bumiputera* share ownership is much higher than suggested by such government statistics.¹⁴ All the percentages cited earlier probably underestimate their respective proportions of share ownership. If we put aside the share capital held through nominee companies and locally controlled companies of unknown ethnic ownership identity, the total *bumiputera* share of ethnically and residentially identified equity in 1988 was 24.7 per cent, with the foreign resident and Chinese shares rising to 31.2 per cent and 41.4 per cent, respectively. It has been argued that the *bumiputera* and foreign shares would be even higher if shares held through nominee companies and locally controlled companies are taken into account, although there is no empirical basis for ascertaining the veracity of such claims.

The share of “other Malaysian residents” – often wrongly equated with the non-*bumiputera* Malaysian share as this category includes foreigners resident in Malaysia – rose from 34.3 per cent in 1970 to 37.5 per cent in 1975, 44.6 per cent in 1980 and 49.7 per cent in 1982, slipping to 47.7 per cent in 1983, before rising to 54.9 per cent in 1985 and 56.0 per cent in 1988. After that, it fluctuated between 55.3 per cent in 1990, 51.7 per cent in 1995, 48.2 per cent in 1999 and 52.4 per cent in 2002. This category includes the ethnically unidentifiable residual share of “others”, “nominee companies” and “locally controlled companies” that could not be assigned to specific ethnic groups, which had grown from 12.2 per cent in 1969 to 20.3 per cent in 1985 and 21.2 per cent in 1988.

Ownership of locally controlled companies was presumed to belong exclusively to non-*bumiputera* Malaysians from 1991, whereas such shares could also have been owned by *bumiputeras*, as well as foreign residents. Some analysts would argue that they are more likely to be owned by *bumiputera* individuals, especially politicians, who wish to obfuscate their business interests. But if we assume that these shares are divided according to the known ethnic proportions, the *bumiputera* share would rise to at least 22 per cent.

All such official figures only consider nominal share values, whereas estimates of the distribution of wealth held in shares should consider share prices, though there are many problems in estimating such market values. Since *bumiputera* and foreign share ownership tends to be concentrated in the larger, more successful firms, which have been able to restructure to meet government guidelines, it is likely that the actual market value of shares held by non-*bumiputera* residents is correspondingly less than nominal share ownership, whereas *bumiputera*

¹² This happened despite some official discouragement of Chinese investments and capital flight attributable to the Industrial Coordination Act (ICA), higher interest rates abroad, as well as emigration and investments overseas due to Chinese frustrations in Malaysia. The resilience of Chinese capital should not be underestimated, however. The decline in ethnic Chinese political influence after the 1960s has resulted in various responses and initiatives, varying with the specific interests concerned. From 1985, some of the more politically inspired initiatives were exposed as business scams dependent upon political patronage or protection, exploited by politicians and businessmen for their own selfish ends. These exposures have further undermined the already seriously eroded position of the Malaysian Chinese Association (MCA), the second most important party in the ruling coalition. Despite its sizeable share of the economy, Chinese capital has limited control over the financial sector (for example, banking) and the “commanding heights” of the traditional capitalist sectors (international trade, primary production), which have mainly been taken over from foreign (especially British) capital by the state, ostensibly for the Malays.

¹³ In the mid-1980s, Mahathir announced to foreign investors and the Malaysian Chinese public (through the Chinese press) that NEP targets, particularly the 30 per cent objective, had been suspended in view of the economic recession in the mid-1980s.

¹⁴ Federal and state government share ownership other than *bumiputera* trust agencies have not appeared since 1969 in the official tables on ownership of share capital in limited companies.

and foreign wealth would be considerably higher. Hence, it is quite possible that the 30 per cent *bumiputera* wealth ownership target has been achieved. While the 1997–1998 financial crisis undoubtedly affected wealth, there is little evidence of ethnic implications, except for evidence that government interventions have tended to favour those best connected politically.

If market values are considered, instead of nominal or par values,¹⁵ the proportion of publicly listed foreign and *bumiputera* shares would probably rise rather significantly, at the expense of the Chinese share. According to data from the Kuala Lumpur Stock Exchange (KLSE) *Annual Companies Handbook*, incorporating information up to September 1988, 29.4 per cent of equity by nominal value was owned by *bumiputeras*, with 41.9 per cent owned by “other Malaysians” and 28.7 per cent owned by foreigners. However, when market values based on closing prices at the KLSE on 1 March 1989 are considered, the *bumiputera* and foreign shares rose to 34.5 per cent and 32.2 per cent respectively, with the share of “other Malaysians” falling to 33.3 per cent (Fong 1989:table 5). Not surprisingly, this suggests that *bumiputera* shares are generally more highly valued in the market than those held by foreigners, and especially those belonging to other Malaysians.¹⁶

The official figures for distribution of share ownership do not take into account share ownership in private limited companies, which are generally smaller, but sometimes more lucrative. The distribution of share ownership does not accurately reflect wealth ownership in Malaysia, especially of non-corporate wealth held by private companies. It could also be reasonably argued that “net tangible assets” would provide a more accurate reflection of corporate wealth distribution than par values, or even market values. Also, share capital only represents a portion of economic wealth, albeit an important one.

Similarly, the assets of foreign branches and subsidiaries in Malaysia have been ignored by such calculations. Hence, it is likely that foreign wealth and wealth-generating capacity in Malaysia has been significantly underestimated by government statistics. A fuller picture of wealth distribution and economic power has to consider other tangible assets, such as real property and agricultural land, together with other sources of economic power, including access to rent-seeking opportunities and corporate control, as distinct from ownership. Hence, the *bumiputera* percentage does not include shares owned by those who use nominee companies and other such devices that obscure the identity of the owner.

Not much is known about the trust agencies ostensibly set up to advance *bumiputera* share ownership and entrepreneurial and managerial capabilities. However, in the public eye, these trust agencies have been associated with the growth of the public sector under the NEP. During the heady early years of NEP implementation, public enterprises of various types proliferated. By the early 1980s, federal government officials were no longer quite sure how many such enterprises had been established, not only by the federal and state governments, but also by the various statutory bodies, regional development agencies and other such public sector bodies. The fiscal and foreign debt crises of the early 1980s led to the introduction of structural adjustment programmes.

In the mid-1980s, the government established a Central Information Collection Unit (CICU), run by Permodalan Nasional Berhad (PNB). Accounts from 1987 revealed that almost half of the 1,148 enterprises—mostly subsidiaries and companies associated with state enterprises—were still in the red, involving a net loss of RM1.9 billion. Some 562 companies had losses totalling RM7.5 billion, while another 446 had profits of RM5.6 billion, with the remainder inactive or in the process of closing down. Total public sector investments in the 1,148 companies came to

¹⁵ Nominal or par values refer to the price at which the share was first issued at the time of the initial public offer (IPO).

¹⁶ The distribution of share ownership tracked by the government uses nominal or par values, whereas reference to subsequent market values would yield rather different wealth distribution shares. The government’s wealth redistribution efforts have focused on the commanding heights of the economy, where large firms enjoy oligopolistic, if not monopolistic advantages, usually augmented by favourable government consideration in its allocation of lucrative business opportunities. Hence, it is not surprising that the *bumiputera* share has increased most when market values are considered, followed by the foreign share.

RM15.3 billion, or about 71 per cent of the total paid-up capital of RM21.5 billion, with the state holding at least half the equity in 813 of these companies.¹⁷

The *Third Malaysia Plan, 1976–1980* projections (Government of Malaysia 1976:86, table 4.16) for the 30 per cent Malay share of the corporate sector in 1990 anticipated 7.4 per cent for “Malay individuals” and 22.6 per cent for “Malay interests”. The *Fourth Malaysia Plan, 1981–1985*, however, reduced the share for *bumiputera* individuals to 5.2 per cent (or 17.3 per cent of total *bumiputera* ownership) and raised the share for “*bumiputera* trust agencies” to 24.8 per cent (or 82.7 per cent of total *bumiputera* ownership). However, since then, far greater emphasis has been given to *bumiputera* personal wealth acquisition. The share of *bumiputera* individuals rose significantly from 7.6 per cent in 1983 to 14.2 per cent in 1990, 18.6 per cent in 1995, 17.4 per cent in 1999 and 17.1 per cent in 2002. Meanwhile, the *bumiputera* trust agencies’ share declined from 11.1 per cent in 1983 to 5.1 per cent in 1990, 1.7 per cent in 1999 and 1.6 per cent in 2002. Individuals accounted for 73.4 per cent of total *bumiputera* ownership in 1990, 91.0 per cent in 1999 and 91.2 per cent in 2002.

The share for *bumiputera* trust agencies correspondingly fell to 9.0 per cent of the total *bumiputera* share in 1999—a very dramatic reversal in a relatively short space of time, with important implications for the composition and nature of Malay capital as well as the character and role of state intervention and the public sector in Malaysia. Clearly, wealth accumulation by the state on behalf of the entire *bumiputera* community has been abandoned in favour of private accumulation by individual *bumiputeras*, although for private aggrandisement, much of this accumulation has been heavily reliant on government dispensation. Hence, capital accumulation has increasingly been determined by “know who” (political connections or influence), rather than “know how” (entrepreneurial ability or capabilities). While this might be more pronounced among *bumiputera* businessmen, it has also been true for others who have made their fortunes contingent upon opportunities involving government dispensation (Gomez and Jomo 1999).

In fact, the issue of wealth ownership—whether of shares or other wealth—only involves the interests of a small elite. The high concentration of share capital ownership within each ethnic community was almost definitely understated in the case of the Amanah Saham Nasional (ASN). The ASN scheme—superseded by Amanah Saham Bumiputera (ASB) from 1991—provides some indication of the degree of wealth concentration in Malaysia. The ASN and ASB schemes have had unusually high rates of participation owing to the government’s efforts to maximize *bumiputera* participation.

Such concentration is even more pronounced in the rest of the economy in view of government efforts to promote widespread participation in the ASN and its successor ASB schemes and the previous RM50,000 (now RM200,000) ownership limit on share units per *bumiputera*. The level of concentration was also limited by the RM50,000 share ceiling for individual ownership. The ASN’s and ASB’s tax-free rates of return to investment have been consistently well above prevailing savings and fixed deposit interest rates. No other share-ownership scheme in the country, and probably in the world, has been able to attract such widespread nominal participation. Yet, although well over two million *bumiputeras* were involved by the late 1980s, the vast majority had invested RM500 or less, while about 1.3 per cent of all eligible *bumiputeras* owned 75 per cent of all ASN shares!

Ethnicity in employment and the professions

Government occupational statistics also suggest that employment restructuring has, generally speaking, been achieved. In fact, *bumiputera* employment in the public sector and agriculture greatly exceeds their overall demographic share. According to the World Bank, government remuneration is, on average, about 25 per cent higher than in the private sector. However,

¹⁷ *South East Asia Digest*, 21 July 1989.

bumiputeras are still underrepresented in some of the most lucrative professions, such as medicine, accountancy and architecture, though much of this is temporary and will decline as the population ages. Nevertheless, as tables 6a or 6b show, for the vast majority of the population, employment restructuring goals had, by and large, been achieved by 2000, as in 1990.

As far as occupational restructuring is concerned, by 1990 and 2000, *bumiputeras* were significantly underrepresented (that is, less than 45 per cent) only at the “administrative and managerial” levels (at 28.4 per cent) and in sales-related occupations (at 36.5 per cent). Nevertheless, the Malay proportions in these occupations have greatly increased since independence, and especially under the NEP, though the Chinese proportions—66.0 per cent and 57.5 per cent respectively—still significantly exceed their population share.

Otherwise, occupational restructuring has largely been achieved, especially in low-income employment. The main sources of tension over employment restructuring involve access to business opportunities and the more lucrative occupations. This mainly affects and concerns the middle class. Tertiary education, as well as related employment and promotion opportunities, are the main concerns and primary sources of interethnic resentment and conflict, especially among the middle class, who correctly see these as determining their life chances. Both sides have been morally self-righteous about their interests and claims. On the one hand, many *bumiputeras* invoke indigenous or “native rights” and the need for “positive discrimination” and “affirmative action” to overcome historical disadvantage under colonialism. On the other hand, many non-*bumiputeras* protest “ethnic discrimination”, “cultural oppression” and the official undermining of meritocracy.

Table 6a: Employment by occupation and ethnic group, 1970 (*per cent*)

Occupation	Bumiputera	Chinese	Indian	Other
Professional and technical	47.0	39.5	10.8	2.7
Administrative and managerial	24.1	62.9	7.8	5.2
Clerical and related	35.4	45.9	17.2	1.5
Sales and related	26.7	61.7	11.1	0.4
Services	44.3	39.6	14.6	1.5
Agricultural	72.0	17.3	9.7	1.0
Production, transport and other	34.2	55.9	9.6	0.3
Ethnic share of total employment	51.8	36.6	10.6	1.0
Ethnic share of total labour force	52.7	35.8	10.7	0.8
Proportional equality index^a				
Occupation	Bumiputera	Chinese	Indian	Other
Professional and technical	0.89	1.10	1.01	3.38
Administrative and managerial	0.46	1.76	0.73	6.50
Clerical and related	0.67	1.28	1.61	1.88
Sales and related	0.51	1.72	1.04	0.50
Services	0.84	1.11	1.36	1.88
Agricultural	1.37	0.48	0.91	1.25
Production, transport and other	0.65	1.56	0.90	0.38
Index for ethnic share of total employment	0.98	1.02	0.99	1.25

^a The proportional equality index is derived by dividing each ethnic group's occupation employment share by its total labour force share. **Source:** Government of Malaysia (1981).

Table 6b: Employment by occupation and ethnic group, 2000 (*per cent*)

Occupation	Bumiputera	Chinese	Indian	Other
Professional and technical	63.9	25.8	7.6	2.7
Teachers and nurses	73.2	18.4	6.9	1.5
Administrative and managerial	37.0	52.3	5.5	5.2
Clerical and related	56.8	32.9	8.6	1.7
Sales and related	37.3	49.8	6.8	6.1
Services	57.7	21.8	8.5	12.0
Agricultural	61.2	10.3	6.9	21.6
Production, transport and other	44.7	33.8	10.0	11.5
Ethnic share of total employment	51.5	29.7	8.3	10.5
Proportional equality index ^a				
Occupation	Bumiputera	Chinese	Indian	Other
Professional and technical	0.97	1.02	1.03	2.26
Teachers and nurses	1.11	0.73	0.93	1.24
Administrative and managerial	0.56	2.07	0.75	4.30
Clerical and related	0.86	1.30	1.16	1.45
Sales and related	0.56	1.97	0.92	5.07
Services	0.87	0.86	1.15	10.00
Agricultural	0.93	0.41	0.94	17.97
Production, transport and other	0.68	1.34	1.35	9.59
Index for ethnic share of total employment	0.78	1.17	1.12	8.72

^a The proportional equality index is derived by dividing each ethnic group's occupation employment share by its total labour force share. **Source:** Government of Malaysia (20001b).

Ethnic percentages in professional and technical occupations broadly reflect demographic proportions in the Peninsular Malaysian population, though *bumiputera* under-representation in the more lucrative and prestigious professions has been highlighted by the Malay middle class, politicians and the government. Nevertheless, as table 7 shows, the *bumiputera* proportion of the eight prized professions rose from 4.9 per cent in 1970 to 29.0 per cent in 1990 and 33.1 per cent in 1995, slightly declining to 32.0 per cent in 1997, before measurement changes reduced the number of professionals by 45.5 per cent in 1997, and the *bumiputera* share to 27.3 per cent in 1997, 28.9 per cent in 1999 and 37.2 per cent in 2002. (According to the official government statistics, the number of professionals they are tracking suddenly fell by almost half!) There may also be some underestimation of the *bumiputera* proportion as far as those in government service (such as the legal and judicial services) are concerned. Perhaps, more importantly, recent *bumiputera* advances into the professions mainly involve the younger age groups. Hence, the *bumiputera* proportion will continue to increase as the population ages, even if the current proportions remain unchanged. Malay professionals also seem to earn proportionately more, suggesting a likely ethnic premium in their professional charges¹⁸ (Merican 1987).

¹⁸ One would not normally expect relatively younger professionals to earn more than their older counterparts, everything else being equal. However, it seems likely that the generally younger *bumiputera* professionals were earning more than their non-*bumiputera* colleagues because of a certain premium attached to their services, that is, they could charge more because it has been

Table 7: Registered professionals^a by ethnic group, 1970–2002 (*number / per cent*)

	Bumiputera	Chinese	Indian	Other	Total
1970 ^b	225 / 04.9	2,793 / 61.0	1,066 / 23.3	492 / 10.8	4,576 / 100
1975 ^c	537 / 06.7	5,131 / 64.1	1,764 / 22.1	572 / 07.1	8,004 / 100
1979	1,237 / 11.0	7,154 / 63.5	2,375 / 21.1	496 / 04.4	11,262 / 100
1980	2,534 / 14.9	10,812 / 63.5	2,963 / 17.4	708 / 04.2	17,017 / 100
1983	4,496 / 18.9	14,933 / 62.9	3,638 / 15.3	699 / 02.9	23,766 / 100
1984	5,473 / 21.0	16,154 / 61.9	3,779 / 14.5	675 / 02.6	26,081 / 100
1985	6,318 / 22.2	17,407 / 61.2	3,946 / 13.9	773 / 02.7	28,444 / 100
1988	8,571 / 25.1	19,985 / 58.4	4,878 / 14.3	762 / 02.2	34,196 / 100
1990	11,753 / 29.0	22,641 / 55.9	5,363 / 13.2	750 / 01.9	40,507 / 100
1995	19,344 / 33.1	30,636 / 52.4	7,542 / 12.9	939 / 01.6	58,461 / 100
1997 ^d	22,866 / 32.0	37,278 / 52.1	9,389 / 13.1	1,950 / 02.7	71,843 / 100
1997 ^d	10,659 / 27.3	21,298 / 54.4	6,653 / 17.0	515 / 01.3	39,125 / 100
1999	15,321 / 28.9	28,565 / 53.9	8,183 / 15.5	884 / 01.7	52,953 / 100
2002	35,046 / 37.2	47,270 / 50.1	10,593 / 11.2	1,411 / 01.5	94,320 / 100

^a Architects, accountants, engineers, dentists, doctors, veterinary surgeons, surveyors, lawyers. ^b Excludes surveyors and lawyers. ^c Excludes surveyors. ^d There was a significant change in the counting of professionals from 1997, including 1999 (Government of Malaysia 1999) and 2002 (Government of Malaysia 2001b), with the total number of professionals and the *bumiputera* share dropping drastically. **Source:** Government of Malaysia (1976, 1979, 1981, 1984, 1986, 1989, 1991b, 1994, 1996, 1999, 2001b, 2003).

As far as tertiary education is concerned, the *bumiputera* population in government-accredited local universities and university colleges was 67 per cent in 1985 (Government of Malaysia 1986:490–491), up from 40 per cent in 1970 (Government of Malaysia 1973:193). The ratio was supposed to be 60 per cent as of the early 1980s, as part of a “compromise” resolution of the Merdeka University issue¹⁹ from the late 1970s. The controversy over ethnic quotas for public university admissions has continued to the present. The vast majority of students in private tertiary institutions have been non-*bumiputera*. However, most of the thousands of *bumiputera* students abroad are believed to be government-funded, compared to only a small proportion of non-*bumiputeras*.

Evidence on “restructuring society” also suggests considerable success in terms of changing ethnic proportions in various lucrative professional occupations and by sectoral employment as well as wealth ownership. Official concern appears to have shifted away from school enrolment ratios, where *bumiputeras* are now actually “overrepresented”, owing to the generally larger size of *bumiputera* families, as well as the higher enrolment of non-*bumiputera* children in private tertiary institutions. Even interest in enrolment at the tertiary level has declined with the considerable *bumiputera* advances since the 1970s and the growing phenomenon of graduate unemployment since the mid-1980s. Instead, the focus is now primarily on the lucrative professions, where *bumiputeras* are still relatively underrepresented despite rapid progress, especially since the 1980s.

advantageous for their clients to utilize them for certain kinds of work, perhaps involving government procurement, contracts and so forth.

¹⁹ The relatively well-organized Chinese-medium education movement had asked for the establishment of a Chinese-medium university from the late 1960s. This was rejected by the government in the early 1980s. Instead, the government suggested that the ethnic ratios for entrance to government universities would be set for *bumiputeras* and non-*bumiputeras*, ostensibly to the advantage of the latter because their ratio has been higher than their demographic share of the population. However, this “compromise” did not really address the issue of medium of instruction. Also, the *bumiputera* share is considered to have been higher than if university entrance was determined on an exclusively “meritocratic” basis, that is, on the basis of matriculation examination results. Also, the official records of university entrants since then suggest that the *bumiputera* ratios were generally exceeded, at least until the late 1990s.

It is very likely that tertiary education, and especially access to these professions, will continue to preoccupy the middle class, who feel they stand to gain or lose most in this regard. For obvious reasons, focus on the lucrative professions is likely to remain. Such ethnic preoccupations previously constrained state approval of private initiatives in human resource development and domestic tertiary education development, despite the considerable foreign exchange savings that have since accrued.²⁰ However, the situation has changed significantly since the mid-1980s, as businesses have successfully invested in providing education services to secure tertiary educational credentials.²¹ Continued regulation has provided lucrative opportunities for rentier marketing of such degrees. Such preoccupations, as well as the regime's obsession with controlling campus dissent, have stood in the way of urgently needed reforms to higher education in order to better prepare the Malaysian population for rapid cultural and technological changes.

Expenditure

After the NEP's inception, the state's commitment and priorities—as reflected by NEP expenditure allocations—increasingly shifted away from poverty eradication towards restructuring, until the *Fifth Malaysia Plan*. The ratio of allocations for restructuring, compared with poverty eradication, rose steadily from 22 per cent under the *Second Malaysia Plan* to 37 per cent under the *Third Malaysia Plan* and 47 per cent under the *Fourth Malaysia Plan*. According to the *Fifth Malaysia Plan*, the allocation ratio from the fourth plan was later revised upward to 57 per cent, while the ratio for actual expenditure was estimated at 59 per cent (Government of Malaysia 1986:231, table 7.3). However, this ratio was revised downward for 1986–1990 to 33 per cent under the fifth plan, and then further down to 26 per cent, and then 20 per cent with the *Mid-Term Review of the Fifth Malaysia Plan*. Only a small percentage of the *bumiputera* population benefits significantly from restructuring expenditures, compared with the far greater proportion of the Malay population (23.8 per cent in Peninsular Malaysia in 1987) still officially considered poor. Subsequent Malaysian five-year plan documents no longer provide the information necessary for analysis of subsequent trends.

There is considerable evidence that only a fraction of poverty eradication funds actually benefit the poor, considering the huge bureaucracy and other expenses involved. “Of the revised allocation for poverty eradication, about 40 per cent was directly channelled to the poor through programmes such as input subsidies and basic amenities, 31.8 per cent for indirect programmes such as purchase of equipment, credit facilities and training, while the rest was essentially for supporting programmes which included the construction of related office buildings and associated management costs” (Government of Malaysia 1989:60). The nature of poverty eradication expenditure also provides greater benefits to the non-poor; for example, the rice price support programme primarily benefits big farmers with large marketable surpluses of grain. Also, shifting the emphasis from poverty eradication to restructuring society probably tended to increase inequality within the Malay community, while the mid-1980s shift in the opposite direction may partly account for the reduction in Malay income inequality during 1984–1987.

To improve the effectiveness and efficiency of public expenditure, including poverty eradication efforts, strict “performance evaluation” has to be developed. Such comparative evaluation can help identify to what extent each poverty eradication measure is effective in reducing poverty or increasing incomes and economic welfare among target groups, among those who are poor as well as among others who are not poor. Such evaluations would be

²⁰ It was very difficult to obtain official permission to set up private educational institutions because the government wanted to control access to educational opportunities, especially at the tertiary level. Many (mainly non-*bumiputera*) children were therefore sent abroad at considerable expense to their parents. This also involved foreign exchange outflows, which have been reduced as a consequence of some deregulation since the mid-1980s as the devaluation of the ringgit raised the costs of tertiary costs abroad.

²¹ Private education is now big business in Malaysia, with many businesses investing in setting up private colleges that issue degrees from foreign universities through so-called “twinning programs”.

useful in identifying the most effective measures for eradicating poverty in the future, as they would have to take into account the efficacy of specific poverty reduction measures.

Conclusion

Malaysia's New Economic Policy was first announced in 1970 as the principal policy response to the post-election race riots of May 1969, which also resulted in a significant regime change. This paper suggests that the events of May 1969 also involved a widespread popular rejection of the ruling Alliance coalition as well as a "palace coup" within the ruling UMNO as the "Young Turks" supporting then Deputy Prime Minister Razak sidelined Prime Minister Rahman, who had led the UMNO from 1951 and the country to independence in August 1957. The Rahman regime was seen by the new Razak regime as having been too conciliatory with the ubiquitous Chinese business community. The new Razak NEP regime was, therefore, committed to increased ethnic affirmative action or positive discrimination policies on behalf of the ethnic Malays.

The NEP had two objectives, namely "poverty eradication regardless of race" and "restructuring society to eliminate the identification of race with economic function". The NEP was supposed to create the conditions for national unity by reducing interethnic resentments caused by socioeconomic disparities. In practice, the NEP policies were seen as pro-*bumiputera*, or more specifically, pro-Malay, the largest indigenous ethnic community. Poverty reduction efforts have been seen as primarily rural and Malay, with policies principally oriented to the rural Malay peasants. As poverty reduction efforts had been uncontroversial and had declined in significance over time, the NEP came to be increasingly identified with efforts to "restructure society" and reduce interethnic disparities, especially between ethnic Malay and ethnic Chinese Malaysians.

The NEP has been associated with the first *Outline Perspective Plan for 1971-1990* (Government of Malaysia 1971, 1973). The OPP sought to reduce poverty from 49 per cent in Peninsular Malaysia in 1970 to 16 per cent by 1990. The actual poverty rate in the peninsula in 1990 was 17 per cent, while the national rate was slightly higher. The NEP's main restructuring target was to raise the *bumiputera* share of corporate stock ownership from 1.5 per cent in 1969 to 30 per cent in 1990. The government's data suggest that *bumiputera* ownership rose to about 18 per cent in 1990 and slightly over 20 per cent in 2000. Although the government originally envisaged that much of the *bumiputera* corporate wealth would be held by trust agencies, private individual *bumiputera* ownership has risen from less than a third to over 90 per cent. Much of the measurement of NEP achievement has been subject to dispute. This has been exacerbated by the lack of transparency on socioeconomic data deemed sensitive.

The NEP has since ostensibly been replaced by the National Development Policy (NDP) associated with the *Second Outline Perspective Plan for 1991-2000*, and then by the National Vision Policy linked to the *Third Outline Perspective Plan for 2001-2010*. Although the new policies have put far greater emphasis on achieving rapid growth, industrialization and structural change, there is a widespread perception that public policy is still primarily influenced by the NEP's policies of restructuring society.

These policies are believed to be especially important in terms of how public policies affect corporate wealth ownership as well as other areas, notably education and employment opportunities. In other words, ethnic discrimination primarily involves the business community and the middle class, where interethnic tension is most acute. Interethnic business coalitions have become increasingly important over time, often with the ethnic Malay partner securing rents for gaining access to government-determined business opportunities, and the ethnic

Chinese partner with business acumen getting the job done. Such “Ali Baba” arrangements²² have generated considerable resentment, especially among those denied access to such business opportunities.

With privatization opportunities from the mid-1980s largely decided on a discretionary basis by the government leadership, there has been growing resentment and criticism of rent-seeking and cronyism. Such disbursement of privatization opportunities have also strengthened the leadership’s means for doling out lucrative opportunities, and thus political patronage, in turn encouraging competition for party and government political office and upward mobility. The selective nature of the bail-out processes and procedures following the 1997–1998 currency, financial and economic crises have strengthened, rather than undermined, these tendencies.

While there is little doubt that specific socioeconomic targets of the NEP have been largely achieved, it is not clear that such achievement has led to national unity, understood in terms of improved interethnic relations. Associating improved interethnic relations almost exclusively with reduced interethnic disparities among the respective business communities and middle classes has in fact generated greater ethnic resentment and suspicion on both sides. Ethnic affirmative action policies, as implemented and enforced in Malaysia, have associated the interests of entire ethnic groups with their respective elites, thus generalizing resentments associated with interethnic, intra-class competition. Therefore, it is unlikely that the means of ethnic affirmative action will achieve the end of improved interethnic relations. An alternative approach needs to be found to create a better rapport among the various ethnic groups over the long term.

Quite predictably, it has been in the area of wealth ownership that there seems to have been the greatest false modesty all round. The main protagonists – the Malays and the Chinese – are both very insistent that the official figures exaggerate their respective shares of economic wealth. While there are grains of truth in such claims, the arguments are essentially self-serving. They are used to legitimize and support claims for greater shares, and for government intervention or withdrawal in this regard, as the case may be. But what is most telling, perhaps, is that increased wealth ownership for any particular ethnic group actually only involves a very small minority, who are nevertheless ever ready to proclaim that they embody the interests of the particular ethnic group with which they are identified.

The relations between wealth distribution and other interethnic economic disparities, such as income distribution, may be quite spurious. It is quite possible that there would be greater interest in raising incomes, rather than redistributing wealth. It is quite likely that there will be no further upward revision of the NEP’s wealth restructuring targets above 30 per cent, despite continued Malay calls for wealth redistribution to reflect ethnic demographic proportions. As post-1990 (National Development Policy and *Second Outline Perspective Plan, 1991–2000*) and post-2000 (National Vision Policy and *Third Outline Perspective Plan, 2001–2010*) policies suggest, it is likely that the 30 per cent target, which has developed such great symbolic significance and is most closely identified with the NEP in the public imagination, will be indefinitely retained for achievement at some point in the future. Depending on how one chooses to measure corporate wealth distribution, it can be shown that the 30 per cent target has already been achieved or is close to being achieved.

However, adopting such measures to assuage *bumiputera* demands is likely to be politically risky. Furthermore, under the NEP, many who now control UMNO and the other BN parties at various levels, actually enjoy rentier incomes, largely attributable to the NEP and the climate it has fostered. These people are unlikely to give up such opportunities – perceived to have been provided by the NEP – without a fight. Hence, any government based upon such patronage and

²² Such arrangements refer to joint-ventures between ethnic Malays (“Ali”) and ethnic Chinese (“Baba”, a term used to refer to the “Straits Chinese” who settled in the port settlements of colonial Malaya before the mass immigrations into the tin-bearing hinterlands from the mid-nineteenth century), usually with a view to gaining advantage from the presence of the Malay partner, who is often seen as merely a front for the controlling Chinese interests.

support is unlikely to be capable of riding roughshod over such interests, despite the better judgement of those with greater appreciation of the mixed legacy of the NEP.

The Mahathir government passed up two opportunities (in 1991 and 2001) to break with past policies in the interest of greater economic efficiency, more rapid growth and fairer distribution. It has been able to choose whether or not to announce that the NEP objectives, or more precisely the OPP targets, have been achieved. By doing so, the government could have made a clean break with the NEP in 1991 and embarked on new and different policies. Instead, the government chose to continue the basic thrusts of the NEP with some changes, reflecting Mahathir policy priorities, including greater emphasis on growth, industrialization and the emergence of the Bumiputera Commercial and Industrial Community (BCIC). This compromise formula sought to insert and assert Mahathir's priorities without excessively threatening his UMNO following, who are yet to be weaned off the NEP. Thus, the *Second Outline Perspective Plan, 1991–2000* was associated with the National Development Policy. This process continued in 2001 with the announcement of a new National Vision Policy to coincide with the *Third Outline Perspective Plan* period (2001–2010), an obvious reference to Mahathir's Vision 2020, first enunciated in February 1991.

Whether or not the new government policy represents any significant departure from the policies of the 1990s is difficult to gauge, but seems unlikely. In view of policy trends under Mahathir, which have mainly benefited the private sector, including foreign investors, there is little evidence of any significant advances in social policy to enhance the welfare of the majority. Unlike the first decade of the NEP in the 1970s, when social policy – albeit primarily based on ethnicity – became important, the last two decades have witnessed redistribution effects increasingly captured by politically-connected Malay business and middle-class interests while private sector promotion has primarily benefited politically well-connected rentier or crony interests.

The 1997 currency crisis and the unprecedented severe contraction of 1998 (Jomo 2001) drew attention to the cronyistic practices that have become an important feature of Malaysia's business landscape. Although the focus on cronyism as the cause of the 1997–1998 currency and financial crises was somewhat misplaced and served the proponents of financial liberalization and capital account openness, it is now recognized as a major problem distorting and retarding the development of Malaysian modernization and industrialization, as well as economic dynamism and competitiveness. After a strong recovery in 1999 and 2000, the Southeast Asian regional economic slowdown in 2001 underscored the weakness of Malaysia's domestic engines of growth and the mixed consequences of economic openness and dependence. The prospects for Malaysia's domestic engines of growth are increasingly recognized as weak, not least because of the economy's openness and strong outward orientation, as well as its historical reliance on foreign direct investment (FDI) for propelling its most dynamic industries.

One consequence of foreign domination of Malaysian manufacturing has been to encourage Malaysian investors to gravitate to other rentier activities, especially finance and property. As far as most Malaysian primary commodities are concerned, the major problems on the supply-side have been rising labour costs and the exhaustion of timber and land resources. Hence, for continued economic expansion, Malaysia desperately needs new investments, technology and market access, especially for manufacturers. FDI from abroad is supposed to sustain capital inflows, provided earlier by foreign borrowing in the early 1980s and by portfolio inflows before the 1997 crisis. But with the availability of China and other competitive investment locations, Malaysia appears less attractive to prospective investors.

For ethno-political as well as economic reasons, the Malaysian government favoured foreign investment, rather than (predominantly Chinese) domestic investment in the late 1980s. This strategy further enhanced foreign capital's dominance of Malaysian industry. However, in view of the post-1997 perception of lack of Malaysian policy consistency, it is unlikely that the massive foreign investments desired will be forthcoming, at least in the amounts desired in the

near future. The government may then be tempted to either resort to foreign borrowing once again, or to offer even more attractive terms to encourage renewed foreign investment. It will be difficult to open the oil (and gas) tap much more, or to continue to cut down the already diminished forest, as happened in 1987. Needless to say, these options do not really offer sustainable, long-term growth and structural change for the Malaysian economy.

The debate over future Malaysian economic policy has recently surfaced again, after the economic and political crises of 1997–1998, causing considerable concern in various quarters. Decisions about future economic policies are probably not going to be decided by the interests or needs of the public, but are more likely to reflect the interests and desires of those in power and others of influence, including foreign economic advisors, who usually represent the interests of transnational corporations and international economic agencies.

While there is little doubt that the Mahathir regime's economic policy rhetoric had been decidedly nationalistic since 1998 and monetary policy has been somewhat independent, and although the ringgit has been problematically pegged to the US dollar since September 1998, there is little evidence of consistently sustained nationalistic economic policies. On the contrary, there have been a series of pragmatic policy reversals encouraged by the deteriorating situation since the strong recovery of 1999–2000.

After the economic policy shifts since the mid-1980s and Mahathir's retirement in 2003, economic policy has emphasized rapid growth, renewed redistribution efforts in favour of ethnic Malays—ostensibly to recover the Malay political ground—and greater deference to foreign business interests to enhance international acceptance in the wake of Mahathir's problematic reputation in the West.

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