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The New Economic Policy - For Better and Worse?

By Ooi Kee Beng

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Malaysia's New Economic Policy (NEP) is a policy. Let us start by stating the obvious. It is not an article in Malaysia's Constitution, and there is no law legislated directly to steer it. It came into being after the riots of May 1969 as a social restructuring programme, expressed initially in the Second Malaysia Plan of 1970-75, and further elaborated upon in the Mid-term Review of 1973. It is simply a pragmatic and profound approach to post-colonial nation building, which was not carved in stone and which was not meant to be perceived as being carved in stone.

The problems facing the country in those early years had been great indeed. The communists was a steady threat, the Indonesians under Sukarno worked hard to destabilize Malaysia, and the Federation of Malaysia formed in 1963 soon lost one of its members - Singapore - in 1965 due to reasons stemming from worsening racial relations.

Second, although the NEP is comprehensive in character, the basic analysis underlying its creation, and that stayed as its *raison d'être*, was economic, as expressed in its name. The economic figures from that time were not always encouraging. Although the Gross Domestic Product Index averaged 4.1% p.a. in 1956-60 and grew to 5.4% p.a. in 1966-70, income gaps increased during this period, especially between the rural areas and the towns.

Population growth was among the world's highest, at 3.4% in 1957, while the unemployment rate jumped from 2% in 1957 to 8% in 1970. The production structure remained colonial in many ways, and was constructed to serve the global economy centered in the West. The labour structure was unsurprisingly divided along ethnic lines in the classic fashion that had always suited imperial systems. The biggest chunk of the economy was actually in the hands of foreigners. Only in the construction business alone were the Chinese a stronger actor than the foreigners. Among the local groups, the income gap undoubtedly favoured the Chinese. In 1957, the average annual income for a Malay was 55% of that of an Indian and 43% of that of a Chinese, and in 1967, a Malay

was earning on an average about 55% of what a non-Malay was making. Furthermore, within each of the ethnic groups, the poor were getting poorer and the rich richer.

The differing fortunes of various industries, given the intimate connection between ethnicity and occupation, meant that different ethnic groups would fare differently in the long run. The Malays, who despite making up 46.8% of the population, controlled only 1.9% of the country's share capital. The Indians, who made up 9%, owned 1% while the Chinese, who made up 34.1% of the population, owned 22.5%. Foreign ownership accounted for much of the rest.

It was in this mood of distrust and uncertainty that the pivotal general elections of 1969 was held and the subsequent May 13 clashes in Kuala Lumpur took place.

Thirdly, the thinking was new. The approach disclosed the leftist and anti-colonial motivation that deemed economics as the base of the socio-political superstructure. Given this all-encompassing secular perspective, the conception and implementation of the NEP could not but be comprehensive. One of the sources of inspiration for the Razak administration was the unique book on the colonial economy written by James J. Puthuchery and published in 1960, *Ownership and Control in the Malayan Economy*. The conclusion in that book was that state mobilisation of public financial resources was necessary in a postcolonial economy if the detrimental colonial patterns of ownership and control were to be properly broken. What made this leftism invisible to the Malaysian public in general - and which perhaps in the end neutralised it - was the great importance given to race in the implementation of the NEP. As we know, citizenship for non-Malays was a major issue in the negotiations for independence. Over time, the issue of race slowly but surely occupied centre stage to limit the rights of citizenship gained through those negotiations.

Tunku Abdul Rahman's *laissez faire* and gradualist approach to nation building became the easy target for impatient young Malays such as Mahathir Mohamed and Musa Hitam. He was forced to take the blame for purportedly failing the Malays as a community.

The NEP had therefore to meet certain Malay demands, and was the reason the leftist approach to social restructuring became racialised to an extreme degree. In tandem with the Islamisation that swept the country from the mid-1970s onwards, and the concentration of political power, rightist concerns about privilege, race and religion soon came to overshadow leftist ambitions to eradicate poverty from among all races. Formally, the two conflated goals of the NEP were (1) eradicating poverty by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race, and (2) accelerating the process of restructuring Malaysian society to correct economic imbalance, so as to reduce and eventually eliminate the identification of race with economic function.

The Mid-term Review added that NEP measures would be undertaken "in the context of rapid structural change and expansion of the economy so as to ensure that no particular group experiences any loss or feels any sense of deprivation in the process".

To their credit, the policy's architects did know that balancing leftist and rightist approaches was a risky venture, and so decided to put a twenty-year limit on it. As the Minister of Special Functions and Minister of Information, Ghazalie Shafie, said in an

recent interview: “If the policy had not worked after 20 years, then it should not be continued anyway”. However, this wisdom has since been discarded, and the NEP has survived to this day under other names.

Judging from notes made by Tun Dr Ismail Abdul Rahman, the Home Affairs Minister and the Deputy Prime Minister in the crucial early 1970s, the government’s idea was to bring 30% of the Malay community into the business world. Somewhere along the way, this goal morphed into the gaining of 30% stock ownership for Malays.

The NEP architects assumed that national budgets would remain small for decades to come. Had they known that huge sums of petro-ringgits would soon be available, perhaps the structure of affirmative action projects would have been more direct and focused and less restructural in essence. The long-term effects of the NEP cannot be appreciated without reference to other radical measures taken in the early 1970s. These include amendments in 1971 to the Sedition Act of 1948, which overruled parliamentary immunity among other things, the 1971 Constitutional (Amendment) Bill that forbids discussions about sensitive issues such as citizenship, the national language, the special position of the Malays, the legitimate interests of non-Malays, and the sovereignty of the sultans, as well as the 1971 Universities and University Colleges Act, which strongly limits students from participation in political activities.

At the same time, the Alliance coalition was expanded from three members to six, and finally to 14, and renamed the Barisan Nasional on 1 January 1973. This altered dramatically the power equation between the parties in favour of the United Malays National Organisation (UMNO). “Ultras” such as Mahathir Mohamed were soon rehabilitated.

In the middle of all this, the moderate voice of Tun Dr Ismail was silenced when he suffered a fatal heart attack on 2 August 1973.

In 1974, the Petroleum Development Act (PDA) was passed, to be followed a year later by the Industrial Coordination Act (ICA). Both of these served to strengthen the hand of the increasingly UMNO-controlled state.

Summa summarum, the changes that took place in the early 1970s transformed Malaysia profoundly, and public space shrank spectacularly. The NEP thus took shape in an atmosphere where democracy was diminished and Malay ethnocentrism became a decisive factor. UMNO was in a position to take full advantage of the situation, having the good fortune of rising oil revenues to fund its projects and finance its political culture.

How deep then do the effects of the NEP go? A fixation with race certainly became increasingly popular once government financing encouraged it. No real closure to the trauma of May 13 could therefore take place. Inter-ethnic segregation has therefore been more obvious than integration. The colonial discourse of indigeneity and the protection of indigenous peoples did not fade away but instead continued until today. Leftist arguments against exploitation and class injustices have found it hard to get a hearing, given how race loyalty has been considered more vital than class consciousness. A feeling of intra-communal complicity pervaded all the various ethnic groups.

A new politico-economic culture grew up around UMNO built on patronage and exclusiveness. This party’s power has not necessarily meant improved conditions for all

Malays, judging by how the income gap within the group remains the widest. Widespread UMNO penetration into Malaysian and Malay society has been thorough, and how far this is true is seen in how the party is unable to respond positively or creatively to the punishing results of the polls of 8 March 2008.

But perhaps worst of all, the curbs put on freedom of speech in synchrony with the concentration of power in the hands of UMNO has doomed Malaysia to a long-term leadership crisis and to a grave crisis in its debate culture.

The NEP did succeed to an extent. By 1990, Malay stock equity ownership was at 19%, up from 1.9% in 1969. However, for some reason, it has remained more or less at that level ever since, according to official figures. This, one would assume, should have been taken by voters as a clear indicator that governments since 1990 had been failing badly in helping the Malay community as a whole. That had not seemed to be the case, at least until the elections of 2008.

At the present time, the opposition, including Anwar Ibrahim's Parti Keadilan Rakyat, has been demanding that the NEP be replaced by a needs-based race-blind affirmative action programme. The future of the extended and widely misused programme has never been as uncertain as it is now.

*The writer is a Fellow at Singapore's Institute of Southeast Asian Studies. His latest books include *Lost in Transition: Malaysia under Abdullah* (SIRD & ISEAS 2008) and *The Reluctant Politician: Tun Dr Ismail and His Time* (ISEAS 2006). The latter won an Excellence Award in the category "Best Writing Published in Book Form, about Any Aspect of Asia (non-fiction)" at the Asian Publishing Awards ceremony held in Singapore on 15 July 2008.*