

How Malaysia benefited from the NEP

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I REFER to the criticism by the European Union ambassador Thierry Rommel, against the New Economic Policy, which he alleges is a "Bumiputera-centric" and discriminatory policy.

This is the sort of criticism of the NEP which I call loose coffee-shop talk about the NEP in my speech at the recent Pemuda-Umno conference on the NEP, in honour of the formulator of the policy, namely Tun Abdul Razak.

What the ambassador was perhaps unaware of is that the NEP was a package of seven elements. One of the seven, the Economic Restructuring element, was directed specifically to elevate the status of the Bumiputeras to that of the non-Bumiputeras.

There was a strong rationale for the inclusion of this thrust, which we will take up later in this note. For now, let us examine what the NEP was.

The NEP package had seven main thrusts, as conceived by the founders of the NEP:

- Maximum economic growth (around six to seven per cent annually);

- Economic restructuring to reduce economic imbalances in terms of: Income (reduce the disparity ratio between the Bumiputeras' income and the non-Bumiputeras' income);

wealth (30 per cent public quoted share holdings) and creation of the Malay commercial and industrial class; employment (to reflect the multi-racial composition of the population at all levels in firms, etc);

- Reduce poverty irrespective of race (hard-core poverty, rural poverty, urban poverty, poverty in the Malay-dominated states of Peninsular Malaysia, extreme poverty among the Bumiputera community in Sabah and Sarawak);

- Full employment of the labour force (absorbing surplus labour, particularly from the rural sector);

- Interventionist/proactive government (federal, state, local);

- Monitoring of the implementation of the NEP; and,

- Social policy for conflict avoidance.

When one criticises the NEP, one must criticise all the seven elements. To single out one element for criticism and then to draw from that a general conclusion that the whole NEP was discriminatory is not intellectually honest nor a valid criticism.

The fact is that with the exception of the second thrust, the other thrusts of the NEP were all Malaysian-inclusive policies.

What were the results of the implementation of the NEP?

- Malaysian economic

growth was one of the highest in the world during the NEP period of 20 years, that is, on a sustainable basis, given normal cyclical fluctuations originating and transmitted from the international economy.

- Economic restructuring was partially successful: It was successful from 1970-1987; the income disparity narrowed; capital ownership rose from 1.3 per cent to over 20 per cent; the employment structure to reflect the multi-racial composition of the Malaysian population improved; and economic inequality began to rise again from 1987 to the present day.

- Poverty eradication irrespective of race was successful. Malaysia was one of the few countries which managed to achieve such success.

- Full employment was partially successful, but the private sector continued to practise an exclusive policy against Malay labour.

- Interventionist/proactive government (Interventions by the government in the market place increased to correct price distortions).

- Monitoring of policy was partially successful. Towards the later part of the NEP, it was effectively abandoned, together with most of the instruments of the NEP.

- Social policy was implemented erratically and not comprehensively as recommended by the NEP.

Why was the restructuring objective included in the NEP package? The fact is that this country remains as in 1969 one of the most unequal societies anywhere in the world, with the Gini Concentration Ratio standing at above 0.4, and rising, which is alarming by international standards.

To make it worse, this inequality coincides with race, cultural and linguistic divisions. Whereas in a homogenous society like Japan, the issue would be a straightforward economic issue, here it becomes a race issue. Not to treat this issue seriously would be national suicide.

The 1969 racial riots were believed to have been caused partly by this severe ethnic inequality. The inequality/instability nexus operates in any society when extreme inequality pervades in the society. This process, for example, is evident in South Africa and in other African countries, and in the Latin American countries.

The NEP confronted the problem of extreme ethnic inequality directly after the racial riots of 1969 by the inclusion of the second thrust in order to create, gradually over decades, an ethnically-bal-

anced economy which would erase economic function with race identification. In other words, to create Malaysian national unity in diversity which is the national ideology.

What were the legal and moral foundations of the second thrust? This is the well known Social Contract of 1957, where one million citizenships were given at a stroke of the pen in exchange for the non-Malays to help the Malays economically, the Rukun Negara, and Article 153 of the Federal Constitution.

The positive affirmative action policy taken was consistent with the Federal Constitution, agreed to by the founding fathers, the UN Charter, Human Rights, Democracy, Free Trade and Enterprise, Rule and Law and Civil Society. The rights of the minority were protected by the Federal Constitution.

The distribution to be made according to the policy would be from the potential GDP to be created, that is on the "increments" of the GDP, with the Malays participating in the making of the incremental GDP cake, in terms of capital, labour and other factors of production and to benefit proportionally, and not the distribution or nationalisation of what the non-Malays had already owned.

Who gained and who lost

out from the NEP? The nation gained with Chinese capital now replacing foreign capital as the most dominant force in the country.

On the whole the implementation of the NEP, despite its imperfections, helped Malaysia achieve one of the highest rates of economic growth in the world on a sustained basis (certainly higher than the EU average), reduced poverty and restructured the production and income pattern to gradually contain rising ethnic economic disparity when the NEP was firmly implemented.

The NEP and the NDP (New Development Policy) have given this country political stability and prosperity, so much so that we are confident of achieving developed-country status by 2020.

Equitable-growth policy, growth-with-equity policy, broad-based growth policy, or pro-poor policy — all similar to the NEP in core or vice versa except that in the case of our country ethnicity is a fact of life which has to be dealt with firmly for common good and survival, is now a standard policy prescription by the United Nations and its agencies, including in the EU itself.

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