



The
New Economic Policy
in Malaysia

Affirmative Action, Ethnic Inequalities
and Social Justice

Editors

EDMUND TERENCE GOMEZ
JOHAN SARAVANAMUTTU



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UN DR. MAHATHIR MOHAMMAD

The New Economic Policy in Malaysia

Affirmative Action, Ethnic Inequalities and Social Justice

Edited by

Edmund Terence Gomez
and
Johan Saravanamuttu



PUSTAKA PERDANA



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CONTENTS

<i>List of Tables, Figures and Appendix</i>	vii
<i>List of Abbreviations and Acronyms</i>	x
<i>List of Contributors</i>	xiv
<i>Preface and Acknowledgements</i>	xvi
INTRODUCTION	
Malaysia's New Economic Policy: Resolving Horizontal Inequalities, Creating Inequities? <i>Edmund Terence Gomez, Johan Saravanamuttu and Maznah Mohamad</i>	1
PART 1	
AFFIRMATIVE ACTION AND POVERTY ERADICATION	
CHAPTER 1	
The New Economic Policy and Poverty Eradication in Malaysia <i>Ragayah Haji Mat Zin</i>	31
CHAPTER 2	
The New Economic Policy and Poverty at the Margins: Family Dislocation, Dispossession and Dystopia in Kelantan <i>Maznah Mohamad</i>	61
PART 2	
AFFIRMATIVE ACTION AND ENTERPRISE DEVELOPMENT	
CHAPTER 3	
Nurturing Bumiputera Capital: SMEs, Entrepreneurship and the New Economic Policy <i>Edmund Terence Gomez</i>	87
CHAPTER 4	
Skewed Economic Development and Inequality: The New Economic Policy in Sarawak <i>Andrew Aeria</i>	117

PART 3	AFFIRMATIVE ACTION AND THE PUBLIC SECTOR	
CHAPTER 5	Healthcare Policy in Malaysia: Universalism, Targeting and Privatisation <i>Chan Chee Khoon</i>	151
CHAPTER 6	The Public Service and Ethnic Restructuring under the New Economic Policy: The New Challenge of Correcting Selectivity and Excess <i>Lim Hong Hai</i>	175
CHAPTER 7	Affirmative Action in Occupational Representation: Policies and Outcomes <i>Hwok-Aun Lee</i>	205
CHAPTER 8	Racial Citizenship and Higher Education in Malaysia <i>Lee Hock Guan</i>	235
PART 4	AFFIRMATIVE ACTION, IDENTITIES AND INCLUSION	
CHAPTER 9	Left Behind: The Orang Asli under the New Economic Policy <i>Rusaslina Idrus</i>	265
CHAPTER 10	The New Economic Policy and the Identity Question of the Indigenous Peoples of Sabah and Sarawak <i>Zawawi Ibrahim</i>	293
PART 5	NEW POLITICS IN MALAYSIA	
CHAPTER 11	The New Economic Policy and the Centralisation of Power <i>Ooi Kee Beng</i>	317
CHAPTER 12	The New Economic Policy, New Malay Middle Class and the Politics of Reform <i>Johan Saravanamuttu</i>	335
<i>Index</i>		359

TABLES, FIGURES AND APPENDIX

Tables

1.1	Total development and poverty eradication allocation by plan (<i>RM million</i>)	32
1.2	Malaysia: incidence of poverty by rural–urban strata, 1970–2009	34
1.3	Poverty incidence by state, 1970–2009	36
1.4	Incidence of poverty and hard-core poverty by ethnic groups, 1970–2009	39
1.5	Summary of rural development strategies and programmes	41
1.6	Impact on target groups since establishment of MADA	50
1.7	Distribution of price subsidy, 1982	51
1.8	Percentage distribution of registered professionals by ethnic group	53
1.9	Monitoring the poor through eKasih, 30 June 2011	55
3.1	Ownership of share capital (at par value) of limited companies, 1969–2008 (<i>per cent</i>)	89
3.2	Definition of SMEs	93
3.3	Legislation on industrial policies	96
3.4	Vendor Development Programme	100
3.5	Global Supplier Programme	101
4.1	Sarawak: average annual GDP, 1970–2000 (<i>1978 constant prices</i>)	120
4.2	Sarawak poverty rates, 1975–2009 (<i>per cent of households below the official poverty line</i>)	121
4.3	Sarawak: mean household income growth among ethnic groups	122
4.4	Sarawak: comparison of share of GDP by industrial origin in constant prices, 1967–2009 (<i>per cent</i>)	124
4.5	Sarawak and peninsular Malaysia: number of establishments, gross value of output and number of employees of manufacturing and large construction industries, 1991, 2000, 2008	125

4.6	Sarawak and peninsular Malaysia: approved foreign investment in manufacturing projects and value of capital investment (<i>RM million</i>)	126
4.7	Sarawak: distribution of labour force by educational attainment and ethnic group, 2010 (<i>per cent</i>)	127
4.8	Sarawak and peninsular Malaysia: timber rent capture, 1966–1989 (<i>RM billion</i>)	130
5.1	Daily ward charges: Kuala Lumpur Hospital	154
5.2	Malaysian health system: public and private providers, 1999–2006	156
5.3	Population health indices for four countries	158
5.4	Malaysia: health expenditures, 1997–2003	158
6.1	Ethnic representation in the public service in peninsular Malaysia, 1969–1970	177
6.2	Index of ethnic representation in the public service in peninsular Malaysia, 1969–1970	178
6.3	Index of representation for Bumiputeras and non-Bumiputeras in the Malaysian public service, 1982	179
6.4	Ethnic representation in the Malaysian public service, 2005	180
6.5	Index of ethnic representation in the Malaysian public service, 2005	180
6.6	Ethnic representation in the Malaysian police force, 2004	181
6.7	Ethnic representation in the Malaysian public service, 2009	182
6.8	Index of ethnic representation in the Malaysian public service, 2009	183
6.9	Mean ratings of equal recruitment and promotion chances	185
6.10	Applicants and recruits by ethnic group, 2006–2010	188
6.11	Ethnic composition of public service recruits, 2006–2010	198
7.1	Labour force with tertiary education, within ethnic group, 1995–2007 (<i>per cent</i>)	215
7.2	Unemployment rates within ethnic group, 2004 (<i>by age range</i>)	217
7.3	Unemployment rate by ethnic group, 2007	217
7.4	Distribution of occupation by ethnic group, 1970–2000 (<i>per cent</i>)	220
7.5	Distribution of selected occupations by ethnic group, 2000–2005 (<i>per cent</i>)	220
7.6	Teachers and nurses as percentage of professionals and technicians, by ethnicity, 2000 and 2005	221
7.7	Registered professionals by ethnicity, 1970–2005 (<i>per cent</i>)	222

7.8	Proportion of tertiary educated managers and professionals (public and private sector) and total tertiary educated employed persons, by ethnicity and institute, 2000	224
7.9	Proportion of tertiary educated managers and professionals (public and private sector) and total tertiary educated employed persons, by ethnicity and location of institute, 2000	225
8.1	Total number of public and private higher educational institutions, selected years	245
8.2	Enrolment of public and private higher education institutions, selected years	246
9.1	Distribution of the Orang Asli population by religion (<i>per cent</i>)	269
9.2	Orang Asli population living below the poverty line (<i>per cent</i>)	269
9.3	Orang Asli households without amenities (<i>per cent</i>)	270
9.4	Summary of studies showing prevalence of underweight and stunting among Orang Asli children (<i>per cent</i>)	272
9.5	Educational attainment of the Orang Asli population	273
9.6	Orang Asli students dropping out between year six and form one	274
9.7	Orang Asli students dropping out between form one and form five	274
9.8	Orang Asli by occupation (<i>per cent</i>)	276
9.9	Orang Asli land status	284

Figures

9.1	Approximate location of Orang Asli groups in peninsular Malaysia	268
12.1	Occupation by ethnic groups, 2008	339
12.2	Bumiputera professionals: 1995, 2008	340

Appendix

3.1	SME Corp Malaysia	114
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ABBREVIATIONS AND ACRONYMS

ADIL	Pergerakan Keadilan Sosial (Movement for Social Justice)
AIM	Amanah Ikhtiar Malaysia
APEC	Asia-Pacific Economic Cooperation
APHM	Association of Private Hospitals of Malaysia
BA	Barisan Alternatif (Alternative Front)
BCIC	Bumiputera Commercial and Industrial Community
BEE	Black Enterprise Empowerment
BiotechCorp	Malaysian Biotechnology Corporation
BN	Barisan Nasional (National Front)
CGC	Credit Guarantee Corporation (Malaysia) Berhad
CIC	Capital Issues Committee
CMS	Cahaya Mata Sarawak
DAP	Democratic Action Party
DBP	Dewan Bahasa dan Pustaka (Institute of Language and Literature)
DNA	deoxyribonucleic acid
DNU	Department of National Unity
EOI	export-oriented industrialisation
EPF	Employees' Provident Fund
EPU	Economic Planning Unit
FAMA	Federal Agricultural Marketing Authority
FDI	foreign direct investment
FELCRA	Federal Land Consolidation and Rehabilitation Authority
FELDA	Federal Land Development Authority
FGVH	FELDA Global Ventures Holdings
FIC	Foreign Investment Committee
GDP	gross domestic product
Gerakan	Gerakan Rakyat Malaysia (Malaysian People's Movement)
GLC	government-linked company/corporation
GMP	guaranteed minimum price for padi
GSP	Global Supplier Programme

GWh	gigawatt hour
HDC	Halal Industry Development Corporation
HICOM	Heavy Industries Corporation of Malaysia
Hindraf	Hindu Rights Action Force
HIS	household income survey
HIV	human immunodeficiency virus
HRDB	Human Resource Development Board
HRDF	Human Resource Development Fund
IADP	integrated agricultural development programme
IBRD	International Bank for Reconstruction and Development
ICA	Industrial Coordination Act
ICT	information and communication technology
IHH	Integrated Healthcare Holdings
IJN	Institut Jantung Negara (National Heart Institute)
ILO	International Labour Organisation
IMM	Institute of Marketing Malaysia
IMP3	Third Industrial Master Plan
IMU	International Medical University
INTEC	International Education Centre
ISA	Internal Security Act
ISEAS	Institute of Southeast Asian Studies
ISI	import-substitution industrialisation
JHEOA	Jabatan Hal Ehwal Orang Asli (Department of Orang Asli Affairs)
KITA	Parti Kesejahteraan Insan Tanah Air (People's Welfare Party)
KPJ	Kumpulan Perubatan Johor
LCE	Lower Certificate of Education
LPN	Lembaga Padi Negara (National Rice Board)
MADA	Muda Agricultural Development Authority
MARA	Majlis Amanah Rakyat (Council of Trust for Indigenous People)
MATRADE	Malaysia External Trade Development Corporation
MCA	Malaysian Chinese Association
MCE	Malaysian Certificate of Education
MCP	Malayan Communist Party
MDeC	Multimedia Development Corporation Berhad
MIC	Malaysian Indian Congress
MIDA	Malaysian Industrial Development Authority
MIDF	Malaysian Industrial Development Finance Berhad
MITI	Ministry of International Trade and Industry
MJSC	MARA Junior Science College

MNC	multinational company/corporation
MOE	Ministry of Education
NCC	National Consultative Council
NCR	native customary rights
NDP	National Development Policy
NEP	New Economic Policy
NHEFC	National Higher Education Fund Corporation
NOC	National Operations Council
NSDC	National SME Development Council
NUBE	National Union of Banking Employees
NVP	National Vision Policy
PAS	Parti Islam SeMalaysia (Malaysian Islamic Party)
PBB	Parti Pesaka Bumiputera Bersatu (United Traditional Bumiputera Party)
PBDS	Parti Bansa Dayak Sarawak (Dayak Peoples Sarawak Party)
PBS	Parti Bersatu Sabah (United Sabah Party)
PDA	Petroleum Development Act
Perkasa	Pertubuhan Pribumi Perkasa Malaysia
Pernas	Perbadanan Nasional (National Corporation)
Perodua	Perusahaan Otomobil Kedua Berhad
Petronas	Petroleum Nasional Berhad (National Petroleum Corporation)
PKMM	Partai Kebangsaan Melayu Malaya (Pan-Malaya Malay Nationalist Party)
PKN	Parti Keadilan Nasional (National Justice Party)
PKR	Parti Keadilan Rakyat (People's Justice Party)
PMIP	Pan-Malayan Islamic Party
PMR	Penilaian Menengah Rendah (Lower Secondary Examination)
POASM	Persatuan Orang Asli se-Malaysia (Orang Asli Association of Malaysia)
PPRT	Projek Perumahan Rakyat Termiskin (Housing for the Poor Project)
PRM	Parti Rakyat Malaysia (Malaysian People's Party)
PRMB	Padi and Rice Marketing Board
Proton	Perusahaan Otomobil Nasional Berhad
PRS	Parti Rakyat Sarawak (Sarawak People's Party)
PSC	Public Service Commission
PSD	Public Service Department
PSRM	Parti Sosialis Rakyat Malaysia (Malaysian People's Socialist Party)
PTD	Perkhidmatan Tadbir dan Diplomatik (Administrative and Diplomatic Service)

R&D	research and development
<i>reformasi</i>	reformation
RIDA	Rural and Industrial Development Authority
RISDA	Rubber Industry Smallholders Development Authority
RPS	Rancangan Pengumpulan Semula (village regroupment project)
<i>Rukunnegara</i>	national principles
SAP	Sabah Alliance Party
SCHOMOS	Section Concerning House Officers, Medical Officers and Specialists
SCORE	Sarawak Corridor of Renewable Energy
Sdn Bhd	Sendirian Berhad (Private Limited)
SEDC	Sarawak Economic Development Corporation
SEPENTAS	Skim Penggalak Tanam Semula
SME	small- and medium-scale enterprise
SME Corp	Small and Medium Enterprise Corporation
SMIDEC	Small and Medium Industries Development Corporation
SNAP	Sarawak National Party
SPDP	Sarawak Progressive Democratic Party
SPM	Sijil Pelajaran Malaysia (Malaysian Certificate of Education)
STPM	Sijil Tinggi Persekolahan Malaysia (Malaysian Higher School Certificate)
SUPP	Sarawak United Peoples' Party
TNB	Tenaga Nasional Berhad
UiTM	Universiti Teknologi MARA
UMNO	United Malays National Organisation
UMW	United Motor Works
UN	United Nations
UNDP	United Nations Development Programme
UNKO	United National Kadazan Organisation
UPKO	United Pasokmomogun Kadazandusun Murut Organisation
UPM	Universiti Putra Malaysia
USNO	United Sabah National Organisation
UTM	Universiti Teknologi Malaysia
UUCA	University and University College Act
VDP	Vendor Development Programme
WHO	World Health Organisation

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PREFACE AND ACKNOWLEDGEMENTS

In 2009, following the onset of the global financial crisis, the Malaysian economy descended into a recession. This economic crisis precipitated an extensive public debate about the effectiveness of affirmative action strategies that had been actively implemented after 1970 through the New Economic Policy. While this public debate about affirmative action was emerging, an assessment of the New Economic Policy was being undertaken by two groups of academics, one based at the University of Malaya and the other at the Institute of Southeast Asian Studies (ISEAS) in Singapore. When members of both groups realised that they were similarly involved in reviewing the New Economic Policy, a decision was taken to pursue this study jointly. Two meetings were subsequently held, the first a workshop at the University of Malaya in June 2010, where the framework for this study was discussed and the outlines of the proposed papers were tabled. A conference was held later that year, in December, and hosted by ISEAS where the papers were presented and debated. Not all papers presented at the conference have been included in this volume, while other contributors were commissioned to prepare chapters on issues we felt were necessary to provide a more holistic review of the outcomes of the New Economic Policy.

What was not questioned during our discussions was the fact that affirmative action is an extremely progressive social policy, an effective tool to redress serious social and economic inequities in multiethnic countries. We had two major queries when we were discussing affirmative action-related strategies such as the New Economic Policy and the Bumiputera Commercial and Industrial Community policy. The first issue of concern was the duration of affirmative action-type initiatives and the consequences of long-term implementation of a policy based on race. Our second key concern was that of access, that is, whether the people targeted to benefit from affirmative action had indeed been the primary beneficiaries of this policy. Our discussions subsequently involved other important and related questions. Were other government policies that were promulgated and

actively implemented during the lifespan of the New Economic Policy, such as neoliberal strategies like privatisation and deregulation, undermining the primary goals of affirmative action? What was the structure of the political system during the implementation of the New Economic Policy?

While discussing these issues, we were compelled to grapple with the key question that has framed public debates about the New Economic Policy. Should the nature of public policies be race based? Can serious socioeconomic problems such as wealth and income inequalities, exclusion and marginalisation be resolved through long-term implementation of policies that target only one disadvantaged ethnic group? In order to establish the parameters of our analyses of these questions, we felt that it was pertinent to deal with the arguments found in the burgeoning literature on horizontal inequalities. The primary argument of the perspective based on horizontal inequalities is that ethnic conflict and interethnic social and economic differences can be best resolved by targeting ethnic groups that are in most need of help. This contention was the primary basis on which the New Economic Policy was justified, an argument that would gain currency in other multiethnic countries such as Fiji and South Africa. In fact, Malaysia is seen as a 'success story' by academics, policymakers and governments that argue in favour of public policies that adopt a horizontal inequalities perspective. Our desire to assess the New Economic Policy provided us also with an opportunity to evaluate the benefits of policies that adopted a perspective that was horizontal, or group based, in nature. This volume is the product of our debates about the pursuit of race-based policies that target people in need.

We are grateful to a number of people who have helped us implement this project. Ambassador K. Kesavapany, the director of ISEAS when this project was conceived, instilled in us the need to complete this study. We acknowledge the support of the Konrad-Adenauer-Stiftung. This foundation was extremely supportive when members of ISEAS approached it to fund this study. We acknowledge the financial support of the University of Malaya, with funding provided through the Social and Behavioural Science (SBS) Research Cluster. We are deeply indebted to the administrative staff of the SBS Research Cluster and ISEAS for hosting the meetings that were convened in Kuala Lumpur and Singapore.

Our greatest debt is to our academic colleagues who prepared chapters for this volume. They participated actively in the animated discussions we had about the New Economic Policy; took time to attend two meetings; and responded promptly to our numerous requests for revisions. Since they

were well aware of the need to review and debate this policy that has long remained a key feature of Malaysia's political economy, they were unstinting in their support that this project be completed. It was a privilege for us to have had the opportunity to work with these fine academics who have shown deep concern about the well-being of Malaysian society.

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While all of them have contributed enormously to this venture, we remain responsible for any shortcomings in this volume.

Terence Gomez (University of Malaya)

Johan Saravanamuttu (ISEAS)

16 September 2012

INTRODUCTION

Malaysia's New Economic Policy: Resolving Horizontal Inequalities, Creating Inequities?

*Edmund Terence Gomez, Johan Saravanamuttu and
Maznah Mohamad*

Affirmative Action and Horizontal Inequalities

In 2009, as Malaysia struggled to deal with a debilitating economic recession following a global financial crisis, an important and intense public debate ensued about the policy of affirmative action, a race-based plan that targeted ethnic groups as a method to resolve serious social and economic inequities (on the global financial crisis, see Hill *et al.* 2011). The programmes associated with affirmative action in Malaysia have their roots in efforts introduced by the government soon after independence in 1957 to remedy ethnically-based inequalities, though they were only actively pursued after the 1969 race riots when the New Economic Policy (NEP) was promulgated. The primary goals of the NEP were to eliminate poverty and alleviate wealth and income inequalities between ethnically-defined communities. The tenets of affirmative action that were embedded in the NEP, a 20-year plan introduced in 1970, were continued after 1990 through broad-based programmes such as the National Development Policy (1991–2000) and the National Vision Policy (2001–2010) and featured prominently in the New Economic Model that was proposed in 2010 to deal with the impact of the global financial crisis on the Malaysian economy.

The debate that began in 2009 about the efficacy of affirmative action drew attention to a number of important questions that had to be

addressed. The key question that arose was whether affirmative action had managed to reduce communal tensions, the primary reason for the introduction of the NEP in the first place. Another crucial question, one that had not been satisfactorily answered, was whether long-term implementation of affirmative action had led to new intraethnically-based inequities. What was indisputable was that a progressive social restructuring policy such as the NEP was imperative after the 1969 crisis to address gross socioeconomic inequalities that had emerged during British colonial rule. The inequalities that had to be addressed included the need to reduce poverty nationwide – nearly 50 per cent of the population had long been mired in it – with the problem particularly acute in rural areas. Corporate stock was very unevenly distributed, not just between ethnic communities, but also between Malaysians and foreigners, particularly British enterprises which owned about 62 per cent of domestic equity.¹

The sense of powerlessness felt by marginalised groups because of forced migratory and settlement patterns introduced by the British colonial government and differing modes of development that were employed in the 13 states in the federation – 11 in the peninsula and Sabah and Sarawak in East Malaysia – had contributed to these social and economic inequalities. The 1969 crisis was attributed to postcolonial development policies that had done little to redress wealth and income disparities between ethnic groups. When the affirmative action-based NEP was introduced, involving extensive state intervention in the economy, this was justified by the government as a vital, but temporary, public policy response to resolve these socioeconomic injustices.

In Malaysia, public policies such as the NEP that target ethnic groups to deal with socioeconomic injustices have contributed to a major paradox. On the one hand, affirmative action in Malaysia is widely viewed by other countries as a ‘success story’, a policy to be emulated. Developing countries such as Fiji, South Africa and Zimbabwe have looked to the ‘Malaysian model’ in an attempt to foster affirmative action for their majority ethnic communities who had endured discrimination and exclusion under repressive colonial and postcolonial regimes. In India, where the policy targets ethnic and class minorities, there is reportedly much interest in replicating the business dimension of affirmative action employed in Malaysia involving the aim of

¹ See Malaysia (1971) *Second Malaysia Plan, 1971–1975* for details of these economic and social inequalities.

creating a Bumiputera commercial community.² Undoubtedly, too, the NEP and its successor policies that had features of affirmative action have helped reduce poverty considerably. By 2009 poverty in Malaysia, according to government figures, had fallen appreciably to 3.8 per cent (Malaysia 2010a: 149). Corporate equity ownership figures, as tabulated by the government – though actively disputed by some analysts³ – indicated that a major change had occurred. By 2008 foreign ownership of Malaysian equity had fallen substantially to 37.9 per cent, while the figure attributed to the Chinese was 34.9 per cent (compared to 22.8 per cent in 1969) and the Indians 1.6 per cent (up from 0.9 per cent); the official corporate ownership figure of the targeted community, the Bumiputeras and government trust agencies, was 21.9 per cent (up from a mere 1.5 per cent in 1969) (*Ibid.*: 403).

On the other hand, this same policy is widely criticised in Malaysia because it is reputed to have severely undermined interethnic social cohesion, inhibited genuine entrepreneurial capacity and contributed to serious new intra-Bumiputera inequities. Some critics attribute a number of Malaysia's current problems – such as a serious brain drain, reluctance by domestic enterprises to invest in the economy and a decline in the quality of public institutions – to affirmative action-based policies (see, for example, Hill *et al.* 2011; Mukherjee and Wong 2011). The core issue during these debates about the efficacy and continuation of affirmative action was whether the policy should be race-based or one implemented to aid the poor, regardless of their ethnicity.

In the public policy literature, there are two major schools of thought.⁴ The first argues that social policies should be universal in orientation, while the second contends that governments should promulgate policies that target disadvantaged groups. In multiethnic countries, the primary concern as to which position should prevail is particularly important since scholars argue that the outcomes of these policies can help reduce racial tensions or add to already existing grievances, erupting into conflict.

² Bumiputera, which means 'sons of the soil', is the term used in reference to ethnic Malays and other indigenous peoples.

³ See, for example, the report entitled 'Overview of the 9th Malaysia Plan' by the Center for Public Policy Studies at the website: <http://www.cpps.org.my>.

⁴ See, for example, Skocpol (1991); Brubaker (1992); Mkandawire (2005); Bakke and Wibbels (2006); Bangura (2006) and Stewart (2008). See also the discussion in Chapter 5 of this volume by Chan Chee Khoon on the issue of targeting and universalism.

In this literature, another reason for the persistence of racial strife in multiethnic societies is that policies are viewed from a vertical perspective, that is they address social inequities from a universal point of view. Vertically-based policies address the plight of individuals in need, regardless of their ethnic background. More recently, a counter argument has emerged in this literature, where the contention is that public policies should be horizontal in orientation. Horizontal inequalities are defined as inequalities between culturally defined groups, such as ethnic, religious, racial or caste-base groups (Stewart 2002, 2008; Stewart *et al.* 2008; Brown 2005, 2008; Østby 2008). The concept of horizontal inequalities differs from that of vertical inequalities as the latter measure inequality by focusing on individuals or households, not groups. Horizontal inequalities are multidimensional, comprising economic, social, cultural status and political attributes. Socioeconomic horizontal inequalities include those in ownership of assets and of incomes and employment opportunities that depend on these assets. They also include access to a range of services, such as education, health and housing, and inequalities in achievements in health and educational outcomes. Political horizontal inequalities consist of unevenness in the group distribution of political opportunities and power, including control over the presidency, the cabinet, parliamentary assemblies, the army, police, and regional and local governments. Cultural status horizontal inequalities refer to differences in recognition and hierarchical status of different groups' cultural norms, customs and practices (Stewart 2008; Stewart *et al.* 2008).

Since the horizontal inequalities perspective rests on an understanding of societal organisation that revolves around the group dimension, its proponents argue that ethnic conflict and interethnic social and economic differences can be better resolved by targeting ethnic communities that are in most need of help. The argument is that horizontal inequalities impact negatively on social stability in a way that is different from consequences of vertical inequalities. Since a vertical inequalities approach offers a purely vertical view of inequalities, it provides no social perspective regarding the organisation of society and of group hierarchies and structures that exist.

The horizontal inequalities perspective is particularly interesting with respect to Malaysia as public policies there, including the NEP, have been conceived from a group and not a vertical inequalities (or individual) perspective. However, the concern of the contributors to this study is that a horizontal inequalities policy approach reinforces racial identities, consolidating and perpetuating ethnic differences that, in the long term,

hinder social cohesion. A further dimension of the argument offered in this study is that what is understood and experienced as group inequality is never fixed but socially constructed and subject to a process of continuous redefinition.

In the context of Malaysia, the other concern is that horizontal inequalities-type policies may contribute to a rise of a negative form of 'politics of identity' by political parties hoping to secure support, a situation that can exacerbate ethnic difference and lead to racial strife. This negative reflexivity of politics has been termed as 'communalism' in the early literature on Malaysian politics (see, for example, Ratnam 1965). On the other hand, Malaysia's well-documented political model of consociationalism (Lijphart 1977), or 'power sharing', is another dimension of this Malaysian paradox. Both the ruling Barisan Nasional (National Front) coalition and the opposition Pakatan Rakyat (People's Alliance) coalition are multiparty political groupings. The United Malays National Organisation (UMNO) is well acknowledged as having a hegemonic presence in the former while, in the latter, the Parti Keadilan Rakyat (PKR) plays a brokering role between Parti Islam SeMalaysia (PAS), the dominant force in the Malay heartland states, and the Democratic Action Party (DAP) that has long commanded the support of urban-based ethnic Chinese. As this consociational model became more entrenched within the political system, it further sharpened group identity among ethnic communities as the component parties of the long-ruling Barisan Nasional coalition are predominantly race-based. The other key members of the Barisan Nasional are the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). The longevity of the Barisan Nasional's form of consociationalism has accentuated the process of intergroup delineation that intensified intragroup competition, while the Pakatan Rakyat has tended to moderate ethnic conflict even as it adopts the electorally successful consociational model. Johan Saravanamuttu and Ooi Kee Beng note these complex developments in ethnic politics in their chapters in this volume.

In spite of persistent criticism of the arguments that constitute the foundation of the horizontal inequalities perspective (see, for example, Chandra 1990; Jomo 1990, 2004; Heng 1997; M. Fazilah 2003; Gomez 2004, 2009; Lee 2005), policies along group lines continue to inform policy planning and implementation in Malaysia. Indeed, the tenets of the horizontal inequalities perspective, endorsed as it has been by even the former UN secretary general, Kofi Annan, have justified arguments why policies should be framed along group lines. However, in the Malaysian case;

intergroup coalition building is now matched by intragroup contestations, seen in particular in the severe competition between UMNO and PAS, both Malay-based parties.

Interestingly enough, if targeting ethnic groups to resolve horizontal inequalities is the best mechanism to reduce interracial conflict, an assessment of affirmative action can determine the veracity of this contention. Affirmative action is, after all, a social policy that reflects implementation of policies along horizontal inequality lines, by compartmentalising people into groups. A careful review of affirmative action, specifically the NEP, can determine the usefulness of group identities and if targeting benefits members of society in a manner that leads to social justice. The primary concern of this study, then, is to assess the outcomes of the NEP and affirmative action initiatives over the past forty years. The issues under review will include the goals of the NEP: to alleviate poverty; to enhance the quality of education (primary and tertiary levels); to nurture the entrepreneurial capacity of Malaysian firms and advance the managerial and developmental roles of government-linked companies (GLCs); to improve the performance of the civil service, specifically its ability to conceive and implement policies; to ensure adequate provision of public health services; to reduce spatial inequalities; and, to foster inclusive discourses and views about ethnic and national identities. Each thematic issue is assessed in terms of the merits and shortcomings of affirmative action with a specific focus on the long-term implications of this policy. In each thematic chapter, intra- and interethnic developments that have emerged because of this policy are reviewed to determine the capacity of this horizontal inequalities-type policy to resolve ethnic inequities, with particular attention paid to the political issues surrounding the implementation of the NEP.

The NEP in Malaysia

When the NEP was launched, its stated primary objective was to achieve national unity through a two-fold mechanism: by reducing poverty regardless of race; and by restructuring society to correct economic imbalances to diminish, even eliminate, the identification of race with economic function. National unity, according to the government, could only be attained once interethnic economic parity had been achieved, specifically by targeting the group most in need, the Bumiputeras.

In an important study of the NEP after its formal termination in 1990, Just Faaland, Jack Parkinson and Rais Saniman (1990) provided a clear

narrative of the social, political and economic rationales for the policy. The 13 May 1969 episode was the catalyst for the government to introduce the NEP and its ideological tool, the *Rukunegara* (National Principles), the latter basically crafted by Ghazali Shafie, who was then minister of home affairs. The NEP and the *Rukunegara* stressed the imperative of national unity and the equitable sharing of wealth in the creation of a just and liberal society. However, as explained by Faaland and his co-authors, two broad 'schools of thought' representing clear philosophical perspectives informed the manner by which the NEP was to be implemented. Both schools of thought had the benefit of foreign consultants. According to Faaland, the Economic Planning Unit (EPU), which advocated a 'return to normalcy', had the support of foreign owners, bankers and experts from most of the international agencies. The Department of National Unity (DNU) received advice from Harvard University's Advisory Service and its Harvard-based economists, including Faaland.⁵

The first school of thought was promoted by the EPU and is termed the 'EPU School' by Faaland, while the second is dubbed the 'DNU School'. The EPU approach emphasised economic growth and drew its inspiration from an orthodox school of economic thought that stresses balanced budgets and rejects the use of policy instruments such as 'deficit financing'. According to this approach, growth was to come first and distribution would follow through a 'trickle-down effect'. Tan Siew Sin, the Malaysian icon of financial discipline, and the country's first finance minister, was partial to this type of thinking (Faaland *et al.* 1990: 29–30). While conservative in approach, the EPU school of thought could be said to have erred on the side of caution and clearly had no overt policy of ethnic group targeting in its major recommendations. The DNU school advocated a diametrically opposite policy and had the backing of another iconic figure, Ghazali Shafie. It stressed the problem of lopsided economic distribution and called for the correcting of ethnic imbalances in three key areas: income, employment and ownership of capital. The ideas for such ethnically-based affirmative action

⁵ Faaland was attached to the DNU in 1969 and 1970, as he himself states, and was clearly deeply involved in all the discussions about the NEP. He and Rais also worked with the National Operations Council (NOC), established after the May 1969 riots. An International Labour Organisation (ILO) team led by Don Snyder advised the government on the formation of the Ministry of Manpower, which also impacted on the manner the NEP was to be executed. (Ozay Mehmet, who was part of the ILO team, provided this information.)

were contained in the document, *Problems of Racial Economic Imbalance and National Unity* (1970), agreed to by the Economic Committee of the National Consultative Council (Faaland *et al.* 1990: 26). The DNU school had adopted a horizontal inequalities approach to resolving the inequities exposed by the 13 May incident. In tangible terms, the goals of the NEP were to be attained by reducing the poverty level to 15 per cent and by increasing Bumiputera corporate equity ownership to 30 per cent by 1990. The three areas targeted by programmes related to the NEP were public higher education, government employment, and private sector employment and equity ownership.

The initial primary concern of the NEP was to provide poor children with quality education. The NEP created educational structures which significantly opened doors for Bumiputera access to special residential schools, public universities and various tertiary institutions. Young Bumiputeras were plucked out of rural areas, sent to well-equipped residential schools and then provided preferential access to tertiary education. A quota system was implemented to raise the number of Bumiputera places in local universities and a scholarship scheme was created to allow large numbers of Bumiputera students to pursue their professional degrees abroad. The outcomes were laudable. The early beneficiaries of such quality education from an early stage of their lives have now emerged as the new middle class which is a growing presence as a community with entrepreneurial capacity. The rise of this new Malay middle class was seen as the key success of the NEP.

The subsequent primary focus of the NEP, particularly from the early 1980s, was on business. Initially, public enterprises, now referred to as GLCs, were established to acquire corporate equity on behalf of Bumiputeras. One key mechanism to enable Bumiputeras to obtain 30 per cent of corporate equity was through preferential distribution of discounted blocks of stock in publicly listed companies. Following active state intervention through public enterprises and trust agencies to acquire, primarily foreign, corporate assets,⁶ these government institutions had emerged as major owners of corporate equity by the early 1980s. By this time, Bumiputera equity ownership, according to government figures, had increased by more than 10 percentage points, to 12.5 per cent. The government would subsequently decide, following the appointment of Mahathir Mohamad as prime minister (1981–

⁶ See Gale (1981) for an in-depth analysis of the development of these public enterprises during the first decade of the NEP.

2003), to nurture Bumiputera capitalists through preferential treatment involving government contracts and cheap loans. Mahathir justified this on the grounds that parity could only be said to have been achieved once there was an equal number of Malay and Chinese millionaires (Gomez 2009).

The key mechanisms employed by Mahathir to cultivate Malay enterprise were the Bumiputera Commercial and Industrial Community (BCIC) policy and privatisation, a method he used to transfer ownership and control of public enterprises to private entrepreneurs. Mahathir's choice of the beneficiaries of privatised projects was based on the concept of 'picking winners', influenced as he was by the South Korean model of development. In this development plan, popularly known as the developmental state model, the role of the (strong) state was central to the South Korean government's successful strategy through selective patronage to create privately-owned conglomerates such as Samsung and Hyundai (Amsden 1989). Mahathir had used this model as his template while promoting the creation of large, internationally-recognised Malaysian conglomerates that would also help rapidly industrialise the economy. However, this avenue of distributing government-created concessions, or rents, led to serious allegations of rent seeking as many recipients of such patronage, the so called 'winners', happened to be well connected.⁷ Privatisation also allowed the ruling class to indirectly control private equity without the need to account to the public about contentious business transactions. What is indisputable is that a 'new rich' rose rapidly during the late 1980s and the first half of the 1990s, during a period when industrialising Southeast Asian countries registered high growth rates.

In 1990, as the NEP came to an end, many of the policy's stated goals had been met. A massive reduction in poverty was registered among the beneficiaries targeted by the NEP. Absolute poverty among Malays was reduced from 64.8 per cent in 1970 to 20.4 per cent by 1990. Corporate equity owned by individual Bumiputeras and trust agencies in 1990 amounted to 19 per cent, well short of the targeted 30 per cent, but still an impressive improvement compared to the 1.5 per cent ownership figure attributed to this community in 1969.

However, these positive goals had been achieved in part rather than in their entirety. New intragroup inequalities had emerged. While overall

⁷ See Gomez (1990, 1994, 2002) for a review of the distribution of rents to well-connected businessmen.

The New Economic Policy in Malaysia

FOR MORE THAN 40 years the New Economic Policy and its successor programmes have shaped Malaysia's socioeconomic development and the allocation of political power. The original policy sought to eradicate poverty and achieve economic parity among the country's various ethnic communities. However, it was based on an apparent paradox – the use of ethnic preference to promote national unity. The policy's core tenet was affirmative action on behalf of the Bumiputera community.

Drawing on a wealth of statistical and documentary evidence, this major new book provides a comprehensive and rigorous assessment of the NEP. The contributors show that there have been some positive outcomes, among them a considerable reduction of poverty, greater interethnic equity parity and the emergence of a resourceful Bumiputera middle class. But these partial successes have to be weighed against persistent complaints associated with increasing intraethnic Bumiputera income disparities; the emergence of a small, politically powerful and disproportionately wealthy Bumiputera elite; a serious brain drain; and weak human capital. As a result, divisive debates about group rights, ethnic identity and an elusive national unity dominate Malaysia's policy discourse. *The New Economic Policy in Malaysia* offers a timely and fresh perspective, suggesting that the long-term implementation of racially-targeted policies reinforces stereotypical ethnic identities and hinders the creation of a more inclusive society.

'In this landmark volume a team of superb academic analysts examines the development and consequences of the New Economic Policy, the affirmative action initiative which defines Malaysia. Government policy will need to be justified all over again as a result of this trenchant critique'

Anthony Milner *Basham Professor of Asian History, Australian National University*

'The New Economic Policy's underlying philosophy was correct, but for too long it was administered inefficiently by politicians more interested in money politics. This new book is a welcome contribution to a landmark event in Malaysian economic development'

Ozay Mehmet *Professor Emeritus of International Affairs, Carleton University, Canada*

'This important book suggests just how damaging race-based public policies can be for nation building and how they are to be distinguished from genuine affirmative action for the sake of disadvantaged groups'

Syed Farid Alatas *Associate Professor of Sociology and Head, Department of Malay Studies, National University of Singapore*

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