

The main aims of the new economic policy implemented in 1971 are as follows: rese...

[Religion](#), [Bible](#)



Introduction

The racial riots took place in Malaysia in the year 1969 and this was followed by the New Economic Policy which was announced by the Malaysian Government in the year 1970. The plan was brought into effect in the year 1971 and set certain objectives to deplete poverty regardless of ethnicity and race and society restructuring in order to attain inter-ethnic economic equality between the predominantly Chinese non - Bumiputera and the predominantly Malay Bumiputera.

The implementation of the New Economic Plan in Malaysia leads to partially abandoning the laissez faire policy in this country. State intervention was encouraged especially with respect to affirmative and ethnic action (Gomez, 2003). The New Economic Plan has been mainly related to social restructuring and in reality has managed to create an affirmative action or deliberate discrimination favouring the Malay Bumiputera. The intervention of the state has helped Malay Bumiputeras to significantly gain many favours like participation in business, gaining wealth, educational opportunities, promotions and public sector employment, and representations among administrators, managers and professionals. Similarly, the Chinese non - Bumiputera have felt increasingly discriminated in the name of affirmative action. This policy has resulted in ethnic mobilization, emigration and capital flight. Among the middle class, feelings of resentment are highest because perceived ethnic rivalry is at its peak in the middle class (Abdullah, 1997).

- Creating a predominantly Malay business class - The main goal of the NEP was to create a dominant Malay business class. The government accordingly set up state enterprises to aid Malays to establish business enterprises. This led to a lot of corruption, nepotism and conditions for political outrage in Malaysia. The Malays mainly benefitted from this policy as they would easily get share allocations, licenses, easy credit and the like. The New Economic Policy created a lot of wealthy Malays and less Malay entrepreneurs.

- Efforts to expand the middle class Malays - The Malaysian Government wanted to expand middle class Malays to enter occupations so that a rough consensus would be attained in the number of working Malays and the number of working non - Malays. This policy focussed on providing educational facilities to Malays. Sadly, the efforts of the New Economic Policy did meet with limited success as only 48 percent of Malays were engaged in middle class occupation as compared with 34 percent in the year 1970. However by the year 1990, only 37.4 percent of Malays were engaged in agriculture which was their primary occupation in the year 1970 (Colletta, Lim & Kelles - Viitanen, 2001).

The main objectives of the New Economic Policy were restructuring the society and reducing poverty in Malaysia and thereby develop conditions for unity in Malaysia. The New Economic Policy, in practice had implemented certain discriminatory policies which favoured the Malay - Bhumiputera, the largest ethnic community in the nation. A lot of data and the evaluation of the New Economic Policy are being disputed. In this context, this academic study will try to analyse the effect of the affirmative action or positive discrimination in Malaysia on women and minority community.

The affirmative policy in Malaysia

The supporters of the New Economic Policy established in the year 1970 in Malaysia does point that the policy had been successful as the nation had not witnessed any race riots like the one in the year 1969. Also supporters did point out to apparent success despite the fact that the credibility and the consistency of the information provided by the Malaysian government have been questioned by a lot of scholars and other experts. It can be inferred that the New Economic Policy was a controversial response to the race riots in Malaysia. The statistics provided by the evaluation of the New Economic Policy justified the ultra Malay population in the nation. However, it cannot be ignored that the economic betterment of the Malays was not solely as an outcome of the affirmative policy but also due to a healthy growth in the Malaysian economy. This is one of the reasons that the Malays Bhumiputeras are in a much better economic and social position that they were in the year 1969. The below table shows that poverty among the Bhumiputeras was 23 percent in the year 1990 and has dipped as low as 5.3 percent in the year 2009. On the other hand, poverty among the other ethnic groups like Chinese non - Bhumiputeras dipped from 5.4 percent in 1990 to 0.6 percent in 2009. On the whole, the total rate of poverty has declined from 16.5 percent in 1990 to 3.8 percent in 2009.

Indicator: Incidence of poverty by ethnic group – Malaysian percent

Source: Department of Statistics, Malaysia.

Despite the fact that the race riots of 1969 did not recur, there is a lot of resentment among the Indian and Chinese Malaysian nationals due to

<https://assignbuster.com/the-main-aims-of-the-new-economic-policy-implemented-in-1971-are-as-follows-research-paper-example/>

tolerance of the affirmative action. This has resulted in a significant brain drain with a large number of skilled Malaysian nationals leaving the nation and settling in alien lands. According to recent statistics released by the World Bank, it has been observed that out of the total population of 27 million people in Malaysia, at least one third of them are a part of the brain drain. Also compared with other nations, one out of 10 Malaysian nationals left the country to settle in other nations in the year 2000, which is twice the global average rate of emigration. Also the skilled population in Malaysia dipped by at least 25 percent in the year 2004 as Japanese companies shifted base to other nations (Jakarta Globe, 2011).

The Malaysian Government has declined to provide a breakdown of emigration data on the basis of ethnicity but anecdotal observations disclose that the majority of Malaysian emigrants are of Indian or Chinese origin. This is one of the negative outcomes of the affirmative policy in Malaysia. The above statistics on emigration data released by World Bank is itself an indicator that race relations still remain a government centred and politically sensitive topic and the Malaysian society does not live in harmony.

Providing asset to Malay – Bhumiputeras

The New Economic Policy implemented in the year 1971 maintained that the Malays acquired at least 30 percent of the corporate assets during the next twenty years. Thus, the Malaysian government actively interfered in acquiring corporate assets for Malay Bhumiputeras. The government provided resources and leverage to acquire large business establishment from foreign owners and this was subsequently held by the Malaysian

government as a trust for the Malay Bhumiputeras. After acquiring such organizations, the board of management as well as maximum employees comprised of Malay Bhumiputeras. Another method to acquire corporate assets was by the Malaysian government forming mergers with foreign organizations. Technically the management was governed by foreign organizers but the new joint venture created in Malaysia had to forego at least one fourth of its shares to the Malaysian government. The acquired shares by the Malaysian government were then sold off to Malay Bhumiputeras. The third method was by developing large state owned organizations like Petronas - the giant energy business establishment. This led to an increase in the state owned sector which expanded in 1970 from 21 percent to 29 percent in the year 1980.

The intervention and employment of state owned enterprises in order to augment the ownership of Malay Bhumiputeras has led to the crowding out of investment, efficient employment and private sector economy. Despite the fact that the New Economic Policy was officially terminated in the year 1991 the Mahathir's National Development Policy continued to retain significant aspects of the NEP. This can be evident as the second and the third outline perspective plans for 1991 - 2000 and 2000 - 2010 still held the constraint of providing at least 30 percent of corporate assets to Malay Bhumiputeras. This was despite the fact that the Mahathir's did emphasize on industrialization, rapid growth, infrastructural activities and innovation, the Malay Bhumiputeras still had exclusive access to lucrative and significant assets in industries like infrastructure, resources and mining, distribution and retain, finance and banking, property and manufacturing. At the same time,

the Malaysian government stopped providing data on the acquisition of corporate assets by Malay Bhumiputeras from the year 2001 (Lee, 2011).

The emergence of elite class Malay Bhumiputeras seeking rent

One of the main aims of the NEP was to distribute more wealth to the Malay Bhumiputeras. Initially the government started transferring economic wealth to benefit the Malay Bhumiputeras by means of ‘ trusts’. The late 1970s and early 1980s witnessed an upsurge of at least 70 percent economic resources by means of trusts owned by Malay Bhumiputeras and the remaining 30 percent were owned by individual Malay Bhumiputeras. In the year 2002 at least 91. 2 percent of corporate assets were owned by individual Malay Bhumiputeras. This rapid transformation from trusts to individually owned corporate assets led to the creation of an elite upper and middle class Malay Bhumiputeras. The acquisition of private wealth by Malay Bhumiputera individuals were dependent on the business and political connections established with Malaysian government officials rather than on the basis of required knowhow and skills. Similarly, well connected Malay Bhumiputeras started controlling the lucrative government projects and contracts and also permits and licenses.

Other than the emergence of small elite Malay wealthy class insiders in the Malaysian government, the NEP restructuring policies also gave rise to a managerial elite class of Malay Bhumiputeras who oversaw the commercial agencies and the state controlled business enterprises. Also such individuals got promoted based on their privileged connections with the government insiders and most of them are members of the management board without

having the necessary skills and knowhow to run the state owned business establishments (Lee, 2011).

Entrepreneurial development and the New Economic Plan

The early scholars and economists pointed that Malay Bhumiputeras mostly supported themselves working as independent wage earners as there were scarce Malay business enterprises. Modern Malaysia reflected a trend wherein the Malay owned business establishments were traditional and small and independent trading mostly did not survive. The Malays believed in engaging in productive services rather than facing the risks of establishing businesses. One of the main reasons which were responsible for the Malays aversion into entering business was the element of uncertainty and risk. According to scholars the Malays did not have the necessary acumen required to run a business establishment as compared with the Chinese non – Bhumiputeras. However with the incorporation of the New Economic Policy and its affirmative action, the Malays started establishing business and political contacts with government insiders in order to acquire corporate assets but did not have the required skills to run such state owned business organizations. This led to the Malays to establish silent partnerships with Chinese non – Bhumiputeras to barter their privileges of various concessions received on licensed government contracting, timber mining or cheap financing. Thus, the Malay Bhumiputeras became sleeping partners for a privately owned Malay business enterprise whereas the working partners were in actuality the Chinese non – Bhumiputeras. This was termed as the Ali Baba syndrome wherein the former individual, Ali, a Malay Bhumiputera sold

its business establishment to Baba, a Chinese non - Bhumiputera. Also the highly politicized nature of the Malaysian business establishments has actively prevented a lot of Malay Bhumiputeras to enter into business activities because of the lack of connections they have with the government insiders (Shome & Hamidon, 2009).

The NEP and its ill effects on entrepreneurship

The Malaysian government wanted to appease the Malay Bhumiputeras and hence incorporated the New Economic Plan in the year 1971. However this plan did not meet the equity goals in building a core of Malay Bhumiputera budding entrepreneurs. Hence the plan had to be modified and lesser focus was spent on setting up the targets for income distribution and ethnic restructuring. In practice, this new modification was on the same lines as the NEP. The Malaysian Prime Minister, Dr. Mahathir, took a lot of Malay Bhumiputera entrepreneurs in order to stimulate the stewardship of Malays in several establishments in which the Malaysian government was interested. The government sponsorship of Malay Bhumiputera entrepreneurs again spurred a lot of resentment by non Malays and also Malays because they viewed it to betray the affirmative action. This was because instead of narrowing income gaps between non Malays and Malays this system fostered an elite Malay Bhumiputera upper and middle class. The non Malays mainly the Chinese grouped together and formed self help lobbies. The Chinese organizations are mainly based on clans and till today can be recognized by their affiliation to their own clan. This system of self help has actually served them well because the Chinese have their own

sources of financing, welfare services, temples and schools. The Chinese success in this respect is mainly due to strong patriarchal family features and socialization process. Despite all efforts taken by the Malaysian government by levying tough laws and trying to weaken the Chinese business establishments, this clan started growing stronger and airing their resentment against the NEP. The characteristics of the Chinese to continue doing business with their own clan and their affiliation towards their own clan creates a protective curtain for survival and also helps in developing maximum kinship among the Chinese. This has led to adverse reactions by setting up outside forces and significantly defending the policies which are harmful to the interest of the Chinese non – Bhumiputeras.

Conclusion

The New Economic Policy in Malaysia was implemented in order to bridge the gap between the rich and the poor. However the policy was extremely pro – Malay Bhumiputeras and instead of bridging the gap had led to far complicated political situations in this nation. However, the Malaysian government did achieve the socioeconomic targets by allotting 30 percent of corporate assets to Malay Bhumiputeras and thereby bridging the poverty gap, however the consequences of the policy in enhancing interethnic ties is under question. The implementation of the National Development Policy (which has been replaced by the New Economic Policy) have helped to further resentment and competition and inter and intro ethnic communities in Malaysia. The Malaysian government needs to think of a suitable alternative as the affirmative approach has failed to create harmony in the

nation (Jomo, 2004).

It has also been observed that both the Malay Bhumiputeras and the Chinese non – Bhumiputeras want exaggerated representation on their respective shares of wealth to be mentioned in the official websites by the Malaysian government. All these are leading to increased resentment among ethnic races in Malaysia. The Mahathir government had two opportunities to break past policies for fairer distribution, rapid growth and increased efficiency of the economy. However the government has not been able to make a decision to announce whether the targets of the NEP have been attained. Hence the current social policy by the Mahathir government has failed to make significant enhancement in the social policy in order to reflect the welfare of the Malaysian people.

References:

Abdullah, F. H. (1997). Affirmative action policy in Malaysia: to restructure society, to eradicate poverty. *Ethnic Studies Report*, 25(2), 189 – 221.

Colletta, N. J., Lim, T. G. &

Kelles – Viitanen, A. (2001). *Social cohesion and conflict prevention in Asia: managing diversity through development*. Washington: The International Bank for Reconstruction and Development / The World Bank.

Gomez, E. T. (2003). Affirmative action and enterprise development in Malaysia: the New Economic Policy, business partnerships and inter-ethnic relationships, *Kajian Malaysia*, 21(1&2), 59 – 104.

Jakarta Globe (2011). Malaysia's brain drain hinders its economic progress.

Retrieved November 30, 2012 from

<https://assignbuster.com/the-main-aims-of-the-new-economic-policy-implemented-in-1971-are-as-follows-research-paper-example/>

Lee, J. (2011). Malaysian dilemma: the enduring cancer of affirmative action. Centre for Independent Studies, 6, 1 – 23.

Jomo, K. S. (2004). The New Economic Policy and Interethnic Relations in Malaysia. United Nations Research Institute for Social Development, Paper No. 7, 1 – 23.

Shome, A. & Hamidon, S. (2009). The contradiction of entrepreneurship through affirmative action: the case of Malaysia. The Copenhagen Journal of Asian Studies, 27(1), 38 – 66.