

Economic and Wealth Disparities in Malaysia: An Analysis on the Formation and Implementation of Tun Razak's National Economic Policy

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Abstract: *This article discusses on the economic and wealth disparities among major ethnic groups in Malaysia, focus on National Economic Policy (NEP) implemented during Tun Abdul Razak's era as the Second Prime Minister of Malaysia. The conflict on inequality distribution of economic and wealth can be traced back in year 1960s, Malaysians had tested a bitter experience in racial riots on May 13th 1969. This historical incident marked an important lesson to learn for a current and future leadership in choosing the correct ingredients for the harmonious and prosperity within the multi-ethnic society. It is noted that in Malaysia discourse over political, social and economic has focused on inter-ethnic disparities. In order to enhance the national unity and national security, the government during the premiership of Tun Abdul Razak has introduced NEP. Tun Abdul Razak believed that NEP to be part of the strategy to reuniting the people and rebuilding the country after racial riots in 1969. This policy however, is fiercely discussed and debated on the portion of distribution of economic and wealth among different ethnic groups in Malaysia. This article designed based on textual analysis that seek to identify the rationale of the formation and implementation of NEP in Malaysia.*

Keywords: *National Unity, National Security, Racial Riots, National Economic Policy*

1. Introduction

Protecting and enhancing national unity and national security are two essential elements for the state to survive. Referring to Westphalia concept, there are four foundations principle of the state, which includes population, territory, government and sovereignty. In international relations realm, the sovereignty element is utmost important as this is to ensure the survival of the state in the anarchical international system. Malaysia is a multi-ethnic society that consists almost more than eighty different ethnic groups with three major ethnic groups, which are the Malays comprise of 60.0 percent of population followed by Chinese 25.0 percent however are economically powerful, Indians 7.0 percent and both of Chinese and Indians are the descendants of immigrants who came to Malaya during the middle of 19th century to fill the labour gap as required to spur colonial economic activities ^[1]. Protecting the sovereignty and ensuring the survival of the state in post-colonial period was a challenging phases in the history of Malaysia. There are internal and external threats and for the purpose of this article, the concentrating on the National Economic Policy (NEP) implemented during Second Prime Minister, Tun Abdul Razak as the Second Prime Minister. National unity as described by Tun Mahathir Mohamad, is the single ethnic group possessing a common language, culture, and religion confined within the area of definite geographical boundaries ^[2]. In the case of Malaysia, the population was constructed based on multi-ethnics society and each ethnic group freely to embrace their own way of life. Thus, the diversity of ethnicities within the society somehow complicates the purpose to achieve national unity.

Internally, in post- independence period, national security was provoked by two significant threats, which are the threat from illegal insurgent activities led by Communist Party of Malaya (CPM) and communal tension among major ethnic groups within the society that unfortunately escalated into racial riots on May 13th 1969. To make matter worst, these incidents involved the conflict between two major ethnic groups in Malaysia, the Malays also known as (*Bumiputra*, literally, *sons of the soil*) and Chinese. CPM leadership and membership received a support from majority ethnic Chinese even though, there is minorities Malays but their existence just a symbolic as majority Malays Muslim are not comfortable with the Communism ideology. Furthermore, the racial riots in 1969 between these two ethnic groups created more uneasiness and discomfort within the multi-ethnic society in Malaysia. Historically, these two major ethnic groups had their prejudice against each other especially with regards with the distribution of economic and wealth.

Revisiting the historical facts is *sine non-qua* to understand the social problem and dilemma faced while the issues of the inequalities of economic and wealth still actively debated and discussed. The colonial policies mapped the economic landscape in the post independence period, the main significant drawback was the huge gap of development between rural and urban areas ^[3]. It is because under the colonial rule, the Malays continued to remain in the traditional agricultural activities and they were largely left behind from the industrial development of the economy. At the same time, a large number of Chinese and Indians immigrants were brought to work in tin and mining industries and the latter, in the rubber plantation and railroads. Thus, this created situation whereby the ethnic groups were identified with the economic activities and divided by economic activities and geographical locations.

The economic disparity between different ethnicities was a major security and political problem to the Malaysia. In 1970, the Malays received the lowest income compared to Chinese and Indian households. Monthly income indicated \$179 received by Malay households, Chinese \$387 and Indian \$310 despite of their status of the *sons of soil* or '*bumiputera*' ^[4]. Wan Hashim highlighted apart of racial socio-economic imbalance, high employment rate rose from 6.0 percent in 1960 to 8.0 percent in 1970 and high portion of foreign domination in Malaysian economy approximately 62 percent ^[5]. During this time, the Malays are poorer compared to Chinese as most of them stayed in rural areas, whereby Chinese in semi-urban and urban areas. He pointed out, traditional notion portrayed Chinese hold economic power and much more wealthier than Malays, whereas Malays hold more political power and, and with this created fear, mistrust and antagonism between these two majority ethnic groups.

Therefore, NEP was crafted to reduce economic gap base on ethnicity as well as to correct and improve socio-economic imbalance. NEP took twenty-years to implemented starting from 1970 until 1990 to restructured the development of economic in Malaysia and also to enhance national unity and national security. National unity for a Malaysia case in year 1970 onwards can be defined as illustrated in Second Malaysian Plan (1971):

.... Unattainable without greater equity and balance among Malaysia's social and ethnic groups in their participation in the development of the country and in the sharing in the benefits from modernization and economic growth. National unity cannot be fostered if vast sections of the population remain poor....^[6].

2. Racial Riots and National Security

The aftermath of racial riots on May 13th 1969 was a period of disintegration and of polarization of the major ethnic groups in Malaysia. Its cause the declaration of a state of emergency and Malaysia was ruled under National Operations Council (NOC) headed by Tun Abdul Razak. May 13th 1969 was the darkest day in Malaysian history after the *First Malayan Emergency* (1948-1960). The NOC Report indicated the racial riots escalated because of the political parties stirring up the racial feelings during the election campaign, presumably by both Alliance and the Opposition parties, and the racial insults and threats which were expressed during Democratic Action Party (DAP) and GERAKAN victory parades' in Kuala Lumpur by used of abusing and insulting words as such '*Melayu sudah jatuh*' (The Malays have fallen), '*Kuala Lumpur sekarang cina punya*' (Kuala Lumpur now belongs to Chinese), '*Ini negeri bukan Melayu punya, kita mahu halau semua Melayu*' (This country does not belong to Malays, we want to chase out all the Malays) ^[7]. It is noted that CPM subversion activities during post independence period was very active, by some means to destabilize the political and government to gained support from the masses through the infiltration of propaganda in political parties.

Racial riots happened after few days of 1969 General Election (GE) which conducted on May 10th 1969. Alliance poor performance, which had lost 25.84 percent of the seats which its had formerly held ^[8]. Malaysian Chinese Association (MCA) performance affected most in 1969 GE as they lost 13 seats with the same number of contested seats in 1964 GE. Interestingly, MCA won three of the seats in the Malay-majority constituencies and three seats had been unopposed. From the political campaigns to the escalation of racial riots indicated the fragile structure of multi-ethnic society in Malaysia. Somehow or other, diversity in society contributes more intricacy for the united Malaysian.

National security is the pursuit of freedom from threat and ability of states and societies to maintain their independent identity and their functional integrity against forces of change, which they see as hostile ^[9]. Buzan identified five security sectors and one of the most important is the economic security. It is considered a key indicator as to the general security of a state, if the state can maintain a good economic security, other levels of security become easier to establish. In this sense, using the concept of security by the few scholars linked with the racial riots happened in Malaysia shown that a necessary action plan needed to rectify to the situation. The problem of the Malaysian economy includes the uneven distribution of income between rural and urban dwellers and between ethnic groups, high rate of unemployment and underemployment, and foreign control of the Malaysian economy. Adam Smith, the scholar and pioneer of political economy, had a great faith in the *laissez-faire*, somehow highly critical of the existing imbalance of economic power among social classes thus government interference is a must for a better and fairer distribution of wealth ^[10]. Clearly in the case of NEP, the direct government involvement in the economic, business and commercial sectors to help further economic development rather than relying on *laissez-faire* capitalist economic system to function without hindrance justify the good intention to restructure the economic landscape in the multi-ethnic groups in Malaysia.

3. National Economic Policy

The multi-ethnics character of the country's population induces the government to devote a lot of efforts to secure and preserve national unity. Wan Hashim in his book '*Race Relations In Malaysia*' discussed that the bases of communal tension and thus he concludes that the impediment to unity was economic ^[11]. NEP was denounced by Tun Abdul Razak in 1970 which the aims to create better socio-economic landscape that can enhance national unity through massive economic redistribution programs. Tun Abdul Razak believed that NEP as the bridge to reuniting and rebuilding the country after racial riots 1969. There are two objectives of NEP as the affirmative plan that are poverty eradication regardless of race and restructuring of society to eliminate the identification of race with economic function, in the context of expanding the economic cake. The strategy to eradication of poverty consisted of three major components that are firstly aimed at increasing income and productivity of those low productivity occupations, secondly, aimed at improving the living standards of the low-income group by providing wide range of free and subsidized social services and lastly, increase chances for inter -sectoral mobility from low productivity areas to high productivity areas through financial and technical skills, education and training ^[12].

Despite of the several criticisms on NEP as such this policy undermined inter ethnic social cohesion, inhibited genuine entrepreneurial capacity, contribute to the serious new intra-Bumiputera inequalities, serious brain drain, reluctance by domestic enterprises to invest in the economy and a decline in the quality of public institutions ^[13]. The reproaches should revisit back the past history and understand the whole social problem during that particular of time. The creation of NEP had it rationale, it is because in the literatures of public policy, stressed out the important to identify the causes of social problem. Social problem will contribute to social unrest within the society, this is what happen in Malaysia back in year 1969, racial riots. It is not only disrupt the national security and stability of the state but paralyzed the economic well-being as a whole.

In this context, in year 1970, bumiputera equity ownership was next to negligible (1.9 percent compared to Chinese share of 22.5 percent and foreign share of 60.7 percent, and Indian share was 1 percent), this economic landscape with the serious imbalance distribution of wealth was a major security and political problem ^[14].

This paper outlined the several outcomes from NEP. Firstly, the objective of NEP is to reduce the poverty rate regardless of ethnic groups. The poverty rate in Peninsular Malaysia decreased from 49.3 percent in 1970 to 16.5 percent in 1990 and the rural poverty and urban poverty also decreased from 19.3 percent to 7.3 percent ^[15]. In population census 1970, showed almost half of population in Peninsular Malaysia received income below the poverty line, which 86 percent in rural areas and 14 percent in urban areas. The ratio of poverty based on ethnic groups, Malays 64.0 percent, Chinese 26.0 percent, Indians 39.2 percent and Others 44.8 percent. With that, NEP was not only strengthened the Malays household income but to all others ethnic groups.

Secondly, NEP as the instrument to cool down the society and provide a peaceful tenure after the racial riot 1969 by aiming to reconstructed the economy pattern and as the results, no serious racial conflict reported after the incident of 1969. Tun Abdul Razak took an alternative to formed the National Front or *Barisan Nasional* (BN) to replace the *Alliances* by increased the memberships of its coalitions to representing different ethnic groups in an effort to establish national strength through political stability.

NEP reconstructed the employment patterns by mobilized the different ethnic group into various sectors and not like previous landscape that certain sectors was solely conquered by certain ethnic groups. With that, NEP played a big role in national unity. It is very difficult to achieve national unity if each of ethnic groups refuses to blend and mingle with each other.

In 1970, the foreign share capital was 61.7 percent, *Non-Bumiputra* 34.0 percent and *Bumiputra* only 4.3 percent. NEP encouraged them to participate more in capitalization activities and as the result in 1990, foreign share capital ownership was reduced to 23.7 percent, *Bumiputra* increased to 19.6 percent and *Non-Bumiputra* increased to 56.7 percent^[16]. Eventhough, the aimed of 30.0 percent ownership of Bumiputra were not achieved, there are significant improvement of the Bumiputra economic well being compared in 1970. Most of criticisms thought that NEP was a bias policy launched by the government to give exclusively more portion on economic to a certain favor ethnic groups. Without a doubt, the involvement of government in economic gave a fairer distribution to all ethnic groups despite of relying only on economic of *laissez- faire*. The data indicated that each ethnic groups received advantage of NEP. To put in a plainest way, if the majority of population lived below poverty line, the economic and businesses will be affected thus, by enhancing the economic capability of population regardless ethnic groups, it created much better purchasing power and enhance the economic well-being of the country.

Overall, the Gross Domestic Product (GDP) and Per Capita Income improved in 1970 RM21, 548 and RM1, 109 to RM59, 155 and RM6, 180 in 1990^[17]. NEP had successfully transformed the multiracial social system with the means to create balance and fairer aspects of life by tackling the reality of ethnic differences within the society.

Without a doubt, NEP when to rigorous and comprehensive analysis before it is implemented. According to the team deeply involved in crafting NEP, Rais Saniman, Jack Parkinson and Just Faaland, NEP preparation involved several important documents and reports in between 1969 to 1970 before it is officially executed, the prepared documents are *A: Policies for Growth with Racial Balance, Racial Disparities and Economic Development, The New Economic Policy, Employment, Production and Racial Economic Balance Targets, Problems of Racial Economic Imbalance and National Unity and Social Sciences Research For National Unity*^[18]. All the formal documents designated to rectify past colonial policies and to enhance national unity and national security through the philosophy '*Development With Fair Distribution*'.

4. Conclusion

In International Relations realms, the diverse interpretation of security and action taken to prevent issues of security may be understood through the identity and interest of each state. To simplify, threat to one country may not be consider as threat to another country. NEP in the context of Malaysia crafted during Tun Abdul Razak's *premiership* after the incident of racial riots 1969, was a policy with the objective to rectify the uneasy atmosphere within the multi-ethnics society in which the political dominance of the *bumiputra* is offset by the economic dominance of the *non-bumiputra*, and the latter by the application of *jus solis* in the provision for citizenship have also increased their political power through votes in GE. This happened because of the colonial policies colored the historical background of the economic and social pattern within the multi-ethnic society of Malaysia. To overcome the problem, NEP was implemented and contributed significantly to poverty reduction with resulted huge improvements in the living standards across all ethnic groups.

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