

BUMIPUTERA, MALAYS AND ISLAM IN THE POLITICIZATION OF THE NEW ECONOMIC POLICY

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The purpose of this paper is to revisit the New Economic Policy (NEP) as a technocratic doctrine and to assess whether it was through the NEP that Malaysia was able to achieve economic growth and ethnic peace. In order to guide this exercise, I will pose several questions:

- Was the NEP fully and consistently implemented as it was conceived?
- Did the implementation of the policy go through a linear and progressive course?
- What were the extraneous factors affecting the course and discourse of the NEP?
- How does one measure the successes and failures of the NEP, if there were any?
- If the formal phase of the NEP had terminated, does it still exist today in a variant form or in an informal but pervasive nature?

Before we begin a full exploration of the above issues, I would like to make the assertion that the NEP as a policy can be assessed at two levels. The first is to treat it as a technocratic plan and measure its intended and achieved targets; the second is to view it as a political instrument and assess its diverse range of unintended consequences which had been engendered by the course and discourse of its implementation.

The reasons as to why the policy was politicized because there was a disjuncture between its formulation, and its interpretation and implementation. While the NEP was a policy formulated by technocrats,

economists and social scientists, it was interpreted and implemented by political actors. Hence, this led to a disjuncture which allowed for other extraneous factors to affect and skew the direction of the NEP in unintended ways.

IMPLEMENTATION OF THE NEP

From an economic point of view, there appears to be a general consensus that the plan was not implemented in a full and perfect sense. To begin with, even at the outset, the decision to implement a socio-economic plan that could redress the issues of the May 13, 1969, riots was contested by two parties. There were two schools of thought that promoted their best plans for adoption by the Malaysian government.

In the early stages of the NEP's formulation, there were two positions that were promoted as a means of redressing the issue of ethnic imbalance. This constituted the

- pro-growth, "trickle-down" strategy, and
- redistributive, state interventionist strategy.

The way these two positions oscillated as strategies used to achieve the NEP determined the successes or failures of the policy. But the pendulous adoption of one economic thrust against the other was not really the result of the failure of the original plan, but because of pressure to adapt and accommodate to new global economic imperatives.

The redistributive strategy was more dominant from the period of 1970–1987. However, the pro-growth strategy was reinstated after the economic recession of 1987 and prevailed till the end of 1997. In the present period, as highlighted by the Third Outline Perspective Plan (OPP3), there is a continued adoption of the pro-growth strategy.

According to studies by Just Faarland *et al.* who were responsible for drawing up the proto-version of the NEP in 1969, the most notable results of the restructuring exercise occurred during the first decade of the plan's implementation. Since the economy was heavily biased towards a redistribution strategy with pronounced state interventionism,

several indicators of the NEP's targets were registered. The ethnic income disparity between Malays and non-Malays was drastically narrowed. Land reforms, rural development and land development schemes were prioritized. Rural to urban migration was speeded up by the demand for low-waged labour in new export-led industrialization and increased enrolment of Malay students in public universities. State Economic Development Corporations were formed to take over businesses and ownership of capital assets on behalf of the *Bumiputera*.

LINEAR AND PROGRESSIVE IMPLEMENTATION

The most pronounced implementation of the NEP actually only occurred during the Second Malaysia Plan phase stretching from 1971 till 1975. By the time the Third Malaysia Plan was instituted (1976–1981), the original stipulations of the plan were watered-down. The goals became less specified. It was during this period that the Industrial Coordination Act of 1976 (ICA) was repealed to allow for the unrestricted participation and development of private enterprises in the economy. This act was instituted to impose licensing conditions on the establishment of industries and considered a bane by private, especially non-*bumiputera* entrepreneurs. Licensing controls were imposed on the intake of labour based on ethnic quota on shareholdings as well as on various other matters that allowed the state to intervene at every chance. This was presumably to monitor the extent of restructuring exercise that private enterprise would be compelled to be involved in. The private sector did not feel obliged to carry the aims of the NEP. As such, the Act was dismantled, lest it would put a brake to capital accumulation and economic growth.

From 1982 till 1987, the Fourth Malaysia Plan was put into effect. This phase also coincided with the onset of a global recession. Policy shifts towards a pro-growth strategy brought back the technocrats who were previously sidelined by the “redistributionists” into the scene. The coming in of Daim Zainuddin as Finance Minister also steered the economy into a different course. Earlier, Dr Mahathir had already embarked on an economic programme that in effect went across the grain of the original NEP. His project to emulate the Newly Industrialised Economics (NIEs) and chart Malaysia's economic model according to that of the East Asian example was at first glance

complementary to the NEP. However, analyzing deeper, this could not be implemented without undermining some fundamental aspects of the NEP. Although both the NEP and the Newly Industrialised Countries (NIC) model would have required a strong, centralized and interventionist state, the actors favoured by both models were different. While the NEP specified that the favoured would be the *Bumiputera* as a way of giving a leg-up for them to participate in the modern and capitalist economy, the NIC strategy must only favour capitalists who are either politically loyal to the central state and, or have the potential to deliver the tangible goods.

In order to get around that new dilemma, Dr Mahathir had to juxtapose the agenda of the NEP with that of the NIEs. The creation of the programme to develop Malay entrepreneurs called the *Bumiputera* Commercial and Industrial Class (BCIC) could be seen as one of his half-way strategies to accommodate the two plans. Conferring a favoured status to Malay “captains of industry” to run state-backed and selective monopoly industries was one of the results. By the time of the 1997 Asian Financial Crisis, this agenda seemed to have backfired. Just as overnight, these favoured *bumiputera* capitalists had become mega-tycoons, they also seemed to have fallen from grace with the same speed.

In 1988, the Fifth Malaysia Plan was put into implementation. In 1990, the 10 year Second Outline Perspective Plan (OPP2) also came to an end. OPP2 was meant to cover the period of the NEP’s actual implementation. As 1990 was considered the date for the end of the NEP, a new plan the National Development Policy (NDP) was instituted. The beginning of this new decade spelled a new economic order for the world and Malaysia’s domestic agenda actually fitted right into it with its vigorous programme for liberalization, deregulation and privatization.

From 1993 till 1997, it was the Sixth Malaysia Plan. Meanwhile, from 1998 till 2002, Seventh Malaysia Plan.

EXTRANEOUS POLITICAL FACTORS

Language Nationalism

The first decade of the NEP's implementation was marked by many social costs. There was a drastic transformation of the schooling system. The first casualty was English medium education, when with a sleight of hand, the Minister of Education on July 11, 1969 made a unilateral declaration that English as a medium of instruction would cease to be used in the national education system. It was a sort of triumph for Malay language nationalists who before this were frustrated by their failure to get the National Language Act of 1967 to be fully implemented.

The tussle over the implementation of Bahasa Melayu as the official language in government and schools was repeatedly contested by the governing elites. Although this governing class was multi-racial, they were all schooled in the English language. The swift implementation of Malay in schools was not envisaged as part of the plan for ethnic restructuring in the NEP documents. However, the NEP provided the language nationalists an "opportunity structure" to push through their agenda.

Before this, it cannot be denied that the school system structurally favoured English school leavers. By abolishing English medium schools, the national education system would then only have one type of school with one common medium of instruction. However, due to a political compromise, Chinese and Tamil schools were allowed to remain within the national public system, but only at the primary level.

This is perhaps one of the greatest social costs that befell the system in the long run. However, we cannot fault it to the NEP *per se* as I have argued. The NEP simply provided the rationale or the opportunity for nationalism to be re-defined on the basis of language hegemony. The language policy has been said to be the most controversial aspect of the post-1969 national education policy. There was a backlash from non-Malays who were threatened, and by the policy and reacted by "over-adherence and strong demand for the retention of other languages".¹

¹ Singh, Jasbir Sarjit and Mukherjee, Hena, 1990, *Education and National Integration in Malaysia: Stocktaking Thirty Years After Independence*, kertas

During this period, enrolments in Chinese schools increased to high levels. By 2000s, the proportion of non-Malay students in national schools had declined to about 2 percent.

However, this is not to say that the NEP, even in its flawed means of implementation did not bring any benefit of redistribution through the education system. One interesting study done by Suet-ling Pong based on data from the Second Malaysian Family Life Survey shows that the NEP increased educational attainment for all three groups. It also reversed previous ethnic stratification because the Malays attained more opportunities for upward mobility. Among Malays social class was less of a determinant for success. At the same time, gender differences among Malays also narrowed as compared to non-Malays.²

Islamic Resurgence

The paradox of this period, the so-called most successful phase of the NEP's implementation (from a technocratic sense) was also the most socially and culturally turbulent for the Malays. At about this same period, the Islamic resurgence movement began to take shape. Unlike the language nationalists, the rise of Islamic activism had to do with both internal and external factors. The early initiators of the movement were Malay youths who received an urban education, and who were deeply affected by the aggrieved condition of an economically and culturally challenged Malay community. Angkatan Belia Islam Malaysia (ABIM) was an example that fashioned its reform agenda around education.

Its intention was to Islamize the Malay population by spreading the teachings of Islam. In a way, the NEP also provided an opportunity structure for them to carry out their *dakwah* mission through schools. An Islamic curriculum and an Islamic dress code were prescribed for the national schools. There was a presumption at that time that all these will not get in the way of building a competent class of educated, professional or entrepreneurial class of Malays; so there was no question that this may even be incompatible with the aims of the NEP.

tidak berkala, Projek Kajian Hubungan Etnik, Pengajian Pembangunan Manusia, Institut Pengajian Tinggi, Universiti Malaya.

² Pong, Suet-ling, 1995, *Education Policy Outcomes and Intentions in Malaysia*, mimeo.

By 1974, ABIM was already playing its role in lobbying for the government to reform the education system in line with its Islamization goals.³ It lists its main concern in education as the lack of a moral component and the separation of religion from the education process. Hence, it proposed that the subject Islamic religion be made compulsory for all Muslims and non-Muslims in school, increasing the number of religious teachers, switch to Islamic school uniforms (from skirts to sarongs for girls and short pants to long trousers for boys), as well as the establishment of an Islamic university.⁴

But the Islamic resurgence also gave birth to a variety of Islamic movements, including ones that eschewed altogether the economic agenda of the NEP. The “Darul-Arqam” for example chose to partake in their own economic experiments outside the purview of the state and hence, outside the discourse of the NEP. As stated by a well-known scholar of the movement,

...neither the capitalist advocacy of private ownership and the maximization of productivity and income nor the socialist insistence on public ownership and the ‘equal’ distribution of means of production are accepted as comprehensive solutions. The solutions of these conventional development theories are perceived as materialist ‘pseudo-solutions’ for their emphasis is restricted to material matters....It is this inadequacy, from Darul Arqam’s viewpoint, that culminated in the dependent and unmotivated character of the Muslims in Malaysia.⁵

This had split the Malay constituency into several interest groups; besides UMNO, there was PAS (which was given a new spurt of life by the fundamentalist ‘Young Turks’, who took control of the party on the backs of the resurgence). Other groups such as Darul Arqam had also planned to work outside of the state paradigm of progress through “material enhancement”.

³ ABIM, 1971–1996, Petaling Jaya: Angkatan Belia Islam Malaysia, penyelenggara: Md. Sidin Ahmad Ishak, 1996.

⁴ Memorandum Pelajaran 1974, submitted by ABIM to the Minister of Education, 22 October 1974, in ABIM, pp. 27–32.

⁵ Muhammad Syukri Salleh, 1991, *A Grassroot Approach to Rural Development: The Case of Darul Arqam in Malaysia*, Oxford University, Ph.D thesis.

UMNO's Politics of Relevance

As UMNO's relevance was reinstated with the NEP, it took full control of the "interpretation" of the NEP. Its power base was dependent on the rewarding Malays in exchange for loyalty. Abuse of NEP programmes; used as basis for patronage.

By the mid-1980s, it seemed that the goals of the NEP had gone awry. However, for UMNO, it was the most crucial instrument for its revival and legitimacy after the 1969 election. In that election even UMNO lost a large chunk of its support to the opposition, and hence, it was through the NEP that UMNO was able to rebuild its credentials and legitimacy among the Malay constituents. The NEP created another opportunity structure for UMNO to build its power bases through the dispensation of political patronage, including access to material resources. The growth of "money politics" built around the largesse of the NEP made UMNO powerful. UMNO was the gatekeeper of the distribution process.

Mahathir's Policies

Dr Mahathir's goal of transforming Malaysia into an NIC was transposed upon the template of the NEP; e.g. through creation of the BCIC. In many instances, he tried to get around the circumscription of the NEP to realize his own economic goals. Marrying the NEP with NDP led him to create the BCIC; which ended up in the failed monopolistic businesses connected to UMNO.

By the mid-1980s, the creation of the targeted BCIC was closely linked to UMNO's political agenda. The emergence of so-called money politics tied to monopolistic businesses and global capital can also be attributed to Dr Mahathir's personal preference to emulate a Newly Industrialised Countries (NIC) type of economic development. However, while this was an ambition for the nation, the Prime Minister still either had to pay lip service to the virtues of the NEP, or juxtaposed the constraints of the NEP upon his agenda for economic liberalization.

The new investment regime retracted the disincentives that came with the 1975 Industrial Coordination Act (ICA), which "makes the conduct

of medium and large-scale manufacturing enterprise subject to license” was widely regarded as “having a stifling effect on private investment.”⁶

Perhaps due to this, he was compelled to patronize big businesses that could be run by politically-favoured individuals. Much of the survival of UMNO, in the midst of the crisis involving Team A/ Team B infighting was dependent on the accumulation of UMNO’s wealth through the “reinvention” of the NEP.

By 1987, the redistribution strategy was slowed down and the priority for growth took over. Partly, due to recession and partly because of Dr Mahathir’s own preference to emulate the path of the NICs. During this period, the record of the NEP’s success had become less promising, especially in terms of income disparity and diminishing equity ownership.

SUCSESSES AND FAILURES OF THE NEP

On its success, despite the preponderance of preferential policies that are associated with constraining the growth of private enterprise, Malaysia’s economy did not do too badly, if even surpassed that of its regional neighbours.

The other success is that there had been no open ethnic confrontation despite the NEP being sometimes labeled as being a racially-discriminatory policy.

But one can also say that the containment of ethnic violence and the presence of economic growth are only spuriously correlated with the implementation of the NEP. I would argue that it was because the NEP provided the political opportunity structure for the appeasement of certain political interests that it was possible to have economic and social cohesion in society. This was because the NEP, as I have argued before, was never implemented fully and progressively in a linear sense as envisaged by its formulators. Yet, the conditions for “national unity” seemed to have been created. Here again, I would argue that it was not

⁶ Snodgrass, Donald R., 1980, *Inequality and Economic Development in Malaysia*, Kuala Lumpur: Oxford University Press, pp. 220.

national unity in a deeper or longer-term sense that was put in place, but rather a prerequisite for social cohesion that had been successfully mounted.

The biggest failure of the NEP was identified and articulated by none other than the former prime minister himself. Dr Mahathir expressed a view that seemed to point at the failure of the NEP or its attendant programmes as being unable to build a social and cultural capital that would advance the Malays to be on par with the Chinese. The “Chinese” is the real and metaphorical benchmark for measuring the economic success of the Malays. The absence of entrepreneurial acumen, resilience and endurance are some of the traits that Mahathir had probably and unfortunately hoped that the NEP would be able to deliver. But the NEP was intended to intervene only at the structural level. There was a big presumption that this structural intervention would also inevitably create a cultural capital or the means of socialization that can ensure the long-term economic sustainability of the Malays. As it turned out, the policy did not achieve this.

Let’s start from a strictly economic point of view. On this basis, the NEP was partially successful because

- three decades of the NEP’s ubiquity in development planning have not brought about any adverse affect to the state of the Malaysian economy, in fact, Malaysia’s economic growth rates have been considered spectacular,
- there have been notable successes of the NEP particularly its poverty eradication record, as well as the overall increase in per capita incomes of ethnic communities across the board,
- there are now numerically more Malay middle classes and professionals,
- more Malays are now domiciled in the urban areas, and
- more Malays are now being employed in the non-rural, modern and more economically productive areas.

Likewise, strictly from an economic point of view, the NEP can also be seen to be a partial failure because

- the income disparity between Malays and non-Malays has only marginally been improved with the latter still far ahead of the former,
- within all professions, the proportion of Malays as compared to non-Malays is still below that of the latter and at a disproportionate level to their total population,
- the share of Malay equity ownership has never reached the intended target of 30% and is even showing signs of decline, post-1997,
- the rate of those living below the poverty line among Malays (10%) is much higher than that of the non-Malays (2%), and
- Malays are still concentrated in economic sectors that are of a lower value-added than that of the Chinese.

IS THE NEP STILL AROUND?

The NEP is not around but it has left a political and social legacy that is palpable in the everyday consciousness of Malaysians. The sense of a politically and culturally dominant if not imposing Malay community is still felt, particularly by non-Malays. Thus, on the one hand it is not incorrect to say that the NEP is still present in some form or other. But I would say that in a direct way, the NEP as an economic plan has actually been shelved. The fact that it is still felt to be around is largely because it has been overtaken by a preferential policy (either officially or unofficially affected) that still favours Malay political and cultural domination. However, trends engendered by the forceful influence of “extraneous factors” which were very marked during the decade of the 1970s and 1980s are also now being reversed. Today, there is a reversal of past trends as in

- language nationalism being on the wane and overtaken by the new zeal over English,

- Islamic resurgence being compelled to take the path of “moderation” as a political fallout of September 11, 2001,
- removal of government subsidy to Sekolah Agama Rakyat (SAR); instead, RM36 million has been reallocated for the setting up of extra religious classes in the national school system,
- UMNO’s politics of relevance and legitimacy which does not have to be based on a new cause, but we have no inkling as to what that might be, and
- Mahathir himself leaving the stage. We are not sure what direction his successor will take in order to sustain subsequent development – will there a resuscitation of an NEP-type programme or will neo-liberal economic policies take over full-steam?

The above notion of the NEP as no longer being around can also be backed by other economic and social trends. In mid-1990s, economic liberalization occurred in an aggressive way. The flow of Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI) is well evidenced. On the education front, at least five new education acts were passed by parliament to speed up the privatization of higher education and to reform public universities through neo-liberal rationalization strategies. In 1997, when the Financial Crisis hit the region, government had to divest a lot of its investments and equity holdings held under *Bumiputera* names to other parties. This, registered a decline of *Bumiputera* share ownerships to a level that was even below what was achieved in the 1980s. By early 2000s, the pressure to be globally competitive legitimized the speedy adoption of English language in the school system. One can say that other ‘extraneous factors’, different from before, would also be making use of this new political opportunity structure to promote some of their interests that were hitherto stifled by the restrictions of past dynamics.

The economic aspects of restructuring have been made ineffective. Is the method for ethnic assertion being reworked? That is the question that is hanging at the present juncture.

CONCLUSION

To summarise the discussion of this paper,

- The NEP started as a technocratic formula.
- Within the technocratic framework, there were contenders or schools of thought that presented their ideas for the adoption of a best affirmative action plan.
- In the first decade, the “redistribution and pro-state intervention” school prevailed.
- According to some observers and scholars, the full implementation of the NEP only occurred at the period of implementation of the Second Malaysia Plan.
- By the mid 1980s, the pro-growth strategies had undermined much of the distribution and pro-state intervention thrusts of the earlier period.
- The pro-growth momentum fuelled by global economic recession cycles further enhanced and legitimized the replacement of the NEP with the NDP.
- The successes of Malaysia’s ability to achieve economic growth and ethnic peace are actually spuriously correlated with its adoption of the NEP. The record of successes and failures in narrowing the disparity gap between the economically advanced Chinese minority and the *Bumiputera* majority is mixed, varied and not conclusive.
- Many other “extraneous factors” were engendered during the NEP and this, in actual fact was what had contributed to the sense of social cohesion that the country experienced.
- The ability of a centralized and authoritarian leadership to make use of this climate of social cohesion and to be drawn towards the “pull and push” influence of an NIE approach for development

was also crucial (to a limited degree) in ensuring an economic success.

- What the NEP succeeded in doing was to sustain the “consociational compact” in a familiar way rather than bring radical changes to the political system.
- The costs of this unchanged climate is the underdevelopment of a social and cultural capital for the long-term ability of the *Bumiputera* majority to maximize their access to and attainment of strategic economic and social resources.
- In future, questions related to ethnic parity (between the economically advanced minority Chinese and the politically dominant majority Malays), to regional parity (between the more developed Peninsular Malaysian states and the East Malaysian states) and to parity among sub-ethnic groups (such as between *Bumiputera* Malays and other *Bumiputera* communities) to parity among various interest groups (liberal Muslims versus fundamentalist Muslims, homosexual versus heterosexual rights) will also come to the surface.

For many observers, Malaysia is blessed. The combination of a Malay constituency loyal to a ruling party together with a relatively acquiescent and pragmatic non-Malay population able to tolerate a strong, authoritarian leadership and a unilateral ethnic dominance seemed to have held together the political model characterized as the “social compact”. But the breakdown of this model may create some new dynamics. The short-term risks of this breakdown may be very high but the long-term gains may be meaningfully deeper.