

CHAPTER I

The New Economic Policy: Goals and Strategy

I. INTRODUCTION

With the launching of the Third Malaysia Plan (TMP), 1976-80, Peninsular Malaysia will approach the end of its second decade of Independence and enter the third with the experience gained of four Five-Year Development Plans. For Sabah and Sarawak, this will represent the completion of two carefully designed Development Plans within Malaysia. For the nation and the people as a whole, the decade of the sixties and the first half of the seventies were in many respects a momentous period of progress and socio-economic transformation. Malaysia now stands poised for a new stage of development in its history as a sovereign nation.

2. The path of development and change so far traversed has been full of trials and challenges. With Independence in 1957, Peninsular Malaysia faced the problem of consolidating a nation with a multiracial society characterized by socio-economic and cultural differences. Further, the Emergency period lasting until 1960 posed a threat that called for courage, determination and sacrifice on the part of all Malaysians to overcome. The birth of Malaysia in 1963 brought in another period of national integration fraught with many external threats and challenges. Then in 1969, Malaysia faced an outburst of racial conflict that showed clearly an area of weakness which undermined the very foundations of the nation.

3. Yet Malaysia emerged from these critical times much the stronger and more determined to achieve national unity, economic growth and social development. The trauma of racial riots led to a critical self-analysis of what went wrong and the formulation of new approaches towards strengthening national unity. As a result of this analysis and re-examination, the *Rukunegara*—the National Ideology—was formulated to express the beliefs and principles of the nation and to lay down the foundations of national unity.

4. A most significant aspect of the trials and challenges which the nation faced in its formative years was the development of the political system itself. Throughout these trying years, the ideals of parliamentary democracy have been maintained and nurtured with modifications to adapt to the needs of a multiracial society. Except for a period of national emergency which was declared following the 1969 racial disturbances, Malaysia has always given free rein to democratic expression and governance. To forestall a recurrence of the 1969 incidents, new safeguards against ethnic rivalries and fears were effected through appropriate constitutional and legal processes. It is in the same pragmatic and nationally-oriented spirit that the ruling political party—the Alliance—has transformed itself into the *Barisan Nasional* so as to provide a wider multiracial basis of Government in the best democratic tradition.

5. In keeping with the overriding objective of national integration and unity, the entire socio-economic system of the nation has been restructured and given new direction. The education system has been modernized, expanded and given an ever increasing role in moulding civic and national consciousness and spiritual values as well as in upgrading the knowledge and skills required of a developing nation and its growing population. Medical and health services have also been expanded and made accessible to everyone. All the while, efforts have been made to nurture the evolution of a truly Malaysian identity and way of life. Thus the process of nation-building has been incorporated into a more co-ordinated and integrated agenda for development which will enable Malaysia to emerge as a stable, prosperous and united nation in Southeast Asia.

6. The TMP represents a continuation of all these efforts. It is a logical extension of the Second Malaysia Plan which was based on the New Economic Policy (NEP)—a socio-economic policy designed to achieve national unity through the two-pronged objectives of eradicating poverty irrespective of race and restructuring society to eliminate the identification of race with economic function. The NEP has been conceived as an agenda that stretches over 20 years. Malaysia has achieved much progress in this direction but there is more to be done.

II. ECONOMIC STRATEGY AND PERFORMANCE, 1957-70

7. As the country embarks upon the TMP, it is instructive to review broadly the major developments which have led to the promulgation of the NEP. With Malayan Independence, the goals of the Government changed from system maintenance to development. To underpin this commitment, the concept and practice of economic planning was introduced and extended. It represented Government's commitment to economic and social progress; an instrument for illuminating the options open to society and the state of the country's economic and social development; a means for articulating the Government's general strategy for growth, structural change and distribution; a basis for decisions on individual investment projects; and a standard against which to measure results.

8. At the same time, attention was given to the need to gear the administrative system to undertake expeditiously the implementation of the developmental goals of the Government. As a result, the implementation capacity of the public sector was sizeably expanded, while information and monitoring mechanisms were developed—providing not only for complementary use of the processes of planning from above and planning from below but also for feedback of information on the progress and problems of execution from the field back to the centre. Operations Rooms were set up at national, State and district levels where the leadership of the Government was regularly briefed on the progress of programmes and projects and decisions made on problems holding up implementation.

9. Under this impetus, the pace of development advanced rapidly both in the public and private sectors of the economy. The economy itself underwent structural change of a fundamental order making it more broadly-based and progressively less susceptible to the vagaries of external conditions which so adversely affect economies dependent on just a few primary export products.

10. The agricultural sector, the mainstay of the economy, was strengthened through significant improvements in the productivity of the rubber industry as well as rapid diversification into oil palm, greater utilization of the ample forest resources of the country and expansion of rice and livestock production. The most dynamic growth, however, was registered by the manufacturing and construction industries. While in the fifties the manufacturing sector was largely geared to the processing of the country's principal export products of rubber and tin, it developed rapidly in the sixties to encompass the production of an increasing range of manufactured goods which were previously imported. In more recent years, the country has begun to take advantage of its enlarging domestic industrial base to export manufactured goods on a competitive basis. All in all, the Gross Domestic Product (GDP) of the country grew by over 6% per annum in real terms.

11. The impact of all these developments on national welfare was significant. While the population grew by over 30% in the sixties, the size of the economy almost doubled, thus increasing *per capita* income by some 40% over the period. Private consumption *per capita* also rose, while public investment brought the benefits of education, health, transportation and housing to the poor in both the urban and rural areas of the country.

12. Infant mortality declined between 1957 and 1970 from 75.7 per 1,000 to 40.8 per 1,000; male life expectancy increased from 55.8 years to 63.5 years. These improvements reflected better health standards. At the same time, the percentage of the population in the age group ten and above that was literate showed an increase from 51.0% in 1957 to 60.8% in 1970. Another indicator showing improvements in the field of education was the percentage of the population in the age group 5-19 enrolled in schools which increased from 49.8% to 52.7% in the thirteen-year period. Government expenditure on education *per capita* rose from \$21 in 1957 to \$45 in 1970.

13. The purchasing power of income in the hands of Malaysians was, however, adversely affected by the sharp deterioration of the country's terms of trade due principally to the secular fall in the price of rubber in the face of fairly stable import prices. Nevertheless, Malaysia managed to produce a real growth of *per capita* income which was high by international standards.

14. An important force bringing about this pace of economic growth was investment which increased more rapidly than GDP throughout the period. A massive investment programme for the development of the human and physical infrastructure of the economy was initiated and sustained by the public sector. With progressive strengthening of the productive base of the economy, sizeable opportunities for private investment were created and taken up as Malaysian and foreign entrepreneurs together advanced the development of the country's traditional industries and entered new areas of economic activity.

15. In view of the inequalities in the distribution of economic activity among and within sectors in the economy, regions in the country and racial and social groups in the population, an important aspect of the Government's developmental strategy in the sixties was the widespread extension of the prerequisites for progressive expansion of agriculture and industry and the modernization of the countryside. The underlying aim of these efforts was enhancement of the well-being of all Malaysians and in particular those in low income groups in the rural areas. But this was inevitably a time consuming process and, in the event, produced important distributional implications. While the economy grew strongly, reflecting to a large extent economic activity associated with the investments made in expanding and strengthening the human and physical foundations of the economy, the participation of different groups in Malaysian society in the process was unequal given the concentration of the modern economic sector in the western part of Peninsular Malaysia and in the principal towns of Sabah and Sarawak. Thus, different segments of the Malaysian population shared unequally in the incomes generated by such activity as a result of which the distribution of income is not likely to have improved in the sixties.

III. SOCIO-ECONOMIC PROBLEMS

16. The rate of job creation at 2.6% per annum in Peninsular Malaysia reflected a fairly satisfactory performance. As, however, the labour force expanded by about 2.9% per annum, following the upsurge in the growth of population after the Second World War, unemployment as a percentage of the labour force rose from about 6% in 1960 to 8% in 1970. Unemployment thus became a serious problem, the intensity of which was especially marked among the young in the urban areas. Unemployment was equally a problem in the rural areas. In addition, underemployment remained widespread.

17. It was fully recognized that economic growth by itself could not be expected to deal adequately with the problems of the poor. Along with infrastructural investment, therefore, directly productive investment was emphasized to the extent permitted by the absorptive capacity of the economy. Some 22% of total development expenditure by the public sector was aimed at increasing the income earning capacity and quality of life of the rural poor through rural development. The major programmes included new land development, rubber replanting and drainage and irrigation to enable double-cropping of padi, as well as the improvement of social and community services in the rural areas.

18. Notwithstanding the fact that the new investments could not be expected to yield their full effects in the sixties, real output in smallholder agriculture began to increase, registering an annual growth of about 6% over the period 1961-70. It contributed to some improvement in absolute living standards, despite the sharp deterioration in the terms of trade, but was insufficient to affect the share of income of the rural poor nor to sizeably reduce the extent of underemployment.

19. In the circumstances, a rather high degree of inequality existed in the distribution of income of the country in 1970. In Peninsular Malaysia, households which may be considered to have been in poverty¹ constituted some 49% of all households and accounted for 15%-18% of total income, while the top 5% of households in the distribution of income obtained almost 30% of the income. In absolute numbers, about 792,000 of the 1.6 million households realized incomes at or below the poverty level in 1970. The incidence of poverty was 59% among rural households and 25% among urban households.

20. Wide inequalities in the distribution of income exist in most societies. In Peninsular Malaysia itself, data on the distribution of income indicate that inequalities exist among all racial groups with the pattern of distribution similar among the Malays and the Chinese but more unequal among the Indians and other racial groups in the country. The problem in Malaysia is compounded by the fact that average incomes between the major social groups vary widely. In terms of *per capita* income, the Malays received \$34 per month or one-half that of the Chinese at \$68, while the Indians obtained \$57 or some 70% more than the Malays. Of all poor households, about 74% were Malay, 17% Chinese and 8% Indian.

21. Of all Malay households, 65% were in poverty compared to 26% for Chinese households. In the case of Indian and other households, 39% and 45% had incomes below the poverty line.

¹ The poverty line which has been measured for this purpose is defined to cover minimum food requirements and minimum needs with respect to clothing, housing, consumer durable goods and transport services to sustain a decent standard of living. Available data did not permit estimates to be made for Sabah and Sarawak.

22. Underlying these income differentials were the unequal distribution in employment of the major racial groups among the various sectors of the economy and the unequal distribution in the ownership and control of wealth in the country. In employment, the Malays were concentrated in agriculture where *per capita* product was the lowest among all sectors and where the incidence of poverty was the highest accounting for over 70% of all households in poverty. On the other hand, the Chinese were concentrated in mining, manufacturing and construction where *per capita* product was 167% higher than in agriculture and 60% higher than the average for the entire economy. The number of poor households in these sectors accounted for only 9% of all those in poverty.

23. With respect to the ownership of wealth available data indicate only small amounts of share capital owned by Malays and Indians compared to the holdings by Chinese with dominance exercised by foreign interests. In 1970, Malays and Malay interests owned 2.4% of equity capital, while Indians held 1.1%. The Chinese, on the other hand, accounted for 27.2%, Others 6.0% whilst foreigners held 63.3%.

24. In the non-corporate sector of modern agriculture², Malays owned 47.1%, Chinese 32.8%, Indians 10.1%, Others 1.8%, Government 2.3% and foreigners 5.9% of the acreage under cultivation. In the non-corporate industrial sector which is made up of manufacturing, mining and construction, the ownership of fixed assets was as follows: Malays 2.3%, Chinese 92.2%, Indians 2.3%, Others 0.8% and foreigners 2.4%. It should, however, be noted that 87.4% of the total fixed assets in the industrial sector were owned by corporate entities.

25. While the resulting inequalities in the distribution of income between the major racial groups were in themselves matters of grave concern from the point of view of social justice, the socio-political implications of an economic system divided along racial lines were an even greater threat to national unity, social stability and economic progress. Socio-political stability could not be maintained for long in situations where, for example, a Malay farmer coming to town, even with an increased income, felt somewhat alienated, somewhat an outsider, simply because he saw so few Malays in the shops, restaurants and factories of the town. And so might the Chinese and Indians when going into a Malay dominated agricultural area.

26. Whatever their proximate causes, the racial riots of May 1969 owed their origin to inadequate efforts to redress socio-economic imbalances which have characterized Malaysian society for so long. Coming on top of political independence, economic growth itself in the sixties had irretrievably affected the values, attitudes, ambitions and expectations of Malaysians of all walks of life and in particular those who were less advantaged. A society marked by significant economic imbalances was no longer acceptable. A concerted effort to accelerate the removal of these imbalances became imperative.

² Modern agriculture covers estate acreage under rubber, oil palm, coconut and tea. The Federal Land Development Authority (FELDA) schemes are included in this category.

IV. OBJECTIVES OF THE NEW ECONOMIC POLICY

27. In the aftermath of the racial riots, the NEP was enunciated, the overriding objective of which is national unity. Comprising two prongs, the NEP seeks to eradicate poverty among all Malaysians and to restructure Malaysian society so that the identification of race with economic function and geographical location is reduced and eventually eliminated, both objectives being realized through rapid expansion of the economy over time. Based on an intensive review of the nation's policies and priorities and involving close consultation with and deliberation among all segments of Malaysian society, the NEP has come to constitute a positive commitment by the Government to the task of creating a united, secure, socially just and progressive nation.

28. The first prong of the NEP aims at progressively improving the economic condition and quality of life of the poor of all races by directly increasing their access to land, physical capital, training and other public facilities, thus permitting them to share more equitably in the benefits of economic growth. The aim is that the incidence of absolute poverty should be substantially reduced by 1990 from the implementation of policies and programmes directly geared towards the needs of the poor.

29. Over and above the need to ensure that the poor are provided with sufficient opportunities to participate in and benefit from the process of economic growth, the Government seeks as well, through the second prong of the NEP, a fairer distribution among the races of the opportunity to participate in the widening range of economic activity that is already under-way. The present compartmentalization of racial groups by economic function, with the Malays and other indigenous people concentrated in the traditional sectors of the economy, is the core of the problem. It militates against the fuller utilization by the Malays and other indigenous people of the many opportunities being opened up in the more modern sectors of the economy. It stands in the way of national unity when members of any particular racial group feel a sense of discrimination, whether real or imagined, on endeavouring to enter into fields of economic activity not commonly associated with that race.

30. Accordingly, through the second prong of the NEP, the Government aims at providing such assistance as may be necessary for all racial groups in the country to find employment, secure participation and acquire ownership and control in the various sectors of the economy. To this end, it is necessary that the Malays and other indigenous people should be freed from their dependence on subsistence agriculture and be given opportunities to participate proportionately in the modern rural and urban sectors of the economy at all levels. Conversely, as the Malays and other indigenous people show progress in their involvement in the modern sector, the other Malaysians should be encouraged to play a greater role in modern agriculture so that the identification of the Malays and other indigenous people with agricultural pursuits is eliminated. The basic objective is the creation

of a socio-economic environment in which a united nation would evolve out of the daily interaction of Malaysians of all races in all sectors of the economy across the geographical regions of the country.

31. The objectives of social justice underlying the NEP cannot be viewed independently of growth objectives. The level and growth of income of socio-economic groups in poverty is to be raised in the context of rising standards of living. At the same time, the restructuring of the racial composition of employment and wealth ownership is to be effected in ways which do not deny opportunities to others as well. Accordingly, the distributional objectives of the NEP must depend on accelerated economic growth which, however, will be redirected to benefit the disadvantaged more. Moreover, rapid economic growth is essential to mobilize the substantial resources required for the eradication of poverty and the restructuring of society. An essential component of this strategy is the active participation of the private sector including foreign expertise. What is sought is redistribution in a context of dynamic growth so that no particular group experiences any loss or feels any sense of deprivation in the process.

32. In the implementation of the NEP, equal priority is intended for the two prongs, for both together constitute a complementary and mutually reinforcing set of policies and programmes. Measures aimed at benefitting the poor in their present locations and spheres of economic activity would no doubt contribute significantly to the enhancement of their living standards. The limits to such enhancement will, however, be quickly reached unless some of the poor in both the rural and urban areas of the economy are provided with the necessary opportunities and resources to move into the more developed regions and sectors of the economy, given that by far the most serious factor contributing to poverty is underemployment. On the other hand, measures aimed only at the restructuring of society particularly in respect of the changes sought in the ownership of wealth, would tend to benefit to a substantially greater degree the more advantaged among the target groups concerned leaving the economic condition of the poor largely unaffected.

33. It must be appreciated that planned development through public sector spending aimed at correcting imbalances and restructuring society will tend to initially accentuate rather than reduce these imbalances. The initial benefits from the construction of multi-million dollar irrigation schemes, for example, will accrue to urban entrepreneurs and construction workers before they benefit the rural poor for whom these schemes are meant. On the same basis, it can be expected that efforts to urbanize and integrate Malays and other indigenous people into the mainstream of

modern economic activity would also benefit the other communities first. This process of planned public sector spending affects the speed of restructuring. It is important to understand and emphasize this. Otherwise the Malays and other indigenous people will become embittered because they are not receiving what they have been promised while other Malaysians will also be embittered because the emphasis on the development of Malays and other indigenous people deflects their sights from the benefits they themselves are already receiving from the implementation of these schemes. In the atmosphere so created, the whole purpose of the NEP will be retarded or reduced to nought.

34. In the final analysis, what is sought by the NEP is a socio-economic environment in which individual Malaysians find self-fulfilment within a system which provides for proportional participation, management and control in the economic life of the nation. Continuing improvement in the economic welfare of each and every individual in Malaysia is important in this regard but is not enough. Unless this is also accompanied by progressive transformation of the country's racially-compartmentalized economic system into one in which the composition of Malaysian society is visibly reflected in its countryside and towns, farms and factories, shops and offices, the present state of accommodation and understanding between the major racial groups will not grow to the full maturity of national unity.

35. The progressive attainment of these objectives is also important if the security of the nation is to be promoted. As long as tangible progress is not seen to be made in bringing about their attainment, discontentment will arise and provide fertile ground for the machinations of anti-national and subversive elements. Indeed, such elements have increasingly capitalized upon current problems in the socio-economic environment in seeking to destroy the foundations on which the nation developed. Through intimidation and attempts to destroy public confidence in the capacity of the Government to provide law and order, they seek to discredit the programmes of a constitutionally elected Government for accelerated economic development with social justice for all. They have little regard for the impact which their efforts have on the welfare of the common man or the practicability of implementing their utopian promises. All their actions in fact are aimed at establishing a system of Government which is alien to the ideology of the mass of Malaysian society.

36. The Government will meet this threat to the security of the nation. It will expand its security forces and above all, it will continue to ensure that the most rapid progress possible is made in eradicating the root causes of socio-economic imbalances so that Malaysians of all races, religions, income groups and social strata will share in a sustained manner in the

fruits of progress. Only on this basis can it be assured that Malaysians, particularly those who are now less fortunate, will not fall prey to the designs of anti-national and subversive elements.

37. The inter-dependence of the socio-economic development efforts of the Government and the development of its security capabilities cannot be over-emphasized. In the absence of security, social and economic progress will be thwarted. Without such progress, on the other hand, the maintenance of the nation's security will become progressively more difficult.

38. The NEP was inaugurated with the overriding objective of fostering nation building and national unity. The re-emergence of the security threat makes it incumbent upon the Government to ensure that, in addition, its policies, programmes and projects will also contribute to the task of assuring national security for all its people.