

A study on the origins of ethnic conflict and  
settlement process in Malaysia: the effect of the  
New Economic Policy on Chinese Malaysians

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New Economic Policy on Chinese Malaysians

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## **Abbreviations and Acronyms**

ASEAN	Association of Southeast Asian Nations
BN	Barisan National
DAP	Democratic Action Party
FELCRA	Federal Land Consolidation and Rehabilitation
FELDA	Federal Land Development Authority
GDP	Gross Domestic Product
ICA	The Industrial Coordination Act
KMT	Kuomintang of China
MARA	Majlis Amanah Rakyat
MCA	Malaysian Chinese Association
MCP	Malayan Communist Party
MIC	Malaysian Indian Congress
MIDA	Malaysia Industrial Development Authority
MNLA	Malayan National Liberation Army



MPAJA	Malayan Peoples' Anti-Japanese Army
NDP	National Development Policy
NEP	New Economic Policy
NOC	National Operations Council
PAS	Pan-Malaysian Islamic Party
PAP	People's Action Party
Pernas	Perbadanan Nasional
PNB	Permodalan Nasional Berhad
RIDA	Rural Industrial Development Authority
SEDCs	the State Development Corporations
UDA	Urban Development Authority
UMNO	United Malays National Organisation

## **Abstract**

### **A study on the origins of ethnic conflict and settlement process in Malaysia: the effect of the New Economic Policy on Chinese Malaysians**

Malaysia is a multi-ethnic nation with Malays, Chinese, Indians, and indigenous people. It has suffered from ethnic conflicts with various reasons since the British colonial period. When Malaysia was independent in 1957, the government could not solve ethnic conflict. After racial riot in 1969, the Malaysian government aimed to stabilize ethnic relations by introducing the New Economic Policy (NEP). The New Economic Policy was an attempt to achieve development, which converted Malaysia's structure into development. This paper, using secondary data, attempts to articulate that the New Economic Policy stabilized recursive ethnic conflicts and simultaneously achieved economic development in Malaysia. According to acculturation theory, this study briefly revises the process and results of the NEP. Then, this paper argues how Chinese migrants had coped with the NEP and made an effort to harmonize for social stabilization with the Malays. This paper concludes that ethnic relations have always been Malaysia's primary issue, and ethnic conflict had triggered chaos before the implementation of NEP. The NEP eventually stabilized the ethnic conflict by working as a driving force of Malaysia's development.

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Keywords: Malaysia, the New Economic Policy, Ethnic Conflict, Acculturation,  
Chinese Malaysian

# Chapter 1

## Introduction

A multi-ethnic society has people belonging to more than one ethnic group, in contrast to societies which are ethnically homogeneous. By various definitions of "society" and "homogeneous", virtually all-contemporary national societies are multi-ethnic. Compared to ethnic majority, the migrants are often distinguished from host society especially culturally and ethnically because they still maintain their culture and language instead of the complete localization. For example, Jews or Chinese have migrated around the world. Based on exceptional commercial skills, they settled down in new environment successfully, and formed their own communities. Without identical localization, the migrants have been linked each other within their communities by sharing cultural identity.

In multi-ethnic society, there is always a chance of conflict among ethnic communities. An ethnic conflict is a conflict between two or more contending ethnic groups. While the source of the conflict may be political, social, or economic, the individuals in conflict must expressly fight for their ethnic group's position within a mainstream society. In most multi-ethnic countries, the migrants have been

persecuted on nationalism. The presence of migrants threatens the national economic possession. Their exceptional commercial skills cause economic gap between local and immigrant groups. Hence, several political leaders utilize angers of the majorities to sustain their power. The authority would misuse nationalism for maintaining their power, and consider the ethnic minorities are as the threat of national economy of security.

Besides economic difference, the migrants face cultural difference. The original culture of migrants sometimes offends local custom. It did not seem to respect local culture that triggers tension. The cultural difference would provide a reason of conflict so the migrants mind their manners, and accept local customs for survival. The survival process requires to learn new language and custom which cause identity confusion. The process of cultural and psychological change results following meeting between two cultures that could be described as acculturation.

In case of Malaysia, this a multi-ethnic country includes Malays, Chinese, Indians, and indigenous people. The ethnic diversity is resulted from the British colonial rule; an ethnic pattern that had established under the British rule continues today and has to be managed (Seah, 2000: 189). While the Malay Peninsula was colonized by the British, the colonial authority began to host new industries such as tin mines or rubber plantations. The British authority was not satisfied with Malay

labours' efficiency for operating new industries. Therefore, the colonial power looked for alternative labours that induced mass migrations from China and India.

As the former colonial authority converted the Malay Peninsula into multi-ethnic society, Malaysia was founded with same condition. The Chinese minorities were still relatively wealthier than the Malays, the majority. The economic difference caused relative deprivation of the Malays and eventually, the ethnic conflict. The Malaysian government assumed that narrowing economic gap was the solution to stabilize Malaysia. Therefore, the Malaysian government introduced the New Economic Policy (NEP) and granted privileges to Bumiputeras<sup>1</sup>, including the Malays. The purpose of the policy was to increase the economic possession of the Malays. This was to be done by redistributing the wealth to increase the ownership of enterprise by Bumiputeras from 2.4% to 30% of the share of national wealth. Although non-Bumiputeras have engaged in private sector from the past, the NEP limited to the non-Bumiputras's entrance in public sector, where the impact of the NEP was less pronounced. The NEP seemed like thorough affirmative action but it improved the economic condition of most Malaysians, including non-Bumiputeras,

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<sup>1</sup> Bumiputera is a Malaysian term to describe the Malay race and other indigenous peoples of Southeast Asia, and used particularly in Malaysia.

and resulted the social integration without forced assimilation.

Although the NEP could not reach the goal as planned, it led to economic growth of Malaysia. The NEP developed living conditions of Malaysians, and reformed the structure of income distribution that achieved remarkable achievement (류석춘, 1996: 17). The growth enables effective distribution of wealth for avoiding certain group's isolation. Under the government's support, Malays were assured economic privileges in fixed proportion such as employment and public education. In perspective of Chinese, it was an unequal action but they overcame the difficulties by accumulated commercial skills. They rather respected the government's policy that allowed the economic activities of Chinese. As the Chinese capitalists introduced new strategies, their economic condition was also improved by the NEP's success.

Owing to the NEP, the Chinese Malaysians began to acknowledge the condition that affected the attitude of migrants towards their new country. First, a number of Chinese capitalists began to accommodate the NEP with new strategies. They sought to cooperate with the Malay capitalists or employ the Malays in key positions. The Malays had lack of business skills, and Chinese were restricted to acquire business. Second, the Chinese Malaysians exploited an export market in China. When Malaysia established diplomatic ties with China in 1974, it was

considered as potentially lucrative business ventures for Malaysian capital. As the Chinese Malaysians were familiar with both Malay and Chinese culture, they became mediator between Malaysia and China. Malaysia utilized diplomatic strategy through Chinese Malaysians' investment so they did not have to rely on certain side in international relations. To sum up, Chinese Malaysians contributed to national interest through the New Economic Policy.

This thesis aims to prove the function of New Economic Policy in Malaysia. There had been repetitive ethnic conflicts between Malays and Chinese in Malaysia. In order to stabilize the society, the government had to seek a solution that was the introduction of the New Economic Policy. Despite of Malay's prerogative, non-Bumiputras were still allowed to gain benefits. The New Economic Policy resulted as a social integration and transition of Chinese attitude towards Malaysia. The Chinese migrants justified themselves as 'Malaysian Citizens' who made an effort to benefit Malaysia. Hence, the research aims to study how the NEP enabled social integration of Malaysia.

The thesis is structured as follows. Chapter 1 presents an introduction of the thesis. Chapter 2 presents literature review and analytical framework. Chapter 3 introduces Ethnic Conflict and Implementation of the Rukunegara in Malaysia. Chapter 4 presents the Process and Outcome of the New Economic Policy. Chapter

5 focuses on Effects and Limitations of the New Economic Policy. Finally, Chapter 6 summarizes the conclusion. This research focuses on the function of Chinese community in Malaysia. It aims to study how Chinese community contributed to the development of Malaysia.



## **Chapter 2**

### **Literature Review and Analytical Framework**

#### 2.1 Literature Review

In Anthropological and Sociological perspectives, Glazer and Monyuan (1975) articulated two approaches on ethnic conflict: primordialist and circumstantialist. First, primordialist refers that ethnic groups exist by traditions of belief and action towards primordial objects such as biological factors and especially territorial location. Second, circumstantialist refers that ethnicity is associated with social conditions and interest.

In Southeast Asia, ethnic conflict is an important issue on the process of social integration. The ethnic conflict in Southeast Asia could be divided into three categories. First, it is psychological stress. It is the case of preventing ethnic cooperation. Second, it is political struggle. It is the case of ethnic minorities' requirement of right or alternative compensation. Third, it is separatism movement.

As the ethnic minorities were relatively discriminated by the government, they rather ask for the independence.

In case of Malaysia, the former Prime Minister of Malaysia, Mahatir bin Mohamad (1978) analyzed why Malays were considered to be inferior to other ethnic groups. He justified and emphasized the necessity of Malay's economic privilege. Abraham (1997) also argues factors of ethnic conflict in Malaysia. He assumed that British colonial ideology triggered the ethnic conflict in Malaysia. He articulated constructive aspects by Chinese or Indian migrants.

Faaland (1990) supports the New Economic Policy's achievement through his research. In his research, he claims how NEP obtained desired results that improved ethnic relations in Malaysia. He also points out the limit and supplement points of NEP. On the other hand, Jesudason (1989) explains the condition of Malaysia with ethnic relation, Chinese migrants and economic development. He argues that ethnic relation was improved by economic development, not by the government's other remarkable achievement.

Weidenbaum (1996) explained how overseas Chinese formed their communities and network. Chinese Malaysians have consisted a socioeconomically well-established middle-class ethnic group and traditionally dominated the business and commerce sectors of the Malaysian economy. When they settled down in the Malay

Peninsula, they began to live together in one place based on cultural identity. They engaged in same business activities because they considered Chinese entrepreneurs as same side and competed against local or foreign businesses. This could be described as development of Chinese commercial network. Chinese businesses in Southeast Asia, including Malaysia, are usually family owned and managed through a centralized bureaucracy. These firms are typically mid-sized corporations. Trade and financing is guided by family ties and personal relationships are prioritized over formal relationships. This network is based on trust that promotes commercial communication and a faster transfer of capital in a region where financial regulation and rule of law remain undeveloped (Weidenbaum, 2005:264-265). When Chinese parties lost their powers in Malaysia, the Chinese capitalists began to change business approaches.

Brown (2000) articulated that the Chinese' links with the state, indigenous merchants, local elites and boards of Chinese companies, to raising equity from indigenous sources and government capital, to operating joint ventures with the state and with foreign multinationals. He claimed the function ranges from patron to partner, or investor to executor. Carney (2004) articulated that the Chinese have developed business models to take advantage of the opportunities afforded them by the retreat of colonial business and the institution of nationalistic economic policies

and to protect their interests in a business environment characterized by insecurity and bureaucratic 'rent-seeking'.

To sum up, most studies focused on ethnic relations and economic disparity among ethnic groups in Malaysia. The NEP was a solution to handle the economic and ethnic issues. It was a driving force of structural variation of so Malaysia began to face new circumstances. Despite of difference in each perspective, these studies explain the relations among ethnic conflict, economic disparities and the NEP.

## 2.2 Analytical Framework

This research is a case study. I articulate that NEP achieved social integration of Malaysia that enabled Chinese migrants' contribution to Malaysia. It is marvelous how Malays and Chinese decided to cooperate for Malaysia with two reasons. First, the diplomatic relations affected Malaysia's decision. Indonesian President Sukarno chose to regard Malaysia as a "neocolonialist" plot against his country, and backed a Communist insurgency in Sarawak. Indonesian irregular forces were infiltrated into Sarawak, where they were contained by Malaysian and Commonwealth of Nations forces (Barbara Watson Andaya; Leonard Y. Andaya, 1984). Also, the

Philippines objected to the formation of the federation, claiming North Borneo was part of Sulu, and thus the Philippines (Barbara Watson Andaya; Leonard Y. Andaya, 1984). The diplomatic relations between the two countries were suspended due to a dispute over the Philippines. Malaysia was unstable with domestic and diplomatic conflicts. It forced to settle Malaysia's stability. Second, the Chinese migrants had to stay in Malaysia. China was communized where property acquisition was illegal, and most Chinese migrants supported the Kuomintang.<sup>2</sup> They did not have alternative place to stay so they had to accept the government's policy for survival. Despite of the unequal rights, the NEP capacitated their economic activities which determined them to accept the policy.

Malaysia attempted social integration by the NEP. Social Integration of Migrants signifies minimization of ethnic conflict between locals and migrants which guarantees the rights of citizenship. Malaysia's social integration would be described as acculturation model. In general, acculturation is the set of processes by which individuals and groups interact when they identify themselves distinct. Acculturation is a direct change of one's culture through dominance over another's

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<sup>2</sup> The Kuomintang has historically been the ruling political party of the Republic of China on Mainland China and the island of Taiwan. It was the ruling party in mainland China from 1928 until its retreat to Taiwan in 1949 after being defeated by the Communist Party of China (CPC) during the Chinese Civil War.

culture through either military or political conquest. Berry (1997) divided acculturation into four categories. Interaction occurs when individuals are able to adopt the cultural norms of the dominant or host culture while maintaining their culture of origin. Assimilation occurs when individuals adopt the cultural norms of a dominant or host culture, over their original culture. Separation occurs when individuals reject the dominant or host culture in favor of preserving their culture of origin. Marginalization occurs when individuals reject both their culture of origin and the dominant host culture.

According to Berry's claim, it is complicated that NEP could be categorized as assimilation or integration. When the NEP was introduced, it was intended to increase proportionally the share of the economic "pie" of the Bumiputeras as compared to other ethnic groups. Malay's poor economic circumstances caused recurrent ethnic conflicts so the government expected to solve the chaos by redistribution of wealth. The NEP increased Malay's participation in commercial sectors without qualification so Chinese entrepreneurs experienced unequal competition. Both Chinese and Malay entrepreneurs experienced business expansion during the NEP but Chinese entrepreneurs had to seek alternative strategies for sustenance of the businesses while Malays enjoyed favours under the government's affirmative action.

However, the NEP's success brought wealth to Malaysians regardless of ethnicity. The NEP resulted economic growth of Malaysia but the wealth was not monopolized by Malays only. The Chinese capitalists respected constitution and utilized alternative strategies. They succeeded to make money legitimately so the government could not manipulate their economic activities. On top of economic practice, political participation was still allowed to Chinese or Indians. The government's consolidation of power was successful during the NEP implementation, but it could not restrict the activities of various ethnic parties. Malaysia has since maintained a delicate ethno-political balance, with a system of government, which has attempted to combine overall economic development with political and economic policies, which have promoted equitable participation of all races.

From the economic aspect, the NEP favoured only Malays, while the government allowed economic activities of Chinese within the limits. Instead of property confiscation or exclusion of Chinese, the NEP followed Non-Zero-Sum method. In this method, Malays were allocated more fixed benefits than the other ethnics. However, ethnic minorities were not completely isolated from the market structure; they were allowed to gain benefits as well. If the Malaysian government the reversed method, it would have brought ethnic minorities' resistance because of

similar economic composition. All the more, the NEP sought equal status, in spite of Malay's special rights. For example, the possession of corporation was increased in Malaysia, regardless of the ethnicity.

From the political aspect, I articulate that the NEP strengthened UMNO's position. Before the NEP, the governing coalition the Alliance Party<sup>3</sup> faced a strong challenge from the opposition parties and experienced racial riot. They had sought realistic political alternatives rather than supporting different demands from each ethnic group. The Alliance experienced a decrease in approval ratings. Hence, the Alliance-led government introduced the NEP to regain support which accomplished the intended goal. While the NEP was on the process, the Chinese entrepreneurs rather preferred UMNO as patron because MCA lost influence within the Alliance Party. Although the MCA could not protect or represent the Chinese migrants anymore, they rather formed a connection with UMNO that resulted as supporting the Alliance.

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<sup>3</sup> The Alliance Party, whose membership comprised United Malays National Organisation (UMNO), Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC), was formally registered as a political organisation on 30 October 1957. It was the ruling coalition until it became the Barisan Nasional in 1973.



### 2.3 Methodology and Collection of Data

A range of research includes from 1950s to 1980s. During the colonial period, Malaysia was transformed into a multi-ethnic society with mass migration from China and India. Based on advanced business abilities and exclusive network within Chinese community, the Chinese migrants began to monopolize the Malay Peninsula's economy which enraged the Malays. When the Japanese occupied the Malay Peninsula, they utilized ethnic conflict to govern. They favoured the Malays, and discriminated Chinese. The ethnic conflict was recursive regardless of authority.

After the foundation of Malaysia, the repetitive racial conflict resulted as racial riot in 1969. The Malaysian government assumed that economic gap among the ethnic groups was the main reason of the conflict. The New Economic Policy was introduced to achieve a goal, which seemed to follow an affirmative action. It is the policy of favouring members of a disadvantaged group who suffered from comparative advantage. However, the primary objective of the NEP was national unity despite of Malay's prerogative. The racial conflict would be solved by economic distribution that required economic development. The NEP ensured the security of ethnic minorities, and did not confiscate their properties.

The research aims to enunciate the function of New Economic Policy in Malaysia with three reasons. First, the Alliance's political cooperation failed to solve ethnic conflict. On the process of foundation of Malaysia, the ethnic cooperation was successful as the British admitted their political power but it was the temporary cooperation. The cooperation became ethnic competition after the independence of Malaysia so the Malaysian society was chaotic until the introduction of the NEP. Second, Malaysia experienced economic growth by the NEP. The economic condition of the Malaysians was improved by the success of the policy. The success of the NEP resulted in decrease in poverty rate and increase in GDP. Third, Malaysia achieved a successful model of multi-ethnic society. Despite of repetitive failure in ethnic cooperation, the NEP functioned as a solution to ethnic conflict. Under the government's support, the economic condition of Malays was improved without property confiscation of Chinese. The economic condition of Chinese was also improved because the government did not restrict new strategies of Chinese. It proved that the NEP followed non-zero sum method. In Malaysia, "political power" is in the hands of the Malays, while the "material benefits" flow into largely Chinese hands (Hwanga; Sadiq, 2010).

In the thesis, I employed secondary data which comprises of books, journal articles, and other relevant documents. These sources provide description, analysis

and explanation of the New Economic Policy. This research is a case study which focuses on the function of the New Economic Policy in Malaysia. Despite of affirmative action, the NEP benefited every ethnicity in Malaysia. This method of empirical study is especially useful for trying to test theoretical models by using them in real world situations. However, a case study is limited to a narrow field, which can not be extrapolated an entire question and that it shows only one narrow example.

## **Chapter 3**

### **Ethnic Conflict and Implementation of the Rukunegara (1957-1969)**

#### 3.1 Historical background of the Ethnic Conflict in Malaya

From the 18th century, the British Empire began to colonize the Malay Peninsula. The purpose of the colonization was to benefit from the new industries such as tin mining or rubber plantation that needed plenty of labour force. The Malays had engaged in agricultural activities from their ancestors, and they were reluctant to join new industries. The British had to look for substitute who could fill a vacancy. Therefore, a number of Chinese and Indian labours migrated to the Malay peninsula.

When the Malay Peninsula was converted into a 'multi-ethnic society', the British divided each racial community into different industrial sectors. They expected to prevent racial conflict by division of labour. Based exclusive networks within Chinese community, the Chinese migrants began to possess the economy. As

the Chinese networks became stronger, the economic gap was increased among ethnic groups in the Malay Peninsula. Although the Malays refused to engage in new industries, they realized agricultural activities could not provide much benefits as tin mining or commercial sectors. In those days, the colonial government preferred to import rice from Thailand (홍석준, 2002:81). It meant the Malays did not provide rice with excellent quality due to poor support by the British. While mining and commercial industries were integrated with the World economy, agricultural sector was still remained as enclave economy (류석춘, 1996:84). The increased rural populations and drop in profits threaten living environment of Malays. Without rice, the colonial government still gained profits or tax from tin, rubber, coffee and pepper, which were produced by the Chinese. Therefore, the colonial authority could rely on the Chinese.

In addition to Malays' perspective, the Chinese migrants sought cooperation with the British. The Chinese children were educated in English schools that was useful to form a network between the Chinese and the British, with the advancement of the status. Due to the political condition and division of labour, it was impossible to build a cooperation system between Malays and Chinese. The strategy of Chinese rather formed a Chinese middle class in commercial sector that seemed like economic extortionist towards Malays.

Furthermore, the cultural difference aggravated the relationship between the Malays and Chinese. A majority of Malays have been adherents of Sunni Islam. They have been required to follow Islamic faith. Islam gives the Malays bonds of communal identity as strong as those developed by social or political institutions (Means, 1976:17). In contrast, Chinese migrants had not respected Malay culture such as drinking alcohol or eating pork; Malays believe that pig is a loathsome animal. When the racial conflict occurred in 1940s, the Chinese threw dead pig head and pig blood to the Mosque. These aggressive actions were considered as 'sacrilege' to Malays that arose violent disorders (오명석, 2004:38). The Malays' hatred toward Chinese community resulted the ethnic conflict in the Malay Peninsula which had been affected until the foundation of Malaysia.

Aside from the British colonial policy, the Japanese Occupation period also caused ethnic conflict. When the Second World War was broken out, the Japanese occupied the Malay Peninsula from 1941 to 1945. They invaded the Malay Peninsula under the 'Greater East Asia Co-Prosperity Sphere'.<sup>4</sup> Although the British had built a great naval base at Singapore, they could not anticipate an

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<sup>4</sup> The Greater East Asia Co Prosperity Sphere was an imperial propaganda concept created and promulgated for occupied Asian populations during the first third of the Shōwa era by the government and military of the Empire of Japan. At that time Japan occupied Korea, Manchuria, territories of China, and Southeast Asia.

invasion of Malaya. Due to the demands of the war in Europe, there was virtually no British air capacity in the Far East. The Japanese were thus able to invade the Malay Peninsula.

The Japanese introduced ethnic policy just as the British did only in that they favoured the Malays. They regarded the Malays as liberated people from British imperialist rule, and fostered a limited form of Malay nationalism, which gained Japanese some degree of collaboration from the Malay civil service and intellectuals. The Japanese treated the Malays as political partner. They even promised to honour Malay claims on state sovereignty once independence was granted. More generally, the Japanese exhorted the Malay community to adopt ethnically aggressive postures, thereby firming up mass support for promoted Malay elites, as well as for Japan's own war aims (Case, 1996:73).

However, the Japanese occupiers treated the Chinese migrants with great harshness, having for the past decade supported the KMT and communist resistance to Japanese forces in mainland China. The Japanese began to expropriate Chinese businesses to erode the statuses of Chinese economic elites. Moreover, Chinese schools were either closed or burnt down. Not surprisingly the Chinese community fell to the leaders of Malayan Communist Party (MCP) and the Malayan Peoples' Anti-Japanese Army (MPAJA). The Japanese employed the Malay Malayan Police

Force to suppress the Chinese resistance movement which deepened the hostility between two ethnic groups.

In short, two foreign powers influenced the ethnic conflict in the Malay Peninsula in two reasons. First, the British authority accepted mass migration from China and India. The migrants became wealthier than the Malays that resulted as economic difference and conflict among ethnic groups. Second, the Japanese favoured the Malays and persecuted the Chinese. The Japanese utilized Malays' anger about Chinese for their former economic domination.

Table 1: Ethnic composition of the population, Peninsula Malaya 1911-1947

<u>Ethnic Group</u>	<u>1911</u>	<u>1921</u>	<u>1947</u>
Malay	57.3%	54.0%	49.5%
Chinese	29.1%	29.4%	38.4%
Indian	10.0%	15.1%	10.9%
Others	3.6%	1.4%	1.2%
Total	2,385,000	2,907,000	4,908,000

Source: Khoo Boo Teik. "Ethnic Structure, Inequality and Governance in the Public Sector: Malaysian Experiences". *UNRISD*, P. 2005., Census Reports of Malaysia 1911–2000.



### 3.2 The Political Coalition and the Federation of Malaya

After the World War 2, the British returned to the Malay Peninsula and prepared the independence of Malaya. The British realized Malaya's direct independence would not be efficient because of hostility among ethnic groups. The British authority wished to stabilize Malaya's politics for their sustainable economic influence in Malaya. For the purpose of influence, the British authority had to look for rational political cooperators from each ethnic elite group.

The UMNO<sup>5</sup>, MCA<sup>6</sup> and MIC<sup>7</sup> established a good relationship with the British that seemed advantageous position on the process of independence. Even these parties were founded to represent each ethnic group. At that time, there were still ethnic conflict among ethnic groups that feared each ethnic group's security and economic interest. While two foreign powers had occupied Malaya, ethnic conflict was triggered by certain ethnic group's economic monopoly. There were even

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<sup>5</sup> UMNO is racial based party as only Malay people can be their member. It has dominated Malaysian politics since independence.

<sup>6</sup> MCA is a uni-racial political party in Malaysia that seeks to represents the Chinese Malaysian ethnicity; it is one of the three major component parties of the ruling coalition in Malaysia.

<sup>7</sup> MIC is an Indian Malaysian political party and is one of the founding members of the ruling coalition.

various political organizations in each ethnic community to secure legitimacy of each ethnic group. Under the name of independence process, the three parties gained British support that was an opportunity to represent each ethnic group.

Furthermore, the Malayan Emergency determined the British authority to support these parties. It was a Malayan guerrilla war fought between British armed forces and the Communists such as the Malayan National Liberation Army (MNLA) or the MCP. The purpose of the Malayan Emergency was Anti-British movement. If the British failed to suppress the emergency, they could not achieve a goal, as they planned in advance. The British had to remove opposition force and succeeded the power to whom they trusted. Hence, the British induced mutual solidarity among UMNO, MCA and MIC, whose powers became major political force of Malaysia. These three parties became member of the Alliance Party, which follows the structure of coalition.

The MCA's leader Tan Cheng Lock favoured a policy of collaboration with UMNO to win Malayan independence on a policy of equal citizenship, but with sufficient concessions to Malay sensitivities to ease nationalist fears. Since the British had announced in 1949 that Malaya would soon become independent whether the Malaysians liked it or not, both leaders were determined to forge an agreement their communities could live with as a basis for a stable independent

state. Moreover, the British gave notice of the first general election for the Federal Legislative Council.

Before MIC's join in 1954, the Alliance Party was created by joint declaration of UMNO and MCA in 1952. Many political observers were unable to understand how UMNO and the MCA were able to reach a working agreement to band together to contest the Kuala Lumpur elections (Means, 1996:133). The Alliance was created to oppose IMP with two reasons. First, IMP was formed by the former leader of UMNO, Dato Onn. The IMP had chartered a course that threatened to undermine the political support of UMNO (Means, 1996:133). Second, MCA was not satisfied with Dato Onn's claim which tended to define a 'Malayan' by reference to the Malays. Although the IMP was much more liberal with respect to non-Malay rights, citizenship and voting requirements than UMNO, it was still not above suspicion as far as the MCA was concerned (Means, 1996:133).

Beginning from victory of a Kuala Lumpur municipal elections in 1952, the Alliance Party won the general election again in 1955 that increased the party's political reputation on the process of Malayan Independence. Due to the party's expansion, the British authority began to recognize it as negotiation partner. In British perspective, the anti-British force would not be a suitable partner of the British because they would threaten the British influence after the independence.

Thus the British would be satisfied with the growth of the Alliance Party. The Alliance Party was even invited to the Constitutional Conference in 1956 for discussing independence of Malaya.

Table 2: Malayan Federal Legislative Council election results in 1955

<u>Party</u>	<u>%Vote</u>	<u>Seats</u>
Alliance Party	81.68%	51
(United Malays National Organization)	(58.90%)	(34)
(Malayan Chinese Association)	(20.09%)	(15)
(Malayan Indian Congress)	(2.68%)	(2)
National Party	7.88%	0
Pan-Malayan Islamic Party	4.06%	1
National Association of Perak	2.10%	0
Perak Malay League	0.54%	0
Labour Party of Malaya	0.48%	0
Perak Progressive Party	0.11%	0
Independents	3.16%	0

Source: Carnell, Francis G. "The Malayan Elections". *Pacific Affairs*. 1955. University of British Columbia. 28 (4): p.315.

In 1956 UMNO, the MCA and the British discussed a constitutional settlement for a principle of equal citizenship for every ethnicity. In exchange, the MCA agreed that Malaya's head of state would be drawn from the ranks of the Malay Sultans, that Malay would be the official language, and that Malay education and economic development would be promoted and subsidised. In effect, Malaya would be run by the Malays, particularly since they continued to dominate the civil service, the army and the police, but that the Chinese and Indians would have proportionate representation in the Cabinet and the parliament, would run those states where they were the majority, and would have their economic position protected. The difficult issue of who would control the education system was deferred until after independence. This came on 31 August 1957, when Tunku Abdul Rahman became the first Prime Minister of independent Malaya.

On the process of establishment of the Federal Constitution of Malaya, it guaranteed to overcome Malay's weakness. According to Merdeka Constitution, article 153 of the Constitution sets out a set of special rights of the Malays and also other articles deal with their rights and prerogatives under the Constitution (Faaland · Pakinson · Saniman, 1990:16). On the other hand, the constitution assured the non-Malay's protection from cultural violation, citizenship in condition and free commercial activities.

The general election was held in 1959 for members of the first Parliament of the Federation of Malaya. It was the first parliamentary election in independent Malaya. This election was an opportunity to confirm how inter-ethnic alliance would solve ethnic conflict. Also, it was expected to prove consultations level within the Alliance Party. The election could be described with two clues. First, Malayan party system was formed with the Alliance party as the central figure. Second, the Alliance Party had been managed by comprise among conservative elites.

The Alliance Party achieved overwhelming victory in the general election in 1959. The Alliance Party appeared as the first ruling party in independent Malaya. However, the candidate selection was not nominated fairly within the ruling coalition. It was weighted in favour of UMNO because UMNO's political dominance over other parties became absolute. Smaller parties representing the smaller communities and political parties adopting a multi-communal or non-communal approach, unless their support is concentrated in particular territorial extents, are similarly unable to obtain representation (Rachagan, 1984:128). Both the MCA and the MIC came to be seen as patronage machines that gave of the non-Malay middle class access to the Malay-dominate government and bureaucracy but offered fewer benefits to supporters at lower levels in the hierarchy (Crouch, 1996:19).

Table 3: Malayan Federal Legislative Council election results in 1959

<u>Party</u>	<u>% Vote</u>	<u>Seats</u>
Alliance Party	51.8%	74
(United Malays National Organization)	(35.8%)	(52)
(Malayan Chinese Association)	(15%)	(19)
(Malayan Indian Congress)	(1%)	(3)
Pan-Malayan Islamic Party	21.3%	13
Malayan Peoples' Socialist Front	12.9%	8
People's Progressive Party	6.3%	4
National Party	2.1%	1
Malayan Party	0.9%	1
Independents	4.8%	3

Source: R. K. Vasil. *The Malayan General Election of 1969*. Oxford University Press. 1972 P. 73-

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When the British North Borneo Company gave up their control of Sarawak and North Borneo in 1950s, these regions became British Crown Colonies. They were much less economically developed than Malaya, and their local political leaderships were too weak to demand the independence. Even Singapore achieved autonomy in 1955. Therefore, Tunku Abdul Rahman proposed the idea of forming Malaysia that was founded in 1963 including Brunei, Malaya, North Borneo (which joined

as Sabah), Sarawak, and Singapore. The Federation aimed to achieve three goals with new members which were economic community, stabilization of politics and collective security.

The establishment of Malaysia did not satisfy everyone in the federal. Some members of UMNO were concerned with forming Malaysia because of large Chinese majority in Singapore that would threaten Malay's benefits. Moreover, there had been tension between UMNO and the Singapore-based People's Action Party (PAP) for political possession. In the first Singapore Legislative Assembly election in 1963, the PAP won thirty-seven out of fifty-one seats. The PAP was even willing to establish a partnership with UMNO in the Alliance. However, UMNO leaders were afraid of Lee Kuan Yew's ambition to extend his influence, and UMNO had to strengthen the position of the ruling party. The competition between UMNO and the PAP was ended by expelling Singapore from the federation due to the 1964 race riots in Singapore.

To sum up, the ethnic cooperation was not successful at first. On the process of Malayan Independence, it was not able to be achieved by a certain ethnic group. The British had not met a suitable negotiation partner that induced to form a coalition, the Alliance Party. Despite of the independence, UMNO was the most dominant what? within the party that constricted function of the MCA and the MIC.



Then it caused the expulsion of Singapore. The political competition between UMNO and PAP aimed to expand political influence that lasted as ethnic conflict. These two parties were established based on each ethnic group's interest. It was crucial to experience decline in approval ratings so the ruling party decided to expel Chinese majority area from Malaysia.

### 3.3 The 13 May 1969 Incident

After the establishment of Malaysia, there had been several incidents of ethnic conflict between Malays and Chinese. There were heated debates between Malay groups wanting radical measures to institutionalise Malay Supremacy, while Chinese groups called for their 'racial' interest to be protected, and non-Malay opposition party members argued for a 'Malaysian Malaysia' rather than Malay privilege (Mueller, 2014:13-14). The weakness of the MCA and the MIC could not gain support from the Chinese and Indian that led to the formation of 'Gerakan Rakyat Malaysia' in 1968. At the same time, an Islamist party, the Pan-Malaysian Islamic Party (PAS) and a Chinese socialist party, the Democratic Action Party (DAP), gained increasing support, to replace UMNO and the MCA.

In the 1969 election, the governing coalition the Alliance Party faced a strong challenge from the opposition parties. Gerakan was a deliberately non-communal party, bringing in Malay trade unionists and intellectuals as well as Chinese and Indian leaders. It proposed a mixed economy with “public ownership of the vital means of production,” as a supplement to private commercial and industrial enterprises (Means, 1976:393). DAP is the remnants of the PAP which preferred to stay in Malaysia. It succeeded the slogan of building a “Malaysian Malaysia” that attracted substantial support from the Chinese Community. PAS was originated in the religious wing of UMNO but was soon taken over by activist. The party attracted supports from the Malays by appealing to their Islamic faith and their identity as an ethnic and cultural community.

When the 1969 election was held, it showed an unexpected, mass-level receptivity to the opposition’s ethnic and class based appeals. There was a breakaway group who were converted into the supporters of PAS, especially in the state assembly elections in Kedah and Trengganu. Chinese voters turned from the MCA to the DAP in Selangor, and to the Gerakan in Penang. In the parliamentary contest, the Alliance won a plurality of the vote, enough to retain narrow control of the federal government, but it lost control of several state assemblies (Case, 1996:107). The opposition was formed to represent each ethnicity that gained

supports within each ethnic group. Despite of ethnic tension, a leadership struggle was repetitive in the Alliance, and political or economic dominance was still possessed by one single ethnic group. These factors affected the voters' choice that drifted from the Alliance to the Opposition.

Table 4: National elections of Malaysia in 1969

<u>Party</u>	<u>% Vote</u>	<u>Seats</u>
Alliance Party	48.41%	66
(United Malays National Organization)	(33.67%)	(51)
(Malayan Chinese Association)	(13.50%)	(13)
(Malayan Indian Congress)	(1.24%)	(2)
PAS	23.75%	12
DAP	13.73%	13
Gerakan	8.57%	8
PPP	3.87%	4
Parti Ra'ayat	1.24%	0
Independents	0.34%	0

Source: R. K. Vasil. *The Malayan General Election of 1969*. Oxford University Press. 1972. P. 73-

To celebrate election success, the DAP and the Gerakan held victory parade in Kuala Lumpur on 11 and 12 May. The opposition members showed a signal of its intention to make sweeping changes. Subsequently, on the evening of 13 May, a “counter-demonstration” by Malays in response to the opposition’s victory processions was organized by local UMNO branches in the courtyard of the Selangor Menteri Besar’s residence (Hwang, 2003:71). Malays were brought from the rural areas into Kuala Lumpur, which was a predominantly Chinese city. Thousands of Malays, some of them armed, arrived to join the parade (Horowitz, 2003:284). The Malay demonstrators were incensed by election results and Chinese parade that triggered a rampage of killing, looting, and burning directed against Chinese.

Severe rioting and looting continued for two days. It resulted as 196 people were killed that created about 6000 refugees, about 90 per cent of whom were Chinese. However, informed observers, such as journalists and non-government sources, claimed that the actual number was much higher (Hwang, 2003:72). Although ethnic violence was not new to Malaysia before and after independence, the May 13 riots resulted in an extensive loss of life and property.

The May 13 riot is the aftermath of 1969 election and ethnic conflict. The ethnic tension between Malays and Chinese was mounted by ambitions towards each other.

In Malays' perspective, the Chinese had been wealthy since the settlement in Malaysia and their enterprises experienced rapid growth in 1960s. that caused Malays' deprivation over Chinese. The Malays began to claim alternative economic policies. In Chinese perspective, they were not satisfied with MCA's political influence. Although the MCA portrayed itself as the voice of the Chinese community, they never seemed to place in equal position with UMNO. The Chinese believed that they would strengthen political position by supporting Chinese opposition parties. The Alliance Party was a result of temporary cooperation, which could not be a fundamental solution of ethnic conflict.

Furthermore, the Alliance failed to maintain an approval rating for few reasons. After the independence, Malaysia's import substituting industry was not beneficial to national economy in spite of high economic growth rate and low inflation. There was an increase in unemployment rate and income inequality that caused economic difference. Then, the Alliance did not prepare the election properly. The alliance symbolized ethnic cooperation as the ruling party. Each ethnic group was not satisfied with national condition because each ethnic group seemed to monopolize certain sectors. It would have better be discussed within the Alliance but the leaders did not consider it seriously. They misunderstood that non-Malay's support would be remained through the MCA and the MIC. On the other hand, the oppositions

attracted the voters by appealing certain ethnic group's interest. In these days, there were young generations who could not agree with ethnic comprise composition and the oppositions utilized voters' dissatisfaction as strategy. The Alliance's political incompetence and the opposition's strategy contributed to inter-ethnic tragedy as well.

The government declared a state of emergency, and established of an unambiguously authoritarian government for twenty months. Under the emergency provisions, Parliament was suspended and extraordinary powers were placed in the hands of a nine-member National Operations Council (NOC), which ruled until the resumption of Parliament in February 1971. Due to the effect of May 13 riot, Tunku Abdul Rahman was forced to retire from Prime Minister, and it was replaced by Deputy Prime Minister, Tun Abdul Razak.

#### 3.4 Introduction of the Rukunegara and the New Economic Policy

In the beginning of foundation, Malaysia's national economic policy was divided into laissez-faire policy and import substitution. The national system was similar with the British policy as colonial legacy. The Malaysian government expected to

achieve economic development by foreign capital's investment so foreign enterprises were favoured in tax or tariff. In addition, Malaysian economy gained foreign currency by exporting rubber and tin that enabled import substitution. However, these strategies were not efficient to support Malaysian economy due to unemployment rate and decline in price of Primary Commodities.

Furthermore, these economic policies failed to reduce rate of poverty. Mass Malay poverty both in absolute and in relative terms vis-à-vis the rest of the population is the outcome of large imbalances in terms of income, employment and the ownership of wealth (Faaland · Pakinson · Saniman, 1996:16). Most Malays suffered from rural poverty because they had engaged in agriculture which was not lucrative sector. As UMNO had a base of support from Malay farmers in rural areas, the Malaysian government sought Malay's income improvement by narrowing economic disparities between urban and rural areas. Despite of the government's effort, it was not efficient, and May 13 riot was the outcome of Malay's poverty so the Malaysian government attempted to transform the structure of Malaysian economy.

The Rukunegara is the Malaysian declaration of national philosophy instituted by royal proclamation on Merdeka Day, 1970, in reaction to a serious race riot in 1969. The Malaysian government sought ways to foster unity among the various

races in Malaysia. One of the methods used to encourage unity is the Rukunegara. The aim of the Rukunegara is to create harmony and unity among the various races in Malaysia. The proclamation reads follows (Means, 1976:401):

1. Belief in God (Keperchayaan Kapada Tuhan)
2. Loyalty to King and Country (Kesetiaan Kapada Raja dan Negera)
3. Upholding the Constitution (Keluhoran Perlembagaan)
4. Rule of Law (Kedaulatan Undang2)
5. Good behaviour and Morality (Kesopanan dan Kesusilaan)

The New Economic Policy (NEP) was launched just after declaration of Rukunegara, which was a social re-engineering and affirmative action program formulated by the National Operation Council (NOC) in the aftermath of 13 May 1969 racial riot in Malaysia. This policy was adopted in 1971 for a period of 20 years and it was succeeded by the National Development Policy (NDP) in 1991. The NEP involved greater state support for labour intensive and rural industries, village development projects, and more land settlement programmes explicitly benefiting the Malays. One of the NEP's object was to create unity among the various ethnicity in Malaysia, through economic equality, via the reduction of the economic gap among the Malays and Bumiputera, with that of the Chinese in



Malaysia. The government expected to solve ethnic conflict through the policy.

While the NEP was operated, the government announced its goal of achieving 30 per cent Malay ownership and participation in all industrial and commercial activities by 1990 (Means, 1991:401). Malays were granted special rights under the state control. According to propose a series of constitutional amendments in 1971, the government proposed to prohibit any questioning or criticisms of sections of the Constitution covered by Rukunegara, including such as topics as the powers and status of the Malay Rulers; citizenship rights; Malay special rights; the status of Islam as the official religion; and the status of Malay as the sole national league (Means, 1991:402). This proposal was efficient to claim the legitimacy of the NEP by preventing any objection against the NEP..

The increased state control appeared in the growth of bureaucracy as well. Before the NEP, Chinese leaders were the only qualified candidates to occupy economic-related positions within the government. The Chinese leaders had the authority to decline the proposal of special favours to Malays. However, the growth of bureaucracy enabled the Malay's occupation of the economic-related position. The NEP was implemented under the absolute authority that appeared in an appointment process of a minister within the government, as well. In the bureaucracy's perspective, inter-ethnic discussion was not efficient to overcome all economic

problems that resulted as ethnic egoism. The bureaucrats' might believe that the strong authority would rather be more helpful to achieve the economic development and ethnic harmony.

## **Chapter 4**

### **Process and Outcome of the New Economic Policy (1970-1990)**

#### 4.1 Mechanisms of the New Economic Policy

The NEP was conceived as a two-pronged strategy of eradicating poverty for all Malaysians as well as reducing and subsequently eliminating identification of ethnicity by economic function and geographical location. The Policy sought to achieve its objectives through rapid expansion of the economy and set its target of substantially reducing incidence of absolute poverty by 1990.

Beginning from the NEP, various attempts had been made to support Malay's economic condition. Most Malays engaged in agricultural sector of which productivity was low, and their traditional lifestyle was not appropriate to overcome the poverty. As the state control was increased, the government introduced new state institution, new law, and income redistribution policy in order to improve Malay's social status.

#### 4.1.1 State Enterprise and State Institutions

On the contrary to laissez-faire policy, there were newly founded state enterprises, or the state enterprises began to expand their field under the NEP. The state enterprises affected on the process of employment construction that increased Malay's employment opportunity. These enterprises aimed capital accumulation to increase Malay's benefit.

In fact, each state enterprise was founded by its own specific function. Perbadanan Nasional (National Cooperation) or Pernas, Permodalan Nasional Berhad (National Equity Corporation) or PNB, and the State Development Corporations (SEDCs) were established mainly to accumulate corporate assets directly, while MARA and the Urban Development Authority (UDA) were supposed to focus on promoting private Malay entrepreneurship (Jesudason, 1989:85). To specify each enterprise's role, RIDA (Rural Industrial Development Authority) stimulated Malay's participation in commercial sectors and UDA focused on urban development. MIDA (Malaysia Industrial Development Authority) provided loan for Malay's industry and SEDC was established in each province to

support Malay's economic activities. PNB promoted Malay's share ownership and the Heavy Industries Corporation of Malaysia (HICOM) was formed to assist in the manufacture of pig-iron, aluminium die casting, pulp and paper, steel, cement, motorcycle and heavy engineering.

In case of Pemas and PNB, both enterprises were developed by absorbing foreign capital. Both enterprises were founded with the highest backing of the top leadership as well. Pemas was set up in 1969, and put under the charge of the Prime Minister's department. The pivotal and ambitious role assigned to it can be gauged from its corporate structure, which had by 1971 spawned six main subsidiaries specializing in most of the sectors of the economy such as Construction, Engineering, Properties, Securities, Trading and Insurance. PNB was established in 1978 to speed up the acquisition of corporate assets on behalf of the Malays (Jesudason, 1989:86).

Pemas and PNB have been considered successful case of state enterprise. The expansion of state enterprises contributed to economic development. As the government controlled state economy, resources have been productively used to increase national competitiveness. From an ethnic point of view, it allowed for the quick control of well-managed, profitable companies and gave the Malay leaders access to surpluses which could be used to provide their Malay base with tangible

and symbolic benefits (Jesudason, 1989:97).

Apart from state enterprises, there were newly founded state institutions that aimed to acquire Malays' stocks and support fund for business activity. For instance, Ministry of Works and Public Utilities, Telecommunication Department, Federal Land Development, Federal Land Consolidation and Rehabilitation Authority functioned to implement NEP. Also, the Malaysian government considered bank advances for financial support, and permitted foundation of various banks that increased bank advances.

#### 4.1.2 The Industrial Coordination Act

In 1975, Malaysian Parliament passed the Industrial Coordination Act to adjust employment structure. The purpose of the Act was development of manufacturing activities with coordination. The ICA gave the Minister of Trade and Industry enormous discretionary power. An existing licence could not be transferred without his permission, and whatever conditions imposed on a licence could be varied 'either on the application of the manufacturer or on the Minister's own motion (Jesudason, 1989:137).

Under the Act, all firms subject to the act were required to submit a proposal to the Ministry stating how they planned to achieve the long-term target of achieving 30% Malay and 70% non-Malay Malaysian ownership in the company. For the export-oriented firms, foreigners could hold anywhere from 100 per cent to minority equity positions, depending on how much they exported and how much they depended on local materials (Jesudason, 1989:137).

Chinese Malaysian manufacturers were concerned about the act, as they had operated with minimal control from the government before. Nevertheless, the government stated the act was not meant to be detrimental towards any group, and went ahead with its implementation. Chinese concerns over new government legislation, which increased state controls over the private sector, and of growing corporate equity ownership by public agencies, resulted in their support of the MCA's call for Chinese companies to overlook narrow clan divisions and participate in a 'corporatization movement' (Gomez and Hsiao, 2003:67).

#### 4.1.3 Income Redistribution Policy

The NEP was an affirmative action that granted special rights to Malays. There

was a discrimination towards Chinese or Indian in acquisition of Business or Capital that would create resistance against the government. In fact, there were considerable number of Chinese whom had been restricted under the NEP. It would rather trigger another ethnic conflict by discrimination against the Chinese that was a menace to social integration.

Owing to the NEP's risk, the NEP followed Non-Zero-Sum approach. Under the NEP, Malays were supposed be benefited unambiguously, that did not mean confiscating ethnic minorities' benefits. The NEP rather improved economic condition of the minorities that prevented resistance against the Malays. Despite of Malay's special rights and increased state control, the least profits were assured for minorities.

Even though the MCA established Multi-Purpose Holdings Bhd (MPHB) to protect Chinese capital, the government did not impose sanctions on which followed the ICA. The NEP was implemented to increase Malay's profit without complete restrictions towards the ethnic minorities. There was not deficit in large Chinese capital, they rather maintained their profitability in the 1970s and early 1980s.



Table 5: Return on Shareholders' Funds in a Sample of Chinese Public Firms, 1974-1982

Name	Activity	Return on Shareholder Funds		
		1974	1978	1982
SEA Development	Discount house	0.16	0.25	0.22
Selangor Properties	Property	0.09	0.08	0.12
Batu Kawan	Plantations	0.08	0.08	0.07
United Motor Works	Manufacturing, Trade	0.12	0.04	0.06
Oriental Holdings	Manufacturing, Property	0.22	0.20	0.25
Paramount	Property, Plantations	n.a.	0.04	0.06
Lien Hoe	Property, Manufacturing	0.16	0.11	0.03
MUI	Property, Finance	0.02	0.06	0.07
Khong Guan	Manufacturing	0.12	0.15	0.06

Source: James V. Jesudason. *Ethnicity and the economy : the state, Chinese business, and multinationals in Malaysia*. Oxford University Press, 1989. P. 155

#### 4.2 Result of the New Economic Policy

The Malaysian economy experienced remarkably rapid long-term growth since the implementation of the NEP. The Malaysian economic growth seemed to respond to the problems of poverty and inter-ethnic economic imbalances. After the

independence, the Malaysian society was chaotic with these problems, and the government even failed to solve them with few attempts. The NEP rather seemed more successful that was supported by the increased state power.

Under the NEP, the policy was implemented to improve social status of Malay. As the Malays were suffered from poverty and lack of economic abilities, the government began to favour Malays with the increased state power. In ethnic perspective, the Malays were granted special rights in employment, education and business. Even with the increased state power, the state seemed to suppress other ethnic groups. It is controversial whether the NEP was a complete affirmative action or indiscriminate policy.

#### 4.2.1 Transition in Employment Structure

Before the NEP, most Malays engaged in agricultural industry in rural area. As agricultural sector was not lucrative as Chinese led commercial sector, Malays were relatively poorer than the Chinese with their economic imbalance among ethnic groups. The government utilized two strategies which were direct state intervention and indirect methods such as education.

According to the ICA, each enterprise was required to employ Malay, in certain proportion, on the process of establishment. The implementation of ICA enabled reduction of Malay unemployment. In an indirect approach, the government expanded educational opportunities by setting Malay quotas in university. The government expected to train potential Malay employees. All the more, there was a massive training programme towards Malays in education which was compulsory for adjusting employment structure. These strategies affected transition in employment structure that improved Malay's social status and economic strength.

Table 6: Employment by Occupation and Ethnic Group, Peninsula Malaysia, 1970 and 1980  
(percentage of ethnic representation; parentheses in thousands)

	Malays		Chinese		Indian	
	1970	1980	1970	1980	1970	1980
Professional and technical	47.0	50.0	39.5	36.9	10.8	11.4
	(64.2)	(118.2)	(54.0)	(87.1)	(14.8)	(26.9)
Administrative and managerial	24.1	31.6	62.9	57.0	7.8	6.1
	(7.4)	(16.2)	(19.3)	(29.2)	(2.4)	(3.1)
Clerical	35.4	55.3	45.9	36.2	17.2	6.9
	(50.4)	(169.4)	(65.4)	(110.8)	(24.5)	(21.0)
Sales	26.7	23.1	61.7	69.2	11.1	7.6
	(69.1)	(99.8)	(159.6)	(299.0)	(28.7)	(32.7)

Service	44.3	47.9	39.9	39.9	14.6	11.6
	(100)	(168)	(89.5)	(140.1)	(32.9)	(40.7)
Production and transport	34.2	45.4	55.9	42.6	9.6	11.4
	(266)	(640.6)	(434.5)	(601.9)	(74.4)	(160.9)
Agricultural	72.0	67.7	17.3	19.3	9.7	11.9
	(920.5)	(998.9)	(221.3)	(289.9)	(123.7)	(175.4)
Total	51.8	51.9	36.6	36.5	10.6	10.8
	(1477)	(2211)	(1043)	(1558)	(301)	(460.7)

Source: James V. Jesudason. *Ethnicity and the economy : the state, Chinese business, and multinationals in Malaysia*. Oxford University Press, 1989. P. 75

According to table 6, it proved Malay's urbanization. While the employment rate in agriculture was decreased, other sectors of employment rate was increased such as administrative or production. As the government believed that secondary and tertiary industries were more lucrative, the government concentrated on Malay's urbanization by massive support.

On the other hand, it is curious how the NEP affected Chinese or Indian employment. Despite of Malay's increased employment in percentage, there were more employed Chinese and Indians, compared to the past. It means Malaysia's economic growth provided more jobs opportunities. In employment perspective, it

could be considered that there were still plenty of job opportunities which could not be fulfilled by whole Malay population, as the society needed talented people regardless of ethnicity.

#### 4.2.2 Transition in Income Disparity

In order to narrow down economic disparities among ethnic groups, the state supported in agricultural sector. Although the government implemented urbanization of Malays, there were still a number of Malays who engaged in agricultural sector. The government's aid contributed in increase Malay farmers' income and reduction of poverty.

The government aid was implemented by several national institutions to such as Federal Land Consolidation and Rehabilitation (FELCRA) and Federal Land Development Authority (FELDA). These institutions concentrated on expanding tillage. However, it did not satisfy what the government expected. In 1988, average earning was estimated \$871 for oil palm, \$721 for rubber schemes, \$631 for sugar cane-growers. These levels were not enough to meet aspirations as the whole state's average earning was estimated \$1100 (Faaland · Pakinson · Saniman, 1990:130).

Table 7: Incidence of Poverty, 1970 – 2002 (in percentage of households)

	1970	1980	1990	1997	1999	2002
Total	49.3	29.2	16.5	6.1	7.5	5.1
Urban	24.6	12.6	7.1	2.1	3.4	2.0
Rural	58.6	37.7	21.1	10.9	12.4	11.4

Source: Government of Malaysia 1973, 1981, 1991a, 1999, 2001a, 2003.

Furthermore, Malaysia experienced increase in household regardless of ethnicity. In 1957, Malay's income was estimated \$144 which was increased \$868 in 1987. Compared to other ethnic groups, the income gap had been reduced between Malays and non-Malays. In 1967, the Chinese earned 2.4 times higher than Malays that decreased 1.6 times in 1987. The NEP adjusted economic imbalance among ethnic groups.

In addition to Malay's income increment, Chinese and Indians have earned more income year by year. In 1957, Chinese income was estimated \$272 which was increased \$1430 in 1987. Also, Indian income was estimated \$217 in 1957 that was increased \$1089. The NEP was not absolutely discriminative as Chinese and Indians were primarily concerned.

Table 8: Households mean incomes by ethnic group, 1957 – 1987

		All Ethnic Groups	Bumiputra	Chinese	Indian	Others
1957/58	M\$	199	144	272	217	n.a.
	%	138	100	189	151	n.a.
1967/68	M\$	217	130	321	253	839
	%	167	100	247	195	645
1970	M\$	264	172	394	304	813
	%	153	100	229	177	473
1984	M\$	1095	852	1502	1094	2454
	%	129	100	176	128	288
1987	M\$	1074	868	1430	1089	2886
	%	124	100	165	125	332

Source: Just Faaland, J. R. Pakinson and Rais Saniman. *Growth and Ethnic Inequality: Malaysia's New Economic Policy*. C. Hurst and Co. Ltd. 1990. P.147.

#### 4.2.3 Transition in Entrepreneurship and Ownership

An essential part of the NEP was to encourage entrepreneurship and capital ownership within the Bumiputra community (Faaland · Pakinson · Saniman, 1990:139). The Malaysian government implemented several strategies to adjust

ownership of capital and enterprise. The government purchased stock from foreign or Chinese capital that was reserved for Malays' proportion of shares.

On the process of establishment of corporation, the government favoured the Malays by financial support or mitigation of process. For example, various institutions, such as MARA, provided about \$11 million of loans per year and Bank Pembangunan (a development bank) was established to support the NEP and to provides support for small entrepreneurs in a variety of ways, including administration of loans from the World Bank destined for small businessmen (Faaland · Pakinson · Saniman, 1990:139).

Table 9: Ownership and control of the corporate sector, 1971 - 1990

	1971(%)	1975(%)	1980(%)	1985(%)	1988(%)	1990(%)
Malaysian Residents	38.3	46.7	52.5	74.0	75.4	76.3
Bumiputra Individuals	2.6	3.6	4.3	11.7	13.0	13.6
Bumiputra trust agencies	1.7	5.6	8.1	7.4	6.4	6.0
Other Malaysian residents	34.0	37.5	40.1	54.9	56.0	56.7
Foreign residents	61.7	53.3	47.5	26.0	24.6	23.7
Total	100	100	100	100	100	100

Source: Just Faaland, J. R. Pakinson and Rais Saniman. *Growth and Ethnic Inequality: Malaysia's*

*New Economic Policy*. C. Hurst and Co. Ltd. 1990. P.142.



According to table 9, Malay's ownership was increased consistently in individual and trusted agencies both. In 1990, the total Malay ownership was estimated 19.9% which was not a goal of NEP. Although the NEP target for ownership of 30 per cent of quoted equity had not attained, as planned at first, the policy contributed improvement of Malay's ownership.

Moreover, Malay's ownership did not affect non-Malay's ownership which was rather increased. Compared from 1971 to 1990, non-Malay ownership was increased from 34% to 56.7%. As the foreign ownership was declined year by year, they were sold to Malays through the government. The government improved Malay's social status without property so the NEP was beneficial regardless of its ethnicity.

Under the NEP, Malaysia developed the national economy, which stabilized the society. The economic condition of Malays, major ethnicity, was improved by minimization of non-Malay's economic damage. The NEP could not be explained as assimilation because the Chinese formed the second largest ethnic group. If affirmative action was continued, it would have resulted outflow of the Chinese capital. The non-Malays were concerned with state intervention which, the government fulfilled purchased foreign capital as Malay's property. The NEP was successful by improving Malay's social status and stabilizing non-Malay's concern.

#### 4.3 Effects of the New Economic Policy towards Chinese Malaysians

The NEP affected the status of Chinese Malaysians. Under the state intervention, the success of the NEP rationalized Malay hegemony. The NEP was more successful than laissez-faire in economic and political aspect. It prevented social chaos. On the other hand, the Chinese parties could not protect Chinese migrants anymore. They were confused between political strategies and constituency opinion which could not prevent UMNO's absolute power.

In order to survive, the Chinese entrepreneurs sought alternative strategies for survival. The Chinese parties could not protect them anymore so they rather preferred to cooperate with Malays. The Chinese entrepreneurs began to prepare joint-ventures or appointed former Malay politicians as adviser. These actions could be countermeasure within limits.

The NEP had had aftereffects on national education system as well. In Malay's perspective, Chinese and Indians were affluent groups. If these groups created a number of elites, they would have monopolized the national wealth. It was necessary to bring up competent young Malay talent against immigrant elites. Hence, the government instituted an ethnic quota system in university admission.

#### 4.3.1 Decline in the influence of Chinese Parties in Malaysia

The Barisan Nasional is the direct successor to the Alliance coalition and was formed in the aftermath of the 1969 general election. The Alliance Party lost was lost in the 1969 election to the opposition parties, such as DAP, Gerakan and PAS. In 1971, there were negotiations between the Alliance and former opposition parties such as Gerakan and People's Progressive Party, both of which joined the Alliance in 1972, quickly followed by PAS. In the end, UMNO succeeded to strengthened its position by the NEP and Barisan National (BN, the National Front).

As the NEP was successful, the MCA lost its presence as Chinese representative party. While the UMNO made an effort to improve Malay's social status by state intervention or legalizing Malay's special right, the MCA failed to handle complaints from the Chinese. Given the constant assaults, snipings and political pressures mounted at every opportunity by the DAP and the other more explicit Chinese interests standing in the wing against them, accusing them of giving away Chinese rights and interests and making them subservient to the interests of the Malays, the MCA has had to engage in serious competitive bidding for Chinese votes to stay in business (Faalnd, Pakinson and Saniman, 1990:168).

With the decline of MCA, the role of the party was minimised. While many Chinese business people at the highest levels established new relationship with the UMNO, medium and small business people utilized MCA connections for business people. They recognized the MCA as an access to UMNO leaders because the party still had an established position in the government. At the local level the MCA was able to help supporters get various benefits such as government-subsidized housing, the conversion of land held under temporary licenses to long-term leases, tin-washing licenses, government scholarships, loans for students, and so on (Crouch, 1996:48).

Even the condition of Gerakan was similar with the MCA's. After joining BN, Gerakan appealed to the better-educated, English-speaking Chinese, instead of multicommunal ideology. Although Gerakan remained open to non-Chinese members, the party became increasingly identified with the Chinese community. Even within BN, Gerakan had repetitive competition with MCA because it challenged the main Chinese party within the ruling coalition. Gerakan did not suggest its specific pledge, and could not prevent the UMNO's arbitrary action. Hence, the Chinese voters rather preferred the oppositions.

In 1985 Gerakan and the MCA had negotiations with the possibility of merger. Although both parties competed of main Chinese party within the BN, the Chinese

Malaysians rather preferred the UMNO or DAP for patronage or election. The function of BN's Chinese party did not seem to need what was unfavourable to both parties. These parties rather sought to survive together by a merger. However, they failed to reach an agreement by insurmountable obstacles. Both sides attempted to possess unified authority by its own that delayed the negotiation. The factional disputes of both parties were interlinked, which also precluded a merger or even close co-operation to maximize the political representation of the Chinese and the non-Malay constituencies (Means, 1991:179). Finally, each party agreed to defend its traditional constituencies and failed to establish Chinese party within BN.

Despite of a massive support from the Chinese, the DAP could not exercise its influence due to lack of other community's support. One of the party's vision is to establish equal society regardless of ethnicity. In perspective of Malay voters, its vision seemed to threaten Malay's benefit. While the DAP campaigned on universal issues such as human rights, corruption, and government maladministration, its main appeal lay in its defense of the rights of non-Malays, especially the Chinese (Crouch, 1996:71). While other Chinese parties were supported by the capitalists, the DAP was supported by Chinese lower class. The DAP voted against the ICA, and it remained a major opposition party, the ruling

coalition had clung solidly to its two-thirds parliamentary majority due to the NEP.

Compared to the ruling coalition's Chinese members, the DAP had lack of access to the patronage network. Contrary to urban area, direct patronage is crucial in rural area. However, the Chinese are usually a small minority and can therefore be more easily reached by the patronage machine and are more dependent on it, it is impossible in urban areas to ensure that most voters get direct benefits (Crouch, 1996:73). As main DAP supporters resided in urban areas, the party had to sought political strategies. The DAP rather committed to protect the interests of individual Chinese who are having difficulties with the government.

The NEP's success declined the influence of Chinese parties. The NEP was operated by UMNO's initiative which benefited most Malaysians regardless of ethnicity. Despite of comparative inequality, the government did not restrict economic activities of Chinese. The success of NEP affected Chinese voters' attitude towards the UMNO. As the Chinese parties could not protect rights and interests of Chinese Malaysians, they preferred the ruling party's political compromise. The success of NEP strengthened the position of UMNO's sustainable power as the ruling party.

#### 4.3.2 Transition in Chinese Business Strategies

Despite of decline in Chinese political leverage, there was a distinction between the large Chinese business and small-sized Chinese business. Since the NEP, the economic structure of Malaysia was converted into state-dominated system which seemed a discriminatory move to Chinese. The Chinese small businesses had to face increased competition and the loss of government contracts resulting from Malay entry in commercial sectors. The Chinese capitalists had to look for alternative strategies.

In order to maintain the business, the Chinese decided to cooperate with the Malays, called 'Ali Baba'. Ali Baba is a business practice in Malaysia, where a Malay company obtained a contract from the government-sponsored affirmative action system for the Bumiputra and subcontracts it to a Chinese-owned company. Compared to business license acquisition process of Chinese, Malays were able to obtain the qualification easily. This practice was appeared in small business such as construction, transport, wholesaling and agriculture in particular because most Chinese capitalists suffered in these sectors by the NEP.

In fact, Ali-Babaism was not the preferred choice of the small-scale Chinese

capitalists. The cooperation was an expedient for making the best of a constrained environment. Owing to the sanctions against non-Bumiputras, the Chinese companies would have split up what does not contribute towards rationalizing production or management. The profit margins are probably very thin as well, since the generous supply of permits to Malays adds to excessive competition (Jesudason, 1989:151). While such arrangements between Chinese entrepreneurs and Malay “rentier capitalists” persist, they have become less common as more Malays gain experience and confidence in running businesses (Heng, 1997).

In contrast, some of the bigger Chinese capitalists were strong enough to approach the government directly. In control of giant enterprises, they began to appoint Malay partners in key positions. For example, Robert Kuok or Lim Goh Tong had close relationship with Malay politicians such as Tan Sri Mohd Noah Omar, a former speaker of the national Parliament. The Malay patrons opened doors to licenses, contracts and other business opportunities regulated by the government. As the MCA had become a marginalized political force, the Chinese capitalists had little to gain from the Chinese politicians. Instead of sustainable connection with the MCA, the Chinese capitalists preferred forge direct ties with influential patrons from the Malay power centre. These capitalists even respected the ICA that employed Malay labours to decrease the unemployment rate of Malays.



Although they received favours from Malay partners, their business success was not derived primarily from government patronage; and they were already well established before the expansion of the state sector in the 1970s (Crouch, 1996:209). Although the Malay patrons helped the management of Chinese business by avoiding obstacles, they could not compete with Malay capitalists in a fair condition. The Chinese capitalists even could not get support from the government but their accumulated wealth, knowledge, and ability to mobilize funds allowed them to expand business. While Chinese business could not prevent the implementation of NEP policies favouring the state and Malay business, it was successful in maintaining, and even increasing, its own large share in the economy (Crouch, 1996:211).

In perspective of the government, the Chinese entrepreneurs were still considered as non-Malay capital so they had to line up behind state corporations and Malay businesses for government contract or buying into lucrative foreign companies. The growth of the state role strengthened Malay's position which aimed to increase Malay participation in business. While restructured companies may not be as harassed by the government as non-restructured ones, they still operate in a constrained and uncertain environment (Jesudason, 1989:151).

The commercial climate was not favourable to Chinese business since the NEP.

They had to protect their interests by preserving an environment so they sought to cooperate with the Malays. They needed the new strategies because their activities could be restricted in UMNO-dominated society. Nevertheless, the government realized that Chinese business still constituted a large part of economic activity in general. As the economy grew rapidly after the mid-1980s recession, Chinese business people benefited no less than Malays (Crouch, 1996:211).

#### 4.3.3 Transition in National Education System

The NEP aimed to correct economic imbalance among ethnic groups, and legitimized Malay's privileges, including education. The government instituted an ethnic quota system in university admission which favoured Malay students over non-Malay students. Since the implementation of the NEP, non-Malay students had little opportunities for education.

The implementation of ethnic quota system affected ethnic enrolment ratio in higher educational institutions. In 1959 Malays made up only 19.2% of the students in higher educational institutions, while Chinese constituted 60.6%. The ratio was changed from 1969. In 1969 Malays made up 35.6% of the students, while Chinese

constituted 52.9% (황인원 · 김형종 · 김지훈, 2012:207). The government set different entry requirements for Malays and non-Malay applicants which decreased a number of Chinese students. For example, the cut-off score in 1978 for bumiputeras in arts was only 36 compared to the 44 required by non-bumiputeras (Crouch, 1996:163).

As the policy prevented educational opportunities, Chinese Malaysians had to seek solutions. The Chinese Malaysians needed educated talents to maintain their commercial activities but educational restriction seemed to prohibit the rights of Chinese Malaysians. All the Chinese parties demanded to increase the non-Malay quota for university admission or government approval to set up a Chinese-medium university. Despite of their efforts, the Chinese parties could not satisfy their supporters because they had lost their power to prevent the government's arbitrary decision.

Due to restricted educational opportunities, the Chinese students continued their studies in overseas. Based on financial capability, a number of Chinese students left to the United Kingdom or Australia. As overseas universities accepted Malaysia's university entrance qualifications for their entry requirement, the Chinese students rather preferred famous universities in overseas. Also, English has been the medium of instruction in Malaysia with background of British colonial period. Most

Malaysians are fluent in English so they did not encounter a language barrier in overseas.

From the 1990s, the government attracted branches of overseas universities. It was a response to the Asian financial crisis in 1997. As the Ringgit was devalued, it affected the condition of foreign-exchange reserves. The government rather attempted to attract foreign currency by hosing foreign students to overseas universities. Compared to main campuses in the United Kingdom or Australia, Malaysian universities provide the same education quality with cheaper living cost. In particular, these branches attracted a number of students from neighbouring countries such as Indonesia or Thailand.

In order to reduce ethnic economic imbalance, the education policy was discriminative towards Chinese Malaysians. The government believed that educated Chinese immigrants would monopolize national wealth by their exclusive networks. The discriminative education system determined Chinese departure to overseas who became victims of the policy. In Chinese perspective, they could not have enough educational opportunities so they rather preferred to continue their studies in overseas.

To sum up, the discriminative system damaged Malaysia in two aspects. First, the education policy caused brain drain. The higher institutions hosted plenty of

Malay students with various privileges, while non-Malay students with talents left Malaysia. These non-Malay students graduated in overseas with excellent academic performance and settled in new environment. They were better treated in overseas so they did not come back to Malaysia. Second, the discriminative system weakened competitiveness of Malaysian universities. Under the special rights, it was restricted to select talented applicants. Hence, the quality of Malaysian universities became declined with incompetent students.

## **Chapter 5**

### **Effects and Limitations of the New Economic Policy**

#### 5.1 Sino-Malaysian diplomatic relations and Chinese Malaysians

China began to look for alternative diplomatic partners since 1970. There was a conflict between the USSR and China that determined China's new decision. While China began to correct its left-deviationist mistakes in foreign policy, it concentrated on normalizing the relations with the USA and ASEAN members, including Malaysia (박사명, 2011). At the same time, Malaysia also adjusted domestic and foreign policies in accordance with the development at home and abroad. Malaysia proposed a policy of neutrality for Southeast Asia that resulted abandonment of Two Chinas.

Malaysia established diplomatic relations with China in 1974 by Tun Razak's visit to China. The status of the Chinese migrants has been a complicated issue in Malaysia. There were still a number of Chinese residing Malaysia who had not

obtained Malaysian citizenship in 1970s. It was feared that these stateless Chinese could cause complications in the negotiations between Malaysia and the Chinese communist authorities (Lee and Lee, 2005:8). In the end, both sides reached an agreement to prohibit dual nationality that was also stated in China's nationality Act. The agreement clarified Chinese immigrants' status as Malaysian citizens.

In fact, most Malays were had pessimistic about Chinese migrants so they concerned about normalization of diplomatic tie with two reasons. First, Chinese Malaysians have invested in China even before the diplomatic establishment. Regardless of the NEP, Chinese invested for the purpose of developing the regions where they had been born. It would be seen as outflow of Malaysian capital in Malay's perspective. They would have thought that the diplomatic normalization would increase the outflow to China. Second, China supported the Malaysian communists. While Tun Razak's visit resulted in the Chinese acknowledging the legitimacy of the Malaysian government, the Chinese did not disavow their party's relations with the Communist Party of Malaya (Lee and Lee, 2005:8). The Chinese government claimed that the relations of the Chinese communist party with that of the MCP was just party to party relations and should not affect government-to-government relations. The Malays experienced persecution by the MCP, the Chinese communist, after the Japanese occupation. They feared that diplomatic

normalization would rather increase legal support from the Chinese government which might expansion of MCP's influence. Malays already suffered from two types of Chinese, and they concerned to face another Chinese from outside.

However, the government recognized the importance of Chinese Malaysians since the mid-1980s. After Mahathir Mohamad was appointed Prime Minister, he assumed the opening up of China's economy as offering potentially lucrative business ventures for Malaysian Capital. This appears to have encouraged the Prime Minister's call for greater business cooperation between the Chinese and Malays (Gomez, 2002:165). He encouraged Malays to work with the Chinese as a means to promote the development of Malay capital. The Chinese Malaysian network became an asset that was expected to facilitate *gaunxi* for prospective Malays investors in China.

The Malaysian government encouraged local companies to seek new investment opportunities abroad, especially China. Since the cost of manufacturing products like electrical and electronic goods, chemicals, steel, iron and consumer goods is significantly cheaper in China, Malaysian firms involved in such activities have been compelled to transfer their plants to the Mainland to ensure that the pricing of their goods remain competitive in the global market (Gomez, 2006:354). The Chinese Malaysian capitalists expected to overcome structural problems within the



Malaysian economy by investment.

There were some Chinese Malaysian entrepreneurs who ventured beyond their own ancestral homelands to other towns and villages in China to seize opportunities. For example, Kuok group sought international diversification from the mid-1970s because they wished to avoid competing directly with Bumiputra interests. The corporation preferred expand outside the country. In another case, Lim Kim Hong of the Kanzen Group had struck many new business deals with various Chinese interests, and decided to divest his shares from the company he had founded in order to commit himself more deeply in China. Both Kuok and Lim have expanded their space for manoeuvre when dealing with particular Malay interests, but there is no indication that they can or wish to use this leverage for broader political or cultural goals in Malaysia (Jesudason, 1997:137).

Compared to ‘Look East Policy’<sup>8</sup>, Sino-Chinese relations was not important but it could be described as an outcome of social integration. Due to globalization in 1990s, Malaysia became closed with new diplomatic partners, including China. The Malaysian government utilized Chinese Malaysians as mediator in China–Malaysia

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<sup>8</sup> The policy sought to learn from Japan and South Korea, regarded as superpowers of the East, the work ethics, practices and policies that have helped the two nations advance in various industrial and economic sectors at times much more than its Western counterparts.

relations because they have invested in China even before the diplomatic normalization. The Prime Minister's desire to push Malaysia towards a fully-developed nation status and his recognition of the potential Chinese contribution to this goal has led to greater economic liberalization and the inclusion of Chinese capital into the national development aspirations (Gomez, 2002:165). Owing to diplomacy, Chinese Malaysians were converted from target of nationalism to mechanism of national interest.

## 5.2 Problems of the New Economic Policy

Although Malaysia achieved rapid economic growth and stabilized ethnic relations under the NEP, the Policy was not completely successful. In perspective of social integration, the NEP prevented racial riot but it did not suggest a cure for class of poor in every ethnic groups. It was necessary to adopt different approaches for anti-poverty and communalism remained in each ethnic community.

Once the NEP stabilized ethnic relations, it could not prevent comparative deprivation of non-Malays. As the government favoured the Malays only, Chinese Malaysians are not satisfied with what could constrict Chinese commercial

activities. Chinese Malaysians are economic power of Malaysia so the government would better do find a solution to satisfy every ethnic groups.

The ethnic issue would last as religious conflict. In case of PAS, an Islamist Malay party, its pursuit of an 'Islamic state' combines with Malay nationalism. The Islamist party opposes the several national policies such as granting citizenship to non-Malays. They argue that the NEP was focused on wealth of middle class or upper class. PAS has the support of rural Malays whom suffer from relative poverty. The PAS supporters are embedded from UMNO's heritage so PAS pretends to protector in rural Malay society. The Islamic party keeps a hold on the power by nationalism and Islamism.

Furthermore, the NEP caused intra-ethnic economic imbalance. The government focused on upbringing of companies that only benefited middle class and entrepreneurs only. The NEP was implemented for whole Malay community but it could not help the lower class. To supplement the system, the government should consider alternative approaches for redistribution of wealth.

As the NEP transformed the national system, it brought several side effects. These side effects would cause unthinkable issues. To prevent incidents in advance, the government has to be suspicious about potential risk factors such as religious conflict or intra-ethnic economic problem. These problems were unsolvable so the

government sought various approaches. Finally, the NEP was replaced by the National Development Policy (NDP), which ran from 1990 to 2000.

## Chapter 6

### Conclusion

After the British colonial period, Malaysia has been formed a multi-ethnic society with an excessive Chinese and Indian migration. The presence of Chinese was availed of political gain by the British and the Japanese that caused ethnic conflict between Malays and Chinese. In perspective of colonial authority, ethnic relation was the most controversial issue in control because Chinese migrants were affluent than Malays, and the Chinese did not respect Malay culture.

Despite of the hostility against each other, certain groups could not achieve Malaysia's independence. The most effective method was ethnic cooperation which formed the political coalition among ethnic groups. The UMNO and the MCA represented each ethnic group and both parties were managed by the elites. Both parties realized that the British did not trust any ethnic group during the independence process that reached to form 'the Alliance'. As the Alliance was grown enough to negotiate, the British began to prepare Malaysia's independence with the Alliance. As each ethnic group had its distinctive strength and weakness

that resulted as ethnic cooperation and independence.

After the independence, Malaysia experienced the peak of ethnic conflict that was resulted as 13 May incident. The government realized that Malay's poor economic condition caused riot so the government implemented the New Economic Policy for social integration and economic development. The NEP aimed to narrow economic gap among ethnic groups, restructuration of national economy and economic development. It was an affirmative action for Malays because they were poorer than Chinese whom could not survive on their own. The government expected to solve ethnic conflict by improving Malay's social status, and tried to minimize the loss of non-Malays.

Although the NEP could not achieve goals completely, it improved Malay's economic condition and national economy. The NEP had the stated goal of poverty eradication and economic restructuring so as to eliminate the identification of ethnicity with the economic function. It could be explained as Malay's participation in commercial sector and aid programmes in agriculture under the government support. In the government's perspective, most Malays engaged in agriculture which was not as lucrative as commercial sectors. For these reasons, the government encouraged the Malays to engage in commercial sectors instead.

While the NEP was preceded with Malay's privileges, the Chinese community accepted the NEP as a necessary evil to avoid Indonesian-style aggression that the ruling party consistently instigate and deemed appropriate as their threat based policy. In order to look into process of the NEP, there was a transition in Chinese attitude. In perspective of politics, the Chinese parties lost their influence. The MCA and Gerakan failed to make a diversion in the ruling coalition so Chinese migrants could not take equal benefits as Malays. On the Other hand, DAP was popular among Chinese voters as an opposite party, but it was not strong enough to challenge the BN alone.

In economic perspective, the Chinese capitalists sought partnership with Malay capitalists provoking partnership or Malay patrons in Chinese companies. The strategy of joint-venture was complement of each other. Other Chinese capitalists were supported by Malay patrons and respected the ICA by employing Malay labours in certain proportion. Despite of insufficient government support, it experienced business expansion by accumulated capital and strategies. They demonstrated a cooperative attitude toward the Malays so the government did not impose sanctions anymore.

Compared to economic condition, educational system was more severe to Chinese. The government wanted to foster Malay talents so non-Malays lost their

educational opportunities under quota system. The non-Malay applicants were competitive enough but they had to look for opportunities in overseas. A number of non-Malay applicants qualified to the famous universities in overseas and performed outstanding achievement. The discriminative system caused brain drain.

In diplomatic perspective, Chinese Malaysians contributed Sino-Malaysian relations. Since Malaysia considered China as a new diplomatic partner, Chinese Malaysian became essential asset of Malaysia. The Chinese Malaysians have invested in China before the diplomatic normalization that formed a network between homeland and immigrant capitalists. As the Malaysian government did not have much information on China, Chinese Malaysians were useful in partners to each other in the diplomacy. Chinese Malaysians are familiar with both sides' culture and language who could prevail on mutual sides. The Chinese Malaysians' commitment demonstrated the social integration of Malaysia.

Officially the term of the NEP ended in 1990. It was replaced by the National Development Policy (NDP), which held an office from 1990 to 2000. The NDP was supposed to have then been replaced by the National Vision Policy (NVP), which would reportedly have lessened the aggressive affirmative action of the NEP and NDP. The Malay share of the economy, though substantially larger, was not near the 30% target according to government figures. In its review of the NEP, the



government found that although income inequality had been reduced, some important targets related to overall Malay corporate ownership had not been met.

The NEP was a remarkable event in modern Malaysia. While other nations achieved national unity by forced assimilation, the NEP resulted as peaceful social integration. It transformed the whole national structure and achieved economic growth. Since the NEP, the predominantly mining and agricultural-based economy began a transition towards a more multi-sector economy. There is one other point to note that stabilized ethnic relations. It achieved economic development and social integration so the NEP could be described as driving force of Malaysia's development. Today, Malaysia has a newly industrialised market economy, ranked third largest in Southeast Asia.

However, the NEP failed to make Malays to survive by themselves. While Malays were given various privileges, it worked as a driving force of Malays' businesses expansion. Once they faced new competitors in the world market, they had to seek new strategies. The Chinese entrepreneurs already utilized their networks which enabled their entry into overseas but the Malay entrepreneurs just relied on the government's information. Moreover, there were still penury Malays. On the process of the NEP, Malays were divided into new bourgeoisie group and poverty group. The privileges were provided for certain people only whom

attempted to possess more wealth than others. The government's support was the only mechanism to Malays so it could be described as Malay dependency.

The ethnic relation has been politicized in Malaysia since the British colonial period. Under the exclusive network and outstanding money control, the Chinese gained commercial supremacy just after the migration that continues even today. On the other hand, Malays have expanded their influence through political power. Each ethnic group was eager to possess Malaysia's leadership. The leadership, however, could not be gained by certain group. When ethnic relation was stabilized, Malaysia achieved its goals. To sum up, the NEP achieved social integration of Malaysia that stabilized and developed the nation.

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## Abstract in Korean

말레이시아 종족갈등의 기원과 해결과정:  
신경제정책이 화인에게 미친 영향을 중심으로

조영목

지역학협동과정

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말레이시아는 말레이계, 중국계, 인도계 등 다양한 민족이 함께 생활하는 다종족사회를 형성하고 있다. 중국과 인도의 노동자들의 이민을 허용한 영국식민시기부터 말레이시아는 여러가지 이유 때문에 종족갈등을 겪었다. 독립 이후에도 변하지 않고 1969년에는 종족폭동을 경험한 만큼 말레이시아는 신경제정책(the New Economic Policy) 시행으로 종족갈등 해소를 목표로 하였다. 본 논문은 2차자료를 토대로 말레이시아의 신경제정책이 종족갈등을 완화하고 경제발전을 동시에 달성한 것에 주목을 한다. 신경제정책의 과정과 결과는 문화변용이라는 측면에서 설명될 수 있으며 혜택을 받지 못한 중국계 이민자들은 생존을 위해 다양한 방식으로 공존을 모색하였다. 말레이시아의 주된 큰 쟁점은 종족관계였으며 이러한 관계를 안정시킨 신경제정책은 말레이시아 발전의 원동력으로 나타났다.

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Keywords: 말레이시아, 신경제정책, 종족갈등, 문화변용, 중국계 말레이시아인