



# **GOVERNMENT OF MALAYSIA**

## **MALAYSIA'S DEVELOPMENT PHILOSOPHY AND THE AFFIRMATIVE ACTION**

**Prepared By**



**E P U**  
ECONOMIC PLANNING UNIT  
PRIME MINISTER'S DEPARTMENT, MALAYSIA

## **MALAYSIA'S DEVELOPMENT PHILOSOPHY AND THE AFFIRMATIVE ACTION**

Malaysia is a unique country. It is a multi-ethnic and multi-cultural society. There are three major ethnic groups, namely Malays and other Bumiputera group, Chinese and Indians. In 1970, Malays and other Bumiputera made up about 55.6 per cent of the total population, the Chinese 33.9 per cent, Indians 9.0 per cent and others 1.5 per cent. Although Malaysia is a multi-racial country, conflict among ethnic group is rare. The harmonious society and its diversity have contributed to nation building and economic development.

### **MALAYSIA'S SOSIO-ECONOMIC BACKGROUND**

Federation of Malaya secured its independence from Britain on 31 August 1957. After achieving independence in 1957, the development policy was primarily aimed at promoting growth with strong emphasis on the export market. The approach was largely *laissez faire* but emphasis was given to rural development.

During the period, more than half of Malaysian households were living in poverty. Although the economy registered high growth rates during 1960s, (average growth of GNP at 7.3 percent), the country continued to face high poverty incidence in both rural and urban areas. The overall incidence of poverty in

1970 was 49.3 per cent. The incidence of poverty in rural areas was higher at 58.7 per cent as compared to urban areas at 21.3 per cent. The incidence of poverty among the Bumiputera (Malays and other indigenous groups) was higher at 64.8 per cent, while for the Chinese was 26 per cent and Indian 39.2 per cent. The overall income inequality in 1970 was high with Gini coefficient of 0.51 and income share of the bottom 40% households was low at 11.5 per cent as compared to top 20 per cent households at 55.7 per cent.

The country also experienced high unemployment rate which was at 6.6 percent in 1967 and 8.0 percent in 1970. There were also economic imbalances between urban and rural areas as well as between indigenous and non-indigenous groups. The large part of population, particularly among the indigenous groups were living in the rural areas and engaged in the low income, traditional activities particularly in paddy planting and rubber smallholding in the agriculture sector. On the other hand, the Chinese and Indians were in sectors that were dynamic, such as tin mining, agriculture estates, commerce and manufacturing.

There were also wide gaps in incomes between Bumiputera (Malays and other indigenous people) and the Chinese as well as between Bumiputera and Indians. These gaps were attributed to different opportunities for education, employment and ownership of or access to entrepreneurial resources. In 1970, the mean

monthly gross household income of Bumiputera (RM172) was 60 per cent lower than that of Chinese (RM394) and about 45 per cent lower than that of Indian (RM304).

Most Bumiputera (Malays and other indigenous people) possessed hardly any specialised skills, capital and managerial capabilities needed to participate effectively in business enterprises and in occupations in the modern economic sectors. In 1970, Bumiputera and indigenous communities only owned less than 2 per cent of the national wealth, while the non-Bumiputera communities owned about 38 per cent and foreigners 60 per cent. The persistence of these imbalances and polarization was attributed to Malaysia's development priority, which heavily focused on the growth of the economy and less on distributional aspect. These imbalances and polarization brought about the feeling of being deprived, dissatisfaction and suspicious among Malaysians, which led to the 13<sup>th</sup> May 1969 racial riot.

Due to the incident, the remedial measures to address the imbalances in the form of a New Economic Policy (NEP) was launched in 1970.

## **DEVELOPMENT THRUSTS OF THE MALAYSIA'S DEVELOPMENT POLICIES**

### ***The New Economic Policy (NEP), 1970 – 1990 and the Affirmative Action***

The NEP was a social engineering affirmative action designed to restore national unity through a more inclusive and equitable development framework. The ultimate goal of the NEP was national unity. The underlying principle of the NEP was shared growth among all Malaysians. Hence, the development thrust under the NEP was centred on the philosophy of 'growth with equity'. The distribution of wealth was achieved through rapid growth of the economy, which provided opportunities for the poor and less fortunate groups to get out of poverty, through the distribution of the bigger economic pie in favour of the disadvantaged communities, particularly among the Malays and other indigenous groups referred to as Bumiputera. Under this principle, the opportunities created from the rapidly expanded economy were opened to all Malaysians. Hence, the NEP did not "rob Peter to pay Paul". In addition, unlike in most countries where affirmative action was targeted on the minority groups, in Malaysia the affirmative action was to help the majority because 64.8 per cent of poor were the Malays and other indigenous groups.

The NEP was implemented through two pronged strategies:

- (i) Eradication of poverty irrespective of race; and
- (ii) Restructuring of society so as to eliminate ethnic identification with economic functions.

Under the affirmative action plan, the Government formulated and implemented policies in pursuit of distributional objectives to build capacity and capability of the groups that were economically backwards, particularly among the Malays and other indigenous communities. This was done through the promulgation of legislation, formulation of regulatory structures, creation of institutions and agencies and a host of directives and moral suasions. The Plan outlined policies and programmes to modernise rural life, encourage a rapid and balanced growth of urban activities, provide improved education and training programmes, as well as promoting the creation of Malay commercial and industrial community for the Malays and other indigenous groups to be full partners in the economic life and equally share the development benefit and national wealth. The target of NEP, was set that by 1990, Malays and other indigenous groups would have owned at least 30 per cent of the national corporate wealth of equity share capital, while the non-Bumiputera would have own 40 per cent and foreigners would have reduced to 30 per cent. At the same time, education and training

opportunities were provided to the Malays and other indigenous groups to correct imbalances in the employment pattern to reflect ethnic composition of the Malaysia's population.

The main strategy for poverty eradication has been on income-generating activities, expansion of education and training facilities, employment generation, and modernisation of rural life as well as improvement in living conditions. Provision of services to the poor has also been done through Government partnerships with the private sector and NGOs. During the early years of the NEP period, agricultural policy through agrarian reform has been the major instrument in transforming rural areas and the poverty-stricken communities into a more prosperous Malaysian society. The focus of poverty eradication strategy was on mobilizing rural resources through land development programmes and reorganizing institutions towards modernizing and developing the agriculture and improving infrastructure, particularly in the rural sector.

### ***Post – 1990 Period***

Since the promulgation of the NEP, poverty eradication remained as an integral component and thrust of the subsequent development policies, namely National Development Policy (NDP), 1991-2000; National Vision Policy (NVP), 2001-2010 and the Tenth Malaysia Plan, 2011-2015. However, the focus and implementation of initiatives and programmes were realigned to

meet current needs and challenges which reflect dynamism, cater for a wide spectrum and multi dimensionality of poverty. The subsequent NDP introduced new thrusts shifting the focus of the anti-poverty strategy towards the eradication of hard core poverty, while the NVP and the Eleventh Malaysia Plan continue to address pockets of poverty in remote areas and among Bumiputera minorities in Sabah and Sarawak. The NVP had also incorporated strategies to address relative poverty and vulnerability issues, including urban poverty as well as effort to increase income and quality of life of the household in the bottom 40% income category.

Pure economic growth strategy alone cannot guarantee social harmony, especially in a plural society like Malaysia, yet the growth potential also will not be optimized if there is high degree of inequality and larger segment of society are left behind. Inequality across the ethnic dimension will create suspicions and the feeling of deprivation and dissatisfaction in the society. It also hampers development and nation building due to hatred, social immobility, envy, a sense of unfairness and social exclusion and, eventually creates instability and conflict. As part of inclusive development principle, it is vital to reduce inequality from ethnic dimension to foster stronger socio-economic integration and unity among all Malaysians to ensure the country's prosperity and sustainability. In addressing polarization and disparity issues between Bumiputera and non-Bumiputera, growth and distribution framework adopted market friendly approach to ensure that all

Malaysians will continue to have equal opportunity to prosper. The groups that are economically backwards will be provided with opportunities to enhance capacity and capability to enable them to play an effective role and share the development outcome.

## **PERFORMANCE AND ACHIEVEMENT**

During the second half of the NEP period, the Malaysian economy transformed from agriculture to manufacturing. Though agriculture was the dominant sector in the Malaysian economy throughout the 1970s, Malaysia had successfully diversified and transformed the economy to manufacturing based economy. Education and training as well as entrepreneurship programmes played a vital role to support industrialization and the economy. It also enhanced the capacity and capability of Malaysians to secure jobs and business opportunities. By the end of the NEP period, the incidence of poverty declined to 16.5 per cent in 1990 compared to 49.3 per cent in 1970. In 2014, it was further reduced to 0.6 per cent (**Table 1**).

**Table 1**

**Incidence of Poverty (%), 1970, 1989 and 2014**

	<b>1970</b>	<b>1989</b>	<b>2014</b>
<b>Bumiputera</b>	64.8	23.0	0.8
<b>Chinese</b>	26.0	5.4	0.1
<b>Indians</b>	39.2	7.6	0.6
<b>Overall</b>	49.3	16.5	0.6

*Source: Department of Statistic, Post-Enumeration Survey, 1970, Household Income Survey, 1989, Household Income and Expenditure Survey, 2014*

The reduction of poverty was evident across all ethnic groups. Among Bumiputera, the poverty incidence fell from almost 65 per cent in 1970 to 0.8 per cent in 2014. The fall in the incidence of poverty also occurred among the Chinese and Indians, with the poverty rate for the Chinese fell from 26.0 per cent in 1970 to 0.1 per cent, while for the Indians it fell from 39.2 per cent to 0.6 per cent. Hard core or extreme poverty among all ethnic groups, based on national poverty line measures has been virtually eliminated with the overall incidence of hard core poverty reduced significantly from 6.9 per cent in 1989 to 0.1 per cent in 2014.

## ***Growth is inclusive and shared across distinct groups***

Malaysia's economic growth was resilient with growth rate of 7.6 per cent during 1970-2012 periods, which was among the highest in the region and better than many of its neighbours. The growth was supported by robust investment activities, with an average investment ratio to the GDP of about 30 per cent during 1970-1990 periods. The high and stable investment to GDP ratio is also similar to its neighbours, in fact, during the period, the net foreign direct investment (FDI) into Malaysia was not only positive but among the highest in the region. This suggests that the affirmative policy of the NEP did not retard investment, disapproving disparaging claims that the level of investment in Malaysia was low because of restrictions imposed by the NEP and the policies post- 1970.

The sustainable high growth supported by robust investment activities contributed towards the creation of new job and business opportunities. As a result, unemployment rate declined from 7.4 per cent in 1970 to about 3.0 percent in 2012. Cross country comparison shows that the unemployment rate in Malaysia was relatively low compared to the regional economies, and even lower than many developed countries. For instance, unemployment rates in OECD countries and high income countries in 2012 was about 8.0 percent, more than double that of Malaysia's. In sum, the Malaysia's development progress under the NEP affirmative

action bears the hallmarks of inclusiveness. It benefitted all groups. (Malaysia Human Development report, 2013). The hard core poverty and general poverty in Malaysia has been eradicated with the incidence of hard core poverty reduced from 3.9 per cent in 1989 to 0.1 per cent in 2014 and general poverty declined to 0.6 per cent in 2014. The incidence of poverty among all ethnic groups are almost insignificant. The compounded annual income growth rate for the Bumiputera household grew by 8.8 per cent, which was not significantly different from the Indians at 7.0 per cent or the Chinese at 6.8 percent. The unemployment rate for all ethnic groups also reduced during 1970 – 2012 period. The unemployment rate for the Malays and Indigenous groups declined from 8.0 per cent in 1970 to 3.5 per cent in 2012, while for the Chinese decreased from 7.0 per cent to 2.2 per cent and for the Indians from 11 per cent to 3.0 per cent.

In the employment pattern, Bumiputera represented 37.9 per cent in the selected professional occupation in 2015, while the Chinese 38.7 per cent and Indians 19.7 per cent. In addition, the equity share capital of limited companies owned by Bumiputera increased from 2.4 per cent in 1970 to about 21 per cent in 2012 with the non-Bumiputera ownership climbed higher to 46.7 per cent from 34.3 per cent during the same period. The Household Income Survey by the Department of Statistics of Malaysia reveals that the income pattern was improved and are more evenly distributed with a steady decline in inequality. The Gini Coefficient

using gross income measures dropped from 0.513 in 1970 to 0.401 in 2014, as shown in **Table 2**.

**Table 2**

**Income Distribution in Malaysia, 1970, 1989 and 2014**

	<b>1970</b>	<b>1989</b>	<b>2014</b>
Gini Coefficient	0.513	0.442	0.401
Income Share for Top 20%	55.7	50.0	46.6
Income Share for Middle 40%	32.8	35.5	36.9
Income Share for Bottom 40%	11.5	14.5	16.5

*Source: Department of Statistics, Post Enumeration Survey, 1970 and Household Income Survey, 1989 and 2014.*

Income share of the bottom 40% household increased from 11.5 per cent in 1970 to 16.5 percent in 2014, as shown in **Table 3**. In addition, income gap between Bumiputera and Chinese narrowed, while the income gap between Bumiputera and Indians, between Indians and Chinese as well as between rural and urban households also reduced significantly.

**Table 3**

**Income Disparity Ratio, 1970, 1989 and 2014**

	<b>1970</b>	<b>1989</b>	<b>2014</b>
Bumiputera:Chinese	1:2.29	1:1.74	1:1.38
Bumiputera:Indians	1:1.77	1:1.36	1:1.13
Indians:Chinese	1:1.30	1:1.28	1:1.23
Rural:Urban	1:2.14	1:1.68	1:1.78

*Source: Department of Statistics, Post Enumeration Survey, 1970 and Household Income Survey, 1989 and 2014.*

**ENHANCING INCLUSIVENESS TOWARDS AN EQUITABLE SOCIETY**

The NEP achieved considerable success in overcoming past obstacles and driving the nation forward economically and socially. However, in light of the current socio-economic context and challenges, the development approaches of the post- NEP period have been shifted towards market friendly policies and instruments that are compatible with national competitiveness. However, the NEP goal of national unity remains highly relevant and social inclusion has been given greater emphasis. Inclusivity is a key principle in Malaysia’s development agenda for the post-NEP period, to ensure all citizens enjoy the fruits of growth and

development regardless of gender, ethnicity, socio-economic status and geographic location.

Malaysia has long emphasised the importance of balanced growth by providing access to education and skill training, infrastructure, and employment opportunities to boost outcomes for all segments of society, in particular the low income group. Moving forward, the focus will be on ensuring more equitable access to economic opportunities while increasing wellbeing and quality of life across all segments of the society. Specific strategies include uplifting the bottom 40% households towards the creation of more prosperous and bigger middle-class society, empowering communities for a productive and prosperous society, transforming rural areas, accelerating regional growth, and enhancing Bumiputera economic opportunities and mobilizing Bumiputera economic potential. Basic principles of the new development framework are market friendly, need-based, merit-based and transparency.

Under the current Eleventh Malaysia Plan (2016-2020), Malaysia continues to focus on effort to reduce inequality and improve income disparity by narrowing development gaps between regions through the corridors development initiatives to overcome regional disparities as well as providing greater access to quality opportunities to enhance capacity and capability of the bottom 40% households. Malaysia has also embarked with more

focused development strategies to address socio-economic uncertainty and vulnerability among the bottom 40% households which include women, children, youth, older persons and persons with disabilities (PWDs) to face greater challenges of modern urban life through a more integrated and comprehensive social protection system.

In a global development framework, Malaysia has also managed to meet and surpassed many of the global development targets of Millennium Development Goals (MDG's). The Eleventh Malaysia Plan has also integrated and mainstreamed the 2030 global development agenda of Sustainable Development Goals (SDG's) to make it relevant and ensure effective implementation at national, sub-national and local level.

## **CONCLUSION**

The Malaysia's development philosophy of growth with equity and the affirmative action policy adopted for the past three decades, have accomplished a significant achievement in the nation building and development agenda. The policies and strategies under the affirmative action initiative have corresponded to the needs and expectation of the multi-racial community and market-friendly environment. As a result, every Malaysian has benefitted from the development process and has enjoyed the fruit of development with a more balanced economic participation and

improved quality of life. The Malaysia's experience and success with regard to socio-economic development has always been associated with the continuous growth of the economy, strong Government commitment and the complementary role of NGOs and the private sector. Therefore, these evidences reveal that Malaysia's affirmative action has succeeded in achieving national development goals and instil stronger integration and social cohesion among Malaysians. This is a prerequisite to national unity and sustainable development.

**Muhamad bin Idris**  
**Distribution Section,**  
**Economic Planning Unit,**  
**Prime Minister's Department,**  
**Putrajaya, MALAYSIA**  
**December 2016**