



الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
بَوْتِشْرِفَتِنِي اِسْلَامًا اِنْبَارًا اِنْعَمًا مِلْدِينَتَا

**INTER-RELATIONSHIP AMONG ECONOMIC EVENTS,
ECONOMIC THEORY, IDEOLOGY AND PUBLIC
POLICY : THE CASE OF MALAYSIA**

BY

AZIMAH MANSOR

ADVISOR

**PROF. ATAUL HUQ PRAMANIK
DEPARTMENT OF ECONOMICS**

**SUBMITTED TO THE GRADUATE COMMITTEE KULLIYAH OF
ECONOMICS AND MANAGEMENT INTERNATIONAL ISLAMIC
UNIVERSITY, MALAYSIA IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF ECONOMICS.**

JULY 1993.

DONATED TO THE LIBRARY OF
INTERNATIONAL ISLAMIC UNIVERSITY
BY

Kull. of Econ.

IIUM

Date Received : 12 - 5 - 94 ms

KULLIYAH OF ECONOMICS AND MANAGEMENT
MASTER OF ECONOMICS PROGRAMME

SUBMISSION OF THE MASTER OF ECONOMICS
RESEARCH PAPER

This is to certify that Sis Azimah Mansor
has written the Master of Economics research paper entitled:

Inter-relationship Among Economic Events, Economic
Theory, Ideology and Public Policy: The Case of Malaysia

under my supervision. The relevant comments made on the paper
during its presentation have been incorporated in the present
version of the paper to my full satisfaction.

I have pleasure in recommending that the graduate committee
may approve the paper in partial fulfilment of the
requirements for the degree of Master of Economics.

Name of Supervisor: Prof. Dr. Ataul Haq Pramanik

Date: 16th July, 1993


(Signature)

SYNOPSIS

Some say that there is an inter-relationship among events, economic theory, ideology and public policy. Others say not. The objective of this study is to examine whether there is an inter-relationship among those four. As a case study, the racial riot on May 13, 1969 in Malaysia is chosen as an event to substantiate the relationship. Finding from this study shows that there is an inter-relationship among events, ideology, economic theory and public policy in Malaysia. Malaysian experience shows that the ideological foundation of the political leader have influenced the public policy. The economic theory, however, did not ultimately contribute to the formation of the economic policy. As a multi-racial society, democracy and liberalism could not guarantee the racial harmony and just society. Dissatisfaction and deprivation caused by socio-economic imbalances among races, resulted from the inadequate government policy, have led to social discontentment and political instability even though the government could achieve a high rate of economic growth. This was ended-up with the outbreak of the racial riots. Consequently, the policy had to be changed, different theory had to be implemented, and new ideology had to be adopted.

ACKNOWLEDGEMENT

In the Name of Allah, The Most Beneficent,
The Most Merciful

I would like to express my appreciation and deep gratitude to my advisor, Prof. Dr. Ataul Huq, for his guidance, support and advice in the completion of this paper. I also owe my profound thanks to my sponsor, The Public Service Department of Malaysia for the financial support, and to Sister Bibah of the Library of The Prime Minister's Department for her cooperation in giving me the permission to borrow books as much as I required with a special period of time. In the last but not least, I would like to express my deepest appreciation and thanks to my dearest mother for her understanding and prayers for my success all the time, and to my beloved husband, Abdul Rani, and children - Ahmad Syauqi(8), Khairunnisa(6) and Qurratuaini(1), for their patience and hardship throughout this two years of my study. To them, I dedicate this work. May Allah bless all of us.

CONTENTS

	page
Synopsis	i
Acknowledgement	ii
Table of Contents	iii
List of Tables	v
List of Appendices	vii
SECTION I. INTRODUCTION	1
A. The Objective of the Study	1
B. Review of the Literature	1
SECTION II. MALAYSIAN POLITICAL AND SOCIO-ECONOMIC BACKGROUND	8
SECTION III. THE GOVERNMENT POLICY BEFORE THE EVENTS	15
SECTION IV. THE EVENTS OF MAY 13, 1969	19
A. The Riot	19
B. The Immediate Causes of the Events	22
C. Socio-economic and Political Factors Contributing to the Events	25

SECTION V.	THE NEW ECONOMIC POLICY: A RESULT OF THE EVENTS	36
SECTION VI.	CONCLUSION	42
Chart		44
Appendices		45
Bibliography		49

LIST OF TABLES

Table No.		page
1.	Percentage of Total Population by Race in Malaya, 1835-1970	11
2.	Principal Occupations by Race, 1931	13
3.	Statistics Relating to the Emergency in Peninsular Malaysia from May 13 to July 31, 1969	20-21
4.	The Malayan Federal and Selangor State Election Results by Party, 1964 and 1969	23
5.	The Composition of Urban Population by Race in Peninsular Malaysia, 1970	28
6.	Population in Major Towns by Race in Peninsular Malaysia, 1970	29
7.	Ethnic Composition of Selected Services in the Federal Higher Civil Service, 1968	30
8.	Ownership of Estate Acreage by Race, 1970	31

9.	Mean Income and Shares in Income Growth by Race, 1957/8 and 1970	33
10.	Per Capita Mean Income by Race and Industry in Peninsular Malaysia, 1970	34
11.	Changing Conditions of the Malaysian Government Policy, 1957-69 and 1970-90	38
12.	The Performance of the New Economic Policy, 1970-90	40

LIST OF APPENDICES

1. List of Members of the National Operations Council.
2. Sensitive Articles in the Federal Constitution.

INTER-RELATIONSHIP AMONG ECONOMIC EVENTS,
ECONOMIC THEORY, IDEOLOGY AND PUBLIC POLICY:
THE CASE OF MALAYSIA

SECTION I
INTRODUCTION

There are arguments about the relationship among economic events, economic theory, ideology and public policy. This issue has been discussed by several scholars. Different scholar gives different opinion.

A. The Objective of the Study

The objective of this paper is to examine whether there is an inter-relationship among the four. The incident of May 13, 1969 in Malaysia is used as a case study to substantiate this relationship.

B. Review of the Literature

There are many definition of public policy in the literature. Thomas R. Dye defines public policy as "whatever governments choose to do or not to do". David Easton¹ defines public policy as "the authoritative allocation of values for the whole society". According to him, only the government can authoritatively act on the whole society, and therefore,

¹ Quoted by Thomas R. Dye in Understanding Public Policy, (6th ed.), Englewood(N.J.), Prentice Hall, 1987, p.3.

everything the government chooses to do or not to do is resulted from the allocation of values. Lasswell and Kaplan², on the other hand, define public policy as "a projected programme of goals, values and practices". Carl Friedrich³ says that "The essential concepts of public policy are goal, objective and purpose".⁴

Based on those opinion, it can be said that the public policy can be defined as government's actions and inactions purposely to achieve the goals and objectives for the society based on value judgements formed by the government.

Clair Wilcox says that "The relationship between theory and public policy is like a chicken and egg. It is difficult to determine which comes first.....The relationship was one of cause and effect". In his analysis, Wilcox have identified six different areas which explained the relationship between economic theory and public policy. Those areas are as follows:-

- a) Areas where theory has little effect on policy such as the theory of wages in determining the minimum wage law and the theory of interest in application of monetary policy;

² Ibid.

³ Ibid.

⁴ According to Longman Dictionary of Contemporary English, goal is normally refers to the general aim which somebody want to achieve whereas objective refers to the specific aim through which the goal can be achieve. Purpose refers to the intention or plan of action which is determine following the aim.

- b) Areas where policies have no origin in economic theory such as free public education policy and social insurance scheme which are normally based on non-economic reasons;
- c) Areas where policies require some guidance from economic theory but the theory is not existed, for example, there is no definite level of wages which will determine the volume of employment in maintaining stability;
- d) Areas where policies cannot grow out of theory because the theories do not agree, for example, the theorists who believe that a stable price level is consistent with growth while others believe that the price level must be permitted to rise gradually if growth is to occur;
- e) Areas where policies defy the rules of economics such as the maintenance of resale prices for branded goods; and
- f) Areas where policy coincides with economic theory such as the initiation of the reciprocal trade agreement programme and its expansion under the General Agreement on Tariff and Trade and the construction of a new system of international exchange under the International Monetary Fund.

W. Stark⁵ says that "All events lead to theory". on

⁵ Quoted by Stigler in "The Influence of Events and Policies on Economic Theory", in American Economic Review, Vol. 50, 1960, p. 36.

the other hand, Wasley C. Mitchell⁶ says that " It is the influence of the accumulative and persistent process of events which has never been forgotten by successive generations that lead to formulate a theory, not the effect of current event". He takes the great depression in 1930s as an example.

However, Stigler says that there is a triangular relationship between economic theories, economic events and economic policies. According to Stigler, "Social, political and economic events can influence the economic theory but not all events lead to economic theory.... and not all theories are resulted from the events.....in order to develop a theory, social and economic problems should be routine and pervasive". Public policy, according to Stigler, "rides on the wave of events".

Homan, Paul T.⁷, agrees with Stigler. Homan says that "So long as the economic problem is defined as a value problem, so long as the institutional situation is pictured as one of free economic choice, and so long as theory is directed to finding the generalized principles of orderly adjustment which hold such a system together, the value problem in its many ramifications is the only economic problem of significance to economic theorists. Otherwise, the nexus of theory with policy is highly indirect".

This is supported by Fritz Muchlup⁸ on a reason that the policy-makers need to know some basic theories about the

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

consequences of the policy so that they can set their priorities in making a decision. Muchlup also says that the same theory could explain two different events and could lead to two different policies such as anti-inflationary monetary policy in Germany and Austria, and anti-deflationary monetary policy in Britain and America.

Ideology could also influence the public policy. For example, the Fabian⁹ thought has influenced the government policy in India. Krishna has identified three major components of any ideology as follows:-

- a) A set of value commitment such as the values of liberty, equality, growth and full employment;
- b) Historical generalizations and prophecies such as Marxist prophecies about the collapse of capitalism; and
- c) Institutional preferences such as state ownership, free private enterprises, co-operatives and trade unions.

For the purpose of this paper, we refer to the ideology of political leaders because they are the one who determine the public policy for the country. Political ideology refers to a network of beliefs and attitudes about the world of politics and one's place on it. Political ideologies differ by the characteristics and functions that they perform. Folkertsma has identified three characteristics of political ideologies as follows:-

⁹ See Krishna, Raj(1988).

a) Hagiology (famous persons).

Literally, it refers to a list of saints such as Marx and Lenin for Marxism-Leninism, Thomas Jefferson for Democratic Liberalism, and the Prophet Muhammad and the four caliphs for Islam.

b) Sacred texts (authoritative documents).

All political ideologies have texts that are regarded as ultimate sources of authority such as the Qur'an in Islam, the Second Treatise of Government in the Liberal tradition, the Communist Manifesto and Hitler's Mein Kampf of the Nazi ideology.

c) Theory of the meaning of political existence and the meaning of political events.

This explain who the person is, where the person belongs in social and political terms, how the world works, and what ideals should govern the actions of those committed to the ideology.

Folkertsma has mentioned that "leaders who are seriously committed to a set of political beliefs, and who possess the determination and means to act upon them, have made an enormous difference on the course of modern politics..... Political ideologies provide legitimacy for government institutions and actions taken on their behalf".

Political events can have very different meanings to people who view them from different ideological positions. An example given by Folkertsma is the Vietnam War which may be

looked as a result of the nationalist forces who tried to rid their country of imperialist aggressors and may be viewed as an international communism who trying to extend its domain by subjugating an independent country fighting to maintain its freedom.

SECTION II

MALAYSIAN POLITICAL AND SOCIO-ECONOMIC BACKGROUND

Malaysia as a political entity came into being on 16th September, 1963. Formed by federating the then independent Federation of Malaya with Singapore, Sabah (formerly known as North Borneo) and Sarawak. Singapore later on separated to become a fully independent republic on 9th August, 1965. Today, Malaysia is a federation of 14 states, namely Johor, Kedah, Kelantan, Malacca, Negri Sembilan, Pahang, Penang, Perak, Perlis, Selangor, Trengganu, and the Federal Territory of Kuala Lumpur, in the Peninsular, and Sabah and Sarawak. Kuala Lumpur formerly was the capital of Selangor and became the territory on its own on 1st February, 1974.

Malaysia is based on a constitutional monarchy. Its head of the state being the Yang di Pertuan Agong (YDPA), a sultan elected for five years by the sultans. The YDPA has to act in accordance with the government advice. Malaysia has a bicameral Parliament consisting of a Senate comprising 61 members and a House of Representatives comprising 180 members. The cabinet headed by the Prime Minister consists of members of the legislature and is collectively responsible to Parliament. At the state level, each state headed by the Chief Minister, and has a unicameral legislature.

Malaysia got independent from the British on 31st August, 1957. Before the federation, it was known as *Tanah Melayu* (the Malay Land). Before independence, it was under the

Portuguese(in 1511), the Dutch(in 1636, 1801 and 1814), the Japanese(in 1941) and the British(in 1795, 1807, 1824 and 1946) colonies.

Malaysian society is made up of several ethnic groups of which numerically important are the Malays, the Chinese and the Indians. The rest are Pakistanis, Ceylonese, Siamese, Arabs, Europeans, the aborigines and others. The Chinese started to come to Malaya since 13th century as traders from China to India through Singapore(at that time known as Tumasik). It was followed by the Chinese admiral Cheng Ho who visit Malacca in the 15th century.

The present multi-racial character of Malaysian society is the direct result of the British economic policy before the Second World War which encourage mass non-Malay immigration. The Chinese and Indians immigrants, during that times, were regarded as transient workers in tin mines and rubber estates. Majority of them had no intention of settling in Malaya but only of seeking their fortunes. Their flow into the country, and departure, fluctuated with Malaya's economic fortunes. However, they became settled communities in the country by the second half of the 19th century.

There were several factors which encouraged immigration from China on an increased scale during that time. There was great unrest in South China which was the centre of the disturbances caused by the Taiping Uprising(1850-64). Neither food nor employment opportunities were able to keep pace with the increased in population. Therefore, to many Chinese, the Malay states were a new frontier offering

opportunities of economic advancement which were not available in China itself. There was the attraction too, of being able to earn higher wages than could be earned in China as well as a chance of saving money which could be remitted to their relatives in China.

The flow of Indian labours to this country was assisted by the colonial government with help and support from private plantation capitalists. Indian labours were regarded as cheap labour, hard-working, docile and less troublesome. In addition, given the state of poverty and impoverishment in South India at that time, the British were anxious to drain-off the surplus labour from those regions to reduce the level of unemployment and hunger¹⁰.

Moreover, there was an acceptable modicum of law and order in Malaya compared to other countries, and it was known that the British administration ensured the enforcement of private property rights. The liberal and tolerant attitude of the Malays, exploited by the colonial government, also caused an influx of Chinese as well as Indians immigrants to Malaya.

The racial composition between 1835 to 1970, as in Table-1 shows the phenomenal increase in the Chinese population in Malaysia from a low of 7.7 per cent as opposed to 85.9 per cent Malays in 1835, to 29.4 per cent as against 63.9 per cent Malays in 1884. Until in 1970, the Chinese made up 35.4 per cent of the total Malaysia's population.

¹⁰ For more detail, see Ramasamy, P., "Malaysian Indians: Ethnic and Class Loyalties" in Ethnicity, Class and Development Malaysia, edited by S. Husin Ali, Malaysian Social Science Association, 1984.

TABLE-1

PERCENTAGE OF TOTAL POPULATION BY RACE IN MALAYA,
1835-1970

Year	Malays	Chinese	Indians	Others	Total
1835	85.9	7.7	-	6.4	100.0
1884	63.9	29.4	-	6.7	100.0
1921	54.0	29.4	15.1	1.5	100.0
1931	49.2	33.9	15.1	1.8	100.0
1947	49.5	38.4	10.8	1.3	100.0
1957	49.8	37.2	11.3	1.7	100.0
1965	50.1	36.8	11.1	2.0	100.0
1970	53.2	35.4	10.6	0.8	100.0

Source: Leon Comber, 13 May 1969, A Historical
----- Survey of Sino-Malay Relations, 1983, p.89.

Under the British rules, the Malays, the Chinese and the Indians are separated geographically as well as occupationally. The Malays are largely found in rural areas. Most of them are farmers, engaging in traditional agriculture, especially paddy farming, rubber tapping and in-shore fishing. A small fraction of the Malay population living in urban areas, generally works in the government sectors, the armed forces and the lower ranks of manufacturing and services sectors. The Chinese are mainly found in cities and urban areas. They dominated in the capitalist sector, mainly in tin mines, and commercial and industrial sectors. The bulk of Indians lived in rubber and oil-palm estates as the estate workers. Table-2 shows the racial composition in principal occupations in 1931 where the Chinese engaged in higher income sector of occupations compared to Malays and other races.

Although virtually none of the Chinese who immigrated to Malaya brought with them wealth, some of them prospered and they eventually came to fill every rung of Malaya's economic and social life. They formed a complete and separated economic community in Malaya, ranging from labourers to middle class entrepreneurs as well as head of business enterprises.

In urban areas, the Chinese also became aloof from the Malays. They lived completely separated socially and economically. The Chinese spoke their own language and followed their own distinctive way of life, religions and customs. This separation was tacitly encouraged by the British with the reason that administration was made simpler

TABLE-2
PRINCIPAL OCCUPATIONS BY RACE, 1931

Occupation	Other					Total
	Malays	Chinese	Indian	Malaysians	Europeans	
Fishermen (%)	5,715 42.7	7,291 54.5	56 0.4	307 2.3	- 0.0	13,369 100.0
Rice planters (%)	78,009 84.7	1,038 1.1	1,892 2.1	11,113 12.1	- 0.0	92,052 100.0
Rubber estate owners, managers, etc. (%)	1,803 33.4	1,514 28.0	58 1.1	910 16.8	1,121 20.7	5,406 100.0
Others in rubber cultivation (%)	27,618 9.9	100,789 36.0	131,099 46.8	20,825 7.4	- 0.0	280,331 100.0
Coconut estate owners, managers, etc. (%)	744 51.1	23 1.6	9 0.6	669 45.9	11 0.8	1,456 100.0
Others in coconut cultivation (%)	4,262 21.8	1,256 6.4	8,010 41.1	5,982 30.7	- 0.0	19,510 100.0
Unclassified and multifarious agriculture (%)	18,168 35.2	16,115 31.2	9,883 19.2	7,381 14.3	23 0.0	51,570 100.0
Tin mine owners, managers, etc. (%)	8 3.0	214 79.3	- 0.0	- 0.0	48 17.8	270 100.0
Others in tin mining (%)	543 0.7	70,704 92.3	4,622 6.0	465 0.6	282 0.4	76,616 100.0
Proprietors and managers of business (%)	475 2.1	16,894 74.7	4,428 19.6	574 2.5	246 1.1	22,617 100.0
Salesmen, shop assistants, etc. (%)	541 2.6	16,576 78.4	3,790 17.9	105 0.5	144 0.7	21,156 100.0
Total (%)	137,886 23.6	232,414 39.8	163,847 28.0	48,331 8.3	1,875 0.3	584,353 100.0

Source: Leon Comber(1983), p. 91.

by the practice of appointing a headman for each group who was responsible to the authorities for the conduct of the persons under his supervision. There was no effort made by the colonial authorities to orientate the increasing number of immigrant races towards local institutions.

SECTION III

THE GOVERNMENT POLICY BEFORE THE EVENTS

Malaysia gained its independence without much struggle like in other countries. Although it has a multi-racial society, the transition of power from the British was very smooth and without bloodshed. In fact, the independence has been achieved two years earlier than it has been expected. This is due to the personality of the founding father, Tunku Abdul Rahman Putra, who received British education and has closer link with feudal heritage, which suited to the British interests. It was also due to his political ideology which created goodwill with other leaders of the other races in the Alliance party to compromise in certain aspects that suited their racial interest.

Independence would not be achieved that fast without bargain. The leaders of the three parties - UMNO, MCA, and MIC, agreed that the special rights of the Malays should be protected, and in return, the non-Malays should be granted easier citizenship rights on the principle of *jus soli*. Under the constitution, Islam became the State religion although every person was allowed the right to practice his own religion. Malay was made the national language but English was permitted to be used in Parliament, and the state governments had the right to preserve and sustain the use and study of the language of any community.

Tunku's background influenced the characteristics of Malaysian development after the independence. The overall