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بُوتِنَرَسِيَّتِي اِسْلَامًا اِنْبَارًا اِنْجِنَا مِلْمِيَّتَا

THE NEW ECONOMIC POLICY:
FINANCIAL INSTITUTIONS AND
RESTRUCTURING OF SOCIETY.

BY
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To my Parents;

- Whose love and kindness
can never be repaid.

- Whose sweat and tears
made me a person.

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CHAPTER I
INTRODUCTION.

A. Introduction

The principles and beliefs guiding the development of Malaysian society are enshrined in the National ideology - RUKUNEGARA. They call for a new Malaysian society with a common value system which transcends existing ethic, cultural and socio-economic differences. They provide the cohesive force for national unity and solidarity and seek the emergence of a modern socio-economic environment providing adequate opportunities for advancement to all Malaysians, irrespective of racial origin or region of residence.

The New Economic Policy (NEP) addresses itself to the creation of the socio-economic environment envisaged by the Rukunegara. It is based on the fundamental premise that unemployment and poverty, especially in a relatively affluent society like that of Malaysia, is an affront to human dignity; and that racial imbalances in the opportunities to participate in the economic life of the country were the seeds for social and political tension. These two factors together are inimical to the development of an integrative value system and socio economic environment so vital for nation building and national solidarity in Malaysia.

The NEP is thus designed:-

- (i) to eradicate poverty among all Malaysians, irrespective of race and
- (ii) to restructure Malaysian society so that the present identification of race with economic function and geographical location is reduced and eventually eliminated.

These objectives are set within the framework of twenty years i.e. 1970 - 1990, approximately a generation; with the Second Malaysian Plan marking its first five years period.

Two elements of the NEP are pre-eminent, the attainment of which are central to the success of the policy. These are:

First: the generation of employment opportunities at a rate sufficient to bring about full employment of the labour force, and

Second: growth and redistribution of two ownership of economically productive assets in the country such that in a generation, the Malays and other indigenous people will own and operate at least 30% of the total.

B. Objectives of Study

This paper is written with the two objectives. Firstly, trying to assess the contributions and roles of the financial sector in restructuring of society. As such, this paper will show the direction of lending of financial institutions - how much loans are given out and who benefitted them - as it was felt that obtaining financial resources is very important in order to create a viable industrial and commercial Bumiputera community.

The other objective is that to see whether the NEP is consistent with the Islamic principles or not. Whether it is Islamic or not, will be looked upon from the prescribed role of the state by Islam.

It is hopefully that with the supporting data given and the selection of materials used for writing this paper, the objective is

achieved. Ultimately, it is hoped that this paper will provide more insight on to the importance of financial resources in restructuring of society in this country.

C. General Outline of the Paper

This paper shall be divided into three parts. The first part shall contain the first three chapters, namely the introduction, the research methodology and the literature review.

The introduction which form the first chapter shall contain the rationale of the NEP, the objectives of this paper and the outline of the chapters. Whereas the second chapter shall be the research methodology, explaining the research methods employed in the course of writing this paper. Chapter three shall be a list or more of a collection of reviews on the subject of this paper, that is the NEP.

Part two of this paper shall consist of chapter four and five. While chapter five shall try to discuss the ownership and controls of Bumiputera in businesses, in terms of their employment and personnel intake and policies towards elimination of racial polarisation in certain posts. Chapter four will highlight the contributions of the financial sector in terms of loan distribution and other financial activities. The chapter will discuss separately the direction of loans of commercial banks, finance companies, merchant banks and Credit Guarantee Corporation (CGC).

The final part, part three shall consist of chapter six and seven. Chapter six is actually a summary and conclusion to the study

presented preceding it.

Chapter seven will discuss the NEP's objective of restructuring the society from Islamic point of view. This chapter will also insya Allah be a comparative study of Islamic view on Malaysia's national policy.

CHAPTER II
RESEARCH METHODOLOGY.

A. Research

For the purpose of writing a project paper, extensive research is a must. In undertaking a research, there are two methods that are usually taken. The methods are:

- (i) Library research
- (ii) Field study.

However, for the purpose of writing this paper, only one method was used, that is library research.

B. Library research

Library research is actually a good method of collecting secondary data that proves to be useful in the course of writing this paper. The major relevant materials are the Annual Reports of Bank Negara Malaysia, the outline perspective plan (OPP) 1970 - 1990 of New Economic Policy, the five-year plans of the Government of Malaysia with the most relevant being the Second Malaysia Plan to Fifth Malaysia Plan and various other materials and writings relevant to NEP and evaluations of the five-year plans.

The advantages of library research are that it is time saving and it contains a lot of information. It is time saving as a lot of materials and data can be obtained simultaneously. There are a number of libraries that provided the information needed for writing this paper. The libraries visited during the research for this paper included the University's own library, the National Library, the SEACEN Library and also the MIDF Library.

Secondary data are available at once without having to do field study to collect primary data. It also eliminates the problems of having to sort out primary data into the form that is needed.

However, the major disadvantage of library research is that there are many literatures written on the subject of study but contain little relevancy to the field of study undertaken, that is, there are many writings on NEP but only a small numbers are relevant to the financial sector.

Lack of materials and literatures needed in IIU's library is another disadvantage. This compelled the seeking of information else where.

Library research is also at the disadvantage when coming to choosing the most relevant articles and data to be used in this paper.

C. Problems encountered in the course of writing this paper

The major problem was that the materials and data are sometimes too general, especially in the five-year plans, annual reports of Bank Negara Malaysia and the quarterly bulletin of Bank Negara Malaysia.

The data and tables given are usually a very general one, and tend to "merge" a few areas together in one data. For example, the banking sector is merged with the real estate and insurance sectors in one table, thus the difficulty to single out only the banking sector.

Another problem was that admission is difficult to gain in other

libraries such as the library of University of Malaya. However, this problem was overcome with the cooperation of the IIU's librarian. Nevertheless, even if admission is gained, the literatures referred to cannot be taken out and photocopying at the library concerned were very costly.

Alhamdulillah, despite these "little" problems encountered, they were able to be dealt with and this paper is able to be written.

CHAPTER III
LITERATURE REVIEW.

A. The NEP

i. Outline Perspective Plan (OPP)

In the OPP, the two prongs of NEP were stated as eradication of poverty and reconstruction of society. In turn, to achieve the broad objectives, policies, programmes and projects are designed among others to:-¹

- (a) Promote the creation of a commercial and industrial community among Bumiputeras in order that, within one generation, they will own and manage at least 30 per cent of the total commercial and industrial activities of the country in all categories and scales of operation.
- (b) Ensure that employment in the various sectors of the economy and employment by occupational levels will reflect the racial composition of the country.

As it is, financial sector, which includes banking, is considered as an important supporting sector for primary and secondary sectors of the economy. In the OPP, this sector is expected to expand in line with the overall growth of manufacturing and construction and the regional dispersal of industrial activity envisaged under the NEP. Value added in the financial sector and other supporting sectors together was projected to grow by 7.5 per cent per year while employment growth will be of the order of

1 OPP, 1970-1990, p. 62.

4 per cent per year.²

The ownership of share capital by Bumiputera and Bumiputera's interest, on the other hand is a mere 2 per cent of the overall total before 1970. Except for transportation, where Bumiputera share is around 13 per cent, the share in the other sectors ranged from 0.7 per cent for mining to 3.3 per cent for finance.

Thus, a more balanced pattern in the ownership of assets in all sectors of the economy is necessary. The Government's target is that within a period of 20 years, Bumiputera community will own and manage at least 30 per cent of the total commercial and industrial activities of the economy, in all scales and categories. Taking this as the desired basis, Bumiputera community will acquire during the period of the perspective plan of the assumption that the target of 30 per cent Bumiputera ownership is to be reached in uniform stages.

On this basis, Bumiputeras will have to own 9 per cent of all share capital by 1975. By 1980, the share must be 16 per cent, reach up to 25 per cent in 1985 and 30 per cent in 1990.³

ii. Third Malaysia Plan (TMP)

In TMP, a table that stated the ownership of share capital in limited companies (1970 - 1990) can be seen as in table 3.1.

2 Ibid., p. 74.

3 Ibid., p. 84

Table 3.1

Ownership of Share Capital
in Limited Companies 1970-1990

	1970	1980	1990	Average annual growth (%)
Bumiputera and Bumiputera interest	2.4%	16.0%	30.0%	30.0%
Bumiputera individuals	1.6%	3.4%	7.4%	24.0%
Bumiputera interests	0.8%	12.6%	22.6%	36.0%

Source: Third Malaysia Plan, p. 86.

The financial support needed to achieve the planned targets is very large. Thus, the role of the financial institutions to mobilise resources for private investments; apart from those injected by the Government in the public sector and through its agencies.

iii. Fourth Malaysia Plan (FMP)

In the FMP, the financial sector is expected to expand at the rate of 7.8 per cent per annum with regards to employment which was classified by race and sector; in 1970, at the tertiary level⁴; the Bumiputera made up 42.6 per cent of total employed.

4 Tertiary level as defined in the FMP includes wholesale and retail trade, banking, public administration, education, health, defence and utilities. As such pose the difficulty for the most precise figure.

In 1975, the figure increased to 44 per cent and in 1980 it increased further to 47 per cent.

Also in FMP, the ownership and control of corporate sector stated that Bumiputera and Bumiputera interest own a total of 4.3 per cent in 1971 with Bumiputera individuals owning 2.6 per cent and Bumiputera interest made up the remaining 1.7 per cent. As opposed to the projected target of 16 per cent in 1980, the actual achievement was only 12.4 per cent overall with Bumiputera individuals share of 4.3 per cent and Bumiputera interests making up the balance of 8.1 per cent.⁵

In the creation of commercial and industrial community among Bumiputeras, the Government launched two types of training, namely, training with immediate objective of augmenting the number of skilled and professional Bumiputera in order to facilitate employment restructuring. The second is the training with the objective of creating and developing a commercial and industrial community among them. Various institutions were established for these purposes which includes Institut Teknologi MARA (ITM) which trains Bumiputera professionals including executives in business. Courses were also given by MARA and other institutions to develop entrepreneurial potentials of Bumiputera.

To support this aim; credit assistance was given through various institutions. Credit and financial assistance from commercial banks are administered within the framework of the Credit Guarantee Corporation (CGC). In some banks such as Hong Kong and Shanghai Banking Corporation, a unit was set up to help

5 FMP., 1981, p. 62

Bumiputera in financial assistance and credit assistance. The unit is called Priority Lending Unit (PLU).

During the first half of the NEP period; Bumiputera increased their share of loans and advances significantly from banks and finance companies. In 1971, the loans and advances made by Bumiputera amounted to \$149.3 million or 5% but in 1980, the figure rose significantly to \$4,780 million or 20.6% of the total loans made by commercial banks and finance companies. Also in 1980, loans given out through CGC was \$150 million of the total.

During the FMP period that is from 1981-1985, the private sector will assume greater significance in facilitating the progress towards achieving the objectives of the NEP. Its strategic role is clearly shown by the large amount of investment expected to be met by the private sector, accounting for 72.2% during 1981-1985.⁶

iv. Fifth Malaysia Plan

During the 5th MP, finance sector is expected to make greater contribution to the future growth of the productive sectors of the economy. The sector is expected to continue to make available financial resources at reasonable cost and provide a conducive climate for private investment especially in primary sectors i.e. agriculture, industry and general business.

6 Ibid., pp. 257.

The progress during 1981-1985 (FMP), shows that financial sector has expended at 7.2% per annum i.e. slightly lower than the FMP target of 7.8%.

Despite the slow down in economic activity, demand for credit during FMP period remained steady as a whole.

Tracking the progress of financial sector in the decade of 1971-1980, it is found that the demand for credit to finance the rising level of business and investment activities increased.

In 1976, Bank Negara Malaysia introduced guidelines for commercial banks to increase the flow of credit to priority sectors and special group in the economy especially to the Bumiputera community. In assistance to the Bumiputera needs, CGC (established in 1972), was able to obtain credit from commercial banks. Under the CGC scheme, the amount of bank lending increased.

Merchant banking, forming part of Malaysia's financial system extended some large amounts of loans also. The total amount of loans extended at the end of 1975 was \$341.2 million; and it increased to \$1,551.2 million by the end of 1980. Most of the loans went to business enterprises and manufacturing.

During the decade of 1971-80, insurance companies also part financial sector; rechannelled substantial funds at their disposal into the capital market, particularly long-term funds which were mobilized by life insurance companies. These funds provided additional sources of finance for economic development.

The establishment of banks of the government, such as Bank Bumiputera Malaysia Berhad (BBMB) facilitate further the achievement of the restructuring objective. The government also acquired shares in Malayan Banking Berhad and Limited Malayan Banking Corporation Berhad. For purposes of financing development projects, government established Bank Pertanian Malaysia Berhad, Bank Pembangunan Malaysia Berhad (BPMB) and Bank Kemajuan Perusahaan (BKP). The BKP was established in 1979 to promote industrial sector.

Therefore, in the period of FMP, banking facilities will be expended, particularly in priority sectors and special groups including Bumiputera, small businesses, agricultural food production, manufacturing and construction. The public financial institutions will supplement the private institutions in investments, savings and loan activities.

Although financial sector is regarded as a support sector to the economy, nevertheless, it is an important support. Most of lending activities done by the financial sector eventually goes for other economic activities, which in turn will generate a higher growth rate in economy.

Since not many literature devoted to the financial sector, the analysis and review in this chapter are mainly extracts from various sources.

B. Islamic Point of View

Islam has a set of goals and values encompassing all aspects of human life including social, economic and political. Since all aspects of life are interdependent and the Islamic way of life is a consistent whole, its goals and values in one field determine the goals and values in other fields as well.

State intervention directed primarily at reconciling the possible social conflicts between man's ethical and economic behaviours cannot lead the society onto the road of serfdom, but will guide it gently along the road to human freedom and dignity. Moral degradation is not allowed in the name of economic prosperity and unrestrained human freedom. Thus, in government's eagerness to achieve the NEP goals, the moral and ethical value must be attached.

Social justice, universal education, economic growth and maximum employment are the basic policy objectives of an Islamic economy.⁷

Social justice requires an elimination of uneconomic and immoral inequalities in income and wealth. It must be maintained not only at a given point of time but dynamically as well. This defines quite precisely the economic growth objective in an Islamic economy. There are two closely related considerations to be conditioned in economic growth:⁸

7 Naqvi, S.N.H., Ethics and Economics, An Islamic Synthesis, The Islamic Foundation, U.K., 1981, p. 95.

8 Ibid., p. 96.