

NOT ONLY SKIN-DEEP

The Multifaceted Nature of Socio-economic Inequalities in Malaysia

By: Jaideep Singh

For better or worse, ethnicity is an inescapable part of the social fabric of multicultural Malaysia. At birth, every Malaysian is assigned a 'race': native Bumiputera (comprising ethnic Malays and the indigenous Orang Asli or Asal), Chinese, Indian or other. This label stays with us for the rest of our lives and informs so many of our actions, both officially and implicitly.

Malaysia's tendency to look at the world through the lens of ethnicity naturally colors the discourse on inequality. Inter-ethnic inequalities are held to be self-evident, an unending legacy of the colonial policy of divide and rule. To be sure, this was the state of affairs through most of the 20th century, as the next section explains. These days, however, beyond just skin color, a person's prospects in Malaysian society are driven by a more complex combination of ethnicity, location, status, class, and nationality.

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Yet the specter of ethnicity continues to haunt discussions on inequality and public policy, especially in officialdom.

Polarization is a given: depending on who you speak to, either the Bumiputera are “left behind” and the Chinese “control” the wealth-generating private sector or the Bumiputera are “privileged” and the non-Bumiputera are “second-class citizens.” Why is this the case?

The subsequent sections explore the multifaceted nature of inequality in Malaysia, beginning with its political and historical underpinnings, followed by the evolution of its more recent socio-economic dimensions, as well as policy proposals from a social democratic perspective.

Inter-ethnic Inequality: The Political and Historical Dimensions

Under British rule, each community in what was then Malaya existed in its own bubble, in line with the colonizers' economic needs. The Bumiputera were predominantly rural and agrarian; the Chinese often worked as tin miners or traders near urban areas; while the Indians were mostly involved in rubber tapping, with a minority in low civil service positions, uniformed services or trade (Sultan Nazrin Shah 2019).

After independence in 1957, when the three ethnic groups intermingled more closely,

inequality became plain to see. The prevalence of laissez-faire policies favoring the export of the country's natural resources of tin and rubber had given rise to an unequal society. It is estimated that in 1967-8, the average Malay household income was 40% of that of the average Chinese household and 51% of the average Indian household (Anand 1983). But what the averages alone do not tell us is that, barring a small group of elites, most Malaysians were poor then.

Over the next decade, there was rising frustration over poverty and the inequality of outcomes under the status quo. Different communities perceived inequality differently. The Malays felt under-represented in economically significant sectors; the Chinese argued that there were many squatters in their community without basic facilities or access to rural development funds (Andaya and Andaya 2001); while the Indians complained about unemployment and displacement brought about by the fragmentation of once large-scale rubber plantations (Arokiam and Sundara Raja 2019).

By 1969, Malaysia was at a crossroads. The general elections on 10 May that year became the battleground for divisive views on the future direction of Malaysia in the context of ethnic relations, education and language (Andaya and Andaya 2001). Though the elections returned to power the ruling Alliance Party that had

governed since independence, the party suffered its weakest performance hitherto. While the Party lost support among all ethnic groups, the election was portrayed as a rejection of the ruling coalition by the non-Malays. On 13 May, the country's worst racial riots happened, where an estimated 200 people of different ethnicities lost their lives.

The government soon introduced the New Economic Policy (NEP) to address societal imbalances, with the twin goals of reducing poverty across the board and redistributing wealth to the Bumiputera through affirmative action. This complemented constitutional references to the special rights of the Bumiputera, which covered quotas in civil service, scholarship allocation, university enrollment and business licenses.¹

The NEP was expected to last a generation. It was formally replaced by other development policies in 1991 and 2001, which shifted attention to 'balanced development' to reduce income inequality *between and within* ethnicities (Sultan Nazrin Shah 2019). Nevertheless, the NEP's spirit lives on in the form of ethnic-based redistribution.

Did the NEP and its successors work? The jury is still out, but during the NEP's tenure, there was a slow path to convergence in household incomes. In 1989, the average Bumiputera household

¹ See the Federal Constitution of Malaysia, Article 153 (2).

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income stood at about 58% and 77% of those of the Chinese and Indians respectively. Over the following three decades, inter-ethnic inequalities declined even further. By 2019, the average Bumiputera household enjoyed an income of about 73% and 91% of their Chinese and Indian counterparts respectively (see Figure 1 below).

The NEP and subsequent policies helped create a sizeable Bumiputera middle and upper class. At the same time, the country's rapid economic growth for most of the late 20th century on the back of a relatively open

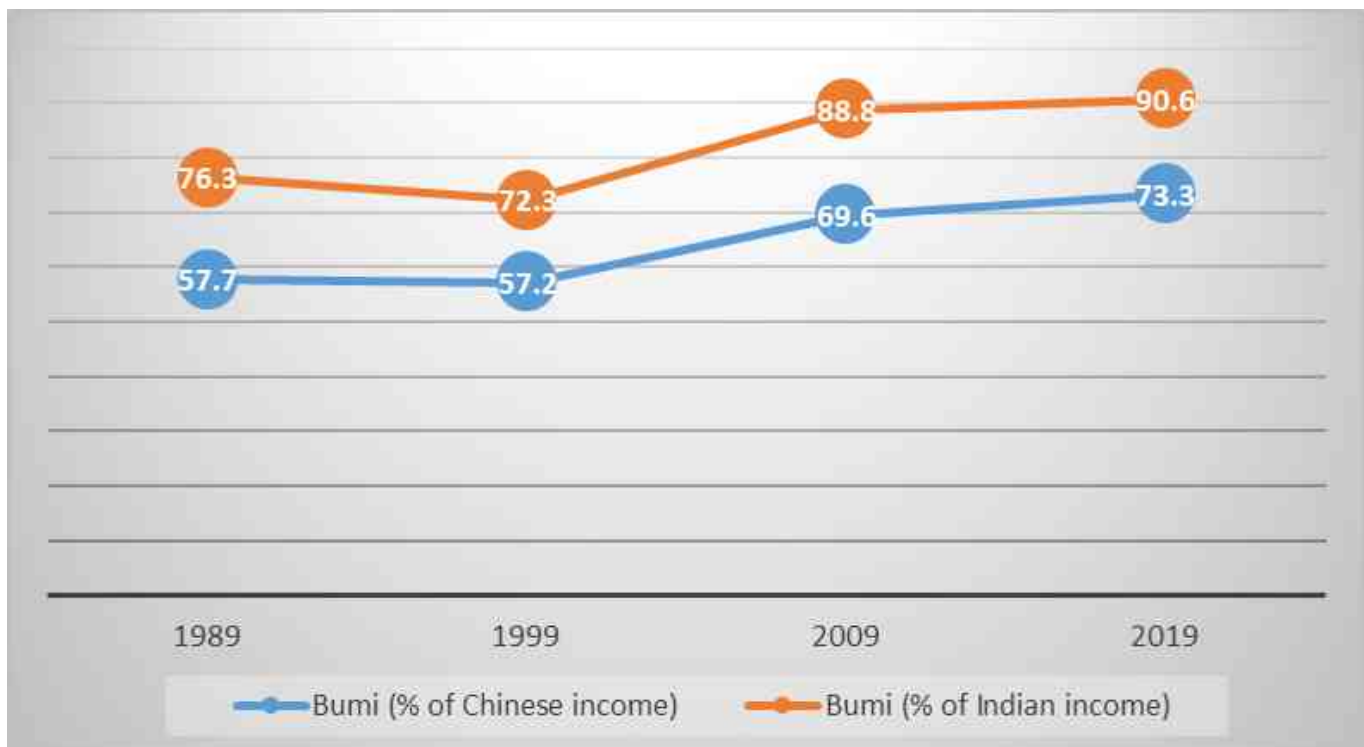
investment and trade regime, the discovery of petroleum deposits and export-oriented industrialization increased the size of the pie for all. It seemed that Malaysia had come a long way since the 1969 riots.

Indeed, ethnic tensions have been assuaged but not eliminated entirely. Redistribution has certainly not been without its unintended consequences. Some non-Bumiputeras have argued that policies for education and social mobility — such as the provision of ethnic quotas at the pre-university and tertiary levels – are not “meritocratic” (Jomo 2004). Many have chosen to “vote with their

feet” by emigrating to Singapore, Australia and the United Kingdom among others, where the playing field is perceived to be more “even”. The counterargument is that there remains inequality of opportunity as well as an implicit bias in the job and rental markets against Bumiputeras (and Indians) (Muhammed Abdul Khalid 2014). Both have some degree of truth to them: privilege is not confined to one ethnicity alone.

But while the debate over ethnic privileges flares up time and again, inequality in Malaysia today is no longer just about skin color.

Figure 1: Mean household income of Bumiputeras as a share of mean Chinese and Indian incomes, 1989-2019.



Source: Economic Planning Unit (2020).

Evolution of Inequality: The Socio-economic Dimension

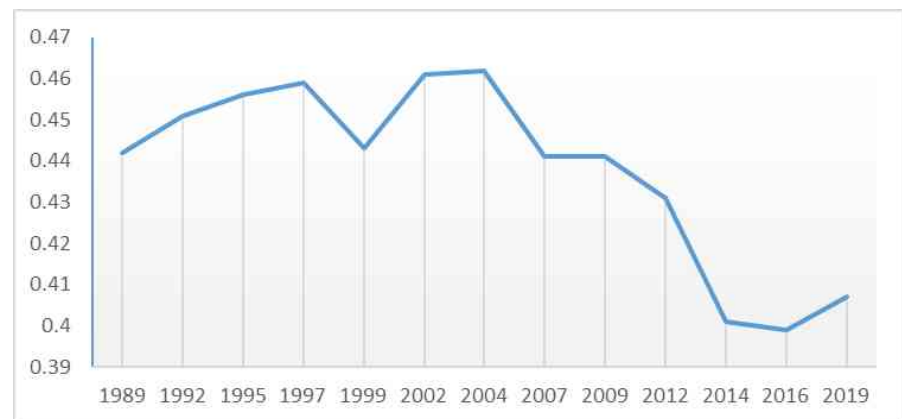
Superficially, official statistics suggest that as of the 2010s, Malaysian society is more equal than it used to be, with the Gini coefficient dropping below 0.4 in 2016 where it had been over 0.46 in the early 2000s (see Figure 2).

This does not paint the full picture for a number of reasons. First, it says nothing about intra-ethnic inequalities. The rural-urban gap has widened in the last 30 years. The average rural household income was almost 63% of that of the mean urban household in 1989. In 2019, this went down to just over 58% (Economic Planning Unit 2020). With development generally concentrated in the west coast of Peninsular Malaysia in and around Kuala Lumpur, rural households — Bumiputera, Chinese and Indian alike — have not enjoyed the same spoils of growth. Even within cities, the rise of the urban poor, who cannot cope with the rising cost of living, affects all ethnicities.

Second, the politico-economic tug of war between the Malays and Chinese often leaves out other Malaysian people groups, some of whom face marginalization under specific conditions, including:

- Indians who were based in rubber and plantation estates at the time of independence. The estates were cleared to make way for new developments, resulting in their displacement. Lack of access to affirmative action on the one hand and to business connections on the other hand contributed to their disenfranchisement,

Figure 2: Malaysia's Gini coefficient, 1989-2019.



Source: Economic Planning Unit (2020). Note: A score of 0 indicates perfect equality and a score of 1 indicates total inequality, so a lower score indicates declining inequality.

exacerbating socio-economic issues such as disproportionately high unemployment and crime.

- The aboriginal Orang Asli and Asal communities. Though officially entitled to the same privileges as the Malays under the Bumiputera banner, these people groups tend to face heavy inequality of opportunity, typically associated with living in remote areas with limited access to quality education and infrastructure.

Finally, there is a large section of the resident population that falls through the cracks by virtue of being undercounted. These are the country's low-skilled foreign workers, who predominantly come from South and Southeast Asia. How did they end up here and how is this a form of inequality?

In the 1990s, after a mixed and largely disappointing track record in heavy industry investment, Malaysia found its footing in manufacturing in the labor-

intensive electronics industry, especially in component assembly. The country had gained a reputation as an attractive FDI (foreign direct investment) destination due to the low cost of manufacturing relative to East Asia. But the rapid pace of growth had also led to an increase in domestic wages and labor shortages. To plug the gap, manufacturers turned to migrant workers, who were willing to work for much lower salaries and in difficult conditions while the office had become the mainstay of many a Malaysian.

Over time, more and more migrant workers were brought in to save costs in manufacturing, construction and low-skilled services. Malaysia's industrialization model continued to rely on labor-intensive exports even as the rest of developing Asia, with its abundance of home-grown low-cost labor, started industrializing.

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population, easily exceeding the number of ethnic Indian Malaysians (Loh et al. 2019). They experience a multitude of issues, including limited labor protection, poor living conditions and exploitation by recruitment agencies. Undocumented migrants fare even worse, lacking access to affordable public healthcare and social security as well as facing the threat of detention (CIVICUS 2020). And they are often treated with suspicion and scorn by Malaysians: an ILO survey found that 68% of respondents considered migrant workers to be a threat to national culture, with 44% saying they could not be trusted (ILO 2019).

Then came the pandemic. As COVID-19 swept across the country, the faults in the system could no longer be pushed aside. Even with nominally strict lockdowns in place, the virus spread like wildfire. The overcrowded living conditions of migrant workers accelerated transmission in many cases; and because they lived in and shopped within the same communities as locals, nobody was immune. Foreign workers became the scapegoat when it was their employers and the whole migrant management machinery that were to blame.

Ultimately, the presence of a large number of foreign workers has made complicated the demographics of Malaysia. It is therefore time for a more nuanced discussion on inequality, going beyond the traditional approach of understanding this issue through an ethnic lens.

Policy Recommendations

The social democratic landscape calls for the expansion of needs-based assistance in Malaysia in line with the shifting patterns of inequality. We are already seeing



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the emergence of color-blind, pro-poor initiatives as a result of the pandemic.

The debilitating effect of Malaysia's frequent lockdowns on lives and livelihoods in the country forced the government to introduce fiscal stimulus packages covering cash transfer programs for those in the bottom 40% of the income distribution (Ong et al. 2021).

But we can go further. Disparate programs should be combined and streamlined to create a mechanism for shock-responsive, long-term targeted basic income for all residents with income levels below

suitable thresholds that reflect purchasing power and living wages.

The current social protection framework relies heavily on the categorization of people into brackets — namely the bottom 40% (B40), middle 40% (M40) and top 20% (T20) (REFSA 2020). These categories use a static threshold, when in reality, they are dynamic: in 2021, for example, over 580,000 M40 households fell into the B40 category due to the lockdown-induced loss of income and jobs (Yunus and Teh Athira 2021). Therefore, there should be targeted income thresholds in line with the provision of basic income.

Migrant workers should be accorded the same access to social protection and public services as Malaysians, given that they contribute to the labor market and the economy. Punitive measures to round up undocumented workers would be counterproductive, particularly during the pandemic, as these only make them more undetectable and reluctant to step forward to receive medical treatment if they test positive.

Finally, more effort is needed to uphold workers' rights and protect them from exploitation, especially migrant workers. Trade union power in Malaysia is very weak, and many workers are not unionized, often giving employers free rein to act unilaterally for their own benefit. Labor law reform should be on the table to ensure fairness in employer-employee relations.

In conclusion, inequality is now a multi-dimensional issue in Malaysia, far from just being under the domain of ethnicity. Though the country has mostly succeeded in shedding the colonial baggage

associated with inter-ethnic disparities that colored Malaysian society in the mid-20th century, the last three decades has seen new forms of inequality emerge. In the pandemic-stricken world of today, inequality, particularly where the treatment of migrant workers is concerned, has become as much a humanitarian issue as it is a socio-economic problem. Moving forward, inclusive social protection policies must take center stage so that all residents can live a dignified life and enjoy the fruits of progress. ■

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