

## ETHNIC HETEROGENEITY IN THE MALAYSIAN ECONOMY: A SPECIAL REFERENCE TO THE ETHNIC GROUP PARTICIPATION IN FINANCIAL PLANNING ACTIVITIES

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### Abstract

The purpose of this article is to outline the current state of knowledge in relation of economic involvement and ethnicity in Malaysia. Firstly, this article will review on the state of employment in relation to the ethnic groups in Malaysia. This is important since the income factor is one of the major factors that determine the level of economic participation and the state of wealth of individuals. Stable and adequate level of income is one of the determinants of wealth accumulation for individuals other than wealth and net wealth level. This raises the question of employment opportunities among different ethnic groups in Malaysia. The root of the employment opportunities, it can be argued, stems from the access of different ethnic groups to high education, which also be discussed in the article. Secondly, this article will review on the involvement of various ethnic groups in Malaysia in several financial planning sector including investment and risk management sector. At the end of the article, it will provide insights on the current state of financial planning activities which reflect the participation of the individuals with different ethnic plan their financial affairs.

Key Words: Ethnic Heterogeneity, Malaysian, Financial Planning Activities

### INTRODUCTION

The involvement of individuals in the financial planning activities signifies their preparation towards the healthy financial wellbeing. The literature stated that the propensity of individuals to plan affect the amount of accumulated wealth at the end of the retirement period. For example, Ameriks *et al.* (2002), in their study revealed a strong relationship between financial planning and wealth accumulation. Their survey data suggest that individuals with a low propensity to plan are unable to monitor their spending and unlikely to be able to accumulate wealth. Due to the significant relation between the propensity to plan and wealth accumulation, their study calls for policy makers to initiate a savings educational program in order to build planning skills.

The writer's motivation to look at this matter at the angle of different level of participation of ethnic groups in Malaysia is to trace for a possible effect of policies on income distribution and equity ownership plan outlined in the New Economic Policy (NEP) and Economic Master Plans of Malaysia. Arguably, the objective of the policies to achieve income distribution among ethnic groups in Malaysia is achieved except for one ethnic group, which is the Indian community. There are various factors contributing to this conclusion, which many of it is out of the writer's scope to write. What are to be written is on the involvement of the different ethnic groups at the economic activity at the micro level. In the writer's opinion, to look at this matter at the micro level can be approached by looking at the personal financial planning activities engaged by the ethnic groups. Special reference to the involvement of ethnic groups in the investment and risk management are to be made in this article.

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Financial planning activities ranging from the first step of understanding the general principles of financial planning that includes the understanding on savings, budgeting and cash flow management, to the specific areas of wealth accumulation and risk management. Other than that, financial planning activities also include employee benefits planning, investment planning, income tax planning, retirement planning and estate planning (CFP Board).

Before going deep into analysing the involvement of different ethnic groups in Malaysia in the economic sector, including ownership of the share capital ownership and real property ownership, the writer will review on how the employment sector in Malaysia looks like, looking at the ethnic differences point of view. In relation to that, income distribution among ethnic groups and the access to higher education will also be explored.

## THE RESULTS AND FINDINGS

### Employment by ethnic groups

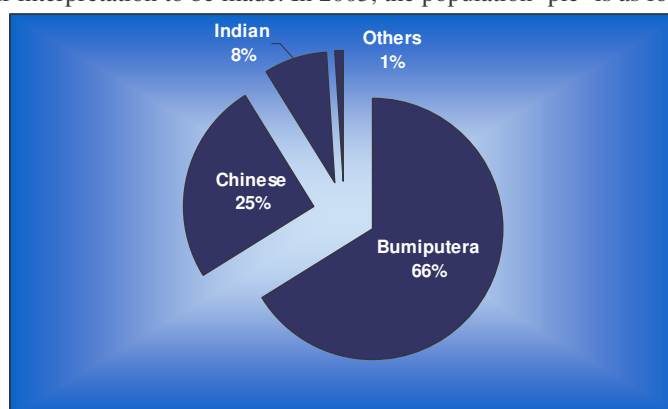
The trend of ethnic group involvement in the work force does not change much by looking at the current statistics from the Labour Force Survey Report produced by the Department of Statistics, Malaysia. It can be referred in Table 1 that minimal changes experienced from the quarter 4/2006 to quarter 1/2007.

**Table 1:** Percentage Distribution of Employed Persons by Ethnic Groups, Malaysia, Q4/2006 and Q1/2007

| Ethnic Group                  | Q4/2006     | Q1/2007     |
|-------------------------------|-------------|-------------|
| Total                         | 100.0       | 100.0       |
| <b>Malaysian Citizens</b>     | <b>89.7</b> | <b>89.7</b> |
| Bumiputera                    | 56.2        | 56.6        |
| Malay                         | 45.9        | 45.8        |
| Other Bumiputera              | 10.3        | 10.8        |
| Chinese                       | 25.3        | 24.9        |
| Indian                        | 7.2         | 7.1         |
| Others                        | 0.9         | 1.1         |
| <b>Non-Malaysian citizens</b> | <b>10.3</b> | <b>10.3</b> |

Source: Labour Force Survey Report, Department of Statistics, Series No. 10, No.2/2007, August 2007.<sup>1</sup>

Table 1, however should be read with the statistics on the percentage of population made by these ethnic groups for a fair interpretation to be made. In 2005, the population 'pie' is as follows:



Source: 9<sup>th</sup> Malaysia Plan, Jabatan Perdana Menteri, Malaysia.<sup>2</sup>

<sup>1</sup> The report is available on the website at: [http://209.85.175.104/search?q=cache:zh1Rn2UIaq8J:www.statistics.gov.my/filesburuh/download.php%3Fcat%3D0%26id\\_file%3D2+L+ABOUR+FORCE+SURVEY+REPORT+MALAYSIA&hl=en&ct=clnk&cd=3&gl=my](http://209.85.175.104/search?q=cache:zh1Rn2UIaq8J:www.statistics.gov.my/filesburuh/download.php%3Fcat%3D0%26id_file%3D2+L+ABOUR+FORCE+SURVEY+REPORT+MALAYSIA&hl=en&ct=clnk&cd=3&gl=my). Data was retrieved on 10<sup>th</sup> March 2008.

<sup>2</sup> Available online at: <http://www.epu.jp.m.my/rm9/html/english.htm>. The website was assessed on 10th March 2008.

When looking at the both statistics (percentage of employment and population by the ethnic groups), readers may understand that the employment percentage for ethnic groups in Malaysia can be considered as fair. For example, for the Indian community, the percentage involvement of the community in the employment sector is 7.1% for Q1/2007 and 7.2% for Q4/2006. The employment percentage corresponds with the Indian community's population in Malaysia of 8% in the year 2005.

The same trend also was witnessed in the previous years from year 2002 as indicated in Chart 1 below. In Quarter 1/ 2007, Bumiputera forms the highest percentage of employed persons in Malaysia with 56.6%. Chinese and Indians' percentage in the work force are 24.9 and 7.1% respectively. By definition, employed persons are individuals categorised as employees, employer, unpaid family worker and own account worker.

*Chart 1: Percentage Distribution of Labour by Ethnic Group, 2002-2005*



Source: Labour Force Survey Report, Department of Statistics, various years.

Guan (2000), writes on ethnic relations in peninsular Malaysia in form of the cultural and economic dimensions. In his paper, he lamented that the NEP policy to eliminate the ethnic group identification with economic functions can be considered successful. For example, Malays in 1995 accounts for only 22.2% in the agricultural sector of the total Malay labour force, as compared to the figure in the 1985 (40.7%). In the years after the independence, the probability of Malays to be a farmer is high as compared to other races being a farmer, i.e. identification of ethnic group in relation to the economic functions. As far as the statistics is concern, such identification is decreases. He correctly points out that Malays in year 1995 are more involved in the manufacturing sector (24.9%) and other services sector (24%). All in all, the identification of ethnic groups in relation to the economic functions is reduced. The initiatives also succeed in balancing the ethnic composition of government servants. In 1985, the percentage of Chinese and Indians working in the government sector is 24.3% and 8.5 % respectively. In year 1995, the percentage improved to 42.3% and 9.3% respectively.

The importance of having a balanced ethnic participation in every sector is of the cultural issue rather than the economic issue. As different ethnic groups blend together in their workplace, the assimilation process can takes place. That shows economic measures can be of the useful measures to reduce the gaps between the ethnic groups in Malaysia.

### **Income Distribution among Ethnic Groups**

As the result from balanced ethnic participation, income disparity between the ethnic groups can be improved. The statistics on mean monthly gross income of household income produced during the Eighth Malaysia Plan 2001-2005 and the Mid Term Review of Eighth Malaysia Plan (2002) indicated that the average or mean income of Malays improved 93.8% from RM172 in 1970 to RM2, 376 in 2002. For the Chinese community, the mean income rose from RM394 in 1970 to 4,279 in 2002, which represents an increase of 90.8%. The average income for the Indian community, on the other hand rose 88.9% from RM264 in 1970 to RM3, 011 in 2002. To clearly compare the mean income distribution between the three ethnic groups, the calculation of income ratios between Bumiputeras, Chinese and Indians can be calculated. From the statistics from Table 2, it can be observed that the income disparity between Bumiputeras and the Indians is smaller as compared to the income disparity between Bumiputeras and the Chinese. The ratio of income of Bumiputeras and Chinese are nearly close to 2 in most years (except for in 1970), which suggests that Chinese, on average are earning nearly twice as much as the Bumiputeras. The ratio of just above 1 (except for 1.8 in 1970) between Indians and Bumiputeras suggests that the mean income of the Indians is higher by only 30% to 40% as compared to the Bumiputeras. Universally, mean income of Chinese and Indians are higher than that of the Bumiputeras for the years under consideration.

**Table 2:** Mean Income and Income Ratios between Chinese and Bumiputeras and between Indian and Bumiputeras, 1970- 2002

| Years | Mean Income<br>(Bumiputeras: Chinese: Indians) | Ratios Between<br>Chinese and Bumiputeras | Ratios Between<br>Indians and Bumiputeras |
|-------|--|---|---|
| 1970  | 172: 394: 304                                  | 2.3                                       | 1.8                                       |
| 1990  | 931: 1582: 1201                                | 1.7                                       | 1.3                                       |
| 1995  | 1604: 2890:2140                                | 1.8                                       | 1.3                                       |
| 1999  | 1984: 3456: 2702                               | 1.7                                       | 1.4                                       |
| 2002  | 2376: 4279: 3044                               | 1.8                                       | 1.3                                       |

Sources: The Second Outline Perspective Plan 1991-2000 ( 1970-90), the Eighth Malaysia Plan 2001-2005, and the Mid-Term Review of the Eighth Malaysia Plan 2001-2005 (2002)

Income distribution also can be measured using Gini coefficient. The coefficient which measures the inequality of income distribution of the each group was recorded as 0.452, 0.446 and 0.425 for Bumiputeras, Chinese and Indians respectively<sup>3</sup>. Gini coefficient for the whole country in 2004 was 0.462. A low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution. 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income). The coefficient recorded among ethnic groups and for Malaysia indicates that the income equality is at a satisfactory level. The coefficients of less than 0.5 level indicates that the income distribution has more tendency towards achieving equality rather than not. As for the changes of the coefficients in 2004 in relation to the coefficient in 1999, the changes are not momentous. Coefficients are at the region of 0.4 for all ethnic groups and for the whole country. This in an indication that the pattern of equality of income distribution (or the lack of it) did not alters much from year to year.

### **Access to Education to Various Ethnic Groups**

Access to education to the public tertiary education through 1970 to 1980 changed quite dramatically from 1970 to 1975. The percentage of Malays, Chinese and Indian in 1970 was 49.7%, 42.7% and 5.1%. While in the 1975, the percentage of Malays in the public tertiary education increased to 65.1% while the percentage for the Chinese and Indian dropped to 31.1% and 3.3% respectively (Ministry of Education, as reported in Guan Hock Lee, 2000).

<sup>3</sup> The statistics on Gini Coefficient described was computed using the data obtained from the website of the Department of Statistics-Household Income Survey, 1999 and 2004.

The percentage of ethnic participation in the tertiary education in the current years does change much from the previous years. In 2003, percentage of Bumiputeras in public tertiary education was 62.6% (23,182 students) as compared to 32.2% of Chinese students (11,921 students). The percentage of Indians stood at 5.2% (1,931 students) as reported in Guan Hock Lee (2000).

Although the participation of Malays in the public tertiary education is high (at the rate of more than 60% in the current years), their involvement in the private tertiary education is minimal. With the rapid growth of private tertiary education establishments, which the rate increased mostly took place in the late 1990s. In 1999, the number of private colleges increased to 611 from 280 in 1995. Since 1999, five foreign campuses also operate in Malaysia (Saw and Kesavapathy, 2006). Examples of them are Monash University and Nottingham University in Malaysia. With the enrolment of non-Bumiputeras in private institution, the access to tertiary education is at a relatively balanced state.

### **Ethnic Groups' Participation in Several Financial Planning Activities**

The participation in the economy can be measured by looking at the share ownership, ownership in real property and the insurance coverage, among others. The three types of assets stated above is among the assets that can be found in the portfolio of assets held by individuals or households, or can be regarded as financial planning activities.

The growth in the middle income earners in Malaysia is one of the pushing factors that results to the increased relevance to the activities of financial planning regardless of the ethnic groups. Kahn (1996), writing in one of the chapter of a book, provides several explanations on the growth of middle strata in Malaysia. Among the reasons for increasing middle income earners in Malaysia are as follows:

- The encouragement from the Malaysian government to build up the electronic sectors by establishing industrial zones in Pulau Pinang, Johor and Selangor for instances, offering more jobs opportunities to the locals.
- Increased participation of women unskilled and semi-skilled labours in the manufacturing sector increased the household income as compared to the previous years where men are the only breadwinner of the family.
- Growth of middle stratum skilled workers such as engineers, computer scientists and middle level managers in the electronic industry.
- Increased government initiatives in the Small-Medium Industries via several programmes such as the linkages with Transnational Corporations (TNCs) resulting to increasing level of wealth among entrepreneurs over the years.
- Growth of higher and middle level managers in the public sectors. Between 1971 and 1985, the growth rate for public sector workers was the highest for group A employees at 10.2% while for the group B (managerial) was at 16.6%. In comparison, the growth for group C (clerical and skilled) was only at 13.2% and group D (unskilled) at 13.2%. (as reported in Ismail Salih and H. Osman, 1992, in Kahn, 1996)
- Growth of service industry in Malaysia. In the middle 1990s, the growth of the service industry was more than other industries in Malaysia.
- Increased participation of Malaysians, by the way of accommodating Bumiputeras to hold equity in unit trusts with the establishment of Permodalan Nasional Berhad (PNB).

Increased participation of individuals in financial planning activities such in share investment, real property investment and insurance coverage purchase are in line with the arguments made by Warschauer (2002). He argued that, it is the middle class individuals who are able to achieve their goal of wealth accumulation through proper financial planning in contrast to wealthy individuals who have usually inherited significant wealth from their ancestors. He justifies his argument by reasoning that financial planning association around the world, being members of CFP international board, are constituted by countries having a significant percentage of middle class people. 11 out of 17 member countries are Organisation of Economic

Co-operation and Development (OECD)<sup>4</sup> countries that are relatively advanced economically. The remaining are developing countries having a sizable middle-income class such as Malaysia, Hong Kong, Singapore, Brazil and South Africa.

As for the data provided in this article, the writer will make do on the data reported mostly from the Department of Statistics, Bank Negara Malaysia, 5 years economic plans from various years, institute of banks and insurance and from the websites of financial institutions. This is because, in Malaysia, no formal comprehensive survey ever conducted by the authority on the whole state of consumer finance. In comparison, in the U.S and Canada, the entire statistics of real and financial assets can be found in the statistics collected in the Survey of Consumer Finance (SCF).

### **Ownership of Share Capital among Ethnic Groups**

Ownership of equity was aimed to be 30% for Bumiputeras, 40% for non-Bumiputeras and 30% for foreigners according the New Economic Policy (NEP). The statistics by the Department of Statistics and Companies Commission of Malaysia<sup>5</sup> has shown that in the 2002, RM73, 161 million worth of share capital<sup>6</sup> owned by the Bumiputeras. In 2003, the monetary value of share capital ownership increased significantly to RM100, 037.2 millions. The share of Bumiputera ownership to the total share capital ownership in Malaysia thus stands at 18.7%<sup>7</sup> and 18.9% for the two years indicating that the NEP aim is off the target by approximately 10%. The ownership of shares for Chinese in 2002, on the other hand, stood at RM159, 805.9 million (40.9%). For 2003, Chinese ownership in share capital increased to RM205, 682.9 million, an increase of nearly 100,000 million from the previous year. The percentage of ownership however declined to 39% due to higher volume of shares being offered to the public. In 2002, the ownership of share capital by the Indian stood at RM5, 951.1 million (1.5%). The figure improved to RM6, 392.6 million in 2003 (1.2%).

The statistics on the share capital ownership revealed that the Chinese ethnic alone fulfilled the target of NEP of non-Bumiputera share of equity, i.e. at 40%. The Indians' ownership of share capital is at a minimal amount which the reasons for it should be studied so that improvements can be made in the future. As for Bumiputeras, although the target percentage was not achieved, the establishments of trust agencies such as Permodalan Nasional Berhad (PNB) and the State Economic Development Corporation (SEDC) had managed to improve, although insignificantly, the percentage of Bumiputeras' ownership of Share Capital. Both institutions held RM6, 415.8 million worth of share capital (1.6%) in 2002 and RM8, 695.6 million worth of share capital (1.7%).

In an unpublished Ph.D. thesis, (Zurina, 2007) found that the ethnic differences does not exist, in relation to the financial assets holdings of respondents in the study on the demand on three types of assets holding namely shares, unit trusts and savings accounts. Although the study might inherent a problem of respondents' identification due to the involvement of limited numbers of respondents, the results may shed some lights on the pattern of wealth distribution of the financial assets holdings in Malaysia.

In relation to the racial composition of householders, Zurina's (2007) results suggest that there is no significant differences between non-Malay and Malay as far as the demand of financial assets are concern. The negative coefficients in the regression on the demand for financial assets in relation to the 'ethnic' variables suggest that Malays have fewer financial assets but the results are not significant at 5% level of significance. The results can be seen as a positive indicator reflecting that no significant economic parity

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<sup>4</sup> OECD countries are the richer countries in comparison to the developing countries. The list of OECD countries can be viewed at [http://en.wikipedia.org/wiki/Organisation\\_for\\_Economic\\_Co-operation\\_and\\_Development](http://en.wikipedia.org/wiki/Organisation_for_Economic_Co-operation_and_Development). The website was visited on 1 November 2006 for the current lists of OECD countries with the founding members and joining members.

<sup>5</sup> A table showing the full statistics can be viewed on the Economic Planning Unit's website at: <http://www.epu.jpm.my/New%20Folder/MEIF2007.htm>. The data retrieved on 14<sup>th</sup> March 2008.

<sup>6</sup> Share capital here refers to shares owned valued at par in limited companies. The figure excludes the ownership of government trust agencies such as Permodalan Nasional Berhad (PNB) and State Economic Development Corporation (SEDC).

<sup>7</sup> The percentage stated in this paragraph refers to the percentage of ownership of the ethnic groups to the total share capital in circulation for the relevant years.

exists between non-Malays and Malays. Reducing the economic gap between different races in Malaysia was one of the major objectives of the New Economic Policy (NEP).

Improvements of Bumiputeras in the recent years may due to the growth of the Islamic finance in Malaysia. For Muslims, investment in share capital needs to be Syariah-compliant. 83% of the stocks listed on Bursa Malaysia in the year 2004 had been classified as Syariah-approved securities by the Syariah Advisory Council (SAC).<sup>8</sup> From the year 2003, the percentage of Islamic compliant shares to total shares traded on the Malaysian stock exchange was actually high. The percentage rate was 81% for both in 2003 and 2004. Greater choices of equity investment also provide Muslims and non-Muslim investors with the benefit of diverting people from investing in conventional shares. As part of the criteria for Syariah approval is for companies to have a minimal debt ratio (less than one third), investors who prefer low gearing investment may find investing in Islamic-compliant shares as more attractive.

### Investment in the Real Property Sector by Ethnic Groups

Real property investment is one of the indicators that reflect the economic wellbeing individuals. The rise in the price of property in the recent years, due to the increase of lands' value especially in the urban area contributes to the improvements of the net wealth of individuals. The ownership also can act as an indicator to measure the wealth disparity among the ethnic groups in Malaysia.

Table 3 below illustrates the ownership of commercial buildings and premises by ethnic group in the year 2005. The statistics can also be a mark of participation of the ethnic groups in the business sector, especially on the figures of the ownership of business complex, industrial premises and hotels. In 2005, the Chinese own nearly 70% of the business complex in Malaysia reflecting the Chinese control over the business establishments around the country. This is regardless of the percentage of Chinese population of around 30%, according to the latest statistics on population described earlier in the article. The trends persist for other types of commercial buildings and premises. The Chinese, on average own 71.9% of commercial buildings and premises. In comparison, only nearly 12% of them owned by the Bumiputeras regardless of about 60% of the population consist of the Bumiputeras. The same phenomenon can also be observed to the trends of commercial buildings and premises by the Indians. On average, only 1.5% of them are owned by the Indians although the Indians form 8% from the total population.

**Table 3:** Ownership of Commercial Buildings and Premises by Ethnic Groups, 2005

| Type of Buildings/<br>Premises | Unit        |         |         |        | % of total  |         |         |        | Total |
|--------------------------------|-------------|---------|---------|--------|-------------|---------|---------|--------|-------|
|                                | Bumiputeras | Chinese | Indians | Others | Bumiputeras | Chinese | Indians | Others |       |
| Building                       | 24374       | 139052  | 10773   | 17773  | 12.7        | 72.6    | 5.4     | 9.3    | 100   |
| Business Complex               | 3207        | 19072   | 568     | 4651   | 11.7        | 69.4    | 2.1     | 16.9   | 100   |
| Industrial Premises            | 1480        | 21514   | 446     | 7118   | 4.8         | 70.4    | 1.5     | 23.3   | 100   |
| Hotel                          | 313         | 1519    | 71      | 289    | 14.3        | 69.3    | 3.2     | 13.2   | 100   |
| Total                          | 29374       | 181157  | 11473   | 29831  | 11.7        | 71.9    | 4.6     | 11.8   | 100   |

Source: Economic Planning Unit

Notes: The figures based on 87 percent responses from local authorities

### The Establishments of Financial Planners by Ethnic Groups in Malaysia

The main role of financial planners is to design financial plan that suits that the needs of their clients. The advice can be in the form of comprehensive financial planning that deals with the whole range of issues in financial planning or 'slice' financial planning that focuses on certain segment of financial planning, for example risk management and investment planning. Basically, services offered are in line with the content analysis of personal financial planning. There are 101 content areas suggested in the CFP Board's current

<sup>8</sup> Report of Islamic Capital Market, 2004

guide on CFP Certification<sup>9</sup>. Major headings are: (a) General principles of financial planning; (b) Insurance planning and risk management; (c) Employee benefits planning; (d) Investment planning; (e) Income tax planning; (f) Retirement planning; and (g) Estate planning.

The establishment of financial planning firms that provide the expertise in developing financial plan can be an indicator for the individuals' involvement in the financial planning. Bank Negara<sup>10</sup> discloses a list of financial planners (individuals and companies that possess the capital market service license). From the list for thirteen (13) individuals, two financial planners are Malays, ten are Chinese and one of them is Indian. From the list of companies providing the service of financial planning, most of them are having Chinese directors and compliant officers instead of having Malays and Indians as directors. The dominance of Chinese in the industry of financial planning is probably because the Chinese are mostly are working in the private sectors which requires them to plan better in order to ensure financial security in the future. The involvement of Chinese in the area of risk management in the form of having life, medical and education insurance is also one of the factors that the industry is dominated by the Chinese.

### CONCLUSION

Ethnic heterogeneity in the economic sector in Malaysia is long sought after since the introduction of the New Economic Policy (NEP). The results from the program achieved mixed results with some ethnic groups achieved more than the others economically. In term of financial planning activities, every ethnic group participates in the industry, indicating the awareness of the ethnic groups to manage their financial affairs in a formal manner, albeit the involvement from ethnic groups seems imbalance. More measures should be taken to ensure ethnic heterogeneity in the economic sector such as providing fairer access to tertiary education and employment in the public sectors by non-Bumiputeras. The introduction of unit trust schemes that are open to non-Bumiputeras by Permodalan Nasional Berhad (PNB) is a good example that should be observed by relevant institutions in Malaysia.

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<sup>9</sup> As reported in CFP Practitioner Survey 1999.

<sup>10</sup> Both lists can be viewed from the Bank Negara Malaysia's website: [www.bnm.com.my](http://www.bnm.com.my). The title of the tables are 1) List of Capital Markets Service License holders for Financial Planning (Individual) as at 31<sup>st</sup> January 2008 and 2) Capital Markets Service License holders for Financial Planning (Company) as at 31<sup>st</sup> December 2007.