Malaysia is currently actively involved in modernization process in its effort to achieve the status of developed country in the year of 2020. Malaysia emerged as a country that is contained in them more than 200 ethnic groups and various sub-ethnic colour, religion and culture. Therefore, unity of its people becomes the main core aspect beside the strong economic areas. This paper aims to determine the relationship of urbanization with perception of students towards ethnic relations issues. About 451 sets of questionnaire were distributed in University of Malaya (UM) and Universiti Malaysia Pahang (UMP). Simple random method was employed with data has been analysed descriptively with percentage and mean. Analysis regression technique also has been used to determine the relationship between urbanization and perception of students towards issues pertaining ethnic relations. The study has shown that, there are relationships between urbanization and students perception towards issues in ethnic relations. Findings also showed students from the developing areas are better in ethnic relations in terms of perception as compared to developed areas. It is thus, confirmed that urbanization has an influence on the level of ethnic integration. It is learnt that progress towards modernization should be balanced with the development of community itself and are ready to join hands together to develop Malaysia.