

CHAPTER 3

INDUSTRIALIZATION AND MIDDLE CLASS FORMATION IN MALAYSIA

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Introduction

This chapter offers a macro-analysis of the evolution of class structure, with particular reference to middle-class formation, in Malaysia since the early twentieth century till the present. The discussion is against the backdrop of the structural changes that have occurred in the country during the pre- and post-independence periods, with emphasis on post-1970s' changes and transformations. The chapter traces the evolution of class structure, and shows the role of the state as well as capitalist production relations in promoting structural changes and the formation of modern classes, including the new middle class. The macro-analysis in this chapter provides background to subsequent chapters which contain micro-analysis based on field studies conducted among the new Malay middle class in the metropolitan city of Kuala Lumpur (and Petaling Jaya), and two provincial towns in the east coast states of Peninsular Malaysia – Kota Bahru in Kelantan and Kuala Terengganu in Terengganu.

However, as discussed in Chapter One, though the new middle class is not easy to define, many scholars of various theoretical inclinations have utilised occupational categories for their working definition of class. In this chapter, I also

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adopt the occupational approach to identify the new middle class, by using data on occupations tabulated in official statistics available since the early decades of the century. These statistics, however, only refer to occupational categories. They give statistics of different types of occupations, both white-collar as well as blue-collar. However, the occupational definition used here is only for the purpose of making estimates of the relative size of various occupational groups in the work force, and should only be taken as a proxy of class. In this approach, we take the first two top categories – professional and technical, as well as administrative and managerial -- to represent the new middle class, while those in the clerical, sales and some services categories are taken to represent the lower middle class occupations.¹ Two other categories – production and related workers category, and agricultural workers category – are used as proxies for the working class and the rural community classes respectively. The concept of the new middle class used here is in keeping with John Goldthorpe (1980, 1982) and David Lockwood (1995), who proposed that the 'new' middle class consists of "the salariat" comprising professional, managerial and administrative employees who share a "distinctive employment status whose principal feature is the 'trust' that employers necessarily have to place in these employees whose delegated or specialized tasks give them a considerable autonomy" (Lockwood 1995:1).

¹ Some writers (e.g. Crouch 1994) take only the first four occupational categories listed in the census – professional and technical; administrative and managerial; clerical; and sales as middle class occupations. Besides these four, others (e.g. Johan Saravanamuttu 1989, and Abdul Rahman 1995), also include about half the work force in the services category. The first two categories give an estimate of the 'new' middle class, whilst the other three reflect the 'old' middle class and the marginal or lower middle class.

Pre-Independence Structural Changes and Evolution of Class Structure

Though the structural transformation and evolution of modern class structure in Malaya began in the late nineteenth century and the beginning of the twentieth century, classes were not a new phenomenon in Malay society. Prior to Western colonial penetration in the Malay Peninsula, the major classes in indigenous Malay society were the aristocracy on one hand, and the peasantry on the other, though elements of a merchant class -- most pronounced during the Malacca period (1400-1511) -- were already in existence. Whether these latter elements would have transformed themselves into a bourgeoisie and modern middle class, and play a revolutionary modernizing role like their counterparts in the West had there been no colonization by Western powers is a matter of historical conjecture, which we will not indulge in here.

While the early colonial powers – the Portuguese (1511-1641) and the Dutch (1641-1824) – only set up trading posts in Malacca, the British colonialists who first colonized Penang in 1786, eventually turned the whole of Malaya into their colony after the signing of the Pangkor Treaty in January 1874. By 1914, the Malay peninsula was organized into three administrative units under the British – the Straits Settlements (SS) comprising Singapore, Malacca and Penang; the Federated Malay States (FMS) comprising Perak, Selangor, Negri Sembilan and Pahang; and the Unfederated Malay States (UFMS) comprising Johore, Kelantan, Trengganu, Kedah and Perlis. In 1948, all the constituent states (with the exception of Singapore) became the Federation of Malaya, which attained independence in 1957. In 1963, the federation expanded to become the Federation of Malaysia, which included Sabah,

Sarawak and Singapore, but Singapore seceded in 1965 to become the Republic of Singapore. Unless otherwise stated, the historical data used in this chapter refer to Malaya (or Peninsular Malaysia) without Singapore, while the data for the post-independence period refer mainly to Peninsular Malaysia.

The imposition of Western colonial capitalism in Malaya had long-lasting effects on the Malaysian society. Malaya -- a prize colony for Britain -- attracted Western investments, mostly in the rubber and tin industries, which rose from US\$194 million in 1914 to US\$560 million in 1930, and US\$455 million in 1937, with about 70 per cent of the total contributed by British investors (Allen & Donnithorne 1957: 200). The development of the rubber and tin industries in Malaya made the colony Britain's biggest dollar-earner (Li Dun Jen 1982). This can be seen from the value of exported raw materials from Malaya to the United States, amounting to US\$270 million in 1948, or 69 per cent of the value of all exports to Malaya's major trading partners. This gave a net surplus of US\$172 million for Malaya, the biggest surplus in dollar terms compared to the dollar earnings of all other British colonies (US\$47.5 million for the Gold Coast [Ghana], US\$24.5 million for Gambia, and US\$23.0 for Ceylon[Sri Lanka]) (Hua Wu Yin 1983: 91-92, Tables 4.1 and 4.2). As pointed out by several scholars, in the immediate post-war period, Malaya's contribution of export earnings in US dollars to British recovery was very crucial given the international balance of payments deficit faced by Britain. For example, in 1951, of the US\$400 million earned by Malaya, 83 per cent was siphoned off to Britain (Jomo 1986: 147).

Several scholars have argued that while the actual 'take off' stage of Malaysian economic growth took place in the 1970s, it was preceded by at least a half-century of quite significant change away from the classic colonial pattern (Brookfield 1994). From available figures, it can be seen that of the work force of 1,718,870 in 1921, 70.9 per cent were in the primary sector (agriculture, mining and quarrying), 5.9 per cent in the secondary sector (manufacturing, building and construction), and the rest in the tertiary sector. However, by 1957, the contribution of the secondary sector to the labour force increased to 9.6 per cent, while the primary sector had declined to 61.3 per cent. This shows that during the three-and-a-half decades prior to independence, limited industrialization took place. This is reflected by the decline of the work-force in primary production from 70.9 per cent in 1921 to 61.3 per cent in 1957, while the share of the work-force in manufacturing and construction increased from 5.9 per cent to 9.6 per cent, and in communications and commerce from 11.2 per cent to 12.7 per cent during the same period (Brookfield 1994: 5).

Industrialization and developments in commerce during the British colonial period were catalytic in promoting growth, albeit slowly, of new classes in Malaya. Elements of the new classes included the European bourgeoisie, a small group of European officers, Chinese compradors (Puthuchear 1979), Indian money-lenders, Malay junior administrators, Asian white-collar employees, and a growing (mainly Chinese and Indian) proletariat. While a small proportion among them -- in particular, the Malay administrators and non-Malay white-collar and technical workers -- were products of the expansion of the British colonial state, others

emerged, directly or indirectly, in response to the demands of expanding colonial capitalism.

An examination of data on occupations will provide an idea of the evolution of the pre-independence class structure. In 1931, of a total registered male² work force of 1.5 million, 35.5 per cent were Malays, 44 per cent Chinese, 20 per cent Indians, and 0.5 per cent Others. The majority (58 per cent) were workers in the agricultural category, while another 24 per cent were production, transportation and related workers. However, those in the clerical, sales and services categories (the lower middle class) made up 6.7 per cent, while those in the higher grade white-collar middle class professional and technical jobs as well as administrative and managerial employees, made up a very small number, i.e. only 2.1 per cent.

The growth of the economy, and hence the modern classes, including the various middle class fractions in Malaya, was very much affected by the Great Depression of the 1930s. The ravages of the Pacific War (1941-45), which involved the Japanese Occupation of Malaya for almost four years, destroyed the economy further. The post-war recovery was slow, but with the boom of the early 1950s following the Korean War, Malaya's economy picked up again.

However, the argument that industrialization began during the British colonial period should be read with some caution. It should not be interpreted to mean that

² The participation rate of the female work force during the early decades of the twentieth century was very small, making up only about 5 per cent of the total registered work force (Nathan 1922). Thus, we find that work force statistics used by various studies of that period (see, for example, Hirschman 1975) often only refer to the male work force. This chapter, which relies on these secondary sources, only refers to the male work force for the same reason.

colonial capitalism had any interest in promoting local manufacturing or social transformation based on industrialization. As argued by Jesudason (1990), during the colonial period, manufacturing was never considered a serious option. This can be seen from the fact that of the 108 million pound sterling of British direct investment in Malaya in 1930, 85.2 per cent was in agriculture (the plantation sector), 7.4 per cent in mining, 7.4 per cent in other sectors, but none in manufacturing. This situation continued throughout the colonial period until independence. Only after independence did British capitalists divert a portion of their direct investment into manufacturing. Thus, we see that in 1965, of a total of 144 million pound sterling of British direct investment in Malaysia, their investment in manufacturing made up 13.8 per cent, while the proportion of investment in the plantation sector dropped to 66.4 per cent (Hua Wu Yin 1983: 44, Table 2.6).

During the colonial period, the colonial state favoured an international division of labour in which colonies would produce primary commodities and the metropole, manufactured goods. This policy had the effect of constraining local manufacturing (Jesudason 1990: 32). During the colonial period too, incentives for industrial growth were few, and suggestions for and attempts at protection policies to encourage local industrialization were at best ignored, or at worst, resisted by the colonial state (Jomo 1986: 219). Thus, it is not surprising that there was very slow growth of the middle class during the colonial period. From census figures, we find that by 1947, the new middle class – those in the professional and technical, as well as the administrative and managerial categories -- increased very marginally from 2.1 per cent in 1931 to only 2.8 per cent in 1947. However, the growth of these

categories was a bit more noticeable in the 1950s, when they increased to 4.4 per cent by 1957 (Hirschman 1975: 22-23).

Because of the ethnic division of labour developed by the British during the colonial period, we find that the new middle class occupations were mainly identified with ethnic Chinese, Indians and Eurasians. In 1957, the majority (57 per cent) of the professional and technical, as well as administrative and managerial employees were Chinese, 34 per cent Malays, and the rest (9 per cent) were Indians and Others. If we take only the employees occupying administrative and managerial jobs, which numbered slightly more than 25,000 in 1957, the Chinese proportion was very much higher, i.e. 62.4 per cent compared to 17.6 per cent Malays, and 12.0 per cent Indians and Others. In short, the new Malay middle class was still very small and weak then.

Post-independence Structural Changes and Social Transformation

While British colonialism since the beginning of the twentieth century did result in the formation of new classes, the rapid growth and expansion of the latter, namely the middle class, is a recent phenomenon of the last four decades. The growth and expansion came mainly in the wake of the post-1960s labour-intensive industrialization and public sector expansion, which were planned and executed by a strong developmentalist state. Unlike the pre-1970s period, when the capitalist and middle classes were mainly Chinese, and Malay middle class mainly comprised of a small group of government administrators, the 1970s saw the beginning of the expansion of a more multiethnic new middle class. Besides administrators, this new

middle class was mostly made up of managers and other professionals, some in the state sector, with the majority from the private sector.

The changes that had taken place, which led to the emergence and expansion of a multi-ethnic new middle class, suggest that the middle class is not a static social category but an historically constituted and dynamic one, which has emerged in the specific historical, political, economic and cultural context of Malaysia's development. The dramatic changes in the ethnic and sectoral composition of the new Malaysian middle class is closely related to Malaysia's state-led modernization and social transformation in the last forty years.

Three major transformative processes, which had an important bearing on middle class formation and expansion, shall be highlighted here.

First, the rapid and extensive structural changes in the economy and society especially over the last three decades had transformed Malaysia from being a basically primary producing agricultural economy to an increasingly industrialized one. Such structural transformation brought about by industrialization can be clearly seen if we compare the relative positions of the primary, secondary and tertiary sectors over the last three decades, which show the rapid contraction of the contribution of the agricultural sector to the gross domestic product (GDP). Official statistics show that while the contribution of the agricultural sector to the GDP was relatively the biggest in 1970, amounting to 31.4 per cent, its share fell to 18.7 per cent in 1990, and is expected to fall further to 10.4 per cent in 2000. The decline of the agricultural sector contrasted with the rapid expansion of the secondary sector

(manufacturing, construction, and mining),³ which increased its contribution to GDP from 23.3 per cent in 1970 to 40.2 per cent in 1990 (an increase of 16.9 percentage points), and is expected to increase further to 48.0 per cent by the end of the century. The contribution of the tertiary sector (various types of services) to the GDP also expanded in absolute terms over the three decades, though in proportionate terms, its contribution, which was 45.3 per cent in 1970, fell slightly to 41.1 per cent in 1990, and is expected to remain at 41.6 per cent in 2000 (Malaysia 1971; 1996).

Second, the structural changes outlined above brought about changes in the occupational pattern of the labour force, with a decline of the rural labour force and an expansion of the labour force in the secondary and tertiary sectors. Official figures show that the proportion of the rural labour force shrank from 54 per cent of the total labour force in 1970 to 28 per cent in 1990, and is expected to decline further to 20.0 per cent by the year 2000 (Malaysia 1996). On the other hand, the non-agricultural labour force expanded very rapidly. For example, the proportion of the labour force in the manufacturing sector increased from 8.7 per cent in 1970 to 19.5 per cent in 1990 (and is expected to increase further to 24 per cent by the year 2000), registering an average annual growth rate of 10.3 per cent during the 1971-90 period. The service sector labour force grew at an average annual rate of 7.6 per cent during the 1971-90 period, increasing its share of the total labour force from 32.5 per cent in 1970 to 45.7 per cent two decades later (Malaysia 1996).

³ Mining activities, though normally considered part of the primary sector, are included in the secondary sector here. This is so because mining activities since the 1970s are mainly in oil, which involve not only upstream, but also downstream activities.

Third, rapid urbanization during the last three decades had transformed Malaysia's agricultural society into a predominantly urban industrializing society. In 1970, of the 10.4 million population, only slightly more than a quarter (26.7 per cent) lived in urban areas. However, the ensuing decade saw very rapid urbanization, which increased the proportion of the urban population to more than one-third or 34.2 per cent -- an increase of 7.5 percentage points during the inter-censal period. A decade later, the 1991 census showed that of a total population of 19 million, the urban population increased sharply to slightly more than half, i.e. 50.7 per cent (Malaysia, 1995: 30-31), and is projected to increase further to about 60 per cent by 2000. However, it should be noted that the sharp increase in the urban population in the 1990s has been due to two factors, viz. natural growth and in-migration, as well as the redefinition of urban areas. While in previous censuses, urban areas only included gazetted areas which had a population of 10,000 or more, the 1991 census expanded urban areas to include both gazetted areas as well as adjacent built-up areas with a concentration of 10,000 or more population.⁴

It should be emphasized that these transformative processes took place during a period of rapid economic growth and unprecedented affluence in Malaysia. In fact, during the economic transformation of the last thirty years, the GDP grew at an average rate of 6.7 per cent per annum. It recorded a rapid annual average growth rate of 7.5 per cent in the 1970s, but went down to 5.9 per cent in the 1980s due to the 1985-86 recession. However, from the late 1980s until early 1997, the GDP grew

⁴ According to the 1991 census, urban areas are gazetted areas with adjoining built-up areas which have a combined population of 10,000 or more. Built-up areas are defined as areas contiguous to a gazetted area with at least 60 per cent of their population (aged 10 or above) engaged in non-agricultural activities and at least 30 per cent of housing units having modern toilet facilities (Malaysia 1996: 153).

more rapidly than ever before, recording an average annual rate of 8.7 per cent. Nevertheless, with the economic recession in 1998, the GDP contracted by 4.8 per cent in the first half of the year, with the unemployment rate expected to reach 6.8 per cent at the end of 1998 (from 2.7 per cent in 1997), increasing the ranks of the unemployed to over 560,000 persons, including middle class professionals such as civil engineers, etc. (National Economic Action Council 1998).

Growth and Expansion of the Middle Class

Based on the data provided in official statistics, we can provide a sketch of the evolution of modern class structure, with an emphasis on the new middle-class formation in Malaysian society. To do so, we have to look into several indicators, such as occupation (the most important indicator), which should be examined together with other variables such as educational qualification, household income, and ownership of expensive household items.

We shall first begin by examining changes in the occupational structure, focusing on middle-class formation. However, discussing the new middle class by itself without alluding to the capitalist class, the petty bourgeoisie (or the old middle class) as well as the lower classes would not provide the whole class configuration. (See Chapter 1 for an explanation of these terms). While it is easier to estimate the working class from official statistics, occupational categories do not provide any idea of the size of the capitalist class and the old middle class. To make such estimates, we have to take another route, by examining the data on the occupational status of the work force, taking those categorized as 'employers' to be a proxy for the capitalist class, and a part of 'the self-employed', particularly those in the services

category (such as in the wholesale and retail trade, catering and lodging services) as proxies for the petty bourgeoisie, or old middle class. Again, the inconsistency in the compilation of official statistics from one census to another makes the task more difficult. For example, the population census for 1957 and 1970 lumped the 'employers' and 'self-employed' categories together. We thus have to rely on the data for 1947 as a base year to estimate the size of the capitalist class and the old middle class before independence, and the data for the 1980 and 1991 censuses for the post-independence period. Based on the 1947 census, 'employers' numbered some 24,220 persons, or 1.3 per cent of the working population, while by 1980, the number had gone up to 150,526, or 4 per cent of the working population, registering a six-fold increase in absolute terms over three decades (see Table 3.1).

Table 3.1
Malaysia: Distribution of Employers by Ethnic Group
1947 - 1991

| ETHNIC | 1947 | 1980 | 1991 |
|--|-------------------|-------------------|--------------------|
| Malays/Bumiputera | 4,086 (16.9%) | 53,416 (35.5%) | 63,346 (34.4%) |
| Chinese | 16,718 (69.0%) | 77,459 (51.5%) | 101,837 (55.3%) |
| Indians & Others | 3,416 (14.1%) | 19,651 (13.0%) | 18,986 (10.3%) |
| Total no. of employers | 24,220 | 150,526 | 184,169 |
| Total workforce | 1,896,126 | 3,793,102 | 5,781,248 |
| Employers as percentage of total workforce | 1.28% | 3.97% | 3.18% |

Source: Adapted from Jomo K.S. 1988: 322-323
Department of Statistics 1995b: 723-731

Notes: (1) The 1947 figures refer to Peninsular Malaysia only.
(2) The figures for 1957 and 1970 do not distinguish between 'employers' and 'the self-employed', hence they cannot be presented in this table above.

By 1991, the employers' category increased further in absolute terms to 184,169, of which over a third (34.4 per cent) were Bumiputera employers. The proportion of employers in the working population as a whole fell to 3.2 per cent in

1991 due to the rapid expansion of those in the 'employees' category. This means that the capitalist class, i.e. the rich and powerful in society, constitute about 3 per cent of the working population, but -- together with foreign capitalists -- control the country's wealth.

The old middle class, however, is more difficult to estimate from official statistics because the official definition of 'the self-employed' includes those in the informal sector such as petty merchants in retail trade and in catering and lodging services, as well as farmers operating their own independent farm units. Thus, although statistics show that 'the self-employed' made up 41.2 per cent of the work force in 1947, 26.2 per cent in 1980, and 23.7 per cent in 1991, the real size of the old middle class (comprising small proprietors) is unknown. But, if we focus on small business, namely retail trade and catering and lodging services, in which the self-employed small proprietors are found, then we may be able to make an estimate. Official statistics from the 1980 census show that there were 210,505 working proprietors in Malaysia, or 4.5 per cent of the work force of 4.67 million. By 1991, from a total work force of 5.63 million, 281,180 persons (or 5 per cent) were involved in these services (Department of Statistics 1995b: 563-564). This means that the old middle class made up approximately 5 per cent of the work force in the late 1980s and early 1990s. Despite the growth of the capitalist class and the new middle class (see below), the old middle class has not disappeared, but continues to coexist alongside the other classes.

As indicated above, the new middle class that experienced the most dramatic growth since the 1970s, comprises professional and technical as well as

administrative and managerial workers. Although clerical workers also increased significantly, from 2.9 per cent in 1957 to 10.1 in 1995, slightly more than a threefold increase, the increase in the higher white-collar occupations is more pronounced. From being a relatively small group in the early years of independence, making up only 4.0 per cent in 1957 and 5.9 per cent in 1970 (see Table 3.2), the new middle class increased significantly to 11.2 per cent in 1990, 13.0 per cent in 1995, and is expected to increase further to 15.3 per cent in 2000 -- almost a fourfold increase in numbers in over forty years.

Table 3.2
Malaysia: Employment According to Major Occupation 1957 - 2000

| Occupational Categories | 1957 | 1970 | 1980 | 1990 | 1995 | 2000 |
|--|------------------|------------------|----------------|------------------|------------------|------------------|
| Professional, technical & related workers | 2.8 | 4.8 | 6.6 | 8.8 | 10.3 | 12.1 |
| Administrative & managerial workers | 1.2 | 1.1 | 1.1 | 2.4 | 2.7 | 3.2 |
| Clerical & related workers | 2.9 | 5.0 | 7.3 | 9.8 | 10.1 | 10.3 |
| Sales workers | 8.6 | 9.1 | 8.9 | 11.5 | 11.3 | 11.5 |
| Service workers | 8.6 | 7.9 | 9.2 | 11.6 | 12.4 | 12.9 |
| Workers in agriculture, livestock, forestry, fisheries & hunting | 56.4 | 44.8 | 32.1 | 28.3 | 21.0 | 16.4 |
| Production & related workers | 18.9 | 27.3 | 34.8 | 27.6 | 32.2 | 33.6 |
| TOTAL | 100 2,126,200 | 100 2,850,300 | 100 4,023.0 | 100 6,686,000 | 100 7,915,400 | 100 9,066,200 |

Figures for 1957 and 1970 refer to Peninsular Malaysia only.

Sources: Extracted from Jomo K.S. (1988: 300-301)
Malaysia (1996: 113)

The lower-middle class (comprising employees in clerical, sales and about half the services categories) made up another 15.8 per cent and 23.9 per cent in 1957 and 1970 respectively. Their proportion increased to 27.1 per cent in 1990, and 27.6

per cent in 1995, and is expected to increase to 28.3 per cent by 2000 (see Table 3.2) - a much lower percentage increase (about 4 percentage points between 1970-2000) compared to the percentage increase of the new middle class.

During the same period, the rural classes have shrunk drastically from 44.8 per cent in 1970 to about 21.0 per cent in 1995, and is expected to decline further to 16.4 per cent in 2000. However, the ranks of the blue-collar workers had grown together with the middle class. The proportion of production workers had expanded from 27.3 per cent in 1970 to 32.2 per cent in 1995 (an increase in numbers of 1.7 times), and is expected to stabilise around 33.6 per cent in 2000 (see Table 3.2).

Nevertheless, it should be noted that although the proportion of the new middle class in Malaysia may be on the rise compared to its previous historical position, its proportion is relatively smaller when compared with the proportion of the new middle class in the four East Asian 'tiger' economies -- Taiwan, South Korea, Hong Kong and Singapore -- which had undergone rapid industrialization much earlier (Rodan, Hewison & Robison 1997). For example, in neighbouring Singapore, the employers' category made up 1.9 per cent of the work force in 1945, 3.9 per cent in 1980 and 5.9 per cent in 1993. This is a much bigger percentage than the employers' category in Malaysia, which stood at 3.1 per cent in 1991. Similarly, the professional and technical, as well as administrative and managerial categories in Singapore have expanded from 11 per cent in 1970 to 18 per cent in 1980 and 29.5 per cent in 1992 (Hing Ai Yun 1997: 79-118), which is proportionately far bigger than its counterpart in Malaysia, which accounted for 13 per cent of the work force in 1995.

Educational attainment is a major avenue for social mobility and an important indicator of social class formation. The increase in the number of secondary schools, colleges, and universities over the last three decades in Malaysia has been impressive. In terms of university education, for example, from having only one university before 1969 (i.e. the University of Malaya), Malaysia today has nine public universities,⁵ seven private universities⁶ and many private institutions of higher learning offering degree courses through twinning as well as external degree programmes. The university student population numbered 52,810 in 1990, which increased to 79,330 by 1995, and is expected to increase further to 114,700 in 2000 (Malaysia 1996: 313). This number does not include the over 50,000 students enrolled in degree level courses abroad in 1995, due to the shortage of places in local universities.

Educational expansion and the democratization of education, especially at the tertiary level, has resulted in an increase in the number of certificate-holders. There are six types of certificates issued to students who passed examinations at various educational levels in Malaysia. The certificates are the *Sijil Rendah Pelajaran* (SRP) [Lower Certificate of Education]; *Sijil Pelajaran Malaysia* (SPM) [Malaysian Certificate of Education]; *Sijil Pelajaran Vokasional Malaysia* (SPVM) [Malaysian

⁵ These universities are: Universiti Malaya (UM), Universiti Sains Malaysia (USM), Universiti Kebangsaan Malaysia (UKM), Universiti Putra Malaysia (previously known as Universiti Pertanian Malaysia) (UPM), Universiti Teknologi Malaysia (UTM), Universiti Utara Malaysia (UUM), International Islamic University (IIU), Universiti Malaysia Sarawak (Unimas) and Universiti Malaysia Sabah (UMS).

⁶ The 1996 Education Act allows the setting up of private universities, including branch campuses of foreign universities. The seven private universities are Universiti Telekom (Unitel), Universiti Tenaga (Uniten), Universiti Petronas, Universiti Tun Abdul Razak (Unitar), Malaysian University of Science and Technology (MUST), the Multimedia University, and the Monash University Malaysian Campus based in Sunway College in Petaling Jaya, Selangor.

Certificate of Vocational Education]; *Sijil Pelajaran Tinggi Malaysia* (STPM) [Malaysian Higher Certificate of Education]; diploma/certificate, and degree (including Masters' and Doctoral degrees) (Malaysia 1995: 120).

Official figures indicate that the number of persons having qualifications has increased significantly. In the 1991 Census, about 4.6 million persons, or about 42 per cent of the population aged 15 years and above, possessed educational qualifications compared to 1.9 million persons, or about 24 per cent for the corresponding age group in 1980, registering a growth rate of 8.1 per cent during the 1980-91 period. What is more significant is the increase in the number of those having tertiary education. In 1980, degree-holders in Malaysia made up only three per cent of the population aged 15 and above, while in 1991, their number increased to five per cent. For diploma- and certificate-holders, their number also increased from two to five per cent during the same period. Compared with the growth rates for other types of certificate-holders, the average annual growth rates for those possessing diplomas/certificates and degrees were highest, registering 15.5 per cent and 10.7 per cent respectively during the intercensal period (Malaysia 1995: 121). Given the strong emphasis on tertiary education in Malaysia today, the proportion of degree-holders among Malaysians will increase much faster between now and the next census in 2001, thus further expanding the ranks of the new middle class.

The trends in class formation can also be corroborated by examining household income levels, and household consumption and lifestyles. Over the last two decades, the mean monthly household incomes of Malaysians increased significantly. For Malaysia as a whole, the mean monthly household income was only RM505 in

1976, but increased to RM1167 in 1990 and RM2,007 in 1995 (figures in current prices) -- about a four-fold increase in twenty years (Malaysia 1996: 94), with an average growth rate of 9.5 per cent per annum during the 1990-95 period.

Class analysis lends itself to examining income distribution reflecting the increasing class stratification. Based on data in the *Seventh Malaysia Plan 1996-2000* (Malaysia 1996: 89), income inequalities reflecting class differences are sharp, especially in urban areas. There has been a decline in the percentage of 'low income households' (defined in the Seventh Malaysia Plan as those earning less than RM1000 per month) from 61 per cent in 1990 to 36 per cent in 1995. At the same time, there has been a substantial increase in the percentage of those earning between RM1000 and RM3000 per month -- referred to in the plan document as 'middle income' households -- rising from 33 per cent in 1990 to 47 per cent in 1995, and of high income households (above RM3000) from 6 per cent to 17 per cent during the same period (Malaysia 1996: 89).

However, there is widening income inequality among the three categories of households, mainly brought about by the difference in the growth rates of the rural and urban economies (Malaysia 1996: 91). The mean income of the low income households, for example, increased by only 3.9 per cent annually during the 1985-90 period, and 8.1 per cent per annum between 1991 and 1995 -- the least among the three categories of households. On the other hand, the growth rate for 'upper income' households was highest, with an average of 10 per cent per annum between 1991 and 1995, followed by 'middle income' households, whose growth rate was 9.2 per cent during the same period (Malaysia 1996: 91). Given the already marked income

difference among the three income categories in absolute terms, with the growth rate highest for the top income households, and lowest for the 'low income' households, one can expect a further consolidation of income differences in ensuing years. The creation of the new poor (note the swelling ranks of the unemployed to over half a million following the 1998 economic crisis) will certainly increase income inequality.

the new middle class

Such inequality and income stratification can be further seen in the ownership and consumption of certain expensive household items. The increase in household income provides households with greater purchasing power, enabling them to acquire more affluent household items whose ownership and consumption is indicative of the growth of the middle and upper classes. Since nation-wide house ownership data are not readily available, data on car ownership is used. Official figures indicate that there is a corresponding increase in car ownership among Malaysian households during the inter-censal period 1980-1991. In 1980, only 19 per cent or about one-fifth of Malaysian households had cars, but by 1991, car ownership had increased dramatically to almost one-third (32 per cent) of all households. Urban-dwellers reflected the change most dramatically, as shown by the fact that in 1980, only 33 per cent of all households had cars, but by 1991, this figure had increased to 46 per cent - an increase by 13 percentage points over the eleven year period (Department of Statistics 1995a: 166).

The concept of the state is hard to grasp. An argument by John, there is nothing

A caveat is in order here. Although in some countries, car-ownership may not reflect inequality, in many developing countries, including Malaysia, car-ownership does reflect it. In Malaysia, for example, the prices of the cheapest and most economical saloon cars (e.g. *Kancil* and *Proton Iswara*) today are between

RM25,000 to RM40,000. With such prices, it can only be afforded by those whose monthly earnings are well over R1,500, while those with lesser income can only afford to own motorcycles, or second-hand cars. Thus, car-ownership -- taken together with other indicators such as occupation, educational qualifications, house-ownership and ownership of other assets, lifestyles, etc. -- does indicate the growth of the new middle class.

From the above discussion, it is clear that the capitalist and new middle classes have emerged and grown significantly over the last few decades in Malaysia. These classes are no longer identified with certain ethnic groups, since they are more multi-ethnic in nature.

The State and Middle-Class Growth

As indicated in Chapter One, the central question in the discussion of the new middle-class in late-industrializing economies is the role of the state in social transformation and in middle-class growth and expansion. To assess the role of the state in the growth and expansion of the new middle class in Malaysia, one needs to briefly examine the nature of the Malaysian state, its historical and global context, as well as the ideology of the ruling elite.

The concept of the state is hard to grasp. As argued by Held, 'there is nothing more central to political and social theory than the nature of the state, and nothing more contested' (Held 1983: 1). Not only is the nature of the state problematic, but also its role in development. The World Bank, which was rather dismissive of the role of the state when reviewing the success of East Asian economies (World Bank 1993),

has lately come out arguing for an effective state, as central to economic and social development, not only as a direct provider of growth, but also as a partner, catalyst, and facilitator of growth (World Bank 1997).

In Malaysia, a debate from different perspectives, has ensued regarding the nature and role of the Malaysian state in social transformation and middle class formation (for details, see Chapter One). The debate, which revolves around the relationship between ethnicity and class, is understandably inconclusive. Some writers maintain that the Malaysian state is a Bumiputera or an ethnic hegemonic state; the Malaysian Constitution is claimed as “a first step toward the consolidation of a Malay State, [and] the NEP ... a supplemental strategy for achieving that political ideal” (Ho Khai Leong 1997: 217). Other writers, arguing from a class perspective, regard the Malaysian state as capitalist, and ethnicity as only a mask or instrument for advancing underlying material class interests (Hua Wu Yin 1983). Various terms, such as ‘administocrats’/statist capitalists (Chandra 1979: Ch. 4 & 5; Jomo 1986), and bureaucratic bourgeoisie (Brown 1994), have been used to describe the governing group or dominant class or class fraction controlling the state.

It is also argued that functioning in the interests of international capitalism, the Malaysian state must mediate the interests of the various classes and fractions (Brown 1994). State bureaucrats must employ the government machinery in ways which are responsive to various class interests, rather than simply in ways which promote their own interests. State bureaucrats attempt a ‘balancing act’, employing the state machinery to promote their own interests and their emergence as the dominant class, but have to compromise these interests in order to serve international capital, and to

mediate among capitalist class fractions and also between dominant and subordinate classes more generally (Brown 1994: 210-211).⁷ In short, the state would not only serve the interests of the dominant group, but would also make compromises with other groups and classes in society in order to have the system functioning. This logic supposedly helps to explain the role of the Malaysian state in bringing about social transformation and the growth of the middle class, especially among Malays, in the last forty odd years.

However, what is germane to our discussion here includes the following issues: Is the state the principal actor in middle-class formation? Or are classes, including the new middle class, the product of the expansion of capitalism? As shown in Chapter 2, Joel Kahn has been a proponent of the state's overriding role in middle-class formation and expansion in Malaysia (1991; 1992; 1996a; 1996b). He dismisses the 'relations of production' (Giddens 1980), applied in the Malaysian context by Johan Saravanamuttu (1989), and also the 'cultural capital' approach of Bourdieu (1977; 1984) (For further details of the debate, see Abdul Rahman 1995; 1996). Kahn (1991: 56) sums up his position thus: "I have argued for a definition of

⁷ Brown divides the development of the Malaysian state into three phases, viz. the colonial period, the period from independence till 1969, and the post-1969 period. According to him, during the colonial period, the state was the agency of British capitalist interests, mainly those in plantation and mining, so that state expenditure was focused on infra-structural developments necessary to promote primary product exports. During the period from independence to 1969, the state mediated between competing classes and among class fractions among the bourgeoisie, and this was reflected in the institutionalization of a governing alliance between various bourgeois class fractions. During the post-1969 period, he argues that the bureaucratic bourgeoisie gained control of the state machinery and progressively used this to attain dominance within the governing alliance, and to acquire access to commercial and industrial capital. As the state more clearly became the agency of the bureaucratic bourgeoisie, the stability of the alliance was threatened, both by fractional rivalries as other bourgeois class fractions were marginalized, and by class tensions as state-based industrial development exacerbated disparities between the bourgeoisie as a whole and subordinate classes. The bureaucratic bourgeoisie then sought to employ the machinery of the state to contain and mediate resultant tensions. They did this, partly by granting political concessions, but primarily through the manipulation of ideology, particularly the ideology of ethnicity (Brown 1994: 211-212).

the middle class which locates them primarily by reference not to the relations of production, or even what Bourdieu maintains are the relations of production of cultural capital, but to the processes of modern state formation both in the colonial and post-colonial periods [in Malaysia]". In criticising Saravanamuttu, Kahn maintains that applying the 'relations of production' approach to Malaysian middle class studies would be tantamount to mechanically imposing Western class models to Malaysian experience. Kahn maintains that the Malaysian middle classes did not so much owe their existence to the changing demands of capital, but more to the emergence of the modern state, and that the middle classes have been just as embedded in the state as in capitalist relations. In fact, he further argues that the emergence of a new middle class, at least in post-colonial Malaysia, might have as much, if not more to do with the emergence of the modern state than with capitalist development per se, and that the middle class "is composed largely not of private, self-employed entrepreneurs, or middle ranking employees of private enterprises, but those employed directly or indirectly by the state" (Kahn 1996b: 24).

It is true that the state has played a very significant role in the transformation of the Malaysian economy and society over the last four decades. However, the nature and extent of the state's role in middle-class formation and expansion cannot be assumed, but should be clearly delineated and substantiated empirically. In Kahn's analysis, the state's role is over-emphasized as though other factors, such as capitalist relations and cultural capital, are of little or no relevance in middle-class formation. A one-sided emphasis on the role of the state is not only empirically questionable, but also smacks of theoretical apriorism.

The politically dominant Malay 'administrators' (i.e. Malay administrators-turned-politicians) were economically weak when they took over the reins of government from the British in 1957. Though they controlled the state machinery, they had limited access to wealth. Economic wealth was then concentrated in the hands of Western capital and to a certain extent Chinese compradors (Puthucherry 1979). Since there was no correspondence between political and economic power, the Malay administrators could not rule on their own. They worked out consociational arrangements with leaders of the Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC) respectively to form the Alliance (later *Barisan Nasional* or National Front) to rule the country. They formulated policies and strategies to strengthen their economic base, while strengthening the bases of their support especially within the Malay community.

Despite being economically weak, the Malay administrators holding the reins of state power enjoyed some political legitimacy, partly by virtue of UMNO's credentials in opposing and defeating the British-engineered Malayan Union in 1946, a scheme which was perceived as a direct threat to Malay interests, as well as its credentials for gaining independence, a mantle it inherited when other Malay-based parties were either banned by the British with the declaration of the Emergency in June 1948, or were rendered ineffective. However, while the state could be relatively autonomous from the dominant foreign and Chinese business groups (Jesudason 1989: Chapter 7), intra-class and inter-ethnic competition and political support-building, especially from the mid-sixties, led the state to adopt a more developmentalist role and to address the 'Malay dilemma' (Mahathir 1970) by creating a Malay capitalist class and a new Malay middle class as a counter-weight to

the non-Malay, especially Chinese bourgeoisie and new middle class, and by modernizing Malay society.

The role of the state in socio-economic transformation since 1957 till the close of the twentieth century can be divided into four distinct phases: first, the so-called *laissez faire* period (1957-69); second, the interventionist period (1970-85); third, the period of private sector-led growth through privatization and liberalization (1986-1997); and fourth, the period of reassertion of state's role to bail out certain politically connected companies, and serve as a catalyst to kick-start economic growth following the mid-1997 financial and economic crisis, which led to the recession in 1998.

As indicated in the preceding section, the formation and growth of modern classes became much more pronounced after independence. To gauge the nature and extent of the state's role in social transformation and the growth of such classes, especially the capitalist and the middle classes (discussed in the next section), we compare the situation in the 1950s and the 1960s -- prior to the implementation of the NEP and export-led industrialization -- with the situation in the 1980s and the 1990s. However, it should be noted that throughout the four decades since independence, Malaysia has had a capitalist economic system, at no stage in post-colonial history had the state attempted to nationalize foreign assets, or turned the country into a centrally-planned economy. The state has maintained an open economy, which has become more closely integrated with the world economy since the mid-1980s.

As indicated above, the early post-colonial period of 1957-69 has been described as *laissez-faire* (Jesudason 1989), though the state -- besides playing a

regulatory role and providing utilities -- also promoted import-substitution industrialization. Nevertheless, the state generally left the development of commerce and industry to private enterprise, both foreign and local (Rugayah 1995: 63), and only intervened, to a certain extent, by directly undertaking rural development, and developing economic infrastructure. The 'restrained role' of the state was overseered by Tunku Abdul Rahman, the first Prime Minister, who was regarded as the 'ultimate guarantor of the laissez-faire approach and the consociational political scheme [between UMNO, MCA and MIC]' (Jesudason 1989: 55). The state's relatively laissez-faire approach approximated the neo-classical economist's view of economic rationality to a greater degree than economic arrangements after 1970 (Jesudason 1989: 47).

Though successful in bringing about economic growth, the state's restrained role above did not address the historical problem of the 'Malay dilemma', and, in fact, heightened the Malay sense of insecurity and vulnerability because of their weak economic position and the perceived threats mainly from the economically stronger Chinese. During the 1957-69 period, Malaysia already had a relatively sizeable Chinese bourgeoisie and middle class, as well as a large Chinese proletariat. But the Malays -- who comprised the majority of the population (49 per cent in 1947, 50 per cent in 1957, and 53 per cent in 1970) -- made few advances in the modern economic sector, with both the capitalist class and the middle class, as well as the working class among the Malays being small and economically weak. For example, in the employers' category, of the 24,200 employers in 1947 mentioned above, Chinese formed the majority (69.0 per cent), Indians and Others 14.1 per cent, while Malays, mainly involved in retail business, made up only 16.9 per cent of all employers (see

Table 3.1). The Malay capitalist class remained weak for many years, even after Independence. In 1970, of a total share capital of RM5329.2 million in Peninsular Malaysia, Malay corporate ownership was a meagre 2.4 per cent (1.6 per cent owned by Malay/Bumiputera individuals, while 0.8 per cent held by trust agencies), compared with 22.0 per cent owned by Chinese capitalists, 63.3 per cent by foreigners, and 10.0 per cent unknown.⁸

Table 3.3
Peninsular Malaysia: Employment by Ethnic Group and Work Category
1957 and 1970

| Category | 1957 | | | | 1970 | | | | Percentage increase 1957-70 (%) |
|---------------------------------------|-------------------|-----------------|------------------|---------------------|-------------------|-------------------|------------------|---------------------|---------------------------------------|
| | Malays | Chinese | Indians & Others | Total (%) | Malays | Chinese | Indians & Others | Total (%) | |
| Profesional & technical | 41.0 | 38.0 | 21.0 | 2.8 (59,534) | 47.1 | 39.5 | 13.4 | 4.8 (136,814) | 129.8 |
| Adminis- trative & managerial | 17.6 | 62.4 | 20.0 | 1.2 (25,514) | 24.1 | 62.9 | 13.0 | 1.1 (31,353) | 22.9 |
| Clerical & related Workers | 27.1 | 46.2 | 26.7 | 2.9 (61,660) | 35.4 | 45.9 | 18.7 | 5.0 (142,515) | 131.1 |
| Sales & related workers | 15.9 | 66.1 | 18.0 | 8.6 (182,853) | 26.7 | 61.7 | 11.6 | 9.1 (259,377) | 41.8 |
| Service workers | 39.7 | 33.3 | 27.0 | 8.6 (182,853) | 44.3 | 17.3 | 38.4 | 7.9 (225,174) | 23.1 |
| Agricultural workers | 62.1 | 24.3 | 13.6 | 56.4 (1,199,177) | 72.0 | 17.3 | 10.7 | 44.8 (1,276,934) | 6.5 |
| Production, transport & other workers | 26.5 | 53.5 | 20.0 | 18.9 (401,852) | 34.2 | 55.9 | 9.9 | 27.3 (778,132) | 93.6 |
| Total | 1,004.3 (48.2) | 759.0 (36.3) | 362.9 (15.5) | 2,126.2 | 1,477.6 (51.8) | 1,043.6 (36.6) | 301.4 (11.6) | 2,850.3 | |

Source: Adapted from Jomo K.S. 1988: 300-1

Note: Value in brackets shows absolute number employed in each category.

At the same time, in 1970 as in 1957, the Malays had a small proportion of new middle-class jobs. For example, of the 31,353 employees in the administrative and managerial category in 1970, only 24.1 per cent were Malays, compared to 63.0

⁸ The financial and economic weakness of the Malay business and middle classes can be clearly seen in the following example. In 1964, out of a total of RM15.1 million shares allotted to Malays -- in fact, practically all the 50,000 or so Malay civil servants were encouraged to buy up to RM10,000 each in company shares -- only RM3.8 million shares, or 25 per cent of what was allotted to the Malays -- were acquired by them (Jesudason 1990: 64-65).

per cent Chinese (see Table 3.3). The Malays were especially underrepresented in managerial and professional posts in the manufacturing sector; in 1970, only 7 per cent of the professional and managerial category in the manufacturing sector were Malays, compared to 68 per cent Chinese, 4 per cent Indians, and 18 per cent foreigners (Jomo 1986: 76). Although Malays appear to be well-represented in the professional and technical category in general (comprising 47.1 per cent of the 131,814 employees in 1970), many were in lower-rung professional and technical jobs, such as nursing and teaching in government hospitals and schools respectively.

The ethnic share ownership and occupational imbalances were compounded further by increasing unemployment and rampant poverty during that period. Unemployment and poverty cut across ethnic groups, but the proportion of unemployed and poor Malays was higher than for non-Malays. Job creation -- growing at only 2.5 per cent annually -- lagged behind population growth of 3.3 per cent per annum, pushing up unemployment to 6.0 per cent in 1960, while underemployment remained substantial. Though the Pioneer Industries Programme brought in foreign investment and managed to increase manufacturing's share of the GDP from 8.5 per cent in 1960 to 13.5 per cent in 1970, it created only 23,000 new jobs (Jesudason 1990: 58). Thus, the unemployment rate increased dangerously to reach 8.0 per cent in 1970. Poverty was widespread, officially estimated at 49.3 per cent in Peninsular Malaysia in 1970, with Malay households constituting the majority (74 per cent) of all poor households. In other words, the policy of leaving growth and distribution to market forces resulted in growth, with greater inequality. Thus, class and ethnic frustrations experienced by the Malays became intertwined, and raised ethnic tensions that triggered off the May 1969 riots.

Despite the state's 'restrained' role during this period, it did intervene, to a certain extent, to promote foreign investment in Malaysia, particularly by instituting the Pioneer Industries Ordinance in 1958, which tried to bring about import-substituting industrialization. However, because of the capital-intensive nature of the import-substitution programme and the limited domestic market, the impact of the policy was limited. Only after the introduction of the Investment Incentives Act of 1968, the Free Trade Zone Act in 1971 -- both of which spurred export-oriented industrialization -- and the Industrial Coordination Act in 1975, did the transformation processes really begin to impact upon the economic and social structure as a whole. This change in the direction of Malaysian industrialization policy coincided with the implementation of the NEP since 1971, beginning with the Second Malaysia Plan (1971-75) (Ishak 1995: 13). During the Fourth Malaysia Plan (1981-85), the Malaysian state engineered another major shift in her industrialization policy, from labour-intensive to more capital- and technology-intensive industrialization, with its heavy industrialization policy. The Industrial Master Plan (1986-1995) (IMP), reaffirmed the export-oriented industrialization policy thrust of the 1970s. In sum, the NEP's twin objectives of 'restructuring' society (to remove the identification of economic activities with ethnic groups) and poverty reduction, and the export-led industrialization industrial policy transformed Malaysia into what it is today (Anuwar Ali 1995: 14-28).

Throughout the 1960s, pressure was exerted upon the government to increase state intervention. The Bumiputera Economic Congress was first held in 1965 and then in 1968, demanding the government provide credit, set up banks, training facilities and other institutions to help promote the growth of the Malay capitalist

class and the new middle class, as well as to modernize Malay society. Due to this push, departures from the previous policy were effected from the mid-sixties, but the 'laissez-faire' period only ended with the power struggle within the ruling UMNO in 1969 after Tun Abdul Razak Hussein became the second Prime Minister (1970-76). The change led to the introduction of the NEP in 1970, characterized by active state intervention, especially for the first decade. The NEP's two-pronged objectives of poverty reduction irrespective of ethnicity and 'restructuring' of society were formulated to achieve national unity. The NEP's target was not only to increase Bumiputera share ownership to 30 per cent by 1990, but also to restructure occupational patterns as well as the ethnic balance in student intake into tertiary institutions to better reflect the ethnic mix of the population.

State intervention in the economy as 'entrepreneur' made a significant impact on the growth and expansion of the new middle class, especially among Malays. In implementing this strategy, the state gained control of a number of giant foreign-controlled conglomerates involved in sectors regarded as nationally 'strategic' -- for example, the take-over of the plantation companies, which owned hundreds of thousands of hectares of prime land such as Sime Darby by Perbadanan Nasional (Pernas) in the late 1970s, and of Guthrie and Harrisons & Crosfield by Permodalan Nasional Berhad (PNB) in the 1980s, and earlier of Malaysian Mining Corporation (MMC) involved in tin-mining. It also carried out occupational restructuring, especially at the management level, in state-owned and publicly-listed companies in which the state -- through its trust agencies -- had a controlling interest. The state also encouraged the growth of a Bumiputera capitalist class (described in policy documents as the Bumiputera Commercial and Industrial Community), by awarding

contracts, loans, training and other kinds of assistance to existing or new businessmen to help them to go seriously into business ventures.⁹

At the same time, on the human resource development side, the state expanded educational opportunities at the tertiary level by setting up more universities and colleges, while simultaneously increasing intake into existing ones. With the state generous provision of scholarships/grants to most Malay students to pursue tertiary education, this facilitated occupational and social mobility into new middle-class jobs previously closed to Malays.

Under the NEP's state-as-entrepreneur or government-in-business strategy, government intervention in the economy occurred on a very large scale, importantly with the setting up of state-owned enterprises (SOEs). In 1960, there were only 22 public enterprises in Malaysia, which increased to 109 in 1970. However, with the implementation of the NEP from 1971, the number increased sharply to 362 in 1975, 656 in 1980, and 1010 in 1985 (Gomez 1997: 3). Some writers argue that for an economy which is fundamentally market-oriented, Malaysia's SOE sector has been surprisingly large, in fact, among the largest in the world outside the centrally planned economies (Adam & Cavendish 1995: 15). The SOEs were actively engaged in core utilities -- transport, communications, water supply, energy, and finance -- with a

⁹ Jomo (1986) argues that until the NEP, the role of the post-colonial state had been largely confined to administrative, supportive, and regulatory activities, and did not make direct and active efforts in promoting the interests of the governing group. However, according to him, with the NEP, the state no longer merely played a supportive role for private capital; it moved to centre stage to become a medium for capital accumulation serving the particular interests of the governing class. He suggests that at least in this important sense, it can be argued that the statist bourgeoisie crystallized with the implementation of the NEP. He posits further that with the growth of public enterprises, political power and control over capitalist enterprise have converged in the hands of the statist bourgeoisie. Ministers, other ruling-party politicians, and senior bureaucrats in government service share control of these new instruments of class interest (Jomo 1986: 266).

substantial proportion also in non-traditional sectors such as services, construction, and, particularly, manufacturing (Adam & Cavendish 1995: 15). The expansion of SOE participation in the commercial, industrial, and service sectors as well as in the emerging oil- and gas-based exploration sector was so rapid that the SOE sector grew at an average rate of over 100 enterprises per year in the mid-1970s. By March 1990, SOEs numbered 1,158, with a total paid-up capital of RM23.9 billion (Adam & Cavendish 1995: 16-17). The significance of the state sector to the economy can be seen from the fact that 25 per cent of GDP in 1990 was contributed by SOEs.

With the state playing an active role in the economy, its role as the single largest employer in the country became more pronounced. As a percentage of total employment, public sector employment grew from 12 per cent in the early 1970s to a peak of 15 per cent in 1981, and declined to 12.5 per cent in 1991 (Rugayah 1995: 65). In absolute terms, state employees numbered 398,000, or 11.9 per cent out of a total of 3.34 million in 1970, 692,000, or 14.4 per cent of total employment in 1980, and 850,000, or 12.9 per cent of total employment in 1990 (Rugayah 1995: 65).

However, as indicated above, from the mid-1980s, following the implementation of the 'Malaysia Incorporated' policy in 1983 by the fourth Prime Minister Dr. Mahathir Mohamad, who was responsible for privatization policies, the downsizing of the public sector, and introduction of the Privatization Master Plan in 1991, the contribution of the state sector to total employment began to decline, especially with the transfer of state employees to the private sector. According to official figures, between 1983 and 1995, over 100 SOEs were privatized. At the same time, 96,756 public sector employees, or 11.4 per cent of the total public sector

labour force have been transferred to the private sector since 1983 through privatization (Malaysia 1996: 206). This number excludes personnel of government-owned companies which were privatized earlier.

The dramatic decline in the role of the state sector as a source of employment since then can be clearly seen from the following figures. During the 1970-1980 period, state employees increased from 398,000 in 1970 to 692,000 in 1980, an increase of 73.9 per cent, but between 1981 and 1990, its increase was small (only 12.3 per cent). With public sector downsizing and privatization fully under way in the 1990s, public sector employment during the Sixth Malaysia Plan (1991-95) increased marginally from 850,000 in 1990 to 872,000 in 1995, and is expected to number 894,000 (or 9.9 per cent of total employment) in the year 2000 – an increase of only 4.7 per cent above the 1991 figure, a dramatic drop from the high 73.9 per cent increase in the 1970s.

The important fact that needs to be stressed is that, although the state has been and still is the single biggest employer, especially during the NEP period, its contribution to total employment has varied from as high as 15 per cent in 1981 to as low as 11 per cent in 1995. Over eighty per cent of employment is contributed not by the state, but by the private sector, including the informal sector.

Second, although the state has been very significant in the formation and expansion of the new middle class -- especially its Malay component -- new middle-class occupations (i.e. those listed in the Grade A and B posts) comprise less than half of all public sector occupations. Most new middle-class occupations are actually

outside the state sector, and the future expansion of the middle class will be more and more determined by private sector expansion rather than by the state, given the continued thrust towards privatization and downsizing of the public sector (Abdul Rahman 1995a).

Table 3.4
Employment By Occupation And Ethnic Group 1990
(‘000)

| OCCUPATION | ETHNIC | | | | | | | |
|-----------------------------|--------------|-------|-----------|-------|--------------------|-------|---------|-------|
| | Bumiputera % | | Chinese % | | Indians & Others % | | Total % | |
| Professional & Technical | 354.8 | 10.0 | 170.5 | 7.8 | 61.0 | 6.2 | 586.4 | 8.8 |
| % | 60.5 | | 29.1 | | 10.4 | | 100.0 | |
| Teachers & Nurses | 152.0 | 4.3 | 54.6 | 2.5 | 15.2 | 1.5 | 221.8 | 3.3 |
| % | 68.5 | | 24.6 | | 6.9 | | 100.0 | |
| Administrative & Managerial | 47.1 | 1.3 | 101.9 | 4.7 | 14.8 | 1.5 | 163.8 | 2.4 |
| % | 28.7 | | 62.2 | | 9.1 | | 100.0 | |
| Clerical Workers | 341.8 | 9.7 | 252.3 | 11.6 | 58.5 | 6.0 | 652.6 | 9.8 |
| % | 52.4 | | 38.6 | | 9.0 | | 100.0 | |
| Sales Workers | 229.8 | 6.5 | 449.3 | 20.7 | 89.8 | 9.2 | 768.9 | 11.5 |
| % | 29.9 | | 58.4 | | 11.7 | | 100.0 | |
| Service Workers | 449.6 | 12.7 | 208.4 | 9.6 | 119.6 | 12.2 | 777.6 | 11.6 |
| % | 57.8 | | 26.8 | | 15.4 | | 100.0 | |
| Agriculture Workers | 1,305.6 | 37.0 | 261.8 | 12.0 | 323.3 | 33.1 | 1,890.7 | 28.3 |
| % | 69.1 | | 13.8 | | 17.1 | | 100.0 | |
| Production Workers | 804.6 | 22.8 | 730.8 | 33.6 | 310.6 | 31.8 | 1,846.0 | 27.6 |
| % | 43.6 | | 39.6 | | 16.8 | | 100.0 | |
| Total | 3,533.3 | 100.0 | 2,175.0 | 100.0 | 977.6 | 100.0 | 6,686.0 | 100.0 |
| % | 52.9 | | 32.5 | | 14.6 | | 100.0 | |

Source: Malaysia (1996: 82)

Third, as a corollary to the above, the new middle class (comprising those in the professional and technical, as well as administrative and managerial categories), which constitutes the most important middle class fraction, has been growing very rapidly over the last three decades. Their number was in the region of 310,000 in 1980 (7.6 per cent of the total employed), 750,200 in 1990 (11.2 per cent of the total

employed), and slightly over one million in 1995 (13 per cent of the total employed) (see Tables 3.4 and 3.5). However, the overwhelming majority of this new middle class is to be found in the private sector, with a relatively small but significant number in the public sector.

Table 3.5
Employment By Occupation And Ethnic Group 1995
(‘000)

| OCCUPATION | ETHNIC | | | | | | | |
|-----------------------------|--------------|-------|-----------|-------|-----------------------|-------|---------|-------|
| | Bumiputera % | | Chinese % | | Indians % & Others | | Total % | |
| Professional & Technical | 524.3 | 12.7 | 213.6 | 8.9 | 77.4 | 5.6 | 815.3 | 10.3 |
| % | 64.3 | | 26.2 | | 9.5 | | 100.0 | |
| Teachers & Nurses | 203.0 | 4.9 | 57.6 | 2.4 | 20.1 | 1.5 | 280.7 | 3.5 |
| % | 72.3 | | 20.5 | | 7.2 | | 100.0 | |
| Administrative & Managerial | 77.1 | 1.9 | 116.9 | 4.9 | 19.7 | 1.4 | 213.7 | 2.7 |
| % | 36.1 | | 54.7 | | 9.2 | | 100.0 | |
| Clerical Workers | 457.3 | 11.0 | 275.0 | 11.5 | 67.2 | 4.9 | 799.5 | 10.1 |
| % | 57.2 | | 34.4 | | 8.4 | | 100.0 | |
| Sales Workers | 323.8 | 7.8 | 464.2 | 19.3 | 106.4 | 7.8 | 894.4 | 11.3 |
| % | 36.2 | | 51.9 | | 11.9 | | 100.0 | |
| Service Workers | 571.2 | 13.8 | 223.8 | 9.3 | 186.5 | 13.6 | 981.5 | 12.4 |
| % | 58.2 | | 22.8 | | 19.0 | | 100.0 | |
| Agriculture Workers | 1,049.3 | 25.3 | 214.0 | 8.9 | 398.9 | 29.1 | 1,662.2 | 21.0 |
| % | 63.1 | | 12.9 | | 24.0 | | 100.0 | |
| Production Workers | 1,141.9 | 7.5 | 829.1 | 37.2 | 514.8 | 37.5 | 2,548.8 | 32.2 |
| % | 44.8 | | 35.0 | | 20.2 | | 100.0 | |
| Total | 4,144.9 | 100.0 | 2,399.6 | 100.0 | 1370.9 | 100.0 | 7,915.4 | 100.0 |
| % | 52.4 | | 30.3 | | 17.3 | | 100.0 | |

Source: Malaysia (1996: 82)

Fourth, it has been claimed that ‘one clear result of the NEP’s implementation is that the free enterprise philosophy which Malaysian governments had previously endorsed was *discarded* in favour of massive direct state intervention aimed at creating a Malay capitalist class’ (Sieh Lee Mei Ling, 1992: 103; italics added). However, this statement is rather sweeping. Despite active state intervention during

the NEP period (1971-90), private enterprise continued, no outright nationalization ever took place of any industry, be it foreign or local. The closest was the take-over of Sime Darby in the late seventies and Guthrie in 1981, but that was done through a 'dawn raid' on the London Stock Exchange. However, the state's role facilitated the growth of a Malay business and professional class, but actively encouraged foreign and local private investment, remaining friendly to market forces. As such, private sector growth continued, involving Chinese capitalists. Despite extensive capital accumulation by the state in the 1970s and early 1980s, state-owned enterprises contributed only one-quarter of GDP in 1990, while most of the rest came from the private sector.

One major development during the NEP era which worked favourably for private capital was the setting up of the Kuala Lumpur Stock Exchange (KLSE) in 1973 as a separate entity independent of the Stock Exchange of Singapore (SES)-- an exercise in keeping with the NEP's objectives. The establishment of the KLSE, which dramatically expanded the Malaysian domestic capital market, provided an unprecedented source of private sector funds for financing corporate expansion, quickly tapped by Chinese businessmen to expand their activities (Heng Pek Koon 1992: 129).

Despite restrictions on Chinese capital, and on the expansion of the Chinese middle class, the NEP period indirectly conferred benefits to them as well. In fact, a section of Chinese business did not regard the NEP as hostile to them, but as a necessary move to expand Malay capital and the professional middle class to 'correct' the inter-ethnic imbalance and hence create a stable socio-political condition. Thus,

despite the state's pro-Bumiputera affirmative action efforts, the Chinese capitalist and new middle classes grew during the NEP period. The picture is clear when we examine share-ownership figures for 1990. Despite the NEP's targeted 30 per cent Bumiputera share ownership in the corporate sector by 1990, the Bumiputera share increased from 2.4 per cent in 1970 to only 19.3 per cent (well below the 30 per cent NEP target); the Chinese share did not decrease, but instead increased both in absolute as well as in proportionate terms from about 22 per cent in 1970 to 45.5 per cent in 1990, while foreign interests declined from 63 per cent in 1970 to 25.4 per cent in 1990 (Malaysia 1996: 86) – with the major portion of foreign capital involved in the manufacturing sector. Therefore, together with the state sector, the private sector has been a major engine of growth -- even during the NEP period -- encouraged by the export-oriented industrialization policy laid down by the government. Capitalist production relations have not only been vital for capital accumulation and production, but also in providing employment opportunities, including the creation of many middle class occupations. The growth and expansion of the massive private sector required a large number of professional and technical workers, as well as managers. In fact, the majority of those in the managerial category, which numbered over 200,000 in 1995 -- or 2.7 per cent of the total employed -- were in the private sector. Of this number, only slightly more than one-third (36.1 per cent) were Bumiputera (mainly in the state sector), while Chinese managers and administrators made up 54.7 per cent, mostly in the private sector (see Table 3.5).

Conclusions

This chapter has offered a macro-analysis of the evolution of the class structure with particular reference to middle-class formation in Malaysia since the early decades of the twentieth century till the present. It has emphasized the need to examine both the role of the state and capitalist production relations in the formation and expansion of the new middle class in Malaysia.

While the state has been very crucial for creating the Malay capitalist and new middle classes (Muhamad Ikmal 1995), but for a major segment of the new non-Malay middle class, the state's role has ranged from being indirect to insignificant. The state has also instituted pro-business policies, and created a stable environment conducive to business. It has also been a major source of business expansion, especially for privatized infrastructure development projects implemented actively since the mid-1980s.

Nevertheless, this chapter has argued that the state's role in the formation and expansion of the new middle class, though critical, should not be over-stated. Since the state has neither opted for nationalization, nor discarded the free enterprise system -- even during the NEP period -- the development of capitalist relations of production has continued unabated. Thus, the latter has also played a very important role in creating the new middle class.

However, it should be noted that although the majority of the new middle class may not owe their existence and growth to the state, the policies and programmes of

the latter are crucial in influencing their political attitudes and orientation. For example, the liberalization and deregulation policies embarked by the state since the late 1980s have paid political dividends, when the predominantly Chinese urban constituencies voted overwhelmingly for the BN in the 1995 general election.

One new development in the relationship between the state and the new middle class should be mentioned. There is an increasing trend among members of the new Malay middle class, despite their state-sponsorship, to become independent of the state in terms of career choices. In a study of middle class culture conducted in Kuala Lumpur and its surrounding suburbs in 1995 among 586 respondents (see Norani Othman *et al.* 1996), it was found that the majority of respondents (70 per cent) were first-generation city dwellers, but a substantial number (30 per cent) are second-generation dwellers of the large metropolitan cities. Although over 50 per cent of the respondents were born in rural areas, almost 90 per cent had their secondary education in cities or major towns. The city-ward movement was in direct response to the state's urbanization policy of the 1970s and 1980s, and also because most major secondary schools are located in big towns and cities. Although the state played a significant role for about half of them in directly assisting them to acquire knowledge and skills at university or college, the state is less significant to them as a prospective employer. What is more important is the fact that, to the overwhelming majority, the state is no longer considered the provider of the most important and prestigious jobs. A study of occupational ranking shows that for the majority of Malay respondents, the most attractive job sector is no longer in politics and state administration, but in the private sector -- working either as professionals in companies or venturing on their own by setting up their own enterprises. Among

graduating university students, a similar trend very clearly emerges. The same study showed that among these students, over 60 per cent want to work on their own, or as professionals in the private sector, and less than 40 per cent in the government. This is radically different from the situation some thirty years earlier when government posts were the most prized jobs and highly sought after. A study of occupational ranking among a group of Malay students at Universiti Malaya conducted by Alatas (Alatas 1966) showed that Malay students in the 1960s regarded the six most prestigious occupations were the sultans, Prime Minister, Cabinet Ministers, Menteri Besar (chief ministers), secretary-generals of ministries, and heads of departments -- in short, the top command posts in the state administrative machinery.

However, the new Malaysian middle class—which is more multiethnic in composition today – is still in the process of formation and has yet to consolidate itself. By indulging in certain consumption patterns and lifestyles, some segments, especially those in the upper income brackets, exhibit a tendency towards status differentiation, for example, by their choice of exclusive residential areas, possession of status items such as luxury cars, country club membership, foreign travel, and so on. This cultural dimension, which is becoming increasingly important as an expression of middle-class ‘lifestyling’ (Gerke 1995), will be discussed in detail in Chapter 6.