

## THE MECHANISM FOR STATE-LED CREATION OF MALAYSIA'S MIDDLE CLASSES

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This paper analyzes the mechanism for creation of middle classes in Malaysia since 1971. The United Malays National Organization–led government has implemented three long-term development plans. One of the objectives of the New Economic Policy (NEP) for raising the economic positions of the Bumiputera (sons of the soil) was to create Malay middle classes. The development process has taken place in three phases: from the launching of NEP in 1971 to 1981, the first half of the Mahathir administration, and from 1991 to the present. At the start of NEP, the government had an ambiguous idea about simply creating Malay middle classes. After the 1980s, however, Mahathir emphasized creating middle classes in relation to his industrialization policy. In order to achieve its target and intention, the Malaysian government has changed its role in accordance with the targets it has sought.

### INTRODUCTION

THE creation of middle classes<sup>1</sup> in Malaysia was an intended policy target of that country's government under its New Economic Policy (NEP) introduced in 1971. The aim of NEP was to bring about a social restructuring so that specific ethnic groups would no longer be permanently employed in fixed occupations, the purpose being to correct the economic inequality between Malays and other ethnic groups. The main emphasis was on restructuring the Malays' employment distribution pattern. This basic philosophy of NEP has been built upon in the succeeding National Development Policy (NDP) of 1991–2000 and the National Vision Policy (NVP) of 2001–10. Through all of these long-term plans since 1971, the government has sought to create Malay middle classes and establish them as the country's mainstream middle classes.

The purpose of this article is to show that the Malaysian government led by the

<sup>1</sup> In this paper, the term “middle class” and its plural form, “middle classes,” are deliberately used with a clear distinction in meaning. The former is used when the social stratum in question is reminiscent of the existing middle class in Western society, while the latter is employed to connote the distinctive complex or compound social classes that are emerging in Asian countries.

In this study the middle class that the Malaysian government has sought to foster is an ambiguous concept composed of a new middle class and part of the old middle class based on occupation, and together they are expressed in the plural as the middle classes.

United Malays National Organization (UMNO) clearly intended to create Malay middle classes through NEP, making positive efforts to intervene in higher-education institutions, labor markets, and private business activities, and set up a mechanism by which to create middle classes within the ethnic group known as the Bumiputera (literally “sons of the soil”), consisting of Malays and indigenous peoples. Such points as “state-led creation” and “the role of the state” in the creation of middle classes have already been topics of previous research, the representative work being that of Abdul Rahman Embong (1995, 1996, 1998, 2002) and S. Kahn (1992, 1996a, 1996b).<sup>2</sup> This article will take up two points about the research done to date.

First, the true aim of the government in calling for the creation of Bumiputera middle classes was to make the Malays more substantive actors in economic growth. Thus the emphasis of this study is to show, through detailed analysis of the five-year development plans, the role of the state and the mechanism for creating middle classes as part of the process of giving Malays a greater role in the economy.

Secondly, the research to date, which has focused mainly on “the creators” of the Malay middle classes, has carried on its discussion from two separate standpoints: the role of the state and the promotion of industrialization—or more specifically, export-led industrialization (Abdul Rahman Embang 2002, pp. 2, 48, 58).

This article will approach the subject by combining these two standpoints, since implementing NEP necessitated the promotion of continuous economic growth through the development of export-led industrialization, which in effect is the “role of the state.” Therefore I regard these two as the role of the state in this article. NEP as well as the NDP and NVP set aside the principle of equal opportunity and instead skewed opportunities and the distribution of the growth pie in the direction of the Bumiputera through the implementation of priority distribution based on an ethnic quota system. This was intended to elevate the Malay economic position in society. Crucial in the implementation of these economic development plans was the maintenance of high levels of sustained economic growth to ease possible reactions from other ethnic groups. The plans emphasized export-led industrialization promoted by foreign capital from places like Japan, the United States, and Singapore.

With the above two points in mind, this article will trace the changes that have taken place in the kind of middle classes the government envisioned when it first introduced NEP, dividing these changes into three phases as the course of economic development policy unfolded after 1971. During the first phase, the middle classes as designated by the newly introduced NEP included a new middle class and part of

<sup>2</sup> However, discussion of the subject prior to the 1990s is very fragmentary. Topics include (1) the emergence of the old middle class during the mid-1960s, (2) their emergence as seen from the aspect of income in a study of government land resettlement projects in the early 1980s (Horii 1993), (3) their emergence as seen during the constitutional crisis of 1983–84, and (4) the “new middle class” as a new political force in a study on the emergence of NGOs.

the old middle class, together which will be called the “ambiguous middle classes.” During the second phase, however, when attempts were made to link development policies and heavy industrialization, the middle classes became more distinct, as emphasis was put on fostering more Bumiputera professional/technical workers. Bumiputera were actively placed into roles as actors of economic growth. In the third phase, during the 1990s under the leadership of Prime Minister Mahathir bin Mohamad, the task of creating the middle classes turned to the promotion of Bumiputera middle-class entrepreneurs (*kelas menengah usahawan Bumiputera*). As a result of this three-phased policy, according to my estimates based on the 1991 population census, Malaysia’s middle classes now account for over 34 per cent of the total workforce.

Finally, this article will touch upon the creation of the middle classes in relation to political change in Malaysia. It is my opinion that under the policy and protection of the government, the Malaysian middle classes, especially ethnic Malays, who were given business and employment opportunities in the professional or higher educational institutions, support the government and are politically conservative, at least when it comes to safeguarding their economic activities and privileges. Moreover, I also think that due to the functioning of the political system called the National Front (NF) introduced in 1974 and constituencies under the NF, which was designed for the benefit of the NF, political stability was maintained until the general elections of 1999.

## I. NEP AND THE CREATION OF THE MIDDLE CLASSES

### A. *The Background of NEP and the Aims of Its Designers*

The origin and basic idea of the New Economic Policy ripened in the midst of growing Malay nationalism in the mid-1960s, and NEP itself was introduced as a direct response to the riots of May 13 which broke out between ethnic groups after the 1969 general elections (Shamsul 1986, pp. 19–62; Horii 1998, pp. 12–24). While the official texts of each five-year development plan that laid out the specific targets and policies of NEP did not mention the exact phrase “creation of middle classes,” the National Operations Council (NOC) led by Tun Abdul Razak bin Hussein understood that one cause for the riots, and which was also a factor for the social instability at that time, was the economic inequality suffered by the Malays.

In moving to solve this problem, the NOC emphasized the need for revamping the condition in which the Malays were permanently employed in certain specific occupations. Therefore, the ultimate aim of NEP was to “reduce and eventually eliminate the identification of race with economic function” (Malaysia 1973, p.1), i.e., to reconstruct the existing social structure where specific ethnic groups were inseparably tied to certain specific occupations, and to eliminate the economic in-

equality of Malays and achieve national unity. In concrete terms, it was necessary to promote more Malay social mobility to move them into modern industries and professional occupations such as managers, engineers, and doctors. In the statements made by political leaders at the time, the aim of NEP was to correct economic and social inequality among ethnic groups and create a more stable society through Malays occupying middle-class positions in Malaysia.

In a speech given in 1973, as NEP was moving into its actual implementation stage, Tun Razak envisioned Malaysia in twenty years following completion of NEP as “a stable society with a *middle class* like Switzerland, the Netherlands, or Japan” (my translation) (UMNO 1974, p. 62).<sup>3</sup> Although there was no concrete policy statement in NEP regarding the creation of middle classes, and the term was used rather ambiguously by UMNO leaders at the time, it can still be said that policy designers and makers intended to give the Malay community the “intermediary existence” in future Malaysian society made up of new and old middle classes; in other words, to foster a white-collar stratum of Malays and turn them into a stabilizing force in Malaysian society.

#### B. *The Content of NEP and the Initial Image of the Middle Classes*

Now, let us turn to the government’s intension for the ambiguous middle classes by looking at the Third Malaysia Plan (1976–80) announced in July 1976, which states in clear terms the content and objectives of NEP. The policy had two major objectives: (1) the eradication of poverty irrespective of ethnic group and (2) the restructuring of Malaysian society. Directly related to the government’s intent to create the middle classes were three of the four measures to be adopted for realizing the second objective. These were (1) restructuring the employment distribution pattern, (2) creating “new growth centers” in rural Malaysia with a modern commercial and industrial sector and urban functions, and (3) fostering Malay businesses and entrepreneurs, known as the Bumiputera Commercial and Industrial Community (BCIC).

Looking at measure (1), which was directly tied to the creation of middle classes, Table I shows the sharp contrast between Malays and Chinese in the distribution of the three occupational categories of administrative/managerial workers, agricultural workers, and sales workers. Malays made up 68.7 per cent of agricultural workers, the overwhelming share, while accounting for only 22.4 per cent of administrative/managerial workers, compared with 20.8 per cent and 65.7 per cent respectively for Chinese. A similar distribution pattern existed in the case of sales workers. NEP’s target for the restructuring of employment in each occupational category in 1990 reflected the predicted overall ethnic group composition of total workers for that year: Malay 53.6 per cent, Chinese 35.3 per cent, and Indians 10.4 per cent. As

<sup>3</sup> One of Tun Razak’s closest followers, Tan Sri Ghazali Shafie, recalls, “Our aim in introducing NEP was not the creation of a wealthy upper class of Malays, but rather a Malay middle class” (*The Star*, October 4, 1986).

TABLE I  
RESTRUCTURING OF EMPLOYMENT UNDER NEP BY ETHNIC GROUP AND OCCUPATION, 1970

	Malays	Chinese	Indians	Total <sup>a</sup>	
				No.	%
Professional and technical workers	47.2	37.7	12.7	129,605	4.6
Administrative and managerial workers	22.4	65.7	7.5	22,759	0.8
Clerical workers	33.4	51.0	14.3	140,020	5.0
Sales workers	23.9	64.7	11.0	316,040	11.3
Agricultural workers	68.7	20.8	9.6	1,364,490	48.8
Production workers	31.3	59.9	8.6	358,430	12.8
Service sector and other workers	42.9	42.5	13.4	462,356	16.5
Total (%)	51.4	37.0	10.7	—	—
Total (No.)	1,436,656	1,034,261	297,543	2,793,700	100.0

Source: Malaysia (1976, p. 82).

Note: Figures for Peninsular Malaysia only.

<sup>a</sup> Including groups other than Malays, Chinese, and Indians.

mentioned previously, the intent of policy designers was not only to promote the creation of a new middle class but also the “ambiguous middle classes.” There was to be no clear distinction between the new middle class and the old middle class that was intended to make up a white-collar social stratum. The important point here is that the “intermediary existence” to which Tun Razak referred meant the government’s intension to create a Malay new middle class and part of the old middle class. In concrete terms, concerning the BCIC measure, there was also the creation of a new middle class of professional managers and the fostering of the old middle class as owner-type managers and entrepreneurs.<sup>4</sup>

The measure to set up “new growth centers” was also tied to creation of the middle classes. Its aim was to avoid the concentration of population and industry in the capital area (Kuala Lumpur and Klang Valley), and to achieve balanced development by distributing it more evenly throughout the country. This measure called for the employment of Malays in modern industries and professional occupations and the promotion of labor mobility among industries without the migration from rural to urban areas. Therefore, along with creating professional jobs in commercial and industrial centers in rural areas, it was also intended that agro-based industries and other small-scale manufacturers would develop in these areas as well.

<sup>4</sup> There are differences between managers and entrepreneurs in the strict sense (for example, the ownership of capital and the means of production); however, the Malaysian government used the terms interchangeably in a more ambiguous manner.

These were the broad objectives for creation of middle classes when NEP was introduced. But the government's actual intent and policy emphasis are shown in Table II. Let us first consider its intent to create a modern white-collar social stratum made up of a new middle class and part of the old middle class assumed to be engaged in professional/technical, administrative/managerial, clerical, sales, and service occupations. Not all of the last two were considered as part of the old middle class, and their inclusion was determined solely on the basis of their employee status. Despite the lack of any relevant data on employee status, all employees in sales and service occupations were considered to be old middle class for the sake of convenience. The important point in the Third Malaysia Plan, as shown in Table II, was to indicate how the government should redistribute employment opportunities among ethnic groups during the twenty years of NEP, since the plan showed the intent of its employment restructuring policy. The plan aimed at increasing the share of white-collar workers in the total workforce from 38.3 per cent in 1970 to 49.1 per cent by 1990 in Peninsular Malaysia only. The largest increase was expected to be among service workers, where 35.2 per cent of all new jobs was to be created. The three occupational groups forming the new middle class was to make up 15.3 per cent of the total workforce in 1990, with professional/technical workers and clerical workers growing the most.

Turning to changes in the composition of occupations among Malays (see Table II-B), the percentage of agricultural workers was to be reduced from 65.3 to 36.3 per cent. Most of the new jobs for this shift in workforce were to be created in the two groups of service occupations which were to make up about 36 per cent of all new jobs. Another 30 per cent of new jobs were to be created in the production sector, including direct production workers, production supervisors, general foremen, mineworkers, and drivers. Another 9 per cent of new jobs were to be created in professional/technical and clerical occupations. It can be seen that in the early phase of NEP, there was more emphasis on promoting occupations belonging to the old middle class and less on those in the new middle class. Table II also shows the government's intension concerning the Malay middle classes. It was planned that Malay white-collar workers would make up 44 per cent of the total Malay workforce with 14 per cent of this comprising the Malay new middle class. These estimates of the composition of Malays were a little lower compared to that of the other ethnic groups in the workforce.

An analysis of the ethnic distribution of new jobs, especially among the Malays, reveals a hidden agenda on the part of the government. With the changes that would occur during the twenty years of NEP, it was predicted that Malays would get over 50 per cent of new employment opportunities in every occupational category, except agriculture, in order to raise the position of the Malays. It was the administrative and managerial occupations which the government regarded as important among the targeted middle classes, since it was planned that these occupations

TABLE II  
GOVERNMENT INTENSION FOR THE CREATION OF MIDDLE CLASSES AS CONTAINED  
IN THE THIRD MALAYSIA PLAN

## A. Peninsular Malaya

	1970 Performance		1990 Target		New Job Opportunities (a)	
Professional and technical workers	129,605	(4.6)	387,016	(7.1)	257,411	(9.7)
Administrative and managerial workers	22,759	(0.8)	73,850	(1.4)	51,091	(1.9)
Clerical workers	140,020	(5.0)	372,190	(6.8)	232,170	(8.7)
Subtotal: New middle class	292,384	(10.4)	833,056	(15.3)	540,672	(20.4)
Sales workers	316,040	(11.3)	445,843	(8.2)	129,803	(4.9)
Service sector and other workers	462,356	(6.5)	1,397,209	(25.6)	934,853	(35.2)
Subtotal: Old middle class	778,396	(27.9)	1,843,052	(33.8)	1,064,656	(40.0)
Subtotal: White-collar stratum	1,070,780	(38.3)	2,676,100	(49.1)	1,605,328	(60.5)
Agricultural workers	1,364,490	(48.8)	1,700,864	(31.2)	336,374	(12.7)
Production workers	358,430	(12.8)	1,072,128	(19.7)	713,698	(26.9)
Total	2,793,700	(100.0)	5,449,100	(100.0)	2,655,400	(100.0)

## B. Malays Only

	1970 Performance		1990 Target		New Job Opportunities (b)		Malay Share of New Jobs (%) (b/a)
Professional and technical workers	61,151	(4.3)	193,470	(6.6)	132,319	(8.9)	51.4
Administrative and managerial workers	5,099	(0.4)	36,449	(1.2)	31,350	(2.1)	61.4
Clerical workers	46,759	(3.3)	178,319	(6.1)	131,560	(8.9)	56.7
Subtotal: New middle class	113,009	(8.0)	408,238	(14.0)	295,229	(19.9)	54.6
Sales workers	75,401	(5.2)	164,485	(5.6)	75,401	(5.1)	58.1
Service sector and other workers	198,224	(13.8)	730,493	(25.0)	532,269	(35.9)	56.9
Subtotal: Old middle class	273,625	(19.0)	894,978	(30.6)	607,670	(40.9)	57.1
Subtotal: White-collar stratum	386,634	(26.9)	1,303,216	(44.6)	902,899	(60.8)	56.2
Agricultural workers	937,973	(65.3)	1,060,478	(36.3)	122,505	(8.3)	36.4
Production workers	112,049	(7.8)	557,206	(19.1)	445,157	(30.0)	62.4
Total	1,436,656	(100.0)	2,920,900	(100.0)	1,484,244	(100.0)	55.9

Source: Malaysia (1976, pp. 82-83).

Note: Figures in parentheses are percentages.

would account for 61.4 per cent of new jobs. The policy content of NEP when it was introduced shows that the government was not merely interested in fostering a new Malay middle class, but more “ambiguous” middle classes that included both a new middle class and part of the old middle class. One more point that should be noted is that it was assumed, as indicated by government statistics, that in the course of implementing NEP, non-Malay middle classes would also be created indirectly under the conditions of rapid economic growth.

### C. *Fostering the Middle Classes during the Latter Phase of NEP*

The Mahathir bin Mohamad administration, which took office in 1981, continued to maintain the framework of NEP; however, due to policy adjustments made by Mahathir himself and the ensuing economic recession that struck the country for about eighteen months from the second half of 1984, important changes occurred in both the emphasis of economic policy and policy implementation, which in turn altered the substance of the middle classes.

As fiscal deficits at both the federal and state government levels grew increasingly serious, due mainly to the poor performance of nonfinancial public enterprises (NFPEs), Mahathir realized that the distribution policy to Malays through various subsidies backed by income from petroleum had reached its limits, and he turned to a development-oriented policy, especially industrialization. Consequently, the role of government involvement in the economy was made more selective and limited as emphasis was shifted to heavy industrialization. Mahathir’s intent was to promote heavy industrialization with the aim of improving industrial technology and realizing the BCIC program at the same time. In other words, Mahathir broadened the original aim of NEP, which was to raise the economic and social position of Malays, to include a plan to put professional Malays (i.e., Malay enterprises in a narrow sense) in actual charge of Malaysian economic development. In order to show the government’s real intent concerning the Malay middle classes during the Mahathir period, I will analyze in detail each five-year plan that followed the Fourth Malaysia Plan (1981–85).<sup>5</sup>

Two kinds of data in each five-year plan deserve attention. The first is the changes in number of workers in each occupational category from one five-year plan to another. The second is the distribution rate which can be defined as the number of new jobs for Malays or Bumiputera divided by the total number of new jobs between one five-year plan and the next one. Table III shows these two data concerning Malays and Bumiputera.

<sup>5</sup> Statistics in the Fourth Malaysia Plan covered Malays as an ethnic group and Peninsular Malaysia only. However, all Malaysia plans after the Fifth Malaysia Plan expanded the coverage to all Bumiputera and the whole of Malaysia (including Sabah and Sarawak). The intention of this article is merely to clarify shifts in government policy emphasis, therefore I use these data as time series.

TABLE III  
GOVERNMENT INTENTION FOR RESTRUCTURING MALAY-BUMIPUTERA EMPLOYMENT

	Fourth Malaysia Plan (1981-85)		Fifth Malaysia Plan (1986-90)		Sixth Malaysia Plan (1991-95)		Seventh Malaysia Plan (1996-2000)	
	Increase/ Decrease	Distribution Rate (%)	Increase/ Decrease	Distribution Rate (%)	Increase/ Decrease	Distribution Rate (%)	Increase/ Decrease	Distribution Rate (%)
Professional and technical workers	43.0 (3.4)	49.9	31.6 (9.2)	64.6	101.5 (15.9)	67.0	109.3 (27.3)	60.3
Administrative and managerial workers	8.1 (2.5)	40.6	2.9 (0.8)	24.4	21.0 (3.3)	36.8	41.4 (10.3)	35.8
Clerical workers	16.5 (5.1)	51.1	31.8 (9.2)	57.0	71.7 (11.2)	59.2	49.9 (12.5)	45.4
Subtotal: New middle class	67.6 (21.0)	51.2	66.3 (19.2)	56.9	194.2 (30.4)	58.9	200.6 (50.1)	49.3
Sales workers	54.1 (16.7)	29.7	65.4 (19.0)	58.7	108.0 (16.9)	50.8	47.4 (11.8)	46.8
Service sector and other workers	53.7 (16.7)	49.9	62.7 (18.2)	64.2	121.4 (19.0)	73.0	91.8 (22.9)	58.8
Subtotal: Old middle class	107.8 (33.4)	34.2	128.1 (37.2)	37.2	229.4 (35.9)	60.5	139.2 (34.7)	54.1
Subtotal: White-collar stratum	175.4 (50.1)	52.7	194.4 (56.4)	56.4	423.6 (66.3)	59.8	231.0 (84.8)	34.8
Agricultural workers	-18.7 (-16.8)	64.6	31.0 (9.0)	63.9	-27.7 (-4.4)	106.9	-20.4 (-5.1)	283.3
Production workers	214.0 (66.7)	48.7	118.9 (34.5)	43.9	243.6 (38.1)	54.4	81.4 (20.3)	43.0
Totals	320.7 (100.0)	51.8	344.3 (100.0)	53.4	639.5 (100.0)	56.6	400.8 (100.0)	47.3

Sources: Government of Malaysia, *Fourth Malaysia Plan, 1981-1985* (Kuala Lumpur: Government Printer, 1981), p. 175; Idem, *Fifth Malaysian Plan, 1986-1990* (Kuala Lumpur: Government Printer, 1986), p. 120; Idem, *Sixth Malaysia Plan, 1991-1995* (Kuala Lumpur: Government Printer, 1991), p. 34; Idem, *Mid-Term Review of the Seventh Malaysia Plan, 1996-2000* (Kuala Lumpur: Government Printer, 1999), pp. 78-79.

Notes: 1. Fourth Malaysia Plan figures cover only Peninsular Malaysia and Malaya. 2. Other data covers all of Malaysia and Bumiputera. 3. Distribution rate = (number of new occupations for Bumiputera)/(total number of new occupations). 4. Figures in parentheses are percentages.

The Fourth and Fifth (1986–90) Malaysia Plans display no clear continuum, especially regarding agricultural workers, the former considering them as purely flowing out to other sectors, the latter regarding them as again increasing. This turnaround was due to the economic recession in Malaysia that ran from the second half 1984 into 1986, when the real growth rate for 1985 fell to  $-1$  per cent. Although agricultural workers decreased during the Fourth Malaysia Plan, the poor performance of the nonagricultural section, especially the electronics industry, during the Fifth Malaysia Plan caused the number of agricultural workers to increase again. Besides such short-term changes caused by economic fluctuations, the original aims of NEP, as seen in Table II, went through several changes during the Fourth and Fifth Malaysia Plans.

To begin with, both plans show that the distribution rate of Malays or Bumiputera in the white-collar stratum exceeded 50 per cent, indicating the government's emphasis at that time. In the case of the old middle class, the number of new sales and service workers was expected to increase. But the distribution rate for these two categories of workers was expected to be at a low level of under 40 per cent, i.e., 34.2 per cent and 37.2 per cent, respectively. It means that the government did not emphasize the creation of the old middle class within the white-collar stratum during these two plans. Instead, emphasis was on the new middle class, with the Malay distribution rate exceeding 50 per cent. More specifically, the stress was on professional/technical occupations rather than administrative/managerial ones. This lower emphasis on the latter becomes even more apparent in the light of changes in ethnic group distribution. In contrast to the distribution rate for these occupations of nearly 60 per cent Malay in the Third Malaysia Plan, the Fifth Malaysia Plan anticipated only 24 per cent. It is important to note that the government emphasized the creation of Malay or Bumiputera professional/technical occupations during the Fifth Malaysia Plan, as shown in Table II.

#### D. *The Promotion of Malay Middle-Class Entrepreneurs during the 1990s*

The NEP ended in 1990, and the following year Mahathir announced a new national vision, Vision 2020, which was to be more development-oriented. It was different from policies of the past that had emphasized redistribution, concentrating rather on industrial development. It envisioned Malaysia becoming one of the fully developed nations of the world by maintaining a real growth rate of 7 per cent over the thirty years until 2020. To realize this growth, Mahathir set up new political and social goals to create a *Malaysian nation* or *Malaysian nationality* (*bangsa Malaysia*), and to promote cooperation and integration among ethnic groups. The real aim of this new goal was to enable the government to mobilize the potential human resource of the non-Malay communities, which were not mobilized during the NEP period, to achieve economic growth. In order to realize Vision 2020, the NDP was introduced in 1990 and was to remain in effect until the year 2000.

From the standpoint of creating middle classes, NEP and the NDP can be compared in the following four ways. First, both development plans supported the basic principle of eliminating the identification of race with economic function. However, Vision 2020 called for a Malaysian nation and promoted the idea of interethnic cooperation which were changes not seen in previous plans. As shown in Table III, during the Seventh Malaysia Plan (1996–2000), the distribution rate of Bumiputera to new employment opportunities came to 47.3 per cent, dropping below 50 per cent for the first time since the introduction of NEP. This was no doubt due to incorporating more development mechanisms geared to non-Bumiputera groups.

However, as with the Fourth and Fifth Malaysia Plans, there was an effort to get Bumiputera to become professional/technical workers in the new middle class. This is shown by the various data indicated in Table III for the Sixth Malaysia Plan (1991–95) and Seventh Malaysia Plan. This reflected the emphasis on the training of more technological experts needed for the “total factor productivity” strategy called for in the Second Industrial Master Plan (1996–2005). It also reflected the attempt to bring about a transition from input-driven industrialization to quality-oriented economic growth.<sup>6</sup>

Finally, the NDP put even more emphasis on the goals of the BCIC. Especially during the Seventh Malaysia Plan, begun in 1996, the Bumiputera contribution rate of administrative/managerial occupations increased, unlike under any of the previous plans, indicating a change in government policy direction. Behind this change was the goal in the Second Industrial Master Plan of upgrading the level of the industrial structure. In order to achieve this target, this plan emphasized the development of supporting industries. During the early 1990s within the Malay community centered on the UMNO, there was dissatisfaction and criticism with Mahathir’s BCIC measures which “overemphasized large-scale enterprises.” It was for this reason that the government embarked on the “promotion of small and medium-size Bumiputera businesses” in a more forthright manner.

## II. THE SUBSTANCE AND EVOLUTION OF THE MECHANISM FOR CREATING THE MIDDLE CLASSES

### A. *The 1970s: Direct State Intervention*

There are two possible methods for creating middle classes by restructuring the employment structure. The first is to promote intergenerational social mobility. This involves increasing educational opportunities for the following generation, particularly technical and higher educational opportunities from the post-secondary-school

<sup>6</sup> The shift in policy to economic growth driven by the private sector and the training of more engineers led to the establishment of nine new private universities and other private institution of higher learning (Tan 2002).

(after Form 6) level on up and creating corresponding new job opportunities. This process would provide more employment opportunities to Malays in the specialized occupations where their presence was considered too low. The second method is to promote intragenerational social mobility. As shown in Table II, during the NEP phase, Malays were to move out of the agricultural sector, where they were over-employed, into other occupations. To promote intra- and intergenerational social mobility, the government used a combination of three policies: direct intervention in higher education, establishment and expansion of public enterprises, and intervention in private business activities.

Of the three approaches, the government put most of its energy into the first by increasing educational opportunities in technical and higher educational institutions. Tun Razak and his fellow leaders understood that one of the causes for the riots of May 13, which gave rise to NEP, was the dissatisfaction with educational opportunities felt within the Malay community. In Tun Razak's own words, the Malays felt a growing sense of insecurity upon seeing the widening gap between them and non-Malays, particularly in the economic and educational spheres.<sup>7</sup> Therefore, what was needed was "introduction and expansion of educational programmes to enable a greater supply of Malays and other indigenous people to meet the requirements of racially balanced employment and a visible Malay commercial and industrial community" (Malaysia 1973, p.184).

In order to increase educational opportunities for Malays at the post-secondary-school level, new higher and technical educational institutions were built geared to them, and a stricter ethnic quota system was instituted favoring Malays in the area of education. The stricter quota system in particular was implemented through a new provision, Clause 8a in Article 153, of the Federal Constitution amended in 1971.<sup>8</sup> Thereafter, ethnic quotas were set for every university, ensuring ample places in the curricula for Malays (Reid 1988, pp. 46–53; Andressen 1993, pp. 46–53; Kua 1999, pp. 93–94). To promote intragenerational social mobility, the government relied more on the other two approaches: (1) the newly establishing or expansion of public enterprises and (2) government intervention in private business activities. Let us first look at how these two measures related to the actors of economic growth, for it was within the context of these measures that the creation mechanism was placed.

The crucial point is whom exactly did the government have in mind as the actors of economic growth when implementing NEP. Certainly at the start of NEP, these actors were not Malays, because the government felt that it needed another actor of

<sup>7</sup> Such expressions can be seen in Tun Razak's speeches, replies to the interviews, and debates recorded in the House of Representatives (Dewan Rakyat) between February 23 and March 3, 1971 (see Malaysia 1972).

<sup>8</sup> The amendment of the Federal Constitution in 1971 was carried out in order to reopen and restore democratic institutions after the riots of May 13, and to implement NEP. The revisions to Article 10 made it possible to prohibit public or congressional debate on four "sensitive issues," including Article 153.

economic growth for the benefit of the Malays. However, it was also necessary to have a mechanism so that the actors of economic growth would not threaten Malay political dominance as NEP progressed in its course of fundamentally favoring the Malays. This meant that the achievement of economic growth, which had to rely on the country's non-Malay enterprises, particularly Chinese businesses, as the actors of growth, was not consistent with NEP's agenda. Consequently, the government had to depend on export-oriented foreign enterprises and public corporations for the growth expected under NEP, although at first glance this choice seems contradictory to the goal of restructuring equity ownership under NEP. When looking at the political-economic conditions of NEP's implementation, the ambiguous middle classes, as envisioned by government when NEP was first introduced, were created as changes took place in the employment structure. These changes were brought about by the employment opportunities created by the public sector and by the industrialization process fostered by foreign-capitalized companies.

The government first tried to achieve the goals of NEP by investing capital from public resources to set up many public corporations at the federal and state levels. In essence the restructuring of employment involved the hiring of civil servants and employees by public enterprises, their affiliates and subsidiaries (Rugayah 1994), which was very easy to do since these public enterprises were under direct government control. However, there are definite limits, both fiscally and in efficiency, to leaving economic growth solely up to public enterprises. Therefore, the government turned to another actor of economic growth that did not threaten Malay political dominance. This was foreign capital. However, it was no easy task to introduce foreign capital, because the private sector could not be directly controlled by the government to follow the NEP targets. This meant the government would have to intervene in private enterprise activities (Torii 1997, pp. 215–17).

First, the government amended the Investments Incentives Act of 1971 to align it with NEP goals so that private investment would contribute to those goals. However, this move did not bring satisfactory results, therefore starting in 1975, the government began intervening directly and strongly. It used legislation and administrative guidance to get manufacturers to comply with the macro-goals of NEP. It could pressure manufacturers of a given size when they applied for manufacturing licenses or when private companies listed on the Kuala Lumpur Stock Exchange (KLSE). Manufacture licensing was instituted under the Industrial Coordination Act (ICA) of 1975 which required all private manufacturers of a given size to submit all business information, and when a license was issued or renewed, each business division of the licensee was requested to comply with NEP goals. At the time of licensing, manufacturers were required to meet certain quotas according to ethnic group in different occupational categories (Yasuda 1991). As a result, mobility between job descriptions was encouraged within the private manufacturing sector which promoted creation of the Malay middle classes. When listing on the KLSE,

requirements included not only the composition of equity, but also the composition of company directors, which sought to encourage job mobility at the highest levels of management.

B. *Since 1981: The Limited Role of Government—Heavy Industrialization and Privatization Policy*

The Mahathir administration sought to promote industrial development while at the same time making the Bumiputera the substantive actors of economic growth. His administration also limited the role of government to the area of heavy industrialization as part of privatizing the management of the economy. The best example of this is the PROTON project to produce a Malaysian national car by the Heavy Industries Corporation of Malaysia (HICOM) (Torii 2001, pp. 134–35). The PROTON economic goals included the training and accumulation of technological know-how among Bumiputera human resources within PROTON, and putting the BCIC in charge of manufacturing the auto parts to be supplied to PROTON, thus turning Bumiputera into the actors of heavy industrialization. As shown in Table III, this project reflected the shift of emphasis in employment restructuring to professional/technical occupations. As part of this shift, the method of intervention in higher educational institutions started in the 1970s was changed in order to conform with this policy shift. However, with the economic recession from the latter half of 1984, it became necessary to revise the direction of this mechanism. Neither heavy industrialization nor privatization policy could be implemented in earnest as the economic recession grew serious. The Mahathir administration changed direction, placing more emphasis on economic recovery and expansion than on realizing the goals of NEP, reducing the range of enterprises needing to obtain ICA approval, and relaxing regulations pertaining to equity ownership in foreign direct investment. The introduction of these deregulatory measures meant weakening the mechanisms for creating middle classes. By exempting some private enterprises from the need to obtain licenses under the ICA, state intervention in the private sector was reduced which slowed the creation of middle classes in the private sector due to a lack of government control and administrative guidance.

The government now turned to a new and different mechanism to promote the middle classes. This was the genuine privatization of the economy. As the recession passed, the government realized that a transition to private-sector-led economic growth would have to be the most important mechanism for creating middle classes. Some programs of privatization were also linked to promoting the BCIC. First, through “management buy-out” (MBO) the hope was to foster Bumiputera entrepreneurs through the transfer of equity to public corporate management. Secondly, “build, operation, and transfer” (BOT) was introduced to reduce the role of government in infrastructure development. Thirdly, listing on the KLSE and the sale of government-held shares was also introduced. The most notable measures here were

probably MBO and BOT, for they enabled upward mobility into the new middle class itself and into its upper echelons. There have been many cases in particular of bureaucrats and public corporation managers becoming corporate owners through BOT.<sup>9</sup>

The new emphasis on privatization, instead of fostering a new middle class per se, contributed to creating an elite middle class and a top echelon of capitalists. However, what is important here is that the Mahathir administration's emphasis on BCIC measures made the old middle class—entrepreneurs—the focus of policy. This policy change became clearer after completion of NEP.

### C. *The Middle-Class Entrepreneur Development Program*

As the 1990s began, the Malaysian government continued its policy of private-sector-led economic growth and a limited government role in the operation of the economy.

One of those limited roles was promotion of the BCIC. In 1995 it reorganized the Ministry of Public Enterprises and set up the Ministry of Entrepreneur Development (MED). It charged this new ministry with the task of formulating the concepts for Bumiputera middle-class entrepreneurs or new-middle-class entrepreneurs. This was a markedly more limited promotion policy than in previous decades.<sup>10</sup>

The MED's activities were twofold: setting up an entrepreneurial promotion program and training contractors to take on government projects. The former consisted of the Vendor Development Program (VDP) and the Franchise Development Program (FDP), while the latter was concerned with providing education and other services, such as getting successful entrepreneurs to act as mentors to guide and advise people with latent entrepreneurial skills, instituting a program to foster an entrepreneurial mentality, promoting related cultural activities, and fostering an entrepreneurial mentality in the country's schools.

As its name implies, the VDP was geared to fostering "vendor enterprises" as suppliers of parts and semi-finished products to assembly and finished-product manufacturers in the eleven government-specified "anchor industries," such as automobiles and electronics/electrical industries.<sup>11</sup> Anchor enterprises were to guarantee a

<sup>9</sup> For example, the National Corporation (Perbadanan Nasional Berhad, PERNAS) was bought out by the management. Some housing projects and infrastructure projects at both the federal and state levels took the form of BOT. Consequently, newly established Bumiputera business groups have emerged during the early 1990s (Torii 1994).

<sup>10</sup> The government definition of "middle-class entrepreneur" included (1) personal income between 5,000 and 10,000 ringgit, (2) enterprise scale between 100,000 and 250,000 ringgit, (3) annual sales volume of between 5 million and 25 million ringgit, and (4) employing between 25 and 150 workers. Information about MED's activities and programs is based on MED's annual reports and internal memoranda, as well as interviews with ministry official conducted by the author between March and September 2001.

<sup>11</sup> At its inception, the VDP was placed under the Ministry of International Trade and Industry, then later transferred to MED. The paid-up capital requirement for vendor enterprises was between

“market” for vendors and provided technical training, while the government worked to register both anchor enterprises and vendors, and provide funding from government-affiliated financial institutions.

The FDP promoted the use of raw materials available in Malaysia to foster franchise industries like food processing. Entrepreneurs were subsidized in various ways for a period of five years and given other types of assistance by the MED in setting up their franchise enterprises.<sup>12</sup>

### III. THE MALAYSIA'S MIDDLE CLASSES TODAY

As discussed above, the Malaysian government implemented three mid- and long-term development plans beginning with NEP, with the intent of gradually making the Bumiputera community a more substantive actor of rapid economic growth. In so doing the government sought to create Malay middle classes (made up of a new middle class and part of the old middle class). When trying to evaluate what the government actually accomplished, there are definite problems with the available data, as research to date has pointed out.<sup>13</sup> However, after assembling the available data from sources such as the statistics contained in five-year plan documents, we can make the following comments.

First, we can try to ascertain the results of NEP. Looking at Table IV which shows the distribution of occupation by ethnic group in 1990, there were three occupations, professional/technical, clerical, and service occupations, where the share of Bumiputera employees achieved or nearly achieved the targets set down by NEP. On the other hand, targets were not realized in three other occupations, administrative/managerial, sales, and production workers (in particular, there was a gap of more than 20 per cent between target and achievement in the first two categories). A big reason why targets were realized in the professional/technical category was its reliance on employment in the public sector (school teachers and nurses). Similar results were also found in the distribution of occupations for the year 2000.<sup>14</sup>

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100,000 and 250,000 ringgit, with at least 70 per cent of the capital owned by Bumiputera. Other anchor industries included: plastics, rubber processing, machinery, engineering, wood-products industries, communications, film production, ceramics, trading, shipbuilding and repairing (Malaysia, MED, various years).

<sup>12</sup> The FDP was initiated in the Prime Minister's Office in 1992, then transferred to MED in 1995. The requirement for the main franchise was at least 70 per cent of its paid-up capital owned by Bumiputera and at least three years of business experience. The role of MED was to supply capital funds to the main company, promote concept studies and lay out projects, provided training for franchise members, compile accounting manuals and subsidize businesses at every level of development.

<sup>13</sup> It was around 1980 that changes were made in the definition of ethnic groups and statistical coverage. Also, since there is no data indicating status of employment, it is impossible to pinpoint the stratum of the old middle class that may include new-middle-class elements.

<sup>14</sup> However, there were increases in the percentage of Bumiputera administrative/managerial and sales workers for the year 2000.

TABLE IV  
RATE OF EMPLOYMENT RESTRUCTURING OCCUPATION AND ETHNIC GROUP, 1990

	Bumiputera				Chinese				India				Others				Total	
	Employ-ees (1,000 Persons)	Occupational Share (%)	Distribution Rate (%)	Employ-ees (1,000 Persons)	Occupational Share (%)	Distribution Rate (%)	Employ-ees (1,000 Persons)	Occupational Share (%)	Distribution Rate (%)	Employ-ees (1,000 Persons)	Occupational Share (%)	Distribution Rate (%)	Employ-ees (1,000 Persons)	Occupational Share (%)	Distribution Rate (%)	Employ-ees (1,000 Persons)	Occupational Share (%)	
Professional and technical workers	350.4	60.3	9.2	178.6	30.8	8.2	44.8	7.7	8.0	7.0	8.0	7.0	1.2	8.8	580.8	8.8		
Of which:																		
Teachers and nurses	148.7	68.1	3.9	54.9	25.1	2.5	13.7	6.3	2.4	1.2	2.4	1.2	0.5	3.3	218.5	3.3		
Administrative and managerial workers	54.1	33.3	1.4	95.3	58.7	4.4	8.6	5.3	1.5	4.4	1.5	4.4	2.7	2.5	162.4	2.5		
Clerical workers	354.7	54.9	9.3	238.1	36.9	10.9	50.5	7.8	9.0	2.6	9.0	2.6	0.4	9.8	645.9	9.8		
Subtotal:																		
New middle class	759.2	54.7	19.8	512.0	36.9	23.5	103.9	7.5	18.5	14.0	18.5	14.0	1.0	21.0	1,389.1	21.0		
Sales workers	274.2	36.0	7.2	429.8	56.5	19.7	49.7	6.5	8.8	7.6	8.8	7.6	1.0	11.5	761.3	11.5		
Service sector and other workers	473.9	61.5	12.4	207.7	27.0	9.5	81.8	10.6	14.5	6.9	14.5	6.9	0.9	11.6	770.3	11.6		
Subtotal:																		
Old middle class	748.1	48.8	19.6	637.5	41.6	29.2	131.5	8.6	23.4	14.5	23.4	14.5	0.9	23.1	1,531.6	23.1		
Subtotal:																		
White-collar stratum	1,507.3	51.6	37.4	1,149.5	39.4	52.7	235.4	8.1	41.8	28.5	41.8	28.5	1.0	44.1	2,920.7	44.1		
Agricultural workers	1,431.1	76.4	37.4	295.1	15.8	13.5	131.4	7.0	23.4	14.9	23.4	14.9	0.8	28.3	1,872.5	28.3		
Production workers	887.0	48.5	23.2	737.6	40.4	33.8	195.9	10.7	34.8	7.3	34.8	7.3	0.4	27.6	1,827.8	27.6		
Total	3,825.4	57.8	100.0	2,182.2	32.9	100.0	562.7	8.5	100.0	50.7	100.0	50.7	0.8	100.0	6,621.0	100.0		

Source: Government of Malaysia, *The Second Outline Perspective Plan, 1991-2000* (Kuala Lumpur: Government Printer, 1991), pp. 118-19.

Second are the government's efforts to create Malay-Bumiputera middle classes. At the time NEP was introduced (see Table II), the government envisioned that by 1990 the "ambiguous middle classes" would be composed of a new middle class making up 14 per cent of the total Malay workforce and an old middle class making up 45 per cent of the total Malay workforce. In fact, however, by 1990 the new middle class made up 19.8 per cent of the total Malay workforce, surpassing government expectations, while the white-collar stratum came to only 37.4 per cent of the total Malay workforce. These data show that the government achieved its target to some extent in creating Malay middle classes under NEP. For the year 2000, the new middle class expanded further with Bumiputera making up almost 30 per cent (28.9 per cent) of its ranks.

Third is the relationship between government policy emphasis and the creation of middle classes. As discussed above, up through the first decade of NEP, the government put more emphasis on the old than the new middle class; then beginning in 1981 it put more emphasis on the new middle class, especially the category of professional/technical occupations. Comparing the government's change of emphasis with actual changes, it is certain that between 1970 and 1975 the old middle class increased compared with the new middle class. However, during 1975–80, before any policy change, the new middle class grew to outnumber the old middle class. This was probably due mainly to an increase in clerical jobs in the public sector. The new and old middle classes continuing to vie with one another between 1981 and 1985, but the new middle class increased on a large scale because of the growth in professional/technical occupations. This clearly indicates a government policy victory.

Fourth are administrative/managerial occupations. At the start of NEP the government emphasized these occupations, but this did not continue; and it was not until the 1990s that the Mahathir administration once again made fostering entrepreneurs the top objective. From the actual figures, however, the government has yet to realize its goals.

Fifth is the role of government in bring about change in social stratification. Continuous high economic growth was the number one factor for change in social stratification. This economic growth was one very important assumption behind the implementation of NEP and its two successor plans. The structural change that did take place in Malaysian society (i.e., the creation of middle classes) was a product of NEP. Therefore, although Kahn (1992) considers "the adoption of an export-oriented industrialization strategy" as the factor creating Bumiputera middle classes, it is my opinion that export-oriented industrialization can also be understood in a result of NEP itself. There is no doubt that it was the country's Malay community that benefited the most from NEP; however, because of the rapid economic growth that made implementation of NEP economically possible, non-Malays also benefited indirectly as convincingly argued by such researchers as Abdul Rahman Embong (1995, 1996, 1998, 2002) and Crouch (1993) in their studies of the rise of

Malaysia's middle classes. The Malay middle classes were created intentionally by the government, but within the process of that creation, the rise of such classes took place in non-Malay society as well through the secondary mechanism of export-oriented industrialization.

Let us turn here to the importance of the middle classes in Malaysia compared with those classes in other countries. First, let us continue to assume the Malaysian middle classes as being the "ambiguous middle classes" earmarked for creation by the government and which encompasses five occupational categories. Such an occupational assumption has to be made since no data has been made public indicating employment status.

However, for comparison we do have what might be called employment status data in the population census of 1991 that placed 1,389,100 people in the new middle class, 761,300 in sales, and about 125,500 in the service industry, which, from the employment status, can be considered as the old middle class. Altogether these groups made up about 34.4 per cent of total employees.<sup>15</sup>

Finally in this section, let us narrow the discussion down somewhat and examine the intention and measures of the government in creating Malay middle classes and the results of its policies. Unfortunately, it is impossible to examine these points quantitatively. For example, after enactment of the ICA and introduction of KLSE listing guidelines, there was an increase in number of Malay/Bumiputera directors in listed companies, as has been shown in some research done to date. However, it is very difficult to discern whether there was a definite cause-and-effect relationship between the above-mentioned moves and the policies, or whether these moves had any affect in changing the economic structure.

Available data regarding the role of the government concerns changes that occurred in higher education enrollment and labor market conditions for graduates. In 1970, before enactment of NEP and its quota system for enrollment in higher education institutions, Malays composed 40 per cent of all university students. By the 1980s, they accounted for over 60 per cent of all students in higher education. Regarding employment opportunities for this increasing population of highly educated Malays, according to the Labour Force Survey conducted by the then Ministry of Labour Force (today the Ministry of Human Resources), during the decade from 1981 to 1990, between 80 to 90 per cent of them found jobs.<sup>16</sup> These data surmise that the educational quota system set up by the government provided the means for Malays to receive the kind of education enabling them to find middle-class jobs.

<sup>15</sup> The figures are based on employees and self-employed in the four areas of finance/insurance, real estate, transport/communications, electricity/gas/water supply, and community services (Malaysia, Department of Statistics, 1991 ed.).

<sup>16</sup> Employment rates of high-educated Malays or Bumiputera during the 1980s averaged 87 per cent (excluding 1985–86), with the highest figure of 92 per cent recorded in 1981 (Malaysia, Department of Statistics, 1981–90 eds.).

## CONCLUSION

Through its introduction of NEP in 1971, the Malaysian government intended to create middle classes within the Malay community. This intention gradually took form as it was linked up with economic policy. The government's vision at first produced an "ambiguous" image of the middle classes, which would function in the end as a political or social stabilizer. For this reason, the government hoped not only to create a new middle class but also to foster the old-middle-class element of landed farmers and merchants. However, during the 1980s, with the adoption of the Mahathir administration's heavy industrialization strategy, emphasis shifted to the new-middle-class element of professional/technical experts. With this shift and the adoption of policies for privatizing the economy, experimenting began in selectively creating a new middle class. The creation of middle classes was one of the BCIC program and a major policy target for the Mahathir administration. Furthermore, this policy ultimately shifted at the beginning of the 1990s to fostering middle-class entrepreneurs, which became an important means for realizing the BCIC program.

This article has been able to verify such shifts in the government's effort to create middle classes in Malaysia and to fulfill its intents; the government became actively involved in establishing public enterprises, regulating and controlling private businesses, and promoting higher education. Its intervention of higher learning was an attempt to foster intergenerational social mobility. This is why the middle classes in Malaysia should be regarded as classes that arose through state initiatives and policies.

Finally, while not a main theme in the article, let us look briefly at the political behavior of Malaysia's middle classes. In the research on this subject up through the 1999 general elections, sociologists have described the emergence of a politically active new middle class, while political scientists have seen just the opposite. Like the middle class in other Asian countries, these latter researchers, such as Crouch (1993), have wondered why Malaysia's new middle class has not become political active. In the same vein, Tsunekawa (2000, pp. 4–5) has pointed out that the example of Malaysian middle class argues against the simple explanation that a new middle class is a promoter of democracy. There have been a number of explanations to Crouch's query. Some researchers have argued that Malaysian society is not divided according to class but rather vertically along ethnic boundaries. Others have pointed to the existence of the Internal Security Act initiated by the Mahathir regime as a tool of oppression, and I myself have indicated the existence of a system of electoral constituencies that has favored the ruling party and kept in power.

However, perhaps more important than the above arguments is the fact that the middle classes, or the new middle class, that emerged in Malaysia are a class of

Bumiputera created by government initiative and intervention. This is a major reason for its politically conservative character. Having obtained their business and education opportunities under government policy—i.e., protection—they will surely continue to support the government as long as it guarantees their economic interests. Moreover, the non-Malay elements of the new middle class will probably also remain supportive of the present regime as long as economic growth continues, despite the existence of policies like NEP that favor the Malays. It must also be remembered that although the Internal Security Act as employed by the Mahathir regime has restricted political activity, democratic elections in Malaysia do take place, and the expression of political ideas is guaranteed under the constitution. The existence of these political rights also helps explain in part why the Malaysian middle classes maintain their conservative political behavior.

Since the setback that the UMNO suffered in the 1999 general elections, there has been growing discussion about the relationship of this event with the emergence of an urban-based middle class. However, there still has been no empirical research on the voting patterns of this class.

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