Economic Growth, Middle Class and Democracy in Malaysia

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Introduction

Malaysia is fortunate to inherit economic factors to grow from the colonization of the British. Malaysia is strategically located in the Far Eastern trading post and has emerged as a successful economy. When Malaysia gained its independence in 1957, with abundance resources, the economy was only second in Asia in term of economic development after Japan (Munro-Kua 1996). Malaysia is continuing to grow faster that make Malaysia one of the Newly Industrialized Countries (NICs) in Southeast Asia (Bozyk 2006).

In the last twenty years, Malaysia growth rate has been satisfactory. From 1988 to 1996, Malaysia growth rate average was 9.47 per cent (IMF data Mapper 2009). During the Asian Economic Crisis that was started with the collapse of Thailand Bath in 1997, Malaysia performed better than the neighbor countries. After economy contracted badly from 7.3 in 1997 to -7.4 in 1998, Malaysia recovered very quickly as high as 6.1 growth rate in twelve months. Munro-Kua (1996) noted that the successful economic performance of Malaysia is a combination of several factors, natural resources, trade liberalism policies, and high investment rate. Based on Solow model of economic growth, Malaysia has already gathered all factors that stimulate the economy to grow (Helpman 2004 p.16). However, what is the impact of good economic performance to Malaysian democracy?

Political scientist and political economists has long been debated the importance of economic growth in democratization process, especially with the emerging of the middle class. The successful economies will create educated and politically aware middle class. Hsiau and Hagen (1997) define middle class as “those who occupy intermediate positions between the capitalist and working classes”. Lipset (in Jones 1998 and in Abbott 2001) argues that educated and self-assured middle class is necessary for precondition to translate authoritarian regime into democracy. In
addition, O'Donnel and Schmitter (in Jones 1998) argue that the middle class is the key actor after regime initiates the democratization. Middle class transforms transition to democracy into full democratic condition. As a result, the emergence of middle which resulted from economic growth is important for democracy in all democratic stages, initiate, consolidate and transform authoritarian regime into full democracy.

Based on these theoretical assumptions, this paper is an attempt to acknowledge the relation between economic growth, middle class and democracy in Malaysia. I will use experiences from Malaysia’s neighboring countries, especially Singapore and Indonesia to draw some lessons learnt. I argue that although Malaysia has expanded its middle class from its economic performance, consolidation to democracy is absent. There are four factors that hinder democratization in Malaysia; first the characteristic of middle class, second the absent of trigger for democratization, third unique ethnic composition, four regime adaptability to new condition.

This paper will be organized by elaborating democracy, growth and Asian values in the first part. The political structure of Malaysia will be discussed later followed by factors that hinder democratization to exist in Malaysia. Some possible solutions to democratize Malaysia will be elaborated and is closed by conclusion.

**Economic Growth and Democratization**

In 1991, Mahathir Mohammad, the former prime minister of Malaysia declared the 2020 vision for Malaysia (Wawasan 2020). In this vision, Mahathir targeted Malaysia to become a develop country in 2020, self sufficient industrial and has eightfold stronger economy than in 1990. After categorized as NIC, the categories that rely between develop and developing country, Malaysia is targeted to reach at least US$ 15,000 of GDP per capita (purchasing power parity) and increase public services as a common feature of develop country. The IMF estimated that Malaysia can achieve this GDP target in 2013 (IMF data mapper 2009).

However, although Malaysia is advancing in its economic, it doesn’t transform it into democratic countries. Commentators describe Malaysia as a soft-authoritarian state, a semi-democracy and a state led democracy (Abbott 2001 p.287). Malaysia has been
ruled by coalition of all important ethnics: Malay, Chinese and Indian that has built a strong and a stable government. Moreover, the state is still implementing the Internal Security Act (ISA) and others repressive regulations that controls organizations, media and prohibits tertiary student to active in political movements.

Lee Kuan Yew, the Minister Mentor of Singapore, argues that strict government is important to achieve high economic growth as can be seen in Singapore, South Korea and China. Lee (cited in Sen 2001) argues that individualistic style of democracy as implement in the West could not be transformed into the Asian societies. In his interview, Lee insists that the important of family in the Asian societies, individual exists in the contest of his family (Zakaria 1994). Asian societies relies its foundation on social harmony rather than individual competition.

However this Asian value of democracy is challenge by many scholars. Amartya Sen (Sen 2001) for instance, argue that democracy is a universal value. He argues that democracy has a universal virtue that he divided into intrinsic virtue of political participation, instrumental importance of responsible and accountable government, and constructive role of democracy to understand needs, right and duties. In addition, the Asian value of democracy is often used as a mechanism to maintain elite political power to longer their dictatorship. Dahl for instance, argues that basic characteristic of democracy is the capacity of people to control their leader (Dahl 1956). Through election, the people have power to determine their leaders. Using the case of Singapore, the transformation of Lee Kuan Yew’s political career from Prime Minister, Senior Minister and Minister Mentor, can be seen as the absent of power of the people and the absent of democratic principles. Lee has prepared some necessarily steps for his son, Lee Hsien Loong, to become a prime minister.

A debate about the relation between Islam and Democracy is also important to note in Malaysia case. Democracy that constructed and shaped in Western tradition is not suitable for Muslim country like Malaysia that stated Islam as a federal religion in the constitution. Barton (2006 p.221) argues that the assumption of the West regarding Islam is more as an obstacle rather than catalyst to democracy based on the fact that only few Islam country transform to democracy and the present of Jihadi terrorist. However, Anwar Ibrahim (2006) the former deputy prime minister of Malaysia that
spent six years in the prison, argues that the case of Indonesia as the biggest Muslim country shows that democracy and Islam are congruent rather than contradict. In his view, consolidation to democracy that is happening in Indonesia is an important moment in modern history of Islam (p.8). Indonesia is the only country in Southeast Asia which is categorized as free by freedomhouse and one of the freest media landscape in Asia (freedomhose.org).

Therefore, analyzing economic trajectory of a particular country should also consider the unique characteristic that exists. The improvement of quality of life and the increasing number of middle class is not necessarily to bring about democracy. Political structure and political history of Malaysia are important to reveal the failure of democracy.

**Malaysia’s Political Structure**

Malaysia has been a relatively peaceful constitutional monarchy country with minor horizontal and vertical political violence and conflict for its entire political history. Political parties were formed before the independence of Federation of Malaya in 1957. In 1963, Federation of Malaysia was established including Sabah, Serawak and Singapore that had created military tension between Malaysia and Indonesia. Singapore separated from the federation and formed an independent nation in 1965. Malaysia’s biggest horizontal conflict had happened in May, 1969 between Chinese and Malay in Kuala Lumpur that suspended the parliament for 21 months (Funston 2001). Learning from this ethnic conflict, Malaysia has established New Economic Policy (NEP) to reduce economic disparity between Bumiputras (son of the soil/Malay) and Chinese to prevent future riots. In addition, after the introducing of NEP, Malaysia has started undemocratic period that restrict political liberties, entrench Malay pre-eminence, strengthen UMNO (United Malays National Organization) and ensure stronger affirmative action for Malays (Funston 2001, p.163). Moreover, political freedoms were limited through constitutional amendment in 1971 that has gave Malays more opportunity in Malaysian politics.

Malaysia has unique composition of multiethnic and multicultural identity dispersed in both the peninsula and Sabah and Serawak. With more than 25 million inhabitants,
Malaysia’s ethnic composition is divided into Malay (50.4%), Chinese (23.7%), indigenous (11%), Indian (7.4%) and others (7.8%) (CIA Worldfact 2009). These ethnic lines are correlated with religion lines, especially for Malay. In Malaysia’s constitution, for instance, a Malay has to be a Muslim as well, and non Malay can be categories as Malay if they convert to Muslim. Among the ethnics, Malay is most benefited from government policies. Malay majority believes that Malaysia is a Malay country that has to be ruled by Malays.

The political parties in Malaysia is following the ethnic lines and are use to benefit member of particular ethnicity. There are three big ethnic political party, UMNO, MCA (Malay Chinese Association) and MIC (Malay Indian Congress). In 1974, Barisan National (BN) was established as a successor of Alliance, a coalition between UMNO, MCA and MIC. BN is bigger than Alliance because it consists of the former member of Alliance and four former opposition parties. Since then, BN with UMNO as the strongest supporter has become the most powerful political force in Malaysian politics due to several factors. First, BN consists of three important ethnic compositions: Malay, Chinese and India. The compositions of all ethnicity in Malaysia’s government create political stability. Political differences and debate between ethnic lines can be narrowed by scope into debate within BN. Second, BN has 60% of parliament seats and powerful to regularly amended the constitution to maintain their political dominance. Jesudason (in Abbott, 2001) states that the constitutional amendment has transform constitution as a constraint of power to apparatus of rule. These constitutional amendments include gerrymandering that makes BN receive more seats although vote has shift to Barisan Alternatif (BA) in 1999 election.

Relation between Islam as a religion of the Federation and Malays as an ethic is very strong in Malaysia’s constitutions. In the Article 160, Malays is define as Malaysian citizen born to be a Malaysian citizen, professes Islam, speak Malay language and adhere Malays custom. This article also stated that those who convert out of Islam are not considered as Malay anymore.

Ethnic rivalry tension increases mostly between Malay and Chinese ethnic although in Sabah and Serawak, conflicts occur between Malay and indigenous people. The biggest conflict occurred in 1969 between Chinese and Malays. The Indigenous Kadazans and
Ibans people, who are not muslim, in Borneo Island see Malay as a treat to their cultural identity that are differ from Malays. In the constitution, the people life in Sabah and Serawak are considered as Bumiputra of Sabah and Serawak (not Bumiputra of Malaysia) and are different from Malays in the peninsula. As a result, Sabah was ruled by opposition from Kadazan from 1985 and end at 1994 (Funston 2001, p.166) where the strongest period of BN was present. In 1995 election, BN won the highest vote in its political history with more than 76% of seats.

Malaysia maintains monarchy in it political system and give the highest power to Yang Dipertuan Agong (YDA) as the head of state. The elections of YDA choose among and by nine traditional rulers in Malaysia peninsula. The existence of monarch is used to maintain Malay’s cultural identity. Although YDA role is commonly handle a ceremonial occasion at a passive level, there is increasingly shown a capacity to strengthening its role and challenges modern political sectors (Kershaw 2001, p.100).

**The Characteristic of Middle Class in Malaysia**

Although both Malaysia and Singapore have much larger middle class than in other South-East Asia countries, this middle class is dependent to the state. The NEP has created beneficiaries for Malay to become a new player in Malaysia’s economy and politics and strengthen Malays middle class. Therefore middle class is reluctant to change because the risk of losing economic and political beneficiaries from the state. Crouch and Moley (1999) argue that the government policy has accommodated the interests of middle class.

The good performance of economic growth and the expansion of middle class in Malaysia have been accompanied by less democratic conditions. Mahathir policy that focus on the economic growth, low unemployment and increasing in standard of living benefit middle class that make it difficult to opposition (Abbott 2001 p.291). Political instability is the most important treat to achieve Mahathir goals. Mahathir and his follower try to maintain the coalition in BN to keep economic performance in place.

The emergence of middle class in Malaysia did stimulate the existence NGO’s in various organizations, however, their impact on democratization is limited. Ghee (1995)
(in Weiss 2006 p.29) categorizes five groups of civil societies: groups related to environment, costumer issues, human right, development and woman. Among these organization Tan and Bisan (1994) distinguish two kind of civil societies, the first is those who sponsored and have close links to the government (GONGO’s/ Government-Organized NGO) and autonomous NGO’s who develop independent from the state. Based on quantity, the autonomous NGO’s are outnumbered compare to GONGO’s. Most of NGO’s are not critical to the government and cannot provide alternative development strategies and there are used as tools for the government to succeed the government’s programs. The Malaysian government also reluctant to accept international aid that has involve and strengthen NGOs as part of their program (Weiss 2006).

No Trigger for Democratization

The second reason why a high economic achievement is failed to bring Malaysia to democracy is the absent of political and economic triggers. The best economic trigger was happened at the Asian economic crisis and the best political triggers persisted after the arrest of Anwar Ibrahim. I will use the Indonesian experience as a benchmark.

The Asian economic crisis which led Indonesia, its closest neighbor, to consolidate democracy has failed to transform Malaysia in a similar vein. Malaysia and Indonesia share many similarities both in culture and political history. Both countries use Malay as the basic of their national language and have experienced good economic performance under undemocratic regime started in 1960ies (Indonesia in 1967 and Malaysia in 1969).

However, the Asian economic crisis did not turn Malaysia into a massive discontent to the government, especially the leader. There are some supporting factors. First, Malaysia’s economic condition relies highly on export. Malaysia export is 103% of GDP compare to only 30% of Indonesia. When the crisis hit Asian, Malaysia’s export to USA, Japan and China, the third high rank export destinations, helped Malaysia to quickly recover (Matrade 2009). Malaysia’s exports to countries that are not hit by the crisis were continuing. Massive job cuts were not happening and the unemployment rate were not increasing. Another example could be drawn from Singapore that has higher
economic dependency to export. Both Malaysia and Singapore were the first countries that recovered from 1998 crisis. However, the current economic crisis has dramatic effect on both Malaysia and Singapore. The export has dropped and growth contracted significantly. Malaysia growth contracted from 7% to 0% while Singapore contracted from 7.7% to 4% in 2008. Indonesia is more resilient to the crisis that recorded growth of 4.5% in 2008, decline from 6% last year (NYT, 2008).

Second, Mahathir Mohammad fixed the Malaysian Ringgit exchange rate to US dollar that prevented Ringgit slumped any further. This unpopular policy was proven to become the important strategy to minimize the effects of the Asian crisis. On the contrary, after controlling Indonesian Rupiah since 1960ies, Indonesian government under IMF influence, released Rupiah into the market, that slumped Rupiah from around 2,000 per 1 US $ in 1996 to 18,000 per 1 US$ in September 1997.

In terms of economic performance in the Asia economic crisis, both Malaysia and Singapore were not severe hit that could lead to massive disappointment of the people to the government. Malaysian and Singaporean could do normal activities in their daily live. On the contrary, Indonesian live were upside down. Prices of commodity were skyrocketed and were not easily to find. As a result of agreement with the IMF, the government should ‘rationalize’ Indonesian banks based on their NPL (Non Performing Loan), massive distrust of financial institutions erupted. After the government closed the operation of 14 private banks, people were queuing at the ATMs and stocked long life foods, especially instant/baby milk, for months.

Malaysia government, especially Mahathir could ‘bribe’ Malaysian for further impacts of economic crisis to political crisis by preventing a high standard of living.

**Chinese and Indians: Ethnic in Malaysia’s business and politics**

The third reason why democratization is absence in Malaysia is because the absent of multiethnic based support for democratization and the potential ethnic conflict both between Chinese and Indian versus Malays. Chinese business in Malaysia has created mutual relationship with the state and the Malay. The clear cut lines between ethnicity
in Malaysia are hindering democratization because every ethnic suspicious that other ethnic will benefit more than theirs.

Chinese ethnic in Malaysia holds important political and economical power. Starting with the increasing economic power in Malaysian business, the Chinese had become powerful political power in Malaysia, which often seen as *vis a vis* the state. Mackie (1992 in Jesudason 1997 p. 120) argue that that the powerful Chinese, supported by international Chinese investment in Malaysia has built a strong network and capital that political leaders should think of. This strong Chinese business network in Malaysia has created question whether this international network has used to pursuit Chinese economic and political agendas. Jesudason (1997) argues that there are three factors to analyze the relation between Chinese business and the state: indigenous class structures, the nature of Chinese business organization and the political dynamics of support buildings.

The relation between Chinese and the state in Malaysia can be seen through some phases. Jesudason (1997) classifies three phases of Chinese business in Malaysia. The first period happened after the independence and before the establishment of NEP, Chinese business has a high degree in influencing the state through *Chinese Business Community*. During second period, until mid 1980, this business community was less cohesive because the present of state based attempts to break down Chinese exclusivity. Tensions between Malays and Chinese in term of business were occurred during this period. The period, identified from 1980ies onward, has showed the relationship between Malays and Chinese business in the context of political rule and transformations.

Similar experience of Chinese business dominant can be found in Indonesia. Soeharto which has lead Indonesia during 1967 to 1999, had used Sino-Indonesians as important players to drive Indonesian economy. Soeharto had gave special privilege to Sino-Indonesian because it seen to be neutral from political agenda because it only consists of less than 1% of Indonesian population. Moreover, McVey (in Jesudason 1997) argues that there is a ‘mutually tolerable equilibrium’ between Chinese and Indigenous in Southeast Asia because the ideology shifts from valuing status to valuing money and material consumption. Therefore ethnic lines will eventually disappear.
However, the case of Indonesia shows otherwise. The economic crisis has created anger among Indonesian population (Pribumi/indigenous) to Sino-Indonesian. They became scapegoat for economic difficulties. In 13-15 May 1998, riots happened in Jakarta, and targeted Chinese as victims. Chinese houses shops, business places and shopping malls owned by Chinese were looted and burnt. Mass rape happened during the riots with more than 66 Chinese were victims (BBC, US Dept of State 1999). Many Chinese fled out of the country. In 20 May 1998, Soeharto stepped down. Malaysian Chinese ethnic were reluctant to support reformasi movement because their fear of Indonesian tragedy and the killings of hundreds of Chinese in 1969 riots.

Regime Adaptation

The capability of Malaysia’s politicians to adopt in the new situation helps the regime to maintain its undemocratic characteristics. I will use the experience of Chinese riots in 1969 and the failure of Reformasi movement in 1999 as an example.

The establishment of NEP in 1971 has shifted the economic power from Chinese dominated economy to sharing economy between the Malay and Chinese, with positive discrimination to Malays. Although there were tensions between two ethnic groups, there is no doubt that the implementation of NEP has been successful. Malaysia is the second highest GDP per capita (Purchasing Power Parity) after Singapore in Southeast Asia with $US 14,072 compared to Thailand ($US 8,225), The Philippines ($US 3,546), Indonesia ($US 3,986), Myanmar ($US 1,159) and Vietnam ($US 2,783) (IMF 2009).

The second adaptation in Malaysia occurred during Mahathir premiership after the Asian crisis. Mahathir had adopted with new political demands from Malaysian by sucking Anwar Ibrahim as the deputy prime minister. Both Anwar and Mahathir have had different perspective to overcome the crisis. Anwar insisted that tightening government budget and reducing high cost projects such as building bridge that connected peninsula and east Malaysia. However Mahathir preferred to boil out his business partners. Mahathir tried to strengthen his followers, especially business sector,
through government policies to maintain a certain level of support. In addition, after the arrest of Anwar, despite clashing with pro-reform movement, Mahathir was cleverly promoting both seasoned political figures and Anwar’s rivals (Abbbot 2001, p.299). Through political and economical movements, Mahathir could gain control over political situation.

The adaptability of semi-democratic government has also benefited from the implementation of undemocratic regulations such as internal security act (ISA) and gerrymandering practice in the election. The internal security act that lifted by many democratic countries and established during the emergence of communism in Southeast Asia has been used to suppress pro reform movement. Under ISA, the government can hold anyone that suspected to threaten the country. Over dozen pro reform activists have detained under ISA (Abbott 2001, p.299). In addition, the government also has controls the freedom of the people by implementing the Sedition Act that criminalized speech, discussions that question the primacy of Malays, including the monarchy. There are also Societies Act that limits organization, The Printing Presses Publication Act that controls the media under the Ministry of Internal Security and also the Universities and Universities College Act that prohibits tertiary students in political activities. Gerrymandering also persisted in Malaysia’s election that benefited the BN that influence how votes transform into seats in Dewan Rakyat. In 1999 elections, although only receive support from 56.6 per cent votes, BN could receive 77 of the seats (Funston p.82-83).

What Should Do?

Malaysia political architecture is designed to accommodate undemocratic regime to survive. Votes and seat are two different entities. The next prime minister of Malaysia can be easily forecasted by identifying key political figures in UMNO. The problem with Malaysia’s democratization is too deep to be solved only by increasing economic growth and increasing middle class as proponents of modernization theory argue. Some peaceful steps should be done in transforming Malaysia to reach it 2020 vision are as follows.
First, changing the electoral system and lifting gerrymandering practice. The *First Past The Post* electoral system that are used in Malaysia is not friendly to minorities. Changing electoral system has a big impact on the political architecture. Pippa Noris (2004) argue that the formation of electoral system is not only determine how vote are translated into seat but also important to design the whole political processes. Election in 1999 has showed that although supports already shifted from BN, there is no change in the regime. In the future, Malaysia should consider implementing *Proportional Representation* (PR) system that acknowledge minority in the parliament.

Second, restriction toward political participation, organization and media should be lifted, especially ISA. ISA has created fear of pro democracy activist to organize political movement to criticize the government. Restriction of tertiary student to affiliate in political movement has hindered this educated middle class to participate in democracy. In Indonesian experience, tertiary student is the ‘locomotive’ of democratic transition.

Third is integration of Malaysia both geographically and ethnically. Malaysia peninsula and Sabah and Serawak in Borneo is often seems to be two separate entities. In the Malaysia constitution, peninsula is positively discriminate compare to Sabah and Serawak. In addition, the discrimination toward Chinese and Indian ethnic will eventually created a time bomb that can blow anytime. All Malaysia citizens should be treated the same.

**Conclusion**

Although Malaysia has performed as the second best economic country in Southeast Asia, there is no sign of transformation to democratic country. The increasing number of middle class as a result of increase standard of living did not powerful enough to change the soft authoritarian regime. The regime cleverly “buys” middle class by economic incentives and privileges. The economic crisis which followed by political crisis with the arrest of Anwar Ibrahim did not fuel *Reformasi* movement to achieve their goals. The architecture of political structure, ethnic composition blended in Malaysia history hinder transformation to happen.
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