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The middle class in Malaysia

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The middle class has become a very important social force influencing the direction of social and political change, as well as the consumer industry. Looking at the growth and expansion of the middle class historically, it can be said that the middle class has undergone three phases of emergence and expansion, the first phase being in Europe after the Industrial Revolution around 1800, while the second was also in Europe, North America and Japan after World War II. Today, it is argued that we are witnessing the third phase of expansion, with the so-called ‘emerging markets’ – namely, Asia – being the centre of growth (Ernst & Young 2013: 1). While some scholars aptly regarded the twentieth century as ‘the century of the middle class’ (Fujimura 2000), the twenty-first century, which is witnessing the third phase of middle-class growth, is characterised by an unparalleled expansion of this class across the globe, thereby shifting the base of consumption from the West to the East, as will be shown below.

Market analysts and researchers on the middle class and its huge appetite for consumption of new products are almost in unison in their excitement and jubilation about the expansion of the middle class in the twenty-first century and its impact upon the consumer industry. A leading global bank, HSBC, in a report prepared by its Global Economics Research Team on the rise of the middle class in ‘emerging markets’, argues that such an unprecedented middle-class expansion will result in ‘transforming demand in sectors from clothing to travel, and IT to financial services’ (HSBC 2012: front cover). Estimates on the size of the middle class vary. Using the World Bank criterion of US$6,000 per capita gross national income (GNI) as the cut-off point for the middle class in selected developing countries, an economist from the University of Minnesota, Professor Benjamin Senauer, estimated that by the beginning of this century, 93 percent of households in South Korea, 46 percent in Malaysia and Mexico, 45 percent in Russia, 35 percent in Brazil, 23 percent in China and 9 percent in India were already middle class (Senauer and Goetz 2003). Although the percentages may be lower in China and India, the absolute figures are huge given the size of their population, with the middle class estimated to be in the region of 290 million in China and over 90 million in India.

Appearing a decade after the Minnesota study, the HSBC report is more jubilant. It argues that
A global consumer revolution is in the offing – and it will be driven by an unprecedented expansion of the world’s middle class. Almost three billion people – more than 40% of today's population – will join the middle classes by 2050 and these entrants are to be found almost exclusively in today’s emerging markets.

(HSBC 2012: 2)

The report projects that emerging market consumption, which makes up about one-third of global consumption today, will increase dramatically to almost two-thirds of global consumption by 2050. The report sees this as an opportunity ‘for businesses ... to capture this rising tide of middle-class spenders. Tastes and habits are not yet as firmly established as in other societies, offering opportunities to reposition brands and build entirely new markets’ (HSBC 2012: 26).

Per the data in the HSBC report, some of the top ‘emerging markets’, like Argentina and Brazil, already had a high proportion of middle class in their population by the end of 2010, with Argentina registering 70 percent (26 million people) while Brazil had some 40 percent (78 million). In China, the middle class constituted 30 percent of the population (404 million) in 2011 compared with 23 percent (290 million) in 2000, while India also showed an increase from 9 percent (90 million) in 2000 to 10 percent (121 million) in 2011. Based on these developments, some analysts suggest that by 2030, of the 4.9 billion middle class globally, 64 percent will be in Asia, accounting for over 40 percent of global middle-class consumption. In other words, Asia will have the largest proportion of the global middle class in two decades to come.

A study by Kharas and Gertz argues that there is a cross-over from West to East in the products, fashions, tastes, and designs oriented to the middle class. They estimate that by 2015, for the first time in 300 years, the number of Asian middle class consumers will equal the number in Europe and North America. By 2021, on present trends, there could be more than 2 billion Asians in middle class households.

(Kharas and Gertz 2010: 33)

In another study, Kharas highlights that while in 2000, Asia (excluding Japan) accounted for only 10 percent of global middle-class spending,

by 2040, this could reach 40 per cent, and it could continue to rise to almost 60 per cent in the long-term. The steep increase in Asian demand, and the replacement of US demand by Asian demand, is clearly seen as a trend that accelerates in the coming decade.

(Kharas 2010: 28)

What is important in this expansion, from the perspective of the market, is the increased purchasing power and spending of this class. An OECD estimate indicates ‘global middle class spending [is] increasing from $21 trillion to $56 trillion by 2030, in constant 2005 dollars’ (Calamos 2012: 1). According to a report by the London-based professional services firm Ernst & Young (2013: 1), ‘companies accustomed to serving the middle-income brackets of the old Western democracies’ will have to re-strategise in order to capture the middle-class market in Asia, Africa and Latin America. The report further asserts that from a business perspective, focused on purchasing power, only those earning between US$10 and US$100 per day – thus having effective disposable income – can be considered as belonging to the category of the global middle class.
While figures may vary depending on the definition, the various studies cited above seem to concur that the middle class is undergoing an unprecedented global expansion in the twenty-first century, and that the Asian middle class is fast becoming the largest component in the global middle class. These studies also imply that the global expansion of the middle class – especially in Asia, with its penchant for consumption of goods and services, especially of multinational corporations – means that another consumerist revolution is in the making. The above discussion also shows how sensitive market researchers and strategists are to these developments, and their advice to corporations on the need to strategise and expand their businesses in the coming decades to benefit from the global middle-class expansion.

The Malaysian middle class as part of the global middle-class expansion

For the purposes of this chapter, what is relevant and significant is that the Malaysian middle class is recognised as being part and parcel of this historic global middle-class expansion and is seen as a potential market for the products of multinational corporations. While in absolute terms, the size of the middle class in Malaysia may be small compared with those of its bigger neighbours, as a proportion, the middle class is already more than half of the population – whether analysed by using income criteria as above or by using an occupational definition. The dramatic rise of the middle class in Malaysia took place during the era of the state-led modernisation under the New Economic Policy from the 1970s onwards, becoming a clearly visible social force since the 1980s and 1990s. Using the occupational definition (Abdul Rahman 2002: 41), the middle class in Malaysia constituted about 19.8 percent of households in 1957, 23.9 percent in 1970, 28.5 percent in 1980 and 38.3 percent in 1990. By 2000, it had expanded to 43.2 percent, and today, more than a decade later, the middle class is estimated to be about 51 percent, that is, slightly more than half the population. This seems to tally with the income-based estimates mentioned above.

Much of the discussion on this class in Malaysia has been on the rise and expansion of the middle class, especially its Malay component, its socio-economic characteristics, consumption patterns, family, cultural and religious orientations, as well as its political participation in democratisation processes and civil society movements (Saravanamuttu 1989, 2001; Kahn 1991, 1992, 1996; Abdul Rahman 1995, 1996, 2001, 2002, 2006, 2013). There are also a few studies on the second-generation middle class, but these studies are still few and far between (see Abdul Rahman 2006; Noraini 2014). While there has been some discussion on the consumption of the middle class (for example, Fischer 2008; Abdul Rahman 2002, 2013), the critical question of the sustainability of their status and the economic and financial challenges faced by the middle class in light of changing economic and financial scenarios inside the country and internationally needs more detailed examination. Such an analysis needs to take into account the onslaught of market expansionism, as indicated above, and persistent mesmerising efforts by corporations to ensure the middle class remains a captive market for their products – or in the words of the HSBC report (2012: 26), ‘to capture this rising tide of middle-class spenders’.

Several questions merit analysis: is the mass of the middle class in Malaysia financially strong and stable? Or have they placed themselves in a vulnerable situation as a result of their consumption patterns, on the one hand, and their dependence on loans and the hire-purchase system, coupled with the rising cost of living, on the other? Have some sections of the middle class become a vulnerable group subject to changes in economic fortunes, and if so, to what extent are they vulnerable?
This chapter attempts to discuss these interrelated questions in brief. It will first discuss the financial strength of the middle class by examining their income, followed by a discussion of middle-class lifestyles and social reproduction in the face of the rising cost of living and household debts, and the implications of these. Finally, in the concluding section, the chapter will assess the vulnerability of this class.

Income of the middle class

As indicated in the literature, the middle class is basically a class of salaried workers, or the salariat. As their main source of income is their salaries and/or wages, its increase will depend upon increments in salaries and wages over the years, but their purchasing power depends upon the value of the currency as well as inflation. In Malaysia, the main source of data which gives us an idea of the income of employees is supplied by the regular surveys conducted once every five years by the Malaysian Department of Statistics. However, the survey covers only employees, who today represent 74.4 percent of the total workforce in the country. It does not include employers, who make up about 3.9 percent, the self-employed (17.2 percent) and unpaid family workers, who constitute the remaining 4.5 percent (Malaysia 2012a).

According to the survey, of the 9.09 million employed persons in the country in 2012 (see Table 14.1), 16.6 percent were aged 15–24 years old, 33.6 percent aged 25–34, and 23.9 percent aged 35 to 44. This means that half (50.2 percent) of the employed persons in Malaysia are young persons below 35; 74.1 percent are below 45. Those aged 45 to 54 consist of some 18.1 percent while those in the 55–64 year old age bracket, i.e., at the end of their career, make up a small proportion of 7.8 percent.

As shown in Table 14.1, the new middle class of administrators, managers, professionals, as well as technicians and associate professionals, currently makes up 28.9 percent of employees, while the lower middle class (clerical and half of service and sales workers) comprise some 21.7 percent. This means that middle-class employees, that is, the new middle class and the lower middle class, comprise 50.6 percent of the employed workforce in Malaysia. In terms of pay, the mean monthly income for the administrators and managers category is RM5,213 per month (US$1,580, or US$52 per day) and for professionals, RM3,807 (US$1,154, or US$38.50 per day), while technicians and associate professionals

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Number ('000)</th>
<th>Mean income (RM)</th>
<th>Median income (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Managerial and administrative</td>
<td>302.0</td>
<td>5,213.00</td>
<td>4,000.00</td>
</tr>
<tr>
<td>2 Professional</td>
<td>1134.7</td>
<td>3,807.00</td>
<td>3,440.00</td>
</tr>
<tr>
<td>3 Technicians and associate professionals</td>
<td>1,188.6</td>
<td>2,435.00</td>
<td>2,200.00</td>
</tr>
<tr>
<td>4 Clerical support workers</td>
<td>1,136.5</td>
<td>1,718.00</td>
<td>1,500.00</td>
</tr>
<tr>
<td>5 Services and sales workers</td>
<td>1,685.3</td>
<td>1,299.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>6 Craft and related trades workers</td>
<td>133.6</td>
<td>1,283.00</td>
<td>1,100.00</td>
</tr>
<tr>
<td>7 Plant and machine operators, and assemblers</td>
<td>950.0</td>
<td>1,216.00</td>
<td>1,000.00</td>
</tr>
<tr>
<td>8 Skilled agricultural, forestry, and fishery workers</td>
<td>1,389.9</td>
<td>1,065.00</td>
<td>860.00</td>
</tr>
<tr>
<td>9 Elementary occupations</td>
<td>1,167.9</td>
<td>959.00</td>
<td>810.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,088.6</strong></td>
<td><strong>1,881.00</strong></td>
<td><strong>1,400.00</strong></td>
</tr>
</tbody>
</table>

Source: Malaysia (2012a).
average RM2,435 per month (US$738, or US$24.60 per day). The lower middle class, that is, the clerical support workers category, earn, on average, RM1,718 per month (US$520, or US$17.30 per day) and those in the sales and service category earn RM1,299 (US$394, or US$13.10 per day). Actual pay, of course, varies depending on the post as well as length of service. Some of those in the administrative, managerial and professional categories, for example, earn as much as RM10,000–30,000 a month or more, while some of those in other categories can earn between RM2,000 and RM4,000 a month. The income disparity between the new middle class and the lower middle class can be in the range of a factor of five to ten.

The above figures, however, provide only the income of employees, and not household incomes, which would reflect more accurately the financial strength or weakness of Malaysian households of all classes, including the middle class. The data from another survey indicate that about two-thirds of all households in Malaysia have less than RM5,000 a month, while almost 40 percent earn less than RM3,000. Only 9.7 percent of all Malaysian households have a monthly income of RM10,000 and above (Malaysia 2012b). This means that members of the middle class, especially those on the middle and lower rungs, have a relatively weak financial position, especially in light of the rising cost of living, while only a minority – those in the new middle class of administrators, managers and professionals – enjoy a higher income level.

Maintaining and reproducing a middle-class lifestyle

As noted in an earlier paper, a major concern among the middle and lower classes in Malaysia is the rising cost of living, as seen in rising prices of food items, housing, fuel, motor vehicles and other durables as well as education and healthcare. Being salaried and highly dependent on their take-home pay, members of the middle class find that prices of commodities especially houses and other types of property as well as cars have increased manifold while wages have not been able to keep pace with price increases.

(Abdul Rahman 2013: 70)

As part of the middle-class lifestyle, they require decent homes, cars, various modern household gadgets, good foods, clothing, jewellery, proper childcare facilities in the neighbourhood, good schooling and higher education for their children, domestic maids, modern medical and healthcare, health and life insurance, entertainment, overseas travel, investment in financial instruments, savings for retirement, and so on. Indeed, as one commentator put it, ‘middle-class Malaysians today have become used to spending on far too many things compared with the previous generations’ (Yap 2013). Middle-class families also pay special attention to social reproduction through providing education and other means to ensure their children enjoy the same class position and status as the parents. All these involve financial costs, which incur a heavy burden for middle-class families. With all these competing goals, maintaining a middle-class lifestyle and social reproduction for the family under prevailing economic conditions is a big challenge.

For a middle class so used to spending sprees during earlier periods of economic growth and a whole array of subsidies, to face a new situation in the second decade of the twenty-first century under the spectre of inflation, rising prices and weakening currency is quite a big shock. Since the end of the twentieth century, the Malaysian government has been under great pressure to liberalise and restructure the economy to ensure the country’s global
competitiveness, and one of the ways of doing so is to reduce subsidies and the dependency syndrome (Abdul Rahman and Tham 2011; Idris 2013). Despite its promise during the thirteenth general elections in May 2013 not to raise prices, the Malaysian government later in the year announced a slew of subsidy cuts to be enforced with immediate effect, and the introduction of a 6 percent goods and services tax (GST) by 1 April 2015. These moves further fuelled inflationary pressures, especially with the removal of subsidies for strategic items – sugar, petrol and diesel – and a promise of other cuts, thus causing a domino effect on prices of various items, with an immediate impact on people's livelihood. The official consumer price index (CPI) rose 3.2 percent in December 2013, more than double the 1.2 percent a year earlier, but consumers – especially the educated middle class – felt that the CPI did not fully reflect the stark reality on the ground. With the subsidy cuts, a Bloomberg report (Chong 2014) noted an immediate 14 percent increase in sugar prices, 11 percent jump for gasoline, and an average of a 15.0–16.9 percent hike in monthly electricity bills from the beginning of 2014. Moreover, a weakened ringgit against the US dollar not only affected prices of imported goods by making them more expensive, but rendered overseas travel and education outside of Malaysia, such as in Australia, the US and Europe, more expensive and beyond the reach of many children of the middle class.

The effect on the middle-class spending and psychology has been quite dramatic and telling. To illustrate an example, media reports showed how a project engineer with two preschool-aged children reacted. He conceded that ‘Definitely it’s difficult... My kids will be without toys, no more vacation, no new cars and we must be very wise on spending money.’ Another member of the middle class, a freelance writer, who had elderly parents to support, said that with the rising cost of living, her focus was to save money to put sufficient food on the table, and cut out purchases of personal items such as clothes, shoes, bags and so on. Frustrated with the rising cost of living, she said, ‘The government is strangling us. We are now scared to read the daily newspaper because every day, the price of something is going up’ (quoted in Chong 2014). In sum, with shrinking purchasing power, particularly among middle-class households, economists and market analysts expect the decline of private consumption growth will impact Malaysia’s GDP growth for 2014 and probably beyond (Rochan 2014).

 Owning a decent home and possibly having a second home is a crucial component of the middle-class lifestyle and dream. This is a major concern of the middle class. What is the situation regarding house ownership among Malaysian households, including the middle class? Table 14.2 on house ownership status shows that 74.5 percent of all households in Malaysia in 2012 own houses, with the proportion higher in rural areas (84.0 percent) and lower in urban areas (70.9 percent). Households that have to rent their accommodation constitute some 20.2 percent, the highest rate being in urban areas, at 24.8 percent, while others stay in living quarters provided by their employers. Although the data show that the majority of households throughout the country own houses, especially in rural areas, they do show that about 30 percent of all households are without their own homes, and that housing remains a major issue for both the middle and lower classes, especially in major cities such as Kuala Lumpur, Penang and Johor Bharu. As shown in the table, in Kuala Lumpur, only 50.8 percent of households own houses, while almost half stay in rented accommodation (43 percent) or in quarters (6.2 percent). In highly urbanised states such as Selangor, Johor and Penang, the percentage of urban households living in rented accommodation is 29.3 percent, 26.2 percent and 20.9 percent, respectively. In Putrajaya, the administrative capital of Malaysia, which is inhabited by the administrative middle class, the overwhelming majority of households (88.3 percent) live in government quarters, while some 7.4 percent
live in rented apartments or houses, and the remaining 4.3 percent live in their own houses. It is not clear whether those staying in government quarters own houses elsewhere, but the fact remains that they do not own the premises in which they currently live.

Demand for housing is not only strong among those without their own houses, but also among house owners who may want better houses and locations than their present ones. While in the past the demand was largely for low-cost housing for the poor, today it is affordable housing for the middle class (Abdul Rahman 2013). But as has been pointed out by various media reports, housing prices keep surging, especially in major cities and their satellite towns. To address this, the government set up Perbadanan Program Perumahan 1Malaysia (PR1MA) (1Malaysia Housing Programme Corporation), which launched a housing programme – dubbed as ‘affordable housing’ – in July 2012. PR1MA is responsible for planning, developing, building and maintaining housing for the middle class or middle-income groups in major cities in Malaysia. For purposes of the housing programme, the middle-income group is defined as households with a monthly income of between RM2,500.00 and RM7,500.00. Houses built by PR1MA carry a price range of RM100,000–400,000. Malaysians aged 21 years and above and not owning more than one property are eligible to apply. Allocations are done through an open balloting process, and successful applicants are required to live in the houses, which cannot be sold within the locked-in period of ten years (www.pr1ma.my/en/eligibility).

While PR1MA is a good programme, the number of applicants far outnumbers the available units as demand well exceeds supply. According to media reports, PR1MA plans to build 500,000 houses by 2018, and for the first phase, it announced thirty housing projects of 38,000 houses throughout the country. However, by August 2013, there were already 250,000 applicants, and the number was increasing (Lee 2013). For PR1MA’s first project, located in Putrajaya, for example, while it planned for 360 housing units, the number of applicants was more than 7,000, which meant demand exceeded supply by 12 times. It should be noted that in its 2013 election manifesto, the Barisan Nasional promised to build an average of 200,000 housing units a year. Real Estate and Housing Developers’ Association Malaysia (REHDA) President Michael Yam deemed this target impractical, suggesting 100,000 houses per year

### Table 14.2 
Percentage distribution of households by types of ownership of housing, Malaysia 2012 (selected states)

<table>
<thead>
<tr>
<th></th>
<th>Owned</th>
<th></th>
<th>Rented</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
<td>Urban (%)</td>
<td>Rural (%)</td>
<td>Total (%)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>74.5</td>
<td>70.9</td>
<td>84.0</td>
<td>20.2</td>
</tr>
<tr>
<td>Johor</td>
<td>74.3</td>
<td>72.5</td>
<td>80.0</td>
<td>22.4</td>
</tr>
<tr>
<td>Melaka</td>
<td>80.6</td>
<td>79.5</td>
<td>85.7</td>
<td>16.5</td>
</tr>
<tr>
<td>Negri Sembilan</td>
<td>78.1</td>
<td>75.6</td>
<td>82.1</td>
<td>14.7</td>
</tr>
<tr>
<td>Penang</td>
<td>79.0</td>
<td>78.3</td>
<td>82.1</td>
<td>19.9</td>
</tr>
<tr>
<td>Perak</td>
<td>81.6</td>
<td>81.3</td>
<td>82.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Selangor</td>
<td>69.4</td>
<td>68.6</td>
<td>77.7</td>
<td>28.7</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>50.8</td>
<td>50.8</td>
<td>–</td>
<td>42.7</td>
</tr>
<tr>
<td>Putrajaya</td>
<td>4.3</td>
<td>4.3</td>
<td>–</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: Malaysia 2012a (computed from Table 3.1).

Note:
Data on ‘quarters’ as a form of housing status are not included in the table.
would be more realistic. This means that the waiting time for middle-class prospective house buyers under this programme would be long – at least about three years – before they could be given the key to their ‘dream homes’.

Houses built by private developers meant for the middle class are often more expensive, depending on the location and type of house. As shown elsewhere (Abdul Rahman 2013), houses priced at RM380,000 in 2008 would fetch up to RM600,000 or more today. While part of the price hike is due to property speculation, which is still rampant despite attempts to control it (Goh 2013), it does mean that there is a huge demand for housing within this price range among the middle class.

A nagging question remains: is the PR1MA housing programme – dubbed as ‘affordable housing’ – really affordable to the majority of middle-class households? What about the houses offered by private developers – are they within the financial reach of the majority of middle-class buyers? These questions will be taken up in the next section on the middle class and private debts.

Middle-class household debts

Analysts are concerned about rising debt levels in Malaysia and the debt levels of middle-class households. As an analyst writing for the financial weekly The Edge (Yap 2013) puts it in a cover story, what is being witnessed today is ‘Malaysia’s debt mountain’. Although the ‘debt mountain’ metaphor may be rather harsh, the reality is that all three types of debt – government, corporate and household – are on the rise, constituting a huge proportion of the GDP. While the government debt, for example, stood at 35.3 percent in 2001, it increased sharply in just four years to 45.7 percent in 2005. Debt levels peaked in 2010, at 55.4 percent of GDP, declining in 2013 to 53.1 percent, just slightly below the statutory ceiling of 55 percent. Besides government debt, corporate debt has also been rising, from 79.9 percent of GDP in 2007 to 95.8 percent in 2013, which is very high.

What is the situation regarding household debt? Just like for government and corporate debts, the overall trend has been a steady climb in the last decade. Based on statistics released by Malaysia’s central bank, Bank Negara Malaysia (BNM), we can see that while household debt stood at 69.0 percent of GDP in 2006, it increased to 76.0 percent in 2010, and climbed sharply further to 83.0 percent in 2013, one of the highest levels in Asia. While there is no breakdown of the income or socio-economic background of indebted households, it is safe to assume that the overwhelming majority are middle-class households who take up loans from banks, finance companies and other institutions for various purposes. According to BNM, purchase of residential properties and non-residential properties took up 56 percent of household debt in 2012. According to estimates by the Consumers Association of Penang (CAP), housing loan repayment alone takes up about 45 percent of income, while the rest goes to pay off car loans, personal loans (17 percent), credit cards, and so on.

It should be noted that the growth in private consumption has been generated by debts, rather than by increases in income. Pay increases have been slow, especially in the private sector, and have not kept pace with rising prices. Despite all this, private consumption, especially by middle-class households, has been growing faster than GDP, and this is worrying. Data show that between 2005 and 2009, private consumption grew at 7.7 percent per annum, resulting in household debt growth of 7.1 percent, much higher than the GDP growth rate of 5.4 percent during the same period. In 2010, the GDP grew faster, reaching 7.2 percent, but household debt grew at a much higher rate of 12.5 percent.
What is the level of exposure of households in terms of debt? The evidence indicates that household debt in Malaysia is 140 percent higher than household disposable income (The Edge, 22 November 2010). This means that the amount of loans taken by households, on average, is 1.4 times higher than the income at their disposal to service the loans (household disposable income consists of the balance after deducting expenditures for food items, clothing, transportation, health, education, savings, etc.). When examined from this perspective, the situation faced by Malaysian households, namely the middle class, is far more serious than in some other countries. In Singapore, for example, the ratio of household debt to disposable income is much lower, at 105 percent; in the US it is 123 percent; South Korea, 101 percent; Thailand, 53 percent; and Indonesia, 36 percent.

Figures show that the proportion of income spent on loan repayments has hence tended to increase over the years. In 2006, some 39.1 percent of income was used to pay back loans, but this increased to 41.1 percent in 2007. Although that figure decreased to 39.5 percent the following year, it was back up to 49.0 percent in 2009 and 47.8 percent in 2010. In short, almost half of monthly household income has been used to service loans in the last several years (The Edge, 22 November 2010), with not much of a balance left for other expenditures. From the perspective of banks and other lending institutions, this ratio is considered still ‘healthy’, but from the perspective of indebted households, this is risky and dangerous.

Conclusion

Based on the analysis above, it would seem that the mass of the middle class in Malaysia is financially vulnerable in the face of a rising cost of living and inflation, though the nature and causes of their vulnerability may in some ways differ from those of the lower classes. Indebted middle-class households in particular may face a difficult situation. Their exposure to debt makes them vulnerable, especially in times of economic or financial crisis, or when they are struck by personal crises, such as the death or illness of the family’s breadwinner. It would be instructive to draw some comparisons with experiences of the middle class in rapidly growing economies such as Brazil, Russia, Mexico, Turkey and India. The middle class in these countries, especially Brazil, is in trouble. A report in the Wall Street Journal by Chao and Lyons (2013) argues that

Brazil’s troubles offer a warning to emerging markets caught up in one of the most enticing economic stories of the past decade: the rise of middle-class consumers in the developing world. From Brazil to Indonesia to South Africa, faster growth rates lifted millions from poverty in the last 10 years, bringing more people into the middle class and introducing many of them to credit for the first time. But . . . the case of Brazil shows how middle-class growth can also be knocked off track by too much debt. . . . [C]onsumer-debt worries have prompted a rethink on how far Brazil’s new middle class will climb, and how fast. The percentage of household income that goes to pay off debts is unusually high: In Brazil, it is more than a fifth of household income compared with 10% in the U.S., according to both countries’ central banks.

(Chao and Lyons 2013)

As indicated above, in Brazil one-fifth, or 20 percent, of household income is used to pay off debts, and this is considered already ‘off-track’. If this is the yardstick, then the situation in Malaysia, where the proportion of income used to pay off debt is almost 50 percent, is certainly far worse. The implication of this is that indebted middle-class households might
default on loans, leading them into deeper trouble. In Brazil, the middle-class loan default rate is 5.6 percent, higher than that in Russia, South Africa, Mexico, Turkey and India (Durden 2013).

Malaysian middle-class household debt is a cause for worry. Though exact figures are not readily available, many have defaulted on loans and been declared bankrupt. Looking at the situation as a whole, it can be said that a substantial section of the middle class has become a vulnerable group in a specific sense, namely, that they have fallen for the persuasions of banks and other lending institutions to take up loans that sometimes are beyond their means to pay off. Their economic and financial situation is not strong, except for those in the upper echelons of the new middle class. But, as consumption is part of their lifestyle, they may not be able to resist the market blitz and temptations of new products emerging in the market. While this attraction may be a boon to business, it is a bane to middle-class households that have multiple loans to service and personal consumption to sustain. As the prospects of containing the rising cost of living and raising household incomes do not look promising in the near future, many indebted Malaysian middle-class households may have to ‘slave’ for the banks for the rest of their working lives in order to rid themselves of debt shackles.

Notes
1 As explained in the paper, ‘The size of the emerging middle class in eleven countries is estimated with a cut-off level of $6,000 using the World Bank data . . . for GNI per capita, converted into US dollars using purchasing power parity (PPP) and the percentage shares of income or consumption by quintile and for the top 10 percent of the population’ (Senauer and Goetz 2003: 4).
2 The Ernst & Young report disagrees with the World Bank’s definition of the middle class. It argues that ‘The World Bank’s definition . . . is a useful way of ascertaining how many people have been lifted out of poverty – and the numbers who have moved into this bracket in the developing world is something to be applauded. But this definition is not very helpful for companies dependent on sales to those with large disposable incomes; they require a more realistic estimation of the number of people entering their target markets. For most businesses, a much more useful definition of middle class is people earning between US$10 and US$100 per day. At this level, consumers start having the kind of disposable incomes that will allow them to buy the cars, televisions and other goods that have been the staples of bourgeois life in the West for 60 years. People in this income bracket can be considered a “global middle class” – middle class by the standards of any country’ (Ernst & Young 2013: 3).
3 Using occupation as the criterion, the middle class consists of the following categories: managerial and administrative, professionals, technician and associate professionals, as well as clerical, sales and about half of service workers. Those in the managerial, administrative, professional, associate professional and technical categories are defined as the ‘new middle class’, while the rest constitute the lower middle class (for details see Saravanamuttu 1989; Abdul Rahman 2002).
4 I have briefly discussed in an earlier paper the consumption and challenges to the living standards of the middle class and dilemmas they face (see Abdul Rahman 2013). The present paper takes up some of the issues in the earlier paper, but goes beyond it by raising critical questions on the economic vulnerability of the middle class today.
5 At prevailing exchange rate of US$1.00 to RM3.30.

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