



NOW EVERYONE PROSPERS (NEP)

The Best of Both Worlds

Now Everyone Prospers

The Best of Both Worlds



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Now Everyone Prospers: The Best of Both Worlds. – Kuala Lumpur, Malaysia: Global Institute For Tomorrow

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1. Preface

“Malaysia is a country with so much unmet potential.”

This was one of the uniting sentiments expressed by leaders from business, media, civil society, academic institutions, and the civil service when interviewed for this report. Readers of this report will likely share a similar view. The natural questions following this statement are: Why has Malaysia not met its full potential? Why has its development trajectory not led to the desired economic and social outcomes? And why is there a widely held belief that the country is somehow unable to change course for the better?

These questions are more important than ever. Malaysia has reached a critical juncture in its development: mounting pressures from within its own borders – including years of political dissatisfaction and uncertainty, shifting racial divisions, and rising economic inequality – have been further exacerbated by the impacts of the COVID-19 global pandemic and challenges associated with existential threats such as climate change, rising geopolitical complexity, and economic uncertainty. At one level, this has resulted in very visible social reactions, such as public protest, and white flags being hoisted by the most disenfranchised. But perhaps more importantly, it has led to the rise of a national conversation around the fundamental challenges facing the country and the need for a major change of direction.

This report aims to add to this ongoing discourse through two approaches: first, by drawing together and clearly articulating the major developmental (social, economic, and environmental) challenges Malaysia faces and discussing their implications for the country’s future well-being. Second, by proposing a renewed vision for the country, supported by five conceptual pillars that represent Malaysia’s most important areas of transformation. The report will be structured around these pillars, exploring key themes predominantly through a socioeconomic lens.

Importantly, this report will not shy away from the deep economic and cultural challenges faced by the nation, which are frequently avoided in other literature of this scale. For the former, this includes the need to reshape the very economic fundamentals that guide our country, including outdated notions of growth like trickle-down economics, an over-emphasis on comparative advantage and other economic theories exported by the West. For the latter, this means facing up to the damages caused by originally well-intentioned race-based policies that have persisted beyond their reasonable utility, the discriminatory cultural norms this has created among Malaysia's elite, the way public interest organisations such as government ministries, government-linked companies (GLCs) and government agencies are run and staffed, as well as education systems and standards. In short, the ways in which corruption and a lack of meritocracy are enabled in Malaysia must be openly addressed to achieve real change.

In fact, this report is entitled **Now Everyone Prospers** (NEP) in deliberate reference to the New Economic Policy (NEP), to highlight the importance of the aforementioned issues with regards to ensuring a safe, secure, and satisfactory future for all Malaysians – regardless of race.

In writing this report, a wealth of contemporary case studies arose to exemplify the core arguments being made. While these are discussed, this report is by no means exhaustive, nor is it a prescriptive policy document. Rather, it should be read as both an account of the Malaysia's challenges, and as a new manifesto on how to reimagine Malaysia in order to navigate the challenges of the 21st century, for which it seems poorly equipped to deal with at present.

The research methodology of this report consists of a combination of semi-structured interviews with leaders and experts from government, business, media, academic institutions, and civil society, supported with desktop research. As part of their research agreement, all interviewees will remain anonymous.

It is hoped that the vision and pillars for reimagining Malaysia presented in this report will act as a bold and holistic starting point for deeper and diverse discussions on how

to systematically address Malaysia's challenges for the long-term benefit of the nation and its people. This will require other institutions, business leaders, civil society groups, policymakers and the civil service to take the ideas presented in this report, build on them, and commit to applying them.

However, this is no easy ask. Many of these issues are deeply entrenched in the country's economic, political, societal, and cultural systems. Even think tanks shy away from addressing them for fear of being censored. But the need is urgent and the hard work of putting the country on to a new track must start now. It is therefore recognised that transforming the country requires close collaboration with a multitude of stakeholders and will take a generation's worth of work. There is no quick fix.

Nonetheless, the pandemic and the current state of the world has demonstrated that large-scale, unprecedented change remains a feature of the modern world, and it is during this period of turbulence and transformation that Malaysians should act to create a better future for themselves and the nation as a whole. There are no wholesale models to borrow from elsewhere: the future is for Malaysia and its citizens to build in one of the most unique multicultural countries in the world.

2. Introduction

2.1 Why Now: A Critical Inflection Point

2020 through to 2022 unexpectedly became one of the most turbulent times in recent human history. The global COVID-19 pandemic has been a watershed event, impacting everyone, regardless of nationality, social standing, or wealth. Its sheer scale solicited a significant response from governments, businesses, and societies as a whole. This resulted in national-level interventions to mass lockdowns, halted travel, food shortages, debilitating unemployment, the sudden and unimaginable need to wear masks, the sanitisation of entire urban environments and the call for a radical behavioural change.

Equally, the onset of the Russia-Ukraine war and its implications for the wider world have been drastic. Between cascading impacts across supply chains and damage to the global geopolitical equilibrium, the war has deepened pre-existing bilateral and multilateral rifts.

In response to the impact of both the pandemic and the Russia-Ukraine war, many commentators, business leaders, and government officials have called for the world to practice a different, more inclusive, and sustainable economic system compared to the predominantly globalised neoliberal capitalist approach of the past. For example, 'The Great Reset', as coined by the World Economic Forum (WEF) in 2021, or its successor, 'The Great Narrative', which further explores questions on redesigning global societies. These calls to action have not only been prompted by the combined effects of the pandemic and the Russia-Ukraine war, but other pre-existing global trends as well. These trends include: the rise of China as the world's number one purchasing power; geopolitical tensions with the US; growing policy recognition of the threat of environmental challenges like climate change and biodiversity loss; and the general backlash against Western-led globalisation models.¹

These global events indicate that we are at a critical inflection point in the 21st century. During moments like this, transformations can and should occur. A paradigm shift is beginning in how nations organise their economies, utilise governance systems, and consider approaches to development. The implications of this transition will be wide-ranging and profound – impacting the macro-scale economic, political, and cultural currents that shape nations. It is thus incumbent on rising Asian nations – like Malaysia – to now rethink their paths to development and building shared prosperity, which will be a departure from the archaic economic development models of the last half century. This will require three key recognitions:

1. First, that there are existential threats posed by the status quo of a hyper-globalised, growth-at-all-cost economic model, in a politically divided, and resource-scarce world (with a population expected to reach 10 billion by 2050)² all of which will require urgent attention from Asian nations in the way their societies are governed.
2. Second, for transformations to take place effectively and equitably, there is a growing need to recognise that the 20th century Western economic ideologies adopted by many Asian countries are outdated, given their historical and cultural underpinnings and inflexibility, particularly since they cannot adapt to increasing existential challenges facing the world.
3. Lastly, that solutions for resilient societies across nations in Asia will need to be rooted in the reality of local contexts, established around strong national governance systems, supported by sound institutions built on competence, integrity and social justice.

Based on these three recognitions, Malaysia must use this inflection point as an opportunity to take stock of its current trajectory and address the gaps and weaknesses in its economic and governance systems. The pandemic has exposed these vulnerabilities to the extent that the ‘failed state’ moniker has nearly been applied to the nation³. For example, due to the unprecedented circumstances presented by the pandemic in 2020, Malaysia suffered from its largest GDP drop since the Asian Financial Crisis in 1998 – a contraction of 5.6%.⁴ Figure 1 demonstrates the immediate

economic impact of the pandemic (a nadir of -17.1%) once the global economy began to slow down:

Chart 1: GDP (RM billion) and Annual Percentage Change (%)

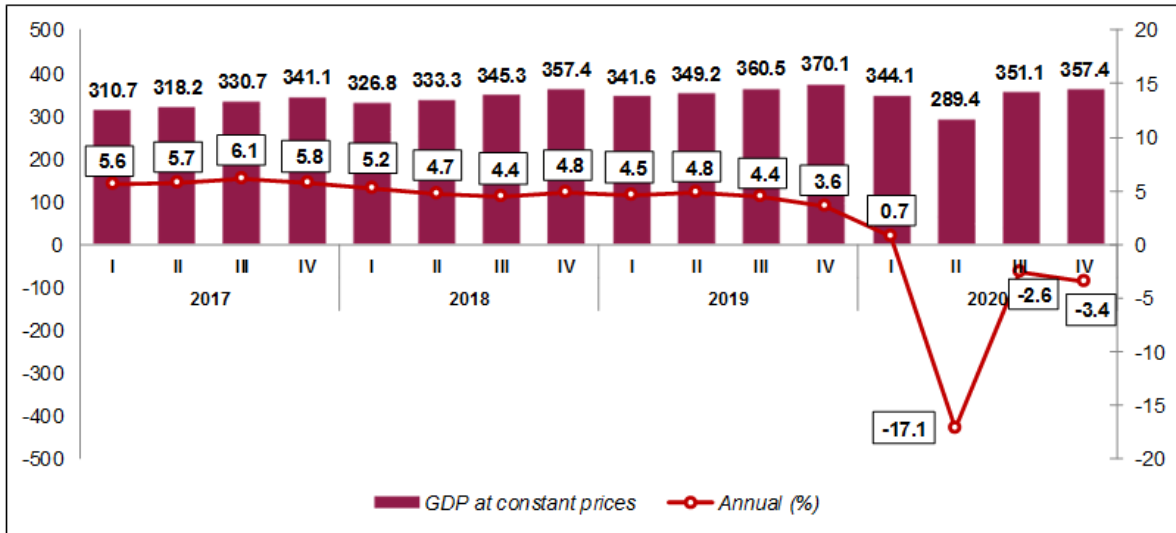


Figure 1: GDP (RM billion) and Annual Percentage Change (%). Source: Department of Statistics Malaysia

Additionally, the unemployment rate in 2021 reached 5.3% - the worst in nearly 30 years – while it is estimated that over 600 thousand households have slipped from the middle 40% income level (M40 - between RM4,851 to RM10,970 per month) to the bottom 40% income level (B40 - below RM4,850 per month).

These impacts are serious and have been allowed to become severe due to underlying domestic structural issues and the inherent failings of the political system. For example, the inefficient distribution of aid and slow start to the vaccination program or the general lack of leadership among those entrusted with managing the national response to the pandemic are indicators of profound institutional and societal deficiencies and decline that have deepened during the crisis.

The 2021/2022 floods that displaced over 70 thousand people are another prominent example: the severity of the floods is not due to environmental factors alone but also results from perennial mismanagement. Malaysia is no stranger to annual floods – the most common being the annual floods occurring in the East Coast of the peninsula. Given these recurring disasters, it is striking that little to no effort has been made to address inappropriate land-use practices, unplanned urbanisation, poor water basin management, and uncontrolled deforestation (much of it illegal) which have contributed to the destruction of so many livelihoods.

If Malaysia can emerge from the difficulties of the current period with a reshaped economic approach that addresses socioeconomic inequalities, while also repairing the harm done by a sub-par and damaging political system, the nation will set itself up as exemplary for the region and the wider international community.

This will require a national effort to confront the weaknesses of the current governance model and replace it with a more efficient, representative and accountable system that is less prone to endemic corruption. It will also require a departure from the historical orthodoxies concerning the global capitalist regime founded on consumption, economic integration, development frameworks, governance systems and cultural norms that Malaysia has hitherto ascribed.

In the past, these approaches have helped shape Malaysia into an active player in the global economy. However, these orthodoxies have become outmoded, and are exacerbated by the failings of the country's political system, which has undermined the potency of the beneficial aspects of these orthodoxies in their application to Malaysia. This is why Malaysia has unfortunately gained the moniker of being home to the world's largest financial scandal, in the case of 1MDB.

Given this context, the oft-discussed 'New Normal' in Malaysia will not be a return to a pre-pandemic business-as-usual, and nor will it manifest through simplistic suggestions about national recovery centred on attracting Foreign Direct Investment (FDI). The New Normal will be about the pursuance of a bold new era with a national vision predicated on setting out a ground-breaking course for the country given

current national and global realities to build value for all Malaysians. It will be based on the security and well-being of Malaysian society over and above the compulsion to pursue economic policies based on growth at all costs and driven by racial policies. It is about tangibly transforming the country for real resilience in the face of future economic shocks and widespread weaknesses in its governance systems.

In its current state, Malaysia is far from realising this goal. It is at a crucial juncture in its development where current modes of political operation and economic development must be reviewed to bring about tangible change, post-pandemic. This report seeks to offer a breakdown of Malaysia's challenges, including an historical examination of the making of Malaysia to understand where many of these challenges stem from, followed by an analysis of the key aspects that need transformation in the country.

2.2 Where are We Now: The State of the Country

The previous section has highlighted that the pandemic has helped reveal how numerous political, economic, and developmental concerns in Malaysia are home-grown and that many of these issues are also situated within a global context.

To determine how Malaysia must change post-pandemic, it is essential to identify what needs to change. Based on interviews with subject matter experts and literature reviews, the following list presents a non-exhaustive summary of the challenges facing the country:

- Erosion of national identity and social cohesion without buy-in to a national vision due to entrenched race-based policies.
- Declining standards of meritocracy, resulting in weak systems of governance and competencies in both the public and private sectors, with consequent limitations placed on the country's need to continually improve its institutional capabilities (defined as the capability of institutions to set and achieve socioeconomic goals).

- High prevalence of rent-seeking activities across the economy, with associated practices of patronage and cronyism, linked to institutional racism.
- Weak policymaking (political interference, competency, and meritocracy issues) leads to mismanagement of the economy and deepening economic inequalities between classes, races, urban and rural populations, as well as citizens of the Peninsular and East Malaysia.
- “Short-termism” in growth strategies, with the majority of targets and indicators focused on narrow definitions of economic expansion rather than societal wellbeing and managing existential threats.
- Systemic undervaluation of Malaysia’s human, social and natural capital.

To better analyse these seemingly disparate challenges – and thus identify solutions for them – they must first be categorised and tethered to trends shaping the nation. These manifest as five major themes:

1. Race-based Policies and Racial Disharmony
2. Poor Governance and Institutional Capacity
3. Rising Income and Economic Disparities
4. Deepening Rural-Urban Divide
5. Mismanagement of Natural Resources

2.2.1 Racial Disharmony and Race-based Policies

Malaysia ranks among the most diverse countries in the world, owing to the presence of three major ethnic groups in the country: Malays, Chinese and Indians, who make up 69.6%, 22.6% and 6.8% of the population respectively, alongside at least 18 ethnically indigenous populations.¹ This diversity has historically added to Malaysia’s strengths – enabling the public and private sectors to draw upon various expertise, opinions and cultural connections (such as various dialects and relationships to origin

1 Bumiputeras are made up of Malays (the majority of Bumiputeras), Orang Asli (the natives of Peninsular Malaysia) and Sabah & Sarawak natives, who are made up of a mixture of indigenous races.

countries). Economically, the versatility of the populace (combined with relatively good English language skills) has helped attract investors. Socially, it has led to high cultural sensitivity and a greater awareness of different cultures. The socioeconomic benefits of Malaysia's multiculturalism have also been augmented by the country's relatively young population, given that the median age is approximately 29.

While it is the case that these demographic features have been great source of socioeconomic potential for Malaysia, it is now widely recognised that the national management of Malaysia's racial diversity presents one of the greatest challenges for the country. In the interviews undertaken for this report, many senior leaders in business, the civil service, GLCs, academia, and civil society feel that Malaysia's political system has increasingly leveraged race over the last 50 years to such an extent that it has become a root cause of the major socioeconomic challenges facing the nation today. These include economic issues, such as widened income inequality, segregated labour force participation, equality of outcome, and even stifled national growth. Just as significant are the social issues, like segregated communities, education-based challenges, equitable access to opportunity, state-led racial discrimination in policies, lack of appropriate representation as well as recurring political instability. As a result, inter-racial tensions and discord continue to simmer among and between the major ethnic groups (though fortunately with very limited instances of physical violence as compared to other parts of the world), particularly as expectations for a more equitable society continue to grow, without being fulfilled.

It is to the credit of all Malaysians that despite the simmering resentment, racial harmony is maintained and protected. It is this inherent desire for all Malaysians to be respected and live as citizens that need to be leveraged for the bold new Malaysia. In doing so, the nation must dismantle the entrenched institutional racism, which is currently a key feature of the political system. Indeed, the use of certain race-based policies has been continually criticised for no longer serving the majority and for not effectively leveraging Malaysia's diversity. The term 'race-based policies' refers to government policies and initiatives that use race to set economic priorities, to make political decisions and as an organisational and hierarchical identifier instead of other axes of difference, such as socio-economic status, income, or occupation, for example.

Race-based affirmative policies in the country are sanctioned by Article 153 of the Malaysian Constitution, which calls for the Bumiputeras position in various aspects of society and economy to be protected “of such proportion as [the Agong] may deem reasonable”. This protection has come to include public service, scholarships, as well as permits and licenses for businesses (it is important to note that a numerical quota system was not introduced and enforced on institutions until 1971)⁵. Given the socioeconomic status of the Bumiputera at the time of Article 153’s implementation in 1957 (many of whom were in poorer rural communities), there was the belief that the addition of this clause was *bona fide* as a temporary measure, helping to uplift the national majority. However, the clause was not introduced with surety at the time: the Reid Commission² Report of the Federation of Malaya Constitutional Commission 1957 laid the foundations of Malaysia’s pre-independence Constitution. It stated that "provision should be made in the Constitution for the 'safeguarding of the special position of the Malays and the legitimate interests of the other Communities'." However, it also declared that the Commission "found it difficult...to reconcile the terms of reference if the protection of the special position of the Malays signified the granting of special privileges, permanently, to one community only and not to the others."⁶

Subsequently, iterations of affirmative action policies for the racial majority have since been enacted by government, with strong support from the Malay political elite. This resulted in significant capital accumulation among middle and upper class Bumiputeras and has instilled a legacy of Bumiputera management of key public and private organisations, not to mention a range of unintended consequences, including a sense of entitlement, the erosion of education standards, the corrosion of values and the weakening of institutions across the board. As other races that are actively discriminated against have not been able to benefit from these policies for over half a century, Malaysia’s minority communities have expressed a rising sense of disenfranchisement, rightly labelling the race-based policies as being inequitable.

² The Reid Commission was an independent commission headed by Lord James Scott Cumberland Reid who was joined by four other constitutional experts from the British Commonwealth to help frame a new constitution for Malaya prior to its independence.

The continued practice of race-based policies has adverse and cascading effects across all aspects of the economy and the nation's social fabric, with wide-ranging consequences. The following sections within this chapter will identify how race-based policies have moulded other trends shaping the country, including widening economic inequalities, poor standards of governance, weakening education systems, and erosion of institutional capabilities. Malaysia must therefore address the continued use of outdated race-based policies as a matter of national priority if it is to change its socioeconomic trajectory and not decline even further. This can and must be done without changing the original objective of helping raise the standard of living of disenfranchised Bumiputeras.

2.2.2 Poor Governance and Institutional Capacity

International rankings, such as the Worldwide Governance Indicators (WGI) provided by the World Bank, often position Malaysia relatively high for democracy, peacekeeping, and the rule of law. However, Malaysia falls short on criteria such as transparency, accountability, political stability, and corruption controls: Transparency International ranks Malaysia 61st in the world, while the WGI classifies Malaysia as 0.2 on the corruption control scale (between -2.5 and 2.5, indicating that Malaysia does control corruption overly effectively).

Undoubtedly, such rankings – given their Western prejudice and strong bias towards quantitative methodology – should be taken with a pinch of salt. Nevertheless, they serve as an indication of a leadership malaise in the country, which, regardless of intensity, must be addressed.

There are numerous contributing factors to Malaysia's shortcomings in these areas of governance. However, a key element is the overuse of race-based policies, which has resulted in a systemic lack of meritocracy, with the resultant entrenchment of corruption within the political and government systems.

In this report, meritocracy refers to the ability of the nation to nurture and allocate its best talent to serve the needs of society. As an ideology, meritocracy has been criticised for perpetuating systems of inequality. For example, high-income families being able to afford the best education so their children may secure the highest-paying careers. As such, this report does not prescribe meritocracy as a political ideology, but rather as an aspirational state in which all Malaysians, regardless of race and socioeconomic class, can fill positions in the economy they are best suited for, based on talent, effort, and achievement, and not status or connections. This implies that policies focused on equity and justice are used to protect against cycles of inequality: it is undeniable that positive discrimination is needed in certain instances to uplift those that do not have access to equal opportunity or tools for socioeconomic betterment, for example rural and urban poor. However, the basis of these policies should be needs-based, rather than race-based.

In Malaysia, race-based affirmative action now permeates much of the Malaysian economy, social structure, and the institutions of the state, particularly among GLCs. It has become a tool of political dominance and economic enrichment, and thus has to be reversed. This is central to improving Malaysia's governance, but international agencies such as the World Bank and UNDP seem to not highlight this all too obvious fact as a key focus in the country's stagnation.

All of this denial has led to undeniable carryovers onto the performance of the nation's governance systems and the capability of its institutions to execute their mandates. Race-based policies have led to leaders in the public and private sectors being selected or appointed to positions of power that they are not necessarily equipped for. The resulting mismatch of skills or lack of competence at the highest levels of Malaysian organisations inevitably fosters rent-seeking behaviours. In turn, inefficiencies are exacerbated, public coffers are drained, and organisational outcomes are poor. Examples of this is Datuk Seri Tajuddin Abdul Rahman's placement – and subsequent removal – from the chairmanship of Prasarana Malaysia given his display of poor leadership and this lack of basic professionalism when responding to the May 24th, 2021, LRT crash. Another scandal involved the Malaysian Anti-Corruption Commission (MACC) and its chief commissioner, Azam Baki, who was

criticised for holding shares in two companies listed on Malaysia's stock exchange in excess of the amount permitted for a government employee of MACC.⁷

Additionally, the talent pool is often restricted due to racial preferences, and it is important to note that this applies across all races in Malaysia. For example, there exists a clear preference for Malay candidates in the civil service and GLCs, while traditionally, Chinese-led, or Indian-led organisations in the private sector might prioritise candidates from their respective races.

When this race-based lack of meritocracy is combined with poor transparency, inadequate accountability, and weak corruption control, this becomes a significant enabler of the pervasiveness of rent-seeking activity in the economy. Economic rent-seeking is defined as the practice of manipulating public policy or economic conditions as a strategy for privatising the accumulation of wealth and increasing profits for that purpose. Rent-seeking results in increased personal financial gain – often through improper means, including corruption – without contributing to productivity or creating new wealth for society. This disenfranchises the majority, contributing to systemic inequality and social injustice.

Rent-seeking behaviour is most damaging when it occurs at the highest levels of Malaysian institutions, where individuals have the influence to co-opt entire segments of the state, businesses, or GLCs. They leverage their political connections for personal benefit at the expense of the public or a business and its stakeholders. A manifestation of this is the common practice of awarding public contracts with no tenders and little transparency. Another clear example is the 1MDB financial scandal, which demonstrated how institutions – especially GLCs – can be used as a vehicle for personal and political expediency. Unfortunately, the prosecution of the main actors involved in the 1MDB scandal do not mean corruption has been rooted out of Malaysia or that major reforms are underway based on the lessons learnt. Rather, many GLCs have been critiqued for poor leadership due to continuing political interference.⁸

The cumulative impact of rent-seeking in Malaysia is in itself a virus threatening the very fabric of society and institutions, infecting decisionmakers in the government to

the extent that monetary and fiscal policies, transportation networks, various infrastructures, resource management, healthcare systems, education, and overall development are hampered. It is for these reasons that Malaysia is widely regarded as having very weak corruption-fighting mechanisms. The visible failings of an often-toothless corruption fighting agency – the MACC – further deepens public mistrust on the state. As such, the state's capacity to build confidence and at the same time provide for the nation has been severely compromised by poor governance.

If Malaysia is to recover from this position and the government is to meet its obligations to improve the welfare of its population, it must first address these central obstacles to its governance and institutional capabilities, so that the actions and interventions of vested interests in the public and private sectors can be minimalised and not pose a threat to the future of the nation.⁹

2.2.3 Wealth, Income and Economic Disparity

Over the last few decades, Malaysia has been successful in alleviating absolute poverty levels. Since 1970, the overall absolute poverty rate has dropped from 49.3% to 5.6% in 2019.¹⁰ Additionally, Malaysia is now the third-richest country in Southeast Asia according to GDP per capita, behind Brunei and Singapore (although three times behind the former, and six times behind the latter behind both)¹¹.

However, in 2020, Malaysia registered a relative poverty of 16.2%, which is marginally smaller than the 1995 rate, which stood at 19.5%¹². Additionally, as Figure 2 demonstrates, the official poverty rates may not be fully representative – an assessment of the percentage of households earning under RM2000 in each state reveals this:

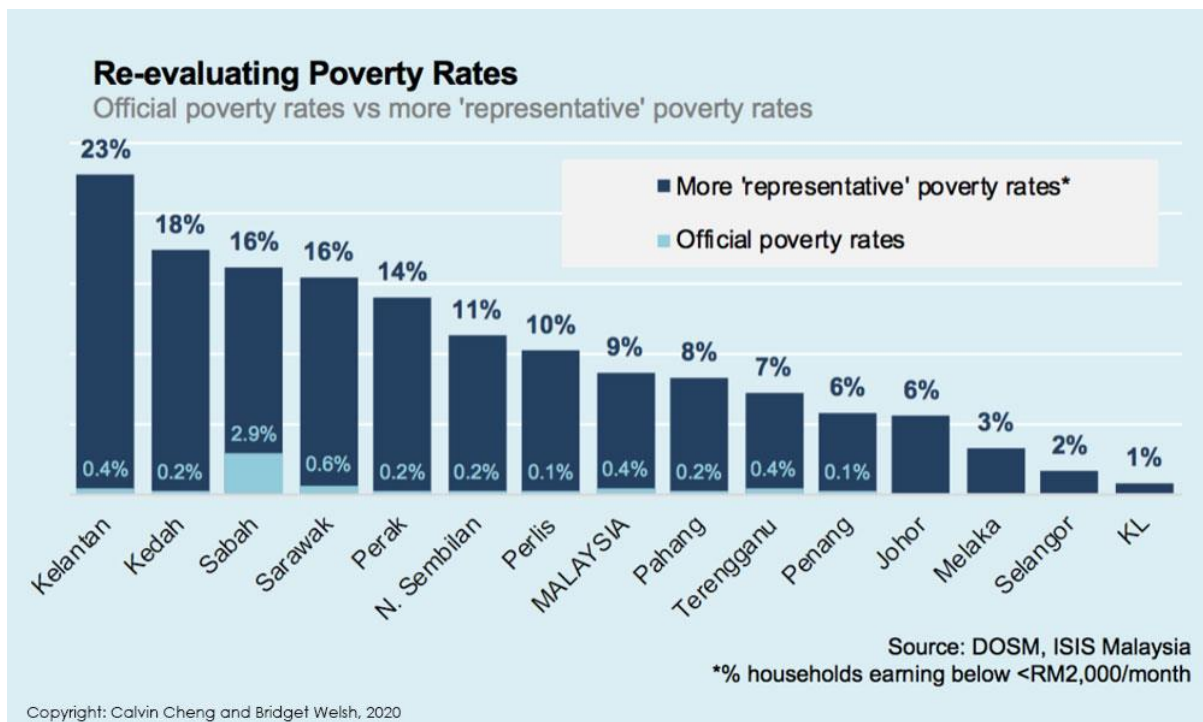


Figure 2: Graph showing 'more representative poverty rates' as defined as households earning less than RM2000 a month. Source: Calvin Cheng and Bridget Welsh (2020)¹³

From this data, it becomes clear that the disparities in wealth distribution remain a significant obstacle to the quality of life for the average Malaysian and the nation's overall development levels. It is as of yet unclear what the impact of the pandemic has had on these previous gains.

This is not to discount the endeavours of various Malaysian governments in addressing inequality, and it is important to be aware of these efforts. For example, Malaysia's approach to income equalisation at the onset of independence was agrarian-centric. The establishment of the Federal Land Development Authority (FELDA) in 1956 was amongst Malaysia's crowning successes in poverty alleviation. FELDA schemes aimed to improve the economic livelihood of rural dwellers through land resettlement of the rural poor, who were given land to develop rubber and palm oil plantations. This helped settlers' income rise dramatically, quadrupling between 1980 and 2016, and contributed to balancing the rural and urban populations, given that Malaysia rapidly urbanised from 1970 onwards.

The next most relevant initiative is the New Economic Policy (NEP) of 1971, which played a central role in Malaysia's poverty alleviation measures. The genesis of the NEP was a consequence of post-election racial riots in May of 1969. The twin objective of the NEP was to eradicate poverty regardless of race and to restructure society to eliminate the identification of race with economic function (a practice that had been established under British colonial rule – for example, Indian labourers as rubber tappers). The NEP is possibly the most well-known of Malaysian policies because of its long-standing impact on the country's economy and society – many of which are still felt today.

While the NEP was intended at its inception for all peoples of Malaysia, it was ultimately a race-based policy given its overtly preferential stance for Bumiputeras. This was exploited to financially bolster existing Bumiputera elites. At the same time, it helped to create an entirely new class of Bumiputera elites who saw an opportunity to leverage wealth creation through race-based rent-seeking activity. The accumulation of wealth in these urban classes was to the detriment of the disadvantaged Bumiputeras themselves, whose socioeconomic standing in relation to the rest of the country had not improved.

The NEP has since been succeeded by the National Development Plan (NDP) in 1991 and the National Vision Policy (NVP) in 2001, both of which revolved around similar race-based affirmative actions, reaffirming the desire of elites to secure their rent-seeking economic activities. As a result, these policies have been criticised for abetting the continuation of visible disparities around income and wealth (more information on this can be found in Chapter 2 of this report). For example, the compounded annual growth rate (CAGR) between 2016 and 2019 of the median income for T20 was over 2.5 times higher than the CAGR for B40 median income. Figure 3 demonstrates this.

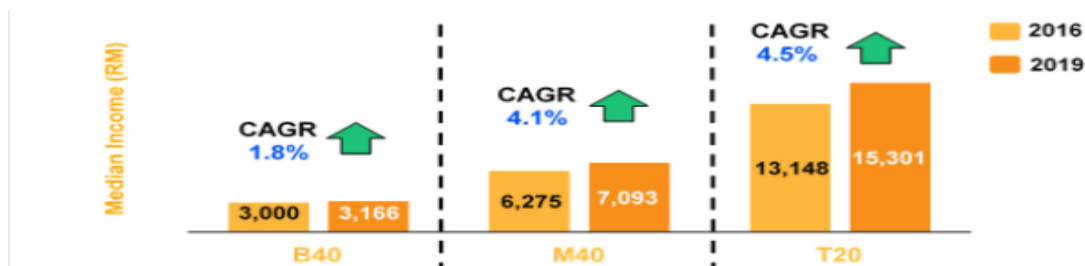


Figure 3: Graph showing the inequality in compound annual growth rate between Malaysia's economic classes. Source: Household Income & Basic Amenities Survey Report 2019

Within a more contemporary context it is clear to see how these race-based policies have manifested in the allocation of Budget 2022. According to official estimates, Budget 2022 had allocated up to RM11.4 billion for the Bumiputera community, while non-Bumiputeras were allotted around RM300 million or a 2.6% portion of the budget. This equates to approximately RM577 per Bumiputera citizen, RM75 per Indian citizen and RM15 per Chinese citizen.¹⁴ Additionally, this is not inclusive of other provisions to Bumiputeras, and thus this has even been called the most racially configured budget in Malaysia's history. The extent of the racial divide of Budget 2022 has led to widespread criticism.¹⁵ No other country in the world runs its budget on such racially biased terms, and the tragedy is that these policies have failed to uplift the majority of poor Malays.

Economic inequality has also been exacerbated by an influx of foreign labour into the country. The frenzied recruitment of foreign low-skilled labour during the construction boom in the 1990s set up the norm of over-relying on imported and under-priced labour. While this approach was successful in enabling rapid and extensive infrastructure growth during the 1990's, it also resulted in income stagnation for lower-pay workers due to wage suppression: in order to keep the country competitive for domestic and foreign companies, wages of low-skilled workers were set low, a practice that continues to this day. Additionally, the influx of low-skilled foreign workers has distorted not just salaries but overall competitiveness of the Malaysian economy and shaped attitudes of lower income groups – particularly Malays – about seeking jobs in certain sectors. A report issued by Bank Negara Malaysia in 2018 illustrated that the

industries with the largest share of low skilled foreign workers also had the lowest productivity rates, given minimal incentives for businesses to innovate beyond driving labour costs down. This is not a practice befitting a country that aspires to be a developed nation.¹⁶

Furthermore, the pandemic is expected to push more citizens down the economic strata. The worst group affected are the bottom 40%, with an expected loss of almost 900,000 jobs.¹⁷ Additionally, of the middle 40% of earners by household in Malaysia, 20% have slipped into the B40.¹⁸ Another phenomenon is the drastic increase in urban poverty because of the pandemic: a joint study by United Nations Population Fund (UNFPA) and United Nations International Children's Emergency Fund (UNICEF) in Kuala Lumpur's low-cost flats revealed that the overall labour market recovery has been muted and the rate of unemployment for the head of households is 2.5x higher than the pre-crisis levels at 12%.¹⁹ For unemployed female heads of households, the figures are even more severe, with the unemployment rate being three times higher than the national average.

The inequality challenges facing Malaysia are complex, tied to core elements of the nation's economic identity. It should be a concern to everyone in the nation that inequality is increasing due to business-as-usual practices, so addressing these challenges will require a fundamental shift in the nation's socioeconomic priorities and governance systems, particularly given the catalysing impact of the pandemic.

2.2.4 Rural-Urban Divide

Malaysia has seen a dramatic rise in its urban population over the last few decades due to heavy in-migration to internal and international centres and peripheries for employment and education opportunities. In 1971, the urban populace stood at 34.3% of the national population (just 3.8 million people). By 2019, as shown in Figure 4, this percentage had reached 76.6%, or 25 million people, making Malaysia one of the most urbanised countries in Asia behind Japan, South Korea, Brunei, and the city-states of Hong Kong and Singapore:

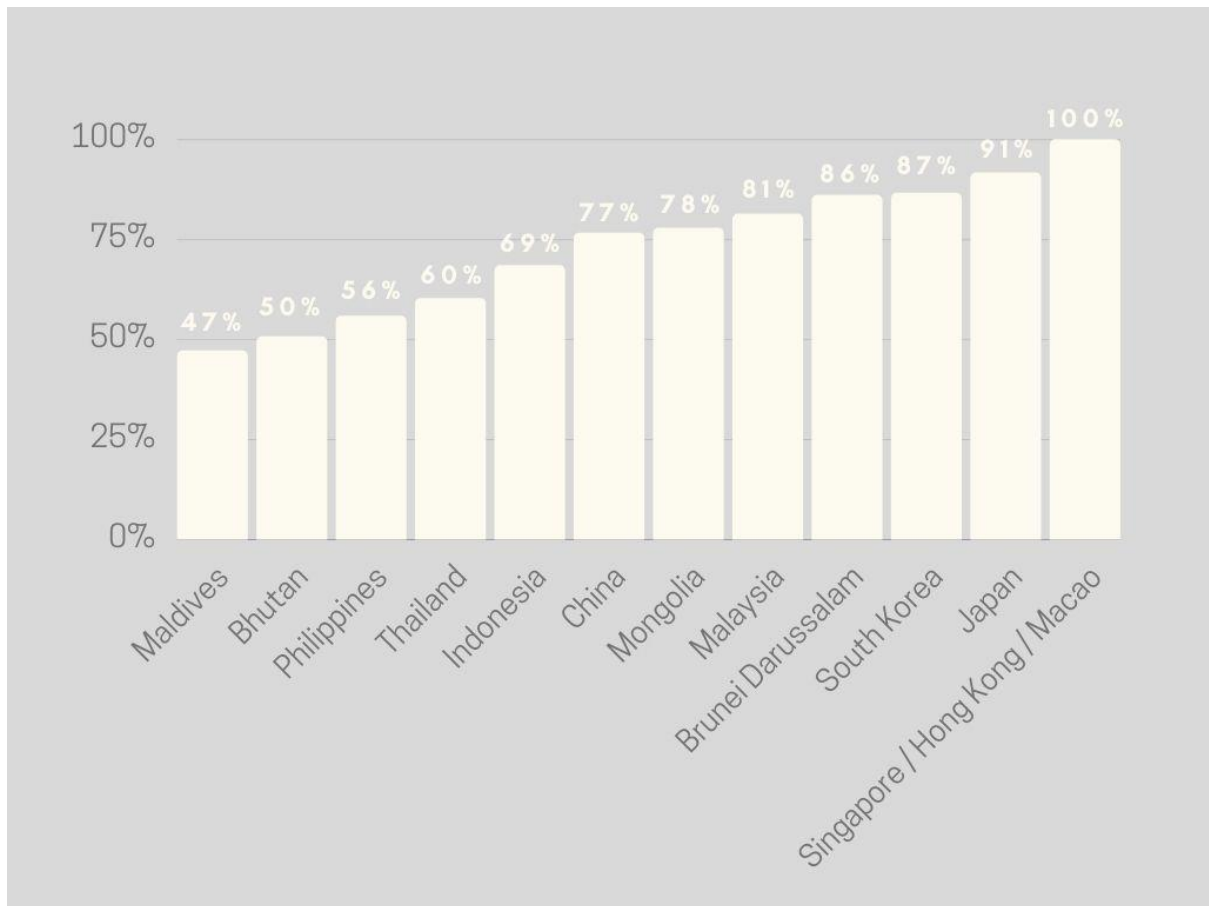


Figure 4: Graph showing the top twelve Asian countries by proportion of urban population in 2019. Source: Statista ²⁰

Numerous government initiatives and policies have encouraged the process of urbanisation and attempted to manage it in a way that restructured Malaysia’s society for competitive growth – all to modernise the country and increase living standards via wealth creation.²¹ Despite the opportunities presented by this drive for urbanisation, the persistent economic inequalities in Malaysia (as discussed in the previous section) manifest extremely visibly within Malaysia’s cities: in fact, according to the Palma coefficient³, Kuala Lumpur is the most unequal city in Asia.²² The country faces a noticeable set of urban challenges, which includes high cost of living, disenfranchisement and crime, social disharmony, environmental deterioration, unemployment, and poverty. Urbanisation should not be viewed as the panacea to

³ The Palma coefficient named after Chilean economist José Gabriel Palma is a more sensitive measure for inequality. The ratio is derived by dividing the income share of the top 10% by that of the bottom 40%. The higher the Palma ratio, the greater the inequality.

Malaysia's developmental woes. Unchecked urbanisation is just as much a threat to socioeconomic wellbeing as rural stagnation. Its utility as a strategy in our policy arsenal also merits a rethink given the impact of the pandemic on urban life.

The focus on developing urban centres has contributed to the deepening rural-urban divide, with urban Malaysians now earning nearly twice that of rural Malaysians. While it is expected that urbanites earn more than rural workers, the poverty rate is over three times as likely in rural regions, with 3.8% of Malaysia's urban population considered as living in poverty, compared with 12.4% of the country's rural population. It must also be noted that a majority of the rural population comprise Malays and other indigenous peoples, further indicating that some segments of Bumiputera society remain vulnerable to failing policies, including the NEP and its derivatives.

These figures demonstrate that there has been both an inappropriate approach and a lack of development and investment in Malaysia's rural townships or even in smaller cities. This suggests that Malaysia has aped the global trend of adopting policies of *over-urbanisation*, resulting in Malaysia being too reliant upon developing Kuala Lumpur into the primary catalyst for building the economy and the only major conduit to access global markets. While the city's advancement over the previous decades has helped the country maintain regional competitiveness and attract foreign investment – both of which have serious drawbacks, as will be discussed in Pillar 2 of this report – it has been pursued to the detriment of the rest of the country.

The lack of development and investment in Malaysia's rural hubs and networks also means that there is little opportunity for out-migration. Usually, when the number of a city's residents exceeds the capacity of that city to support its residents, reverse migration (termed 'counter-urbanisation') often occurs, as has happened in China, Korea, and Japan. However, the stark differences in development and quality of life between Malaysia's cities and rural areas mean this movement is less likely to occur, resulting in bloated cities, depopulated rural regions, and a growing number of urban poor.

The implications of this discrepancy are severe. Rural regions now face brain drain of their best and youngest talent, a lack of interest in agricultural careers (despite their importance to national wellbeing), and a stagnation in essential services and infrastructure, including healthcare and education. Lastly, rural populations are increasingly disenfranchised from urban populations and culture. These trends are corrosive to national identity and unity, particularly as political differences between the urban and rural populations are widening – which is unfairly leveraged by some politicians, who ‘play the race card’ with disenfranchised rural Malays.

There is also a geographical component to consider in the discussion on the rural-urban divide especially pertaining to the disparities between Peninsular Malaysia and East Malaysia. It is no secret that many civil society groups, commentators, politicians, and business leaders from East Malaysia are unsatisfied with the relationship between the country’s two regions. For example, in 2019, Sabah had the highest rate of poverty in Malaysia, with 19.5 percent of the population living below the poverty line, and many residents of Sabah attribute this to mismanagement by the state government – which is captive to the rent-seeking economic activity of political elites from across the country, and through a focus on urban development as opposed to rural uplifting – as well as a lack of investment from the federal government and the fair share East Malaysia should receive vis-à-vis the extraction of its wealth of natural resources.

In summary, if Malaysia does not address its rural-urban divide urgently through a focus on in-depth rural economic development, it will continue to harm its rural populations, squander the opportunities of building a more equally balanced society and economy, and jeopardise the functioning capacity of its cities whilst damaging the already fraught relationship between East and West Malaysia.

2.2.5 Mismanagement of Natural Resources

The final trend to consider is the mismanagement of Malaysia’s natural resources. Malaysia is blessed with rich natural resources, and it has leveraged this to create national wealth for its citizens by integrating its extraction-based economy with global

markets. However, current approaches to managing natural resources – notably fossil fuels, timber, and minerals like tin – are wedded to corruption, proven inefficient, wasteful, unsustainable and have resulted in extensive damage to the natural environment, including a river pollution rate of 34% and losing 20% of the nation’s rainforest cover in the last 20 years. Additionally, of the 80 million hectares of forest loss in Southeast Asia between 2005 and 2015, Malaysia accounted for 16.6%, the second highest behind Indonesia. Figure 5 visualises the predicted loss of forest cover in Southeast Asia and highlights the four areas where this is most pronounced in different nations – note that Malaysian Borneo has one of the highest concentrations of forest loss of any area in Southeast Asia.²³

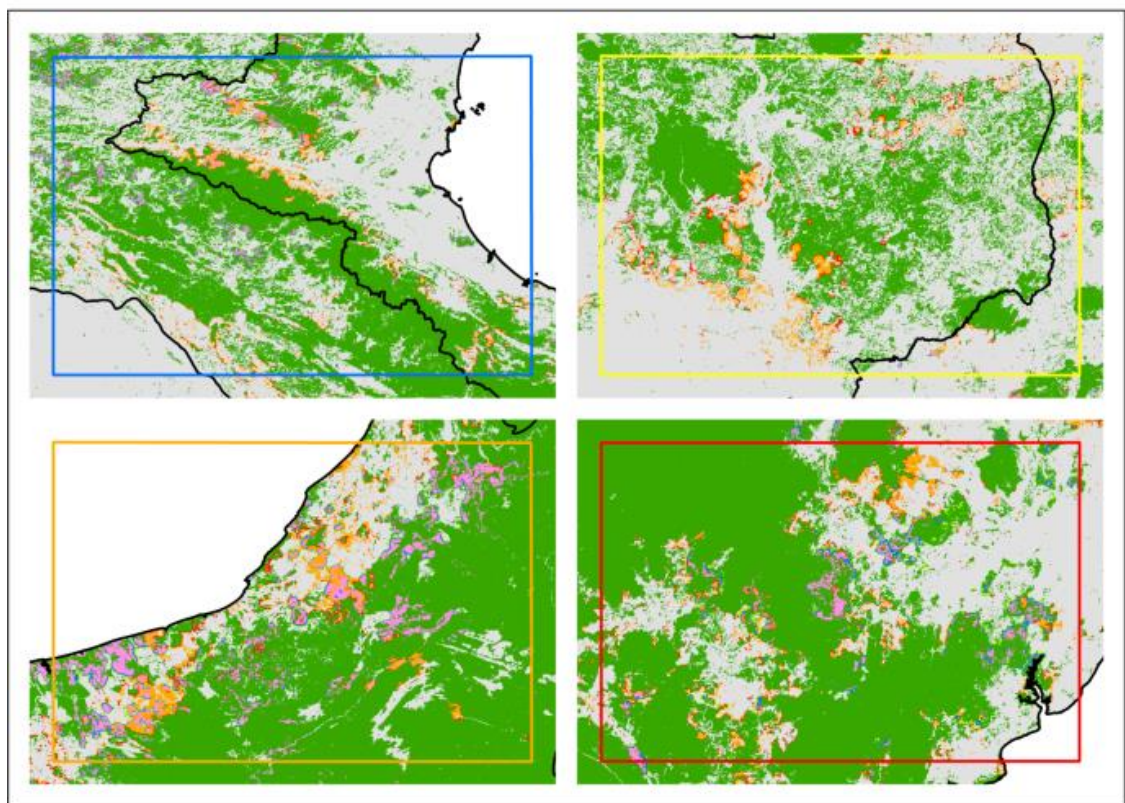
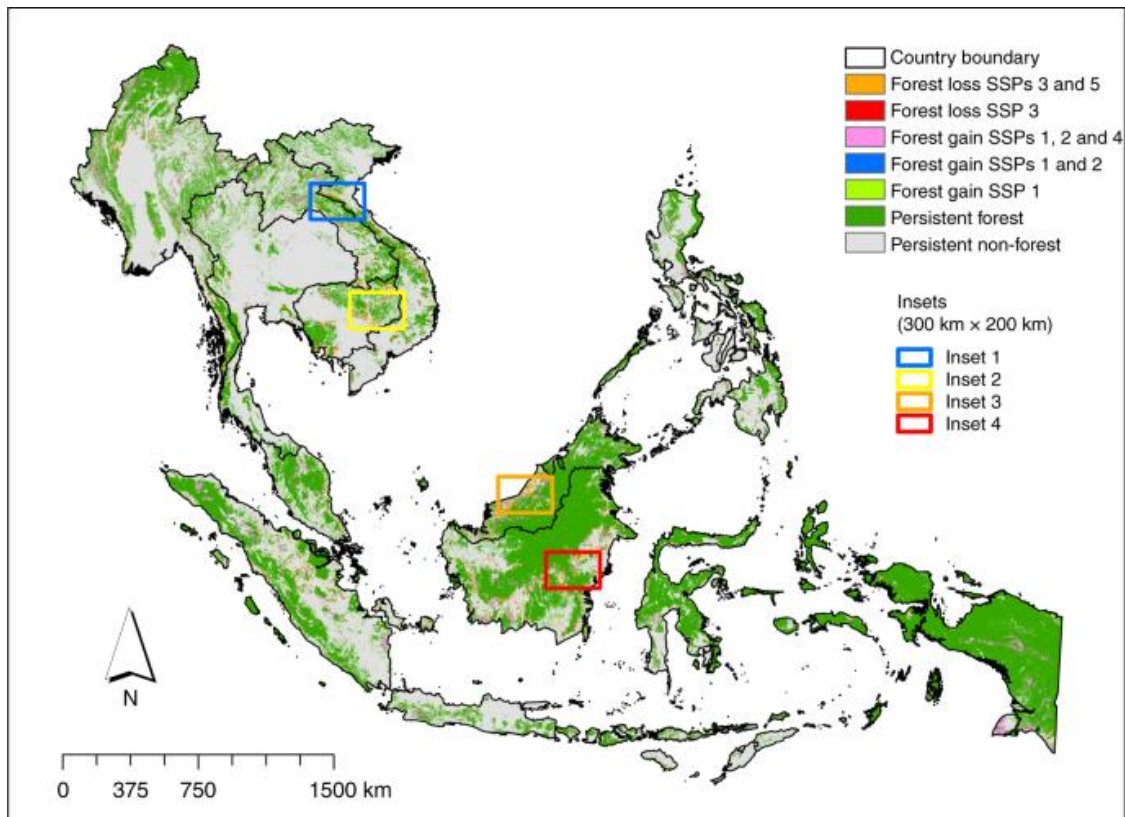


Figure 5: Maps showing projected forest cover changes in Southeast Asia by 2050. Source: *Estoque et al., 2019*

Importantly, the issue of preserving Malaysia's environmental health is not solely about protection for protection's sake and should not be distilled into simplistic descriptions about environmental conservation or anti-progress. Rather, it is a complex merging of multiple themes, including national security, shared prosperity, risk management, and future-proofing the country's economy and society. This is because Malaysia's ecosystem affords immeasurable services to the nation and even the world:

- As a precious source of renewable raw materials;
- Providing food, fresh water and clean air;
- Functioning as a global carbon sink;
- Reservoir of biodiversity for the nation and world;
- Acting as the basis of livelihoods for Malaysia's farmers and fisheries;
- An attractor for tourism;
- And as an irreplaceable cultural heritage.

Thus, alongside addressing the key social and economic challenges discussed in the preceding sections, Malaysia has the additional challenge of ensuring that its natural resources are utilised – and not abused – in a way that is productive for the current generation and generations to come.

Two industries exemplify Malaysia's current shortcomings in natural resource management and the ramifications this has on the populace. The first is both the upstream and downstream oil and gas industry and the second is the palm oil industry.

Oil and gas contribute around 15% of Malaysia's GDP. The abundance of petroleum means that Malaysia is self-sufficient in energy production, which has been fundamental in driving the country's development. However, this has also led to an overreliance on fossil fuels, given that Malaysia has the cheapest cost of electricity in ASEAN behind Brunei²⁴ and consumes 15% of the total energy in ASEAN, despite having only 4.8% of the population.²⁵ There has not been much focus on conservation and value add which means that Malaysia is not well positioned for transitioning to low-carbon alternatives, given the economic and cultural normalisation of cheap energy.

A reliance on oil and gas also carries political risk. With almost all the major oil and gas fields located in Sabah and Sarawak, there has been long-standing tension between peninsular Malaysia and East Malaysia. This is because political representatives of the latter find that there is insufficient compensation, redistribution, and opportunities for oil and gas industry development (i.e., value-adding processes, such as refining and chemicalisation) in the Eastern states.

The second industry to note is palm oil. Although it is an economic flagship for the nation and the many rural communities that continue to rely on it as a source of income, there are significant drawbacks alongside decades of mismanagement of the value chain. The most apparent is deforestation, given that palm monoculture plantations now occupy at least 17% of the entire surface area of Malaysia, land which used to be covered with rainforest.²⁶ This resulting loss in habitat has led to a homogenisation of key areas of biodiversity, meaning that wildlife is restricted to an ever-decreasing range of lands. Species homogenisation also increases the risk of zoonotic diseases – like COVID-19 – jumping from animals to humans, either as a result of human intrusion into the pristine forest for clearance or from microbes that thrive in monocultures.²⁷ There has also been a case of poor land utilisation, using outmoded agricultural methods and systems. Despite these, Malaysia has recently committed to an ambitious target of zero deforestation by 2030. Yet this is a commitment that will require tackling systemic failures addressed in this report, such as rent-seeking through resource exploitation. It will also require building competent, independent institutions capable to making robust policies and resisting powerful vested interests.

The last point for consideration with regard to Malaysia's current mismanagement of its natural resources is pollution. Currently, Malaysia is Asia's largest annual contributor to plastic pollution per capita, at 16.7kg.²⁸ Needless to say, the pandemic has made this significantly worse given the sharp rise in food takeaway items, with predictions of this behavioural norm continuing well into the future.²⁹

Malaysia's chemical pollution is also considerable. Take, for example, the Sungai Kim Kim Incident in 2019, when 6000 residents of Pasir Gudang were placed in immediate danger from 900 tonnes of hazardous sludge polluting their water supply.³⁰ Despite the

promise of harsh punishments for polluters and greater adherence to compliance and regulation, Sungai Kim Kim was found to be polluted again in May of 2021, exactly two years after the 2019 incident. This speaks to an underlying lack of compliance due to weak enforcement, an indicator of poor governance standards in polluting companies and political influence and corruption on behalf of government regulators. Unfortunately, this is just the tip of the iceberg. Given that the country's wastewater treatment systems offer sparse coverage and fail to operate at a standard required to protect the water supply, pollution from human waste and chemical effluence (e.g., from palm oil mills) entering bodies of surface water remains a significant problem. These stark facts should be seen in the context of claims about achieving developed country status.

To conclude, Malaysia's resource base has been a significant contributor to the nation's future prosperity and wealth creation. However, in maximizing the extraction of its natural resources as far as possible, Malaysia has normalised an approach to resource use that will debilitate the nation in the long term. It presents dangers to Malaysia's economy, environment, and the well-being of its people, which must be addressed urgently.

2.2.6 Conclusion

For a country once hailed as the upcoming fifth Asian tiger, Malaysia's current set of challenges does not reflect a development path that has benefitted the majority, nor has it future-proofed the economy. These challenges persist at a national scale, meaning that the resulting economic and social problems are many and interlinked within the overarching rent-seeking economic system. This is exacerbated by the crisis of incompetence engulfing the political system, the lack of meritocracy in key government areas and the trend of race-based and discriminatory politics.

The best example of this is the overuse of race-based policies, resulting in inequitable outcomes for all races, including most poor Malays. Instead, these policies have served an elite class of Malays and helped to accumulate capital in a rising Malay middle class

who are in turn supported by elites from the other races. They have also enabled the establishment of a system of poor governance in crucial public and private institutions through an absence of meritocracy, which has cascading impacts on the entire country. Economic inequality has also proliferated, including the gulf between Malaysia's rural and urban populations. Lastly, the country's security is at risk due to an unsustainable and outdated approach to managing its natural resources, which has been worsened by widespread rent-seeking behaviours.

Understanding how to address these seemingly intractable challenges at their root cause will require an honest nationwide exploration of how Malaysia arrived at a position of facing these challenges, which will be explored in the following chapter.

2.3 A Historical Perspective

In order to address the five major challenges impacting Malaysia as identified in the previous chapter, it is essential to understand how these issues arose. To do this, it is necessary to identify root causes and turning points in Malaysia's history that have impacted the nation today. Furthermore, any proposed solution to Malaysia's current challenges must consider historical antecedents, such as significant political events, critical policies, demographic shifts, patterns of behaviour, and cultural sensitivities. This chapter will present a brief historical analysis that will be concerned with three major periods in Malaysia's history:

1. The colonial period and its impact on normalising racial division and an extraction-based economy
2. Independence and the formalisation of Malaysia's social contract
3. Modern Malaysia, when the nation forged its own economic identity.

Thus, the following historical narrative is organised chronologically and under broad themes that are relevant to the challenges facing Malaysia today, as discussed in Chapter 2. Table 1, *Key events that shaped Malaysia's trajectory*. This table gives an

overview of the key historical events that will be discussed in this section to provide additional context and act as a reference point for readers.

Table 1: Key events that shaped Malaysia's trajectory. Source: Global Institute For Tomorrow

Time Period	Key Historical Events
British Malaya	
1840-1884	Malaysia's demography changes as an influx of workers are brought over from China and India by the British to help grow a booming rubber and tin industry.
1930s	Malaysia became a leading exporter of raw materials (tin, rubber, timber, oil, etc.), turning the colonial extractive industries – which were some of the British Empire's richest – into pillars of the national economy. The import of manufactured goods started becoming normalised.
Making of Malaysia	
1950s	Malaysia adopted national Five-Year development plans as a means to achieve higher levels of growth. Import Substitution Industrialization — (ISI) was prioritised, helping to protect local industries from highly competitive foreign equivalents.
1957	Malayan Federation gained independence (Merdeka)
1965	Singapore exited the Federation of Malaya
1969	May 13 th racial riots: Sino-Malay sectarian violence after a general election that led to a state of national emergency and the stepping down of Malaysia's first Prime Minister, Tunku Abdul Rahman. Paved the way for the development of the NEP
1970	New Economic Policy (NEP) was established to redistribute wealth among ethnic groups, including affirmative action for Bumiputera (Malays and certain indigenous groups).

1974	Petronas, Malaysia's national oil firm, was given exclusive rights to the nation's hydrocarbons, setting it on the path to become one of Southeast Asia's largest state-owned companies.
Modern Era	
1983-4	GLCs were created to shepherd the Malaysian economy into the industrial era.
1988	The start of the 'tiger economy' years.
1990s	Large-scale industrialisation and mega-projects such as the national car project, Proton, Petronas Towers, and the building of Putrajaya.
1997	The Asian economic crisis hits. Tight monetary policy and currency control laws are imposed to protect the ringgit to this day.
2003-2017	Beginning of economic stagnation. Global reputation hurt by 1MDB crisis
2018	The first regime change in Malaysia's history, as the ruling Barisan Nasional coalition was voted out of power by the Pakatan Harapan coalition
2021-2022	Country facing its worst crisis since independence due to political mishandling and the pandemic. Political system in disarray and the nation viewed as being in decline.

2.3.1 British Malaya: The Colonial Period

The British involvement in the politics of Malaya in 1711 brought profound changes to the Malayan Peninsula, transforming the various states socially and economically. This period was when many of the economic and social foundations of modern Malaysia were established. Economically, this includes a systemised approach to natural resource extraction and 'free' trade (in which only certain beneficiaries could partake). Socially, it led to the normalisation of ethnic divisions and societal roles.

The British colonial rule in Malaya from 1874 onwards benefited from three geographical factors: the nation's tropical climate, abundant natural resources, and proximity to a major trading route connecting Europe and East Asia. In these conditions, Malaya was hugely profitable to British private investors who invested in the country's two main exports, tin and rubber. By the early twentieth century, Malaya became the world's largest exporter of natural rubber, with rubber and tin accounting for the vast majority of British colonial tax revenues.

This British influence on Malaysia's natural resource management is important for three reasons: first, it normalised a systemised approach to resource extraction that encouraged the destruction of Malaysia's rainforests to obtain wealth. This approach led to thousands of acres of forest being cleared under British orders to quarry for tin or plant rubber, which was dramatically different from the largely agrarian subsistence systems in place before colonialism. Second, it introduced Malaysia to the global commodity market and set the country up as a resource base to supply the extent of the British Empire, encouraging rent-seeking behaviours among the local elite as they were introduced to colonial methods of doing business. Lastly (and due to the prior two reasons), it forced a national economic shift that relied on the extraction of primary resources and the expansion of commodity-based industries as fuel for economic growth.

This laid the foundations for industrial-scale natural resource extraction in modern Malaysia which followed much of the colonial British model – mirroring its organisational structures and business practices such as intense monoculture farming of cash crops. As discussed in the previous chapter, these systems – while an easy route to wealth generation – are unsustainable and represent security threats to Malaysian society and economy.

The colonial focus on resource extraction had also resulted in significant social impacts, notably the enforced division by race. The divide and conquer policy of the British Empire facilitated this process, as ethnic communities were divided according to their economic functions, many of which were associated with natural resources. For example, the tin industry remained chiefly in immigrant Chinese hands through the

19th century. By 1941, South Indian Tamils were brought in to work on the rubber plantations in Malaya. The existing Malay elite benefited from the colonial order by being regularly recruited to serve as civil servants, while rural Malays and indigenous populations were largely ignored.

Needless to say, there were many downsides to this form of segregation. Many Malayan and Bornean farmers were affected by colonial taxes and were forced to move from subsistence to cash-crop cultivation, making their economic well-being vulnerable to fluctuations in global commodity prices. This was the case for much of the early 20th century and marked the beginning of modern-day rural-urban divides. Similarly, Tamils remained in the estates till post-independence, often unable to escape poverty cycles. In fact, the colonial method of associating ethnic communities with economic function meant that entire generations went about their lives with little to no interaction with members of different ethnicities. As a result, there exists to this day a cultural norm of race-based association with occupation, including Malays as civil servants and Chinese as business owners.

To support the development of the function-based communities and maintain the social divide between them, the British also encouraged the establishment of state-led Malay schools and Christian mission (primarily English-language) schools; the Chinese, on the other hand, were allowed to build their own schools. These independent education structures aided in preserving a pluralistic society as Malaysia progressed into the 20th century, but the race- or language-based schooling system has also been critiqued for entrenching racial divisions among the youth of today.

On the economic front, the introduction and standardisation of laissez-faire colonial policies led to further inequalities. Economic growth concentrated in areas of the Peninsula's west coast states where the tin mines and rubber plantations were located. Consequently, these states developed better infrastructure while the populations of the east coast states of Sabah and Sarawak were primarily involved in low-productivity subsistence agriculture and fishing, receiving little or no development.

The last point to consider is that colonial exploitation through extractive industries in Malaya laid much of the groundwork for a culture of patronage and rent-seeking, which has impacted the nation to this day. The British were acute in cultivating a small and wealthy local elite ruling class that were dependent on them for subsequent economic progress whilst they continued to plunder their colony's resources. This was when the seeds of rent-seeking and patronage were planted into Malayan economic behaviours and governance systems, creating an endemic problem of Malayan elites trading favours rather than relying on meritocratic systems. Rent-seeking and patronage – both with embedded race-based interests – are now major concerns facing the nation (an entire chapter of this report will be dedicated to addressing these issues).

To conclude, the British left Malaya as an economically productive but divided country. Despite a high per capita GDP in contrast to neighbouring countries and the two Asian giants, China and India, there were significant income and wealth distribution gaps: the vast majority of Malays employed in rural areas had no education level above primary level.

State independence was obtained on 31st August 1957 and has been defined in Article 160 of the Constitution of Malaysia. In a moment of unity, the push for independence brought together the three main races of Malaysia. The three races were represented by Tunku Abdul Rahman, who led a delegation of Malaya's political leaders to negotiate with the British in London; Tun Dato Sri Tan Cheng Lock (first president of the Malaysian Chinese Association); and Tun V. T. Sambanthan (fifth President of Malaysian Indian Congress).

Since independence in 1957, successive governments have been able to maintain relatively high rates of economic growth while addressing the racial gap by increasing Malays' access to education and jobs in non-agricultural occupations. But unsustainable extraction practices, race-based divisions, and rent-seeking remain perennial problems facing the country today. While British colonisers might have exited the country, they have left a socioeconomic legacy that has defined much of the modern Malaysian nation.

Indeed, this legacy can be seen in two significant events during this same period: Singapore's exit from the Federation of Malaya in 1965, and the May 13th race riots of 1969. In both cases, tensions and conflict arose between Malay and Chinese populations due to the latter's dissatisfaction with the affirmative action policies implemented by the Malay-majority government. The race riots following the 1969 general election were particularly violent. They marked a significant shift in Malaysia's political history, as Tunku Abdul Rahman stepped down from office. At the same time, a young Mahathir Mohamad would rise through the political ranks, prompted by his controversial work, *The Malay Dilemma* which painted a racially antagonistic view of Malaysian history – pitting the Malays against the supposed “economically dominant” Chinese. Mahathir's book was crucial in cementing the perception that the Malays were subjugated people in their own lands – at the economic mercy of other races – and this was a wrong that needed to be righted. His work helped to pave the way for the next phase of Malaysia's development: the creation of further affirmative action policies through the New Economic Policy.

2.3.2 The Making of Independent Malaysia: Social Contract, Racial Tensions and New Economic Policy (NEP)

The Malayan Federation gained independence, Merdeka, in 1957 as a result of a "compromise" in which the Malays and the indigenous of Malaya (which in 1963 extended to include the indigenous of Sabah and Sarawak) retained political authority while others, including Chinese and Indians, were granted citizenship and the right to live and work in Malaysia. It is argued that the political authority of the Bumiputeras was derived from the constitutional provision, i.e., Article 153 of the Constitution of Malaysia. The constitution states the necessity of “*safeguard[ing] the special position of the 'Malays' and natives of any of the States of Sabah and Sarawak and the legitimate interests of other communities*” and suggested methods for doing so, including quotas for civil service admission, public grants, and national schooling. This understanding between races in Malaysia, which was further cemented by law, created what is commonly referred to as the ‘social contract’.

In broad terms, the social contract establishes certain moral, civic and political duties amongst the key actors in the country. These actors include government and state institutions, businesses, media, civil society, and different social classes, including the political elite. In the Malaysian context, the apex of the political elite are the Malay politicians, administrators and managers of many important and powerful decision-making bodies. In the case of the Chinese minority, they play a critical role in the Malaysian economy as business leaders and facilitators of trade, while Indians provide labour for the full range of industries and a role in specific professional sectors, such as law. These examples are gross generalisations, but it is still the case that Malaysia's minorities are placed in a position where they have been made to believe they must accept societal roles wherein they are subservient to Malay elites. As discussed, a certain proportion of the Malay elites in this equation have interpreted Article 153 as Malays being superior to other races and having special rights. This became the basis of their race-based approach to political power and enrichment at the expense of the other races – and most ironically, the poor Malays.

The social contract grants legitimacy to national governments in holding authority over certain aspects of their citizens' lives. A key condition is that citizens must opt to give up certain individual rights and freedoms to maintain social harmony. Thus, strong perceptions of mutual trust and equitable resource access uphold the social contract.

The social contract proved successful, at least in its initial years after independence. The Alliance Party, an assemblage of many race-based political parties, joined forces in 1957 and formed the government in Malaya between 1957 to 1963.⁴ In 1963, another watershed moment occurred for Malaya was when Singapore, Sarawak and Sabah all joined the Malayan Federation, leading to the formation of Malaysia. However, Singapore's inclusion in Malaysia was short-lived due to continued political differences between politicians. Racial tensions also worsened, given Singapore's

⁴ The Alliance Party was the ruling coalition of Malaya/Malaysia from 1957 to 1973. Its membership comprised three political parties representing the 3 main demographics in Malaysia: The United Malays Organisation (UMNO), the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). The coalition later became Barisan Nasional (BN). The Anti-Alliance represented all opposition parties.

sizeable Chinese population. Singapore's split from Malaysia resulted in the current make-up of Peninsular Malaysia, Sabah and Sarawak.

Even after Singapore's exit, ethnic tensions continued to simmer and culminated in racial riots in May of 1969 that resulted in the destruction of public property and loss of lives. The riots resulted from federal elections in which anti-Alliance political parties in the Peninsula (largely non-Bumiputera in membership) performed surprisingly well. The underlying tensions post-election were further exacerbated by the dissatisfaction of the Malay community at the perceived economic disparities between wealth concentration of non-Malays, particularly the Chinese. The outcome of this episode was the suspension of Parliament and the formulation of economic policies that were aimed to create a more equitable society whilst re-building the strained relationships between races. Under the pretext of uplifting the Malay majority and rectifying economic inequality set in motion by colonial methods of socioeconomic management, race-based affirmative action policies began to play an even more influential role in Malaysia's developmental priorities.

The NEP was the most consequential development policy that was formulated as a result of the riots. The NEP sought to "eradicate poverty" and "restructure society to eliminate the identification of race with the economic function" to create the conditions for national unity.³¹ The government adopted interventionist strategies through the NEP, to uplift impoverished rural Bumiputera communities. For example, new legislation was introduced, such as the 1975 Industrial Coordination Act (ICA), which mandated Bumiputera ownership of 30 per cent of all businesses above a specific size. This was a sharp departure from the previous laissez-faire policy, as it also had the goal of reducing international ownership of corporate capital from 70% in 1970 to 30% in 1990. The impacts of this policy are felt today due to the scale and longevity of its impacts on the nation.

To conclude, Article 153 and the NEP were intended to balance socioeconomic inequalities in Malaysia and give Malays – especially poorer Malays communities – opportunities they were deprived of during the colonial era. However, the application of these developments has since been critiqued as exacerbating the fallout of the

British colonial system put in place over the last century, both deepening racial divisions and widening the gulf between economic classes. These impacts are felt today, having caused or influenced many of the challenges discussed in Chapter 2, including poor governance, right through to the increasing rural-urban divide.

2.3.4 Modern Malaysia: Rapid Industrialisation and Privatisation

In addition to the widespread impacts of the NEP, modern Malaysia has been founded on two additional strategic thrusts by the government. The first is the push for rapid industrialisation, which saw Malaysia become a manufacturing hub in the region and helped it to progress beyond primary-based exports as its predominant source of income. Second is the steps taken to privatise many key industry players, resulting in the extensive GLC ecosystem that defines modern-day Malaysia. However, these approaches to development have come with a host of challenges, which will be discussed in this section.

The rate and scale of Malaysian industrialisation achieved in the post-war period have been historically viewed as a significant success, which has helped transform the economy and create wealth for many Malaysians. The major industries that the country focused on were the assembly of electrical machinery and appliances and the production of chemicals and textiles. To this day, Malaysia's largest export remains electronic equipment, at 36% of total exports.³² Figure 6 demonstrates this by giving a proportional representation of Malaysia's largest exports. As shown in the figure, oil and gas and palm oil – the two products Malaysia is perhaps most famed for – are significantly below electronic equipment.

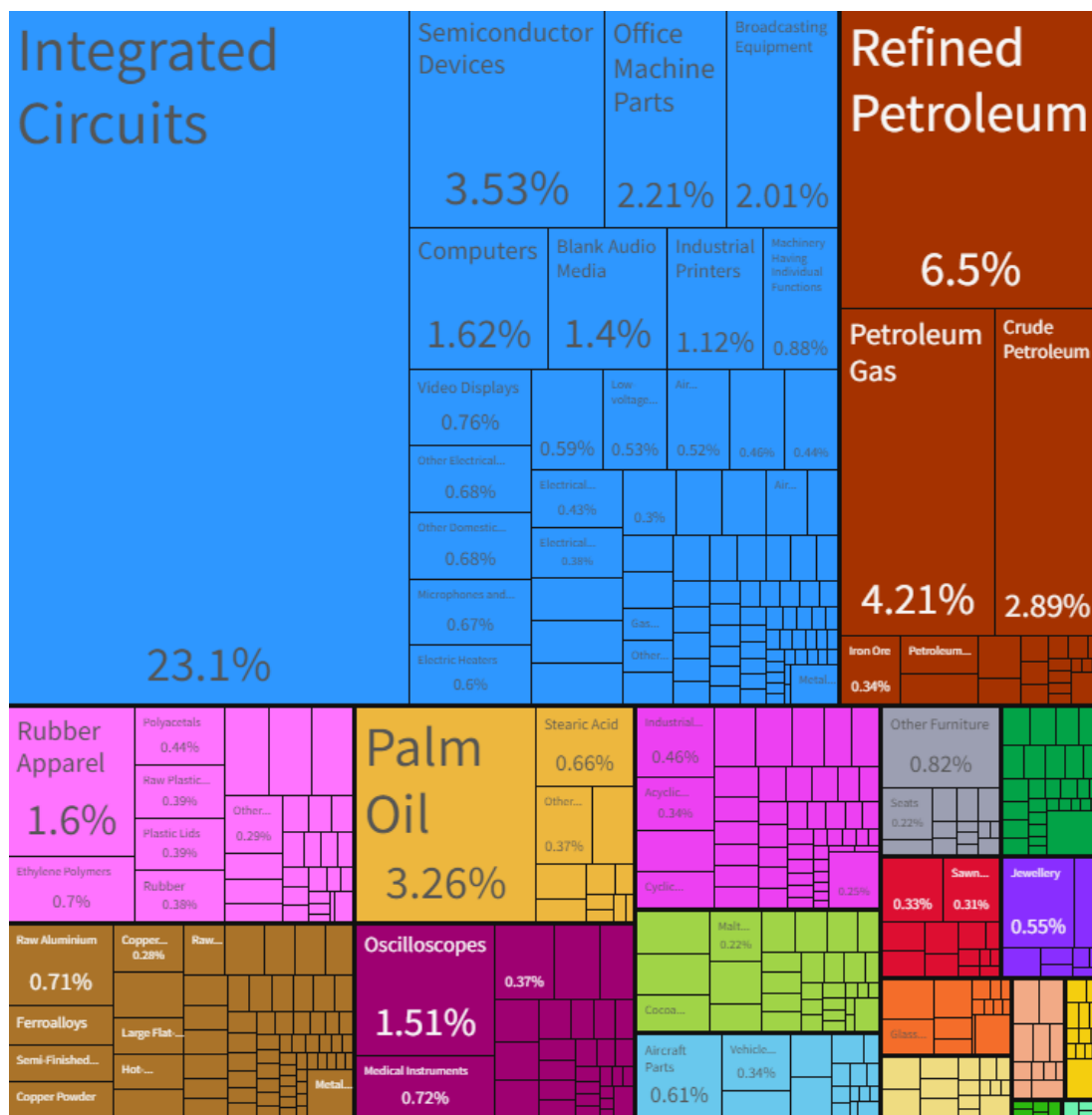


Figure 6: A proportional representation of Malaysia's exports. Source: OEC, 2019³³

To nurture Malaysia's early manufacturing industries, the government also aimed to decrease its dependence on more advanced Western corporations. As a result, Malaysia was the first country to introduce economic policies that utilised Import Substitution Industrialisation (ISI). ISI essentially reduced reliance on imports and instead encouraged domestic production. The aim was to defend existing industries, help incubate newly developed domestic enterprises, and manufacture products that could compete with imported goods.

The transition of Malaysia into an export-oriented industrial country was symbolised by the creation of the Malaysian Investment Development Authority (MIDA) in the late 1960s. MIDA helped introduce the Promotion of Investment Act in 1986, which

encouraged FDI into Malaysia's manufacturing sectors, helping the nation pivot away from an economy based on commodities. In places like Penang, Free Trade Zones (FTZs) were established where manufacturing could take place with the assurance that the products would be exported. Since the 1990s, Malaysia has aimed to continue climbing the technical "ladder" from low- to high-tech forms of industrial development, with a resulting rise in capital spending intensity and greater retention of value added by Malaysians.

While this focus on export-oriented industrialisation has been highly beneficial for Malaysia in terms of economic growth indicators and traditional modes of development, inequalities in the country, including the rural-urban divide, have been perpetuated. Even though primary production remained the most important economic activity in the country, many rural communities had been stagnating since pre-WW2. For example, ever since the new foreign investment in rubber had stalled since the 1920s, and the majority of mature rubber trees were approaching the end of their economic lives, many plantation workers had to migrate to the cities to seek work in manufacturing sector.

To counteract this trend, the Federal Land Development Authority (FELDA) was initiated in 1956 to resettle poor landless farmers via large government schemes. Initially, the government-cleared land was rented to rural families with options to purchase for the production proceeds. It also prompted a shift to a new cash crop that provided faster returns: palm oil. Many farmers transitioned, and by the 1960s, Malaysia was providing 20% of the global demand for this material. The refocus on cash crops during this time has come to be a defining feature of contemporary Malaysia through various aspects, including widespread monocultures, haze, and loss of rainforest. FELDA was a highly influential reformation that resulted in substantial poverty reductions and the creation of an agrarian middle class. Yet it did not evolve or modernise in line with sustainable principles and best practices which would have futureproofed the sector and ensure Malaysia's continued economic dominance in the sector. This is a reflection of weak governmental institutions unable to adjust policies, in part due to a degree of systemic complacency that had crept into Malaysia's public

and private sectors due to the entrenchment of race-based politics, a decline in meritocracy and a significant rise in rent-seeking behaviours.

Therefore, there were various adverse effects on the rural-urban divide despite the initial intentions that were felt in later years and to this day. For example, a rise in wealth resulted in better education for the children of these rural Malay families who then sought better fortunes in urban city centres. Many no longer opted to work on their parents' agricultural holdings because they viewed it as labour intensive and not technologically advanced.

The ensuing deficit in agricultural labour was then met by cheap migrant labourers from neighbouring countries such as Bangladesh, the Philippines, and other neighbouring countries. Additionally, in many instances, these migrant labourers arrive with improper documentation and are forced to work long, inhumane hours – reflective of poor labour governance systems in the country. This has become the norm now, and as discussed in the previous chapter, an overreliance on under-priced foreign labour has resulted in a suppression of wages for the lower-income bracket in Malaysia as a whole.

In addition to industrialisation, the other major thrust by national leaders was the push for rapid growth through privatisation in the 1980s and 1990s. Malaysia, like many other countries, began privatising public services, especially in transportation (airlines), utilities (sewage, electricity, water), and communications (satellite television).

Many liberal economists point to this approach's success in keeping Malaysia a competitive nation amidst the rapidly developing ASEAN region. However, it has now been observed that the privatisation process prioritised speed above rigour. Given that non-public tendering processes were normalised, this resulted in overpriced projects, corruption and leakages, not to mention poor project execution and even failure. The entrenched system of patronage became more prevalent because contracts for government projects were rewarded based on the personal relationships of some individuals with public officials, often on race-based terms. Ownership of many of these public services fell directly to the hands of politically well-connected businessmen,

mostly from a class of growing Malay business elites who were supported by their non-Malay counterparts. With meritocracy and equal opportunity thrown out the window, it essentially became an issue of ‘who you know, not what you know’. This also facilitated the emergence of so called “Ali Baba companies” where a Malay individual becomes a front for a company run by locals of a different ethnic group. In this arrangement, the company – by virtue of the Malay frontman – would be first in line for government contracts and other measures of affirmative action.

2.4 The Pillars for a New Vision

Understanding the current state of the country, including the trends, opportunities, and challenges it is facing, as well as the historical forces that have shaped the nation, is essential for all Malaysians to answer the all-important yet simple question:

In 30 years, what sort of Malaysia do we want to live in?

As the nation approaches the centenary of its independence, it is crucial that the vision the country follows is driven by a sense of identity and the pursuit of an ideal that goes well beyond an economic metric or slogan. It must build unity across the races, inspire confidence in collective values and provide practical routes to positive change for shared prosperity.

Hence, this chapter will suggest a new vision for Malaysia alongside key pillars to support lasting structural changes. It is called NEP: **Now Everyone Prospers**.

2.4.1 A Vision for a New Malaysia

For over 60 years, Malaysia has attempted to articulate a coherent national vision, but this has been hampered by the handcuff of a race-based political system and the ensuing economic policies executed by leaders unwilling to address and manage the unintended consequences arising from such socially unjust policies.

In creating a new vision, previous iterations of Malaysia’s visions have been studied, including Vision 2020, Transformasi 2050, and Shared Prosperity Vision 2030. Table 2 at the close of this section provides an overview of these aspirations, including challenges and outcomes.

Three main limitations were observed in the iterations of these visions:

1. A lack of clarity, coherence and consistency in national goals related to social and economic development, built around a strong sense of national identity
2. Overemphasis on economic growth (i.e., GDP and income equality) as the principal definition of progress in the country, especially when it prioritises one race over the others
3. A lack of capacity and competence in the execution of these visions in the key institutions of the state

These limitations – as well as assessments of Malaysia’s current challenges and historical contexts as discussed in the introduction of this report – have informed this proposed creation of a new vision for Malaysia in the post-pandemic world, in which

Now Everyone Prospers:

Now Everyone Prospers: Vision

“A harmonious, just and resilient Malaysia that is unified through a shared national identity which transcends both race and religion and is rooted in the celebration of diversity and facilitated through a commitment to socioeconomic equality and inclusive prosperity for all citizens framed through the lens of sustainable development principles.”

The vision of **Now Everyone Prospers** opens with a clear view on the desired state of the nation: one that is defined by harmony between all segments of society and all races; one that is just and not marred by racial discrimination, political malfeasance or

rent-seeking behaviours; and one that is resilient to the future shocks and challenges of the 21st century.

Importantly, this desired state fundamentally relies on a “shared national identity”. This concept takes primacy of place within the vision because it is related to the core challenge faced by Malaysia today, which concerns the divisions between races and religions and how these differences have been institutionalised. The vision recognises that Malaysian society will struggle to achieve transformative change if it remains divided. This was a notion recognised early on by Malaysia’s first Prime Minister, Tunku Abdul Rahman, and by Lee Kuan Yew, former Prime Minister of Singapore. In his considerations of the importance of national identity, Lee was quoted as saying, “A nation is great not by its size alone. It is the will, the cohesion, the stamina, the discipline of its people and the quality of their leaders which ensure it an honourable place in history”. This statement is prescient in many ways, given what the country is experiencing, and reinforces the need for quality leaders.

The national identity envisioned within **Now Everyone Prospers** is held together by the commitment to “socioeconomic equality and inclusive prosperity for all citizens, framed through the lens of sustainable development principles”. These commitments respectively address the issue of racial and quality of life experienced by all Malaysians, the nature of public and private governance in the country, and the sensible use of national resources to sustain future generations. These beliefs inform and enable the core social value of “celebrating diversity”, which acts as the bridge and adhesive between all Malaysians and the desired national state. This social value is of utmost importance, as was recognised by Tunku Abdul Rahman: “In our multiracial society, our Malaysian democracy, nothing is more fundamental than harmony between the many races which form the Malaysian nation. In fact, if I were asked to name one single outstanding quality to explain the success of Malaysia as a free nation, I would without hesitation say it is due to racial understanding and cooperation”.

This vision also captures the critical dualisms needed to transform Malaysia across social, economic, cultural, and environmental fronts so all Malaysians may prosper. At one end of these dualisms exist the positive elements of the status quo; at the other,

transformations that should take place for the betterment of the nation. Collectively, these dualisms comprise *the best of both worlds*:

- Socially, this includes the harnessing of national unity for harmony on one end; and the celebration of and deep respect for Malaysia's plurality on the other.
- Economically, this includes the continued competitive and innovative success of the nation on one end; and the need for economic resilience and regulation on the other to improve the quality of life for all Malaysians.
- Culturally, this includes the continued integration of Malaysia into the globalised economy on one end; and the revitalisation of Malaysian identity (independent of rising levels of Westernisation) at the other.
- Environmentally this includes the sustainable use of natural resources to enable Malaysia's development on one end; and the respect and conservation of Malaysia's rich natural capital to preserve the rights of future generations on the other.

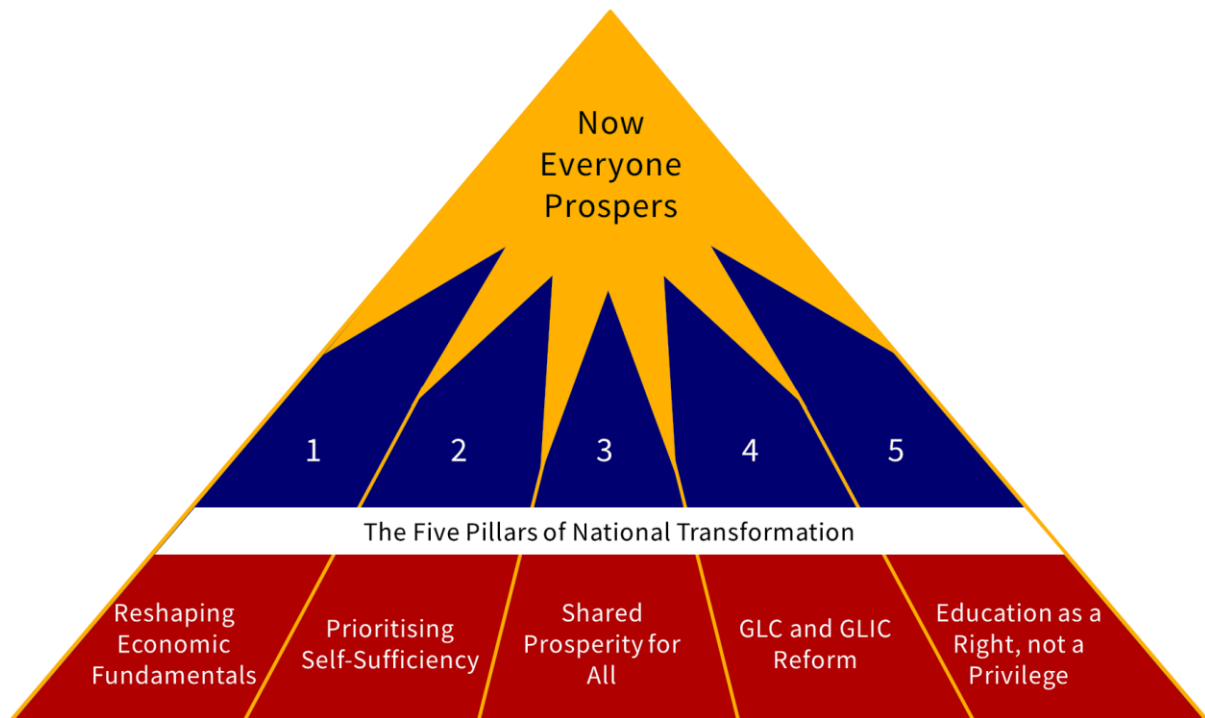
The next section will outline the Pillars of **Now Everyone Prospers** in order to meet the vision.

Table 2: Breakdown of Malaysia's three major national visions. Source: Global Institute for Tomorrow

	Vision 2020	Transformasi Nasional 2050	Shared Prosperity Vision 2030
Year	1991-2020	2020 – 2050 (abandoned in 2018)	2018 - present
Key aim	To turn Malaysia into an industrialised and developed nation by the year 2020	Listening to people's aspirations and ideas, from the ground up, and developing quantifiable objectives and milestone to achieve these aspirations	To achieve economic growth through "equitability of outcome". Near parity for the ratio of median household incomes between race groups
Effects	Promoted liberal economics thorough increasing privatisation and competition. Blended economic progress with Islamic values Malaysia's annual growth from 1990 to 2018 averages at 5.8%	Abandoned during the development and planning stage due to Barisan Nasional not achieving re-election in 2018	Despite campaigns to strive towards growth and prosperity for all Malaysians, regardless of race and ethnicity, there has been little progress made in policy making or economic outcomes for non-Malays and poor Malays alike in support of equality
Challenges	Rising income gap between the rich, middle class and poor Increasingly racialised nation Onset of 'crony capitalism'	Clouded by 1MDB scandal Viewed as a popularity-boosting platform for the government Nation mired in 1MDB scandal	Unclear policies to achieve aims Constant interruptions by political turmoil and uncertainties Opaque requirements from government, which has been unable to engage and inspire the public Institutional weakness – an inability to execute
Results to date	Racial divisions consolidated Malaysia has achieved many of the UN Human Rights Goals but citizenship laws, biases against women, and children protection rights are sub-par. Non-Malays are increasingly disconnected in all walks of public life Minimum wage has increased but the income gap between the rich, middle class and poor in Malaysia has widened	None	Government has changed since it launched but still committed to it Pandemic has placed priorities on economic recovery

2.4.2 The Pillars of Now Everyone Prospers

To fulfil the vision outlined above, changes need to be made at the principle and practice level. These are outlined under the Five Pillars of National Transformation, which Figure 7 demonstrates below:



*Figure 7: The Five Pillars of National Transformation, topped by the vision of Now everyone Prospers.
Source: Global Institute For Tomorrow, 2022*

The solutions these pillars propose do not claim to be comprehensive and all-encompassing but are offered on the basis to begin a nationwide discussion and debate around “what is the Malaysia its citizens want in 2030?”. However, they address the root causes of the previously identified challenges and form the essential part of the fundamental transformation needed to lay the foundations for a just, fair and prosperous society.

- 1. Reshaping Malaysia's Economic Fundamentals: Valuing People and Environment** – transitioning away from a focus on traditional indicators of development and economic growth based on overconsumption and unsustainable levels of debt creation, enabled by under-pricing resources and externalising true costs onto society and the environment. Instead, forging long-term economic health by revaluing Malaysia's social and natural capital and building a society in which all citizens are equal, with a high quality of life measured by responsible citizenship, meaningful work for all, as well as wellness and health, not just GDP or income per capita.
- 2. Prioritising Self-Sufficiency: Building True Resilience** – recognising that the dominant pan-economic practice of exporting Malaysia's resources (food, water, minerals, oil) and importing resulting deficiencies at high cost is not a sustainable model for Malaysia's future development. Instead, the nation should nurture self-sufficiency without sacrificing competitiveness or being part of the global community – a hybrid approach – to provide Malaysian citizens with more innovative ways to meet basic needs for food supply, healthcare, human capital development and other areas.
- 3. Creating Shared Prosperity for All: Calling Time on Rent-seeking and Race-based Policies** – In line with the nation's aim for shared prosperity, a rigorously planned progression away from rent-seeking models that lead to patronage, corruption, and wastage in the economy will be required. Reinvigorating government's goal as providing means for gainful employment (both formal and informal) and quality of life improvements for all – regardless of race, class, gender, or religious alignment.
- 4. GLC and GLIC Reform: From the Ashes of Business-as-Usual** – altering the role of GLCs by realigning their mandates, including socioeconomic objectives for the betterment of all Malaysian citizens. Tackling governance issues related to leadership and political appointees will be a key element.
- 5. Education as a Right, not a Privilege: The Malaysians of Tomorrow** – addressing the systemic discrimination that occurs in Malaysia's education

system, particularly at the tertiary level, and the cascading impacts this has. Reducing educational opportunities for Malaysia's youths based on racial discrimination will ultimately damage national outcomes.

It is hoped that the vision outlined in this report and its supporting pillars will provide structure and guidance to decision-makers, including policymakers, business executives, leaders in GLCs, and civil servants.

The following chapters will explore each of these pillars in detail, providing further discussion on the challenges and consequent impacts on Malaysia's society and economy. At the close of each pillar, a 'Reform Agenda' section is provided, which considers possible recommendations and interventions to address the core challenges of each pillar. While these are not exhaustive, they are intended to provide direction and examples of solutions. Similarly, a 'Guidance Note' follows the conclusion that provides readers with a list of questions to spark intellectual discourse and help create new modes of thinking about some of the most salient challenges faced by the nation.

Pillar 1

3. Reshaping Malaysia's Economic Fundamentals: Valuing People and Environment

3.1 Introduction

The introduction to this report laid out Malaysia's challenges – ranging from the root causes of racial disharmony to the drivers of rent-seeking economic activity to mismanagement of natural resources – and the historical context for these issues. The scale of these challenges, and their complexity and interrelatedness, would not be possible without the existence of systemic and fundamental causes. It is time that all segments of Malaysian society understand these causes as a matter of fact rather than the subject of political and ideological differences. Therefore, the success of the renewed vision for Malaysia will be contingent upon the ability and willingness of key Malaysian policymakers and political actors to confront Malaysia's challenges by tackling these causes. These root causes are the outdated concepts that lie at the centre of Malaysia's economic system and are both protected and perpetuated by the economic status quo.

Thus, this pillar – the first of five – will provide an assessment of the nation's economic fundamentals. The term 'economic fundamentals' refers to the collection of ideas that guides Malaysia's development. This is a common set of economic principles, many of which are adhered to across the world to varying degrees that includes, but is not limited to, the following:

- Globalisation through integration with global markets, including a minimal tariff approach
- Use of monetary indicators, such as GDP and purchasing power parity, as the most important measurements to define and shape national progress and prosperity

- Improving productivity through technological innovations
- Prioritisation of urbanisation and economic mobility
- Under-pricing of natural resources and human capital to sustain growth

While these principles have facilitated much of Malaysia's economic growth during the post-colonial period to the present day, they are also responsible for extensive social and environmental harm, including wage suppression of the lowest earners and forest cover loss of 34% in the last 20 years alone.³⁴ These concepts are being questioned worldwide, and it needs to be recognised that they can no longer serve the nation in ways that correspond to its future needs. The ideas presented in this chapter will argue that Malaysia should develop its own set of fundamental economic principles by reshaping the above to help the country achieve more equitably and sustainable progress.

Many of these economic fundamentals can be traced to 18th and 19th-century British economists and thinkers such as Adam Smith, David Hume and John Bright. The first major transfer of these ideas came when the British installed its colonial economic system in Malaysia.³⁵ Post-independence, Malaysia tacitly adopted many of the underlying assumptions, methods, and values of this colonial system. Although more than a century has passed since these systems were put in place, many of their core modes of operation are still in place today. As a result, many aspects of these models can be seen today, including monoculture palm oil plantations or the association of race with economic function.

The second wave of influence from the West lies in the global ramifications of the Bretton Woods Agreement, developed in 1944. It led to the creation of the world's foremost multilateral agencies, including the United Nations, World Bank, International Monetary Fund, and World Trade Organisation.³⁶ All these organisations shared the belief that the operation of the free market and the reduction of state involvement were crucial to advancement of less developed countries – Malaysia included. Due to America's central positioning in these organisations – and therefore its ability to influence the development economics of countries across the world – it later became known as the Washington Consensus.

As a result of this influence Malaysia has ascribed to the traditionally linear models of economic development as theorised Western economists, for example the Rostow model (as depicted in Figure 8). Malaysia elected to grow its agricultural and industrial base alongside selected use of technologies to promote the means of achieving mass consumption on a national scale, a process which is inextricably tied to globalisation and creation of deep ties to international markets.³⁷

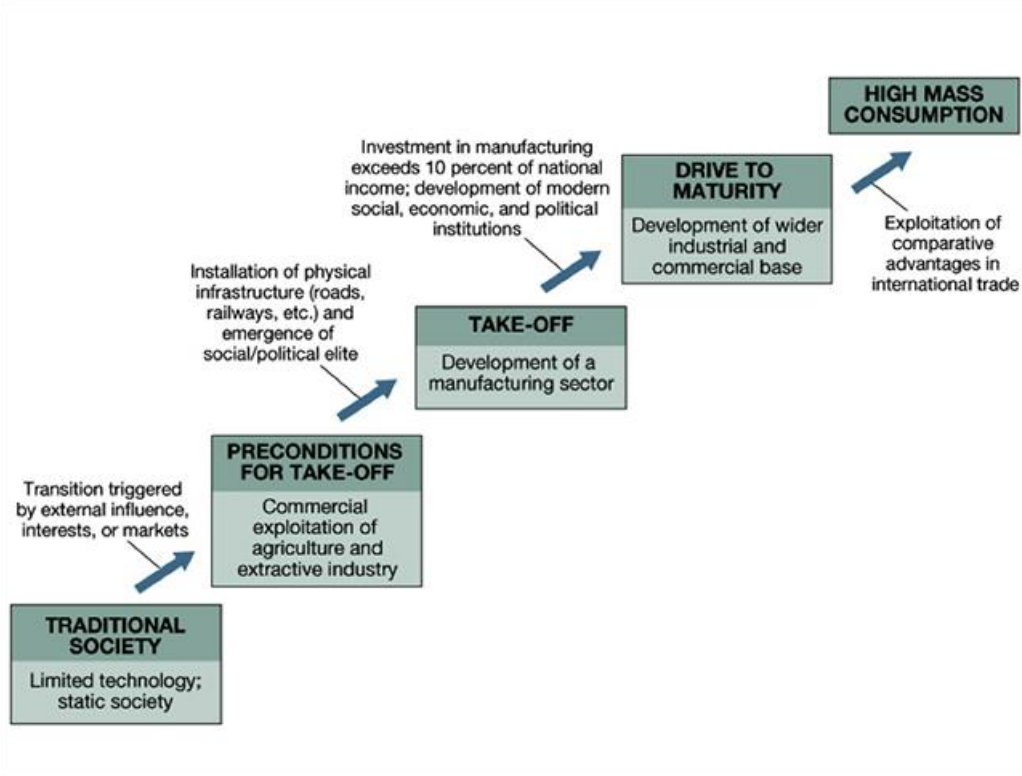


Figure 8: Rostow's Model. Source: Rostow, Walt Whitman. *The Stages of Economic Growth: A Non-Communist Manifesto*. Cambridge: University Press, 1960.

Coupled with older colonial influences, the policy prescriptions of the Washington Consensus largely define how Malaysia's economy operates today. However, the development formulas and policies defined by free-market fundamentalism and an overreliance on these international economic institutions have had consequences on Malaysia and the developing world.³⁸ For example, the impacts of the 1997 Asian Financial Crisis were worsened for Southeast Asian countries that opted for close integration with the policy recommendations of the World Bank and IMF. In fact,

Malaysia managed to avoid the same severity of impact as neighbouring countries like Thailand because the leadership at the time diverged from IMF recommendations. Similarly, the 2008 global recession did not damage the Malaysian economy as severely as Western nations because of Bank Negara Malaysia's aversion to introducing overly complex financial instruments, e.g. collateralised debt obligations used in Western economies.³⁹

This demonstrates the utility of tailoring economic policies and approaches to Malaysia's local context - and not relying solely on solutions identified by foreign parties. A further movement away from Western policy prescriptions will demonstrate that the country is willing to create solutions for itself and chart a future amidst a complex 21st century in more suitable ways for contemporary national contexts. The pandemic and the lessons to be learnt, together with the existential threats like climate change, offer an opportunity to innovate with new development models.

3.2 Reframing Notions of Growth, Prosperity and Modernity

The first area of discussion will focus on the underlying assumptions of Malaysia's development objectives and the elements that contribute to the nation's progress. In particular, the notions of growth, prosperity, and modernity that Malaysia uses. They are defined as follows:

- **Growth:** A rise in economic performance or size, for example, higher levels of production, trade, FDI, or a higher GDP; with the underlying assumption that the bigger, the better, especially as benefits will 'trickle down'; and
- **Prosperity:** A rise in income per capita and purchasing power parity irrespective of its nature, the externalities and inequality; and
- **Modernity:** A rise in urbanisation and associated goods and services, such as digital technology uptake, consumption of global brands, and international entertainment (e.g., music and television) with the underlying assumption that more of it (particularly with regards to Westernisation) is better.

Taken together, a common understanding and application of these three concepts contribute to Malaysia's contemporary definition of national progress and the workings of the economy. They guide how Malaysia's leaders and consumers allocate national and personal resources. Indeed, the application of free-market liberalisation mechanisms in Malaysia – loose regulation for business, mass FDI use, a taxation system that benefits the rich (e.g., no inheritance tax and minimal capital gains tax) and privatised public services – emulated Western models of growth via trickle-down economic theories.

Yet, as discussed in the introduction to this chapter, these economic notions are constructed around Western colonial and neoliberal economic thinking, which may not be beneficial for the sustainable development of the nation. As such, these approaches are increasingly questioned in many parts of the world.

3.2.1 Growth

These three notions, particularly growth, are focused on economic indicators of success, from income to consumption levels. Common understandings of developmental economic assume that with economic growth, standards of living and quality of life also rise by proxy. While this is partly the case, the reality is that the equitable and sustainable advancement of Malaysia's development level is an extremely complex web of interrelated factors. This means that a narrow focus on economic growth risks masking vulnerabilities at the societal and environmental level, including inequalities, social tension, lack of cultural conservation and environmental destruction. At the same time, they help drive corrupt behaviours in the absence of strong institutions that can ensure checks and balances are in place. Even if the country manages to escape the middle-income trap (itself a Washington Consensus definition that may no longer be suited to developing countries in the 21st century), based on Malaysia's current development models, this will require continued overconsumption and extraction in ways that the country cannot afford. Beyond that, becoming a high-income nation does not guarantee societal wellbeing and avoids

questions about limits, externalities, widening inequalities, and the nature of certain income-generating economic activities.

Indeed, even the high-income nations that created the prescriptions of Bretton Woods have not avoided the negative implications of prioritising economic growth above other outcomes. The United States is one such case: despite its high wealth level, severe inequality exists where the bottom 50% of earners own just 1.5% of the total wealth.⁴⁰ In terms of public health, the United States has the highest cost of healthcare in the world (42% higher than Switzerland, in second)⁴¹ with 36.2% of its population obese⁴². Furthermore, from the Black Lives Matter protests of 2020, it is evident that there are deep social divides. This is clearly an unsuitable model that is manifesting itself in the toxic domestic policies of the country.

Parallels can be drawn in Malaysia, in which the combined assets and cash of 53.4% of the population does not exceed US\$10 thousand per capita,⁴³ and which also suffers from the highest prevalence of adult obesity in Southeast Asia, where 50.1% of the adult population was reported to be overweight (30.4%) or obese (19.7%) in 2017.⁴⁴ Equally, as with Black Lives Matter, racial relations are a defining feature of Malaysian society – particularly how racism is embedded in the country's institutions.

Given these shortfalls, the Malaysian government will need to broaden its definitions of growth to include social justice and even environmental factors. After all, the purpose of a government is to provide for its citizens and nurture their wellbeing. However, as some economists have noted, Malaysia lacks a holistic indicator of national progress based on a formal combination of economic, social, financial, and environmental factors.⁴⁵

It is also worth noting that GDP, the current go-to metric, has received international criticism as a poor indicator to judge both social and economic factors. As a measurement of output developed in Europe during the 1600s and formalised during the second world war, it is now outdated and fails to account for or represent the degree of income inequality in society. It does not indicate whether the nation's growth rate is sustainable. Nor does it monitor the improvement of societal wellbeing. Most

importantly, it does not factor in the costs imposed on human health and the environment by negative externalities arising from production or consumption. As in most economies, the use of GDP hides many inequalities in Malaysia and needs to be questioned. As such, this report will use GDP where necessary to evidence broad arguments, given it is such a well-tracked indicator, but will avoid it otherwise.

3.2.2 Prosperity

The vision of **Now Everyone Prospers** requires reframing the notion that pure economic growth – in the traditional neoliberal sense – is a necessity for prosperity creation and the building of a resilient society. Prosperity transcends material wealth and most certainly financial and monetary measures or indicators. Instead, prosperity should be understood as a wider concept that is inclusive of social and environmental factors, including:

- The building of stable and strong institutions, ones that are built on social justice and strengthening human capital,
- The strength of community bonds,
- A resilient society in which the basic rights to life are fulfilled and protected,
- An accepting and pluralistic society,
- And the long-term maintenance and preservation of natural assets i.e., water, soil, biodiversity, and air quality.⁴⁶

This reframing of prosperity has to be part of the vision that will have tangible policy implications. For example, a major reason for adopting Western development economics is to modernise Malaysia, enabling the population to pursue the same lifestyles as in the Western world, which is unsustainable: car ownership, big houses, branded goods, rampant consumption and wastage. These are all implications of the current definition of prosperity. Therefore, if this definition were to broaden to include social and environmental factors, then the nature of the pursuit of modernisation may change in Malaysia, one that is better suited to its natural environment, people and history.

3.2.3 Modernisation

This redefinition of prosperity is a necessary step because the country is currently developing according to a typical misconception of modernity, which is that such an approach will result in solely positive outcomes. Modernisation – which is typically seen as Westernisation – in and of itself does not guarantee liberation from poverty or other societal issues and often ignores the ever-evolving existential threats of the 21st century. Economists such as Amartya Sen have identified that “development cannot be so centred only on those in power”, and in the case of modernisation, it often benefits those with the economic capital to enjoy the benefits of urban living – while leaving behind rural and poorer communities.

What current approaches to modernisation does guarantee is the driving of over-consumptive behaviours, loss of culture and traditions (which has economic consequences) and the overdevelopment a small number of urban centres, such as Kuala Lumpur, where economic activity and wealth is concentrated. In the Malaysian case, poorly planned modernisation has helped exacerbate rent-seeking behaviour and activities, which have weakened the state’s institutions. This concentration of development and wealth has led to the neglect of Malaysia’s rural areas, which are disproportionately undeveloped, resulting in a large rural-urban migration, contributing to the proliferation of the urban poor due to a mismatch in skills, and a deepening of the socioeconomic divide between East and West Malaysia.

To put this discussion into context, according to the most recent official data on Malaysia’s rural states, Sabah’s poverty rate in 2019 was 19.5% or 760 thousand people.⁴⁷ Kelantan came in second, with a poverty rate of 12.4%, or 230 thousand people. Another study demonstrated that a considerable proportion of homes continue to lack access to clean water, accounting for almost 30% in Kelantan, 15% in Sabah, and 13% in Sarawak.⁴⁸

Additionally, according to the Ministry of Education, under the 2020 Movement Control Order, more than one-third of students could not access learning resources because of the shift to online classes. Many of these students were indigenous and rural

students, showing the disparity in the access to education.⁴⁹ Clearly, the improvement of rural access to basic social infrastructure for all classes of Malaysians is essential for charting new development trajectories. Otherwise, the gulf between ‘modern’ and rural Malaysians will only increase and give rise to social tensions.

Another way that modernity manifests is in the belief that adopting certain technologies, particularly digital technology, will solve the problems caused by current growth models. In Malaysia, significant resources have been allocated to capitalise on the Fourth Industrial Revolution (4IR), a supposed future stage of industrial evolution characterised by big data, artificial intelligence, and automation.⁵⁰ Thus far, however, the benefits of this technology to the country’s development have been limited, and it is unclear if 4IR will address the plight of the majority when root causes are left unattended.⁵¹ The floods of 2021/22 – which displaced over 70 thousand people⁵² – should be a reminder that while digital technology delivers benefits, societies have to be built on fundamental principles that provide basic needs and sound socioeconomic policies. There are hard questions about how automation might impact employment or how big data is being used to facilitate even greater unsustainable consumption levels. The lesson here is that technology is not a panacea for socioeconomic ills resulting from poor economic plans and weak institutions (which may even be actively corroded by vested interests).

Thus, as with growth and prosperity, a reframing of modernity is needed to move beyond inequality-creating urbanisation, and the assumption 4IR can act as a panacea for the country’s challenges. A new definition should include the capability of Malaysia to build strong institutions (a major weakness at present), which in turn are committed to and capable of building resilience and providing human security solutions for its populace against future shocks. These shocks include the threats arising from repeated economic crises; resource overexploitation, the problem of consumption-led capitalism, biodiversity losses; the next public health crisis; and climate change. This new definition of modernity frames a society designed to both prevent and protect against crises and recover quickly from damage. Such a view would help motivate policy changes that focus on minimising inequality created by a narrow focus on

urbanisation and on the assumption that it is a necessary driver of providing economic gains.

In sum, as Malaysia progresses into the 21st century, the traditional models of economic development – stemming from neoliberal economic ideas in the West – have led the country to its current position, inclusive of successes and drawbacks. However, the time has come to re-assess these models to see how they can be altered to fit Malaysia's local current context and to provide societal wellbeing in tandem with economic growth. This means reframing the notions of growth, prosperity and modernity and following through with a renewed set of policy prescriptions to meet the vision of **Now Everyone Prospers**.

3.3 Revaluing Capital Variants

The challenges inherent in reframing growth, prosperity and modernity in Malaysia can be condensed to the way that the nation's economic system ascribes value. Currently, economic capital is perceived as the only (or at least the most important) form of capital in Malaysia. However, economic planning for the future needs to be based on the appreciation that there are four distinct forms of capital, and these 'capital variants' are the building blocks of any nation. They consist of:

- Natural capital: the stock of natural assets, such as water, air and soil, on which human life depends and is the basis for all production. It is the largest form of capital and foundation for all other capital variants.
- Social capital: the networks of interactions that exist between individuals who live and work in a society, allowing that society to operate properly. The value of social integrity is the second highest, as it keeps societies functioning.
- Human capital: the welfare of individuals, along with ideas, skills, and creativity. This is the third-largest capital and enables society to keep progressing.
- Economic capital: the flow money, built infrastructure, goods and services. This is the smallest form of capital and is the only capital variant to be accurately priced.

Conversely to the size of the capital variants, Malaysia places the highest value on economic capital, then human, social, and lastly, environmental capital. For example, the value of an entire apartment building is considered higher than the integrity of the community living in it (or around it), their individual skillsets, the resources that had to be extracted to construct the apartment or the resultant quality of life impacts (positive or negative) on the neighbourhood. Malaysia is not alone in this – this formulation is the norm for almost all economies in the world.⁵³ Figure 9 below visualises this relationship, showing that the size and importance of capital variants (with regard to the healthy functioning of human societies and the natural world) are valued *inversely* by the pricing mechanisms of the modern economy.

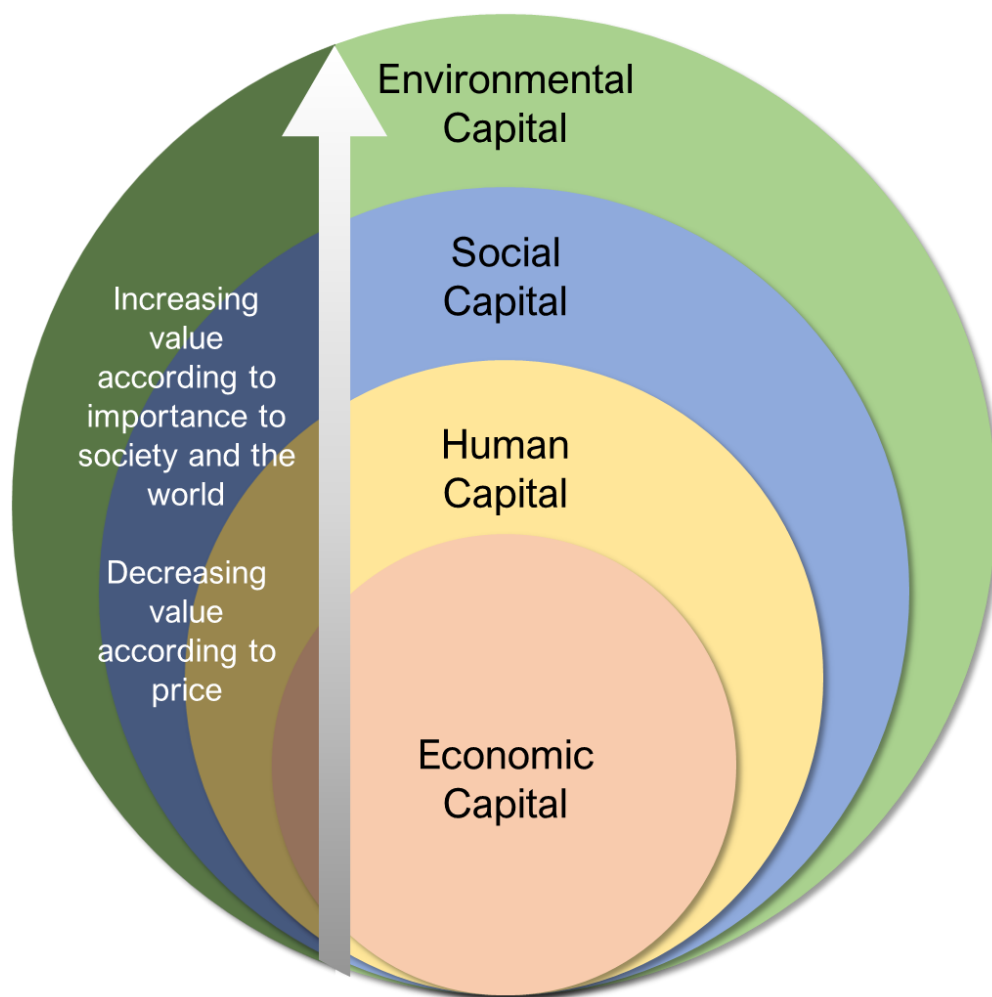


Figure 9: The capital variants and their relative size. Source: Global Institute For Tomorrow, 2022

This hierarchy might seem predetermined and unchangeable, but this ranking has been largely influenced by colonial and neoliberal modes of thinking, as discussed earlier in this chapter. If decision-makers embraced a new way of thinking about social development that revalued the capital variants – placing natural capital at the apex, then social, human, and finally economic capital – the result would be the creation of targets, indicators, and paths to progress that are aligned with the new definitions of growth, prosperity, and modernity. This will help to meet the vision of **Now Everyone Prospers** and will guide the country onto a development trajectory that is both sustainable and equitable.

As mentioned, natural capital is the foundational capital for all others, yet it has historically been undervalued – or not valued at all – and exploited due to its apparent abundance, with markets being unable to account for how valuable it is to sustained human existence beyond the confines of supply and demand.

Through an overreliance on unbounded extraction of its resources, Malaysia has become wealthy on the cheap: the land is inexpensively exploited (often with limited regulatory oversights) for activities ranging from plantation farming and mining to real estate; old forests are felled for industrial agriculture, and oil and gas revenues prop up government budgets – and much of this operates via rent-seeking architecture. In this way, over the past two decades, Malaysia has lost almost one-quarter of its remaining forest: an area the size of Ireland or Sri Lanka.⁵⁴ If this trend continues, there may not be enough forest acreage in the Peninsula or East Malaysia to maintain our already endangered ecosystem and the associated ecosystem services that support agriculture and social well-being.

There has always been a tension between using natural resources for development and avoiding irreversible environmental damage. So far, Malaysia has not navigated the host of externalities arising from resource-based production well. These include species extinction from habitat loss (including the national animal, the Malayan tiger, of which less than 200 remain in the wild);⁵⁵ ‘dead’ rivers from excessive pollution;

degraded land from intensive mono-agriculture; loss of rights of indigenous communities; as well as implications on the quality of life and health of citizens living in areas affected by poor air quality (for example, the haze). These impacts stem from a drive to grow Malaysia's economic capital through a free ride on its natural capital, with all the imperfections of a so-called free-market approach. A more judicious and intelligent approach is needed for the 21st century: Malaysians must develop its framing, given that international bodies such as the World Bank, UNDP etc., are founded upon the Washington Consensus and therefore ideologically not well-positioned to assist.

The adverse implications also extend to social capital. Society will struggle to collaborate if there is a lack of social capital, including shared values, norms, trust, and a sense of belonging, all of which allow for social transactions. Without robust social capital, Malaysia's economy, institutions, and political system would not function effectively. Thus, revaluing social capital presents an opportunity to mobilise society toward a shared future that affords protections to all, is resilient and is built on the principles of fairness and justice. For example, this would require Malaysia to build a society that enables social justice for all by placing the importance of social cohesion among people of different races, religions, and backgrounds as a national priority. This is a vital tenet of the vision for **Now Everyone Prospers** and represents a shift away from strictly economic indicators of national growth, which are impeded by ill-suited and failing race-based policies.

The same is true of valuing the importance of human capital beyond labour market outcomes in terms of employment and income. According to OECD and other research worldwide, those with low foundation skills are more likely to report poor health and participate less in civil society. In contrast, those with good foundation skills are considerably more likely to believe they have a voice that can make a difference in social and political life.⁵⁶ There have been similar findings across nations, indicating that skills have a strong association with economic and social consequences in various circumstances and systems. Overall productivity is an example of this - currently, Malaysia sits around 55th in the world in terms of productivity. According to the World Bank, the major impediment factors are education and nutrition⁵⁷. These are issues that

must be addressed in the 21st century, led by a vision that will uplift the country, such that it allows its people to fulfil their potential, rather than attain a high ranking simply for the sake of doing so.

Skills are also crucial in addressing the nation's brain drain, inequity and facilitating social mobility. As a result, investing in human capital is a highly effective strategy for equitably sharing the benefits of economic growth. But investing in human capital in Malaysia will require easing the use of specific race-based policies that disrupt social mobility and meritocracy.

Singapore, Malaysia's neighbour, has the highest ranking of human capital development in Asia and a high level of social capital. Factors for the country's success include a dedication to education and healthcare that is carefully regulated and overseen to ensure they are of high quality. Once again, in Malaysia, race-based policies has obstructed the strengthening of human capital.

Consequently, Singapore has a highly equitable society with low poverty rates, strong social protection, and a world-class education system. If Malaysia were to adopt a similar approach, societal health and economic productivity could be enhanced by developing our human capital to guarantee that we keep on track for more sustainable development. Strong social capital will ensure that no Malaysian is left behind in the process of progress. The population segment that would benefit from such reforms would be the disenfranchised poor Malays.

Finally, economic capital is perceived as the most valued capital variant despite its non-essential contribution: it is far easier to live without stock options than without a water supply, healthcare or law and order. Its only importance is that economic capital is a means of trading or paying for and even owning the other types of capital. Because of the singular and obsessive emphasis on economic capital, there is a common sentiment of indifference toward human and social capital. Simply put, if this sentiment is not addressed, Malaysia will not be able to meet the demands of the 21st century, between social unrest, economic uncertainty and inequality, and imminent environmental collapse. An urgent re-think of these fundamental economic

development issues is required if all Malaysians are to participate and realise the ambitious goal of inclusive prosperity by 2030.

3.4 Internalising Externalities to Change the Economic Model

The issues arising from the inverse valuation of capital variants are at the forefront of the greatest economic challenges of the century. One direction Malaysia's economy should take to revalue environmental, social, and human capital is through internalising external costs, or at the very least taking steps to price the unaccounted costs of economic activity and adjusting economic policies accordingly. This is the inevitable trend that countries will have to adopt if they are to have any success in meeting well-worn slogans about sustainability and climate change. Current public and private approaches to managing the human capital variants in Malaysia are not well-positioned to lead to a paradigm shift towards their just and sustainable use. In this section, we will explore the concept of externalities and discuss how externalities provide a framing for re-valuing the capital variants.

Externalities are defined as a consequence of economic activity at all stages of the value chain that impacts other parties without this being reflected in market prices. A positive externality is a benefit: for example, when consumers buy honey, they do not pay for the pollination of crops that bees perform. Another contemporary example is that of vaccinations: when an individual gets vaccinated, not only do they receive a benefit, but they also confer benefits to the rest of society by being less likely to catch and spread a specific infectious disease. Meanwhile, a negative externality is a cost: for example, the adverse impacts on the individual's health and the resulting harms of second-hand smoke to surrounding people caused by cigarettes are not factored into the price; or under-priced low-quality food that aids obesity and places strain on healthcare systems.

In Malaysia, common externalities include pollution from Malaysia's considerable manufacturing industries, whether that includes oil palm refining, oil and gas refining, or electronic device manufacturing. Pollution is classified as a market failure because

of the negative externalities it creates upon people and the environment. Market failure occurs when the market is unable to effectively distribute resources to balance the societal costs, both private and external costs, and its benefits. In the case of the recent Sungai Kim Kim illegal water pollution incident, the costs include both the private costs spent by the factories that disposed of the hazardous waste and the societal costs suffered as a result of pollution.⁵⁸ Essentially, society has to bear the cost of an activity that it is not directly associated with.

Scenarios such as these are currently managed in part by the 'license to operate', which allows businesses to function according to the terms of official government policies and regulations. These detail the acceptable threshold of externalities produced by given business activities. It is important that these policies and regulations are properly enforced to ensure adherence and compliance. But at present, there are numerous criticisms aimed at the effectiveness of the regulatory bodies (questions arising from political influence, corruption, and lack of competence) and current deterrent methods. For example, fines are not large enough to discourage polluting business behaviour, nor for polluting companies to have their licenses revoked.⁵⁹

Additionally, policies aimed at managing externalities and enabling the proper pricing of resources need to be developed more rigorously. Currently, markets, governments and businesses promote mass consumption. This process is inherently reliant upon under-pricing natural capital and externalising the costs of business activity onto the environment and society. In the long term, the outcome is the depletion of the country's resources and income inequality.

Like many around the world, Malaysian businesses are beginning to adopt Environment, Social and Governance (ESG) frameworks as a means to manage their externalities better.⁶⁰ ⁶¹ But they must go beyond these, given they are aimed at putting out fires downstream, and instead look upstream to the root cause of the problem – at business models. Malaysia can look to others for best practices, but it should also work on being the architect of its solutions. This entails trying to develop a system that does not devalue non-economic capital. Solutions to these challenges are scarce and polarised: some advocate for de-growth and a return to a more localised economy,

while others advocate for changes in business practices. Addressing externalities is one such approach, as doing so will focus on preserving Malaysia's economic trajectory but with greater emphasis on social and environmental concerns. A good start is to ensure 100% compliance with existing laws and regulations (zero tolerance for offenders) in areas where failure to comply is currently widespread and ever the norm. There are few boards of listed companies in Malaysia that can categorically go public and state that they comply with all laws related to taxation, labour, and environment in all their operations in the country.

To better manage externalities, the Malaysian government should begin to seriously consider social and environmental factors in addition to economic factors in its growth indicators. This is not a novel nor taxing shift, as there are many developmental indicators in existence that attempt to manage the balance of economic, social, and environmental wellbeing. The Malaysian Well-Being Index (MyWI), which was developed by the Economic Planning Unit, is an attempt at achieving this: it is comprised of 68 indicators across 14 economic and social wellbeing components, ranging from education to social participation and health. This is a step in the right direction, but efforts have not been made to encourage MyWI's adoption as a legitimate indicator to contend with GDP. As with other economic initiatives in Malaysia, implementation and execution is where efforts at achieving progress fall short – there is no national KPI or enforcement to guarantee that the nation improves quality of life for the majority. A significant contributing factor is the lack of competency and even accountability that comes with a bloated civil service.

There is also room to expand MyWI, particularly regarding environmental measurements. Hence, Malaysia can also look at a number of different indicators that have been proposed elsewhere in the world, such as China's "green GDP," which attempts to account for environmental factors, or the "Genuine Progress Indicator," which takes into consideration factors such as income distribution, adds factors such as house value and volunteer labour and subtracts factors such as the cost of crime and pollution.⁶²

By focusing on different indicators of national growth, Malaysia can realign its developmental trajectory to begin to meet the vision of **Now Everyone Prospers**. However, the GDP alternatives offered here are not panaceas. They are simply measurement tools, meaning that real and sustained change will have to come from new economic approaches and standards that work to internalise externalities. Only then can Malaysia start to rectify decades of resource mismanagement, reshape its growth trajectory, give credible meaning to slogans like ‘inclusive growth’, and set a gold standard for the ASEAN region. It can do this by revaluing the capital variants of Malaysia, putting environmental and social capital at the fore by simultaneously sustainably using its resources and focusing on income equality and quality of life of its citizens.

Meeting the vision of **Now Everyone Prospers** in a sustainable and equitable manner will not be attainable by prioritising any one of the capital variants – for example, many people believe that by protecting the environment, humans can live sustainably. Unfortunately, the harsh realities of the world and the pathways to sustainability in a crowded world are not as reductive as this. Instead, it is through the equal consideration of all capital variants in policymaking and business decision-making that sustainability is achieved. If Malaysia is to reshape its economic fundamentals to meet the challenges of the post-pandemic world and achieve its vision for the future, it must start here.

The following section – the Reform Agenda – provides high-level recommendations on selected key challenges from this pillar.

3.5 Reform Agenda

3.5.1 Development Metrics for Modern Malaysia

While GDP may be a general indicator for economic growth and development, it must no longer be the sole proxy used. Modern Malaysia needs to consider other means of

measuring development that consider other philosophies of growth that are not captured by GDP. The core challenges associated with GDP are:

1. It does not take into account non-economic factors that are integral to the state of Malaysia's progress, including socioeconomic inequality, biodiversity complexity, abiotic resource stocks, societal wellbeing, and cultural integrity.
2. Even though it is a solely economic indicator, it has a flawed projection of economic activity, as negative aspects of business activity – for example, pollution or consumption of fast food – will often *add* to GDP, despite being adverse for people and environment.
3. On the other hand, work done that is not paid is absent from the model, meaning productivity is only considered 'real' when there is a financial transaction. This excludes work that results in benefits which cannot be directly measured in dollars and cents such as work done by NGOs and communities to monitor and restore social and environmental health.

Thus, going forward, Malaysia will need to select or create new development metrics that more appropriately represent the complexities of the nation and can be used as the foundation to aim for national goals beyond economic growth. These new metrics can be used to enhance the existing Malaysian Wellness Index (MyWI), which measure economic and social factors, but does not take into account environmental factors. Thus, a new or renewed metric can look to the three pillars of the ESG framework and improve upon them, given that ESG is gaining traction across the world but is currently only superficially understood and utilised, and is implemented solely for financial purposes. This could look like the following:

1. Environment – GHG emissions, forest cover, freshwater management and quality of soil, to list a few.
2. Social – socioeconomic inequalities, social mobility, quality of healthcare, education levels and overall levels of inclusiveness (gender, race etc).
3. Governance – transparency, management of public finances, rule of law.

Compiling these key areas into new developmental metrics will help to give an understanding of how the country is performing beyond a purely economic angle. As these indicators do not operate in isolation, any new developmental metric should have a clear rationale for policymakers and business leaders, who will ultimately rely on them to take decisions.

3.5.2 Capital Variant Mapping for True Value Creation

Malaysia has a reasonable assessment of its economic capital – cash or other assets like real estate, physical infrastructure, commodities and equipment – as with most nations. However, there is a much more obscure understanding of the country’s human, social and environmental capital. The main problems stemming from this are as follows:

1. Labour is under-priced and wages are actively suppressed in order to attract foreign investment, generate higher profits, and sustain consumption, leading to an overreliance on cheap migrant labour despite irrefutable evidence of systemic abuse and distortion on the local labour market.
2. Social cohesion is not prioritised as part of policymaking or business activity, as this is seen as an ‘intangible’ and therefore lacking any real value or associated price. This is further abetted by institutional racism in policy making.
3. Environmental degradation proliferates because the resource base is incorrectly priced leading to severe exploitation, depletion, and pollution, with cascading ramifications on Malaysian society and economy. Here too, it is aided by the norms of rent-seeking economic activity.

In order to address these challenges, the Malaysian government should institute a system of capital variant mapping, which is the process of understanding what constitutes Malaysia’s environmental, social, human, and economic capital variants and in what proportions. Currently, economic capital is the capital variant best understood. For example, goods and services are tracked (economic capital), but very little data exists on the importance of community closeness or trust in the government

(social capital); the contribution of manual labour to the economy (human capital) or the true value of ecosystem service (environmental capital). These are illustrative examples, and if capital variant mapping were to occur, it would in turn help with needed legislation and is enforced without political intervention. This means investing in the creation of data sets that enable a better understanding of the constituent elements of capital variants through a lens that is not purely economic – i.e., the *value* of certain capital variants, which is not dependent wholly on the *price*. This entails the following:

1. Identifying the key subsets of human, social and environmental capital variants, measuring them, and monitoring their increase or reduction across time and in response to policies. An example for environmental capital is the full range of ecosystem services that are essential for continued human existence – water filtration, cleaning of air, nutrients for crops – yet few of these are understood or priced correctly.
2. Forging partnerships between government, business, and civil society to help with create inclusivity and diversity in the process of identifying, measuring, monitoring, and ultimately, managing capital variants.
3. Creating policy interventions and recommendations that focus particularly on timely intervention and enforcement to prevent further exploitation of human, social, and environmental capital.

By creating capital variant maps, policymakers and businesses will gain a new understanding of *value*, which will therefore help with *value creation* and guide the nation to manage its society and resources far more sustainably.

Pillar 2

4. Prioritising Self-Sufficiency: Building True Resilience

4.1 Introduction

Pillar 1 of this report identified how Malaysia's economic fundamentals have been constructed to favour economic capital above the other capital variants – human, social, and environmental. This rank in value is part of the standard globalised model of economic development pursued by the country, where growth, modernity and progress all follow a neoliberal economic thesis and are primarily defined by the capacity for economic capital accumulation.

However, as Pillar 1 also highlighted, the current economic framework that Malaysia adheres to has also resulted in significant social and environmental damages and distortions, which are not sustainable in the long term. The economic modus operandi has been dependent on a political economy that has in turn nurtured institutional weakness for vested interests to thrive. In this regard, the state has become captured by the economic elite. It is essential that these challenges are addressed if the country is to progress in a unified and 'resilient' manner, even in the face of shocks.

'Resilience' is a concept that is being increasingly recognised as a capability that is needed to face the scale of challenges in contemporary Malaysia – and in other countries around the world that are faced with the inherent weaknesses of current approaches to development – and will be a central theme of this chapter. This report defines 'resilience' as follows:

“The ability of communities to plan and prepare for, absorb, respond to, recover from, and adapt to new conditions – with support from all levels of government and the private sector in partnership with the public.”

This definition demonstrates that the contributing factors to national resilience are diverse. Indeed, the impacts of the pandemic have triggered further conversations around the resilience of the country due to vulnerabilities that were exposed in certain aspects of Malaysia's basic needs provision. For example, the concentration of public health facilities in urban regions to the detriment of rural areas, weak institutions across the board, eroding social values, varying standards of education and a risk of food insufficiency in certain staples.

The vision of **Now Everyone Prospers** requires that resilience be an in-built factor for Malaysia's economy, which means that the vulnerabilities among Malaysia's basic needs provisions must be addressed. Thus, this chapter will assess the current state of resilience in Malaysia's economy. In particular, the discussion will position resilience as an economic state that goes beyond the developmental reliance on orthodox concepts such as 'competitive advantage' or 'being attractive to FDI'.

Let's take 'competitive advantage' as an example. As discussed in Pillar 1, Malaysia's economic history and current economic fundamentals have led the nation to pursue development policies that deeply intertwine the national economy with regional and global markets. These mainstream economic tenets include national competitive advantage, which is the capability of a country to produce goods and services that are more desirable to consumers when compared with rivals (driven by several factors, but chief among them is low pricing, which is in turn dependent on cheap labour and the externalising of other costs on society and the environment). It can be further subdivided into comparative advantage – the ability to produce something more efficiently or at a lower price – and differential advantage – when goods and services are perceived to be of a higher quality.

'Competitive advantage' is used as a counterpoint to 'resilience' in this chapter's discussion because it is a concept embedded into current definitions of globalisation and its associated benefits. This concept directs decision-making and the movement of economic, human, social and environmental capital variants in ways that lead to the accumulation of wealth as a priority over resilience or sustainability.

This is evident even among the most competitive nations, which remain plagued by significant economic challenges and societal inequalities – which, taken together, present a lack of resilience – indicating that greater competition does not necessarily equate to balanced development or societal wellbeing. For example, the US is currently rated as the 2nd most competitive country in the world (according to the Global Competitiveness Report 2019), but at the same time has the largest trade deficit in the world. It has seen a considerable increase in income concentration over the last decade, with the richest 10% capturing 45% of national income and falling wages as a percentage of national GDP.⁶³ The US is also confronted by a range of social challenges such as rising poverty, homelessness, wage disparity, racial disparities, unstable job markets, etc. Competitiveness has either not addressed these issues or, in some cases, has even exacerbated them, which increases the risks to the US' future national resilience.

In this sense, competitive advantage represents a continuation of developmental theory that places economic capital above human, social and environmental capital - akin to contemporary notions of growth, prosperity, and modernity (as discussed in Pillar 1). When these concepts manifest themselves in global supply chains they allow for convenient shifting of negative externalities to the weakest and unseen parts of the global network, with costs being borne by the most vulnerable.

Similar to these aforementioned notions, competitive advantage is not an *inherently* damaging concept to Malaysia's level of resilience. However, when applied liberally across various layers of Malaysia's economic decision-making – from cross-sector businesses to public policy – competitiveness may not lead to beneficial outcomes for Malaysians. For example, competition may favour marketplace success over the means of achieving said success, leading to exploitation of labour and natural resources.

This trade-off is akin to common critiques of the “invisible hand of the free market”; most notably, the prioritisation of competitive advantage favours short-term capital gains and does not translate into resilience for the long term. Indeed, competitive advantage can become an impediment to long-term resilience for three main reasons:

1. Causing adverse impacts on the capacity for national self-sufficiency
2. Shaping resource allocation that does not lend itself to beneficial outcomes for the nation
3. Leading to corruption primarily driven by the owners of production to capture or limit the influence of institutional and regulatory oversight

Thus, the following sections of this chapter will address these three arguments before closing with a high-level, principle-based proposal to improve national resilience by developing an innovation ecosystem for resilience and shared prosperity.

4.2 Competitive Advantage and Self-Sufficiency

National resilience entails the capability of the country to recover from shocks, such as those presented by the pandemic and other inevitable future risks. A key aspect of this capability is self-sufficiency, implemented and built into the economy to balance both practicality and prudence. This section of Pillar 2 will discuss the importance of self-sufficiency against the backdrop of the pandemic and, in particular, will look at the relationship between self-sufficiency and competitive advantage through the lens of Malaysia's human capital.

Self-sufficiency should be a key topic for discussion in Malaysia and other parts of the world due to the business paralysis and social disruptions caused by the COVID-19 pandemic. It has revealed that significant fragilities and bottlenecks exist in the globalised trading system, hinting at how these networks may be jeopardised in the future when faced with other shocks. Any country that does not learn from these lessons and is ill-prepared to provide for its citizens in a self-sufficient manner during future crises simply is not resilient. In this sense, it can be argued that a government which finds itself in this position has failed its most basic obligation to its people. In terms of scope, self-sufficiency covers both tangible goods and services like food, water, electricity, healthcare and housing as well as more intangible aspects such as social value creation, the maintenance of education standards, the upkeep of natural

systems business innovation, employment (to prevent brain drain), and human capital development – just to name a few.

The vision for Malaysia thus needs to ensure that both ‘tangible’ and ‘intangible’ factors are adequately developed. This is important to deliver self-sufficiency up to a necessary and well-defined threshold, given the uncertainties on the horizon; continuing political instability, climate change, geopolitical risk, regional dynamics in ASEAN, further pandemics, and internal unrest due to social disharmony. Currently, these thresholds are not being met. This chapter will explore three significant areas for improvement in Malaysia regarding to its self-sufficiency and resilience. The first will be the nation’s human capital, at both the low-skill and high-skill ends of the talent pool. The next two areas are water provision and food security, which will be discussed in the closing section of this chapter.

4.2.1 The Impacts of Competitive Advantage on Low-skill Labour

Low-skill labour and migrant labour are significant contributors to Malaysia’s international perception as a competitive economy because they are vital components in keeping manufacturing costs low. The low costs are driven by the nation’s advanced technologies to operate sophisticated factories and a robust enough education system to produce skilled workers; but also because of lower-skilled labour that is imported, under-priced, and even exploited. As will be discussed, this drive for competitive advantage has resulted in a lack of self-sufficiency in labour in Malaysia, given the reliance on an exceedingly large underpaid and even undocumented migrant community in Malaysia. These practices have cascading impacts on the rest of Malaysia’s economy that threaten national resilience.

Despite Malaysia's relatively high population growth, the country's rapidly developing economy and rising urbanisation levels continue to drive the need for a large contingent of foreign workers. In fact, the total number of foreign workers is not agreed upon: according to official data from the Immigration Department of the Ministry of Home Affairs in 2019, Malaysia employed 1.98 million regular foreign employees (15%

of total labour force)⁶⁴; however, a 2019 World Bank report asserted this figure was closer to 3 million (22.5% of total labour force), with an additional 1.4 million undocumented workers⁶⁵ (other academic studies place this figure even higher, at 4.6 million⁶⁶). These numbers in any Western nation would be the basis of political upheaval. In Malaysia, these numbers have gone unnoticed, including the culpability of the entire immigration system in what some have termed human trafficking.⁶⁷ This is yet another example of the corrosion of institutions.

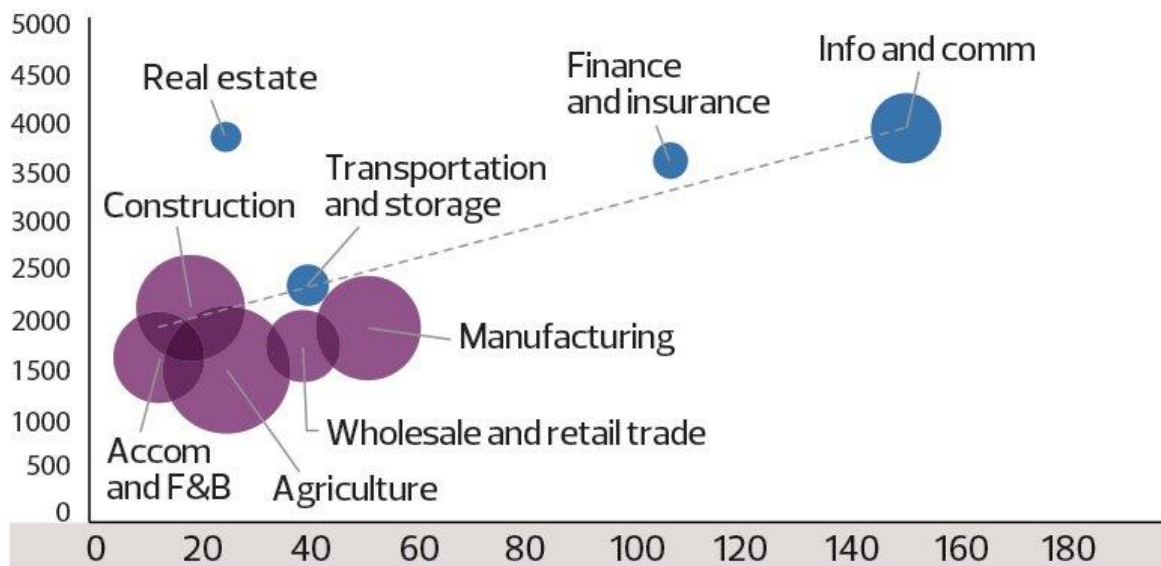
There is an upward trend in low-skilled employees: their proportion among low-, semi-, and high-skilled migrant workers has risen from 34% in 2010 to 46% in 2019. Foreign employees make up more than 30% of the agricultural workforce and more than 20% of the construction and manufacturing workforces, with Amnesty International reporting that many earn as little as RM500 a month for 10+ hour days in a country where the minimum wage has been set at RM1200 a month.⁶⁸

While migrant labour is an essential part of any economy, these figures speak to Malaysia's overdependence on under-priced foreign employees and the failure of the institutions managing large scale labour and trafficking to act with responsibility and fulfil their mandate. Indeed, the Public Accounts Committee of Parliament disclosed that 55% of approvals for migrant workers' entry permits between 2016 and 2018 were via 'special approvals', i.e., they did not meet the criteria for standard entry. This is not a small minority of abusive businesses but a national system of exploitation to maximise profits and remain competitive in the region. This must be addressed if the nation is to move towards self-sufficiency on the human capital front and ultimately operates with resilience – not to mention the moral imperative.

It should be noted that modern-day Malaysia has benefited significantly from having migrant workers perform low-skilled and semi-skilled labour. Often, these workers occupy employment and industry spaces that local Malaysians would opt not to work in (difficult, dangerous, or dirty jobs). However, according to Bank Negara Malaysia's Economic and Monetary Review Report 2020, the dominance of the low-cost production model and significant dependence on low-skilled foreign employees may impede productivity improvements, decrease pay, and promote the creation of low-

skilled employment.⁶⁹ Indeed, industries that employ a higher percentage of low-skilled foreign employees tend to exhibit lower productivity levels, requiring more work hours per given output. Furthermore, unconstrained dependence on low-skilled foreign workers may result in distortions to wage-setting mechanisms, suppressing market wages in associated professions and industries.⁷⁰ Essentially, Malaysia’s continued reliance on labour-intensive and low-cost business models to retain the competitive advantage has increased the risk of decoupling wage gains from improvements in overall productivity, delaying the creation of high-skilled and high-paying jobs. Figure 10 below compares median salaries across different industries to identify where this is occurring: purple bubbles indicate industries heavily reliant on foreign labour, which are also the industries with the lower median wage.

Industries that are more reliant on low-skilled foreign workers tend to have lower median salaries and wages



Note: X-axis—annual labour productivity (value added per hour worked, RM); Y-axis—median monthly salaries and wages of employees (RM); bubble size—share of non-citizen employed persons to total employment in respective sectors (%). Chart does not include mining sector (productivity: RM548.50 per hour worked; median salary and wage: RM3,968 per month; share of non-citizen workers: 5.6% of total employment in the mining sector).

Figure 10: Industries that are more reliant on low-skilled foreign workers tend to pay lower median wages. Source: Bank Negara Malaysia, 2020⁷¹

Additionally, the costs for retaining the competitive advantage are often externalised onto migrant workers themselves. Many Malaysian businesses have become reliant on exploitation via low wages or even illegal practices, such as denying workers basic labour and human rights. Indeed, there have been several scandals regarding the treatment of foreign employees in Malaysia, with over 18,000 undocumented or illegal migrants arrested during the 2020 and 2021 lockdowns, who typically seek employment with unregistered businesses.⁷² According to local media accounts, many COVID-19 positive migrant labourers were transferred in overloaded vehicles and held in overcrowded prison cells, which later became hotspots for COVID-19 clusters.⁷³ This is an example of the inhumane treatment of low-skilled migrant workers, and it also has obvious and concerning impacts on national resilience. Unfortunately, the drive for competitive advantage at all costs inevitably enables scenarios such as these.

4.2.2 The Impacts of Competitive Advantage on High-skill Labour

The challenge of a lack of self-sufficiency among Malaysia's human capital also extends to skilled citizens and migrant workers. According to one estimate, there are 117 thousand expatriates (i.e. richer migrant workers) in Malaysia⁷⁴, many of whom have been incentivised to move to Malaysia with expat packages (or expectations of above-average remuneration) to transfer skills and expertise. Given that foreign, particularly Western, organisations and skills are perceived to be pedigree, hiring expats is also seen as a means to help Malaysia keep competitive. However, as with the influx of lower-skilled migrant workers, there have been unintended adverse impacts on this relatively large pool of expatriate migrant workers. For example, this has led to the vast disparities that exist between an elite expatriate class with an average annual salary of RM482 thousand⁷⁵ compared with the local mean annual income of RM94 thousand. While this does not apply to all expatriates, their higher wages mean they can afford to live in segregated areas of Malaysia, often in Kuala Lumpur, and enjoy a quality of life not often experienced by local Malaysians, including the middle class. Additionally, there are also concerns that the importation of skilled

workers into the managerial class of businesses – particularly foreign MNCs and at times, GLCs and GLICs – may dampen prospects for Malaysian workers to achieve or aspire towards similarly high-ranking professional positions in these organisations.

This segregating and dampening impact of skilled foreign employees may damage Malaysia's human capital self-sufficiency by exacerbating the country's national-scale brain drain. Today, over 1.7 million Malaysians work outside the country – nearly 15% of the workforce – with Singapore (54%) being the most common destination, followed by Australia (15%), the United States (10%) and the United Kingdom (5%)⁷⁶. A lack of high-quality employment, remuneration opportunities and racial discrimination are three of the main push factors for this brain drain, which, reliance on skilled foreign labour may worsen.

In sum, there exists an economic reliance on low- and high-skilled migrant workers in Malaysia. This generates the legitimate concern that the nation is not self-sufficient in its human capital, given that it does not appear capable of developing the nation without foreign skills or externalised costs onto low-skill workers. Needless to say, this does not place Malaysia in a position of national resilience if its human capital cannot meet national demands.

4.3 Competitive Advantage and Resource Allocation

National resilience, as discussed, can be undermined by a narrow focus on archaic ideas about competitive advantage resulting in self-sufficiency being deprioritised in business activity and public policy. The adverse impacts of restricted pursuance of competitive advantage at all costs also extend to another key element of national resilience: resource allocation.

Resource allocation is the foundational feature and challenge of all economies. It refers to pricing the movement and distribution of economic, human, and environmental capital into all aspects of how societies operate and function. Thus, the decisions taken

through policy intervention (or lack thereof) will drastically influence the state of resilience in the country.

The argument commonly put forward by proponents of competitive advantage is similar to that of free-market theory: a free (and therefore competitive) market will self-regulate based on the aggregate balance of supply and demand forces, resulting in the most effective resource allocation. Adam Smith, a Scottish economist, is renowned for this theory, a term he coined as the “invisible hand of the market” - a metaphor for the unseen forces that locomote the free market economy – was fleshed out in his first book *The Theory of Moral Sentiments* (1759). This became the guiding policy approach favoured by Western-trained economists, about the belief that self-interested pursuance of profit would drive businesses and innovators to meet the needs of society, for which they would get paid.

These theories have informed much of Malaysian – and global – economic policy around laissez-faire operation. Of course, entire discourses exist that critique free-market capitalism, which this report will not attempt to cover. However, this section will argue that competition-based free markets do not always allocate resources into areas with the best outcome for national resilience, using the oil palm monoculture industry as a case study.

Malaysia’s economic interactions in the global marketplace demonstrate that developmental priority and resource allocation has been given towards specialisation in certain industries – oil and gas, electronics, oil palm that are all structured to be competitive for international consumption (which is why Malaysia is a net exporter, sitting at a high 19th in the world).⁷⁷ For example, palm oil is a signature Malaysian export. In 2019, Malaysia was the world’s second-largest exporter of palm oil after Indonesia, contributing 30.4% of the world’s share of palm oil export.⁷⁸ The proliferation of palm oil in the domestic market had many positive multiplier effects, including improving the livelihood of smallholder farmers and providing employment opportunities for those up and downstream in the oil palm value chain.

However, it also clearly leads to environmental issues, as the drive to remain competitive often results in the externalisation of costs onto the environment (just as costs are externalised onto migrant workers). Oil palm's robust growth over the years has revealed how large-scale monoculture farming can cause a loss of ecosystems and biodiversity: Malaysians are familiar with the pro-environmental campaigns against oil palm, using orangutans as a flagship conservation species. Recent studies have pointed out that it is common practice for businesses to be compensated for exploiting nature rather than conserving it as a means to stay competitive. For example, around the world, "nature-damaging" government subsidies still amount to around US\$4 trillion-US\$6 trillion per year.⁷⁹

Malaysia needs to carefully consider reducing current demands on its natural resource base, which are exceeding the capacity of supply and renewal. This is another key aspect of resource allocation: using resources to create prosperity in a way that is not simply a race to the bottom. A key resource that has enormous potential for food self-sufficiency (and thus employment, the creation of supply chains and other economic benefits), is the large amount of degraded land across the country, a by-product of decades of a wasteful industrial agriculture system and poor resource allocation policies.

As such, competitive advantage prioritises the commercial viability of business activity without due consideration to the allocation of resources into areas of the economy that might better enable resilience. Investment into the basic needs of Malaysian society is often lacking, as it is perceived that there is not an 'edge' to be gained from a small domestic market or goods and services that are so fundamental to quality of life that they are required to be inexpensive, such as potable water provision. This section has focused on the intersection of food and cash crops, but this equally applies to healthcare, quality of air and water, housing and education. While basic needs may not be alluring from a commercial perspective, they are ultimately the most important thing for a society's resilience and a primary obligation of the state – meeting these will enable national long-term success.

4.4 An Innovation Ecosystem for Resilience

Based on the discussion in this chapter, building true resilience in the nation will require a well-designed and partial departure from prevailing economic tenets, such as competitive advantage. Unfortunately, competitive advantage has the propensity to reduce levels of national self-sufficiency, distort resource allocation away from the most needed areas and even build in wastage. All of these outcomes undermine levels of national resilience. As a result, a shift is needed in tangibly integrating and inculcating resilience into economic policies in a way that compromises continued competitive success in the global economy. This report posits that developing nations such as Malaysia have to be at the forefront of creating an innovation ecosystem that makes resilience the guiding principle of economic planning.

This ecosystem would be hybrid and founded on Malaysia's role in the global economy. It will help with the process of creating a vision-aligned, diversified economy that is designed to meet the aspirations for shared prosperity and is also able to compete on the international scale. The ecosystem will leverage domestic innovation to improve access to basic needs, create jobs, reduce reliance on certain non-essential imports, and provide for domestic demand through affordable means.

This innovation ecosystem would be structured according to a two-tiered, principle-based approach:

1. Marrying innovation (social and technological) with meeting the basic needs: ensuring the needs of all Malaysian citizens are met, now and into the future, in increasingly more equitable and effective ways
2. Reducing dependency and increasing self-sufficiency by localising aspects of the national system: achieving innovations with local ideas, skills, expertise and technology that are increasingly sustainable whilst creating new industries and, thereby jobs

The remainder of this section will provide a high-level overview of what direction these approaches might take in Malaysia.

4.4.1 Coupling Innovation with Basic Needs

A key element of national resilience is meeting the basic needs of all Malaysians and improving livelihoods. For this reason, the concern over the need for competitiveness may be an *over-concern*, given that short-term competitive success at a regional or global scale does not necessarily translate into improved basic needs for the national majority in the long term.

Currently, a significant amount of public and private resources are being channelled into 4IR efforts as a development priority rather than basic needs. This is not to discount the work currently being done by Malaysia's public, private and civil society sectors in improving the welfare of the nation's citizens, but this fixation with the potential of technologies is primarily focused on how future technology can grant Malaysia a competitive advantage, yet at the same ignores the drawbacks this chapter has attempted to categorise – for example, automated car manufacturing centres that may lead to job losses among low- and semi-skilled workers.

The collective Malaysian push for 4IR could be refocused through an enabling policy framework that couples investment in new technology to meet national basic needs. For example, a combination of new infrastructure and digital monitoring technology could help Malaysia protect its watersheds, improve its water supply, and overcome its freshwater losses. The country suffers from a non-revenue water (NRW) loss figure of approximately 6 billion litres per day, which works out at as a loss between RM124 million to RM438 million a year depending on water tariff prices (RM0.57 – RM2 per 1000 litres). NRW is the term used to describe the difference in water volume put into Malaysia's water transmission system at the onset versus the water volume billed to customers at the outset. Essentially, it is a term to describe water losses or water that is not being paid for. This is mainly caused by water loss through leakages, ineffective metering and billing and illegal siphoning of water. One report identified that losses have been increasing since 2014 and reached around 5929 million litres per day in 2017⁸⁰. To give context, Air Selangor, Malaysia's largest water operator, has a combined capacity of 5000 million litres per day.

Using technology to address this loss would be true innovation for resilience. The four phases of leak detection – identify, localise, locate, and pinpoint – all require technology and skilled labour. One way is through advanced monitoring systems, such as dynamic leak detection systems that move through pipes to localise and pinpoint leaks or static leak detection systems that use sensors to collect and transmit data to identify leaks as they occur.⁸¹ In each case, specially trained teams are required to operate and pinpoint the exact location for repair. In this way, coupling innovation with basic needs will help uplift the nation as a whole and improve levels of resilience. As such, it would also stimulate the economy by creating many opportunities for new and existing businesses and jobs of varying skill levels.

Other examples where technology can assist basic needs are in the following areas:

- Flood mitigation: future-proofing Malaysia’s infrastructure against regular floods and the rising risks of climate change with advanced drainage, defence, and warning systems
- Sanitation: monitoring of domestic and industrial waste to achieve zero effluent discharge in waterways
- Food supply: using locally appropriate agricultural techniques that boost self-sufficiency in staple foods without overly damaging ecosystems by optimising land use
- Education: improving education access and quality for rural students and more rigorous training for teachers using increased connectivity and data collection systems
- Housing: leveraging new materials and building techniques to address the severe housing quality inequality between Malaysia’s rural and urban areas

4.4.2 Localising the System

‘Localising the system’ entails the added challenge to meet a well-defined level of national resilience is to achieve it in a manner that uses local resources and talent, i.e., in a self-sufficient way. Of course, the main criticism of self-sufficiency is that it is often

viewed as being ‘inward-looking’ and, therefore, may not translate into the most innovative outcomes instead of ‘outward-looking’ competitive advantage. This stands to reason, yet as discussed, a narrow focus on competitiveness encourages widespread adoption of economic ideas from abroad without customisation to local needs. This has resulted in short-term gains accompanied by the cost of undermining resilience in the long term.

Given the need to prioritise long-term outcomes, the clearest area for action lies in developing a national plan that seeks to provide total food security for Malaysia. This is one of the most fundamental steps any developing country can take to ensure resilience and self-sufficiency in staple foods – and one that is very achievable in a country as geographically blessed as Malaysia.

As discussed, Malaysia is doing very well in plantation agriculture, with the value of oil palm exports reaching RM90 billion a year. But on food production, Malaysia largely lags behind neighbouring countries. Rice, for example, is a critical food staple that the country is not self-sufficient in: according to Khazanah Research Institute, Malaysia has for almost 30 years provided just 60-70% of its rice demand, which hovers at ~80kg per person, per year.⁸² The same applies to fruits (66%), vegetables (40%), and ruminants (29%).⁸³ While regional trade has overcome this deficit, Malaysia’s lack of self-sufficiency in rice production is a point of weakness, and this lack of food security was suddenly exposed during the pandemic. For example, there were sudden drops in rice supply from Thailand and Vietnam when these countries stockpiled supplies, leading to price volatility: items like celery and cucumbers increased in price by over 50%. This should act as a reminder of the potential for damage to national resilience when supply chain shocks occur.

In addition, Malaysia should closely examine its food expenditure. The nation spent RM55.5 billion on food imports in 2020 (but only exported RM33.8 billion).⁸⁴ This is unsurprising when Malaysia is projected to have over seven million hectares of agricultural land, yet oil palm and rubber – cash crops – account for 77% of the total. The gradual shift to cash crops that started in the post-colonial era is one of the most significant contributing factors to Malaysia’s declining food security: between 1990 and

2018, Malaysia became less self-sufficient in chicken, fish, pork, fruits, rice, milk, vegetables, and beef.

Additionally, prioritising export-oriented oil palm and rubber takes away from the available resource allocation (investments, policy support, human capital) into businesses that can meet other agricultural needs of the domestic economy. This is perhaps less visible but equally important because fertilizer, seeds, animal breeds, animal feeds, pesticides, machinery, and labour are *all* majority-imported into the country. This is simply not tenable if the country aims to look after its agricultural base, as these base costs will cause the price of food to spike and farmers' income to fluctuate across a given year.

This issue of food security in Malaysia also ties into discussions on self-sufficiency in human capital, i.e., reducing Malaysia's overreliance on foreign labour. This will require a drive to create new occupations, hire local talents for these roles (regardless of race), and build competency through education. This is more urgent than ever: 28% of the country's population is involved in the agricultural industry, yet the average age is 60. If Malaysia does not dramatically invest in its agricultural infrastructure and reverse the current disinterest of the youth in going into a 'boring', 'dirty', or 'poor' industry, then the country may very well face a crisis in the next 20 years.

Importing cheap labour only solves the problem in the short term, and at a superficial level. Thus, the withdrawal from foreign labour dependence should be supported by a cohesive set of labour, industry, and education policies to ensure long-term job growth and equip Malaysians for a rapidly changing employment market. Examples of these policies are: strengthening public-private interactions to inform industrial decisions to create an enabling environment for innovation or establishing active labour market policies to retrain the workforce and develop niche, skilled occupations.

In sum, the government must find ways of meeting basic needs like food staples, despite or because of the challenges.

Thus, if Malaysia's innovation ecosystem promoted long-term resilience – beginning in the agricultural sector – the outcomes would be long-term competitiveness: the

capability to carry out social and economic activity despite future challenges, such as supply chain shocks. More specifically, this would include benefits such as more employment opportunities, advances in research and development, targeted improvements in the education system and reduced brain drain.

Of course, 'localising the system' is not without criticism: one of the conventional arguments against moving towards ideas about promoting self-sufficiency is that Malaysia's domestic market is not broad or deep enough to generate substantial profits. Attempts to cater to the domestic market are viewed as an unprofitable, inefficient use of resources, and a shackled approach to innovation. It is true that Malaysia's domestic market neither has the most disposable income nor is the largest by population. Neighbouring countries demonstrate this: Singapore has a far higher per capita income (US\$ 11,414 vs US\$ 65,233), while Indonesia is almost 8 times larger in terms of population. Malaysia is also purportedly stuck in the 'middle-income trap': wages have stagnated, and most Malaysians have seen their household purchasing power drop by a staggering 16.7% over the last ten years⁸⁵.

However, this situation makes it even more incumbent on policymakers to re-invent the economy and align with a vision for the future that keeps self-sufficiency and resilience at its core. It would be short-sighted to simply adopt perspectives from international bodies, like the World Bank or International Monetary Fund, when it is becoming clear that these institutions have not even managed to help high-income countries avoid economic traps (as highlighted in Pillar 1 on reshaping economic fundamentals).

The domestic market is a vital foundation for economic progress. To achieve national resilience, production capacities should be moulded in line with the size of the local market and its future needs, starting with food staples and the gainful employment opportunities associated with the agricultural industry.

The following section – the Reform Agenda – provides high-level recommendations on selected key challenges from this pillar.

4.5 Reform Agenda

4.5.1 100% Food Security for National Resilience

The pandemic has exposed the weaknesses of being overly reliant on the global food supply chain. There is also a pressing need to leverage on Malaysia's abundant resources to achieve 100% self-sufficiency in the staple foods for Malaysians, including but not limited to: rice, vegetables, fruits, and poultry. The resulting dependency on imports for food staples leads to many complexities for the nation, the most important of which are as follows:

1. Risks to food security, particularly during shocks. As food supply is so fundamental to social stability, it is a prerogative of the government to ensure that the nation is self-sufficient in staple foods.
2. Systemic weaknesses stemming from over integration with regional and global food imports that leave the nation susceptible to fluctuating prices on imported items, particularly those imported in bulk.
3. An agricultural system that is over reliant on cash crops, particularly oil palm in the case of Malaysia. This has a range of cascading impacts, including loss of biodiversity, social degradation associated with intensive monoculture farming techniques and the infusion of poor nutrition food into everyday diets, resulting in rising obesity.

Given the scope of food production and supply chains, there are many steps needed in order to move towards achieving 100% food self-sufficiency – it will take a concerted effort from government, producers, and sellers across varying scales, from smallholder farms to integration with global food supply chains. Three key areas for change are as follows:

1. Policymaking that monitors and transforms the pricing of food between actors along the entire supply chain (e.g., from farmer to 'middle-men' buyers, vendors, and consumers), in order to enable and incentivise farmers to make a return towards growing a diverse range of food crops, rather than focusing on cash crops

2. Focusing research and development efforts on the creation and introduction of locally produced and appropriate technologies in both the chemical aspects of farming (fertilisers, pesticides etc) and the mechanical aspect (sorting and processing units etc). Importantly, they must be affordable and sensitive to ecosystem health
3. Prioritising the transfer of knowledge and skills to Malaysian farmers with regards to agricultural land use (including soil health and drainage basin dynamic) to encourage the use of modern farming techniques that are more sustainable

If these three areas are worked on in unison by the government, Malaysia will see an improvement in the food security of the nation, with an additional rise in total efficiency along the supply chain, whilst also helping to deliver on aspirations such as an inclusive economy.

4.5.2 Reversing Rural-Urban Drift

Malaysia's population is majority urban (70%) and is continually rising. While urbanisation has come with a host of benefits to Malaysian citizens, it also has many drawbacks including increasing overcrowding, lower quality jobs, and rising disenfranchisement and crime. This is exacerbated by the increasing trend of rural-urban migration, given that rural settlements are not receiving appropriate levels of investment for redevelopment, and young people no longer see bright economic futures in their rural hometowns. If the country is to aim for a higher level of resilience, it must reverse rural-urban drift. The main reasons for doing so are as follows:

1. The population of farmers in the country is rapidly ageing, and their replacements from younger generations are being sourced from a dwindling pool. This has serious implications for the future of agriculture in the country, and especially for food security.
2. Rural decline is rampant, given that young people are leaving their hometowns in search of better economic opportunities in the urban areas. Fewer

economically active people in rural areas means less flow of capital, less investment, and more disconnection from urban quality of life.

3. There is an intergenerational loss of Malaysian culture and traditions as young people leave rural settlements, which is being increasingly subsumed by urban norms (which are themselves influenced by global trends, mainly Western) leading to gentrification of local cultures.

To address these issues, there must be a concerted effort by the government and businesses to revitalise rural areas and fix the increasing inequalities between rural and urban areas. Three focus areas are as follows:

1. Investment should be directed into rural areas in order to make them more attractive places to live and work in. The government and the GLC ecosystem (especially DFIs) have a vital role to play here in providing and improving access to basic needs, such as affordable high-quality housing, public infrastructure such as roads, electricity lines and internet, clean water and sanitation, and education services that are on-par with urban areas.
2. In addition to investment for basic needs and quality of life, the quality of work and jobs must also be an urgent area for policy focus. This cannot rely on the “smokestack chasing” approach (incentivising a single major employer to set up operations in a rural area) as this does not lead to a diversified and vibrant local economy.
3. More social and economic protections should be provided for farmers, both as stewards of the land and food security and as an incentive mechanism to encourage rural youth to take on careers in agriculture and nature conservation. These protection mechanisms should not be solely subsidy-focused but should also include innovations in crop/husbandry insurance schemes and access to regenerative agriculture knowledge and tools.

Through policymaking that favours investment and protections for rural communities, it is possible that the push factors for youth leaving their rural settlements will be so significantly reduced that they will remain and contribute to the revitalisation of Malaysia’s all-important hinterland.

Pillar 3

5. Creating Shared Prosperity for All: Calling Time on Rent-seeking and Race-based Policies

5.1 Introduction

This report has thus far discussed the fundamental features of Malaysia's current economic structures and how their integration with the global system – including the prioritisation of economic growth and competitive advantage – may not be having the desired beneficial impacts on Malaysian society. These transformative new concepts provide the groundwork for which reforms are needed in Malaysia to address many of the challenges identified in the introduction to this report, from inequalities to environmental degradation. The reforms required can catalyse the development of new sectors and businesses, thereby providing a range of new employment opportunities for Malaysians.

This chapter will focus on issues unique to the Malaysian context. It will address the topic that is at the heart of Malaysia's problem: extremely prevalent rent-seeking behaviours exhibited across public institutions and business ecosystems, and the damaging impacts it has on all aspects of Malaysian society, including the very social fabric of the nation.

The vision of **Now Everyone Prospers** is framed on the simple idea that a just and harmonious society is the aspiration of the people, which should be the driving mandate of the government. For the purposes of this chapter, that means pursuing 'shared prosperity', a concept that draws from a previous vision for Malaysia, i.e., the Shared Prosperity Vision 2030, launched in 2019:

“To make Malaysia a nation that achieves sustainable growth along with fair and equitable distribution, across income groups, ethnicities, regions and supply chains. The commitment is aimed at strengthening political stability, enhancing the nation's

prosperity and ensuring that the rakyat are united whilst celebrating ethnic and cultural diversity as the foundation of the nation-state.”⁸⁶

This is a well-crafted and laudable vision, but the very first sentence does not withstand the critical scrutiny and therein lies the challenge: vision statements often have little to no substance, and it is an increasingly held opinion that the architects of these visions are either not well-meaning or are poorly informed.

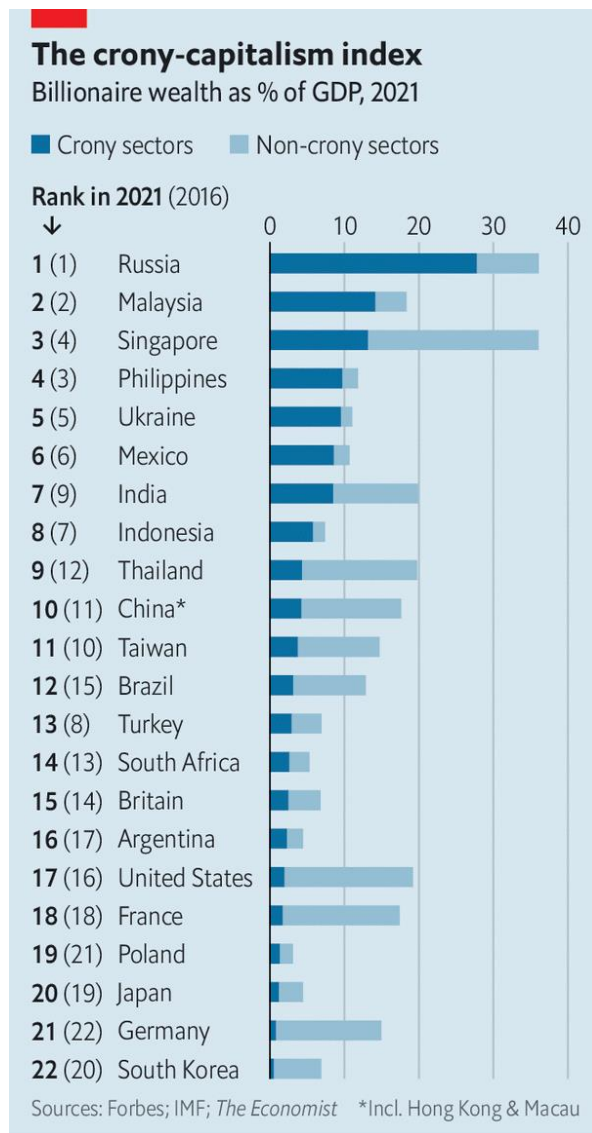
However, shared prosperity is a goal worth pursuing because it distils the key and practical elements of a just and harmonious Malaysia – namely to reduce inequality and promote unity, equitable access to opportunity, as well as encourage the efficient use of resources. It is such an important idea that it cannot and should not remain a political slogan. Thus, it requires the best minds in the country to be engaged in its interpretation as a national policy objective and in drawing up the detailed policies and expertise for its execution. This is simply not the case at the moment.

Thus, this chapter will discuss the institutions and economic behaviours that are currently hindering Malaysia’s potential for creating shared prosperity, in particular, rent-seeking, which is the prevalent norm among the country’s business and political elite.

As described in the introduction to this report, economic rent-seeking is the practice of manipulating public policy or economic conditions as a strategy for gaining access to resources, and business opportunities and maximising profits. Rent-seeking behaviours increase personal financial gain – often through improper means, including corruption – without contributing to productivity or creating new wealth for society. It is practised all over the world, and in modern Malaysia it manifests in many damaging ways: through political parties, firms, and interest groups lobbying for special treatment; favours and subsidies to those with access to decision-makers; patronage in the selection of political appointees; regulatory capture undermining policymaking; and mismanagement of natural resources due to the undermining of laws and regulations.

Crony capitalism and patronage politics can be viewed as a subset to rent-seeking. The former refers to an economic norm where the business ecosystem functions because of capital accumulation through collusion between business owners and political elites, rather than as a result of free and fair enterprise. This means goods and services may not be provided by those who are most equipped to do so at market rates, nor to a high standard. Similarly, patronage politics is a system whereby individuals cultivate a close relationship with elected officials or government officers in important positions and are given preference based on this relationship and not their merits. Although differences exist between rent-seeking, crony capitalism, and patronage politics, this report will refer to rent-seeking as the overarching behaviour that encompasses these systems in Malaysia.

Considering this, every government in power should prioritise efforts concentrating on institutional reform and reducing rent-seeking, crony capitalism, and patronage politics. This is no small task. According to a global study done by The Economist, Malaysia has the second-highest percentage of billionaires' income whose wealth was amassed through cronyism.⁸⁷ Figure 11 visualises this. Russia topped the list in 2022, with Malaysia's neighbours the Philippines, Singapore, Indonesia, and Thailand following in third, fourth, eighth, and ninth, respectively, demonstrating that this is a cultural and economic challenge for all of Southeast Asia, not just Malaysia.



The Economist

Figure 11: The crony-capitalism index, showing billionaire wealth as a percentage of GDP. Source: *The Economist*, 2022

However, rent-seeking has impacts beyond the unfair and unjust accumulation of individual wealth. Numerous economists have commented on the harm that rent-seeking produces on societies and economies as a whole. For example, the Tullock Paradox (named after the American economist Gordon Tullock), describes how rent-seeking has little cost to initiate yet has enormous value for the rent-seeker. To illustrate this, consider a rent-seeker wanting to secure an RM1 billion government contract. To secure it, they bribe one or several key decision-makers with a total of RM10 million. This is a 1% of the potential gain to the rent-seeker. This differential is what has the potential to derail government spending, and this can occur in three ways:

first, it may make projects more costly to run as project costs are inflated through collusion, with money being pocketed or diverted; second, public projects that do not benefit society to the same extent as a fairly tendered public projects may be accepted; and third, significant funds may be siphoned away from public projects before they can be used for essential development, causing national stagnation and even regression.

Angus Deaton, recipient of the 2015 Nobel Prize in Economics, said this about rent-seeking: “To the very considerable extent that inequality is generated by rent-seeking, we could sharply reduce inequality itself if rent-seeking were to be somehow reduced.”⁸⁸ Deaton and others (including Malaysian academics such as Jomo Sundaram and Terrence Gomez) have described how rent-seeking results in suboptimal resource allocation, growing disparities, loss of trust in the institutions of the state, and even a disruption in the social fabric that holds society together.

Take, for example, 1MDB. The fund was supposedly premised on ensuring long-term economic development through strategic investments in assets and to facilitate the flow of foreign direct investments into Malaysia. However, public monies meant for development were siphoned away to fund luxurious lifestyles, including the purchase of condominiums, yachts, and even election campaigns. This was the most prominent financial scandal in history and was perpetrated because of ingrained rent-seeking behaviours in the highest levels of Malaysia’s public and private institutions and international organisations. Most importantly, not only was 1MDB an organisation, but it was also a central part of Malaysia’s *developmental vision*, which is why it had a monumental impact: it undermined Malaysia’s global reputation and fractured international business relationships; it removed billions from the government budget; and it severed the public’s trust with its own government and institutions of the state, such as the GLCs.

With this in mind, it should be crystal clear to everyone that national development will suffer if rent-seeking remains ubiquitous: the country's economic, environmental, and social well-being will further deteriorate if it is not dealt with through significant reforms. If revenues earned from government contracts and key resource- and manufacturing-

based industries continue to illicitly flow into the hands of a small minority, the nation's poorest in both urban and rural settings – regardless of ethnicity – will bear the brunt. To achieve the vision of **Now Everyone Prospers**, Malaysia has a simple choice: clamp down on rent-seeking activities that ultimately lead to patronage, corruption and wastage in the economy, or see the country continue to decline and even risk becoming a 'failed state'.

5.2 Institutionalised Rent-seeking: Urban and Rural

Rent-seeking behaviours often manifest as illicit business activity or political interference, both of which result in economic inefficiencies due to the misuse of natural, human, or financial resources (for example, when 'open' tenders are granted to a select group of networked individuals - cronies). In Malaysia, these inefficiencies are particularly potent because rent-seeking behaviour has been integrated at an institutional level in the country and is widely accepted by politicians and the business elite as a right or the norm. At the same time, the public recognises it as the established state of affairs.⁸⁹ It has been wholly normalised in Malaysian society. This is hugely problematic, and both political and business elites have to awaken to the potential catastrophic downside. This has already resulted in lower economic productivity due to wasted government revenue, private capital allocation into unproductive projects, lower wealth creation, increased income disparity and large-scale unnecessary environmental damage.

How has rent-seeking been institutionalised? As explained in the introduction to this report, the NEP advocated for more Bumiputera participation in resource allocation and public-sector ownership and control of enterprises. Patronage in the name of affirmative action was encouraged, allowing rent-seeking practises to become ingrained at a business, social, and political level. GLCs were formed to improve access to opportunities for Bumiputeras to engage in the commercial sector by providing financial, technical, practical, advisory, and other assistance in starting and running their own firms. To ensure Bumiputera participation, quotas were set in

numerous sectors, such as a quota for certain business licences, and subsidies were provided to Bumiputeras in specific sectors, such as agriculture, where many poor Bumiputera were employed, to help alleviate them from poverty. Furthermore, these GLCs and organisations were primarily run by Malay politicians, government officials, and members of the royal families. Their actions and practices were commonly viewed as being beyond reproach, and institutions often complied with their demands to bend the rules. This helped to institutionalised racial discrimination against other races in the name of affirmative action.

As such, years of abuse of affirmative action policies have created a Malaysian economy designed around and reliant upon rent-seeking behaviours as part of the business and racial-politics interface. As a result, the challenge of reducing pervasive rent-seeking behaviours and their associated practices will be enormous. It will require a concerted effort by the business community and civil society groups compelling political leaders and the civil service to instigate significant reforms. The country should view this as a process that demands a generational transformation in social values; a shift in the relationship between people and the economy and between elites and the economy. Two case studies will be explored to further understand how rent-seeking works in Malaysia: one through an urban lens on infrastructure development and another through a rural lens on local community development.

5.2.1 Urban Rent-seeking: Infrastructure Development

In the last three decades, Malaysia's infrastructure development has surged, commensurate with the country's aspirations to develop its economy, improve its competitiveness, and bridge the socioeconomic divide. Among the largest infrastructure initiatives include the construction of the North South Highway, Penang Bridge, Petronas Twin Towers, KL Monorail and more.

One common denominator of infrastructure development in Malaysia is the use of privatisation that proliferated at the start of the 1980s. Privatisation aimed to reduce the fiscal burden on the part of the government via financing from the private sector

to undertake development projects in Malaysia. The privatisation initiative also increased Bumiputera participation through government policies favouring Bumiputeras with contract awards, preferential vendor rights, and equity ownership, as evident by many Bumiputera suppliers within the supply chain of all public sector activities. While privatisation was touted for its positive multiplier effect, the initiative in the Malaysian context eventually morphed into an opportunity to distribute rent in Malaysia to elites dictated by the Malays political class. Cronies and those with vested interest were awarded tenders even if their organisations lacked the capability or experience to deliver the contractual outcomes. As a result, there has been a pattern of the government having to bail out failed ventures, with very little accountability for such large-scale squandering of public funds.

A substantial segment of these bailouts have occurred in relation to urban planning. Given that Malaysia's urban population exceeds 70% of the total population, this is a significant cause for concern.

One of the clearest examples available is the development of Kuala Lumpur's Light Rail Transit (LRT) system. The LRT's primary economic goal was to improve public transit in Kuala Lumpur and reduce traffic congestion. While the goal was aligned with a mandate to provide public goods, the construction of LRT infrastructure was saddled with delays, wastage, and multiple government bailouts. Much of this was rooted in the rent-seeking activities by key actors, in which various stages of the project – from conception, through to building, and operating - were designed to extract capital from public coffers. In fact, the bailouts of the LRT totalled more than RM10 billion from the Malaysian government over the years. While the private sector helped finance the LRT, state funds contributed up to 78% of overall investment, and it is now operated by a GLIC even though it was supposed to be a public-private partnership.⁹⁰ This clearly demonstrates that the benefits of privatisation were never realised and thus did not solve many of the difficulties that it was meant to address because of the ability of vested interests to override contracts in order to further rent-seeking behaviours. Yet, despite these massive failings and obvious wrongdoings, there have been few inquiries and fewer prosecutions: the public has become inured to the idea that these projects

are created to allow for rent-seeking. This sad situation has inevitably led the country into its economic stagnation.

Given the size and importance of the LRT project, the baseline expectation in terms of tendering would have been to award the project to the company that is most qualified in terms of experience, financial strength, and successful track record, and through a transparent process. However, this was not the case as the contracts were awarded to individuals closely associated with the government; feasibility was deprioritised in favour of *who* the contract was awarded to. Repeated behaviours like this leads to persistent urban challenges, demonstrating the dangerous impacts of rent-seeking. These approaches to awarding contracts are far from the norm in any country aspiring to good governance and adequate social equity. In terms of good practices for managing massive contracts like these, Malaysia does not need to look far as prime examples are found in Singapore and Hong Kong.

Rent-seeking and patronage in the government procurement and tender processes for LRTs continued well into the 2010s, when the RM1.18 billion Ampang LRT Extension Project was awarded to a local firm with no track record in large-scale rail infrastructure development. According to several investigative reports, this firm won the contract despite its price being RM167 million more than Syarikat Prasarana Negara (the GLC responsible for Malaysia's public transport) was offering.⁹¹ Second, the firm was awarded the contract despite failing the technical criteria that had previously led to the firm's rejection by the expert assessment specialists. Despite having no experience with rail projects, the firm was awarded the contract over major rail players such as Siemens, Balfour Beatty, Bombardier, Posco, and Colas. It is telling that large-scale rent-seeking and corruption have become so endemic that its architects are emboldened enough not to offer any explanations to the media, the public, or the watchdogs that should include the MACC. It also thus raises hard questions about the institutions that are meant to oversee the spending of public resources.

The absence of private sector organisational capability, transparent public-private partnerships, and competitive pressure resulted in a poorly run LRT system with high

fares to recoup the lost expenses. Additionally, the LRT has come under scrutiny for safety reasons due to Malaysia's worst railway accident occurring in May 2021. It is well known that cost-cutting and non-adherence to specifications are commonplace as rent-seeking actors exert pressure to reduce the potency of due diligence as a means of abdicating responsibilities. This concern about the ability of those in power to downplay severe issues regarding performance has been exacerbated by how Prasarana's then-chairman handled a news conference following the crash.⁹²

The culture of rent-seeking is so deeply embedded into Malaysia's infrastructure development that entire syndicates have been set up to exploit it. In late 2021, it was discovered by Malaysia's Anti-Corruption Commission that a syndicate being led by a 47-year-old Datuk was using over 150 shell companies to bid for billions in government contracts.⁹³ The scale of this massive fraudulent scheme would not have been able to persist without a network of accomplices, including those in political positions and among the civil service. At the writing of this report, no progress of this case has been reported since initial arrest and charge

5.2.2 Rural Rent-seeking: Development of Local Communities

Rent-seeking is so widespread that it is not confined to urban infrastructure projects – or urban areas at all. Rather, due to Malaysia's abundant natural resources and weak institutional oversight of its management, rent-seeking activities also impact the development of rural settlements and communities.

The National Feedlot Corp (NFC) is an accurate example of how rent-seeking stifles shared prosperity, especially for Malaysia's less developed communities. The NFC project began in 2007 with the objective of monitoring, directing, and educating contract farmers to create an integrated and sustainable beef industry. The aim was to increase local beef output by 30% while decreasing reliance on imported beef. The project was also expected to have a multiplier effect on the local economy by revitalising the town of Gemas in Negeri Sembilan, its infrastructure and the opportunities for employment that came with this revitalisation.

However, an audit in 2014 found that the project's objectives were not being met. The bulk of the funds went from NFC to unrelated companies owned by the family of NFC's chairman (who was also the spouse of a senior minister in the government). The audit also reported that the competence of NFC's management was "questionable" in respect of its mandate due to a lack of relevant qualifications and experience. Allegations of misappropriation of funds by senior government officials have continued in the years since, but no charges were sustained in court. The chairman of NFC was thus investigated and charged with criminal breach of trust for misappropriating RM49.7 million, of which he was acquitted of in 2015. Four years later, the government sued the NFC again to recover RM253.6 million for soft loans used to establish the organisation, the outcome of which is still undecided at the writing of this report⁹⁴. Needless to say, the misappropriation of rents – apart from being criminal – means that when monies intended for community development are funnelled elsewhere, hampering the nation's road to shared prosperity.

If such programs are successfully implemented, the upside is significant, especially for small towns across Malaysia currently at the risk of degeneration due to rural neglect and large-scale urban migration in search of better opportunities. Due to the lack of skills, economic migrants from Malaysia's hinterland become the urban poor, and the cycle of poverty and deprivation continues. The NFC would have been a strong initiative for community development and a step closer to shared prosperity if the project contract been awarded to a company that shared the government's goal of developing the community, had the right competencies and transparency, and was subject to better performance monitoring.

5.2.3 Implications for Malaysia's Business Ecosystem

These case studies highlight how rent-seeking transcends issues of economic wastage and inefficiencies. These behaviours reward individuals and organisations with political connections and are race-based, even if they are not fit for the task. Inexperienced, incompetent, and mismatched leadership (i.e., leaders who have not earned their

position) can devastate an organisation and its stakeholders, including the wider community. The LRT accident in May of 2021 illustrates how poor leadership, inadequate ethical standards, suboptimal operations, and lax safety protocols can have life or death consequences.⁹⁵

Further, repeated instances of malpractice in public-facing business matters (such as tendering processes), or exposed examples of corruption within organisations, will inevitably lead to Malaysia's international business reputation being tarnished further. Take the Ampang LRT Extension project, which turned down no less than five global players after conducting extensive research and planning for the tendering process. Incidents like this will deter global companies and investors from seeing Malaysia as a viable place to do business. The presence of global players in the Malaysian domestic market allows for the transfer of technical know-how and sharing of best practices that will be lost due to the self-inflicted challenges Malaysia is facing. Similar concerns are being raised about the rollout of Malaysia's 5G network around the process of awarding the contract and the key shareholders in the contracted company. The lack of transparency surrounding a contract of this magnitude speaks to many of the challenges outlined in this report.

Some argue that Malaysia's rent-seeking business culture has historically helped build many businesses in the country: if you knew the right people and greased the right palms, it was easy to get business done. This behaviour explains why Malaysia is the second-best global performer on expediting construction permits.⁹⁶ It may even contribute to the fact that Malaysia is ranked 12th globally for ease of doing business by the World Bank⁹⁷. However, this is not a ranking to be proud of, given it is enabled by lax regulation, a culture of 'who you know, not what you know', and extensive corruption.

As discussed, business outcomes originating from rent-seeking are not optimal for the Malaysian population, nor are they priced appropriately. As the nation develops and higher quality outcomes become the expected norm, regional and global organisations will increasingly want to be seen as participants in doing 'good' business. This requires a dramatic shift in the business-as-usual behaviours of the Malaysian business

ecosystem, with a particular focus on transparency. This is because managing the impetus and impacts of rent-seeking are even more challenging when rent-seeking behaviour takes place among opaque business activities, known as the 'shadow economy'.

The shadow economy is a term to describe illegal business transactions and unreported income from the production of legal goods and services for several reasons. The tax reasons include avoiding all social security contributions and other taxes; the regulatory reasons include avoiding governmental bureaucracy or the regulatory framework's burden; and the institutional reasons include corruption laws, the quality of political institutions, and a lack of the rule of law. To summarise, firms that operate outside the tax system and standard business registration are far more likely to conceal transactions, not pay due taxes, and not follow regulations effectively.

It has been estimated that Malaysia's shadow economy totals 21% of GDP (2020).⁹⁸ Figure 12 below uses a different data set collected for the IMF, which asserts that Malaysia's shadow economy is 26.1%, just below ASEAN's regional average of 28.3%.

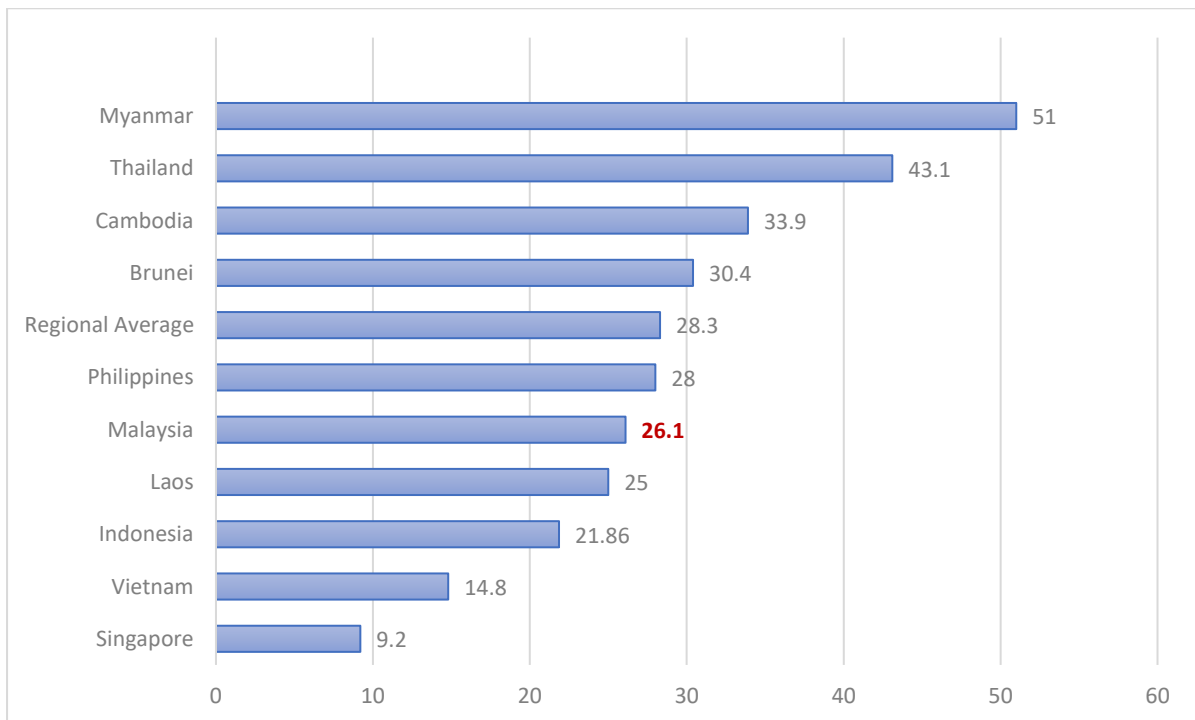


Figure 12: Shadow economy as a percentage of national GDP for Southeast Asian countries. Source: Medina & Schneider, World Bank (2018)⁹⁹

Much of Malaysia's shadow economy originates from the operation of the country's significant number of Micro, Small and Medium Enterprises (MSMEs), which might not keep official records or pay the appropriate tax. At the same time, a lack of transparency remains a business norm in Malaysia: there is little institutional visibility or tracking of unreported business, meaning it is harder for businesses, officials, and the media to root out rent-seeking practices. Malaysia is not alone in this: recovering lost revenue from a large shadow economy has been a huge endeavour for most developing countries' governments. They face challenges in deploying the most appropriate policy and administrative tools to plug tax leakages and manage revenue risks.

In sum, the impacts of rent-seeking on the business ecosystem in Malaysia are pervasive in both urban and rural settings, leading to sub-optimal outcomes, damaging its international reputation, and both enabling and benefiting from a covert, unregulated business culture.

5.3 Institutionalised Rent-seeking: Governance and the Social Fabric

5.3.1 Governance

Malaysia's institutional environment and social order have a significant impact on the capacity for rent-seeking individuals to gain advantages through personal relationships and positions of authority. These factors pertain to how public and private institutions are governed, which this section will address.

At a state level, Malaysia exhibits governance behaviours of a 'natural state', which is when personal relationships between powerful individuals serve as the foundation for social organisation.¹⁰⁰ In Malaysia, these protectionist measures can be observed in affirmative action policies that protect the privileges of Bumiputeras. For this reason, under the 12th Malaysia Plan, Prime Minister Ismail Sabri Yakob pushed for a safety

net framework. This framework enabled the sale of Bumiputera shares or companies only to other Bumiputera consortiums, companies or individuals to increase the share of Bumiputera equity ownership to 30%.¹⁰¹ However, this may not translate into increased economic positions for poorer Bumiputera segments given their pre-existing and continuing lack of involvement in equity ownership; it will likely benefit those Bumiputera with the capital and education to afford equity purchasing.

This mode of governance is based on the protection and enlargement of privileges of elites and the creation of economic rents as a pretext to reduce imagined and convenient arguments about a race-based societal upheaval in Malaysia if affirmative action is not strengthened. Rent-seeking behaviours contribute to Malaysia's order and stability because elites of all races recognise that questioning this “sensitive” topic and the risk of racial conflict has the potential to decrease their rents, giving them an incentive not to publicly decry affirmative action policies. They are also aware that other elites have similar goals, so they continue to exploit the economic system to raise rents, ensuring their continued political control and personal economic wellbeing. The financial rewards of these behaviours in Malaysia's government have been exposed by Syed Saddiq Syed Abdul Rahman, Member of Parliament for Muar, who has stated that long-serving ministers can accrue a monthly salary of RM50 thousand (for reference, the national median income was RM5,873 in 2019). Saddiq is also quoted as saying: "If an MP has served four to five terms, even if they served as a minister for one day, their gratuity pay-out exceeds RM1 million."¹⁰²

As opposed to natural states, ‘open-access states’ are built on the interaction of equal citizens who share the same rights, which should be the direction Malaysian governance moves towards as part of the vision of **Now Everyone Prospers**. Open-access states ensure that governments provide services and benefits to individuals and organisations regardless of personal or political affiliations – and regardless of racial or religious alignment. Because of competition in open access states, a politician's ability to gain an advantage through rent-creation is restricted. As a result, governments will be more transparent, and there will be greater knowledge of the policy creation process, thus increasing accountability. Rents that lead to corruption

will become less prevalent because they contravene the social order's principles of equality and openness and will therefore be being publicly criticised since they.

At the institutional level, the concept of an "extractive" and "inclusive" institution may also be used to show the way the Malaysian government operates in a way that does not enable shared prosperity.¹⁰³ Extractive industries generate a limited quantity of money and distribute it to a small number of elite individuals. Institutions benefit from taking advantage of workers (as discussed in chapter 4 of this report) and may employ political appointments in GLCs alongside opaque procurement methods. The limited growth created by extractive institutions necessitates political centralisation, and with the current administration, an increasing number of GLCs are reporting directly to the Prime Minister's office. For example, at the writing of this report, three of the nine directors on Khazanah's board consist of the Prime Minister and two key Ministers.

On the other hand, inclusive institutions are built on power constraints and a pluralistic distribution of political authority, supported by a strong rule of law. The issue is having a clear separation of powers. An example of the lack of such separation can be seen in the country's judicial system. Malaysia's attorney general (A-G) has a dual role: as legal adviser to the government and public prosecutor of the country, with the power to prosecute offences. The A-G is appointed by the Yang di-Pertuan Agong but based on the recommendation of the prime minister. Given the dual role of the A-G, this presents a situation where conflict of interests can arise: in theory, the A-G is supposed to hold security of tenure and possess absolute discretion; in practice, the A-G largely serves at the pleasure of the prime minister and will face enormous pressure should there be pushback from the executive, particularly when the government is deemed to have abused its powers or broken the law.¹⁰⁴ This speaks to the need to achieve separation powers: bifurcating the role of the public prosecutor from the A-G to ensure that the rule of law is enforced with equity, particularly when it comes to enacting investigations and prosecutions for rent-seeking behaviours in the highest levels of Malaysian government.

Inclusionary political institutions are more likely to foster inclusionary economic institutions, resulting in equal income distribution, empowering society, limiting the

benefits of exploiting political power, and lowering the incentives of extractive activities. Shared prosperity can be achieved when there is a healthy and well-defined relationship between business and state regulation, with responsible innovation/competition at the intersection of this relationship. The chance of producing negative rents is considerably lowered in environments with inclusive institution characteristics.

5.3.2 The Social Fabric

The institutional and business damages caused by the prevailing rent-seeking economy are not isolated from Malaysian society. Rather, there are significant carryovers that result in a host of issues, including continuing political instability, economic inequality, deepening of racial divisions, and even worsening of the rural-urban and East-West divide. Additionally, implications can manifest on non-material measures of the health of Malaysia's social fabric, such as corrosion of public trust in government, erosion of value systems, stagnating social mobility for the marginalised and distorted access to opportunities.

Trust is essential for maintaining social cohesion because it serves as the foundation for the legitimacy of public institutions. The success of a wide range of government programmes that rely on the active participation of citizens is dependent on public trust. Public trust, for example, contributes to better adherence to regulations and the tax system. The desire of citizens and companies to work and respond to government efforts and contribute to long-term development is jeopardised by a lack of confidence produced by rent-seeking and patronage activities.

A clear example of growing mistrust can be found in the relationship between Peninsular and East Malaysia. After years of unequal treatment and exploitation through rent-seeking activities strongly influenced by Peninsular Malaysia, there has been a growing secession movement in Sabah and Sarawak. These rent-seeking activities are largely focused on the extraction of the two states' natural capital, mainly in oil and gas and timber. Concerning the latter, Figure 13 below visualises the forest

clearance in Sarawak and Sabah. From 2001 to 2020, Sabah lost 1.67Mha of tree cover, equivalent to a 25% decrease, while Sarawak lost 3.04Mha of tree cover, equivalent to a 26% decrease. The extent of deforestation for economic activity implies immense wealth generation, but given that Sabah and Sarawak are two of the poorest states in Malaysia, this wealth has been accumulated for the elite class that underprices natural resources, and labour.

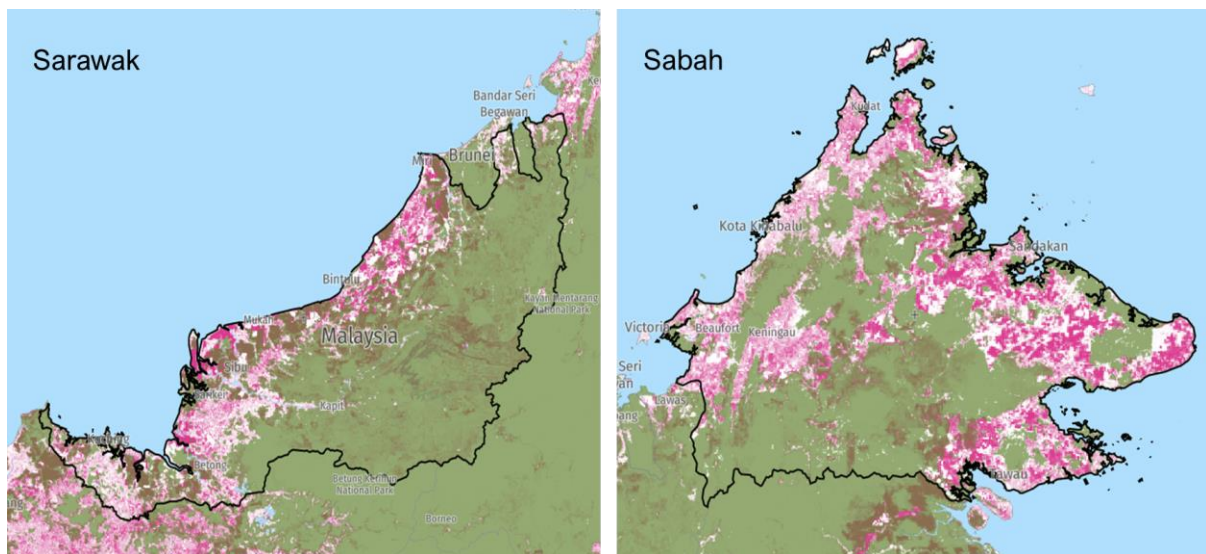


Figure 13: Deforestation between 1973 and 2010 in Sarawak and Sabah. Source: Global Forest Watch, 2021

During the lead up to the 2020 Sabah election and with the Sarawak election in August 2021, many local politicians, including those in the federal government, were suddenly claiming to be nationalists fighting to keep "Malaya out" of Sabah and Sarawak.¹⁰⁵ Recent reports have shown that the people of Sabah and Sarawak want a constitutional amendment that recognises the unique autonomy of both states. In fact, the Pakatan Harapan government attempted to amend Article 1(2) of the Federal Constitution in 2019, showing that there is recognition of the need to ensure equal treatment of Sabah and Sarawak in the federation of Malaysia, a return to the original content of the Malaysian Agreement of 1963. A substantial minority, however, feels that the

federation has failed them, and that independence is the best way forward. The separatist movement does not pose a significant threat to the federation at this moment. However, if this sentiment is not addressed by recognising and being more inclusive of the needs of East Malaysia, it will only further hamper Malaysia's path to shared prosperity and efforts to build national unity.

To achieve shared prosperity, every Malaysian citizen should believe they have equal status and rights and a strong belief that the state is there to serve them. Today, disenfranchised groups may be found among both Bumiputeras and non-Bumiputeras. At this critical juncture for Malaysia, when the inequalities of society have been brought to the fore by the pandemic, a broadened understanding of shared prosperity should include the social dimensions of what constitutes true prosperity. This would include public trust in government, social mobility for the marginalised, fair and equal access to opportunities, and widespread access to the basic rights of life. Rent-seeking and associated practices have eroded the values that are crucial to a sustainable society. Without shared prosperity or at least honest attempts towards it, the participation of citizens in the process of nation-building will remain elusive. Participation in the economy and in social and communal life is then a crucial foundation to avoid having a disillusioned populace and a disenfranchised minority.

5.4 Combatting Rent-seeking in All Layers of Society

At its core, a reform towards shared prosperity requires a re-conceptualisation of the relationships that govern the different socioeconomic classes, the individual, institutions of society, and the businesses ecosystem. These relationships, influenced by historical rent-seeking and associated practices, will not be amended overnight. Recognition of that fact, however, does not preclude attempts to reform policies in the country aimed at minimising rent-seeking, patronage, and cronyism. As rent-seeking has been integrated so profoundly in Malaysia, addressing it will require more than policy; it will require a shift in the very nature of business and politics. It will require education to restore the value system within society. While the responsibility of

policymaking falls squarely on the shoulders of the State, all segments of society, including individuals, schools, businesses, and political parties (many of which seem oblivious to the truth of the rent-seeking nature of the economy and the political system itself) are stakeholders with the responsibility to bear.

One of the key challenges faced in instituting change at the national level is the existence of vested interests – both individuals and organisations – in policymaking. Public servants with connections to state institutions and the private sector, should be compelled to disclose vested interests. This is a vital step in maintaining the integrity of the institutions of the state and earning public trust.

Several suggestions have been put forward as a means to address this; some of these include having a more rigorous tendering process for government contracts that excludes giving contracts to companies with links to public officials; ringfencing key ministries by creating transparency in the lobbying process, political financing and donations by corporations, including a reform in the processes of campaign financing; and creating an independent commission to monitor government activity in the private sector. Ultimately, the goal of reaching shared prosperity for all can only be accomplished by taking these obvious yet critical steps toward a more transparent and meritocratic society, placing emphasis on creating the right environment for a dynamic economy.

Additionally, businesses that often rely on government contracts to be profitable and successful should have their business models more closely scrutinised by MACC, civil society groups, and the media. Demanding better ethics and good governance standards from the business sector is the right thing to do, and there is significant demand by consumers and the public for more ethical and transparent businesses.¹⁰⁶ The sooner companies and the government embrace this shifting trend, the better the business outcomes will be.

The changes at the structural and institutional level require corresponding changes in society's ideals. Ultimately, this falls back to a simple precept: recognising that not all segments of society can become prosperous by following current destructive

economic systems and not prioritising personal benefit over the common good, leading to further societal degeneration. The acceptance of rent-seeking behaviours among politicians, businesses, or individual members of society encourages similar behaviours in others, creating a force that drives self-interested individuals into positions of power and the abuse of said power, rather than contributing to society. In the end, the country pays a high price for the detrimental impact of such leadership on long-term prosperity and well-being. The repeated damages of large-scale flooding of 2022 are an apt example of this widespread decay.¹⁰⁷

This leads to another shift in society's ideals: fighting the tendency to prioritise short term gains in lieu of long-term progress. Short-termism, as used by some, affects both those in positions of power and the general public. To prioritise long term security and prosperity, the Malaysians of today will need to see themselves as trustees of the future with zero tolerance for rent-seeking, patronage and cronyism that threatens the moral fabric of society. Investing in cultivating the common social values that bind the nation together will be essential in building trust and social cohesion over the long run

In conclusion, there are opportunities for positive change across different axes of governance and business and multiple layers of society because of how deeply embedded rent-seeking is in Malaysia. The scale of change required means that any process of positive transformation will be slow, potentially taking a generation to disconnect rent-seeking from the highest levels of business and governance norms in Malaysia.

The following section – the Reform Agenda – provides high-level recommendations on selected key challenges from this pillar.

5.5 Reform Agenda

5.5.1 Establishing A Royal Commission of Inquiry

The prevalence of rent-seeking behaviours across all levels of the Malaysian economy – but particularly in the highest circles of business and political – is perhaps the

greatest threat to the shared prosperity of the nation. Three of these damages are as follows:

1. The plundering of public coffers via the awarding of infrastructure contracts that are not properly tendered, for the financial gain of a select few.
2. This enables the perpetuation of the 'who you know, not what you know' system that operates in Malaysia and leads to inequality in terms of access to opportunity, incompetence in organisational leadership, poor quality projects, and stifled innovation.
3. Worsens the racial divisions plaguing the nation, given that rent-seeking behaviour is often aligned with clannish motivations, including the reservation of wealth within racial groups.

However, the true extent of the damage caused by rampant rent-seeking behaviours is not truly known. As such, any effort to reduce rent-seeking will require rigorous inquiries to identify the true scale of the challenge and remediations to arrest the situation. Thus, in order to face these challenges head on, a Royal Commission of Inquiry should be created that will independently examine the deep-rooted culture that permits the political economy to thrive on it and the consequent corrosive impacts on the nation: both financial and social. As part of this process, there is a need to investigate instances of rent-seeking to make the public aware and ultimately conclude with prosecutions. Three key features of this commission are as follows:

1. The commission's terms of reference will be clearly articulated to make clear the importance of its objectives, investigate the extent of rent-seeking in the nation, and to produce robust analysis on how it impedes socioeconomic equality and its toll on the nation.
2. It will also probe the effectiveness of race-based affirmative action policies to determine their social implications and if they enable rent-seeking activities, including reform recommendations.
3. Members of the commission will not be the same individuals that operate within Malaysia's current political system and beneficiaries of it. Rather, they will be selected meritocratically for their independence competence and care – the

effectiveness of the commission hinges on the ability of its members to carry out their responsibilities without fear or favour.

Of course, the establishment of such a commission is not a panacea of itself. The challenge lies in leveraging the findings of the Royal Commission to then consider policy interventions that will ensure equality for all Malaysians.

5.5.2 Strengthening Institutions of the State

One of the underlying factors in the proliferation of rent-seeking is the lax enforcement of laws and the perceived lack of independence of authorities subservient to the Executive. As such, the Malaysian Anti-Corruption Commission and the Royal Malaysian Police are two key institutions that are often in the spotlight for perceived lack of independence, and which even have a role in furthering unfair practices. There are two main factors to consider in strengthening their performance:

1. Both institutions are critically important to the rule of law and must have shortcomings openly addressed to restore their integrity and regain the trust of the public. There is a lack of separation of powers in these organisations, due to excessive concentration of power towards the Executive. The reach of the Executive in the running of the state has far reaching implications and hence erodes the ability of the many heads of these institutions to carry out their duties without fear or favour. Instead, they are beholden to the vagaries of the Executive's needs (and demands) and the lack of security of tenure further exacerbates the problem.
2. This has occurred across six decades of one-party rule, wherein the institutions of state have become subservient to the political elites (who are major beneficiaries of the entrenched rent-seeking model).

These are deep structural challenges that will require significant transformations. Three of these are as follows:

1. Restoring independence of these agencies by placing their important functions under the purview of parliament and ensuring that they remain protected against any and all possible intervention by the Executive. This will help improve accountability and restore public confidence – this is essential for any institution of state.
2. The heads of these institutions must have the professional competence and pre-requisite values of integrity and resilience to lead organisations that play a critical role of check and balance. It must become a norm to ‘practice what is preached’ to regain the trust of the public.
3. Heads of these institutions must also be accorded with security of tenure. They can only be removed in the event of misconduct or serious breaches of the law, which can only be determined by an independent panel of experts.

In so doing, these institutions will be able to meet their mandate more effectively and better manage rent-seeking behaviour present across the public and private sector.

Pillar 4

6. GLC and GLIC Reform: From the Ashes of Business-as-Usual

6.1 Introduction

Thus far, this report has provided a reading of the challenges facing modern Malaysia and has proposed some fundamental shifts in the way the country perceives economic growth, prosperity, and social progress as a means to address these. The impacts of rent-seeking on realising the vision of **Now Everyone Prospers** have also been discussed. This chapter will address how these renewed socioeconomic principles should be expressed in Malaysia's incredibly significant ecosystem of Government Linked Companies. In particular, this section will examine the commercial and social mandates of GLCs and will discuss the question of state monopolisation of resources and the risks therein, including entrenching rent-seeking, political interference, and a lack of meritocracy. In this regard, it will provide a critical analysis of the leadership and governance of Malaysia's GLCs and the urgent need for change.

GLCs are companies that are within the control of the government, but which have a primary commercial objective. The levers of control are governed via Federal Government-linked Investment companies (GLICs), such as the Ministry of Finance Incorporation (MOF Incorporation) and sovereign wealth funds like Khazanah Nasional Berhad (KNB). The government also controls other major institutional funds, such as Perbadanan Nasional Berhad (PNB), Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT), Pilgrimage Fund Board (TH) and Tabung Amanah Kumpulan Wang Pencen (KWAP). A panel of supervisory boards manages all these trust funds: all decisions on their investment strategies are under the authority and jurisdiction of the government and thus are prone to political interference and accusations of poor governance and corruption. They are collectively known as government investment portfolios. Besides that, all State Economic and Development

Corporations (SEDCs) and other state agencies with at least 20% shareholding in Public Limited Companies (PLCs) are also considered GLCs.

As shown in Table 3 at the end of this section, GLCs may operate at local to national scales with varying organisational sizes and perform various functions. The government has direct ownership or is a majority shareholder (through the MOF or GLICs) in many larger GLCs. While there is no accurate figure for the government's ownership of companies (given that there is not a centralised entity that oversees all GLCs), estimates suggest that the government, through GLCs and GLICs, own over 68,000 companies in Malaysia.¹⁰⁸ In addition to being a majority shareholder in these companies, they also have a certain control over the management of these companies. This is known as possessing 'golden shares', allowing government-sponsored appointees to sit on the Boards of GLCs.¹⁰⁹ This is the subject of much angst among many as they are often dominated by Malay elites – including politicians – and seem to be a channel for favours, resulting in poor governance.

Based on this, GLCs can be defined as companies that have a primary commercial objective and in which the Malaysian government has a direct controlling stake. This can be through percentage ownership by the government, or the government's ability to appoint the Board of Directors and senior management, allowing the government to influence major decisions (contract awards, strategy, restructuring and financing, acquisition, and divestment).

Until the 1970's, GLCs were primarily government agencies or public enterprises that provided services for social purposes. However, the spate of privatisation and corporatisation the 1970s and 1980s saw the government introducing policies to meet the objectives of the NEP through restructuring the economy based on two major objectives¹¹⁰. First, the policy would swiftly achieve the NEP's goal of providing more avenues for Bumiputera businesspeople to participate in the economy. Second, privatisation would reduce the government's burden on providing essential services such as road construction, health services and electricity. As such, these services were outsourced to Bumiputera private companies, who were supposed to have the right expertise and resources. This was often not the case, which resulted in establishing a

system of sub-contracting and all the associated problems outlined in earlier sections, including the squandering of public funds and the enrichments of elites. The overall objective was to allow the government to have more time and funds to focus on other aspects of running and developing the nation, which to this day has not been achieved due to the rent-seeking demands and nature of the political economy.

More recently, the GLC Transformation Programme (2005-2015) was launched to coordinate the performance improvement initiatives of GLCs for 10 years. The Government's efforts at improving performance in companies under its control or stewardship were intended to spark a positive effect on the rest of the corporate sector. At the height of the programme's implementation in 2012, the government had invested RM30.599 billion in 56 GLCs.¹¹¹ The three key principles of the GLC Transformation Programme were:

1. For the GLC ecosystem to deepen its role in the social and economic developmental foundation of the nation, as a subset of broader national development strategies.
2. For the GLC ecosystem to generate and execute implementation strategies that were focused on performance and meritocracy.
3. For the GLC ecosystem to preserve the rights and governance of shareholders and other stakeholders, which were not to be infringed by the government's efforts to transform the ecosystem.

Another key objective of the GLC Transformation Programme that was not publicly advertised was to attempt to decouple many GLCs from entrenched crony capitalism that had arisen following the 1997 Asian Financial Crisis: mass privatisation pre-1997 meant that the government had to bail out many organisations, which then became GLCs by virtue of shareholdings. However, this also allowed certain individuals with deep links with high-level government officials to dominate entire organisations, which introduced further levels of cronyism.

Today, the government still holds a significant controlling stake in GLCs. Together with GLICs as their controlling shareholders, GLCs constitute substantially to Malaysia's

economic structure. GLCs employed an estimated 6.9% of the national workforce¹¹² , and the largest 20 GLC, known as the G20, accounted for approximately 42% % of the market capitalisation of Bursa Malaysia¹¹³. Even with active divestment and privatisation, GLCs remain the main providers to the nation in key strategic utilities and services, including electricity, telecommunications, postal services, airlines, airports, public transport, water and sewerage, banking, and financial services. In areas of industrial policy and development, such as in the automotive and semi-conductor sectors, GLCs also play an important role in executing government policies and initiatives and building essential capabilities and knowledge.

Given their pervasiveness in almost every industry in Malaysia, including the domination of several key sectors, GLCs play an essential role in Malaysian society and economy. However, they are often criticised for being monolithic and slow, as centres for rent-seeking, co-opting regulators and ‘crowding out’ the competition. The question remains: Are the GLCs a product of a vision to modernise the nation through privatisation or are they the inevitable product of rent-seeking activities? This is unanswered in the minds of most Malaysians.

The criticisms GLCs receive raises several key questions for the country: Are GLCs fulfilling their purpose for the country? Are they fulfilling their individual and collective mandates? To what extent should the government be involved in GLCs that have a primary commercial mandate? What are the potential challenges that need to be overcome for GLCs to serve the needs of Malaysia?

Efforts to reform the complex landscape of GLCs and GLICs in Malaysia – in line with the renewed vision of **Now Everyone Prospers** – will require an exploration of these issues. As a result, this chapter will provide an overview of the mandates, governance, and monopolising impacts of GLCs.

GLC	Petronas	1MDB	Sime Darby	Khazanah Nasional	EPF
Size (employees)	~48,000	Unknown	~20,000	~1,500	~5,700
Government ownership	Wholly owned by the government	Attempted to perform as a sovereign wealth fund	<ul style="list-style-type: none"> • PNB: 56.42% • EPF: 16.87% 	The government's sovereign wealth fund	Directly under the Ministry of Finance
Government Influence on Management	Board answers directly to the Prime Minister	Total	Members of the board are also on the boards of other GLCs and embedded in government	Total	Cross-GLC: members of the board are also on the board of other GLCs and embedded in government
Mandate	“As a state-owned entity, Petronas has the mandate to manage Malaysia’s oil and gas resources in responsible manner, to add value to this national asset and to ensure the orderly and sustainable development of the nation’s petroleum industry.”	“To drive strategic initiatives for long-term economic development for the country by forging global partnerships and promoting foreign direct investment.”	“Develop a winning portfolio of sustainable businesses. Deliver superior financial returns through operational excellence and high-performance standards. Subscribe to good corporate governance and high ethical values. Provide an environment for our people to realise their full potential.”	“Achieve optimal risk-adjusted returns, to grow financial assets and diversify sources of revenue for the nation. Undertake strategic investments with long-term economic benefits for Malaysia or Malaysians, including holding strategic national assets.”	“In tandem with our main vision in helping members achieve a better future, we have extended our mandate to include aiding national infrastructural development while safeguarding and growing members’ retirement savings.”

Table 3: Data of GLCs and GLICs and their composition, government influence, and mandate. Source: Global Institute For Tomorrow, 2022

6.2 Mandate of GLCs

The mandates of GLCs are a defining feature of their operation and role within Malaysian economy and society, so these must be aligned with creating the greatest value for Malaysia. However, what constitutes 'value' in this context has shifted over time, resulting in a majority of GLCs functioning primarily with a commercial mandate (creating economic value) as opposed to a social mandate (creating social value) and driven by the financial incentives for the management. Commercial mandates are primarily driven by business success and profit, often with disproportionate private rewards. In contrast, social mandates define a GLC's role in contributing to nation-building and development, particularly concerning Bumiputera issues. While on paper there seems to be some clarity in the mandates for GLCs, in practice, GLCs are expected to fulfil both social and commercial mandates, with the latter being the focus, whether with direct or indirect political influence. The question of the mandate of GLCs is a point of debate, and thus the challenges and issues arising from the lack of clarity in the mandates of GLCs will be explored here.

The commercial mandates of GLCs are clear and mean they tend to benchmark themselves against their private-sector counterparts, which is not appropriate given they are delivering on 'government' objectives and thus helping to fulfil a social mandate. As a result, the capability of a GLC to positively impact society comes secondary to its financial performance, which is commonly seen as the measure of success for Malaysia's GLCs. External impacts on the environment or wider society are also often ignored or deprioritised given the background of the senior leaders, their lack of knowledge, their entanglement with the rent-seeking economy and the significant (and in many ways perverse) financial incentives.

The social mandate means that whilst GLCs are primarily focused on their commercial activities (and may be publicly listed), there is also an expectation – and obligation – that their primary goal is to contribute to nation-building. They are often called on to support Bumiputera development, given that their genesis in the 1970s and 1980s were a function of the NEP and to provide employment and wealth redistribution to Bumiputeras. Now, GLCs need to balance that with the imperative to avoid practicing

or furthering institutional racism.¹¹⁴ Additionally, these elements of the social mandate are vague (beyond permission to make charitable donations) and need to expand to include the needs of Malaysia today, in line with the vision of **Now Everyone Prospers**.

During the formation of key Malaysian GLCs, it is noted that their initial organisation missions were diverse: to provide strategic routes toward economic development for raising infrastructure and public service, or in some cases, for restructuring specific corporate capital structures. Yet what links these purposes is to fundamentally serve a social mission – GLCs were created as a more coordinated, widespread, and efficient means of delivering public services and promoting socioeconomic development. However, over the last 40 years, through tacit adoption of neoliberal policies, the free-market ideology and the push to improve Bumiputera involvement in the economic activities of the country post-NEP (and thus inadvertently or intentionally discriminating against non-Malays) GLCs have failed to move the needle vis-a-vis their implicit social mandate. In addition, contributing to nation-building with a focus on supporting Bumiputera development is not expansive enough to cover the social mandates of GLCs. Deploying GLCs as a function of race-based policies is increasingly proving to be an outdated and overly selective use of their capabilities. However, worryingly, GLCs have now pivoted to a focus on profits, maintaining shareholder value, promoting and preserving Malay privileges, and increasing investments into diversified areas of business activity.

The aforementioned GLC Transformation Programme demonstrates this focus on the financial performance of GLCs. The programme was deemed to be a success by the government as market capitalisation of the G20 (the largest 20 GLCs) grew over three times from RM134 billion in 2005 to RM431 billion on 7 April 2015.¹¹⁵ Over the same period, total shareholder returns increased 11.1% per annum. GLCs were also said to have significantly contributed to nation-building through various efforts: supporting national development plans, investing in new technologies, delivering large-scale infrastructure projects, promoting growth coupled with inclusivity by enhancing the diversity of their workforces in terms of gender, ethnicity, and age, improving work-life practices including supporting and professionalising the Bumiputera Empowerment Agenda (BEA).¹¹⁶

However, despite the said improvements, several studies have attempted to examine the actual impact of the GLC Transformation Programme and have concluded that the improvements seen were not unique to GLCs. Rather, the entire Malaysian economy was going through rapid economic growth during this period. In fact, the financial performance of GLCs has shown to be worse than their non-GLC counterparts during the same period, suggesting that using economic performance as a barometer for GLCs might be useful for keeping financial losses to a minimum but may not be suitable as the sole indicator of success given the social and developmental role GLCs play in Malaysia.

These issues point back to a disconnect in the current conceptions of GLCs and their mandates. Using financial benchmarks for GLCs will not allow for an accurate reading of the purpose of GLCs and their performance in fulfilment of that purpose. Malaysia's development banks are a case study of this assertion. The role of the development bank is to support entrepreneurs who are unlikely to be funded by commercial banks, with financing and education. Eventually, these entrepreneurs are meant to "graduate" to commercial banking once the risk levels of their business have fallen within a commercial range. However, Malaysian development banks but now retain many of these entrepreneurs – who should have graduated – to increase the size of their loan book, because their commercial mandate means they are in direct competition with commercial banks, which follow a similar KPI. There is no GLC KPI that incentivises graduation into commercial banks. The impacts of the commercial mandate even extend to the workforce at development banks: the mindset and skillset that an employee at a development bank differs to commercial banks, given that the former must have skills that encourage business growth of entrepreneurs with high levels of risk. Yet development banks recruit from commercial banks precisely because of their commercial success, and not for their success in meeting social objectives.

Thus, Malaysia needs another GLC transformation, one that redefines the mandate and objectives of certain GLCs as part of a broader shift to align their missions with the vision of **Now Everyone Prospers** and to improve the capabilities of GLCs to deliver on this. The economic security and dignity of all Malaysians should be placed at the core of Malaysia's key GLCs, to help create a conducive environment for both

private and public development, ensure the sustainability of resources, and most importantly, help earn the trust of Malaysians. This is becoming ever more important in a burgeoning environment where private businesses are increasingly expected to consider the wellbeing of their stakeholders and have a broader social purpose, GLCs (which can act as proxies of the government) must meet the same expectations to an even greater degree. The license to operate, described in Pillar 1 of this report, applies to GLCs just as strictly as businesses.

Indeed, the expectation of businesses and GLCs to consider the wellbeing of a broad range of stakeholders is part of Malaysia's Shared Prosperity Vision 2030 (SPV 2030). In this, Malaysia is one of a small number of developing countries that have created 5-year plans which consider the role of business in society. Yet, the most potent government mechanisms to help realise these plans – the GLCs – are disconnected from them. According to one subject matter expert interviewed for this report, none of Malaysia's development banks have formally connected themselves to SPV 2030 or its goals. For any vision to achieve its purpose, there needs to be a well-managed and directed government strategy, with the accompanying operational plan. This means development banks and other GLCs should be required to hold KPIs on the high-level policies that are to be implemented to support aspects of the vision, as well as targets and indicators of success.

This disconnect is linked to the lack of social mandate in most GLCs, because a commercial mandate does not compel them to act in alignment with the nation's vision unless there is a direct and reportable financial incentive to do so. Therefore, true GLC transformation will require a set of clear KPIs to meet transparent social mandates, and to create positive social externalities. This is not currently the case because the articles of association and memorandums of association that comprise the constitution of many GLCs do not have social objectives woven into them. This is a fundamental flaw, as most GLCs are under no legal obligation to put the wellbeing of Malaysian citizens or to meet social objectives before the profit motive. This is further reinforced by the financial rewards for senior executives.

The cascading impacts of altering the constitution of GLCs to include social mandates cannot be understated. As discussed throughout this report, rent-seeking activities are a major block to the country achieving its potential; social mandates for GLCs can help protect against this by preventing misuse and corruption. As is the case with commercial mandates, GLC leaders would have to meet the objectives of a social mandate with clear KPIs. However, justifying socially oriented business activity is much more exacting than justifying commercial counterparts, given that it is always possible to justify a decision as financially beneficial for the organisation, even if it has adverse impacts on people or the environment. The opposite is true for social objectives, and provided there is transparency in the organisation, this will reduce opportunities for misuse.

For these reasons, it is encouraging to see that the Perkukuh initiative, which was launched in 2021, aims to renew the governance standards and long-term contribution of Malaysia's GLICs – which together control around RM1.7 trillion of assets under management – include a more focus on resilience, inclusivity, and sustainable growth. However, there is still an overriding commercial objective, and if the transformation is to achieve the degree of social change that it aims to, it must broaden its scope to include social mandates alongside social objectives.

Additionally, re-worked social mandates should not simply attach themselves to the latest trends in the corporate sector to do with Environmental, Social and Governance (ESG), which the Perkukuh initiative has stressed. As important as ESG is as a tool to bring about some of the changes needed, it is largely reserved for complex reporting exercises that organisations are required to perform to adhere to unilateral expectations from major actors in policymaking and especially finance (for example banks, investors, governments, trade bodies, multilateral organisations).

Although ESG has achieved some impact beyond reporting and providing transparency, for real and sustained transformations for Malaysia's GLCs, they must look upstream, to consider business model transformations in ways that embody their social obligations. In this sense, GLCs can become the agents for transformation in the country through their organisational objectives. Given the sheer scale and importance

of Malaysia's GLCs, if they proactively pursue these changes now, they will help position the nation as a whole to become better adapted for the challenges of the 21st century.

In certain cases, not all GLCs will need to have a social mandate as their primary purpose (although arguments have been made as to why a government-linked entity should be anything but that). However, the GLC ecosystem should first be carefully surveyed to assess which GLCs should transition to have more clarity with their social purposes, including if their business activities are being channelled in the right direction. For example, GLCs that primarily work with sustainable food production, financial inclusion, housing, education, water and sanitation, energy, and natural resource management should have social mandates prioritised, given their role in preserving national security and wellbeing. In cases where other GLCs may not need to prioritise the social mandate, they will benefit from having a more balanced purpose; one that encourages them to move beyond their traditional spheres of operation to consider the broader stakeholders of Malaysian society.

This implies that there will be no one-size-fits-all solution to revamping the mandates of GLCs. The articles of association of all GLICs and GLCs should be revisited, refreshed, and reoriented to drive sustainable economic development in line with the national vision and not an abstract notion about growth, development and modernity. This means being explicit about the need to balance the social and commercial mandate of these firms and empowering them to fulfil their social mandates. This will enable the nation to move towards a secure and just future, founded on economic values that ensure sustainable growth and a moderate and shared prosperity.

6.3 Governance and Leadership

As outlined in this report, good governance includes all elements of an organisation and its people, including a diverse variety of activities and programmes; all of which are created and implemented through a fair system. In a rhetorical sense, it implies that in order to achieve long-term progress, a country should utilise authority equitably

to manage its socioeconomic, human, and natural resources. In light of this, poor governance therefore drives out good governance in the same way that inefficient and negative economic activity reduces productivity and drives out sustainable and equitable economic practises. On the GLC leadership level, poor governance leads to opaque administration, policy paralysis, corruption, and discrimination. As a result, wealth distribution is inefficient, competition is unfair, and there is a lack of emphasis on the social mandate of GLCs. Hence, if GLC leaders are appointed for political reasons and interests rather than for effective governance, these issues are unavoidable. If meritocracy is a casualty, then governance systems inevitably suffer.

Governance is of central importance not only for the successful operation of GLCs but also to gain public confidence. According to a study conducted by *The Edge* titled “How to Fix Malaysia”, Malaysians of all races, ages, and geographic locations are more concerned about corruption and poor governance than the cost of living. Almost 45% of respondents ranked corruption as their top priority issue, followed by poor governance (28.6%), racial and/or religious conflicts (11.4%), a weak economy (7.6%), and a high cost of living (7.0%).¹¹⁷ In the context of GLCs, issues of governance concern the use of political appointees, a dearth of transparency (but a wealth of bureaucracy), and non-rigorous succession plans. This is disturbing because, in the face of it, many GLC leaders burnish resumes that boast their credentials. Yet, they have not seemingly played a part in dismantling what the public at large views as a system of patronage and poor governance. A factor in this is that leaders are primarily Bumiputera, and there is an unspoken code of protecting this elite group, or face exclusion – this sets up a system of dereliction of duty.

One of the most defining characteristics of Malaysia's vast GLC network are political appointees – commonly from the cabinet itself – who manage a wide range of businesses. The issue with political appointments is that they tend to increase a GLC's risk profile due to conflicts of interest between the politician's political obligations and their fiduciary duty to act in the best interests of the GLC's objectives. This practice, which is also a kind of political patronage, undermines public ownership of businesses and contributes to the perception that government participation is not realistic nor sustainable. The practice confines GLCs to a top-down, bureaucratic, control-based

organisation operating in secrecy rather than one that is agile, entrepreneurial, transparent and dedicated to the service of public good. This is the basis for much of the erosion of public trust in GLCs.

Political involvement with GLCs can even pertain to their formation as organisations: GLCs can be established by state executive heads as a Menteri Besar Inc (e.g. Menteri Besar Selangor Inc.) or as subsidiaries of statutory entities such as state economic development corporations (SEDC) or state agricultural development corporations. Many of these GLCs have joint ventures with Bumiputera partners who are politically connected.¹¹⁸ Furthermore, to offer privatised services to the government, board members of GLCs frequently form joint venture firms with Bumiputera partners linked to the elite circles or their own family. Due to political links, the ministry's contract pricing for delivering work orders or purchases to GLCs may be higher than the market price. As a result, the GLCs operate at the cost of taxpayers. Thus, there exists a widely held view that many GLCs do not serve the country but instead elite Malays and their cronies.

This is of course a social burden in many ways, especially given that, in theory, GLCs should be accountable to the general public. However, it is felt by leaders in business, government and civil society that the majority of politically appointed leaders do not always serve the interest of the GLC they are appointed to, and thus Malaysian society as a whole. Politicians strive to get appointed as leaders of GLCs because they are frequently paid more than other politicians just for providing access to GLCs for their party. These earnings are subsequently intended to be reinvested in the government, which should benefit the Rakyat in the long term. However, as discussed in the previous chapter, this is not always the case due to the leakages arising from a lack of transparency and deeply entrenched rent-seeking behaviours. Even worse, there are few systems of checks and balances to prevent these widespread practices. This goes against fundamental principles in successful corporate governance, the board of directors should be evaluated based on "fit and suitable" criterion before being appointed, including no political linkages to protect the board's independence from outside interference.¹¹⁹

Unhealthy economic activities thrive when there is an ecosystem with little transparency, both inside GLCs and in the marketplace. Many scandals seldom reach the public spotlight because those working in GLCs know there is a slim chance of being exposed or prosecuted. This also promotes a culture of nepotism, with certain candidates getting preferential treatment and contracts flowing to favoured vendors rather than following a meritocratic approach or best value. Many are paid salaries substantially – and undeservingly – above market rate. Indeed, Malaysian CEOs earn 148 times more than the average worker on average.¹²⁰ Figure 14 below shows the Malaysian companies that pay the highest salaries, with GLCs and companies that GLCs have significant shares in highlighted, demonstrating just how significant the remuneration opportunities are:

Rank	Company	Remuneration (RM mil)
1	Genting Bhd	168
2	Genting Malaysia Bhd	80.61
3	Sapura Energy Bhd	71.92
4	IOI Corp Bhd	39.01
5	IHH Healthcare Bhd	33.89
6	Maxis Bhd	31.80
7	Public Bank Bhd	27.84
8	AirAsia Group Bhd	23.50
9	YTL Corp Bhd	13.67
10	Astro Malaysia Holdings Bhd	13.17
11	Hong Leong Bank Bhd	12.02
12	IOI Properties Group Bhd	11.98
13	Scientex Bhd	11.06
14	Hong Leong Financial Group Bhd	11.05
15	Malayan Banking Bhd	10.11
16	CIMB Group Holdings Bhd	9.89
17	YTL Power International Bhd	9.57
18	Kuala Lumpur Kepong Bhd	8.98
19	BIMB Holdings Bhd	8.17
20	Telekom Malaysia Bhd	7.98

Figure 14: Top 20 companies with the highest paid CEOs. GLC and companies with major GLC shareholders highlighted. Source: Securities Commission Malaysia, 2019

Not all GLCs are affected by political appointees, but the impacts can be significant when they are. In this case, Malaysia's economy is perceived to be suffering from a lack of innovation because appointed bureaucrats and politicians are often poorly qualified for their roles and are therefore not best placed to bring about the levels of change needed. This seriously dampens the potential of the institutions and the economy as a whole. The practice of political appointees highlights a lack of effective checks and balances, a fragile institutional framework, and a lack of strong governance. It also sadly reflects on the racism that has infected so many of the country's institutions.

Because persons at lower levels may be just as interested in using GLCs to gain influence among top leaders, the phrase "politically linked" should include people from any political party. Some professionals have left active politics but remain consultants or lobbyists for political parties, business partners with high-ranking politicians, or are married into important political families. It is debatable whether such specialists can be described as politically unbiased or impartial.

Rather than depending on government-appointed heads, GLCs should be hiring the best talent through open competition, which has never been the case. They should create an open system for succession planning with a transparent appointment system based on competition and reject all forms of racial profiling. A leader's departure may negatively contribute to a GLC's stability if there is no clear strategy in place, and the current system of politicians leading to the appointment process behind closed doors is unhealthy: it does not breed confidence among the public. For the nation's GLCs to be truly successful, succession plans must be created long before they are executed. By developing a succession plan, GLCs provide themselves the time and resources they require to ensure a smooth leadership transition and remove the potential of corruption. GLCs are not going away anytime soon, and their influence will continue to expand; nevertheless, action must be taken now to ensure that they have the capacity to withstand future shocks, that corruption does not become prevalent and that their leadership are held accountable for delivering on clearly defined mandates .

6.4 The Monopolising Impact of GLCs

GLCs offer a variety of benefits due to their unique structure, significant resources, and economic position. Because they are state-supported, they can thrive either through government funding or state-driven non-competitive markets. As a result, GLCs do not follow market standards; instead, they define their own standards by relying on their identity as government owned companies. GLCs were created with the intention of balancing markets via regulation while being open and responsible to the public. Yet, their stabilising role in the economy is now often critiqued as having expanded to dominate the Malaysian market. Now, some GLCs operate as functional monopolies, which has drawn an array of criticisms on stifling competition, dampening innovation, and crowding out certain sectors.

Part of the challenge is that the access to resources granted to GLCs is used primarily as a shortcut to monetise business models, leading to mismanagement and, in the case of GLCs involved with natural resources, not recognising the need to preserve them for the future. While some GLCs may be permitted to fail, those critical to the state's operation, particularly those that have achieved monopoly status or are deemed critical to a country's infrastructure, may get government backing to continue operating with funding sourced from public taxation. In many cases, GLCs wind up losing government funds rather than generating revenue – this is partly why one study determined that total returns (share price and dividends) of GLCs are five times smaller than non-GLCs over a 10-year period.¹²¹

This issue is evident in the GLC ecosystem in East Malaysia. For example, in Sabah, local governments had a clear vision for the role of GLCs when they established them: to raise the living conditions of Sabahans, prepare Sabah for industrialisation, and create jobs. However, in recent years, GLCs in Sabah have failed to operate optimally, leading to massive debt.¹²² The Sabah government had to bail out several GLCs as only a few GLCs were sold to avoid insolvency. GLC assets were depleted through joint ventures and management buyouts. Many of Sabah's GLCs are on life support and lose money on a yearly basis.¹²³ While some are profitable and operate according to their mandates, their outcomes pale in contrast to those in the private sector of

Sabah. In fact, many GLCs compete with each other, squandering Sabah's rich assets and resources.

Monopolies are troublesome for reasons beyond their economic effects. Many large, economically powerful GLCs hold substantial political power and have the ability to "capture" political and regulatory systems, particularly if they have government ownership. This allows a major GLC to influence legal and regulatory procedures against any potential threat to its market dominance, resulting in changes that increase its profits. It can have health and safety regulations repealed and licencing requirements imposed that make it more difficult for new firms to enter a market and overlook corporate taxation.

It is critical that GLCs and GLICs adhere to these laws to ensure profits do not take precedence over their obligations to their mandate and social purpose. Given that Malaysia has a need to strive toward shared prosperity, GLC competition should not be prioritised. Rather, the purpose of a GLC's access to government funds should be to meet the rakyat's needs in ways that the private sector cannot provide. This may also entail reducing GLC presence in industries that are provided for by the private sector and sufficiently regulated, such as banking, finance, transportation, IT and retail trade.¹²⁴

On the other hand, some sectors, such as the utility sector, benefit from government regulations that create a market to serve the wider public. Governments often do this to serve and protect the public whereby a monopoly can help ensure consistent electricity generation, delivery, and pricing guided by government policy and financial support that can overcome the risks of a free-market approach. Because the infrastructure required to create and distribute a commodity such as energy or water is costly to construct and maintain, having only one entity offer the service can in some cases, be more cost-effective.

Yet, GLCs with a market share of more than 50% may be found in agriculture, banking, ICT, and retail trade.¹²⁵ Because the majority of these businesses are neither natural monopolies nor strategic, the existence of GLCs in these sectors are considerably

‘odd’ , according to an Asian Bank Development Report of GLCs in Malaysia.¹²⁶ On the other hand, private firms may be cautious about investing in industries dominated by GLCs because the chances of out-competing government-backed entities seem slim. A high ratio of GLCs in a sector is negatively related to the rate of private-sector investment, an effect termed ‘crowding out’.

This speaks to a transformation needed to reassure the public, investors, and the business ecosystem that Malaysia’s GLCs are functioning to the country’s benefit and not a detriment. Currently, it is perceived that innovation and growth are slower in GLCs and that the intended trade-off is societal development, such as steady employment and resilience to shocks; however, it is not clear if this upside is actualised. It is time that GLCs moved from ‘crowding out’ to ‘crowding in’ – to act as enablers and catalysts for innovation (aligned with the innovation ecosystem for resilience outlined in Pillar 2 of this report).

For this change to take place, appropriate oversight is needed. Malaysian GLCs serve varied purposes: there are GLCs that are publicly listed, statutory organisations, and GLCs that manage Malaysia’s public resources. Given the sheer number, scale and economic reach of GLCs in Malaysia, an effort must be undertaken to categorise them into distinct operational groups to identify overlaps (and thus opportunities for divestment) and hold them more accountable. Our Asian neighbours have gone a step further, establishing a central organisation that oversees ownership of their SOEs. For example, China's State-owned Assets Supervision and Administration Commission of the State Council (SASAC), India's Department of Public Enterprises (DPE), the Korea Institute of Public Finance (KIPF) and – closer to home – Singapore’s Temasek work to ensure that the SOEs within their portfolio follow policy standards and are not mismanaged. With this measure, the government may also be more selective about which GLCs to expand or to increase funding for. It is also easier to identify GLCs that are failing and not aligned with policy requirements.

To conclude, many government-created monopolies have resulted in inefficiency, with customers having to pay above-parity prices for products and services in comparison to the rest of the region – despite the fact these GLCs are funded in part by the

taxpayer. To couple this with the issue of governance previously discussed in this chapter, GLCs that function as monopolies should be required to be more open, explicitly indicating how their resources are managed and made accountable to the public. Transparency must be supported by good leadership since, after all, effective governance and leadership will ensure that there is no climate for corruption and theft in the first place.

The following section – the Reform Agenda – provides high-level recommendations on selected key challenges from this pillar.

6.5 Reform Agenda

6.5.1 Re-instating the Social Mandates of GLCs

Given the immense financial resources and influential clout at the disposal of GLCs, they are vital tools in helping the government achieve its aspirations and the vision of Now Everyone Prospers: they act as the main conduits of the government's socioeconomic agenda. While the genesis of GLCs was aligned to state needs, many of these entities have transformed into organisations that focus on profits, maintaining shareholder value, promoting Bumiputera privileges and increasing investments into diversified areas of business activity. As a result of these changes over the last few decades, there have been adverse impacts, including:

1. The exclusion of social objectives as part of the constitution and vision of many GLCs, meaning there is no legally binding obligation for GLCs to operate for the benefit of Malaysian society. Social mandates have thus been reduced to corporate social responsibility (CSR) activities, rather than existing as a core part of the business model, meaning GLCs are not effectively acting as guiding forces and catalysers of meaningful sustainable development in Malaysia.
2. Many GLCs possess mandates at both at the federal and state levels, which results in the overlap of mandates, direct competition with the private sector, inefficient use of resources and in some instances a failure to deliver the assigned mandate (with no accountability or repercussions).

3. Many GLCs are dominated by Bumiputera employees, and their organisational activities may be geared towards the advancement of Bumiputeras at the expense of other ethnicities. This is largely because their original mandates were set to help provide employment and improvements to quality of life for Bumiputeras. While this was appropriate at their inception, it is now time to modernise these mandates to be more inclusive for all Malaysians – and to no longer be racially discriminatory.

Hence, there is a pressing need to revisit the mandates of the various GLCs and consider options to ensure that resources are being used efficiently to reduce inefficiencies and ensure that GLCs deliver on their mandates. To re-instate the mandates of GLCs, there are three key aspects to consider:

1. The constitutions of GLCs need to be revisited and changed through due process to clearly state the social responsibility of GLCs, including objectives, KPIs, and the need for transparency as a means to protect against rent-seeking behaviours. This is similar to the government's Perkukuh Initiative that was launched in August 2021 aimed at reforming the role of GLCs in Malaysian society and economy, but must go upstream from outcomes to renew the articles of association and articles of memorandum of key GLCs.
2. The mandates of GLCs need to be fit for purpose and aligned with the nation's development priorities. Thus, the government will need to commission independent studies that outline the development needs of the country, the existing roles and value creation of the full list of GLCs (itself a monumental task, given the lack of visibility and transparency on this number) to suggest key areas for improvement that GLCs can focus on.
3. A resulting implication of this will inevitably be to merge GLCs with overlapping mandates, the closure of those which are redundant or ineffective, in order to ensure that synergies are achieved and wastegate minimised. Consolidation will ensure that resources are used more effectively. One good example was the recent merger between Bank Pembangunan Malaysia Berhad and Danajamin Nasional.

By re-instating the social mandate of GLCs, they can better contribute to nation building by supporting national development plans, investing in new technologies, delivering large-scale infrastructure projects, promoting growth coupled with inclusivity by enhancing the diversity of their workforces in terms of gender, ethnicity, and age, as well as improving work-life practices.

6.5.2 Establishing a GLC Ombudsman

Given the proximity between public funds, politicians, and GLCs, it is vital that governance mechanisms in GLCs are stringent, robust and transparent. While some GLCs may be under the purview of regulatory bodies such as the Securities Commission and Bank Negara Malaysia, there is no central organising body for GLCs, and many are therefore governed with minimal oversight. Needless to say, this leads to many adverse outcomes, including:

1. Political interference and leveraging GLC appointments as tools for patronage, which results in a lack of meritocracy in the selection of qualified individuals to take leadership positions, including at board levels. This impacts a given GLC's capability to meet its mandates and maintain trust with the public, hence why the performance of the GLC ecosystem in Malaysia is frequently a state of flux.
2. The loss of public funds is rampant, either through channelling of funds into non-essential projects, contracts for those not best qualified for the project through non-transparent procurement processes, bailouts when GLCs are not able to maintain performance levels due to flawed business models, or leadership that siphons funds for personal gain.
3. Due to access to public funds, GLCs lack the competitive edge present in the private sector, and are therefore constantly critiqued for being monolithic, with no additional body beyond their holding GLICs to enforce accountability or spur innovation and transformation.

Based on these challenges, there is a pressing need to establish a regulatory body that supervises GLCs, and this could take the form of a GLC Ombudsman. There are three key features of this Ombudsman:

1. Given the interconnectedness of state, politics and GLCs, the GLC Ombudsman needs to ensure complete independence in its formation to guarantee that the regulation and supervision of GLCs meet their intended objectives, and that the appointment of board members are duly scrutinised given the public perception of cronyism, favouritism, lack of meritocracy, and racial bias.
2. The Ombudsman, which would report to the Prime Minister – but held accountable by parliament – should be given independent powers to investigate potential misconduct and act upon received complaints (including through whistle blower channels).
3. As part of this supervision role, it should also suggest areas of research and development to increase investment – which remains one of the key criticisms of GLCs, given their lower levels of innovation when compared with the private sector.

While this might seem like a monumental undertaking, one can take a look at China to observe the effectiveness of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), which was incepted in 2003 for this precise purpose (and to cover a significantly larger economy and number of GLCs). The SASAC has worked with China's civil service to successfully address corruption and malpractice and is now the largest economic entity in the world.

Pillar 5

7. Education as a Right, not a Privilege: The Malaysians of Tomorrow

7.1 Introduction

The previous chapters of this report have progressed from an exploration of economic fundamentals through to a discussion of national self-sufficiency, the prevalence of rent-seeking behaviours, and lastly the role of Malaysia's GLC ecosystems in the context of these issues. This report concludes with 'Education as a Right, not a Privilege: The Malaysians of Tomorrow' because for each of these topics and to realise the vision of **Now Everyone Prospers**, education plays a central role: a high-performing education system attuned to the current challenges designed to produce responsible citizens is essential for Malaysia's long-term transition into a more equitable society defined by shared prosperity.

From a functional perspective, education interfaces with the baselines of the country's human capital needs by imparting appropriate knowledge, competence and by nurturing critical thinking. Education also aids broader plans for socioeconomic equality and economic development. Intrinsically, there is an extremely important sociocultural element: education strengthens the fraying social fabric of the nation and complements national values that underpin all of the above.

Unfortunately, the Malaysian education system does not yet fulfil the potential of either of these perspectives and has been in a state of decline over the last two to three decades. This is one issue on which most Malaysians agree¹²⁷, irrespective of other differences and the data corroborates this as well¹²⁸. Indeed, many interviewees for this report hold that while countries in ASEAN have seen education standards increase, the quality of Malaysian education has *decreased*. Additionally, much like other socioeconomic issues in Malaysia, there are deepening gulfs between poorer and

richer segments, and between different racial groups. In this way, education has become a contributing factor to social division among Malaysia's future generation, rather than being an integrative element of nation-building.

Given the relevance of education to many of the issues examined in **Now Everyone Prospers** – and the multitude of opinions about how education should be reformed – there is only scope within this report and chapter to examine three topics that are pertinent to the discussion of reimagining Malaysia:

1. Quality of teaching, curriculums, and values
2. Differences between public and private education
3. The racial design of the education system

Reforming these elements of Malaysia's education system for successive generations will enable the country to tackle many of the issues highlighted in this report – from socioeconomic and racial inequality to human capital deficiencies and rent-seeking behaviour – from the bottom-up.

7.2 Making Modern Malaysians: Teachers, Curriculums, and Values

This section will examine the issues inherent with how education is executed in Malaysia. In practice, this relates to the quality of teaching, the design and success of curriculums and the values being imparted.

At present, these aspects fall short of national needs and are not working in synchronicity to help create the 'modern Malaysian', which is defined in this report as an individual who is:

- a) United with their peers, regardless of socioeconomic and racial difference.
- b) Skilled, competent, critically thinking, ethical, and can contribute to the human capital needs of the nation.
- c) Responsibly committed to the country and feels capable and proud to participate in nation building.

An education system that produces these types of citizens who can thereby contribute to the economy and society are essential to help the country aim for shared prosperity and to meet the vision of **Now Everyone Prospers**. Education is a lynchpin of this, given that the primary objective of education is to help develop responsible citizens who, by utilising their talents and attributes, can fulfil their ambition while also having a nett positive impact on society.

What underpins much of this are the values that young people are taught or pick up while in the education system in addition to those sourced from families, religions, racial cultures, and workplaces. However, as discussed in chapter five of this report, the rent-seeking behaviours that permeate much of the modern economy and social fabric are a manifestation of a *lack* of values in the socioeconomic and political life of the nation, embodied particularly in the ruling class of the country. The same applies to the racial discrimination that takes place against children as outlined in the previous section. With few role models and systemic breaching of basic ethics, it is vital that the education system is reformed and be designed and strengthened to become the frontline in helping future generations of Malaysia develop the values of meritocracy, inclusivity, and ethics from an early age.

At the moment, however, there is no united value system being imparted by the Malaysian education in relation to obvious shortcomings of society. Vernacular schools, by way of being racially segregated, impart different cultural values to national schools or Bumiputera-majority schools, and there is an increasing trend of both Bumiputera and non-Bumiputera parents choosing vernacular schools (Chinese schools in particular) in the belief that their children will achieve higher academic attainment in comparison to national schooling. As mentioned before, this is not a negative trend per se – vernacular schools help to preserve racial identity and offer education that may be more rigorous than national schools – but the intensification of segregation by race in education does not lend itself to national unity, given children will be brought up within enclaves that may have limited multiculturalism and will follow racial value sets, as opposed to *Malaysian* value sets.

How can the Malaysian government and the nation's education institutions begin to bridge this gap? An important step lies in raising the effectiveness and standards of the curriculum, particularly within national primary and secondary schools, which account for the majority of schools. The Ministry of Education announces year-on-year that there are improving success rates in many subjects for public examinations, as well as a record number of young children obtaining distinctions. However, there are criticisms levelled at the validity of these claims. For example, in 2021 during the height of the pandemic, the Malaysian Examinations Board announced excellent results for SPM students, despite the fact schools were closed during the movement control order and many students faced severe restrictions to normal learning.¹²⁹ It is well known that grading systems are lowered in order to meet the goal of ensuring as many Bumiputeras as possible qualify for higher education. Even if Malaysian Examinations Board's statements are correct and not a reflection of manipulation of passing grades, they are not useful indicators of the systemic decline of values in the nation. If anything, it is an affirmation of the system's emphasis on rote learning instead of a more meaningfully structured system where progress is not measured by grades alone.

Additionally, when academic attainment is put into the context of global standards of education, Malaysia's performance is not congruent with a country aspiring for high standards, which Figure 15 demonstrates below. Although the country's education system has evolved over the previous few decades, with each new education minister introducing a new approach that they felt would increase education quality, the most recent Programme for International Student Assessment (PISA) results reveal a substantial difference between Malaysia and its East Asian neighbours.

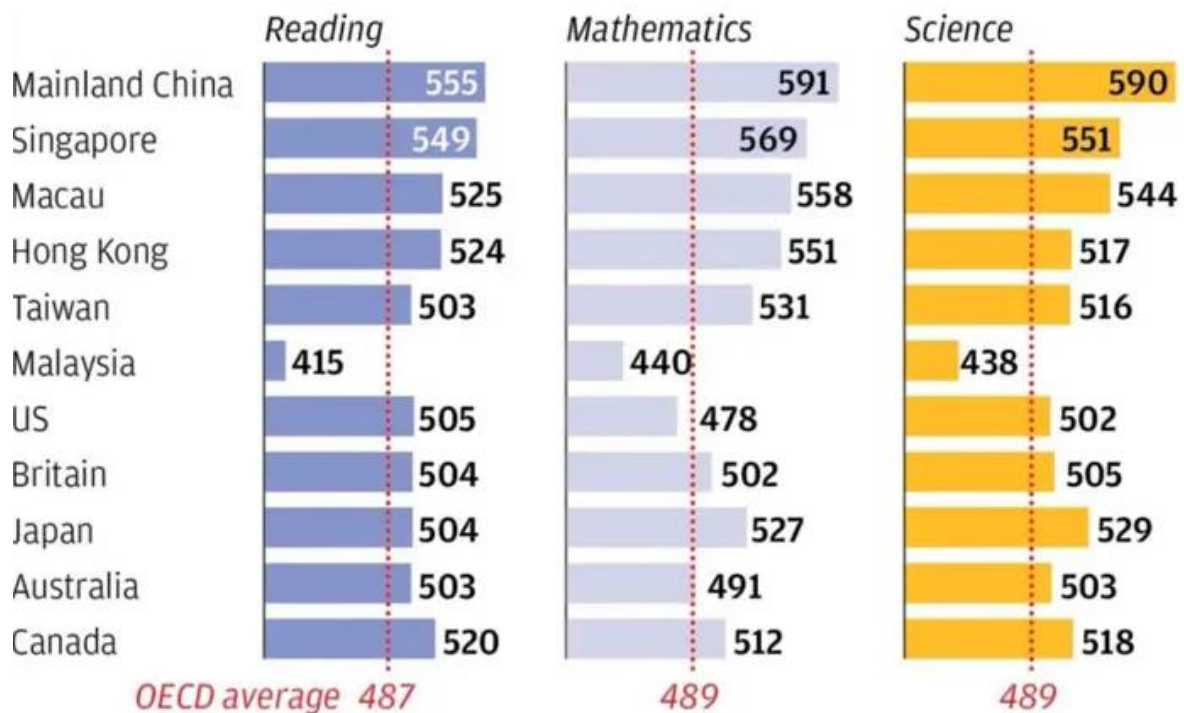


Figure 15: Graph showing the mean PISA score from 2018. Source: Organisation for Economic Co-operation and Development, 2018.¹³⁰

The PISA 2018 Assessment showed Malaysia was performing poorly in reading and maths, far below the OECD averages. Malaysia received approximately 100 points fewer than Singapore, Japan, and South Korea. The assessment also showed that almost 60% of Malaysian students did not meet the necessary arithmetic proficiency level; approximately 44% did not meet the required reading proficiency level; and 43% did not meet the required scientific competence level. While Malaysian pupils outperformed Indonesian students, they did not do as well as Thai students. Approximately 80% of Malaysian schools participating in the PISA research earned a low grade, 13% received a medium grade, and just 7% received a good grade.

Academic performance has been a priority for the current and previous administrations, yet Malaysia is still performing poorly. Furthermore, this emphasis on academic results rather than over student wellbeing was also reflected by the PISA study. In comparison to other PISA-participating nations and economies, a significant proportion (13%) of Malaysian pupils reported feeling “unhappy all the time”.¹³¹

This speaks to the fact that the state-led curriculum does not achieve the balance between academic rigour and student wellbeing; it may be dated, pushing narratives that do not resonate with youth. This is a major point of criticism: that the overall tone of curriculums in Malaysian schools encourages conformity to orthodoxy rather than critical and creative thinking or the ability to push back and ask questions.

Clearly, a reworking of the curriculum is needed. The Malaysian education system needs syllabuses that nurture and capitalise on the abilities of Malaysian youth, in a way that moves beyond attaining academic qualification in a system that does not maintain high standards.

How can talent be harnessed to benefit the nation? How can youth be prevented from feeling alienated or under-served in education, and therefore pushed to seek learning and work opportunities internationally? One transformation is the re-emphasis of vocational, and traditional skills to the classroom. If fundamental applied skills, like agriculture and food production, are not nurtured from a young age, for example, then the nation risks losing generations of farmers and cultural workers that are not only central to the economy, but Malaysian identity. As one subject matter expert interviewed for this report stated:

“The word ‘Bumiputera’ refers to all indigenous peoples, and it translates as being connected to the earth. Yet within a generation, we have encouraged mass urbanisation and are focused on imparting knowledge rather than teaching skills. We have disconnected so many indigenous people from the earth, so what are we?”

Of course, it is not incumbent on Bumiputera youth alone to take on the demands of Malaysia’s essential and cultural work; this is a shared opportunity for youth of all races. However, the point remains that contemporary curriculums are attuned towards academia, rather than applied skills. Other nations recognise the importance of maintaining a healthy vocational workforce, and Malaysia could benefit from this approach. Germany is one example, with significant investment into technical and vocational colleges. More broadly speaking, a shift towards essential and traditional skills will help preserve Malaysian identity. Currently, there is a preference for

syllabuses that are drawn from the Western education tradition, and this adds to ongoing Westernisation and acculturation faced by Malaysia. If youth are to be encouraged to be proud, responsible Malaysians, then the curriculum needs to reflect the Malaysian identity, and not simply a Malay identity.

Related to this is the contended topic of English language. The government has taken steps to improve the delivery of Bahasa Malaysia in curriculums as a means to bolster national identity; there are concerns that language plurality is fragmenting national unity. While the preservation of Malaysian identity through use of the Malay language in this way is laudable, it is an undeniable reality that English remains the global business and academic language. For Malaysian youth of all socioeconomic classes (i.e., not just wealthier segments) to be globally agile and competitive, English is a necessary skill. Establishing a high standard of English language in schools need not be mutually exclusive from nation building – Bahasa Malaysia and English can be taught concurrently, or at different stages. Additionally, English can act as a bridge between Malaysian citizens, and with the international community. After all, Kuala Lumpur is Malaysia's main economic hub and it requires English in order to maintain its status as a global city.

Of course, the curriculum alone does not bear sole responsibility for the development of Malaysian youth: there is also the matter of teaching styles and quality. According to research from Akademi Kepimpinan Pengajian Tinggi in 2011, 46% of principals reported a lack of qualified teaching staff, and of 125 lessons observed in 41 Malaysian schools, 50% were identified to be delivered unsatisfactorily, with a focus on passive and surface learning rather than active and deep learning, both of which are necessary for students to acquire higher order thinking skills.¹³²

In addition to a lack of qualifications, many lecturers or academics prioritise research above teaching. Lecturers are required to drill pupils on study techniques and other soft skills that they should have mastered in elementary and secondary school. Many academics are inexperienced with various instructional strategies and how to develop learning materials. They are overburdened with teaching, scholarly, and administrative duties.

Given the strain on teachers, the teaching workforce should be bolstered, and a thorough review conducted on qualifications. Teachers should be chosen on merit and certain essential traits such as a willingness to learn, strong communication and interpersonal skills, and a passion for teaching, and – most importantly – not due to racial preferences. Higher-quality teachers will result in higher-quality students and eventually a more robust and capable human capital for the nation. Tangibly, this means improving the rigour of the teacher training process, and upping recruitment of trained individuals into the education system. With these baseline criteria established, it is also vital that the entire remuneration structure for teachers is overhauled. They deserve considerably more investment and should be encouraged not just as instructors but also as mentors of future generations.

In sum, Malaysian education institutions and the public must push for the government to review and learn from the shortcomings of the current education system with regards to the values it imparts, the robustness of its curriculums and the quality of its teaching. The current system has abandoned meritocracy and high-quality education in favour of racially motivated political interference that results in mediocrity. If the education system is to successfully nurture modern Malaysians, it will need to promote the development of the knowledge, skills, understanding, ethics, and actions required to create a self-sufficient Malaysia that rejects corruption, anti-social behaviours, promotes social equity, and encourages economic sustainability in the path towards shared prosperity.

7.3 The Dilemma of Public and Private Education

As a result of the degradation of the values, curriculums and teaching qualities across the Malaysian education system, there has been a drop in public faith towards the national schooling programme. This has exacerbated the gulf in perception of standards between national and private schools. The last section of this chapter will therefore discuss the implications of this trend on Malaysia's socioeconomic stratification and its human capital.

Private and international schools are chosen by the elite of all races – a small minority of the country – who feel that national schools cannot offer the same standards. Even some Malays and indigenous communities, traditionally considered to be priority recipients of public-school education, do not send their children to national schools, favouring religious or community schools such as the ‘sekolah agama’, or ‘sekolah pondok’.

For parents with financial means, having access to private and international education results in a significant proportion of richer Malaysian youth that are educated and operate within the same social circles, reinforcing existing class division. While having options open for private education may initially be seen as right of every individual, over time, it gives rise to a privileged class that are presented with more opportunities as a result of their higher quality of education or proximity to others with wealth and connections.

The differences in class privileges become more pronounced at the tertiary education level. The cost of private tertiary education continues to rise, fuelled by a growing demand of quality education and the easy access of government subsidised loans. Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN, or the National Higher Education Fund Corporation), aims to support students with the rising cost of academic fees in tertiary institutions by providing loans: it is holding RM40 billion of government-guaranteed debt, which is expected to almost double to RM76 billion in 20 years¹³³. However, there have been criticisms that PTPTN, in addition to poorly securing repayment of loans, has driven up the cost of tertiary even further, as universities now have access to a guaranteed funding source: in 1997, there were just four private universities whose students qualified for PTPTN loans, but by 2019, this number had risen dramatically to 66 private universities, 31 private university colleges, and 329 private colleges.¹³⁴ Although tertiary education should be invested in, the ‘big business’ of university education may not serve the long-term needs of students or the country, especially as the business model of these private institutions relies on funding being borne by students and guaranteed by the government, yet not attaining high standards. Thus, without PTPTN, these institutions would likely not be able to exist. Instead, they are incentivised to seek larger capital injections from PTPTN by offering

‘innovative’ new courses, which may be overpriced, undertested, and ultimately sub-par.

The sharp increase in well-funded private schools has also led to teachers, students, and resources being redirected from the public school system towards private institutions. The scale at which this is occurring in Malaysia is as of yet unclear and requires more empirical research, but the subject matter experts for this report voiced that the outcome will be deepened socioeconomic stratification between those that can afford private education and those who cannot.

Even then, among the more privileged of society, the country’s private education system is still not sufficient to fulfil their aspirations. As a result, many have sought education abroad, leading to an exodus of bright young Malaysians from the system. Many who leave are unlikely to return, or unlikely to remain as long-term employees in Malaysia given opportunities that open with an international degree on their résumé. This is a significant contributing factor to the nation’s ongoing brain drain, which chapter three – on Malaysia’s self-sufficiency, including in human capital – discussed in depth.

Unfortunately, this brain drain leads to the deterioration of human capital and unity in Malaysia, since many talented students choose to employ their skill sets overseas rather than for the development of Malaysia. It becomes a vicious cycle, with brain drain feeding into a deterioration in the education system and vice versa, further solidifying existing socioeconomic divides.

One strategy the government has used to address this education inefficiency is to increase education expenditure to demonstrate its seriousness about uplifting education quality in the country. For the past 57 years, the Ministry of Education’s budget has grown year-on-year. As early as 1980, government spending in elementary and secondary education as a percentage of GDP was the highest in East Asia. With a budget allocation of RM52.6 billion, the Education Ministry was the largest beneficiary of the 2022 Budget, equivalent to 16% of the total government expenditure, nearly on par with the budgets set by top performing educational systems of countries such as

Germany and Finland.¹³⁵ Yet despite the huge budgets and investment into the education system, there has been a failure to produce desirable results. Examining the breakdown of the ministry's expenditures reveals several potential causes: a penchant for large infrastructure projects with little to no oversight, broadly undefined goals with regards to the budgeted amount, and one-off programs with no sustained measures to ensure long-term viability. Take infrastructure projects for example – infrastructure development on this scale also opens up opportunities for rent-seeking to occur, as discussed in chapter five of this report. The most telling case in point is the recent corruption scandal involving Rosmah Mansor, the wife of former Prime Minister Najib Razak who was guilty of seeking and receiving RM187.5 million in bribes in connection to a RM1.25 billion solar power project in rural Sarawak.

This focus on improving the 'hardware' of education in place of the 'software' is a common trait of developing countries, yet Malaysia is at the point in its development where the government should allocate larger portions of the budget towards the quality of its existing public curriculums and teachers. Infrastructure is essential, but building and maintaining schools is a short-term focus; the greater challenge for the long-term is improve the calibre of *what* is being taught in public schools.

7.4 The Racial Nature of Education in Malaysia

As discussed throughout this report, numerous race-based policies that favour Malays over other races have become outdated and damaging in many instances, impacting the economy and social fabric of the country. Perversely, the Malay population has been the most adversely affected. Education is no different: the most apparent and dire element of Malaysia's education system is the race-based discrimination against children, even as they seek to improve their access to education – and the employment opportunities therein – and therefore contribute to the nation. Whether the discussion is centred on mission schools, vernacular schools, teaching approaches, administrative bodies, heads of schools, the curriculum, vocational education, budget allocations, or scholarship awards, *Ketuanan Melayu* – the idea of Malay racial and cultural superiority – is a guiding principle. There are three main resulting areas of

damage: damage to non-Malays, damage to Malays, and overall damage to national unity.

One of the primary ways non-Malays are discriminated against is when it comes to access to tertiary education. To offer some context: the average student at a national school will take between eight and ten subjects, a mixture of science and liberal arts. Depending on academic attainment in these subjects, there are three pathways to the intermediate stage before students can access tertiary education. These pathways are:

1. **Matrikulasi:** This is a one-year pre-university preparatory programme offered by the Ministry of Education that is heavily subsidised (only a small registration fee is required). It was first introduced in 1998 and is the most desirable option for students hoping to gain access to leading universities in Malaysia, as entry to this course almost guarantees a position.
2. **Sijil Tinggi Persekolahan Malaysia (STPM):** For those who do not enter the Matrikulasi course, this pre-university course is affordable but considered extremely difficult. Only the top scorers secure places at local universities.
3. **International qualifications:** Internationally recognised gradings, such as A-Levels or International Baccalaureate, are most often taught in private schools and are therefore the costliest option, preventing many from opting for this pathway.

Clearly the Matrikulasi pathway is the most favourable option for the majority of young Malaysians. However, it is also where the most extreme discrimination occurs: since 2005, there has been a race-based quota, assigning 90% of positions on the programme to Bumiputeras, and just 10% to non-Malays, again under the premise of affirmative action, in order to help poorer Bumiputeras improve their socioeconomic status relative to that of the other races. However, the 90:10 ratio no longer correlates with the respective demographics and economic positions of each race. While it is the case that Bumiputeras are overrepresented in the poorer segments of the nation (they comprise 75% of the bottom 50% of earners according to pre-tax national income in 2014, yet are 68% of the population), as Figure 16 shows, the share of wealth held by

Bumiputeras in the lower 50% earning bracket has been increasing since 2007, while Indians and Chinese in the same bracket have seen no appreciable rise:

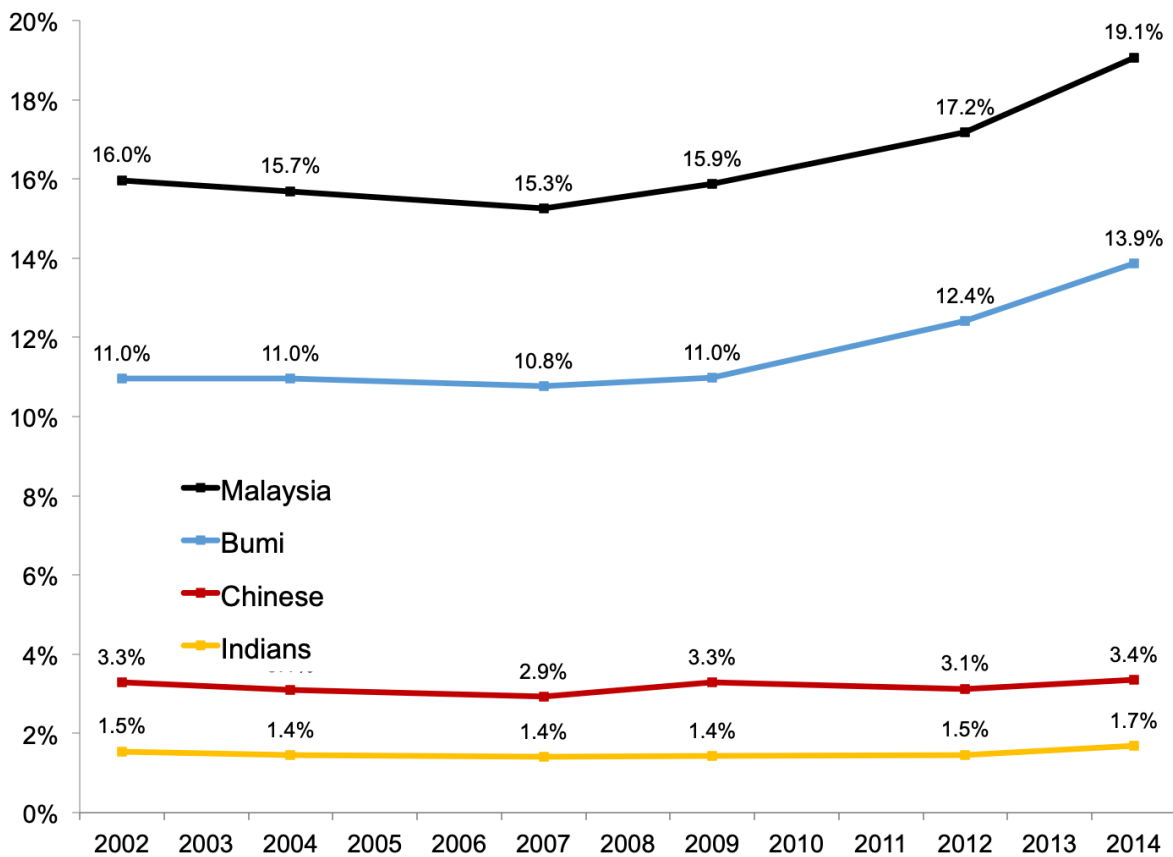


Figure 16: Decomposition of bottom 50% income shares by ethnic group (pre-tax national income).

Source: Muhammed Abdul Khalid and Li Yang, London School of Economics, 2019¹³⁶

This means that the 90:10 quota no longer accurately reflects the socioeconomic discrepancy between races. Additionally, while the 90:10 ratio and other government financial aid programmes support poorer Bumiputera children with their education so that they may achieve better employment and earning outcomes, there is no equivalent for Chinese or Indian communities, who are becoming increasingly poorer compared with the rest of the nation. Given just how outdated this policy now is, the Malaysian public must face the truth that no other nation in the world practices such large-scale blatant racism against its children.

Due to the inequity of this policy, there have been repeated calls to eliminate racial bias in education – for example, from the Malaysian Academic Movement (MOVE) and the National Patriots Association – yet the Ministry of Education announced in 2019 that the pre-university matriculation 90:10 quota for Bumiputera students will be maintained, and that the programme will simply increase its total volume by 60%, to 40 thousand students per year, as a workaround.¹³⁷ While this increase might sound encouraging – and it certainly will allow more non-Bumiputera students to access this course – it does not change the underlying discrimination inherent in the 90:10 quota.

If a non-Bumiputera student wishes to attend the Matrikulasi programme despite the challenge of doing so, they must attain grades that are on average two or three times better than a Malay student, and even then, positions aren't guaranteed. Of course, this does not mean that Bumiputera children – particularly those from poorer backgrounds – do not deserve a position. But it raises questions about the legitimacy of the examination system in the face of such a non-meritocratic approach, and there are even concerns over the manipulation of passing rates of exams in order to allow the Bumiputera majority to pass difficult exams and enter university.

This also has cascading impacts on Bumiputeras, too, particularly those in poorer communities or who attend schools that do not produce the best academic attainment results. This is because the system they are educated in does not require them to achieve academic excellence in order to gain access to university education, which may inadvertently create feelings of entitlement, lack of competitiveness, or, conversely, inferiority, as they are not offered the same level of competition as their non-Bumiputera peers. This is, of course, a disservice to them and their potential, which should be encouraged through meritocratic education and healthy competition. In this sense, Bumiputeras may suffer by virtue of having privileges that non-Bumiputeras do not.

Additionally, the allowance of Bumiputera children into university via the quota system does not guarantee that they will improve their social mobility – for example, they might struggle with the advanced level of the university syllabuses given that they have been permitted to take the university fast-track despite not achieving high grades. Instead,

this causes knock-on effects for the higher education institutions in Malaysia, as many possess student compositions that reflect racial quotas, and do not reflect the talent of Malaysia's youth according to their pre-university academic attainment. Needless to say, this has implications on Malaysia's human capital, given that the education system is not efficiently harnessing talent. As discussed in the chapter on rent-seeking, this flaw is only exacerbated when young Malaysians enter the working world, which is dominated at the highest levels by a culture of 'who you know, not what you know'.

By placing such challenges on non-Bumiputera and Bumiputera children alike at such a young and impressionable age, the education system inevitably sets up future generations to be divided. This division also exists when one works down the education journey of young Malaysians, from tertiary to secondary and primary levels. According to studies, decades of race-based policies have influenced educational culture and student psyche: many young Malaysians are unlikely to develop friendships outside of their own ethnic groups at school due to cultural preference in mixed schools the segregation by race in vernacular schools.¹³⁸ While it is important for similar racial groups to coalesce in order to preserve unique culture, language, traditions, knowledge, and belief systems, this is nonetheless a sharp departure from how the education system ought to nurture and sustain Malaysian multicultural values.

Despite the challenges to non-Bumiputeras, Bumiputeras, and even national unity, there is a lack of urgency in addressing the over-racialisation of education. Without healthy debate that leads to concrete reduction in educational discrimination, the lives of young Malaysians, especially those from poorer backgrounds, will remain at risk of being unfairly stifled for generations to come.

7.5 Reform Agenda

7.5.1 Transforming Race-based Quotas into Needs-based Affirmative Action

One of the most defining features of Malaysia's education system is how prominently race-based it is. Vernacular schools and their curriculums are a well-established norm for primary and secondary schools. However, the most significant race-based policy

in place is the quota system for access to the Matrikulasi pre-university course, which has a 90% quota for Bumiputeras and 10% for non-Bumiputeras. The quota was instituted in 2005 for the aim of improving the education level and social mobility of poorer Bumiputeras. However, this policy now no longer reflects the socioeconomic composition of the country with regards to racial segmentation, and it therefore is now actively discriminating against the children of Malaysia, who are the future of the nation. The problems this poses are as follows:

1. Non-bumiputeras are put in a position of academic stress that Bumiputeras are not – they must attain grades that are on average two or three times better than a Malay student, and even then, positions aren't guaranteed. Being minorities in a country that already practices affirmative action for the racial majority means that many of these children may find themselves handicapped with regards to social mobility in the future.
2. Bumiputeras, on the other hand, are faced with the opposite set of impacts. Not needing to compete to the same degree with their non-Bumiputera peers means that they may develop a sense of entitlement or complacency from a young age. Conversely, they may also develop feelings of inferiority given the 90:10 quota puts them in a position of privilege compared with their non-Bumiputera classmates.
3. There are wider impacts on the nation, including young non-Bumiputera talent who are not nurtured effectively to contribute to the nation's human capital, or youth with poor qualifications entering the job market due to an overall lowering of standards in order to facilitate Bumiputera access to universities and scholarships. Here, not only does the quota deepen divisions between races but also damages the long-term quality of human capital in the country.

To improve on these problems, the race-based quota system must be realigned with the modern needs of the country. This does not mean it needs to be abolished; rather, it means a shift from race-based to needs-based, i.e., allocating places based on income levels, rather than one that practices widespread racial discrimination. There are two considerations for this reform:

1. The shift to a needs-based quota will not dramatically transform the quota system as it stands, given that 60% of students on the Matrikulasi course come from the B40. However, this number should reach 100% - even though they are a minority, there are poor Chinese and Indians too, whose children are deserving of access to education. By shifting the quota to a 70:30 ratio, where all students in the 70% bracket are from the B40, then poorer communities, regardless of race, will be provided with tertiary educational opportunities, without compromising on access for others – regardless of race.
2. Efforts should be made to guarantee that rural populations are accounted for by this quota, given that rural populations are the most likely to be distanced from urban universities or receive the highest quality secondary education.

With these simple adjustments, Malaysia's infamously discriminatory race-based quota can be transformed into one that benefits those young Malaysians that need it most and to the benefit of the nation.

7.5.2 Revising Financing for Higher Education

The government initiated Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN, or the National Higher Education Fund Corporation) in 1997 to provide a subsidised pathway to university for students from financially difficult backgrounds. The loan system is generous, allowing students to graduate in a wide range of fields from a variety of higher education institutions. However, it has reached a point where private academic institutions have been criticised for abusing the system, as they are incentivised to attract as many students as possible, rather than focusing on quality of education. The two main criticisms are as follows:

1. Although tertiary education should be invested in, private universities have seized the student-borne, government-guaranteed financing system of PTPTN as a means to do 'big business'. In 1997, there were just four private universities

whose students qualified for PTPTN loans, but by 2019, this number had risen dramatically to 66 private universities, 31 private university colleges, and 329 private colleges. This has driven the cost of tertiary education up, saddling aspiring Malaysian youth with considerable debt.

2. Universities are incentivised to attract as many students as possible, and this has led to the creation of many new courses, which – while diverse and potentially beneficial for students – may be untested, poorly transferrable to the needs of the nation, and sub-par when compared to more traditional courses. There is also a strong focus on 'profitable' courses such as engineering, business and law which - while beneficial to the nation - has led to an oversupply of graduates, negatively impacting wages especially for first-time job seekers.
3. Overall, educational quality has suffered given that poorly qualified students and poor teaching standards have become the norm. Many other countries do not have such low passing boundaries and subsequent substandard qualifications that Malaysian students graduate with.

To overcome these challenges, there must be a decoupling between higher education institutions and the access to capital they receive through sheer number of students. As such, there will need to be transformations on the behalf of PTPN and the Ministry of Education:

1. First, the allocation of loans, or the range in the size of loans, should be made stricter. In particular, this means prioritising those students in most need of financial aid. This means fewer students should be given the option to take on substantial debt, which may help lower the overall price of tertiary education.
2. Second, the Ministry of Education should set up a rigorous academic evaluation programme that determines the tertiary education courses most aligned with Malaysia's vision, or its developmental needs. This should also include vocational and technical options. From here, a higher number of loans can be offered to students by PTPTN, therefore encouraging targeted applications. Additionally, the evaluation programme should vet every major new course on offer by a higher education institution, to determine if it meets national levels – and basic international standards – of academic rigour.

By revising this system, students will be better protected against accruing large amounts of education-based debt. It also reduces incentives for private universities to create potentially sub-par courses as a means to attract students, and therefore funding from PTPTN.

7.5.3 Investing in the Modern Malaysian

Malaysia's education system is a topic of much debate, and this is because many feel that it is underdelivering for Malaysian youth. As with other socioeconomic issues in Malaysia, there is a broadening education gap between poorer and richer Malaysians, and between different racial groups. As a result, education is exacerbating socioeconomic divisions, rather than helping to mend them. This manifests in three main ways:

1. There is still a reliance on foreign skilled workers to fill gaps in Malaysia's professional capabilities, and while it will always be necessary and advantageous to import skilled workers, there is clearly a need for vision and innovation among the higher level of Malaysian organisations, which the education system should help inculcate from a young age.
2. Related to the above, Malaysia is facing a brain drain epidemic, for which the education system is partly responsible. Many Malaysian parents (and Malaysian children) feel that they are unable to secure a globally competitive level of education from Malaysian secondary and tertiary education institutions, and therefore send their children abroad or to local private institutions that follow a foreign education syllabus. Once educated internationally, many opt to find jobs abroad and those that return do not intend to stay for long.
3. Graduates with poor qualifications and skill levels are entering the workforce and consequently frustrating employers, reducing productivity, and lowering performance standards in both the public and private sectors.
4. Lastly, Malaysia's education system does not appear to be addressing the corrosion of values, which has led in part to the prevalent rent-seeking

behaviour at the highest levels of business and politics. After all, if Malaysian youth see their leaders profiting substantially by bending the rules and not getting penalised when caught, then this behaviour has the potential to trickle down through many layers of society.

While there are numerous strategies to address these issues, fundamentally the Malaysian education system should be geared towards creating ‘modern Malaysians’, who are responsible citizens that feel united with their peers, are not divided by race nor religion, are skilled and ethical, and can contribute to the human capital needs of the nation. There are two key elements to this:

1. Curriculums should be refocused to meet the nation’s developmental needs. While the national focus on STEM – particularly subjects focused on digital technology – is laudable, there must also be excellence provided in key foundational areas, such as civic education (including anti-racism); agriculture and food systems; nutrition and physical wellness; environmental engineering including water and sanitation; healthcare; renewable energy; urban planning; rural revitalisation; and more. There is no reason why STEM and digital technology cannot be applied to these areas.
2. Malaysia would also benefit from promoting a change in mindsets and behaviours in the nation’s youth, in order to combat pervasive rent-seeking in government and companies. Integrity and values for a better Malaysia cannot be understated: the inculcation of good ethics and moral values will transform minds and in the long run will help shape behaviours that prioritise collective good instead of short-term personal gain.

In this way, Malaysia will gear its education system towards creating the modern Malaysian, which will provide a higher calibre workforce, choose to remain and work in the country, and also embody ethics to create a fairer economy for all.

8. Conclusion: The Best of Both Worlds

The world has reached a critical inflection point.

Hard questions around the growth-at-all-costs model of capitalism, resource scarcity, existential threats such as climate change, and shifts in global power dynamics resulting from the COVID-19 pandemic, instability in the US and Europe, the rise of China, as well as discussions on the role of the state have coalesced to trigger a paradigm shift in how nations are organising their economies, utilising governance, and approaching development

Malaysia is faced with the same transformational challenges in the face of widening socioeconomic gulfs between the rich and poor, outmoded thinking on economics, including ineffective utilisation of natural and human capital, and weak governance systems, all of which are compounded by widely acknowledged recognition of weak political leadership, insensitive to the needs of the people and actively engaged in exploiting the differences between classes and ethnic communities, ultimately eroding national identity and integrity.

For these reasons, the vision of **Now Everyone Prospers** seeks to reshape modern Malaysia, helping the nation equip itself for the complexities of the 21st century and to secure its future. The transformation begins with the country's economic foundations, as outlined in Pillar 1, for which broader definitions of progress are required, to be inclusive of societal wellbeing and environmental equilibrium in tandem with economic growth. The prosperity of *all* Malaysians – including future generations – is the metric by which the success of the nation should be measured. With the foundations correctly set, a platform for powerfully impactful change can take place as explored in Pillar 2, including leveraging the nation's human and natural capital to prioritise self-sufficiency in key sectors amidst the increasingly volatile global economic climate, building home-grown capacity for innovation and – most importantly – true resilience.

These shifts can only be made possible by a fundamental pivot away from the rent-seeking behaviours that permeate the entirety of Malaysia, which is discussed in Pillar 3. As an intersection of economy, politics, and culture, Malaysian rent-seeking represents historic shackles that must be cast off if the country is to unleash its potential and improve quality of life for all Malaysians. This is the work of an entire generation, requiring top-down implementation of institutional protections and systems of equity and bottom-up societal rejection of non-meritocratic norms. Top-down changes are ideally enacted in the extensive GLC ecosystem, which Pillar 4 addresses, starting by first reincorporating the social mandate of GLCs and GLICs, realigning their functions to serve as the instruments of the government's socioeconomic agenda, sans influence from the political system. Bottom-up changes, on the other hand, are best situated in Malaysia's education system, which Pillar 5 concludes with, by building the nation starting with its most important resource: its future generations.

The vision of **Now Everyone Prospers** is therefore the bridge between what Malaysia is capable of and where it stands today. The five Pillars and Reform Agenda serve as an ambitious new manifesto to help political parties and their leaders offer a viable and much needed pathway to long-overdue reform on how to systematically address Malaysia's challenges to chart a future that ensures economic prosperity without sacrificing societal and environmental integrity – *the best of both worlds*. Many of these issues are deeply entrenched in the country's economic, political, societal, and cultural systems, but the need is urgent and the hard work of putting the country on a new trajectory must start now.

To action the recommendations of **Now Everyone Prospers**, the first step is to acknowledge the problems facing the country no matter how difficult the resulting conversations might be. This is especially important given these conversations will by necessity include sensitive matters – especially on race – that have been an impetus for flashpoints of disharmony in the nation's recent history. However, decision-makers can no longer afford the elephants in the room; the risk of leaving them unaided only perpetuates the status quo and leads to stagnation. The Guidance Note provided in this report is a useful resource to begin these conversations.

Second is to unlearn conventional wisdom with regards to the methods used to resolve the country's crises. This means thinking beyond readymade or in-vogue solutions to economic and social challenges, and instead start reworking solutions to fit the Malaysian condition. There are no wholesale models to borrow from elsewhere: the future is for Malaysia and its citizens to build. Whichever economic or social approaches are pursued, they must be aligned with the cultural nuances of Malaysian society and should not fall into the trap of seeking to replicate Western models on the basis of their past successes for nations with entirely different contexts.

Finally, for everyone to prosper, a genuine commit to change is required *by* different levels of society *for* different levels of society. This will begin with leaders in government, the institutions of the state, and business on the forefront of seeking change, who will work to enact structural reform in Malaysia's key public and private institutions, buttressed by the work of civil society leaders, who will nurture organic cultural shifts that reshape the mindsets and behaviours of Malaysians and the outcomes they expect, desire, and therefore experience.

In coming together this way, the oft-uttered phrase "Malaysia Boleh" will no longer be a trite, throw-away comment, or a self-deprecating joke to describe the deficiencies of the nation. It will be repurposed and reclaimed as a statement of pride, because together, we *can* forge a Malaysia in which **Now Everyone Prospers**.

9. Guidance Note

The purpose of this white paper is manifold, but a key objective is to collect the key challenges facing the country into one document, and to therefore raise awareness on the urgency and extent of action that needs to be taken for Malaysia to achieve its full potential. This journey will require concerted efforts from multiple stakeholders from all layers of business and society, which is why this section of the report provides a list of questions for a range of actors to ask themselves and others. These questions are intended as a discussion guide to help stimulate conversations that will eventually lead to positive outcomes.

Members of the T20

- a) Do you agree with some observations contained in this white paper on the levels of economic inequality in the country? Do you believe such a wealth gap should exist between the B40 and the T20?
- b) How do you believe this gap should be addressed? Given your position as a privileged member of Malaysian society, are you contributing to addressing this inequality?

Leaders of Corporate Malaysia

- a) Do you agree with the observations of this report, most notably that Malaysia is at a critical juncture in its development? How will this impact your organization going forward? What can you do to navigate these impacts?
- b) What role does corporate Malaysia play in addressing the challenges outlined in this report? Is your organisation contributing to nation building in a significant way or are you exacerbating some of the challenges associated with rent-seeking, corruption and patronage?

- c) In the pursuit of business success, do you engage in acts that may contravene business ethics – towards society or environment? What are your justifications?

GLC Managers

- a) Do you believe that your organisation is currently serving the best interests of the nation, or is there more of a focus on maximizing profits? If you believe that GLC have strayed from their original intentions, what are the three things that you would like to change to achieve your mandates?
- b) Do you believe that the leadership of your organisation is qualified to run the GLC? Was your leadership elected due to their ability to surpass the requisite requirements to run an organisation, or were they appointed the position?
- c) Do you feel that you and other leaders in your GLC have the full authority to run the organisation with the highest standards of integrity and governance? If you are unable to do so, can you have an open conversation with your executive team on the challenges that you face? Do you think your executive team will empathise with you or disagree with your views?

Stakeholders Concerned for Environment

- a) In which areas are the government and businesses managing natural resources well? In which areas is mismanagement occurring? Consider the rate of resource use or degradation, the pricing of the resource, and the integrity of the stakeholders and processes involved in managing the resource.
- b) Of these areas, which need the most urgent addressing? How can policymakers, civil societies, and businesses support the process of improvement?

Foundation and Higher Educators

- a) Is our education system still fit for purpose in preparing our youth/talents to be socially mobile and giving them the opportunity to become well-rounded

citizens? Which areas need improvement and how can policymakers support these areas?

- b) What is the role of the education system in imparting the importance of values onto the Malaysians of tomorrow? Should education systems be doing more on this front?
- c) Is the difference in academic achievement between public and private schooling appropriate for the nation? What does this gap say about the quality of curriculums and support for teachers? What can be improved?
- d) What is the role of race in Malaysia's education systems? Is there a fair balance between the opportunities afforded to members of each race? What changes should be made to make this system fairer for the nation's children?

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