

What's next for this Southeast Asian powerhouse? *Photographer: Samsul Said/Bloomberg*

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Malaysia 2.0 Needs More Than a Booming Economy

The country epitomized a model that generated rapid development — and a fair amount of waste. New problems demand a fresh approach.

By [Daniel Moss](#)

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Southeast Asia's boom years may be behind it, but the region is steadily becoming more prosperous. Few places exemplify those go-go times with their achievement, and excess, like Malaysia. Now the federation is on the cusp of being admitted to a club dominated by the advanced economies whose material wealth it has long aspired to emulate.

As that moment draws closer, the contortions of a new era are readily visible, and they aren't comforting. In Kuala Lumpur, a new skyscraper resembles a hangover from a prior generation of policymaking by boondoggle. The swelling ranks of elderly fret the country isn't prepared for a looming demographic cliff, while a vital export industry worries a flight of talent will mean key

opportunities are forfeited. The challenges represented here point to long-term issues that require tackling. Getting this right is way more important than the technical markers beloved by past leaders, like gross domestic product doing better this quarter than the 5.6% growth between January and March. Or whether the new central bank chief needs to squeeze inflation a bit harder in coming months.

The drive for development was a touchstone for decades. The ethos went to absurd proportions, with braggadocio about building the longest this and tallest that. The country fashioned a leadership role among emerging markets; it could lecture the West and have the economic results to get a hearing. Malaysia burnished this status when it slapped controls on capital during the Asian financial crisis in 1998, contrary to the orthodox approach of the International Monetary Fund, and appeared to pay no penalty. Yet it took blows in later years: The epic 1MDB scandal, the bungled handling of Malaysia Airlines Flight 370's disappearance and a political system that has become far more democratic – and chaotic. Five men have been prime minister in six years. Through it all, Malaysia is moving toward prosperity, albeit without the bombast.



Malaysia's Prime Minister Anwar Ibrahim. *Photographer: Samsul Said/Bloomberg*

This coming phase in the country's history brings First World trials: an aging society, greater demands on the state at a time of enormous fiscal strain – and calls that the spoils of growth be widely shared

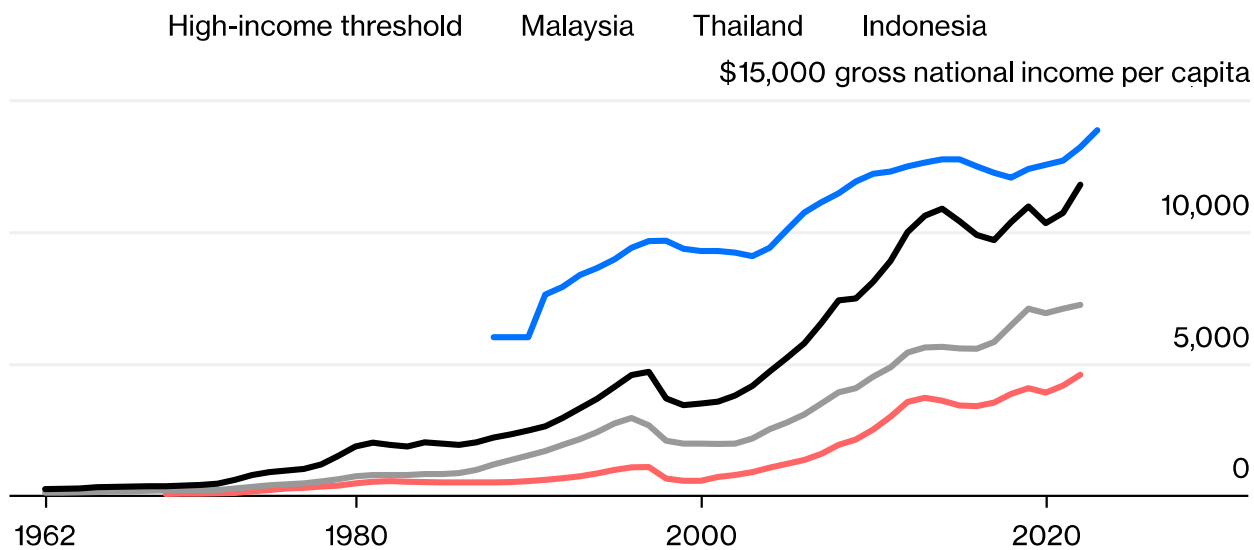
rather than distributed to an ethnic majority already enjoying significant privilege. Poor decision-making can no longer be explained away as a byproduct of oppression by big economic powers and nefarious corporate interests thousands of miles away, a spectator sport when the combative Mahathir Mohamad was prime minister in his heyday in the 1980s and 1990s. Long seen as a fence-sitter, Malaysia will also have to find a new way to navigate the commercial and diplomatic rivalry between the US and China.

First, the good news: Around 2028, Malaysia is likely to attain the status of a high-income economy, as defined by the World Bank, after spending decades as an upper-middle income player. “We are broadly on course, plus or minus, assuming no other unexpected shock happens,” Apurva Sanghi, the Bank’s lead economist for Malaysia, told me recently. “You know the saying, ‘Man proposes, God disposes.’”

The nation can’t rest on its laurels, assuming it goes the distance. Economies can, and do, get booted from this august circle. Once a year, the Bank updates membership, determined by gross national income per head. Late last month, the threshold was raised to \$13,845. Guyana and American Samoa were elevated, the former reflecting its oil wealth and the latter owing to a decline in population. Malaysia’s GNI stood at \$11,780.

Milestone in Sight

Malaysia closes in on high-income status



Source: World Bank

Why does inclusion matter? Of the more than 200 countries monitored by the Bank, about 80 have made it to this elite level, explained Sanghi, and Malaysia has spent several decades in the waiting room. “It’s really a marker for development progress,” he said. “It’s also a simple thing to understand and to explain to citizens of a country. It’s difficult to manipulate and it enables comparisons across countries and over time.” There’s also more to an economy than such classifications. Prior to the pandemic, for example, malnutrition and stunting among children in Malaysia were “inordinately

high,” Sanghi noted. And wealth is concentrated in a small number of the 13 states and three territories.

The classification undoubtedly does convey status. In neighboring and much larger Indonesia, President Joko Widodo has made escape from the middle-income trap a priority. That’s unlikely to happen before he leaves office next year. Indonesia did win an upgrade, nevertheless. The Bank returned the nation to the upper-middle band in the latest calculations released June 30, after it had slipped to lower-middle income in 2021.

Malaysia isn’t exactly sprinting across the finish line. Rates of growth have slowed significantly and never really got their mojo back after the Asian meltdown of 1997-1998. Semiconductors, a key export, ought to be a sweet spot given the icy turn in ties between Washington and Beijing. But the industry is built on assembly and testing, and is weak in more lucrative fields like design. Malaysia also needs to address a brain drain that sees top talent departing for the US, Japan and Singapore. At the other end of the scale, Malaysians willing to undertake so-called 3D jobs – dirty, dangerous and demeaning – can make far more money in Singapore than they can at home.

Semiconductor Imports

Of key economies in Asia, the US imports more chips from Malaysia than anywhere else

	Value	Market share
Malaysia	\$4.2B	21%
Taiwan	2.9B	14
Vietnam	2.2B	11
Thailand	1.9B	10
South Korea	1.4B	7
Mainland China	946.3M	5
Japan	712.7M	4
Cambodia	682.2M	3
India	644.6M	3
Philippines	570.2M	3
Rest of world	3.9B	20

Source: US Census

Note: Year-to-date as of April.

The future is very much on the minds of executives in Penang, an island off the west coast of the peninsula that’s a valuable cog in the global electronics industry. Semiconductors have played a vital role in powering Malaysian export growth and industrialization since the early 1970s. These should be the best of times, with rivalry between Washington and Beijing intense and customers looking to make their supply chains less dependent on China. Malaysia, the biggest Asian supplier of chips to the US, is

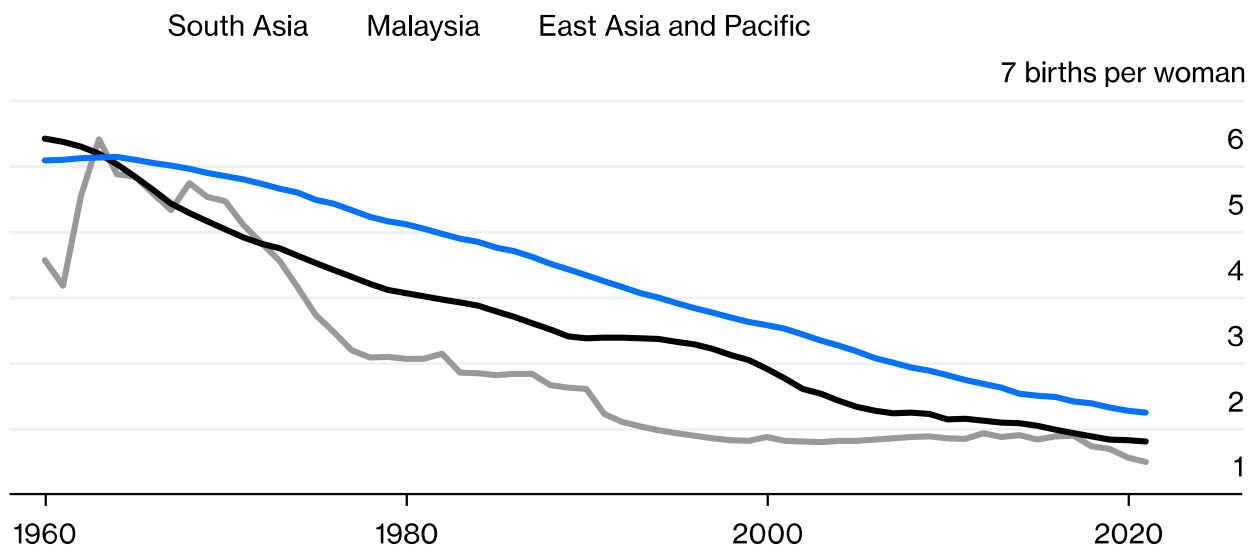
struggling to capitalize on the moment, however. It accounted for just a fifth of America's imports through April, down from a third the same time last year, and is losing ground to regional competitors. Taiwan and South Korea have increased their shipments this year. Even Cambodia is grabbing market share.

A big long-term problem is dependence on semiconductor testing and assembly, as opposed to more lucrative areas like chip design, according to Wong Siew Hai, who heads the Malaysia Semiconductor Industry Association. A veteran of Intel Corp. and Dell Inc., Wong has worked in the field for almost 50 years. Getting the right people is paramount. "Key is the war on talent," he told me. "We are losing to other countries. The world is an employer, not just Malaysia."

The country is aging, and quickly. A World Bank report in late 2020 compared the burgeoning ranks of seniors with the pace at which Japan lost its youthful vigor. Malaysia, Singapore, Thailand, Hong Kong and China all confront declining or rock-bottom total fertility rates; a touch over two children per woman is considered the level at which the population is able to naturally replenish itself. Malaysia will morph from an aging society to an aged one by 2044, meaning 14% of its people will be 65 and above, the Bank projected. Little more than a decade later, it will be what's called a "super aged society," with at least 20%. That would put Malaysia in the company of Japan, Germany, Italy, South Korea, Singapore and the US, to name a few.

Fertility Rates Tumble

As Asia's demographics shift, Malaysia is no exception



Source: World Bank

To get a sense of what this looks like on the ground, I traveled to Ipoh, a city in the state of Perak, about two hours drive north of KL. Once defined by the tin mining that attracted British colonists and impoverished Chinese laborers, Perak is one of the most demographically challenged of the Malaysian states. Listening to Joon Moi Jones, superintendent of the Salvation Army's Perak Home for the Aged,

elder care ought to be called a boom industry. “Ipoh is like a retirement home,” observed Jones. “It’s a graying population. Younger people go to cities like KL or Penang.”

Jones could almost have been describing a hollowing out, similar to what I had seen in rural Japan or central South Korea – or the way the industrial Midwest of the US or northern England are often described. “It’s a very great challenge all over the world,” said Amy Khoo, who once sold cars and real estate in KL and now passes her time doing laundry and other assigned chores at the home. “We are not ready.”



Going gray. *Photographer: Samsul Said/Bloomberg*

It’s not just a case of spending more money, though that’s always welcome. Nor is it simply about keeping seniors in the workforce and re-skilling them. Near the top of Jones’s wish list is meaningful protection against abuse, in the way specific acts of parliament outlaw such actions against children. Some of her residents have been abandoned, left without food, sometimes reported by neighbors who heard cries for help. A huge shift in thinking is required. “People think they are past their prime, they are worthless,” she lamented.

Malaysia’s budget has been strained since Mahathir, then in his 90s, scrapped the goods-and-services tax, coming through on a promise made before the 2018 election, which saw him oust Najib Razak and

return to power after 15 years. Consumption taxes are unpopular in most places, but there is little alternative. Singapore recently increased its GST, and Japan has pressed ahead with contentious hikes. The problem is that Malaysia has been plagued by political instability since the defeat of Najib, now serving a prison sentence for corruption. A succession of weak administrations followed him.

In his first stint in office, from 1981 to 2003, Mahathir enthusiastically promoted development through a number of guises. “Vision 2020” was launched in 1991 with the goal of achieving a first-world standard of living. Many investments were set in motion under its auspices. Some with rationale, such as investment in roads, transportation and prioritizing healthcare and education. Others had a germ of sense, like a new airport supposed to compete with Singapore and a dramatic facelift for downtown Kuala Lumpur.

None of them warranted the hype and jingoism. The national car project, Proton, stumbled. A large stake was sold to Zhejiang Geely Holding Group of China. The Kuala Lumpur International Airport is too far from town and long lines at immigration are almost guaranteed, despite its cacophonous size. As for the Petronas Towers, once championed as the world’s tallest buildings, the floors creak and there’s plenty of vacant space.



Merdeka Tower. *Photographer: Mohd Rasfan/AFP/Getty Images*

Times move on, but not all mindsets change. Across central KL from the towers, another edifice has risen. The 118-story Merdeka glass-and-steel skyscraper looms over part of the city. Permodalan Nasional Bhd., a government investment fund, is the chief backer of the project. Malayan Banking Bhd., the country's largest bank, which lists several state funds as key investors, will be one of the main tenants. Malaysian media compare the structure to skyscrapers of note around the world: It will be second only to the Burj Khalifa in Dubai and way higher than the Petronas Towers.

No doubt it's an impressive structure; a mix of sunlight and clouds hitting its sides in the middle of the day makes for a futuristic visage. But the emphasis on the wow factor seems a throwback to a period where Malaysia felt it had something to prove.

Prime Minister Anwar Ibrahim, who took office in November, sounds like he recognizes the needs and dynamics of a different era. The mantra of Anwar's team is "Malaysia Madani," which emphasizes social harmony, civil society and hints at a period of consolidation, rather than a dash for stellar GDP numbers.

The obstacles the country now faces aren't those of a backwater trying to make the big time. They are more complex. The real vision may be to recognize the limits of grandeur.

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