



RICHARD H.K. VIETOR

Malaysia: An “Asian Tiger” Reawakens

Today I ask you to join me in this task of renewing Malaysia. I urge you to rise to the challenge of building One Malaysia.

– Prime Minister Najib Razak, April 3, 2009¹

Najib Razak will get a fair trial

– Prime Minister Mahathir Mohamad, November 12, 2018²

On the night of May 9th, 2018, Malaysians were stunned; indeed, the world was stunned, when an upstart political alliance – Pakatan Harapan – defeated the ruling party, UMNO, once again electing Mahathir Mohamad as Prime Minister. At age ninety-three, Mahathir, who had previously served as Prime Minister from 1981 to 2003, now became the oldest living head of state. The victorious Pakatan Harapan (PH) was a peculiar coalition between Mahathir’s newly created Malaysian United Indigenous Party (Bersatu) and the Parti Keadilan Rakyat (PKR), headed by the man Mahathir had once jailed – Datuk Seri Anwar. With the electoral victory, Mahathir would again serve as Prime Minister, but for just two years, after which Anwar would ascend to the prime ministership.

UMNO, a coalition representing the Malaysian Chinese Association, the Malaysian Indian Congress and the Barisan Nasional (Malays), had been headed by Prime Minister Najib Razak since 2009. But by 2018, Razak had been thoroughly discredited by the national scandal involving 1MDB. This national development corporation had raised more than \$5 billion in bond issues, but had redistributed most of those funds to Goldman Sachs employees, to various government officials (in Malaysia and Abu Dhabi), to Prime Minister Najib Razak, and especially to Jho Low, Razak’s friend and the architect of 1MDB.

Despite this colossal scandal, Malaysia had continued to perform quite well, ever since the financial crisis. Its GDP growth rate was solid, with modest inflation, low unemployment and a positive current account. But besides unravelling the 1MDB scandal, Prime Minister Mahathir needed to quickly resolve several issues that had arisen. The fiscal budget needed to be corrected and the deficit, reduced. Productivity, especially in the large public sector, needed improvement. Large infrastructure projects, especially ones financed by China, needed to be reassessed. And issues of regional autonomy, for Sabah and Sarawak, had to be addressed.

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Meanwhile, Malaysia was faced with a host of risks, largely external: the slowdown of global growth, the U.S. – China trade war, China's assertiveness in South Asia, and the volatility of oil prices. Mahathir needed to implement new policies that would provide domestic stability and help Malaysia reach its economic goal – a developed country by 2020.

Malaysia – Brief History

The Federation of Malaysia – a constitutional monarchy consisting of 13 states and three federal territories, is located on Peninsular Malaysia and East Malaysia (two states, Sabah and Sarawak) on the island of Borneo (**Exhibit 1**). Malaysia, which declared its independence from the United Kingdom in 1957, formed a broader federation with Singapore in 1963. But because of different racial and cultural dynamics, that lasted only until 1965, when Singapore was expelled. Today, the country is a bicameral parliamentary democracy, representing a population of 32 million. The upper house – the Dewan Negara – has 69 members, either elected from state legislatures or appointed by the King. The Dewan Rakyat – or lower house – has 219, directly elected members. Of this, about 69% are ethnic Malays – called Bumiputera, 23% are Chinese, 7% Indian, with others of 1%. Although the official religion is Islam, the country has Christians, Buddhists, Hindus and others, and a fair degree of secularity.

These differences, plus sharp differences in income, led to ethnic violence in May of 1969, killing nearly 200 people. A period of soul-searching ensued, during which Malaysian political leadership tried to understand what had gone wrong. Mahathir Mohamad, a Malay politician, wrote a book entitled *The Malay Dilemma*. He emphasized the disappointment and resentment of Malays due to the wealth of the Chinese in Malaysia.³ The development strategy of import substitution, which worked to attract foreign capital into export-oriented businesses, had also yielded increasing inequality across ethnic lines.

In 1971, Abdul Razak, Malaysia's second prime minister, adopted a new strategy of more balanced growth. The New Economic Policy entailed a massive affirmative action program with the stated goal of poverty eradication and economic restructuring so as to eliminate the identification of ethnicity with economic function. Disadvantaged Bumiputeras, or "sons of the soil," were given preferences for government jobs, for higher education, for property ownership and for leadership roles in government-linked corporations (GLCs). The initial target was to move the ratio of economic ownership from 2.4 (Bumiputera): 33 (Chinese): 63 (foreigners) to a ratio of 30: 40: 30. By 2016, Bumiputera mean income was still only 71% of Chinese, 87% of Indian.⁴ As to assets, Bumiputera allegedly owned just 17%; non-Bumis owned 58.6%.⁵

The government also turned to export-oriented industrialization, setting up low-tariff, free-trade zones to encourage manufacturing for export.⁶ "Price discrimination, quotas, fiscal incentives, administrative support and government-linked corporations (GLCs) were deployed to promote economic activity and to 'balance' growth."⁷ Absorbing low-wage, surplus labor, western firms flocked to Malaysia to manufacture textiles and especially electronics. Economic growth took off, averaging more than 7% annually during the 70s.

In July 1980, Mahathir Mohamed became Malaysia's fourth prime minister, where he would shift the development towards heavy industry, favoring cement, petrochemicals, steel, machinery and a "national car" – the Proton. His intent was to stimulate backward linkages, emulating Japan and Korea. But the strategy forced more GLC investment, under bumiputera control.⁸ In 1991, in the Sixth Malaysia Plan, Prime Minister Mahathir introduced Vision 2020 – a goal of growing 7% annually for the next 30 years to become a self-sufficient, "developed" industrial economy by 2020. During this period, Mahathir embarked on various large-scale national projects, including the North-South