

Political Leadership Matters: Malaysia's Unrealised Potential

Shyamala Nagaraj^a
University of Michigan

Kiong-hock Lee^b
Universiti Malaya

Abstract: Malaysia was among five East Asian nations that successfully leveraged globalisation to achieve sustained high economic growth in the post-war period. But it has been unable to transition beyond upper-middle income to high-income status, unlike the other economies of Japan, South Korea, Taiwan and Singapore. In this paper, we appraise Malaysia's political leadership to understand the reasons for its restrained growth. Specifically, we assess the demeanour and acumen of Malaysia's prime ministers in economic decision-making. We find that the early leaders were more transformational and set Malaysia on the path to income growth. However, political leaders since the 1980s have been more transactional, using race and religious divides to entrench political power, cronyism and corruption resulting in a concomitant erosion in social capabilities. The result is serious deficits in the quality of human capital, critical-thinking capabilities of the civil service, and the integrity and independence of the institutions of economic governance. These constrain the ability to face external challenges of a changing world order impacting both Malaysia's global trade relations and its society. Only a transformational leader can galvanise Malaysians to overcome these challenges and direct much-needed reforms to help Malaysia transition to high-income status.

Keywords: Economic growth, political leadership, demeanour, Malaysia
JEL classification: O43, D72, D73, E02

1. Introduction

Malaysia was among five East Asian economies (the others were Japan, Singapore, South Korea and Taiwan) that grew at 7% or more between 1967 and 1997 but was the only one that did not subsequently transition to high-income status (CGD, 2008). Malaysia has still not reached high-income status despite the *specific target of becoming a highly developed nation* in then Prime Minister (PM) Mahathir Mohamad's Vision

^a Center for Political Studies, University of Michigan, 426 Thompson Str, Ann Arbor, MI 48104, USA. Email: shyamnk@umich.edu (Corresponding author)

^b Former Professor at the Faculty of Economics & Administration (now Faculty of Business & Economics), Universiti Malaya, 50603 Kuala Lumpur, Malaysia. Email: kionghock@gmail.com

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2020 launched in 1991 (Mahathir, 1991). Vision 2020 is deemed to have failed even by Mahathir himself who held his successors responsible (“Dr. Mahathir blames,” 2023).

Lee and Nagaraj’s (2024) assessment of the political leadership of successful Japan, South Korea, Taiwan and Singapore, point to demeanour and acumen of leadership in developing the nation’s social capabilities. Critically, the leaders were more transformative than transactional, working with exceptional bureaucrats, developing innovative policies, and investing in the development of quality human resources, and leading the nation through external threats to high-income status. It is tempting to ascribe the quality of their leadership to a common “East Asian” ethos. However, these countries are quite different in terms of national culture (Hofstede, 2011) which has been shown to mediate the relationship between type of leadership and performance (Sertel et al., 2022). Two specific dimensions of national culture, individualism/collectivism and power distance, are relevant for long-term growth (Gorodnichenko & Roland, 2011). On the individualism/collectivism scale, Japan scores higher than South Korea on values indicating an individualistic society, and Taiwan scores lower than Singapore on values indicating a collective society. On the power distance scale, all four countries accept inequality in the distribution of power, but Japan accepts less inequality than South Korea, Taiwan and Singapore.¹

A similar appraisal of Malaysia’s political leadership may shed light on reasons for its restrained growth. We focus on the PM, as he appoints his Cabinet, directs his bureaucracy, and manages the economic decision-making process; he thus bears ultimate responsibility for the development of social capabilities that can transform and sustain an economy. Much has been written about the character and ideology of Malaysia’s PMs, and about the nation’s path of growth, and while these publications provide context for our discussion, we do not aim to add to that literature. Instead, our focus is on demeanour and acumen of the PMs since Independence in 1957. We aim to understand how as leaders they engaged with the people to direct the economy within a national culture favouring collectivism and accepting of inequality in power distribution² and an ethnically diverse society.³ The rest of the paper is organised as follows: Section 2 highlights the nation’s social capabilities that we believe have constrained the achievement of high-income status. Section 3 introduces the PMs, their aspirations for the nation, and summarises economic performance during their tenure. Section 4 discusses the PMs’ demeanour and acumen in economic governance and policymaking, and their impact on the people’s ability to rise to the challenges of economic growth. The paper concludes with comments on political leadership in

¹ The score for a country is between 0–100, with above 50 denoted “high” and below 50 denoted “low,” and is to be interpreted relative to other countries. The individualism scores are for Japan, 62, South Korea, 58, Singapore, 43, and Taiwan, 40. The power distance scores are for Japan, 54, South Korea, 60, Singapore, 74 and Taiwan, 68. <https://www.hofstede-insights.com/country-comparison-tool>.

² Malaysia’s national culture scores for individualism, 27, and for power distance, 100, are more extreme than those for Japan, Singapore, South Korea and Taiwan. While these values may change as a country develops (Tarabar, 2019), differences between economies are generally stable (Beugelsdijk, et al., 2015).

³ Ethnically diverse like Singapore, Malaysian society comprises the *Bumiputera* community, Chinese, Indians and others. The *Bumiputera* community increased from 55.8 to 69.8% of the population between 1970 and 2020 (DOSM, 2023, Carta 28).

Malaysia's economic future. Unless otherwise noted, data cited are from the World Bank's DataBank on World Development Indicators (WDI).⁴

2. Constraints to High-Income Status

An open economy, Malaysia has over time successfully diversified from an agriculture and commodity-based economy into a manufacturing and service-based economy (Table 1). Trade as a percentage of GDP has been consistently high. The agricultural sector has been declining and the manufacturing and services sectors have been growing faster than real GDP. Economic policy since 1971 has been dominated by the New Economic Policy (NEP), introduced to reduce poverty and inter-ethnic disparities in income and occupation. The economy has been able to sustain an average unemployment rate of below 4% since the 1990s. Economic growth has been affected by recessions: in 1975 (OPEC oil crisis), 1985 (commodity shock), 1997–98 (Asian financial crisis), 2007–2008 (global financial crisis), and the Movement Control Order (2020–2021). Average growth

Table 1. Selected development indicators, medians by decade¹

Indicator	Decade					
	1960s	1970s	1980s	1990s	2000s	2010s
Trade as a % of GDP ²	85.87	91.60	110.66	180.84	200.97	135.73
Agriculture sector growth ³		5.75	3.50	-0.62	3.77	1.96
Manufacturing sector growth ³		10.59	8.55	11.52	6.31	4.88
Services sector growth ³		9.06	5.95	11.55	7.31	6.31
GDP growth ⁴	6.88	8.83	6.60	9.05	5.48	4.97
Unemployment rate			6.38	3.54	3.51	3.21
Age dependency ratio ⁵	95.18	82.31	71.10	64.43	56.62	45.32
Tertiary enrollment ratio ⁶			5.72	9.68	29.21	41.29
Female LFPR/Male LFPR ⁷			0.54	0.54	0.58	0.68

- Notes:*
1. Decades for which at least 8 observations are available in the World Bank's DataBank (WDI).
 2. Exports plus imports as a share of gross domestic product.
 3. Growth in value-added in constant local currency.
 4. Annual percentage growth rate of gross domestic product (GDP) in market prices based on constant local currency.
 5. Ratio of dependents—people younger than 15 and people older than 64—to the working-age population—those ages 15–64. Data are shown as the proportion of dependents per 100 working-age population.
 6. Ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to tertiary education.
 7. LFPR computed for population aged 15+.

Source: WDI.

⁴ <https://databank.worldbank.org/> Downloaded August 3, 2023.

has been sluggish since the 2000s and is incongruous with Malaysia's young and healthy population. In 2020, 70% of Malaysia's population was aged 15–64, life expectancy was 76 years and lifetime risk of maternal death was 1 in 2,300 (WDI). The population today has a lesser burden of dependents (lower age dependency ratio), greater access to higher education (greater percentage with tertiary education), and improved female economic participation (increased ratio of female to male labour force participation rate (LFPR)). Growth, we believe, has been stymied by growing inadequacies in the *quality* of: a) education impacting human resources; b) human resources limiting productivity; and c) the corporate environment compromised by divisive policies and corruption, all now defining Malaysia in international comparisons.

The quality of education is rooted in two issues long eschewed by policymakers focussed on access to (especially tertiary) education. The first is the alarmingly high percentage of pupils below minimum reading proficiency at end of primary school (40% in 2019).⁵ The second is the relevance of schooling in an environment defined by ethnicity and religion that, especially for boys (Nagaraj et al., 2014), does not incentivise completion of schooling (Nagaraj et al., 2016) or tertiary education (Gimino et al., 2023). These affect educational attainment and occupational choices (Lee & Nagaraj, 2012) and have led to a loss of potential science, technology, engineering and mathematics (STEM) students (Cheong & Yong, 2022).

Productivity of human resources, and its gendered dimensions, is a related critical issue. After accounting for full health (good), education (good access but poor quality) and employment (females less likely to be employed compared to males), boys born in 2020 will be only 46% as productive as they could have been and, even at that low level, much more productive than girls (33%).⁶ Competencies in human resources are limited by the inability to develop and retain talent,⁷ engage in the network economy,⁸ or be innovative (Perkins et al., 2017). Reforms in education and training are urgent (Selvaratnam, 2022).⁹

Multiculturalism, and the collaborative spirit it fosters, is an advantage for productivity of a nation and its corporate environment (Lanvin & Evans, 2018, p. vii). Yet, Malaysia has not quite leveraged its diversity¹⁰ with its “separation and preferentialism” model of multiculturalism distinct from Singapore’s “integration and pragmatism” (Kuah et al., 2021, p. 1), possibly risking stability especially during low

⁵ Learning Poverty Global Database, from <https://datacatalog.worldbank.org/search/dataset/0038947>.

⁶ Figures refer to the Utilization-Adjusted Human Capital Index (UHCI), the contribution of health and education to the productivity of the next generation of workers adjusted for adults not employed. Data cited from <https://thedocs.worldbank.org/en/doc/64e578cbeaa522631f08f0cafba8960e-0140062023/related/HCI-AM23-MYS.pdf>.

⁷ Malaysia ranked 42nd (Singapore was 2nd) in 2023 among 134 countries in the Global Talent Competitiveness Index (GTCI) which measures a country's ability to “grow, attract and retain talent” (Lanvin & Monteiro, 2023).

⁸ Malaysia ranked 40th (Singapore was 2nd) in 2023 among 134 countries in the Network Readiness Index (NRI), which measures digital readiness (Dutta & Lanvin, 2023).

⁹ The reformers will need to understand that the labour market is rapidly evolving. Malaysia was ranked 6th (Singapore was 10th) in the one subindex of the NRI, prevalence of the gig economy (Dutta & Lanvin, 2023), underscoring changing work preferences for a better work-life balance (Mahmud et al., 2020).

¹⁰ Malaysia's rank in the GTCI in 2018 was 27th (Singapore was 2nd) among 119 countries.

growth (Stafford, 1998, p. 101). Furthermore, Malaysia is marred by cronyism and corruption, not just acknowledged locally¹¹ but also globally.¹²

3. The PMs: Vision and Growth

We expect the PM, as the key decision-maker directing actions for governance, to have goals for the nation, built often on his prior political experience. Here we introduce the PMs, their vision and ministerial experience (Table 2) and growth rates by tenure (Figure 1). For PMs prior to Mahathir who did not have a formal vision, we note instead their monikers. Growth rates are for real gross domestic product (GDP), a measure of economic health, and for real GDP per capita, which accounts for population size and is an indicator of individual income. How has economic performance over time corresponded with the visions of Malaysia's PMs?

Table 2. Malaysia's prime ministers: tenure, vision (selected goals) and ministerial experience

Prime Minister	Tenure	Moniker/legacy/ primary vision	Ministerial experience	Recession years, if any
Tunku Abdul Rahman Putra Al-Haj ibni Almarhum Sultan Abdul Hamid Halim Shah (Tunku)	1957– 1963	Founding Father <i>To form and grow Independent Malaya</i>	Home Affairs, External Affairs, Foreign Affairs (joint)	
Tunku	1963– 1970	Founding Father <i>To form and grow Independent Malaysia</i>	Youth and Sports (briefly), Foreign Affairs (joint)	
Abdul Razak bin Dato' Hussein	1970– 1976	Father of Development, NEP. <i>Equity in growth and development</i>	Education, Home Affairs, National and Rural Development, Foreign Affairs, Finance, Defence	Around 1975 – OPEC oil crisis (external)
Hussein bin Dato' Onn	1976– 1981	Father of Unity <i>United Malaysia</i>	Education, Trade and Industry, Finance, Federal Territories, Defence	

¹¹ Malaysia ranked 61st (Singapore was 5th) out of 180 countries in the 2022 Corruption Perception Index Transparency International. <https://www.transparency.org/en/cpi/2022>.

¹² Malaysia ranked 3rd (Singapore was 4th) out of 43 countries in the *The Economist's* crony-capitalism index (Sekaran, 2023). The embezzlement of funds from the sovereign wealth fund (1Malaysia Development Berhad (1MDB)) led to the conviction of former PM Najib and investigations in at least six other countries. https://en.wikipedia.org/wiki/1Malaysia_Development_Berhad_scandal.

Table 2. Continued

Prime Minister	Tenure	Moniker/legacy/ primary vision	Ministerial experience	Recession years, if any
Mahathir bin Mohamad	1981– 2003	A modern Malaysia Vision 2020 (1991) <i>One Bangsa Malaysia (Malaysian Race). An ethical society. An economy that is fully competitive, dynamic, robust and resilient</i>	Education, Trade and Industry, Defence, Home Affairs, Finance	Around 1985 – commodity shock (domestic) Around 1999 – Asian financial crisis (domestic)
Abdullah bin Ahmad Badawi	2003– 2009	Islam Hadhari (2004) <i>Just and trustworthy government</i>	Prime Minister’s Department, Education, Defence, Foreign Affairs, Home Affairs, Finance, Internal Security	Around 2008 – Global financial crisis (external)
Mohammad Najib bin Tun Haji Abdul Razak	2009– 2018	1Malaysia, New Economic Model (2016) <i>Knowledge, innovation, and freedom</i>	Culture, Youth and Sports, Youth and Sports, Defence, Education, Finance	
Mahathir Mohamad	2018– 2020	Shared Prosperity Vision 2030 (2019) <i>Sustainable growth with fair and equitable distribution by 2030</i>	Education, Trade and Industry, Defence, Home Affairs, Finance, Prime Minister	
Muhyiddin Yassin	2020– 2021	Malaysia Prihatin (Malaysia Cares) (2020) <i>Policies to address the Covid epidemic amid political challenges</i>	Youth and Sports, Domestic Trade and Consumerism, Agricul- ture and Agro-Based Industry, Education, Home Affairs	Around 2020– 2021 – Movement Control Order (external)
Ismail Sabri bin Yaakob	2021– 2022	Keluarga Malaysia (Malaysian Family) (2022) <i>Policies to recover from the Covid epidemic amid political challenges</i>	Youth and Sports, Domestic Trade, Cooper- tives and Consumerism, Agriculture and Agro-Based Industry, Rural and Regional Development, Security Cluster, Defence	
Anwar Ibrahim	2022–	Malaysia Madani (Civil Malaysia) (2022) <i>Good governance, sus- tainable development, and racial harmony</i>	Culture, Youth and Sports, Agriculture, Education, Finance	

Sources: https://en.wikipedia.org/wiki/Tunku_Abdul_Rahman; https://en.wikipedia.org/wiki/Abdul_Razak_Hussein; https://en.wikipedia.org/wiki/Hussein_Onn; https://en.wikipedia.org/wiki/Mahathir_Mohamad; https://en.wikipedia.org/wiki/Abdullah_Ahmad_Badawi; https://en.wikipedia.org/wiki/Mohammad_Najib_Razak; https://en.wikipedia.org/wiki/Muhyiddin_Yassin; https://en.wikipedia.org/wiki/Ismail_Sabri_Yaakob; https://en.wikipedia.org/wiki/Anwar_Ibrahim
Athukorala (2010).

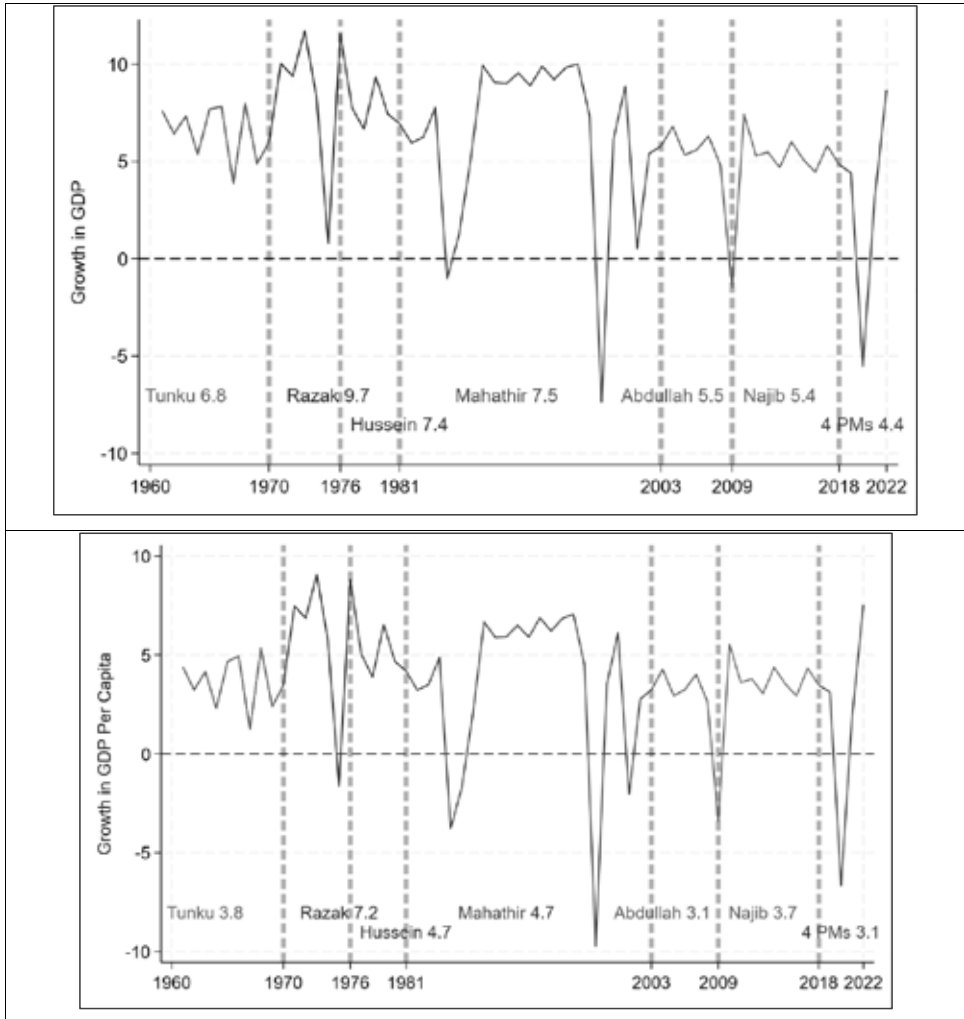


Figure 1. Growth rates in real GDP and real GDP per capita with medians by Prime Minister, 1960–2022

Notes: Based on WDI data, from 1961–2022. Medians are based on the last year of tenure.

Tunku, the Founding Father (*Bapa Malaysia*), in proclaiming Independence, envisioned Malaya to be an independent nation “founded upon the principle of liberty and justice and ever seeking the welfare and happiness of its people” (Tunku, cited by Von Vorys, 1975, p. 139). His concurrent ministerial portfolios reflected the challenges of growing a young nation. Responding to regional political realities (Bradley, 1966), Tunku saw to the formation of a federated Malaysia in 1963, managing the resulting confrontation with Indonesia from 1963 to 1966 and Singapore’s exit from the Federation in 1965. He also had to deal with Communist insurgency from

1968.¹³ Tunku achieved his goal of nationhood as post-independent Malaysia has grown largely free from external conflict, but his desire for ethnic harmony was subdued by riots in 1969 (Rahman, 1969) leading to a change in leadership to Razak in 1970. Razak has the moniker “Father of Development” for his contributions to economic development that include rural development (*Red Book*) and education (*The Razak Report*) in his ministerial positions and the NEP, to address the inequities that had led to the riots, as PM in 1971 (Rasiah & Salih, 2019). His vision of economic restructuring was “equitable sharing of income growth” (Razak, cited by Embong, 2019, p. 45), expanding the “economic pie” to create a Malay middle class (Torii, 1997) while ensuring that Malaysia’s diverse society was inclusive (Cheong et al., 2009). With Razak’s untimely death in January 1976, Hussein became PM. Hussein is affectionally remembered as “the Father of Unity.” He understood the value of the NEP and supported its implementation in line with his vision of “a united Malaysian nation at peace” (Noordin, 2012, p. 8). Hussein resigned as PM in 1981 due to health concerns, handing over to his deputy, Mahathir. Economic policies in the early years of the nation aimed to reduce the colonial economy’s dependence on the external sector (Ariff, 1973, pp. 372–376). During Tunku’s tenure, the aim was import-substitution using private enterprise whereas during Razak’s tenure, and Hussein’s after that, the aim was export-orientation with public sector involvement. Average GDP growth during Tunku’s years was close to 7% but the economy during Razak’s tenure saw the highest average GDP and GDP per capita growth of 9.7% and 7.2%, respectively, among all the PMs.

Mahathir’s aspirations for the Malaysian nation,¹⁴ Khoo (1995, pp. 73–74) argues, can be seen in his *Look East* policy, which not only promoted East Asian principles that he valued, such as hard work, but also reflected his hope for “genuine, Malaysian, inter-ethnic cooperation,” directing society away from an inward-looking Malay-non-Malay focus to an outward-looking Malaysian one. Mahathir believed inter-ethnic collaboration required elevation of “Malay achievements” (Mauzy & Milne, 1999, p. 162). The *Bumiputera* community needed to respond quickly to the challenges of the NEP, and he expanded opportunities for *Bumiputera* participation in education, employment and business. Mahathir wanted Malaysia to be more than just plantations and mines or a hub for low-technology manufacturing for the rest of the world (Mahathir, cited in Khoo, 1995, p. 61). Toward this end, Mahathir pushed for the development of heavy industries and privatisation to reduce the burgeoning public sector. Some of these policies eventually made the economy vulnerable to the 1985 recession (Athukorala, 2010). In 1990, he reformulated the NEP as the development oriented National Development Plan (NDP) and in 1991, initiated Vision 2020 “to seize the imagination” (Mauzy & Milne, 1999, p. 165). Vision 2020 presented Malaysians with an optimistic future of a highly developed nation, growing at a projected annual rate of 7%, one that was democratic, just and for all Malaysians (Mahathir, 1991). Mahathir’s economic policies seemed innovative as he continued to grow the economy.

¹³ Razak, Hussein and Mahathir were the other PMs who handled the insurgency which ended in 1989. [https://en.wikipedia.org/wiki/Communist_insurgency_in_Malaysia_\(1968%E2%80%931989\)](https://en.wikipedia.org/wiki/Communist_insurgency_in_Malaysia_(1968%E2%80%931989)).

¹⁴ Mahathir took office after a contentious climb up the political ladder. By this time, he had already documented his views on Malay nationalism in *The Malay Dilemma* and *The Challenge* (Khoo, 1995, p. 24).

He exceeded his growth target several times during his term, but this could not be sustained. Instead, economic performance corresponds to a “checkered record of bold experiments, false starts, partial successes and narrow escapes” (Jomo, 2003). “Fiscal profligacy” again led to a recession in 1998 (Athukorala, 2010) and the lowest economic growth over the six decades. Mahathir resigned from office in 2003 believing “Malaysia has got all the things in place to continue growth” (“Mahathir: Why”, 2003).

Successors to Mahathir, however short their tenure, all had stated visions, committed to having a “clean” government and improving the lot of the people, with Abdullah’s based on religious precepts, Najib’s on paths to innovation and Anwar’s on domains of a civilised society.¹⁵ Abdullah’s economic aims, coming after the 1998 recession, were to sustain growth, among others, by making the agricultural sector an important source of growth, while Najib, who became PM after the 2008 recession, focused on fiscal stimulus measures to raise growth and developing policies in his New Economic Model (Khadijah & Zainal Abidin, 2014). The economy nevertheless did not recover to previously high growth rates after 1998. Economic growth barely kept up with population growth, and average GDP per capita growth was even less than that during the Tunku years. Following a post-Covid “bump” in 2022 fuelled by stimulus packages from a low base, the nation has continued to grow slowly.¹⁶

4. The PMs: Demeanour and Acumen

Visions help set targets, but strong economic performance needs robust political leadership, providing authority, inspiration and effective management (Arndt, 1984). Poor political leadership results in a lack of political will, the degree of “committed support among key decision-makers” (Post et al., 2010, p. 659). This section considers the PMs’ demeanour and acumen in managing decision-making and policymaking related to education, national unity, and economic governance, the portfolios responsible for the deficiencies noted in Section 2. Unless otherwise noted, figures refer to Table 3, which shows the size of the PMs’ Cabinet (Executive power) at the end of their tenure, their ministerial experience and their organisation of these portfolios.

The PM determines the form of his government. He may move policymaking functions across agencies, even assuming certain portfolios, all indicating differing judgements about the control of policy formulation. Tunku began with a “slim” administration, just three agencies in the Prime Minister’s Department (PMD). The bureaucracy supporting the PM has increased over time. In 1967, the PMD had 13 agencies (Leong 1992: 234) and today has 48.¹⁷ The number of Cabinet Ministers at the end of the PM’s tenure increased from 19 in 1970 to 32 in 2021,

¹⁵ <https://www.nst.com.my/news/nation/2017/10/294573/najib-my-economic-vision-malaysia>; <https://asiasociety.org/islam-hadhari-multi-racial-society>; https://en.wikipedia.org/wiki/New_Economic_Model#:~:text=The%20keys%20to%20the%20plan,with%20an%20eye%20towards%20sustainability;https://en.wikipedia.org/wiki/Malaysia_Madani

¹⁶ Growth for 2023 was 3.7%. [https://www.mof.gov.my/portal/en/news/press-release/2023-economic-growth-normalised-supported-by-recovery-in-economic-activities-and-labour-market-conditions#:~:text=This%20helped%20cushion%20the%203.2,year%20\(2022%3A%208.7%25\)](https://www.mof.gov.my/portal/en/news/press-release/2023-economic-growth-normalised-supported-by-recovery-in-economic-activities-and-labour-market-conditions#:~:text=This%20helped%20cushion%20the%203.2,year%20(2022%3A%208.7%25)).

¹⁷ <https://www.jpm.gov.my/en/corporate-profile/departments-agencies-under-pmd>

Table 3. Malaysia's prime ministers: tenure and selected institutions

Prime Minister	Number of cabinet ministers ¹	Minister of Finance ²	Minister of Education ²	Economic governance ²	Home of national unity ²
Tunku Abdul Rahman Putra Al-Haj ibni Almarhum Sultan Abdul Hamid Halim Shah (Tunku)	19			Economic Secretariat	
Tunku	17			EPU (PMD)	1969: DNU
Abdul Razak bin Dato' Hussein	21	1969–1970	1955–1957	EPU (PMD)	1972: Ministry of National Unity 1974: National Unity Board (PMD)
Hussein bin Dato' Onn	24	1974–1976	1970–1973	EPU (PMD)	1980: Department of Neighbourhood Association (Rukun Tetangga) and National Unity
Dr. Mahathir bin Mohamad	28	1998–1999 2001–2003	1974–1978	EPU (PMD)	1983: DNU 1990: DNU is moved to Ministry of National Unity and Social Welfare
Abdullah bin Ahmad Badawi	32	2003–2008	1984–1986 2004: MOHE set up separate from MOE	EPU (PMD)	2004: Department of National Unity and National Integration (PMD) 2008: Moved to Ministry of Unity, Culture, Arts and Heritage
Mohammad Najib bin Tun Haji Abdul Razak	35	2009–2018	1995–1999 2013, MOHE merged with MOE 2015, MOHE separated from MOE	EPU (PMD)	2009: Department of National Unity and National Integration (PMD)
Mahathir Mohamad	27		2020 (Acting)	Ministry of Economic Affairs	Department of National Unity and National Integration (PMD)
Muhyiddin Yassin	32		2009–2015	EPU (PMD)	Department of National Unity and National Integration (PMD)

Table 3. Continued

Prime Minister	Number of cabinet ministers ¹	Minister of Finance ²	Minister of Education ²	Economic governance ²	Home of national unity ²
Ismail Sabri bin	32			EPU (PMD)	Department of National Unity and National Integration (PMD)
Anwar Ibrahim	28	1991–1998 2022–	1986–1991	Ministry of Economy	Ministry of National Unity

Notes: 1. At the end of their tenure, except for the current PM, Anwar Ibrahim. <https://politicscentre.nuffield.ox.ac.uk/whogov-dataset/>

2. Sources: <https://www.perpaduan.gov.my/index.php/en/corporate/ministry-s-historical-background/ministry-s-historical-background>; <https://ekonomi.gov.my/en/department-profile/profile/history>; <https://www.jpm.gov.my/en/corporate-profile/departments-agencies-under-pmd>; <https://www.mof.gov.my/portal/en/profile/history>; <https://ekonomi.gov.my/en/department-profile/profile/history>

the average age increasing from 49 to 58 over the same period.¹⁸ Between 1970 and 2021, representation in the Cabinet increased from 5 political parties and 144 federal constituencies to 8 political parties and 222 federal constituencies.¹⁹ While national unity was a target of Tunku's policies, the identification of national unity as a portfolio came only after the May 1969 ethnic riots, leading to the establishment of the Department of National Unity (DNU) in the same year under Razak's PMD. The DNU's functions have moved between the PMD and a separate Ministry since 1972. Macroeconomic management in 1957 was the responsibility of the Economic Secretariat, subsequently restructured in 1961 as the Economic Planning Unit (EPU) under the PMD. The Treasury (now Ministry of Finance (MOF)) managed all revenue and expenditure and the nation's financial transactions. The Central Bank (Bank Negara Malaysia, BNM) together with the EPU and the MOF were responsible for monetary and economic governance. Since Mahathir's second tenure, the EPU's functions (including development planning) have moved between the PMD and a separate Ministry of Economic Affairs, but the central responsibility for economic management has been shifted to the MOF, with the PM taking on the role of Finance Minister. The Ministry of Education (MOE) under Tunku was tasked with developing the national education system to "facilitate human capital development and economic growth" for "social justice and national unity" (Cheong et al., 2011, p. 160). The priority shifted in 1979 (*The Mahathir Report*) to developing "intellectual, spiritual, and emotionally healthy students" (Selvaratnam, 2022, p. 185) and then again in 1988 to developing "potential" and "building a progressive and united society" (Al-Hudawi et al., 2014, p. 58) based

¹⁸ <https://politicscentre.nuffield.ox.ac.uk/whogov-dataset/>

¹⁹ Age and number of political parties, some coalitions themselves, are from <https://politicscentre.nuffield.ox.ac.uk/whogov-dataset>. Figures on federal constituencies are from https://en.wikipedia.org/wiki/List_of_Malaysian_electoral_districts

“on a firm belief in and devotion to God.”²⁰ Islamic religious instruction is now a major part of the school day, perceived to be at the expense of other subjects like science (Tie, 2022), and the system does not emphasise creativity or critical thinking (Selvaratnam, 2022). Also, policymaking for higher education was within the MOE until 2004, but since Abdullah’s tenure has alternated between the MOE and a separate Ministry of Higher Education (MOHE).

The PM also makes impactful judgements about the quality of support in his government. Tunku valued his bureaucrats and technocrats, and their views were considered seriously by the political elite, a relationship that defined Razak’s and Hussein’s administration as well (Khadijah & Zainal Abidin, 2014). Razak chose “qualified and competent” civil servants, exhorting them to “stand up to us politicians” (Sultan Nazrin, 2019). He “delegated easily and intelligently” and used “power effectively” by “giving it away” (Ness, 2011). Razak ensured the NEP was the result of “inspirational thinking and vibrancy of policy-making” (Henderson et al., 2002, p. 20), and that its implementation did not compromise his “integrity and honesty in public office” (Sultan Nazrin, 2019). Hussein was no less concerned about the integrity of public institutions as otherwise “uplifting the Malay community would be undermined” (Alagappa, 2012, 14). The early administrations were thus well-regarded, exemplified by the recognition that technocrats at the EPU were competent, could access top leaders, yet were not constrained by political interests (CGD, 2008). Mahathir inherited a civil service that was well-regarded, but his demeanour eventually changed the relationship between PM and policymaker. While, like his predecessors, he instituted reform in productivity guided by his strong work ethic (Khuo, 1995), he controlled “innovation in policy implementation” (Hussain, 1997, p. 117–118). There was a decline in policymaking in the EPU with the MOF becoming more involved in economic governance, and policy formation changed from “macroeconomic planning and analysis” to “project management” (Henderson et al., 2002, p. 16). The decline in expertise was exacerbated by Mahathir’s use of loyalty instead of technical competence as a criterion in promotions (Jesudason, 1989). Mahathir relied less on civil servants (Mauzy & Milne, 1999), and appointed individuals from outside the bureaucracy (Searle, 1999). Mahathir bequeathed his successors a civil service deficient in policymaking, one that did not expect its bureaucrats to be able to raise concerns about, or provide innovative solutions to, critical economic issues.²¹ The PM’s support shifted from “politicians and administrators” to “politicians and businessmen” (Searle, 1999, p. 55), and from stodgy policy documents chockful of data to glossy publications and private consultants (Lee & Lee, 2017).²²

Thus, over time, the organisation of government agencies and the relationship between PM, ministers, technocrats and bureaucrats have changed. The policymaking link between education and human resources recognised by the founding Cabinet

²⁰ <https://www.moe.gov.my/en/dasarmenu/falsafah-pendidikan-kebangsaan#:~:text=Education%20in%20Malaysia%20is%20an,in%20and%20devotion%20to%20God>

²¹ Reports on the brain drain, for instance, were dismissed by Mahathir and only later indirectly acknowledged by Najib (Cheong et al., 2019).

²² For private-public collaborations to be helpful, the public sector must be an active and innovative collaborator.

has been made tenuous,²³ weakened further by the generation gap between an older Cabinet possibly not quite attuned with a younger population. The indecision about coordinating the nation's policies for educational pathways through tertiary education indicates that the PMs distanced themselves from possible impacts on human resources. The shifts in the DNU's location suggest that, despite the recognition by PMs in their speeches that racial unity is essential for prosperity and peace (Mujani & Mazuki, 2017), there is ambivalence in how to promote it. Saliently, constrained by the limited research capacity within government (Henderson et al., 2002) and restrictions on research from outside the government (Khalid & Yang, 2021), there has been a paucity of independent research to support quality policymaking.

Critical appraisals of growth point to Malaysia's preferential policies favouring the *Bumiputera* (Perkins et al., 2017). Ariff (2021) observed that the NEP has been "mutating itself beyond the original 1990 deadline, in the guise of NDP (National Development Policy), NVP (National Vision Policy), NEM (New Economic Model) and, more recently, SPV (Shared Prosperity Vision) 2030."²⁴ Five decades of these policies have led to embedded dependence among the Malays (Abdul Aziz, 1999), disempowered meritocracy²⁵ in education (Selvaratnam, 2022)²⁶ and in business (Ali, 2003),²⁷ developed a Malay managerial and professional class based on privilege and patronage (Thillainathan & Cheong, 2024) and cultivated corruption. Some enterprises became "vehicles of kleptocracy" (Zainuddin, 2019), some were "a screen" for cronyism (Johnson & Milton, 2001), and some were derailed by conflicts among political elites (Gomez, 2003). In the implementation of the NEP, both Razak and Hussein were recognised as putting the nation first and rejecting all manner of corruption (Alagappa, 2012; Sultan Nazrin, 2019). In contrast, Mahathir acknowledged corruption as a problem of his administration long after he was no longer the PM ("Money politics", 2008). Unlike Razak and Hussein, Mahathir nurtured a lack of excellence, cronyism and corruption that filtered into his successors' offices.²⁸ If, as Khan (2000, p. 1) observes, "many types of rents and rent-seeking played a key role in processes of development and are likely to do so again in the future," the nation must control, if not eliminate, corruption.

Implementation may have been flawed (Yusof & Bhattasali, 2008; Zainuddin, 2019), but it is also poor policy evaluation using politically expeditious counting by ethnicity (Nagaraj et al., 2015) rather than careful and comprehensive policy evaluations. There is also the view that among *Bumiputera*, the elite have been favoured over the poor (Ariff, 2021), a concern not without merit. Between 2002 and 2014, the average growth rate

²³ One can only hope for collaborative policymaking in macroeconomic policymaking for human capital development.

²⁴ By 1990, there were noteworthy reductions in poverty and inter-ethnic income disparities (Faaland et al., 2003; Jomo, 2019).

²⁵ Merit is seen as an advantage to Chinese and a disadvantage to Malays.

²⁶ The many race-based pathways to tertiary education have been detrimental to the development of a high-quality tertiary education system.

²⁷ This has fostered rent-seeking and political patronage (Gomez & Jomo, 1999, Fig. 8.1) and 'money politics' (Weiss, 2016).

²⁸ Abdullah was accused of cronyism in the distribution of import permits ("Mahathir raises heat", 2005) and Najib was found guilty in the 1MDB scandal (ref. footnote 12).

of real pre-tax national income per *Bumiputera* adult was much higher among the top one percent (8.3%) than among the bottom 50 percent (5.4%) (Khalid & Yang, 2021, Fig. 28). Even more disturbing is that in 2022, the *Bumiputera* community recorded a higher incidence of poverty (7.9%) compared to the historically underserved Indian community (5.4%) (Nathan, 2023), and the Chinese community (1.9%) (DOSM, 2023, p. 312).²⁹ The NEP has failed the poor, many of them *Bumiputera*.

Mahathir would have been aware of the negative impacts of preferential policies long noted by academics,³⁰ yet these were not addressed. It is not for lack of power. Mahathir began concentrating power in the PM's office when he faced dissent from members in his first Cabinet (Gomez, 2003), and tried to use it in many circumstances.³¹ Importantly, as PM, he was President of the United Malays National Organization (UMNO), the powerful party in the ruling coalition. Pre-independence, its representatives in negotiations with other Malaysians and the British, had successfully enshrined the historical special position of Malays in Article 153 of the Constitution (Faruqi, 2003),³² and ensured that Malays were represented formidably in the Malayan Civil Service through a quota system (Puthuchery, 1978). As PM and President of UMNO, Mahathir's actions would have been subject to political manoeuvres (Tee et al., 2022). Mahathir also saw Islamic values as universal values (Khoo, 1995), and made Islam an agenda in 1982 soon after taking office (Beng, 2007). He was so successful, he empowered 'Malay-Muslim' to become "an identity marker" (Hoffstaedter, 2011, p. 40) that, as activist Zainah Anwar (2023) contends, is the mindset controlling the bureaucracy today. Preferential policies are now viewed through the lens of Malay-Muslim exclusivity and erroneously conflated with the special position of Malays (Ariff, 2008; Addruse & Ting, 2008a, 2008b; Faruqi, 2003), a Maussian gift providing "the giver power over the receiver" (Hoffstaedter, 2011).

Lee and Nagaraj (2024) explain that effective leaders are more transformational as they use their power to transform followers through a shared vision, whereas ineffective leaders are more transactional as they use their power to motivate followers by exchanging benefits. Tunku, Razak and Hussein were more transformational than transactional, as they were leaders who modelled the way forward for their cabinet, their bureaucracy, and their people. Perhaps it was easier for Tunku to be persuasive since Independence is a vision that inspires and demands a collaborative society. Razak, on the other hand, had to get consensus with the ethnically based NEP after the trauma of the 1969 riots, and by successfully establishing a coalition government, he persuaded the nation that he was "an astute and inclusive national leader of a young nation"

²⁹ These trends are not recent. Ragayah (2008) noted the widening intra-ethnic income inequality and Ariff (2008) the presence of "more marginalized" *Bumiputera* than other communities.

³⁰ See, for example, Ariff (1973, pp. 385–6) and the papers in Chee & Khoo (1975).

³¹ Among others, the Governor of BNM was forced to quit when he disagreed with expansionary fiscal policies and bank credit for share acquisition (Searle, 1999, p. 48). Mahathir also tried to control financial markets (Hoffstaedter, 2011; Leong, 1992; Saravanamuttu, 2009).

³² This was part of the "incomplete compromise" for Independence (Von Vorys, 1975, p. 82). Article 153 also provides for the legitimate interests of the other communities. The question is whether "the moral weight of 'special position' is greater than or equal to that of 'legitimate interests'" (Puthuchery, cited in Koshy (2008)).

(Embong, 2019, p. 48). Shaped by his previous career, Hussein continued to motivate acceptance of Razak's vision of the NEP.

Subsequent PMs have all been more transactional than transformational. Mahathir had a great vision to modernise the economy but could not set the nation on his desired growth path. He hoped for "meaningful" *Bumiputera* participation (Khoo, 1995, p. 73) but his hastily designed and implemented policies led instead to their dependence on the state. His idea for all Malaysians to imbibe the universal values of Islam led to the use of religion for political purposes and to Malay-Muslim hegemony. He was able to articulate his vision, but his demeanour, even towards beneficiaries of his policies, was often paternalistic and condescending. In the process, he weakened the very institutions and its people that would have enabled him to realise his vision. Mahathir yielded to, and favoured, interest groups, bequeathing his successors a weak government (Bardhan, 2016) and slower growth. Mahathir's successors kept the economy growing albeit slowly, knowing that actions perceived as linked to the loss of *Bumiputera* privileges "carry high risk" (Ostwald, 2023). Abdullah took over at a time of growing dissatisfaction with cronyism and preferential policies of the Mahathir government, yet his reform of preferential policies was unable to move past the "Malay reactionary camp" (Hoffstaedter, 2011), or gain public confidence because of "vagueness in explaining his methods" (Beng, 2007). Najib spoke on the qualities of transformational leadership ("Najib:" 2010), but was transactional, unable to promote his idea of 'Malaysian first' even with his Deputy Muhyiddin who declared he was 'Malay first' (Case, 2011). It is early yet to assess Anwar. Malaysia has successfully attracted some of the high-tech investment searching for new locations ("Malaysia's Anwar talks Tesla," 2023; "Google to invest," 2024).³³ However exigent structural reforms in education and workforce seem distant.³⁴ Political realities underlie continued ethnic quotas in education ("Anwar's response", 2023) and school reform is planned only for 2027 (Jeevita, 2024).

6. Concluding Remarks

In this paper, we explored the demeanour and acumen of Malaysia's PMs in managing the economic decision-making process. We wanted to understand why Malaysia has not been able to transition to high-income status. Along the transformational-transactional continuum, the first three Malaysian PMs were more transformational, modelling the way forward for the people, surrounding themselves with excellent bureaucrats, developing the nation's social capabilities, engaging with the people, and setting the country firmly on the path of growth, including expanding the "economic pie" to address ethnic inequities. Subsequent PMs were more transactional, and while

³³ Elon Musk, Nvidia, Microsoft, Google and Amazon are making investments in Southeast Asia, in response to the current climate of decoupling between the West and China and the emergence of a more multi-polar global economy.

³⁴ The nation faces a "talent crunch" (Ng, 2024), and besides training the domestic workforce, foreign talent, including foreign students completing local degrees (Cheong & Yong, 2022), will be needed to fill the skills gap. However, Malaysia will be competing globally for limited talent and unless there is immigration reform, there is limited scope for long-term talent retention, whether domestic or foreign.

the “pie” has grown, it has grown too slowly to reach high-income status. Instead of innovative solutions to serious deficits in social capabilities, transactional leadership has led to poor quality outcomes visible now in international comparisons.

The recent leadership has used actions (and inactions) prioritising and capitalising on an internal – perceived – threat to Malay-Muslim supremacy from a multi-ethnic population, sustained by conflating a vague contract of citizenship with specific preferential policies, fostering privileges for power, political survival and rent-seeking behaviours. These actions have been bolstered by Malaysia’s national culture that favours collectivism and accepts unequal power. The NEP, and its derivatives, have elevated the Malay-Muslim identity not just over *Bumiputera* identity, but even over Malaysian identity. Severe deficiencies in human capital quality, the civil service’s capacity for critical thought, and the independence and integrity of the institutions that oversee economic governance all compound Malaysia’s problems. They constrain Malaysia’s ability to face external challenges of a changing world order with intensifying geopolitical rivalries and climate change effects impacting both global trade relations and its society.

Malaysia needs leadership that can navigate the complexities of crucial yet often-competing priorities in the face of diminishing fiscal and broadening political and domestic space. The leadership would have to manage growth while negotiating different Malay-Muslim interests in the eleven coalitions in government in 2024,³⁵ balancing the growing voices of dissension among non-Muslim *Bumiputera* in Sabah and Sarawak (Nadaraj, 2023). The growth of young *Bumiputera* voters, due both to a natural increase as well as a lowering of the voting age, imply a more diverse voting population (Gibaja, 2022) being governed by a much older generation of (mostly Malay) political leaders. Malaysia needs a transformational leader, supported by excellent and dedicated technocrats, who can take advantage of Malaysia’s national culture *not to divide the people but instead unite them* for a vision of a bright and optimistic future for a multiethnic nation.

The lesson we learn from successful economies is that political leaders need to be strong enough to establish their credibility, not succumb to harmful political constraints and corruption, ensure the effectiveness of government institutions, and exercise pragmatism. Only a transformational leader can galvanise Malaysians to overcome the challenges and direct much-needed reforms to help Malaysia transition to high-income status.

³⁵ https://en.wikipedia.org/wiki/List_of_political_parties_in_Malaysia

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