

Are Malaysia Running in Circles? A High-Income Ambition

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The World Bank's latest report projects that Malaysia will achieve high-income status, aspiring to finally break free from the middle-income trap and attain high-income status by 2028.¹ For decades, the nation has demonstrated economic resilience, progressing from a lower-middle-income to an upper-middle-income country. However, the final leap towards high-income status is proving to be an arduous journey fraught with structural challenges. The question remains: is Malaysia truly on track to reach this milestone, or is the ambition more of an illusion than an achievable reality?

The Economic Growth Paradox

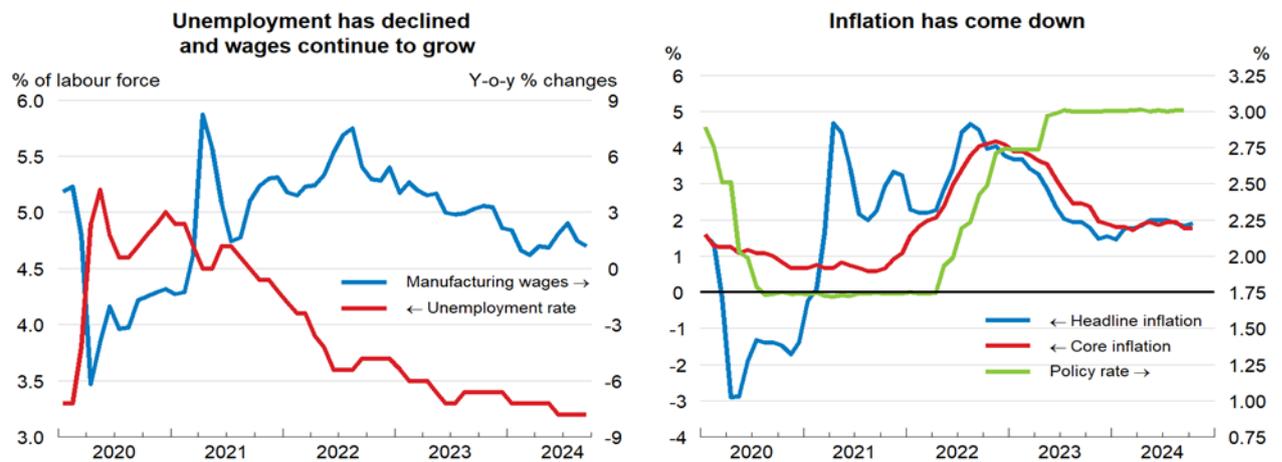
Achieving high-income status is a function of sustained economic growth. With GDP growth projected to remain above 4% over the next few years,² Malaysia theoretically has a viable path to high-income classification. However, the true measure of progress lies not just in economic expansion but in its composition. A consumption-driven economy, as Malaysia currently exhibits, risks depleting its future potential. Without a fundamental shift toward industrial development and investment-led growth, the nation may find itself consuming wealth rather than creating it.

Investment levels have been a persistent concern, with total investment declining over the past decade. In 2023, investments accounted for only 20% of GDP and 4.5% from government spending and 15.5% from private sector contributions. This stagnation suggests a lack of confidence in the long-term trajectory of Malaysia's economy. To truly cement its high-income aspirations, Malaysia must reverse this trend by incentivizing both domestic and foreign investments, particularly in high-tech and value-added industries.

¹ <https://www.worldbank.org/en/news/press-release/2025/02/05/world-bank-report-highlights-opportunities-for-malaysia-to-strengthen-economic-mobility-on-path-to-high-income-status>

² https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2024-issue-2_d8814e8b-en/full-report/malaysia_6a2ff82c.html

Figure 1: Unemployment, Wages and Inflation 2020-2024



Source: OECD, World Bank Data

The Income Inequality Dilemma

Despite economic growth, income inequality remains a pressing concern. Malaysia’s income disparity remains higher than that of regional peers, pointing to an economic model that disproportionately benefits a select few. The consequences of this inequity manifest in increasing demands for better public services and opportunities, which the current policy framework struggles to accommodate.

One glaring issue is pension coverage. More than 60% of Malaysians lack access to any old-age pension scheme, and even those covered often receive inadequate payouts.³ With an ageing population set to redefine Malaysia’s demographic landscape by 2030, the absence of a comprehensive pension system could lead to widespread economic insecurity. Reforms in social assistance programs, particularly their consolidation under a unified framework, are urgently needed to prevent financial distress among the elderly and vulnerable groups.

Fiscal Management Question

Malaysia’s fiscal health remains a major point of contention. Tax revenues, primarily driven by the Sales and Services Tax (SST), remain below 12% of GDP, which is

³ <https://www.kwsp.gov.my/en/w/budget-2024-prioritises-retirement-wellbeing-paving-the-way-for-a-secure-future-for-malaysians>

alarmingly low compared to regional benchmarks according to the report. This weak revenue base severely constrains the government's ability to invest in public infrastructure, social services, and economic development.

To finance its high-income ambitions, Malaysia must confront the politically sensitive but economically necessary decision of expanding its tax base. The reintroduction of the Goods and Services Tax (GST) or broadening personal income tax coverage could provide much-needed fiscal space. Without stronger revenue streams, Malaysia risks accumulating unsustainable debt, thereby jeopardizing long-term economic stability.

A Bottleneck to Progress

Economic growth alone is insufficient if the workforce lacks the skills to match industry demands. Despite an increasing number of graduates, Malaysia faces a growing mismatch between education and employment. The inability to generate sufficient high-skilled jobs threatens to derail progress towards high-income status.

Investment in research and development (R&D) is a key driver of high-tech industry growth, yet Malaysia lags behind in this area. Greater emphasis on automation, innovation, and productivity enhancements could help shift the economy towards higher-value sectors. Additionally, reducing dependency on low-cost foreign labour and reforming vocational education to align with market needs would ensure that Malaysia's workforce remains competitive in a rapidly evolving global economy.

Moving Forward

Malaysia's economic future will be shaped by its ability to adapt to emerging technologies. Sectors such as semiconductors, data centres, and environmental sustainability are expected to drive demand for high-skilled labour. Encouraging entrepreneurship and innovation, rather than relying solely on traditional employment pathways, could open new opportunities for economic mobility.

Shifting government spending from subsidies to pensions and well-targeted social assistance programs would enhance economic inclusivity. At the same time, a comprehensive realignment of tertiary education with labour market demands through

expanded vocational training and adult education programs could mitigate skills mismatches and foster a more dynamic workforce.

Finally, Malaysia must undertake substantial fiscal reforms and ensure better coordination of fragmented policy programs, particularly in social protection and SME support. Without these structural adjustments, the aspiration of high-income status may remain perpetually out of reach.

Conclusion

Malaysia's pursuit of high-income status is a bold ambition, but one that requires careful navigation. Economic growth, while crucial, must be accompanied by deeper structural reforms in investment, taxation, education, and social welfare. However, Malaysia has shown time and again that it possesses the resilience, adaptability, and potential to overcome economic challenges. With strong governance, strategic policy adjustments, and a commitment to long-term economic transformation, the nation can solidify its position among high-income countries. If Malaysia takes the necessary steps today, the dream of a prosperous and equitable future is well within reach.