

The End of Vision 2020: What Comes Next?

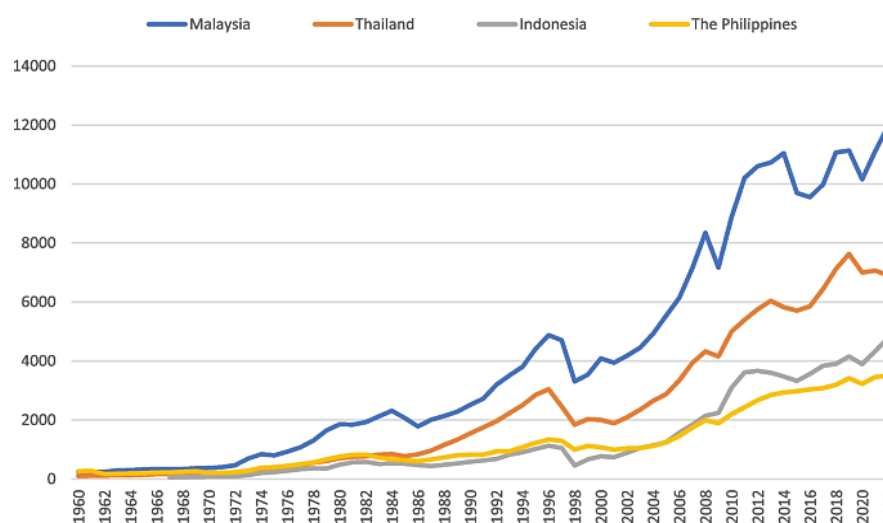
By Mohd Khairul Ramli

With the end of Vision 2020, Malaysia faces a serious question: what lies ahead? The landscape has shifted significantly since the last financial crisis, exposing deep structural weaknesses that demand urgent reform. While the banking system has long been the foundation of Malaysia's economic model, it is increasingly clear that this approach is unsustainable. Global financial shifts and internal inefficiencies have compounded these challenges, making economic transformation imperative. To secure sustainable growth, Malaysia must break away from debt-driven expansion, rethink its banking and investment frameworks, and embrace bold, strategic reforms that foster resilience and innovation.

Lessons from the Past

The 1997 Asian Financial Crisis was a defining moment in Malaysia's economic history, exposing the vulnerabilities of its bank-based financial system. At the time, then-Federal Reserve Chairman Alan Greenspan attributed East Asia's turmoil to structural weaknesses in banking, contrasting it with the supposedly resilient stock market-driven economy of the United States.¹

Figure 1: Change in real GDP per capita in ASEAN Four, 1960–2022 (USD)



Source: World Bank²

¹ <https://www.bis.org/review/r990928a.pdf>

² Available at: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

Yet, as history has shown, no financial system is immune to crises and only the triggers were differed. In Malaysia's case, the crisis was fuelled by stock market volatility and currency speculation, forcing an evolution in the banking sector and this transition has not necessarily translated into a more robust or resilient economy.

Today, Malaysia faces a new economic dilemma. Unlike the pre-crisis era, where the banking sector was the main vulnerability, the country's economic stability now hinges on three key pillars: government debt, corporate debt, and household debt. This debt-driven growth model leaves the country highly exposed to U.S. interest rate fluctuations, as seen in the ringgit's persistent decline. Every time Malaysia fails to adjust interest rates in tandem with U.S. policies, capital flight intensifies, further weakening the currency.

Breaking the Old Mindset

Malaysia's financial system remains deeply entrenched in traditional banking models, struggling to keep pace with the rapid technological transformation of the global economy. Conventional banks operate on a risk-averse framework, lending based on calculated models to maintain acceptable levels of non-performing loans (NPLs). This approach, however, is fundamentally at odds with the high-risk, high-reward investment culture that drives Silicon Valley.

In the U.S., venture capitalists expect the majority of startups to fail, banking on a few unicorns to generate substantial returns. Malaysia's rigid financial structure, which prioritizes stability over innovation, is ill-equipped to support the aggressive investment needed to develop a thriving tech ecosystem. As a result, the country is caught in a vicious cycle: limited funding stifles technological advancements, stagnating talent development, which in turn weakens economic progress.

The Real Story of FDI

The arrival of major global technology firms and data centres in Malaysia has often been celebrated as a sign of progress but in reality, many of these companies are drawn primarily by Malaysia's low energy costs rather than a commitment to long-term economic development. Malaysia's abundant and relatively inexpensive electricity

makes it attractive for energy-intensive industries such as cloud computing and artificial intelligence.

Instead of developing homegrown technology champions, Malaysia remains a low-value participant in the global supply chain, providing cheap resources without capturing meaningful economic benefits. The nation's brain drain further exacerbates this issue, with skilled Malaysian coders, trained at local institutions for as little as RM4,000,³ seeking higher salaries in Singapore. This wage disparity highlights a deeper problem: how can Malaysia compete if it continually loses its best talent? and what structural changes are necessary to create a sustainable digital economy that retains and nurtures local expertise?

The Debt Trap

The reliance on debt-driven consumption has further weakened Malaysia's economic foundation. Since the 1990s, the country's growth rate has slowed, shifting from investment-led expansion to an economy propped up by household debt, rising credit card usage, and ballooning mortgages. This transition threatens long-term sustainability, as debt-fuelled spending does not create lasting economic value. The ringgit's continued depreciation against the U.S. dollar reflects this structural weakness, despite steady GDP per capita growth since 2014, Malaysia's currency has failed to strengthen, reducing purchasing power and limiting economic advancement.

The narrowing current account surplus, from 4% to just 2%, signals a declining ability to act as a net lender to the world, while stagnant foreign exchange reserves at \$116 billion⁴ suggest capital outflows rather than growth. The depletion of national savings further compounds these issues, with the Employees Provident Fund (EPF) weakened by multiple withdrawals, leaving many Malaysians with inadequate retirement security. The interconnected nature of these problems from declining investment, high household debt, and weakening social protections, underscores the urgent need for structural economic reform.

³ <https://my.jobstreet.com/career-advice/role/programmer/salary>

⁴ <https://www.businesstoday.com.my/2025/01/08/bnm-reserves-dips-by-us2-billion-to-us116-2-billion-in-dec/>

The Regional Race

Meanwhile, Malaysia's regional competitors are rapidly outpacing it. Indonesia, with a population eight times larger, is on track to surpass Malaysia in per capita income within decades, while Vietnam, the Philippines, and even Cambodia consistently achieve growth rates exceeding 6%. In contrast, Malaysia remains content with 5% growth, which, after factoring in population increases, translates to a mere 3% rise in real per capita income, offering little tangible improvement in living standards.

Traditional economic strengths such as oil and gas, palm oil, and manufacturing are no longer sufficient to sustain long-term growth. Oil production remains stagnant, palm oil expansion is constrained by land limitations, and major Malaysian firms reinvest profits overseas rather than domestically. The manufacturing sector, once a key driver of economic progress, lacks strong local champions, with foreign multinationals dominating major industries.

Unlike Singapore, which successfully transitioned from a low-cost labour model to a high-value economy, Malaysia continues to rely on cheap foreign workers, suppressing wages and discouraging local talent retention. If this trajectory continues, Malaysia risks slipping from the upper ranks of ASEAN economies to the bottom tier.

New Vision for Malaysia

Malaysia is endowed with vast natural wealth, including abundant energy resources, rich biodiversity, and a strategic geographic location, yet it has struggled to fully capitalize on these advantages. Despite government commitments to sustainable palm oil production, the country has not effectively conveyed this narrative to global investors, limiting its ability to attract responsible investment. The palm oil industry, in particular, has been slow to adopt environmental, social, and governance (ESG) principles, a critical factor in gaining the confidence of sustainability-conscious markets and investors.

Artificial intelligence (AI) presents a crucial opportunity for Malaysia to transition into a higher-value economy, enabling the country to leapfrog traditional development stages and establish itself as a competitive player in the global digital landscape. However,

failing to do so, risks leaving Malaysia permanently behind and unable to keep pace with other nations in the region.

This transformation, however, cannot occur in isolation; it necessitates bold structural reforms that go beyond superficial policy changes. One key area of reform lies in Malaysia's financial ecosystem, which must evolve to support innovation-driven growth. A shift toward equity-based finance, rather than the conventional debt-heavy model, is essential. Equity financing fosters a risk-taking culture, enabling entrepreneurs and technology startups to scale without the burden of excessive liabilities, an environment conducive to AI-driven advancements.

Conclusion

Despite its vast natural wealth and strategic location, Malaysia has struggled to fully capitalize on these advantages, missing opportunities to attract responsible investment and integrate into global value chains. While commitments to sustainable palm oil production exist, the failure to effectively communicate this to investors has hindered its impact, and the slow adoption of ESG principles has further limited progress.

Moving forward, Malaysia must leverage its position in the Malacca Straits and drive technological innovation to build a more sustainable and competitive economy. Structural reforms, strategic investments, and a shift from outdated economic models are crucial to ensuring long-term resilience. The choice is clear, either Malaysia takes bold steps toward transformation or risks falling further behind as regional and global competitors surge ahead.