



## Malaysia needs to take a long, hard look at state-linked firms

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To be or not to be?

That is the question confronting Malaysia's state-linked companies. Should the government sell its stake in them as they are embroiled in controversy after controversy?

The issue becomes starker because the country's government-linked firms account for about half the benchmark Kuala Lumpur Composite Index, and they constitute 7 out of the top-10 listed firms in 2018.

Let's hear from Asian Development Bank economist Jayant Menon:

**The companies are present in every sector, sometimes towering over them. Globally, Malaysia ranks fifth-highest in terms of the influence of state firms on the economy.**

**Mahathir Mohamad, Malaysia's new prime minister, has raised concerns over the role state-linked firms were playing in the economy, noting that they've become "monsters" and have stopped serving their purpose to do good.**

**But divesting all the government's interests in state-linked firms is not the answer.**

How should the government proceed?

Government has a legitimate role in business—providing public goods, addressing market failures, and promoting social advancement. And as in most other countries, Malaysia has good and bad government-linked firms.

If a state firm is not crowding out private enterprise, operates efficiently, and performs a social function effectively, then there's no reason to sell it. But in assessing a state firm's performance, the government needs to consider this: Do the results arise from true efficiency? Or from preferential treatment that generates artificial returns for the state firm, which drain public resources and constitute a tax on consumers?

Divestment in this case will likely provide more than a one-off financial injection to government coffers—it will provide ongoing benefits through fiscal savings or better allocation of public resources.

Divestment should be carefully managed to ensure that public assets are sold at fair market value and that market power or wealth isn't concentrated in the hands of a few. This has happened before.

The new government has committed itself to addressing corruption and improving the management of public resources. It should also re-examine just how much it is involved in business. To do this correctly means conducting a detailed study of state-linked firms and their impacts.

Big, listed companies get a lot of attention, but thousands of smaller ones also need to be looked at, many within the constituent states.

If done correctly, the cleanup could rejuvenate the private sector while enabling good state firms to thrive and fortify Malaysia's fiscal position in the process.

This is what Malaysians should expect—and indeed demand—of the “New Malaysia”.

This episode is based on [research](#) by Jayant Menon, lead economist at the Economic Research and Regional Cooperation Department of the Asian Development Bank, posted in Asia Pathways, the blog of the Asian Development Bank Institute.

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