

Introduction

State-owned enterprises (SOEs) have long been a cornerstone of Malaysia's economic strategy, contributing significantly to public service delivery, strategic sector stability, and employment generation. These entities were initially intended to reduce fiscal pressures by operating with commercial discipline while achieving national development goals. However, the sustainability of SOEs has increasingly come under scrutiny, particularly in the wake of rising fiscal deficits, growing debt levels, and continued dependence on government support. These concerns have been amplified by the economic challenges triggered by the COVID-19 pandemic, which exposed vulnerability to public enterprises, especially those heavily reliant on state funding during economic downturns.

A critical issue facing Malaysia's SOEs is the extent of government ownership. Excessive state control often leads to political appointments, limited managerial autonomy, and conflicting objectives between financial performance and social mandates. Figure 1 illustrates the rising trend of government and state-owned enterprises' credit to GDP ratio, highlighting the increasing fiscal burden over the past two decades. This fiscal trend raises alarm about the long-term financial viability of these enterprises.

KEY POINTS

Financial Sustainability Challenges: State-owned enterprises (SOEs) in Malaysia face ongoing financial sustainability issues, primarily due to high government ownership and political interference.

Critical Ownership Threshold: When government ownership exceeds 27%, SOE financial performance significantly deteriorates, with reduced profitability, higher debt, and greater reliance on state subsidies.

Political Interference: Excessive government ownership often results in politically motivated appointments, blurred mandates, and limited managerial autonomy, which hinder operational efficiency.

Resilience of Low Ownership SOEs: SOEs with lower government ownership exhibit better financial discipline, agility, and resilience, as seen during the COVID-19 crisis, where they adapted more effectively and incurred fewer financial setbacks.

Strategic Benefits of Government Ownership: While government ownership can provide stability and safeguard public interest in essential sectors, it is crucial to manage this ownership strategically to avoid market distortions.

Recommendations for Reform: The brief recommends reducing government ownership below 27% in commercially viable SOEs.

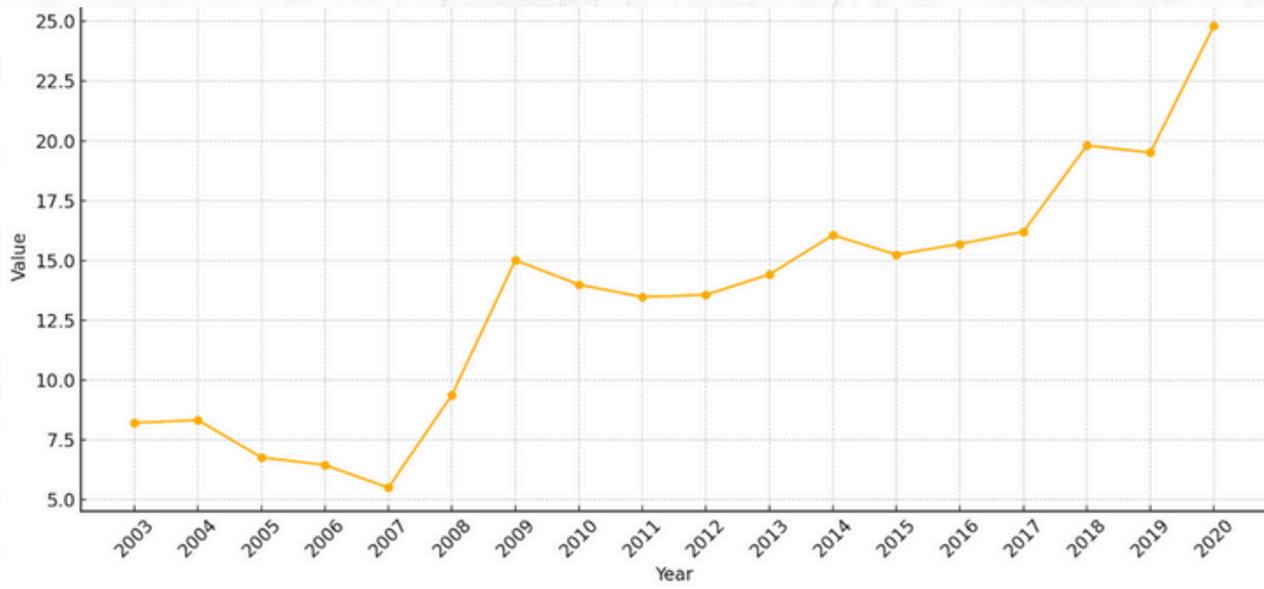


Figure 1: Credit to government and state-owned enterprises to GDP (%) – Malaysia

Source: Author preparation, raw data from World Bank (Global Financial Development Database)

A new analysis of 28 Malaysian SOEs reveals a significant threshold of 27%, the financial sustainability of these enterprises deteriorates. This tipping point reflects the negative impact of political interference, which tends to override the potential benefits of state ownership. Notably, SOEs with lower levels of state control exhibited greater resilience during the COVID-19 pandemic, better navigating economic shocks and requiring less state support. This policy brief examines the implications of excessive state ownership and offers recommendations for a more balanced approach. Rather than advocating full privatization, the brief proposes maintaining a minority, non-dominant state stake, complemented by governance reforms. These reforms would enhance managerial autonomy, accountability, and long-term financial sustainability, helping Malaysia’s SOEs remain a vital part of national development without overburdening public finances.

iii. Key Findings

Analysis of 28 Malaysian SOEs over the past decade highlights a critical ownership threshold: when government ownership exceeds 27%, the financial sustainability of these enterprises significantly deteriorates. This deterioration is reflected in declining returns on equity, increased debt dependency, and reduced profitability. The primary drivers of this decline are political interference and the resulting management challenges, such as politically connected appointments, conflicting commercial and social mandates, and limited operational autonomy.

In contrast, SOEs with government ownership below this threshold have demonstrated better performance. These enterprises tend to be more efficient, exhibiting stronger financial indicators and greater managerial independence. Furthermore, SOEs with lower levels of government ownership were more resilient during the COVID-19 pandemic, adapting more effectively to economic disruptions, incurring fewer financial losses, and requiring less government support to maintain operations.

While government ownership can provide strategic benefits, especially in essential sectors or during times of market failure, these benefits diminish as state ownership becomes dominant. A calibrated, minority state (below the 27% threshold) ensures public interest is represented, while maintaining the autonomy necessary for efficient operation and financial sustainability.

These findings underline the importance of a structural shift in Malaysia's SOE policy. Reducing government ownership in commercially viable SOEs, combined with governance reforms, is essential to improving their financial resilience and long-term contribution to the economy.

iv. Policy Recommendations

To enhance the financial sustainability of Malaysia's SOEs, I recommend targeted policy reforms that are closely aligned with the findings presented in this brief. The first step is to introduce a formal ownership threshold, limiting government stakes in commercially oriented SOEs to a maximum of 27%. This threshold is based on the evidence that state ownership beyond this level leads to significant deterioration in financial performance, primarily due to political interference. By capping government ownership at this level, the government can retain strategic influence while reducing the detrimental effects of excessive control.

Next, policymakers should implement a phased divestment strategy aimed at gradually reducing state stakes in non-strategic SOEs. This could be achieved through public listings, strategic partnerships with private entities, or transfers to professional government-linked investment bodies that can manage these assets more efficiently. Importantly, the divestment strategy should prioritize sectoral needs, ensuring that majority ownership is retained only in industries crucial to public service delivery, national security, or other strategic interests.

By combining these reforms—limiting government ownership and phased divestment strategy—Malaysia can optimize the performance of its SOEs. This approach will help transition SOEs from being fiscal burdens into more resilient, financially sustainable entities that continue to play a key role in national development while minimizing the strain on public resources.

v. Acknowledgement

I thank the editor of the CPR Policy Brief, Assoc. Prof. Dr. Tang Chor Foon, for his comments on an earlier draft of this paper. I would also like to thank an anonymous reviewer of this journal for their constructive feedback. I am solely responsible for any remaining errors.

vi. References

Lee, C.L. et al. (2022). The Financial Sustainability of State-Owned Enterprises in an Emerging Economy. *Economies*, 10(233). [I thank the editor of the CPR Policy Brief, Assoc. Prof. Dr. Tang Chor Foon, for his comments on an earlier draft of this paper. I would also like to thank an anonymous reviewer of this journal for their constructive feedback. I am solely responsible for any remaining errors.](#)

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First Edition
First published : July 2025
Centre for Policy Research (CPR), Universiti Sains Malaysia, 2025

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Academic editing by Tang Chor Foon & Dayang Haszelinna Abang Ali
Copy editing and proof-reading by Sazlina Salleh
Layout and design by Norazrina Md Jabarullah



Cataloguing-in-Publication Data

Perpustakaan Negara Malaysia

A catalogue record for this book is available
from the National Library of Malaysia

e ISBN 978-967-10805-3-5