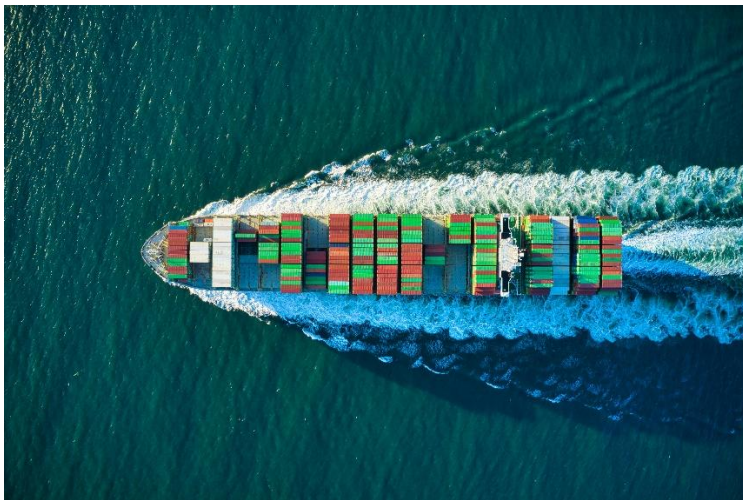


Turning Turbulence into Opportunity: How Malaysia Can Thrive in an Age of Uncertainty

Nur Fareza Mustapha



Introduction

In the context of the current and emerging risks arising from the escalation in multilateral military aggressions in West Asia, it is critical that this crisis is understood as one which fundamentally disrupts access to the supply of goods supporting the basic functioning of a household's daily life. Beyond mere reductions in the supply of crude oil, LNG and/or other petroleum products are the more critical disruptions to agricultural systems and production, the transport and logistics of essential goods and services, and ultimately, a household's livelihood and overall well-being.

In designing policies responses to the current crisis, it is essential to prioritize policy initiatives that can enhance the quality of life for Malaysian households as well as the productivity of Malaysian firms. In this article, I argue that Malaysia must look beyond immediate crisis management and plan strategically for its long-term future.

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This view was prepared by Dr Nur Fareza Mustapha, a researcher from the Khazanah Research Institute (KRI). The author is grateful for the valuable comments from Dr Suraya Ismail.

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A blast from the past: Do you get déjà vu?

On 19th October 1973, the decision by the United States to support the Israeli military in the 1973 Arab-Israeli War (also known as the October War) led to an oil embargo on the US and other countries supporting Israel i.e. Canada, Japan, the Netherlands, Portugal, Rhodesia, South Africa, and the United Kingdom. Arab OPEC nations ceased exports to these countries and began a series of production cuts which led prices of oil to increase four-folds in less than three months, from USD2.90 a barrel before the embargo to USD11.65 a barrel in January 1974¹. While the embargo was lifted in March 1974, higher oil prices remained. To note, the actual amount of oil removed from the market during the embargo was only 9 percent of total supply and 14 percent of internationally traded oil.

Additionally, the devaluation of the dollar and the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s “severed the tight link from US Dollars to other currencies or quantities of commodities”². This changing institutional environment resulted in a decline in the ‘real’ price of oil relative to other commodities/currencies during the period. In effect, the upward adjustment in the nominal prices of oil in US dollars during the decade (the first during the oil embargo in 1974 and the second during the Iranian revolution in 1979) allowed oil producers to retain the ‘real’ value of oil relative to the price of gold³.

The broader economic impact of these developments was far-reaching and continued well beyond the initial period of crisis. For many industrialised nations, the decade in the 1970s were marked by a period of excessive inflation (i.e. stagflation), severe unemployment, and slowed economic growth⁴. In the US, both inflation and unemployment reached a peak a few quarters after the 1973 and 1979 oil shocks occurred (i.e. inflation spiked to 11.3% and 13.4% while the unemployment rate peaked at 8.8% and 10.6% respectively)⁵.

For Malaysia, the effects of oil shocks in the 1970s were transmitted through various channels. The country experienced adverse effects from crisis primarily through the increase in food import prices (which rose over 37% in 1974, causing a 41% increase in overall imports prices for the year) as well as very large increases in the prices of fuel, fertilizer and chemicals required for domestic food production⁶. Economic growth for the country slowed to 3.5% in 1975 compared to a higher average growth rate of 8.4% annually between 1971-74.⁷

¹ Corbett, Michael (2013)

² Hammes, David and Douglas T Wills (2005)

³ Hammes, David and Douglas T Wills (2005), Barsky, Robert B., and Lutz Kilian. (2002).

⁴ Barsky, Robert B., and Lutz Kilian. (2002)

⁵ Blanchard, Olivier J., and Jordi Gali. (2007)

⁶ Third Malaysia Plan (1976-1980).

⁷ Ibid.

If this sequence of events feels eerily similar to ones we are facing currently, it is because while “history does not repeat itself, it often rhymes”⁸. The current global energy crisis bears a striking resemblance to the turbulent years in the 1970s, for both the world as well as for Malaysia. The longstanding effective closure of the Strait of Hormuz, which typically transits 20 percent of global oil and LNG, as well as attacks on energy facilities have raised concerns that a concrete resolution of the current stalemate (if it happens) may not result in any immediate relief or recovery of the global supply shocks which has and will ensue from the current geopolitical standoff. Additionally, if successful, the attempt to shift the benchmark currency for trading arrangements from US Dollars to Chinese Renminbi can also initiate a shift in the global institutional environment which may result in more far-reaching consequences beyond what we may expect today.

Navigating a period of turbulence: What we can learn from the 1970s

Nevertheless, the events in the 1970s provides a cautionary example of how we can navigate through the current crisis. More importantly, the 1970s energy crisis provides a glimpse into the second order effects of the oil shock, beyond mere supply disruptions and inflationary pressures. The realignment of global institutions as well as macroeconomic frameworks and their supporting ideologies (i.e. free market and neoliberalist approaches to development) originating from the period have resulted in long lasting repercussions even today.

A direct consequence of the 1970s energy crisis is the establishment of the International Energy Agency, a multilateral organization which aimed to establish long term cooperation and coordination amongst OECD members to institute structural changes to the global energy market. In effect, this internationalization of Project Independence⁹ paved the way for a coordinated approach to lower the reliance over oil from OPEC/Arab countries, both reshaping the geopolitical relationships existing during the period and at the same time, solidifying the economic and political hegemony of the United States and European nations for decades to come¹⁰. The counterfactual, an attempt to utilize OPEC’s striking wealth to support the development of the Global South and push forward an agenda for a global redistribution of wealth¹¹ were buried through the pursuit of market liberalisation policies¹².

For Malaysia, the 1970s marked the beginning of the federal government’s own attempt at nationalizing the petroleum industry in the country. In 1974, during the midst of a supply shortage of oil products, the overwhelming support by members of parliament for the ratification

⁸ This quote has been attributed to several sources, amongst others: Mark Twain, Theodor Reik

⁹ Project Independence is a domestic energy program by the Ford administration aimed at achieving energy self-sufficiency resulting from the “grave political and economic consequences of the recent Arab oil embargo” (Federal Energy Administration, 1974)

¹⁰ Auffant, Marino Felipe. (2022)

¹¹ President Houari Bourmediene of Algeria, in an extraordinary session of the UN General Assembly, called upon developing countries to take on greater control of their natural resources to “democratize world economic relations in favor of the Global South” (U.S. Mission to the United Nations in New York to State Department, “Algerian Request for Special Session of UNGA,” as cited in Auffant, Marino Felipe. (2022))

¹² Auffant, Marino Felipe. (2022)

of the Petroleum Development Act of 1974 led to the corporatization of Petronas under the 1965 Companies Act. This granted Petronas “exclusive rights over the exploration and exploitation of onshore and offshore petroleum resources in the country”¹³ at a time when most oil fields in the country were developed by foreign companies. Through the Petroleum Development Act of 1974, Malaysia staked claim over the control and sovereignty of natural resources within the country’s territory and jurisdiction. This, alongside the ratification of the National Petroleum Policy of 1975, paved the path for Petronas to lead the growth and expansion of Malaysia’s petroleum industry as well as contribute to the overall economic development of the country as one of its biggest sources of income for development¹⁴.

Additionally, a direct initiative resulting from the 1973/74 oil shock was the introduction of the Green Book Plan (i.e. Rancangan Buku Hijau or Gerakan Bumijaya). On 20 December 1974, Prime Minister Tun Abdul Razak, in introducing the plan, emphasized the need to prioritize the utilization of land over claims on land ownership rights in times of crisis¹⁵, highlighting a critical barrier in the country’s existing approach in land development. The plan aimed to increase the cultivation and production of food crops to alleviate the food shortages faced by the country as well as supplement the income and livelihood of the rural population¹⁶. Alongside the National Economic Policy, which was launched in 1973, the Green Book Plan became an instrument to fundamentally bolster rural development, a major economic and political priority in the overall development agenda at the time¹⁷.

Charting the way forward: Never waste a good crisis

Crises often provide an avenue for policy makers to take actions that may usually be politically difficult. These periods of flux may generate ‘critical junctures’ that determines a nation’s path of development for years to come. The combination of both exogenous shocks and endogenous change creates a state of institutional flux and provides a space for critical actors within the economic or political system to negotiate/institute long lasting institutional transformation¹⁸.

As we forge our way through this crisis, it is imperative that we identify and pursue developmental paths/trajectories that can yield lasting improvements to the country’s overall well-being, to enhance the quality of life for Malaysian households and the productivity of firms alike. Short-term relief measures — such as the demand management of subsidised fuel — while necessary, are not sufficient on their own. Malaysia must also pursue strategic interventions that are aligned with the broader developmental goals and objectives that have been outlined in our 13th Malaysia Plan as well as under the Malaysia Madani framework.

¹³ Abdul-Manan, Amir F. N., Azizan Baharuddin, and Lee Wei Chang (2015)

¹⁴ Abdul-Manan, Amir F. N., Azizan Baharuddin, and Lee Wei Chang (2015)

¹⁵ Speech by Tun Abdul Razak at the Launch of the Green Book Plan, 1974, translated from Malay.

¹⁶ Shamsul A.B. (1988)

¹⁷ P. P. Courtenay (1984)

¹⁸ Nur Fareza Mustapha (2023)

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