BTI 2020 Country Report

Malaysia

Status Index
6.57  # 39
on 1-10 scale  out of 137

Political Transformation
5.85  # 63

Governance Index
5.71  # 40
on 1-10 scale  out of 137
This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2020. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.


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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner
Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann
Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz
Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp
Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de
Key Indicators

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<td>Life expectancy</td>
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<td>Aid per capita</td>
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Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.20 a day at 2011 international prices.

Executive Summary

Malaysia’s democratic transformation took a historical turn between 2017 and 2019. The opposition coalition, the Pakatan Harapan (Alliance of Hope, PH) won the May 9, 2018, general elections, setting the stage for Mahathir Mohamad, the chairman of the coalition, to become the 7th prime minister of Malaysia (he had previously served as the 4th prime minister). This was the first victory by an opposition coalition after 61 years of rule by the Barisan Nasional (BN) coalition led by the United Malays National Organization (UMNO). The power shift not only ended one of the world’s longest runs of one-party rule, it was also in stark contrast to the global trend of democracies being tested by populist politics. The PH coalition not only succeeded at the federal level, but also won elections in eight out of 13 states, including Johor, UMNO’s former stronghold. PH has 129 members in parliament (out of 222), a solid majority, especially after several UMNO members defected to the PH coalition. The BN, one of the longest and most stable ruling coalitions in the world, has been left shattered: it now consists of only three parties, compared to 13 before the elections. The BN currently holds 40 seats in parliament. After the elections, former Prime Minister Najib Razak stepped down as chairman of the BN and subsequently faced criminal charges for his role in the massive scandal involving a state development fund, 1Malaysia Development Berhad (1MDB), and was temporarily imprisoned. Immediately following the general elections, longtime opposition leader Anwar Ibrahim received a royal pardon from the Malaysian monarch and was released from prison. In October 2018, Ibrahim won a by-election and returned to parliament. Unrelated to the outcome of the general elections, but also indicative of the high volatility of the Malaysian political landscape during the review period, the 15th Yang di-Pertuan Agong, the monarch and head of state in Malaysia, Muhammad V of Kelantan, unprecedentedly abdicated as head of state in January 2019. His term should have ended on December 12, 2021. Muhammad V was followed by Sultan Abdullah of Pahang, who was elected by the Conference of Rulers on January 24, 2019.

Malaysia’s economic transformation from 2017 to 2019 was, in contrast, less tumultuous. Nonetheless, repercussions from BN’s electoral defeat and the 1MDB scandal were also visible in
the economic sphere. The political transformation and the announcement of economic reforms impacted foreign-investor confidence in the country’s prospects. Although the ringgit (MYR) has performed better in the last two years than in the period before, high government debt and several economic reforms undertaken by the new PH government (e.g., the abolishment of the goods and services tax, GST) indicate that Malaysia still has a long way to go before its economic transformation can be seen as completed. Overall public debt as a percentage of the GDP was 50.9% in 2017, down from 52.7% in 2016; for 2019, the government is aiming at 51.8%. Credit rating agency Moody’s highlighted that Malaysia’s overall public debt as a percentage of the GDP was high compared to other countries with an “A” sovereign credit rating, since the median for A-rated sovereigns is 41%. Even so, the newly elected government does not plan to change Bumiputera affirmative action policies, which still strongly influence Malaysia’s market economy. As a consequence, the impact of the PH government will be more strongly felt in the political than in the economic sphere.

History and Characteristics of Transformation

The Federation of Malaysia was established in 1963. Today, it consists of 13 states and three federal territories. It has adopted forms of constitutional monarchy based on the Westminster model, a legacy of British colonialism. At the federal level, there is a bicameral legislature. Executive power lies with the prime minister and cabinet. Each of the 13 states has its own legislature.

Politically and officially, the country’s population is divided into two categories: Bumiputera and non-Bumiputera. The Bumiputera community is made up of Malays and other indigenous peoples, while the non-Bumiputera group consists mainly of Chinese and Indians. This divide is evident in every facet of Malaysian life, from politics to food to university admissions. Most of the country’s Chinese and Indians originally came during colonial times, actively recruited by the British to help in developing a commodities-based economy. After independence, the British left political power largely in the hands of the indigenous Malays. The Malay leaders organized the United Malays National Organization (UMNO), then forged a perennially victorious electoral coalition with the major Chinese and Indian parties, the Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC). This coalition was labeled the National Front (Barisan Nasional, BN) after the May 13, 1969 incident (described below). This established a pattern in which the office of the prime minister was always occupied by a Malay from UMNO. This alliance was transformed in May 1969 when emergency rule was declared and the constitution was suspended after “race riots” broke out between the Malays and Chinese in the wake of a bitterly fought election. When the constitution was re instituted in 1971, new legislation was passed ensuring Malay political supremacy. This, in turn, allowed the UMNO to enhance its powers and aggressively promote its main supporters, the Malay population. The New Economic Policy (NEP) was promulgated, providing extensive benefits to the Bumiputera (i.e., Malay) community through quotas, bank loans, scholarships, special licenses and so on. The government justified the affirmative action
character of the NEP, claiming that the wide economic gap between the Malay and non-Malay populations had prompted the May 1969 riots and therefore threatened racial harmony. Although the NEP discriminated against the non-Bumiputera, the UMNO-led government was careful to allow a market economy to develop. The government left the non-Bumiputera with a free hand in many economic sectors so long as positions and ownership stakes were allocated on a quota basis to Malays. This strategy, which emphasized economic growth with ethnic redistribution, was funded by significant foreign direct investment during the 1970s and early 1980s. Indeed, this strategy was so successful that Malaysia was recognized as one of the “Asian Tiger” economies. Although the NEP officially ended in 1991, economic policies have changed little in character since that time. They continue to include special rights for the Bumiputera, while also promoting rapid economic growth to ensure that all ethnic groups receive a share of the economic pie. Until the general elections in 2018, the government had been headed by the UMNO since independence and the ruling coalition, the BN, had won every general election since its formation. Before 2008, the BN regularly achieved more than a two-thirds majority in parliament, allowing it to amend the constitution at will and giving the executive the leeway to pursue policies without significant opposition. In May 2018, the Pakatan Harapan (PH) coalition took power at the federal level. These elections were a watershed moment in Malaysia’s history and ended UMNO’s rule after 61 years. Today, Malaysia is generally regarded as a success story among developing countries with regard to maintaining a stable and growing economy. However, this economic success has been diminished in recent years by long-term middle-income entrapment.
The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Malaysian state’s monopoly on the use of force is established nationwide in principle, though it is challenged by minor guerilla groups active off the coast of Borneo. During the period under review, Malaysia launched several initiatives to improve border security. In December 2017, the Malaysian Border Security Agency (Aksem) Act 2017 came into force. With this act, the then BN-led government aimed at securing Malaysia’s land borders against smuggling and other illegal activities. Particularly members of separatist movements in southern Thailand take advantage of the porous Thai-Malaysian border, using Malaysia’s northern states as retreats. In a further effort to improve security along the Thai-Malaysian border, Thailand and Malaysia have discussed plans to build a wall. Since the takeover of the PH government, bilateral meetings with neighboring Indonesia have remained in place to strengthen defense collaboration between the two countries.

Despite the aforementioned efforts by the Malaysian government to control its borders more adequately, insufficient border controls along the coast of Sabah have again led to kidnappings. Although security forces belonging to the Eastern Sabah Security Command (ESSCOM) remained on high alert throughout the period under review and helped reduce the number of kidnappings significantly, two Indonesians were abducted from their vessel off the coast of Semporna Town in September 2018. The kidnappers were believed to be members of the Abu Sayyaf group. With the kidnappings, the Abu Sayyaf group seeks to finance their activities in the Philippines. This incident underlines the importance of the joint sea and air patrols of Malaysia, Indonesia and the Philippines that were launched in 2017 in reaction to the high number of abductions in the Sulu Sea in 2016.
Most Malaysians accept the nation-state as legitimate. However, citizenship rights vary across ethnic and religious communities, with non-Bumiputera communities confronted by systematic discrimination in the distribution of state benefits — even since the 2018 electoral victory of the PH coalition. Ethnic Malays dominate the country’s key political institutions, including the parliament, bureaucracy and security forces. The head of state (the Yang di-Pertuan Agong) must be Malay. This Malay predominance draws criticism from ethnic Indians and Chinese, who make up 30% of the population and report feeling like second-class citizens. In addition, indigenous groups in Sabah and Sarawak, although classified as Bumiputera, have repeatedly voiced discontent with Malay dominance in their states. This feeling was reflected in the general election results in May 2018, when the BN government not only lost 18 parliamentary seats from Borneo in the national parliament, but also lost the state elections in Sabah and the position of chief minister to the opposition. Although the new PH government already has a track record of tackling thorny issues (e.g., suspending the Sedition Act, which had existed since colonial times and prohibited discussing the special rights of the Malays), it is unlikely that a reform of the Malays’ special position will be tabled in parliament. Significant shares of the Malay population continue to reject any change to Malay dominance. This became evident in December 2018, when more than 50,000 people demonstrated in Kuala Lumpur against the ratification of the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD). The newly elected government had stated its intention to ratify the ICERD, only to change its opinion in November 2018 when faced with huge pushback from segments of the Malay community.

The Malaysian constitution defines the state as secular, but Islam has considerable influence on the Malaysian legal system and the country’s political institutions. Although Malaysian law is mainly based on the common law legal system, state Shariah courts operate alongside civil courts in civil matters. Though the Shariah courts have jurisdiction only over matters involving Muslims, they remain highly influential in general, because their decisions frequently involve conversions to Islam, which in turn affect such matters as child-custody, burial sites and inheritance. The special position of the Shariah courts in the Malaysian legal system was emphasized by a decision of the Federal Court, Malaysia’s highest court, in February 2018. In a unanimous decision, the court ruled that only the country’s Shariah courts can hear cases on conversions from Islam. The court rejected the four appellants’ motion to hear their cases in front of a civil court. Three of the four appellants converted to Islam to marry Muslims. The Federal Court’s decision was highly anticipated since in the past, Shariah courts had denied conversion from the Islamic faith. The extensive power of Shariah courts in Malaysia gained international attention in September 2018, when two women were caned in the state of Terengganu. The two women were sentenced to the punishment after they were seen engaging in sexual activity in a car in April 2018. The Malaysian Bar, among other associations, condemned the verdict and demanded that the PH government abolish
the punishment. The federal government rejected these complaints by emphasizing that in this particular case the jurisdiction was within the Shariah courts of the state of Terengganu. However, Prime Minister Mahathir criticized the public caning, saying it tarnished Islam’s image. Reflecting the newly elected government’s attempt to find a middle ground between the strong support for Shariah courts within large segments of the Malay community and the government’s plans to implement fundamental policy reforms, the Islamic Affairs minister urged the state Shariah courts to seek a balance by not focusing on mere punishment but rather by striving to align with the principle of Islam as a merciful religion. In July 2017, Kelantan’s state government, led by the Islamist party PAS, legalized public caning for Shariah offenders. With this decision, Kelantan was the first state in Malaysia to allow public caning. In September 2018, Kelantan’s state government unveiled plans to explore larger venues for public canings, including a stadium.

The Malaysian state has a differentiated administrative structure throughout the country, providing all basic public services. A reasonably well-trained and professional administration implements the policies of the elected governments at the state and federal levels. However, since the electoral victory by opposition parties in May 2018, there have been some indications that professionals within the administration, who can be considered to have been “pro-BN,” have not completely supported legislation passed by the newly elected PH coalition and are resisting change. In addition, outside technical departments, the civil service recruits few non-Malays/Muslims. In order to improve public sector administration, the PH government rolled out the National Anti-Corruption Plan (NACP) in January 2019. One of the main points of the NACP is to reduce corruption within the administrative ranks. Meanwhile, infrastructure in the states of Sabah and Sarawak remains underdeveloped compared to the peninsular states. Only 96% and 98% of the population, respectively in those two states, has access to water sources and sanitation, indicating that infrastructure problems continue to persist in East Malaysia as nearly all citizens have access to a water source in West Malaysia.

2 | Political Participation

Malaysia has established universal suffrage (age 21 and over) and regularly holds general elections at the state and federal levels at intervals required by the constitution. Opposition parties are able to run in the country’s elections and political posts are generally filled according to the electoral outcome. Opposition parties won the general elections at the federal level in May 2018 for the first time since independence, leading to a peaceful and democratic transfer of power.

Despite the opposition’s 2018 victory, elections cannot be considered fair. The former ruling coalition, the Barisan Nasional (BN), used existing laws to restrict the opposition and control the media. Extreme gerrymandering and malapportionment of
constituencies, the use of government resources during campaigning, and electoral fraud (e.g., the manipulation of voter registration) reflected an abusive and authoritarian strain within the former BN government. Given these manipulations, the electoral victory of the opposition parties in the 2018 general elections was all the more surprising and historical. The undemocratic attitudes of the former BN government were clearly on display during the general elections. On nomination day for the general elections, the electoral commission (EC), which was then subordinate to the prime minister, disqualified six opposition candidates and denied the opposition coalition Pakatan Harapan (PH) the use of its logo and to register to run in the elections. As a result, PH ran under the Parti Keadilan Rakyat (PKR) logo and name. One of the six candidates denied registration was Tian Chua, the vice-president of the PKR. The disqualifications were widely seen as politically motivated to secure the government’s electoral victory. In addition, the EC redrew electoral boundaries in the state of Selangor, where in the past the opposition parties had secured a majority of their seats, just weeks before the general elections, raising concerns over the EC’s integrity and independence. The effect of the redistricting was an imbalance in constituencies: 30 Malay dominated districts compared to the 17 Malay dominated districts were the BN government had historically fared better. The size of the constituencies varied massively, while the (opposition-dominated) Damansara constituency in the state of Selangor contains 164,000 voters, the (BN-dominated) Sabak Bernam constituency in the same state contains only 40,000 voters. The Coalition for Free and Fair Elections (Bersih) reported several incidents of vote buying in the days before the elections, leading it to once again demand the resignation of the chairman of the EC. Bersih also voice concerns over electoral fraud in the days before the elections. According to estimations by Bersih, more than 500,000 cases of voters registered with the same address were found; Bersih also noted the case of a registration of a voter ostensibly 121 years of the age. The electoral watchdog also found some cases in which deceased voters were re-registered. These problems indicated that the electoral process in Malaysia suffered from several irregularities. After the opposition’s electoral victory and in reaction to these undemocratic machinations, the newly elected PH government immediately announced the establishment of a roundtable to implement electoral reforms. Immediate reform measures taken by the PH government consisted of appointing a new chairperson of the EC, placing the EC under the authority of the parliament instead of the prime minister’s office, establishing an Institutional Reforms Committee (IRC) to consult with civil society and provide recommendations to the government on electoral reform, and establishing an Electoral Reform Committee with the mandate to review all legislation related to elections. In November and December 2018, the roundtable implemented by the new government discussed several additional electoral reforms for the first time, based on global best practices and the experiences of other countries that have embarked on an electoral reform process.
The peaceful transfer of power from the former BN government to the new PH government indicates that elected political representatives have effective power to govern and that no veto powers (e.g., the military, which was a loyal ally of the former BN government) interfere with democratic procedures. Actual policy-making continues to occur mostly in the cabinet, with the prime minister as a dominant force. However, the establishment of several committees, roundtables and expert groups on how to implement democratic reforms in Malaysia since the takeover of the PH government underlines that policy-making is not only the prerogative of the country’s prime minister but also will be shouldered among several institutions. While former Prime Minister Najib Razak had almost unlimited powers, as demonstrated by the 1MDB scandal in which he sacked every member of government critical of him, new Prime Minister Mahathir Mohamad chooses a more inclusive style of government and respects the various branches of government. The government must still take into consideration the ability of several Islamic right-wing groups to mobilize large segments of population, if reform plans announced by the government are diametral to those groups’ interests. This was demonstrated by the government’s decision not to ratify the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD). Those groups with strong ties to the former BN government and the PAS are still powerful enough to block the government’s reform agenda, thereby limiting the political representatives’ effective power to govern. In addition, the civil service appears to impede the government’s reform agenda by not implementing reforms.

Association and assembly rights are seriously limited. The newly elected PH government plans to reform several acts that restrict the rights to assemble and associate. Until the takeover of the PH government in May 2018, opposition parties and NGOs that accepted contributions from foreign sources were vulnerable to harassment and formal charges. Malaysian trade unions were strictly controlled under the Trade Unions Act and the Industrial Relations Act. Federal laws such as the Societies Act ensured that organizations critical of the government could be banned or refused registration. Malaysian citizens are guaranteed the right to assemble under the Peaceful Assembly Act. However, citizens who wanted to exercise their assembly rights faced intimidation, harassment and threats by various groups. Although the general election manifesto of the PH promised to revoke any repressive laws that aimed to restrict the political space of Malaysian citizens, the aforementioned laws remain in place half a year after the power transfer. In January 2019, the government announced plans to study six laws and either amend or repeal them. One of the laws is the Peaceful Assembly Act. The newly elected government thus far has refrained from using intimidation, harassment or threats of retaliation to prevent citizens from exercising their rights to association and assembly. Anti-government rallies in December 2018 were allowed to formally organize their protests and were not intimidated by security forces.
Under the former BN government, freedom of expression was heavily limited in Malaysia. Laws such as the Official Secrets Act (OSA), the Printing Presses and Publications Act and the Sedition Act restricted freedom of information and of speech. All mainstream media outlets were indirectly controlled by the government through companies such as Media Prima Berhad or Utusan Melayu Berhad, both of which have close links with the UMNO. Online media, however, enjoyed more freedom. In April 2018, then-Prime Minister Najib Razak introduced the Anti-Fake News Act (AFN) as a desperate move to further restrict criticism of Najib’s role in the 1MDB scandal. Under the AFN, every citizen who publishes or circulates information that is wholly or partly false could be severely punished with a fine of up to RM 500,000, a prison sentence of up to six years, or both. Criticism arose especially over the fact that the term “fake news” was so widely defined that the act gave the government an unlimited instrument to suppress any form of criticism directed at the government. In August 2018, the PH government passed a bill to abolish the AFN in the lower house but the Senate, still controlled by the BN, rejected the abolishment. The Sedition Act and the Printing Presses and Publications Act were among six laws that the government announced would be amended or completely repealed in January 2019. In September 2018, Prime Minister Mahathir announced plans for political parties that control media companies to have their stakes reduced to ensure press freedom.

3 | Rule of Law

The constitution provides a structure for the separations of powers. However, the executive held disproportionate power and frequently influenced the other two branches of government during the years of BN rule. Indicative of the problematic dominance of the executive branch under the former BN government was the role of the attorney general (AG) in the 1MDB scandal. While the constitution views the AG as an adviser to the government who is free of external pressure, the AG not only advised then Prime Minister Najib Razak during the 1MDB scandal but actively defended the government against criticism, raising doubts if a separation of powers, as written in the constitution, still existed in Malaysia. In reaction to these problematic developments, the newly elected PH government discussed changing the role of the AG. The plan is to split the role of the AG and public prosecutor, thereby guaranteeing that legal proceedings in which the government is involved are not conducted by the chief legal adviser of the government. A two-thirds majority in parliament is necessary to carry out this constitutional reform. Although the largest opposition parties in the current parliament, the BN and PAS, indicated that they would support such a change, no institutional reforms have been tabled thus far. The litmus test for a healthier separation of powers might be the corruption case brought against former Prime Minister Najib Razak, who faces charges for his role in the 1MDB scandal. The current government under the leadership of Prime Minister Mahathir, who actively strengthened the position of the executive in the 1980s when
he was prime minister the first time, promised that they would not interfere in the case and would honor the separation of powers between the legislative, executive and judiciary.

The judiciary is institutionally differentiated and formally has the ability to interpret and review legislation and policies. Channels of appeal are in place and the court administration appears to function reasonably efficiently. Though the judiciary was not completely autonomous from the executive under the former BN government, the judiciary is functional under the newly elected PH government. Since the transfer of power to the PH coalition, the judiciary have actively reviewed several corruption cases of former members of the BN government, seemingly free from external influence. For example, prosecutors not only brought charges against former Prime Minister Najib Razak for his role in the 1MDB scandal, but also charged the former chief minister of Sabah, Musa Aman, with 35 cases of receiving bribes in exchange for logging contracts. In the past, the judiciary was accused of only going after the “small fish” within the former BN administration and not thoroughly investigating cases in which higher-ranking members of the government were involved. With the change of government, the judiciary pursues its own reasoning, mostly free from the influence of political decision-makers. However, the dropping of corruption charges against Lim Guan Eng, until May 2018 DAP’s chief minister of Penang, shortly after Pakatan’s electoral victory and his subsequent appointment as finance minister have raised questions about whether the new government will completely refrain from interfering in the judiciary. In order to improve professionalism within the judicial ranks, the judicial department accepted training from the United States Department of Justice and senior judges from the United Kingdom on how to handle crimes such as money laundering, cryptocurrency fraud, terrorism and human trafficking at the beginning of 2019.

Under the new PH government, high-level officeholders who break the law and engage in corruption are adequately prosecuted. This constitutes a complete break with the past, when high-level officeholders of the BN government were not held accountable for corruption. In the past, the executive had consistently obstructed investigations, and cracked down hard on groups and individuals who reported on, or even discussed through social media, the role of then-Prime Minister Najib Razak in the 1MDB scandal. After the PH takeover of the government, several high-ranking members of the BN coalition were charged with corruption, former Prime Minister Najib Razak being the highest-ranking defendant. However, the newly elected government has thus far not made changes to the Anti-Corruption Commission (MACC), raising fears that the role of the MACC might not change as significantly as hoped for when the new government took over. The litmus test to judge whether the rule of law continues to be undermined by political corruption might come when a high-ranking member of the current administration faces corruption charges and the MACC must react.
Civil rights (e.g., personal liberty, a prohibition on banishment and freedom of movement) are constitutionally guaranteed but not entirely respected and protected. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are largely in place, but are not consistently effective. Even under the new government, the Malaysian authorities’ attitude toward certain aspects of civil liberties remain ambivalent. The PH government’s decision not to ratify the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD) indicates that the newly elected government refrains from guaranteeing civil rights to every member of Malaysian society, especially members of the non-Malay/non-Muslim population. With regard to lesbian, gay, bisexual and transgender (LGBT) rights, the track record of the PH government is, thus far, inconsistent at best. In August 2018, portraits of LGBT activists were removed from a festival in George Town by order of the federal government. The federal government justified this action by declaring that the promotion of LGBT culture in Malaysia is not supported by the government. On a more positive side with regard to the protection of civil rights, the PH government tabled a bill to abolish the Sedition Act. Since independence, the Sedition Act was an important instrument to silence persons critical of the government and the act violated several civil rights. In addition, the PH government intended to repeal the AFN in August 2018. Under the AFN, every citizen who published or circulated information that is wholly or partly false could be severely punished with a fine of up to RM 500,000, a prison sentence of up to six years, or both.

4 | Stability of Democratic Institutions

The victory of the opposition parties in May 2018 opened a window of opportunity for a transition from an electoral authoritarian regime to a more democratic system. Elections are the mechanism through which a transfer of power is possible: opposition parties not only took over the federal government but also retained power in the states of Penang and Selangor, and took over the states of Kedah, Perak, Negeri Sembilan, Johor and Malacca. The former BN government retained only two states, Perlis and Pahang. Notwithstanding, the former BN government left its successors a complicated and challenging heritage. Under BN rule, the executive had a dominant position and greatly restricted the separation of powers. Particularly the judiciary was subject to strong interference from the executive. The newly elected government has stated its intention to refrain from any interference. The stability of this arrangement will be tested in the coming years. Despite Malaysia’s federal structure, a very high level of fiscal and administrative centralization limited the ability of state and local governments to function effectively. In order to change this institutional structure, to transfer larger responsibilities to lower levels of government and to strengthen democratic rule, the newly elected government depends on the opposition parties, as any constitutional changes can only be made with a two-thirds majority in parliament. As a result, the former government parties can force limitations on democratic reforms and hinder the proper functioning of democratic institutions. Under the BN,
the parliament was not much more than a rubber stamp. The current Malaysian parliament must prove that it can be a democratic forum where opinions differing from those of the government can be voiced and make a difference in the policy-making process.

The new government of Prime Minister Mahathir appears committed to more democratic rule. Repressive laws (e.g., the Sedition Act) have been or are about to be abolished, indicating a commitment to democratic institutions and norms. Elections are the means through which parties take over the government. The last general elections have shown that the military does not openly challenge civilian supremacy or state institutions. However, there remain relevant actors who are not committed to democratic institutions, demonstrated by the large gatherings in December 2018 that were organized by Malay/Muslim civil society groups. The former ruling party, the BN, is weakened by defections and the historical loss it suffered in the last general elections. However, the party has not shown signs of drastically changing its modus operandi and embracing democratic norms and institutions. Since the newly elected government is dependent on the opposition parties, who are not committed to democratic norms and oppose any changes to the system of Malay supremacy and the implementation of constitutional reforms, it will be difficult for the current government to profoundly reform the country’s institutions.

5 | Political and Social Integration

The Malaysian party system is rooted in society. However, polarization and fragmentation of the party system has significantly increased as evidenced by the disintegration of the former ruling party Barisan Nasional (BN) after the general elections in May 2018 and the founding of several new political parties. At the moment, the ruling coalition Pakatan Harapan (PH), the heavily decimated BN, and the Parti Islam Se-Malaysia (PAS) compete as the biggest parties for votes in West Malaysia. The party system on the island of Borneo, already historically differing from that in the western part of the country, further differentiated during the period under review with the Sabah Heritage Party (WARISAN) forming a pact with the PH before the general elections. Despite these developments, the party system remains far more rooted in Malaysian society than in numerous other countries in the region.

The ruling coalition, the PH, consists of the Democratic Action Party (DAP), Parti Keadilan Rakyat (PKR), Parti Amanah Negara (Amanah) and Parti Pribumi Bersatu Malaysia (PPBM). The coalition is aligned with WARISAN and the United Pasokmomogun Kadazandusun Murut Organization (UKPO). Both parties, together with the DAP and PKR, form the state government in Sabah. Currently, the coalition and aligned partners hold 121 of 222 seats in the national parliament, gaining 53 seats in the last general elections. The ruling coalition displays a relatively high level of organizational institutionalization, since PH can be seen as the successor to the former opposition coalition Pakatan Rakyat (PR).
After the historical loss in the general elections in May 2018, which ended their 61-year rule of the country, the BN coalition now consists of only the United Malays National Organization (UMNO), Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC). Ten former component parties left the coalition after the elections and either formed a new state-based pact (e.g., Sarawak), aligned themselves with the new PH federal government (e.g., the parties in Sabah), were deregistered after leaving BN (e.g., the People’s Progressive Party) or remained independent (e.g., Gerakan). After the elections, several BN parliamentarians left the coalition, leaving UMNO with only 37 representatives in the federal parliament. In June 2018, the party elected former Deputy Prime Minister Ahmad Zahid Hamidi as the successor to party leader and former Prime Minister Najib Razak, who stepped down following the general elections.

PAS together with the remnants of the BN forms the opposition in the national parliament, with 18 seats. On the state level, PAS holds the governments in Terengganu and Kelantan. The party firmly believes that the special rights of the Malay/Muslim majority population must be protected and supports the implementation of Shariah laws, thereby significantly contributing to a high level of polarization within the Malaysian party system. The high level of voter volatility with regard to the last general elections can to some extent be explained by the growing dissatisfaction of UMNO’s handling of the 1MDB scandal. Large shifts of votes could be observed from UMNO to PPBM, where many party members are former UMNO members who left UMNO because they were dissatisfied with Najib’s role in the 1MDB scandal.

There is a wide range of interest groups in Malaysia, even if important social interests such as indigenous groups are underrepresented. Certain interests dominate and there is a risk of polarization, especially as many occupational and other policy areas are engaged in parallel by secular and Muslim organizations. The spectrum of interest groups ranges from social movements, such as environmental groups and community organizations providing local assistance to the poor, to professional associations, such as the Malaysian Bar Council. Some civil society groups (e.g., Bersih) have a multiethnic character. Since the PH coalition has come into power, civil society groups can act on a broader set of issues. Though most civil society groups promote the ideals of a multiracial and open society, they remain predominantly organized along ethnic and religious lines. Employee associations and trade unions, such as those under the Malaysian Trade Union Congress (MTUC), an umbrella organization, have little political influence.
Malaysians have an ambivalent relationship to democratic norms. According to data provided by the World Value Survey, 93% of Malaysian respondents express a desire for democracy, and 77.8% report that democracy is the most suitable form of government for the country. In addition, 67.5% of respondents believe that choosing leaders in free elections is an essential characteristic of a democratic system. However, half of respondents prefer a strong leader unburdened by parliament or elections. Also, a significant share of respondents is favorably disposed toward procedures associated with authoritarian governance: 33% report that a religious interpretation of the law is an essential characteristic of democracy. In addition, 23.5% report that the army should take over if the government is incompetent and only 60.4% report that women should have the same rights as men.

There is a relatively low level of intercommunal trust within the Malaysian population, although anecdotal evidence suggests higher levels of intracommunal trust. Social and cultural barriers divide the major ethnic and religious groups and became more entrenched during the period under review. Only 20% of Malaysians respondents reported holding membership in a societal association, according to data provided by the World Value Survey. In addition, 91.5% reported that people cannot be trusted, pointing to markedly low social capital in Malaysian society.

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality are limited and only marginally ingrained in Malaysia. The country’s level of development serves to reduce social exclusion among all citizens, although certain areas (such as the Borneo states of Sabah and Sarawak) and communities (such as the indigenous Orang Asli) suffer from lower levels of development and social mobility. Key indicators reported by the UNDP point to a very high level of human development according to the 2018 statistical update of Human Development Indices and Indicators. The country’s score in the UNDP’s 2017 Human Development Index was 0.802, an improvement compared to previous years. Malaysia’s score is below the average of 0.894 for countries in the very high development group, but above the average of 0.733 for the regional East Asia and Pacific score. Malaysia was ranked 57th overall. Between 1990 and 2017, Malaysia’s HDI score increased from 0.643 to 0.802, an increase of 24%. The UNDP noted that – compared to 1990 – the average Malaysian was now living 4.8 years longer, had 3.7 years more of schooling and 156.7% more gross income. Life expectancy at birth was now 75.5 years. According to World Bank data from 2015, 0.2% of the population live on less than $3.20 a day at 2011 international prices adjusted for...
purchasing power parity (PPP) in Malaysia. On a positive note, inequality decreased in the last decade. With a value of 41.0 (data from 2015), Malaysia significantly improved compared to 2009, when the country had one of the highest gaps between rich and poor in Asia. However, gender inequality remains a problem in Malaysian society. The country has a Gender Inequality Index value of 0.287, ranking it 62 out of 160 countries. The 2017 female HDI value for Malaysia is 0.791 in contrast with 0.810 for males; even after the general elections in May 2018, only 13.9% of parliamentarian seats are held by women, down from 14.2% in the previous parliament. In addition, the female labor-market-participation rate is 54% compared to 80% for men, indicating a serious gap between men and women in Malaysia.

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>$ M</td>
<td>296636.3</td>
<td>296753.5</td>
<td>314707.3</td>
</tr>
<tr>
<td>GDP growth</td>
<td>%</td>
<td>5.1</td>
<td>4.2</td>
<td>5.9</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>%</td>
<td>2.1</td>
<td>2.1</td>
<td>3.9</td>
</tr>
<tr>
<td>Unemployment</td>
<td>%</td>
<td>3.1</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Foreign direct investment</td>
<td>% of GDP</td>
<td>3.3</td>
<td>4.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Export growth</td>
<td>%</td>
<td>0.3</td>
<td>1.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Import growth</td>
<td>%</td>
<td>0.8</td>
<td>1.3</td>
<td>10.9</td>
</tr>
<tr>
<td>Current account balance</td>
<td>$ M</td>
<td>9067.5</td>
<td>7132.8</td>
<td>8960.2</td>
</tr>
<tr>
<td>Public debt</td>
<td>% of GDP</td>
<td>57.0</td>
<td>55.8</td>
<td>54.4</td>
</tr>
<tr>
<td>External debt</td>
<td>$ M</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total debt service</td>
<td>$ M</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net lending/borrowing</td>
<td>% of GDP</td>
<td>-3.2</td>
<td>-3.1</td>
<td>-2.9</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>14.3</td>
<td>13.8</td>
<td>13.1</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>13.1</td>
<td>12.6</td>
<td>12.2</td>
</tr>
<tr>
<td>Public education spending</td>
<td>% of GDP</td>
<td>5.0</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Public health spending</td>
<td>% of GDP</td>
<td>2.1</td>
<td>1.9</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>1.3</td>
<td>1.4</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>1.5</td>
<td>1.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
Market competition has a strong institutional framework, but the rules for market competition are not uniform for all market participants. The informal sector is small (officially 9.4% of total employment) but administered prices still play a role in some sectors. After taking over the federal government, the PH coalition made slight changes to several subsidies. The government intends to introduce a new fuel subsidy mechanism in early 2019. Under the new system, owners of small cars and motorcycles will receive fuel subsidies of 30 sen (MYR 0.30) per liter. This scheme is expected to benefit around 4 million car owners and 2.6 million motorcycle owners in Malaysia. More than MYR 2 billion are allocated in the 2019 budget for these subsidies. The new government did not make changes to subsidies for wheat flour and cooking oil, though the price of palm oil has fallen during the period under review. The PH government stuck to the policy of favoring Bumiputera companies for small government contracts, fearing a fallout from the Malay/Muslim electorate if any changes to the special rights of the Malay/Muslim population were to be implemented. There is no indication that public procurement procedures will be enhanced under the new government. Several reforms were implemented under the Companies Act 2016 relating to starting a business, dealing with construction permits, securing electricity, registering property, trading across borders and resolving insolvency, which led to an improved ranking for Malaysia in the World Bank’s Doing Business Index. The country ranked 15 out of 190 countries, improving nine places compared to the year before. However, according to the 2019 Doing Business report, establishing a business remains burdensome. It takes 13 days, nine procedures and 11.6% of the average income per capita, placing the country at rank 122 out of 190 in the sub-index on starting a business.

Competition laws designed to prevent monopolistic structures and conduct exist, but are enforced inconsistently. The most important competition law in Malaysia is the Competition Act 2010. It is designed to prevent large companies from engaging in monopolistic and cartel-like activities. The Malaysia Competition Commission (MyCC) oversees the enforcement of the act and has initiated several lawsuits against companies that did not comply with the law during the period under review. In September 2018, the MyCC initiated nationwide investigations into tire and beverage companies for possible anti-competitive behavior. One month later, seven education centers and a day care center in Subang Jaya were fined for fixing and synchronizing their fees. MyCC’s decision to fine the company MyEG for abusing its dominant position (i.e., imposing different conditions to equivalent transactions relating to the purchase of mandatory insurances for the renewal of the Pas Lawatan Kerja Sementara, PLKS, for foreign workers) was upheld by the High Court of Kuala Lumpur in January 2019. Over the last seven years, the MyCC investigated more than 80 cartel-related cases involving businesses engaging in anti-competitive practices. However, consumer associations asked the MyCC to be more proactive as the body...
had not investigated the near monopoly of Grab Malaysia in the local ride-sharing industry. One of the main problems of Malaysian competition policy remains the MyCC’s lack of independence from the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC). Considerable influence by the ministry is observable, for instance, in explicit recommendations regarding the focus of further competition policy.

Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and privileged treatment for domestic industries. Bumiputera equity quotas and protectionist policies shielding key enterprises continue to constitute high barriers for foreign investors during the period under review. During the period under review, Malaysia was not involved in any new WTO dispute settlement cases. Since 2009, Malaysia has most-favored nation (MFN) status with its trading partners while providing tariff preferences to China, Japan, Pakistan, the Republic of Korea, Turkey and ASEAN countries. At 5.7%, the effectively applied average MFN tariff rate was lower than the Asia-Pacific average. Major trading partners for agricultural products include China, India, the European Union and Singapore; for nonagricultural products, China, Singapore and Japan. In March 2018, Malaysia was one of 13 countries to sign the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which incorporates most of the provisions of the defunct Trans-Pacific Partnership Agreement (TPP). The agreement was signed by the former BN government. The newly elected PH coalition, however, delayed ratification of the CPTPP due to the significant number of laws the government must amend. In addition, the government raised the possibility of striking bilateral deals with CPTPP countries with which it currently does not have trade pacts. With regard to the Regional Comprehensive Economic Partnership (RCEP), a planned agreement between ten ASEAN countries, Australia, China, India, Japan, the Republic of Korea and New Zealand, Malaysia hopes to conclude final talks by the end of 2019. No progress was made on an EU-Malaysia free trade agreement during the period under review, as the EU continues to discriminate palm oil with tariff and technical trade barriers. Currently, Malaysia has implemented seven bilateral free trade agreements (FTA) and six regional FTAs.

Malaysia’s banking system and capital markets are differentiated and oriented to international standards, with a functional banking supervision. Capital markets are open to domestic and foreign capital flows and banks remained well capitalized during the period under review. In 2017, the bank capital-to-assets ratio was 11.2%. Core capital stood at 13.9% as of August 2018. This percentage is above levels required by national authorities and Basel III standards. At the end of 2018, property loans were the greatest threat to Malaysian banks. Although Bank Negara Malaysia’s stress test finding in September 2018 showed that the Malaysian financial sector remained resilient after the change of government, the residential segment accounted for over 30% of the domestic banking industry’s gross loans. Credit agency Moody’s questioned Malaysian government plans to ease home financing requirements. The
percentage of non-performing loans declined to 1.5% in 2017, an improvement over the 1.6% seen from 2016 to 2014. The Malaysian Islamic banking sector accounts for 28% of Malaysia’s financial sector.

8 | Monetary and fiscal stability

Inflation and foreign exchange policies are treated in concert with other economic policy goals and have an adequate framework in Malaysia. During the period under review, the inflation rate (based on average consumer prices) volatility was relatively moderate. For 2017, the average stood at 3.9%, significantly higher in comparison to previous years (2016: 2.08% and 2015: 2.1%). However, the inflation rate decreased to only 1% in 2018, the lowest in nine years. For 2019, the rate is projected to be around 2%. At present, Malaysia’s consumer price inflation is the lowest among Southeast Asian countries except Singapore. The spike in 2017 was largely related to higher fuel prices. Among the major groups that recorded increases in 2017 were the indices for transport (+11.5%) and food and non-alcoholic beverages (+4.1%). Throughout the period under review, the inflation remained within the comfort zone set by the independent central bank. Also, the ringgit (MYR) performed better to the U.S. dollar compared to previous years. The ringgit gained 8.6% in 2017 compared to the dollar and stood at MYR 4.04 to $1 at the end of the year. The currency performed well compared to the U.S. dollar in 2018 as well, standing at MYR 4.15 to $1. In January 2018, the central bank changed its interest rate from 3% to 3.25%. Steady domestic growth, supported by strong consumer demand and sustained investments in automation, kept the central bank from changing its rate again in 2018. The real effective exchange rate index (year 2000 = 100) decreased from 88.2 in 2016 to 86.7 in 2017.

The government’s fiscal and debt policies generally promote macroeconomic stability, despite inconsistencies within the country’s spectrum of institutional safeguards. In 2017, the budget deficit was 3% of the GDP, down from 3.1% in 2016. The new PH government is aiming for a budget deficit of 3.7% of the GDP in 2018 and 3.4% in 2019. According to the newly elected government, the higher budget deficit is related to expenditure commitments by the previous administration in connection with the China Communications Construction Company and East Coast Rail project, among other infrastructure projects. The abolishment of the GST in September 2018, a central campaign promise made by the PH, put a strain on the budget and was not offset by the introduction of the new Sales and Service Tax (SST). The key difference between the SST and its predecessor is that the SST is a single-stage tax regime unlike the GST that was a multi-stage tax where the full tax burden was shouldered by the end consumer. Thereby, the SST is relieving consumers. In sum, under the SST, the Malaysian government expects to collect MYR 21 billion in the 2019 budget as opposed to MYR 44 billion under the former GST. In order to prevent unlimited government spending, the new government established the Debt
Management Office to review and check government debts and liability. Overall public debt was the equivalent of 50.9% of the GDP in 2017, down from 52.7% in 2016. For 2019, the government is aiming for an overall public debt level of 51.8% of the GDP. The credit rating agency Moody’s highlighted that Malaysia’s overall public debt was high compared to other countries with an “A” sovereign credit rating, where the median for A-rated sovereigns is 41%. Most of the government debt is denominated in the local currency. As a consequence, Malaysia is insulated from global economic events to some extent, according to Moody’s. For 2019, federal government revenue is forecast at MYR 261.8 billion or 17.1% of the GDP, higher than the MYR 236.5 billion or 16.5% of the GDP for 2018. Compared to 2017, federal government revenue increased by 7.3% in 2018. The country’s total reserves increased during the period under review to $100.8 billion in 2017. Government consumption stood at 12.2% of the GDP in 2017.

9 | Private Property

Rights and regulations governing the acquisition, benefits, use and sale of property are generally well defined, but problems with implementation or enforcement under the rule of law occasionally emerge. Registering property in Malaysia takes just 11.5 days and six procedures according to World Bank data. Although Malaysia has acceded to the World Intellectual Property Organization (WIPO) Copyright and Performances and Phonograms Treaties in December 2012, there are several shortcomings in Malaysia’s efforts to enforce property rights effectively. Key problems include the widespread availability of pirated and counterfeit products, and high rates of internet and book piracy. In September 2018, the new PH government revealed that the country will accede to the Madrid Protocol, the primary international system for facilitating the registration of trademarks in multiple jurisdictions around the world. As a result, Malaysian companies and international entities will see simpler filing of intellectual property ownership and better protection of intellectual property rights. Malaysia’s score in the 2018 International Property Rights Index worsened compared to 2017. Overall, the country ranked 34 out of 125 countries worldwide and 7th in the Asia and Oceania region. In January 2019, the federal government filed a lawsuit against the state government of Kelantan for infringing on an indigenous tribe’s land rights by handing out licenses to plantation companies to cut down timber. The state government in Kelantan is under the leadership of PAS. Activists welcomed the move by the PH government.
Private companies are institutionally viewed as important engines of economic production and are given legal safeguards in Malaysia. Nonetheless, the revenues of Malaysia’s state-owned companies and government-linked companies constitute nearly a fifth of the country’s GDP. In the last decade, the top 20 government-linked companies (GLCs) saw their market capitalization grow by 320% to MYR 431.1 billion in 2015. As of 2017, GLCs owned by government-linked investment companies (GLICs) constituted 42% of the total market capitalization of all public-listed firms in Malaysia. The top 20 GLCs are controlled by five government-linked investment companies (GLICs), namely Employees Provident Fund (EPF), Khazanah Nasional Berhad, Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH) and Permodalan Nasional Berhad (PNB). After the change in government, the new PH government was urged to review the criteria for appointing directors to GLCs and state-owned enterprises (SOEs) as under the BN government, cronyism and patronage undermined company operations. In September 2018, a study was published revealing that political patronage at state GLCs in Selangor and Penang has continued in states controlled by the now governing PH coalition. The privatization of state companies does not fully conform to market principles, mainly because the privatization of projects requires Bumiputera participation.

10 | Welfare Regime

In principle, social safety nets are well developed, but do not cover all risks for all strata of population. A part of the population is still risk of poverty in Malaysia with no state-funded unemployment benefits or individual retirement funding mechanism in place. Several social security programs provide benefits for various groups of workers. Government employees receive the most generous benefits, while employees in the small informal sector receive virtually nothing. The Employees Provident Fund (EPF) is the primary social security institution, covering more than half of the workers in the private sector as of the year 2000. In 2018, the EPF had 14 million members, of whom 7.11 million were active contributing members. Since January 2016, employees have the choice to contribute 11% or only 8% of their monthly salary, while employers contribute 12% (13% for employees who earn less than MYR 5,000 per month). These rates affect employees under the age of 60. Since January 2019, employers make a minimum statutory contribution of 4% for employees above 60 years old against the present practice of contributing 6.0% and 6.5%. However, even the EPF does not guarantee that workers have saved enough when they retire. 64% of EPF members have savings of less than MYR 50,000 at age 54. These numbers clearly indicate that old-age poverty is a pressing issue. In September 2018, the newly elected PH government confirmed the introduction of a standardized minimum wage of MYR 1,050 a month, beginning on January 1, 2019. The EPF stated a minimum contribution of MYR 264 was expected from every worker who earned monthly wages. At the moment, 1.64 million, or 23% of the 7.11 million active EPF members earn less than the current minimum wage of MYR 1,050.
In addition, Malaysia remains dependent on informal community assistance and a large number of NGOs in the social security sector. This informal community assistance is also required because of low public expenditure on health (2.43% of the GDP in 2015), despite Malaysia’s widespread system of health care. A universal health care system coexists with a growing private health care sector. In January 2019, the PH government launched the mySalam B40 national protection scheme for low-income groups. The scheme will benefit 3.69 million people aged between 18 and 55 in the B40 (bottom 40%) group. The scheme covers 35 critical illnesses and is expected to raise awareness among the B40 group on the benefits of social protection and health insurance. Small cash transfers (or redeemable vouchers, depending on the program) are also available, both from the federal government and from certain state governments, for families earning a below fixed level, single mothers, senior citizens and other targeted groups.

Equality of opportunity has not been achieved. Indeed, it is systematically circumvented through policies of so-called reverse discrimination as well as informal stigmatization. Discrimination against women, members of the LGBT community and ethnic groups persist, even under the new PH government. Although women’s civil liberties are protected by law in Malaysia, traditional practices continue to distinguish between genders. In 2017, the country had a Gender Inequality Index value of 0.287, ranking 62 out of 189 countries. Further, only 13.1% of parliamentary seats are held by women, lower the previous 14.2%. The female labor-market participation rate is 50.8%, compared to 77.4% for men, according to UNDP data for 2017. In context, Malaysia’s Gender Inequality Index value is above the average for high HDI countries and the average for the East Asia and Pacific region. The female literacy rate is 93.1%, lower than the male rate of 96.2%. Even more glaringly, affirmative action policies continue to favor “indigenous” Muslim-Malays, officially designated as “Bumiputera.” Chinese and Indian citizens are thus systematically disadvantaged by quota systems and other exclusionary practices when seeking positions in political life, higher education, the state bureaucracy, public enterprises and the armed forces. Non-Bumiputera can participate more fully in economic life, though remain hampered by discriminatory government procurement policies, licensing approvals and contract awards, equity allocations, bank lending, ethnic-based discounts, and other barriers. Homosexuality is illegal and gender nonconformity (particularly in terms of dress) is proscribed for Muslim women and men; infringement on either count is usually met with outright legal discrimination.
11 | Economic Performance

The overall GDP growth rate for 2017 was 5.9%, up from 4.2% in 2016. GDP growth is expected to be 4.9% in 2018, 4.7% in 2019 and 4.6% in 2020, according to estimations by the World Bank. Due to the cancellation of large infrastructure projects and dimmer trade and export prospects, growth is believed to be lower than previously projected. GDP per capita (on a purchasing power parity basis) increased significantly from $27,683 in the previous year to $29,431 in 2017, growing by 4.4%. During the period under review, the inflation rate (based on average consumer prices) volatility was relatively moderate. For 2017, the average stood at 3.9%, significantly higher in comparison to previous years (2016: 2.08% and 2015: 2.1%). However, the inflation rate decreased to only 1% in 2018, the lowest in nine years. For 2019, the rate is expected to be around 2%. At present, Malaysia’s consumer price inflation is the lowest among Southeast Asian countries except Singapore. Malaysia’s current account surplus increased to MYR 15 billion in May 2018, near the highest of the last four years. For 2019, Malaysia’s current account surplus was expected to increase to 2.5% of the GDP, up from 2.2% of the GDP in 2018. The unemployment rate stood at 3.3% throughout 2018, one of the lowest rates in the region. Reflecting concerns about the new administration’s policy direction, a slowing down in the global semiconductor market and uncertainties concerning the China-U.S. trade war, domestic investment contracted by 4.4% in 2018 (compared to 2017); growth in private investment fell to 4.5% in 2018, from 9.3% the year before. In 2017, the budget deficit was 3% of the GDP, down from 3.1% in 2016. The new PH government is aiming for a budget deficit of 3.7% of the GDP in 2018 and 3.4% in 2019. According to the newly elected government, the higher budget deficit is related to expenditure commitments by the previous administration. The abolishment of the GST in September 2018, a central campaign promise made by the PH, put a strain on the budget and was not offset by the introduction of the new Sales and Service Tax (SST). Overall public debt as a percentage of the GDP was 50.9% in 2017, down from 52.7% in 2016; for 2019, the government is aiming at 51.8%. However, popular grievances over low wages and rising living costs, a major factor in BN’s defeat in the last election, are surging anew at the beginning of 2019.
Environmental concerns may be taken into account by Malaysian policymakers but are occasionally subordinated to promote economic growth. Deforestation and climate change are the nation’s primary environmental concerns. Under the new PH government, efforts to improve environmental challenges in the country can be observed. In September 2018, the newly elected government announced its plan to eliminate single-use plastic by 2030. Malaysia is the first country in Southeast Asia to set such a goal. A few weeks earlier, the government declared a ban on the use of plastic drinking straws in Kuala Lumpur, Putrajaya and Labuan effective January 1, 2020. Malaysia is the world’s eighth biggest plastic polluter. After taking power, the PH government created the Energy, Green Technology, Science and Climate Change Ministry, acknowledging that the fight against the effects of climate change must be effectively coordinated by the government. However, only 32% of Malaysian respondents were concerned about climate change, according to a 2016 survey by the Merdeka Centre. During the period under review, Malaysia again suffered flooding. In January 2018, two people were killed and 12,000 evacuated because of floods in the state of Pahang. Floods in the northern state of Kelantan in 2017 and in Penang caused significant economic damage. The main culprit of these floods is deforestation, with illegal logging still a major problem. In November 2018, state-owned oil company Petronas set up a new business within the group to make a push into renewable energy. However, renewable energy sources are still given minimal attention.

In principle, education policy ensures a nationwide system of reasonably sound education and training. The research and technology sector is broadly based. Public expenditure on education, totaling 4.83% of the GDP in 2016 according to World Bank data, can be considered high, even with reference to international standards. Malaysia has currently 20 public universities, 33 polytechnics, and 72 private universities, university colleges and Malaysian campuses of foreign universities, and about 500 private colleges, with almost a million students enrolled in these institutions. More than half a million students are enrolled in public universities. During the period under review, improvements have been made with regard to gross enrollment ratios at the secondary and tertiary levels. As of 2017, gross enrollment ratios at the secondary level stood at 86.1% and at the tertiary level at 41.9%. The World Economic Forum’s Global Competitiveness Report 2018 ranked Malaysia 25 out of 140 countries overall; in terms of future-readiness, Malaysia was ranked ninth globally. In the UNDP’s Education index, Malaysia ranked 80th overall with a score of 0.700. In October 2017, the Malaysian government revealed its plan to achieve a highly skilled workforce rate of 45% by 2030. At the moment, Malaysia’s highly skilled workforce rate is 28%. Expenditure on R&D amounted to only 1.3% of the GDP in 2015. The overall literacy rate stood at 94.6% in 2015. In addition, significant numbers of Malay Muslims gravitate at the primary and secondary levels into religious schools, many of which are unregistered as these schools do not provide a high-quality education.
Governance

I. Level of Difficulty

The Malaysian government faces only moderate structural constraints with respect to its capacity to govern. Infrastructure development and extreme poverty are not serious constraints for the newly elected PH government. Air pollution, the effects of the climate change and floods indicate that the country is moderately exposed to natural disasters. Projections indicate that by 2030 Selangor, Malaysia’s richest state and home to almost six million people, will experience more frequent water shortages. Estimations indicate that about a quarter of Malaysia’s population will be displaced because of climate change by 2030. As an indicator that the effects of climate change are already being experienced, the worst floods in the past 30 years have all occurred since 2003. During the period under review, Malaysia again suffered from floods. In January 2018, two people were killed and 12,000 evacuated because of floods in the state of Pahang. Floods in the northern state of Kelantan in 2017 caused more than MYR 30 million in damage. The same year, floods in Penang cost the island state MYR 34 million.

In addition, the Malaysian government must improve public safety, especially in the state of Sabah. During the period under review, insufficient border controls along the coast of Sabah led again to kidnappings. Though security forces belonging to the Eastern Sabah Security Command (ESSCOM) remained on high alert throughout the period under review and helped to significantly reduce the number of kidnappings, two Indonesians were abducted from their vessel off the coast of Semporna town in September 2018. The kidnappers were believed to be members of the Abu Sayyaf group.

Also, the education system’s output of high-skilled workers needs improvement and the new PH government must address regional disparities in economic development, especially on the island of Borneo. In addition, the labor market suffers from several weaknesses, especially in productivity, which is growing at a slow pace, hindering higher salaries. Malaysia’s current production structure and reliance on low-skilled labor are impeding economic growth. Furthermore, women are underrepresented in engineering, architecture and other traditionally male-dominated fields. Ethnic and religious heterogeneity also represent persistent structural constraints.
Civil society traditions remain fairly weak in Malaysia, and apart from religious and ethnic organizations, voluntary organizations are mostly found in urban areas. Though new NGOs have emerged in the last two decades, the country’s voluntary organizations remain plagued by scarce organizational resources. Nonetheless, civil society groups played a significant role in the outcome of the last general elections in May 2018. Civil society groups (e.g., the Coalition for Clean and Fair Elections, Bersih) actively educated the public about redistricting violations made by the Election Commission (EC) prior to the general elections. As a result, large segments of the public were sensitive to the authoritarian tactics used by the former BN government and the institutions controlled by the BN, such as the EC. Voters were actively involved in monitoring the conduct of the elections through activities including volunteering for Bersih’s election monitoring program, and assuming roles as polling agents and counting agents. As a result, electoral vigilance was high on polling day, hampering the ruling coalition’s opportunities for rigging the elections. The results of the general elections can be seen as proof that elevated political consciousness and participation, evoked by civil society groups such as Bersih, can make a difference even in a moderately authoritarian system. In general, two civil society cultures have emerged within the growing circle of NGOs. On the one hand, liberal organizations have strengthened monitoring activities in such areas as human rights, the government’s reform agenda and, especially, environmental issues. On the other hand, a more welfare-oriented culture has emerged in rural areas, with a particular focus at the local level on informal community assistance to the poor. However, only 20% of Malaysian respondents are members of any form of societal association, according to data provided by the World Value Survey. The data further shows that involvement in associations largely fails to foster trust in fellow citizens in Malaysia. Social capital is markedly low in Malaysian society: 91.5% of Malaysian respondents report that people cannot be trusted.

There have been few outbreaks of serious violence in Malaysia in recent years. However, society is polarized along ethnic and religious lines. The divide between Muslims and non-Muslims was evident during the period under review and culminated in violence in November 2018. A dispute over the relocation of a Hindu temple outside of Kuala Lumpur led to a violent outbreak and left one firefighter dead. A group of mainly ethnic Malays were armed with weapons and forced devotees to leave the temple. In the following violent scuffle, one firefighter was killed when he was attacked by a small group. Malaysian police forces arrested 21 people related to the violent incident. Significant shares of the Malay population continue to reject any change to Malay dominance. This became evident in December 2018, when more than 50,000 people demonstrated in Kuala Lumpur against the ratification of the International Convention on the Elimination of All Forms of Racial Discrimination (ICERD). Just before the demonstration, the newly elected PH government withdrew from ratifying the ICERD. The polarization of Malaysian society with regard to how far religious norms should define daily public life became
evident in September 2018, when two women were caned in the state of Terengganu. The two women were sentenced to the punishment after being observed engaging in sexual activity in a car in April 2018. Associations such as the Malaysian Bar condemned the verdict and demanded that the PH government abolish the punishment. The federal government rejected these complaints by emphasizing that in this particular case the jurisdiction was within the Shariah courts of the state of Terengganu. These examples indicate that even though the federal government in Malaysia has changed during the period under review, the legacy of the former BN government with regard to the configuration of ethnic and religious relations still plays an important role in Malaysian society.

II. Governance Performance

14 | Steering Capability

The newly elected Malaysian ruling coalition set strategic priorities after taking over the government in May 2018. Since government business only resumed in July 2018, it is difficult to analyze whether there is coherence between the new ruling coalition’s everyday decisions and its long-term policy aims. The government’s long-term developmental goals include a democratization of the public sphere and serious deepening of democratic norms. The government installed the Institutional Reforms Committee (IRC) on 15 May 2018. The IRC, to which reform proposals could be submitted, handed a total of 223 recommendations related to governance, integrity and corruption prevention to the government; these are currently under review. So far, the Malaysian public has no knowledge of their concrete recommendations, but the IRC declared that their report covered nine key institutions in the country: the parliament, EC, judiciary, Attorney General’s Chamber, MACC, police, Immigration Department, Malaysian Communications and Multimedia Commission (MCMC), and Human Rights Commission (SUHAKAM). The recommendations are believed to strengthen institutions including the courts, parliament, MACC, and National Audit Department – areas that have been weak and not in line with democratic policy measures. Furthermore, the IRC recommends the formation of an Independent Police Complaints and Misconduct Commission (IPCMC), a demand that has been voiced by civil society groups for more than a decade.

So far, the newly elected PH government set new economic priorities. The reduction of the high level of government debt, largely related to expensive infrastructure projects imposed by the former government and whose benefits to the population are widely doubted, is one of the main priorities of the Mahathir administration. However, the abolishment of the GST, a central promise in the election manifesto,
was seen as a populist move to gain the trust of PH voters but not in line with the strategic priority of achieving fiscal consolidation. Nevertheless, the new government understands the necessity of reforming public finances, especially in the aftermath of the 1MDB scandal. For example, the newly formed Public Finance Committee (PFC) is tasked with outlining medium-term fiscal plans to balance fiscal consolidation and government spending for future economic growth. In addition, the Mahathir administration set up a Tax Reform Committee (TRC) to make the country’s taxation system efficient, neutral and progressive.

Several supporters of the government have criticized the slow pace by which the new administration is tackling democratic reforms. Reform developments must be viewed, however, within the context of the relatively short time period since the PH government took power and the major groups within the population who outright reject democratic reforms. Thus far, the PH government tabled a bill to abolish the Anti-Fake News Act (AFN), which was introduced by the previous government shortly before the elections in order to silence the opposition. The Sedition Act and the Printing Presses and Publications Act were among the six laws that the government announced it intended to amend or repeal in January 2019. In September 2018, Prime Minister Mahathir announced plans to reduce the stake political parties could have in media companies, ensuring press freedom; the government was considering reducing the stakes held by political parties to 10%. These moves indicate that the new administration is willing to implement democratic reforms. Even so, several repressive laws remain in place, contradicting the government’s strategic priority to deepen democratic norms in Malaysia. With regard to implementing economic reform policies and instituting a more market-based economy, the track record of the current administration has been more ambiguous. The release of the Mid-Term Review of the 11th Malaysia Plan and the first budget raised questions about the government’s real capacity to navigate medium-term risks. While the government is aiming for fiscal consolidation, planned expenditures on health care, social protection, rural infrastructure and the environment would further burden the Malaysian budget. Since the new government abolished the GST, federal revenue has decreased further. In addition, the Mahathir administration’s plans to increase non-tax revenue will increase the dependence on revenues from state-owned enterprises (SOEs). In the Mid-Term Review, the government confirmed its intention to maintain policies favoring Malays and other indigenous groups. After the change of government, there was hope that Mahathir’s more representative government would bring an end to the country’s long-running and ill-targeted affirmative action program, which contradicts any measures to institute a more market-based economy.
So far, the new administration shows flexibility and learning with reference to democratic reforms. It is difficult as yet to assess if the new government will pursue populist policies with regard to economic reforms. The abolishment of the unpopular GST, which broadened the government’s revenue base and the reintroduction of fuel subsidies have raised fears among experts that the new administration will reverse economic reforms made by the previous administration, which helped to implement fiscal consolidation. In addition, the new government showed signs of rigidity in its imposition of requirements in some policy areas; most notably, the operation of branch university campuses in Malaysia, and recruitment of international staff and students. In seeking to protect local employment, the government is retreating from earlier aspirations to form a regional education hub. In contrast, the stopping of several large infrastructure programs that burdened the national budget and were of little advantage to the population can be seen as positive examples with regard to the government’s capability to learn from mistakes made by the previous administration. Also, the government’s initiative to reform the electoral process indicates a willingness to approach the implementation of democratic reforms in a more inclusive way. In November and December 2018, a roundtable was convened by the Mahathir administration to discuss electoral reforms. The roundtable comprised sessions covering several aspects of electoral reform: including electoral system design to address identity politics, boundary delineation, voter registration and electoral register management, absentee voting, electoral integrity in the digital era, political finance, electoral legislation, and electoral management body independence. In addition to election experts, participants included political parties, civil society organizations and members of parliament, as well as senators, the EC, the Electoral Reform Committee, and the MACC. The roundtable reveals the government’s capability to ask for external expertise with regard to the implementation of democratic reforms.

15 | Resource Efficiency

The Malaysian government makes efficient use of most available human, financial and organizational resources. The government’s administrative personnel are generally seen as professional. However, the reach of competitive recruiting systems is limited due to the Bumiputera quota system. This negatively impacts the functioning of the administrative system at all levels of the Malaysian bureaucracy. Furthermore, the highly centralized character of the Malaysian federation cripples local government initiative. Further, the government’s affirmative action policy, which establishes a Bumiputera quota for virtually all of its economic activities, remains problematic and not in line with a market-based economy. After the change in government, the new PH administration was urged to review the criteria for appointing directors to government-linked companies (GLCs) and state-owned enterprises (SOEs), since under the BN government, problems of cronyism and patronage undermined company operations. In September 2018, a study was
published revealing that political patronage at state GLCs in Selangor and Penang has continued even in states controlled by the PH coalition. Separately, the federal government’s level of debt remains higher than that of comparable countries and budget discipline has so far not been a trademark of the new government. With a budget deficit of 3% of the GDP in 2017 and public debt that was the equivalent of 50.9% of the GDP in 2017, the government is far from achieving a balanced budget. Without the implementation of major fiscal reforms, it is unlikely that the government will significantly reduce its budget deficit in the coming years.

The government coordinates conflicting interests and objectives under the leadership of Prime Minister Mahathir. So far, Mahathir handled conflicts within the newly elected government over economic and social policies in such a way as to achieve relative policy coherence. However, when Mahathir was prime minister for the first time (i.e., from 1981 until 2003), his government style was characterized by a strong focus on hierarchy and a decision-making process centralized in the hands of the prime minister. As of now, Mahathir’s style of government is more inclusive. One challenge concerns coordination across federal, state and local levels of government. The opposition parties, the BN and PAS, are in power in the states of Kelantan, Terengganu, Perlis and Pahang. In the past, when the current governing parties of the PH coalition governed at the state level and the BN was in power at the federal level, tensions emerged in such areas of shared authority as infrastructure development and the provision of basic services such as water and waste management. So far, the federal government has not interfered with the state governments concerning questions such as the implementation of Shariah law. As previously mentioned, the federal government voiced its concerns, but took no action against the sentence, when two women were caned under the Shariah law in Terengganu in 2018. So far, the federal government has been inconsistent with its management of the tense ethnic relations in the country. Although the PH coalition ran a multiethnic electoral manifesto, the new administration has not made any amendments to the special position of the Malay/Muslim majority population. In addition, the new government struggled on several occasions to coordinate its policy initiatives and gave contradictory statements on the current state of government projects (e.g., the cancellation of the East Coast Rail Line). Compared to other countries, however, the government’s ability to coordinate conflicting objectives and interests remains relatively effective.
The newly elected government is willing to contain corruption, as indicated by several reforms implemented and the charges made against former Prime Minister Najib Razak during the period under review. Levels of corruption in the civil service are the lowest in the region after Singapore. On July 3, 2018, former Prime Minister Najib Razak was arrested by the MACC in order to investigate how MYR 42 million went from a bank account related to the strategic development company 1MDB into his bank account. In Najib’s home, police seized 1,400 necklaces, 567 handbags, 423 watches, 2,200 rings, 1,600 brooches and 14 tiaras worth $273 million, raising questions on how the former prime minister could have afforded to accumulate these kinds of treasures. The following day, Najib was indicted in the High Court in Kuala Lumpur on three counts of criminal breach of trust and one count of abuse of power. One month later, the former prime minister was charged with three further counts of money-laundering as part of the MACC’s investigation into the 1MDB scandal. Najib denied all accusations and was granted bail. In sum, the former prime minister faces dozens of criminal charges linked to the 1MDB scandal. The prosecution of Najib’s actions while prime minister is a clear break with the past, when there were basically two different rules in place for the “big fish” and the “small fish” when it came to the prosecution of corruption. On taking over the federal government, the PH coalition immediately announced the development of a National Anti-Corruption Plan that outlines the government’s priorities in the fight against corruption. In June 2018, the government founded the National Centre for Governance, Integrity and Anti-Corruption (GIACC), which coordinates and monitors all activities related to governance, integrity and combating graft. GIACC is also responsible for formulating strategies and evaluating policies to ensure all government affairs are carried out based on good governance, integrity and with zero-tolerance for corruption. GIACC’s recommendations for improvements were tabled before the Special Cabinet Committee on Anti-Corruption (JKKMAR). In January 2019, the new administration unveiled its five-year National Anti-Corruption Plan. Under the plan, the government tackles key areas, including strengthening political integrity and the accountability and effectiveness of public service delivery, and increasing efficiency and transparency in public procurement. In addition, the plan aims at enhancing the credibility of the judicial system. These policy measures indicate that the Mahathir administration is firm in its fight against corruption.
On liberal democracy, no consensus is shared by the newly elected government and opposition parties. While the new administration slowly repeals repressive laws that have been a trademark of the Malaysian political system over the last decades, the opposition parties have refrained from supporting these reforms. Islamic right-wing groups organize demonstrations to pressure the current administration not to liberalize the political sphere too much. Even so, a significant part of civil society support democracy and the Mahathir administration’s reform agenda.

In principle, all major political and social actors agree on the goal of a market-based economy. The exceptions to this include some environmental groups, who criticize the subordination of environmental considerations to growth efforts, as well as right-wing Malay groups such as Perkasa, who argue for economic opportunities to be structured on ethnic lines. Right-wing Malay groups, which dominate certain segments of the public discourse, pose a serious challenge to the government’s reform policies. Labor activists have also expressed concern with the impact of several free trade agreements. Nevertheless, there is no politically or economically relevant actor with the power to derail either the reform process or the expansion of the market economy.

With the electoral victory of the opposition parties in the last general elections in May 2018, pro-democratic reformers took power at the federal level for the first time since Malaysia’s independence. The implications of the opposition’s electoral victory were immediately obvious: the new administration declared its intentions to amend or repeal several repressive laws. However, with the parties of the former government still controlling the Senate and four state governments and large segments of the Malay/Muslim population voicing disdain for far-reaching democratic reforms, the ruling coalition must be cautious with how far their democratic reform agenda can go without causing deep dislocations within the population. This was clearly indicated by the current opposition’s blocking in the Senate of the repeal of the Anti-Fake News Act. In contrast, the military appears not to pose a threat to democratic reformers, since it decided not to intervene in the 2018 electoral victory of the opposition coalition. The armed forces are effectively subordinated to civilian rulers.
Given the ethnic and religious heterogeneity of Malaysian society, with its significant ethno-religious cleavages, former and current governments have been varying success in managing social differences. After the change of government, there was a peaceful transfer of power – without violent clashes between ethnic groups. This was a departure from events in 1969, when opposition parties gained a significant share of seats in the general elections and riots broke out. However, while cleavage-based conflicts have not boiled over into large-scale violence, incidents such as the dispute over the relocation of a Hindu temple outside of Kuala Lumpur, which led to a violent outbreak and left one firefighter dead, demonstrate the potential for ethnic conflict. The new administration will have to prove that it is possible to implement reforms with regard to the social contract (i.e., to establish equal rights among the various ethnic groups) without causing violent disruptions.

The newly elected political leadership permits civil society participation. It considers and accommodates the interests of most civil society actors. Though laws pertaining to NGOs and other civil society groups limiting the space within which civic activity can take have not been repealed during the period under review, civil society groups can organize their activities without interference from the government. In addition, recommendations formulated by civil society actors have an impact on government policies since the new administration took office in May 2018. As a result, Malaysian civil society has increased input into agenda setting, policy formulation, policy implementation and performance monitoring. Some civil society leaders are now within the government either at the federal or state level. Furthermore, the government increasingly intends to partner with civil society organizations, for instance, for welfare service delivery. Islamist groups, who previously were close partners with the BN government, are currently sidelined on the federal level.

The effects of the May 13, 1969 race riots remain visible in Malaysian society, as the Bumiputera affirmative action policies implemented at the time remain partially in place. Discontent with these policies are clearly visible among the ethnic Indian and Chinese minorities. This fact played an important role in the crushing defeat of the former BN government in the last general elections, since two of the coalition partners (the Malaysian Chinese Association, MCA, and Malaysian Indian Congress, MIC) completely lost support within their own ethnic communities. The newly elected government is in a difficult position, needing to accommodate the demands of the ethnic Chinese and Indian minorities by finding a more inclusive way of formulating and implementing policies without favoring one ethnic group. At the same time, the two largest opposition parties, UMNO and PAS, have made clear that they and their supporters will not accept changes to Bumiputera affirmative action policies. As a result, tensions between the Malay-Muslim majority and non-Malay/non-Muslim minorities remained high during the period under review.
International Cooperation

The political leadership uses international assistance for its own development agenda, but it remains difficult to assess if the new administration views international assistance as an important instrument for implementing its long-term development strategy. The former BN coalition limited the influence of international aid by approving only those projects that suited the government’s own ideological preferences. Amid the 1MDB scandal, the Najib administration tried to limit external influence on the ongoing investigations and failed to fully cooperate with international prosecutors. As a reaction to the investigation by U.S. authorities, the former government largely relied on Chinese support to absorb the financial effects of the 1MDB scandal, awarding Chinese contractors large infrastructure projects. The new Mahathir administration completely changed the government’s approach with regard to the handling of the 1MDB scandal and stopped several large infrastructure projects as well as welcomed information provided by foreign law enforcement agencies.

The Malaysian government is considered by the international community to be a reliable and credible partner. The political leadership remains fully engaged with the World Bank, IMF, Asian Development Bank (ADB), WTO and other international institutions. After taking power, Prime Minister Mahathir spoke at the 73rd U.N. General Assembly and confirmed the country’s commitment to international laws and norms. The PH government’s decision to stop several large infrastructure programs, which affected not only China but also neighboring Singapore, had a negative effect on China’s view of Malaysia as a reliable partner. In September 2018, Malaysia and Singapore signed an agreement to postpone work on the Kuala Lumpur-Singapore High Speed Rail for about two years. Both countries released a joint agreement in which they announced that the project is now expected to commence by January 2031, four years later than the original start date of December 2026. In addition, the new administration characterized its decision to stop several infrastructure projects with the Chinese government as primarily a commercial matter.

The government promotes both regional and international cooperation. In March 2018, Malaysia was one of 13 countries to sign the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which incorporates most of the provisions of the defunct Trans-Pacific Partnership Agreement (TPP). The agreement was signed by the former BN government. The newly elected PH coalition, however, delayed ratification of the CPTPP due to the significant number of laws the government must amend. In addition, the government raised the possibility of striking bilateral deals with CPTPP countries with which it currently does not have trade pacts. With regard to the Regional Comprehensive Economic Partnership (RCEP), a planned agreement between ten ASEAN countries, Australia, China, India, Japan, the
Republic of Korea and New Zealand, Malaysia hopes to conclude final talks by the end of 2019. In addition, Malaysia is cooperating with its neighbors to improve security in the international waters close to Malaysia and secure commercial routes. Currently, Singapore, Malaysia, Indonesia and Thailand conduct joint patrols along the Malacca Strait from the Andaman Sea down to the Singapore Strait and its entry point from the South China Sea.

At the same time, conflicts over contested national boundaries and issues of regional cooperation (e.g., the territorial conflict with Singapore around the port of Johor area in Southern Malaysia) remain active. In October 2018, the newly elected Malaysian government under the leadership of Prime Minister Mahathir declared its intention to alter the maritime map around the port of Johor, an area that is of strategic importance. Singapore’s government rejected this unilateral move and complained about a rising number of Malaysian vessels intruding Singapore’s territory. In addition to these longstanding territorial claims, the Malaysian government stated its intention to regain control of Malaysian airspace from Singapore; since the 1970s, Singapore is responsible for air-traffic control over the southern part of the Malaysian state of Johor. Finally, Malaysia’s territorial dispute with the Philippines over the northern part of Sabah on the island of Borneo remains unresolved.
Strategic Outlook

Malaysia faces a challenging political landscape for reforms. Although the PH coalition has begun to amend or repeal repressive laws that narrowed the space for political activism, the legacies of several decades of authoritarian rule are strong and difficult to overcome. The elections demonstrated that the former BN’s formula of a “multiracial” ruling coalition, which included ethnicity-based parties and helped to stabilize communal relations after the riots in 1969, no longer provides political stability to the country. The ethnic Chinese and Indian minorities expect the newly elected government to implement far-reaching political and economic reforms that improve their situation. Several civil society groups that supported the new administration before the elections and whose leaders became members of the government expect a democratization of the political space as well as a political dividend for their activism and support. At the same time, the current opposition parties and radical Malay activists continue to agitate for a distinctly Malay nativist agenda. These groups will not hesitate to act against the government if political and social reforms threaten to take away the special rights of the Malay population.

Consequently, the ruling coalition under Prime Minister Mahathir’s leadership will have to undertake several measures to avoid any further deepening of religious and ethnic cleavages within the population. First, the ruling coalition should make it clear that the federal government does not support the strengthening of Shariah law as occurred in the states of Terengganu and Kelantan, as such measures alienate ethnic minorities as well as foreign investors. Second, the government must widen its scope of democratic reforms and completely abolish any repressive laws that oppress political activism and independent media outlets. Although the government already initiated a democratic transformation, it must take advantage of this window of opportunity to change Malaysia’s political course for the future and ensure that the transformation is sustainable. In addition, the government should consider radical changes to the electoral system. At the moment, the ethnic majority vote is split between two blocs, while minorities have only one viable choice, since they will not vote for a possible UMNO-PAS bloc because both parties follow a Malay agenda. In this constellation, the critical votes will come from the median Malay, not the median Malaysian, which will further deepen ethnic and religious cleavages. In the current first-past-the-post (FPTP) system, PH’s communal and regional opposition have no incentive to offer an inclusive and cohesive platform for the whole of Malaysia. Introducing some form of proportional representation in the electoral system may increase the incentives for political parties to address not only the voters of their own ethnic group, but the whole Malaysian population.

To promote a more competitive market economy, the PH government should refrain from populist decisions in the economic sphere and keep the long-term development of Malaysia’s market economy in view. Although some economic reforms (e.g., the reduction of subsidies or the implementation of new taxes) might be unpopular with the electorate, these measures could reduce the country’s dependence on the export of commodities and generate necessary revenue for fiscal
consolidation. To promote a more competitive economy, the government could reduce preferential policies and special rights favoring the Bumiputera.

In addition, the government should not interfere in the legal processes resulting from the 1MDB scandal. It is the obligation of the Malaysian judiciary to identify those who are responsible for the 1MDB scandal and to bring these individuals to justice. Any political interference would not only damage the government’s reform agenda but stir up conflict within the Malaysian population. Finally, the PH government should make a conscious choice as to who will follow Mahathir in the prime minister’s office. Any power struggle between Mahathir and potential successors (e.g., Anwar Ibrahim) would undermine voters’ confidence in the government and tarnish the historical victory of the general elections in May 2018.