

BTI 2016 | Malaysia Country Report

	scale	score	rank	trend
Status Index	1-10	6.21	# 48 of 129	
Political Transformation	1-10	4.98	# 77 of 129	➔
Economic Transformation	1-10	7.43	# 21 of 129	➔
Management Index	1-10	5.46	# 47 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	29.9	HDI	0.773	GDP p.c., PPP \$	24951.1
Pop. growth ¹	% p.a.	1.5	HDI rank of 187	62	Gini Index	46.3
Life expectancy	years	75.0	UN Education Index	0.671	Poverty ³	% 2.7
Urban population	%	74.0	Gender inequality ²	0.210	Aid per capita	\$ -4.1

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

While Malaysia made little progress toward democratic transformation in the years 2013 to 2015, it did strengthen its economic position. The general election in May 2013 returned the Barisan Nasional (National Front, BN) to power, albeit with only 47.38% of the popular vote – the coalition’s worst electoral performance to date. The Malaysian Chinese Association (MCA) performed especially poorly, continuing its steep slide since 2008 and indicating dissatisfaction with the ruling coalition among ethnic Chinese. Concerns over the rising cost of living, corruption and poor governance, and frustration with the BN’s ethnic model drove voters to the opposition. The opposition Pakatan Rakyat (PR) coalition, consisting of the Democratic Action Party (DAP), Parti Islam seMalaysia (PAS) and Parti Keadilan Rakyat (PKR), won 89 of the 222 seats in parliament, a gain of seven seats since the last general election in 2008. However, PR only won control of three state legislative assemblies, failing to recapture Kedah and Perak, which it had won in 2008. After the election, the Malaysian government continued to crack down on opposition politicians and activists, investigating and charging a number of them under the Sedition Act and twice reaffirming opposition leader Anwar Ibrahim’s five year jail term for sodomy (obstructing his bid to become Selangor’s chief minister in the process), interfering with both online and print media, and fostering an environment of worsening racial and religious polarization.

Malaysia’s economic transformation from 2013 to 2015 was more positive than its political development. Malaysia experienced solid macroeconomic development in this period. The overall GDP growth rate for 2013 was 4.7% and 5.6% in 2014, with 2015 growth forecast by the government to be 4.6%. GDP per capita (on a purchasing power parity basis) increased in 2013 to \$23,338, exceeding pre-global financial crisis levels. The unemployment rate fell to an all-time low of 2.7% in November 2014. During the period under review, the inflation rate (based on average consumer prices) increased moderately, climbing as high as 3.5% in March 2014. The average for 2014 was 3.15%, higher than the 2013 average of 2.09%. In 2013, Malaysia experienced a sharp rise in FDI inflows, increasing 22.2%, to \$12 billion. In the same year, FDI

outflows decreased by 20.5%, to \$13.6 billion. During the period under review, the Malaysian government finally decided to impose a goods and services tax (GST), which will go into effect on 1 April 2015.

The country did experience economic setbacks in this period. In 2014, national carrier Malaysia Airlines lost two aircraft, with a combined total of 537 passengers. One aircraft disappeared on 8 March 2014 and the other was shot down near the Ukraine-Russian border on 17 July 2014. In August 2014, Malaysia's state investment arm, Khazanah Nasional, announced that Malaysia Airlines would be delisted from the stock market and placed under government control. Moreover, the structural fiscal deficit remained high during this period and threatened to undermine the country's growth. The weakness of the country's current model, which relies on oil-related revenue to sustain a large budget deficit and fund widespread subsidies, social transfers and infrastructure projects, became evident when global crude oil prices dropped significantly in 2014. The government's 2015 budget, announced in October 2014, was originally based on an oil price averaging \$100 a barrel. In January 2015, the government lowered its oil price forecast to \$55 a barrel, which will lead to a revenue shortfall of MYR 8.3 billion. Necessary cutbacks could spur further political discontent and impede economic plans.

History and Characteristics of Transformation

The federation of Malaysia was established in 1963, combining the territories of Malaya, Singapore, Sabah and Sarawak. Two years later, in 1965, Singapore was expelled from the federation. Today, Malaysia consists of 13 states and three federal territories. It is a constitutional monarchy based on the British Westminster model, a legacy of British colonialism. At the federal level, there is a bicameral legislature. The House of Representatives (the lower house) is composed of members elected every five years in a first-past-the-post election from single-member constituencies. The Senate (upper house) consists of 70 members, 26 of which are indirectly elected by the states, while the other 44 are appointed by the king. Executive power lies with the prime minister and the 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 group 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 Chinese and Indians originally came to Malaysia during colonial times, when the British actively recruited them to open up the economy. After independence, the British left political power largely in the hands of the indigenous Malays. The Malay leaders then forged a political alliance with the major Chinese and Indian parties. This set a pattern in which the office of the prime minister was to be occupied by a Malay from the United Malays National Organization (UMNO). The current president of UMNO, Najib Tun Razak, is Malaysia's sixth

prime minister. He is the eldest son of Abdul Razak, who was the second prime minister of Malaysia. However, the alliance system collapsed in May 1969 when emergency rule was declared and the constitution suspended after race riots broke out between the Malays and the Chinese in the wake of a bitterly fought election. Once the constitution was reinstated in 1971, new legislation was passed ensuring Malay political supremacy, which in turn allowed the UMNO to enhance its powers and aggressively promote its main supporters, the Malay population. A 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 the non-Malay (i.e., Chinese) threatened racial harmony and had prompted the May 1969 riots. Although the NEP discriminated against the non-Bumiputera, the UMNO-led government was careful to allow a free market economy to develop. The government gave the non-Bumiputera a free hand in the economy, as long as quotas and shares were allocated to Malays. This strategy, which emphasized growth with ethnic distribution through significant foreign direct investment in the 1970s and 1980s, was so successful that Malaysia became one of the “Asian Tiger” economies.

Although the NEP officially ended in 1991, economic policies since that time have changed little in character. They continue to include special rights for the Bumiputera, while at the same time promoting rapid economic growth to ensure that all ethnic groups receive their share of the economic pie.

The government has been headed by the UMNO since independence, while the ruling coalition, the Barisan Nasional (BN), has won every general election. 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. Having successfully managed the economy, the government has been able to proclaim that, by 2020, Malaysia will be a fully developed and industrialized country. Today, Malaysia is generally regarded as a success story among developing countries in the sense of maintaining a stable and growing economy. However, the polity has become significantly unstable in the past years, mainly due to increasing ethno-religious conflicts.

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

Question
Score

The Malaysian state's monopoly on the use of force is established nationwide in principle, but it is challenged by guerilla groups active on and off the coast of Borneo, as well as sporadic violent crime. In addition, Malaysia's territorial dispute with China, the Philippines, Brunei, Vietnam and Taiwan in the South China Sea further intensified during the period under review. Malaysia claims 12 maritime features in the Spratly Islands which are thought to hold vast reserves of natural resources. At time of writing, Malaysia occupied six of these features. To reinforce and defend its claims, Malaysia maintains a military presence on the Ardasier Reef, the Mariveles Reef, the Swallow Reef and Investigator Shoal. Two claimed features, Amboyna Cay and Barque Canada Reef, are currently occupied by Vietnam and one claimed feature, Commodore Reef, is occupied by the Philippines. In March 2013 the Chinese Navy deployed vessels and conducted military drills near James Shoal, a small bank in the South China Sea located 80 kilometers from the Malaysian coast which is claimed by China. Malaysia's response came in October 2013 when it announced plans to build a naval base in the Sarawan town of Bintulu, the closest major town to the James Shoal; the Chinese resumed exercises in January 2014. Although Malaysia did not join a legal challenge which the Philippines and Vietnam lodged against China with the International Tribunal for the Law of the Sea, the Malaysian government intensified its cooperation with neighboring countries Vietnam and the Philippines. With China increasing its dredging activities within the Spratlys throughout the period under review, ASEAN members meeting at a November 2014 summit discussed a code of conduct for the South China Sea to deescalate the conflict.

Monopoly on the
use of force

9

Malaysia's territorial dispute with the Philippines over the northern part of Sabah on the island of Borneo is unresolved and led to a violent clash with guerilla groups in March 2013. The Philippines' claim to the territory stems from the sultan of Brunei's act ceding Sabah to the sultanate of Sulu in the 17th century. The Sulu lands now belong to the Philippines. In 1798, the territory was leased to the British North Borneo

Company and brought under direct British control in 1946. Malaysia contends that the territory was purchased by the British North Borneo Company and is therefore a part of Malaysia. On 11 February 2013, 235 Philippine members of the Royal Security Forces of the Sultanate of Sulu and North Borneo occupied the village of Tanduo in Sabah. The government's three-week ultimatum to leave Sabah expired on 28 February 2013; the next day Sulu Sultanate supporters engaged in a firefight with police leaving 12 people dead. On 5 March 2013, Royal Malaysian Air Force fighter jets attacked a militant camp in Tanduo. With support from police, the Malaysian army surrounded the camp, killing at least 32 militants close to the destroyed campsite over the following three days. As a reaction to the standoff, the Malaysian government established the Eastern Sabah Security Command (ESSCOM), a security area that encompasses 1,400 km of the east coast of Sabah between Kudat and Tawau. The purpose of the ESSCOM is to strengthen maritime security in the eastern part of Sabah. However, Philippine militants kidnapped at least six people and killed two in a series of ambushes conducted in Sabah since November 2013.

Nearly all Malaysian citizens accept the nation-state as legitimate, and all individuals and groups enjoy full citizenship rights without discrimination. However, the Malay majority population and the Islamic religion shape the character of the Malaysian state. Ethnic Malays dominate the country's key political institutions, such as the parliament, the bureaucracy and the armed forces. The office of head of state, the Yang di-Pertuan Agong, is also a distinguished Malay institution. This Malay predominance draws criticism from Indians and Chinese, who make up about 30% of the population and report feeling like second-class citizens. Some Malay political leaders have stoked these tensions, particularly since the 2013 election, by characterizing non-Malay citizens as "pendatang" (immigrants) or as otherwise subordinate to or enjoying fewer rights than Malays. In addition, indigenous groups in Sabah and Sarawak have repeatedly voiced discontent with Malay dominance, though only rarely does this extend to calls for either state to secede from the federation. Moreover, allegations of systematic granting of citizenship to foreigners in the state of Sabah led to the formation of a Royal Commission of Inquiry on illegal immigrants in Sabah in August 2012. The commission's main task was to investigate the number of foreigners in Sabah given blue Malaysian identity cards (ICs), which confer citizenship, and whether this was in accordance with the law. During the period under review, there were repeated allegations that the Malaysian government would grant citizenship to undocumented immigrants and register them on Sabah's electoral roll in order to secure its victory in the May 2013 general election. In December 2014, the commission's final report stated that there had been an abnormal spike in Sabah's population and that the state's illegal immigration problem warranted attention. The report concluded, however, that political parties had not been involved in the irregular granting of citizenship and blamed corrupt officials who took advantage of a flawed citizenship system.

State identity

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The Malaysian Constitution defines the state as secular, but with Islam as “the religion of the Federation.” 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 Shari’ah courts operate alongside civil courts in civil matters. Though the Shari’ah courts have jurisdiction only over matters involving Muslims, they remain highly influential in general, because their decisions frequently affect non-Muslims on matters such as child custody. For example, in April 2013 a Shari’ah court granted child custody to Izwan Abdullah, who had converted his daughter and son to Islam without informing his Hindu wife, Deepa Subramaniam. On 7 April 2014, the Seremban High Court granted Deepa Subramaniam full custody rights for both children as the marriage was a civil union. On 27 May 2014, the Court of Appeal confirmed the High Court’s ruling. Other custody cases have been similarly ambiguous and contentious, particularly given the non-Muslim parent’s restricted access to Shari’ah courts and police resistance to enforcing civil court rulings that contravene Shari’ah court decisions. The relative standing of the two court systems remains in dispute, and proposals to expand and federalize the Shari’ah court system are currently under consideration. During the period under review, a Federal Court ruling also sparked a national debate, deepening polarization among the country’s various ethnic and religious communities. In October 2013, the Court of Appeal reinstated a ban on using the word “Allah” in non-Muslim publications, despite longstanding practice, especially in Sabah and Sarawak, where most Christians speak and worship in the Malay language. In January 2014, Selangor state religious authorities seized more than 300 Bibles from the Bible Society of Malaysia because they referred to Allah. The Catholic Church in Malaysia appealed the Court of Appeal’s ruling in the Federal Court. On 23 June 2014, the Federal Court rejected the challenge in a 4-3 judgment, stating that the Court of Appeal had applied the correct test and that the Federal Court had no reason to interfere. The Malaysian government declared that the term “Allah” should be reserved exclusively for Muslims, as usage by other religious groups could lead to confusion among the Muslim population. The Federal Court’s decision was criticized by human rights groups and led to fears that religious dogmas could have an increasing influence on Malaysia’s legal order.

No interference of religious dogmas

6

The Malaysian state has a differentiated administrative structure throughout the country, providing all basic public services. The trained and professional administration, which is dominated by ethnic Malays, implements the policies of the (elected) federal and state governments and (appointed) local governments. The state is able to fulfill its proper jurisdictional function and enforce the law throughout the country. The country’s transport network is diverse and well-developed, with a particularly extensive road network. In October 2014, Prime Minister Najib announced plans to invest more than \$23 billion in the country’s ground transport infrastructure. These plans include the 1,663-kilometer Pan-Borneo Highway in eastern Malaysia, which would stretch from Sabah to Sarawak, several upgrades to

Basic administration

9

the Mass Rapid Transit system in Kuala Lumpur, and upgrades to the east coast railway. However, infrastructure in the states of Sabah and Sarawak remains underdeveloped compared to peninsular Malaysia. Although 100% of the population has access to a water source, only 96% has access to sanitation, mainly due to a significantly lower share in Sabah and Sarawak. Even in highly-developed Selangor state, periodic droughts – compounded by infrastructural weaknesses – have resulted in water shortages and rationing. Though the government announced plans to allocate MYR 1.35 billion in 2015 to enhance basic infrastructure coverage in rural areas of Sarawak, numerous rural communities in both Sabah and Sarawak are still without electricity services.

2 | Political Participation

Malaysia has established universal suffrage (over age 21) and regularly holds general elections at the state and federal levels. Opposition parties are able to run in the country's elections and political posts are generally filled according to the electoral outcome. Despite this fact, elections cannot be considered free and fair. The ruling coalition, the Barisan National (BN), frequently uses repressive laws to restrict the opposition and control the media. Cases of gerrymandering, the use of government resources to ensure consistent victories and electoral fraud – including the manipulation of voter registration lists – reflect an undemocratic strain within the BN government. New parties may face difficulties in registering, as was the case for Parti Sosialis Malaysia, and the Registrar of Societies has likewise denied the opposition Pakatan Rakyat coalition's request to register and run as a coalition, as the BN does. These undemocratic attitudes were clearly displayed in the general election on 5 May 2013 in which the opposition parties won the popular vote for the first time since independence but the ruling BN coalition formed the federal government with 60% of parliamentary seats. The Election Commission (EC) invited two independent Malaysian think tanks, the Institute for Democracy and Economic Affairs (IDEAS) and the Centre for Public Policy Studies (CPPS), to observe the electoral process (other organizations were invited, but declined). The think tanks deployed 325 observers to 99 parliamentary constituencies in peninsular Malaysia and six overseas polling centers. Their findings offered evidence of a highly unfair and only partially free voting process. The observers noted critically that state-funded media platforms had been abused to project partisan views to the public and were heavily biased against the opposition parties. In addition, the Registrar of Societies treated political parties unequally and delayed the registration process for opposition parties. Furthermore, government and armed forces facilities were repeatedly used for campaigning purposes during the campaign period. The use of indelible ink to prevent electoral fraud proved to be ineffective, as it could be washed off easily. On 17 June 2013, EC chairman Abdul Aziz Mohd Yusof admitted that he was disappointed with the indelible ink used in the general election. Opposition parties also raised

Free and fair
elections

4

allegations of electoral fraud related to irregularities in the electoral roll, especially in Sabah. The problems included incomplete addresses and voters who shared the same identity card numbers. The EC's lack of response to this electoral fraud and the narrow victory of the ruling party led to widespread demonstrations after the general election. On 8 May 2013, opposition parties mobilized more than 120,000 people and urged the government to reform electoral management. Data provided by the World Value Survey (WVS) confirms that the public is skeptical of the electoral system. According to the WVS, almost half of Malaysians don't know or don't think that voters are offered a genuine choice in Malaysian elections. However 90% believe that honest elections are important to the country's economic development, highlighting the need to improve the electoral process in Malaysia.

Political decision-makers come to office through elections which, as we have seen, are neither free nor fair. Members of the upper house of parliament, who may hold cabinet positions, are appointed rather than elected. Actual policymaking occurs mostly in the cabinet; the Supreme Council of the United Malays National Organisation (UMNO), the lead party in the ruling BN coalition, also exerts more influence on policy than its coalition partners. In principle, the government's effective power to govern is unhindered by potential veto-holders such as the military, clerics, landowners, business elites or external actors. Nonetheless, the importance of ethnic and religious politics in Malaysia makes it difficult for elected political representatives to implement profound policy changes. Racist groups such as Perkasa, an organization formed by Ibrahim Ali after the 2008 general election, has applied constant pressure on the federal government to maintain the special rights of the Malay population and to strengthen Malay supremacy throughout the country. Moreover, substantial overlap between business and political/party elites limits the decision-making autonomy of the latter.

Effective power to govern

3

Association and assembly rights are severely limited. Federal laws such as the Societies Act ensure that organizations critical of the government can be banned or refused registration. Even when political parties or other organizations are granted registration, the Registrar of Societies may hold office-holders liable or dissolve the group in the event of rule violations or irregularities (for instance, the internal election issue which nearly saw the opposition Democratic Action Party deregistered shortly before the 2013 elections). Some human rights groups register as businesses to limit scrutiny, but that status may be subject to investigation. Malaysian trade unions are strictly controlled under the Trade Unions Act and the Industrial Relations Act. In December 2011, the government passed the Peaceful Assembly Act. The act replaced Section 27 of the Police Act under which police permits were required for mass assemblies. The new law requires organizers to notify the local police chief, who outlines restrictions and conditions, at least 10 days before the planned event. Organizers must be at least 21 and participants at least 15. On 15 May 2012, the Malaysian government filed suit against 16 opposition leaders under the Peaceful

Association / assembly rights

4

Assembly Act 2012, claiming that the organizers of the Bersih 2.0 rally in April 2012 were responsible for damages caused by the demonstrations. The government sought special compensation amounting to MYR 110,543. While the case has been dismissed, the government has announced its intention to appeal. In a different case, on 25 April 2014 the Court of Appeal unanimously ruled that criminalization of spontaneous public assemblies in breach of the 10-day notice is unconstitutional.

Freedom of expression is severely limited in Malaysia. Laws such as the Official Secrets Act (OSA) and the Sedition Act restrict freedom of information and of speech. All mainstream media outlets are 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. While online media is able to operate in relative freedom (and Malaysians are eager consumers of online and social media), journalists from independent news site Malaysiakini have been barred from official press conferences, and the site's offices have been raided. Political cartoonist Zunar has seen his books banned and his office raided, and he has been investigated for sedition. There is no freedom of information act at the federal level, though the PR-controlled Penang state government gazetted one in 2012 (enacted 2014). The Malaysian government not only reneged on its promise to repeal the Sedition Act, during the period under review it made repeated use of the act to crack down on opposition politicians as well as students, activists, lawyers, and an academic. On 6 May 2014, well-known opposition MP Teresa Kok was charged under the Sedition Act for a Chinese New Year greeting posted on YouTube, which allegedly included jokes about Malaysia being a dangerous country. In August 2014, N. Surendran, one of opposition leader Anwar Ibrahim's lawyers, was twice charged with sedition for criticizing the reversal of Anwar's acquittal on sodomy charges and accusing Prime Minister Najib of being responsible for Anwar's prosecution. On 2 September 2014, Universiti Malaya law professor Azmi Sharom was charged under the Sedition Act for a newspaper column in which he critically described events of the 2009 Perak constitutional crisis. The same day, Malaysia's Human Rights Commission (Suhakam) asked Najib's government to make good on its promise to repeal the Sedition Act. The commission further stated that it was deeply disturbed by the arrest and prosecution of lawmakers, politicians, and an academic. In an open letter dated 13 January 2015, Amnesty International asked the Malaysian government to stop charging people under the Sedition Act and expressed its concern that investigations were an attempt to silence critical voices and dissent through a climate of fear. In November 2014, Prime Minister Najib declared that the Sedition Act would be strengthened to protect Islam and other faiths and address calls for secession in Sabah and Sarawak. The World Press Freedom Index 2014, published by Reporters Without Borders, ranked Malaysia at an all-time low of 147th place, 25 places below its 2012 ranking.

Freedom of
expression
4

3 | Rule of Law

The constitution provides a structure for the separation of powers in Malaysia. However, the executive has disproportionate power, and frequently influences the other two branches of government. The government's influence on the judiciary increased during the period under review. On 7 March 2014, the Court of Appeal sentenced opposition leader Anwar Ibrahim to five years' jail after overturning his acquittal on sodomy charges. The court's decision prevented Anwar Ibrahim from competing in a by-election in the state of Selangor. His candidacy was seen as a bid to become Selangor's chief minister. The Court of Appeal ran through the entire process of hearings, deliberation, judgment and sentencing in just two days, heightening concerns that the verdict was politically motivated. Anwar Ibrahim filed a final appeal with the Federal Court. Proceedings began in October 2014, concluding with a guilty verdict on 10 February 2015. In December 2014, US Vice President Joe Biden expressed concerns about the rule of law in Malaysia in a tweet that criticized the government's use of the legal system and Sedition Act to stifle opposition. He further stated that Anwar's appeal gave Malaysia a vital chance to promote confidence in its judiciary. A survey conducted by the Merdeka Center For Opinion Research found that only 38 percent of Malaysians felt confident in the country's judicial system, with 48 percent responding in the negative. The largest group among those who lacked faith in the judiciary were Chinese, followed by Indians.

Separation of
powers
4

The judiciary is institutionally differentiated and has the ability to interpret and review existing laws, legislation and policies. Channels of appeal are in place, and the court administration functions reasonably well. Judicial decisions and doctrines are not free from the influence of political decision makers, indicated by several court decisions during the period under review. On 25 October 2013, former transport minister Ling Liong Sik was acquitted and discharged by the Kuala Lumpur High Court of cheating the government over the multi-billion ringgit Port Klang Free Zone (PKFZ) project. The attorney-general did not appeal the court's decision, which was heavily criticized by opposition activists. On 21 January 2015, the Federal Court dismissed an application by the Malaysian Catholic Church to review the court's earlier decision to deny leave to appeal a ban on use of the word "Allah" in its publications. On 7 March 2014, the Court of Appeal sentenced opposition leader Anwar Ibrahim to five years in jail after overturning his acquittal on sodomy charges. In September 2013, the Malaysian Bar Council criticized the appointment of six judges to the Federal Court and the Court of Appeal. The council had not been consulted on the appointments. Previously, the chief justice made a point of consulting the council on the appointment of federal and appellate court judges.

Independent
judiciary
4

Officeholders who break the law and engage in corrupt activities are subject to prosecution under established laws as well as adverse publicity, but they often slip through political, legal or procedural loopholes. Though the Malaysian Anti-Corruption Commission (MACC) and the Auditor General's Report repeatedly highlighted corrupt practices within the public administration during the period under review, too often offenders escape prosecution. According to the Auditor General's Report 2013, a government officer responsible for embezzling close to MYR 1 million from the Accountant-General's Department was let off although the police's Commercial Crime Investigation department recommended that the Attorney-General's Chambers charge the officer. In October 2013, the MACC opened 15 investigation papers into various discrepancies revealed in the Auditor General's Report 2013.

Prosecution of
office abuse

6

Civil rights are constitutionally guaranteed but are nevertheless violated under the Malaysian state. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are partly in place, but often prove to be ineffective. The Malaysian authorities' attitude toward civil liberties remains ambivalent, with announced reforms announced but not implemented. During the period under review, discrimination based on religion, ethnicity and political allegiance significantly increased. The Malaysian government repeatedly made use of the Sedition Act to crack down on opposition politicians, thereby violating fundamental rights. In November 2014, Najib's government announced it would strengthen the Sedition Act, although it had originally planned to replace it with a "National Harmony Act". During the period under review, the government refused to set up the independent police complaints and misconduct commission recommended by a royal commission of inquiry. In January 2014, Amnesty International criticized the Malaysian government for attempting to ban a coalition of human rights groups, calling the incident an attack on freedom of expression (as a coalition, the groups could not, in fact, be collectively registered and banned). Freedom of expression was further undermined when the Court of Appeal reinstated the ban on using the word "Allah" in non-Muslim publications in October 2013. On 23 June 2014, the Federal Court rejected a challenge by the Catholic Church in a 4-3 judgment, stating that the Court of Appeal had applied the correct test and that the Federal Court had no reason to interfere. Discrimination based on political allegiance influenced the Court of Appeal in sentencing opposition leader Anwar Ibrahim to five years' jail after overturning his acquittal on sodomy charges on 7 March 2014, as well as in selective prosecution under the Sedition Act. The civil rights of followers of non-mainstream religious groups remain unprotected. Shi'ites and other groups viewed by the Muslim mainstream as heretics cannot count on the state to guarantee their basic rights as citizens. The Malaysian government also fails to recognize the rights of sexual minorities, although in a November 2014 decision (now being appealed) the Court of

Civil rights

5

Appeal declared that a ban on cross-dressing, which had been aggressively enforced, was unconstitutional.

4 | Stability of Democratic Institutions

Although Malaysia's system of checks and balances is weak, its key institutions are stable. The executive's dominant position negatively affects the country's horizontal and vertical separation of powers. The prime minister and the cabinet make all key political decisions, with the parliament clearly subordinated to these institutions. The judiciary is subject to interference by the executive. Opposition parliamentarians' rights are frequently violated. Local governments in cities and towns are appointed by the political parties in control of the respective state government and are unable to function independently, being subject to both party whips and a separately appointed civil service and mayor. A very high level of fiscal and administrative centralization also limits the ability of state and local governments to function effectively.

A sixth redelineation of parliamentary and state boundaries is underway, to be completed before the next general election. This process could reinforce the BN's grip on power through gerrymandering, thereby undermining the potential for future democratization, especially as the opposition parties' majority in the popular vote in the May 2013 general election did not result in a transfer of power. It is also worth noting that the Election Commission does not act independently of the executive, rather it forms part of the prime minister's department. On 19 December 2014, Abdul Aziz Mohd Yusof, the EC chief, said that the redelineation process would be conducted without consultation from civil society groups, even though Article 114(2) of the Malaysian Constitution states the importance of public confidence in the work of the EC. Currently, the number of voters in constituencies differs by as much as a factor of nine.

The deficits mentioned above mean that Malaysia's political regime must be classified as one of (moderate) authoritarianism. While the Barisan Nasional (BN) government is not committed to liberal democracy, it does work through national, state, and local governments, and it has allowed occasional judicial decisions that go against the government's preferences (although these are often appealed). However, during the period under review, the UMNO-dominated government made extensive use of the Sedition Act to silence opposition activists, including those in elected office. Civic groups, clerics and other organizations make use of the judicial system as well as encouraging voting and informal lobbying in support of particular policies, suggesting that these actors do accept such institutions as legitimate. However, these same groups actively critique the state of democracy and the independence and integrity of these institutions. The military have no record of challenging the legitimacy or authority of democratic institutions.

Performance of
democratic
institutions
3

Commitment to
democratic
institutions
2

5 | Political and Social Integration

The Malaysian party system is fundamentally established and rooted in society. Two major blocs, the Barisan Nasional (BN) and Pakatan Rakyat (PR), compete for votes. While the PR has been gaining votes, the gains have been incremental rather than dramatic. And while the various constituent parties are distinct, each coalition is a broad church. Although they differ on ideological positions and core principles, many of the issues on which they ran in 2013 were broadly similar (e.g., cash transfers or subsidies as different approaches to welfare support for key constituencies). Overall, the party system is stronger in Malaysia than in numerous other countries in the region.

The ruling coalition, the BN, comprises 13 parties, most of which represent an ethnic group or (for Sabah and Sarawak) a state. Historically, the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), along with the largest party, the United Malays National Organization (UMNO), have formed the backbone of the BN. UMNO has strengthened ties to religious scholars and organizations to poach support from, or even split, the opposition Parti Islam seMalaysia (PAS). Moreover, increasing talk of Malay supremacy by UMNO and its supporters during the period under review has contributed to greater polarization among BN parties as well as between the BN and PR. The BN parties in particular have also faced intra-party struggles, often linked to local clientelism and “warlords” resistant to central party authority, “money politics” and vote-buying in party elections (UMNO), and scandals among party leaders (MCA). Splits within UMNO have become evident, such as the rift between Prime Minister Najib and one of his predecessors, Mahathir, who withdrew support from Najib in August 2014.

The division of opposition parties along ethnic lines is similar if less pronounced. After the general election in March 2008, Parti Keadilan Rakyat (PKR), the Democratic Action Party (DAP) and PAS formed PR. Though the opposition coalition won the popular vote in the last general election, internal frictions were apparent during the period under review. With PAS split into two factions, one conservative and “pro-ulama,” the other more progressive, UMNO deputy president Tan Sri Muhyiddin Yassin offered PAS the chance to form a “unity” government with UMNO in September 2013. Though this move was widely seen as an attempt to sow disharmony within the opposition coalition (and was ultimately declined by PAS), the offer coincided with calls from the PAS “pro-ulama” faction for a review of ties between PKR and the larger PR. Further cracks in the opposition coalition came with the “Kajang move”. In March 2014, Anwar Ibrahim planned to oust the state of Selangor’s then chief minister, Khalid Ibrahim, who had held the post for PKR since 2008, by running in a by-election and then taking the chief minister position for himself. Khalid was criticized for his leadership style and use of public

Party system

7

funds. When Anwar Ibrahim could not run in the by-election due to his sodomy conviction, his wife, Wan Azizah Wan Ismail, stood instead and won. The crisis concluded with the appointment of PKR's deputy president, Azmin Ali, as chief minister. However, this political maneuver significantly damaged the opposition coalition and its reputation among the Malaysian population.

There is a range of interest groups in Malaysia, but important social interests such as indigenous groups are under-represented. Certain interests dominate, and there is a risk of polarization, especially as many occupational and other categories (such as lawyers or medical professionals) are catered to by parallel 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. However, civic groups can act only within the narrow limits set by the Malaysian authorities. In practice, this means that issues of race or religion, or criticism of the government, are out of bounds. Though most civic groups promote the ideals of a multiracial and open society, they are predominantly organized along ethnic and religious lines. NGOs attempting to conduct broad-based campaigns have faced hurdles. On 8 January 2014, for instance, the government banned the Coalition of Malaysian NGOs (Comango), which consisted of 54 member organizations, as part of the Universal Periodic Review process. The Home Ministry declared that the majority of the organizations under the Comango umbrella were unregistered and hence operating illegally. While participating organizations questioned the Home Ministry's reasoning, pointing out that the coalition had never been registered, the government was under pressure from Malay-Muslim NGOs, which accused Comango of challenging the position of Islam in Malaysia. Employee associations and trade unions, such as those under the Malaysian Trade Union Congress (MTUC) umbrella organization, have no significant political weight.

Malaysians have an ambivalent relationship to democratic norms. According to data provided by the World Values Survey, 93% of Malaysians express a desire for democracy, and 77.8% of Malaysians believe 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 Malaysians prefer to have a strong leader unburdened by parliament or elections. And a significant portion of the Malaysian population is favorably disposed toward procedures associated with authoritarian governance: 33% of Malaysians believe religious interpretation of the law is an essential characteristic of democracy. In addition, 25.3% of Malaysians believe the army should take over if the government is incompetent and only 60.4% of Malaysians think that women should have the same rights as men.

Interest groups

5

Approval of
democracy

n/a

There is a relatively low level of inter-communal trust within the Malaysian population, although anecdotal evidence suggests higher levels of intra-communal trust. Social and cultural barriers divide the major ethnic and religious groups and became more entrenched during the period under review. Although the number of autonomous, self-organized groups continued to grow during the period under review, only 20% of Malaysians hold membership in any form of societal association, according to data provided by the World Values Survey. In addition, 91.5% of Malaysians think that people cannot be trusted, pointing to markedly low stores of social capital in Malaysian society.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality are limited and only marginally structurally 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) enjoy lower levels of development and social mobility. Key indicators reported by the UNDP point to a high level of human development. The country's score in the UNDP's 2013 Human Development Index was 0.773. The score exceeded both the global average of 0.702 and the regional (East Asia and the Pacific) average of 0.703. Malaysia was ranked 62nd overall. Between 1980 and 2013, Malaysia's HDI value increased from 0.559 to 0.773, an increase of 36.0%, or an average annual increase of about 1.0%. The UNDP noted that – compared to 1980 – the average Malaysian was now living seven years longer, had five more years' schooling and 191% more gross income. Life expectancy at birth was now 75.02 years. According to World Bank data from 2009, 2.3% of Malaysians live below the poverty threshold of \$2 per day. Although the government's New Economic Model (NEM) explicitly aims at reducing disparities of wealth between the poorest and richest segments of the population, the gap between the rich and the poor did not decrease during the period under review. Malaysia is seeing growing inequality among its poorest despite pro-Bumiputera affirmative action aimed at narrowing income gaps, with a United Nations report showing consumption slowing among the bottom 40% of country. With a Gini Index value of 46.2, Malaysia still has the second-widest gap between rich and poor in Asia. A report by the United Nations noted that approximately one million Malaysians have emigrated as of 2011, many of whom were ethnic Chinese and highly educated, and that the majority of skilled emigrants had cited social injustice as a reason for leaving the middle-income country.

Question
Score

Socioeconomic
barriers
7

Economic indicators		2005	2010	2013	2014
GDP	\$ M	143534.4	247533.5	313158.2	326933.0
GDP growth	%	5.3	7.4	4.7	6.0
Inflation (CPI)	%	3.0	1.7	2.1	3.1
Unemployment	%	3.5	3.4	3.2	-
Foreign direct investment	% of GDP	2.7	4.4	3.7	-
Export growth	%	8.3	11.1	0.6	5.1
Import growth	%	8.9	15.6	2.0	3.9
Current account balance	\$ M	19979.9	26998.2	11731.5	-
Public debt	% of GDP	41.4	51.9	55.9	55.2
External debt	\$ M	64911.4	135799.6	213129.2	-
Total debt service	\$ M	9381.1	5574.8	9602.2	-
Cash surplus or deficit	% of GDP	-3.8	-5.2	-	-
Tax revenue	% of GDP	14.8	13.7	-	-
Government consumption	% of GDP	11.5	12.2	13.6	13.2
Public expnd. on education	% of GDP	-	5.1	-	-
Public expnd. on health	% of GDP	1.7	2.3	2.2	-
R&D expenditure	% of GDP	-	1.07	-	-
Military expenditure	% of GDP	2.2	1.6	1.5	1.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework in Malaysia, but competition rules are not the same for all market participants. The informal sector is small but administered prices play an important role in some sectors. On 2 September 2013, the government cut fuel subsidies for the first time in three years. The cut amounted to MYR 0.20 (6 US cents) per liter, resulting in savings of around MYR 3.3 billion per year. In 2012, the government spent MYR 24 billion on fuel subsidies. In November 2014, the Malaysian government decided to extend its price control of

Market-based
competition
8

premium RON97 grade petrol to the widely used RON95 grade, as well as diesel, according to an automatically managed float – a system that adjusts prices according to the market rate. The move could save Malaysia up to MYR 20 billion per year. In October 2013, the government also stopped its sugar subsidies of MYR 0.34 per kilogram. However, subsidies on rice remained intact during the period under review. In 2013, the Malaysian government spent approximately MYR 528 million on rice subsidies. During the period under review, the government also stuck to its policy of favoring Bumiputera companies for small government contracts. According to the World Bank's 2015 Doing Business Index, however, Malaysia took further steps toward a more competitive market economy during the period under review. Malaysia was ranked 18th out of 189 economies, rising from 20th place in 2013. The results showed a continuing trend toward greater competitiveness which had begun in 2008. Within the 10 indicators, the best rankings for Malaysia were fifth position in protecting minority investors and 11th position for trading across borders.

Competition laws designed to prevent monopolistic structures and conduct exist, but are enforced inconsistently. On 1 January 2012, the Competition Act 2010 came into force. The act was intended to prevent large companies from engaging in monopolistic or cartel-like activities. On 6 September 2013, the Malaysia Competition Commission (MyCC) fined Malaysia Airlines (MAS) and AirAsia Berhad for anti-competitive practices. The landmark decision saw fines of MYR 10 million for each party. The MyCC stated that in 2011 the carriers had entered an agreement to share markets in domestic routes in breach of competition regulations. The fine was imposed despite the collapse of the agreement in May 2012, which was to have included a MYR 364 million share swap. On 20 February 2014, the MyCC fined 26 ice manufacturers a total of MYR 283,600 for fixing prices of edible tube ice and block ice. In addition, the MyCC subsequently proposed financial penalties of MYR 439,000 for 24 enterprises who allegedly colluded to increase prices of confectionery and bakery products. Nonetheless, Malaysian enterprises responded sluggishly to the MyCC's efforts to promote free market enterprise during the period under review.

Anti-monopoly
policy

6

Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and privileged treatment for domestic industries. Since 2009, Malaysia has at least most-favored nation (MFN) status with its trading partners while providing tariff preferences to China, Japan, Pakistan, the Republic of Korea and other ASEAN countries. Compared to the regional average, Malaysia has a relatively open trade regime. At 6.5%, the simple average MFN tariff rate was lower than the Asia-Pacific average. As a result of unilateral tariff cuts during the period under review, the effectively applied average MFN tariff rate dropped from 7.4% in 2009 to 5.6%, below the regional average of 7.2%. Major trading partners for agricultural products include China, India, the European Union and Singapore; for nonagricultural products, China, Singapore and Japan. After four years of

Liberalization of
foreign trade

7

negotiations, Malaysia and Turkey signed a free trade agreement (FTA) on 17 April 2014. The FTA is expected to increase bilateral trade to \$5 billion by 2018. In 2013, bilateral trade between Malaysia and Turkey increased by 86%. Malaysia has also signed FTAs with Japan, Pakistan, New Zealand, Australia, India and China.

Malaysia's banking system and capital market are differentiated and oriented to international standards, with functional banking supervision. Capital markets are open to domestic and foreign capital and banks remained well capitalized during the period under review. In 2013, the bank capital-to-assets ratio was 9.6%. The risk-weighted and core capital ratios stood at 14.3% and 12.9% respectively as of November 2013. Both numbers were above levels required by national authorities and Basel III standards, though lower than the 15.1% and 13.2% levels seen in early 2012. Asset quality was weakened during the period under review. However, the ratio of nonperforming loans declined to 1.8% in August 2014, an improvement over the 2.0% ratio at the end of 2012. In May 2014, rating agency Moody's described the Malaysian banking system as "stable." At present, there are 27 commercial banks, 16 domestic Islamic banks, five international Islamic banks, 15 investment banks and two other financial institutions. As of March 2014, Islamic bank finance comprised 24% of total banking system loans, and the government has set a goal of expanding the Islamic proportion of total domestic financing to 40% by 2020.

Banking system

9

8 | Currency and Price 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) increased moderately, peaking at 3.5% in March 2014. For 2014, the average stood at 3.15%, higher than the 2013 average of 2.09%. The increase in 2014 was largely related to higher prices for alcoholic beverages and tobacco (+11.8%), transport (+5%), and restaurants and hotels (+4.7%). Since the government stopped subsidizing sugar by MYR 0.34 per kg in October 2013 and decided in November 2014 to fix the price of the widely used RON95 grade of petrol and diesel according to an automatically managed float, which adjusts prices according to the market rate, higher prices were widely expected. Following the implementation of the goods and services tax (GST) on 1 April 2015, an inflation rate of around 3.9% is expected for 2015. Throughout the period under review, the inflation rate remained within the comfort zone of the independent central bank (Bank Negara Malaysia). Since July 2014, benchmark interest rates have remained at 3.25%. The ringgit weakened during the period under review. The real effective exchange rate (setting 2000=100) increased slightly from 100.4 in 2011 to 100.6 in 2013. In addition, the ringgit weakened relative to the US dollar, falling to a six-year low of 3.6164 to the dollar in January 2015.

Anti-inflation /
forex policy

9

The government's fiscal and debt policies generally promote macroeconomic stability, despite inconsistencies within the country's spectrum of institutional safeguards. In 2013, the budget deficit was at 3.9% of GDP, beating the government target of 4.0%. The government is aiming for a budget deficit of 3.5% of GDP in 2014 and 3.0% in 2015. In November 2014, the International Monetary Fund (IMF) stated that the deficit could fall below 3% for 2015. The Malaysian government aims to achieve a balanced budget by 2020. However, overall public debt was the equivalent of 57.7% of GDP in 2013, increasing from 56.2% the year before. Moreover, the government's budget plans for 2015 came under pressure with global crude oil prices dropping significantly. The government's 2015 budget, announced in October 2014, was originally based on an average oil price of \$100 a barrel. In January 2015, the government lowered its oil price forecast to \$55 a barrel, which would represent a revenue shortfall of MYR 8.3 billion. The state oil company, Petronas, contributes about a third of Malaysian government revenue. During the period under review, government revenues increased. In 2014, government revenue collection is estimated at MYR 224.1 billion, up MYR 4 billion from 2013, or an increase of 1.7%. In 2013, government consumption stood at 13.6% of GDP. However, higher revenues were partially absorbed by additional government consumption. On 10 January 2012, the government launched its 1Malaysia People's Aid program (Bantuan Rakyat 1Malaysia; BR1M). Originally, this program offered payments of MYR 500 to households with a monthly income of MYR 3,000 or less. In the 2015 budget, the payment was increased to MYR 950. In addition, families with monthly income of less than MYR 4,000 are exempt from taxes. The country's total reserves amounted to \$133.4 billion in 2013.

Macrostability
7

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 14 days and eight procedures according to World Bank data. Although Malaysia acceded to the World Intellectual Property Organization (WIPO) Copyright and Performances and Phonograms Treaties in December 2012, the government stated on 25 April 2014 that Malaysia will reject the proposal on intellectual property rights concerning drugs in the Trans-Pacific Partnership Agreement (TPPA). The main issue was a call for the 20-year patent period to be extended. The government feared that this provision would delay the introduction of generic drugs and so increase the price of drugs overall. Malaysia's score in the International Property Rights Index 2014 was unchanged from 2013. With a score of 6.5, Malaysia ranks 27th in the world and 7th among countries studied in Asia and Oceania. However, corporate lawsuits are still subject to lengthy delays. In addition, the relocation of local residents and indigenous populations creates ongoing conflicts between the national government, developers

Property rights
9

and the general population. On 12 January 2015, the Sandakan High Court ruled that the Sabah government and the Lands and Surveys Department have a duty to safeguard the traditional lands of the state's indigenous population. The court stopped the department from appropriating a parcel of land measuring 500 acres in Kampung Ansuang, Telupid. Indigenous land rights activists praised the ruling as a landmark decision. However, the legal status of significant plots of indigenous land remained unresolved during the period under review.

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 (GLC) constitute 17.4% of the country's GDP. The government earns about 30% of its income from taxes and dividends from state-owned oil companies. In October 2014, the 20 biggest GLCs collectively accounted for almost 25% of the total market capitalization of Bursa Malaysia, having tripled since 2014. In August 2014, the government announced it would carry out a complete overhaul of the state-owned national carrier, Malaysia Airlines, after the company was hit by two devastating disasters during the period under review. The privatization of state companies does not fully conform to market principles, mainly because the privatization of projects requires Bumiputera participation. Moreover, the public sector continues to play a considerable economic role. The World Bank's Doing Business Index 2015 ranked Malaysia 18th in the world and emphasized that the country is among the world's most business-friendly countries. Malaysia ranks among the top five economies in East Asia and the Pacific.

Private enterprise
7

10 | Welfare Regime

In principle, social safety nets are well developed, but do not cover all risks for all strata of the population. A part of the population is still at 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 best 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 2012, the EPF had 13.6 million members, of whom 6.4 million were active contributing members. Since 1 January 2012, employees contribute 11% of their monthly salary, while employers contribute 12% (13% for employees on more than MYR 5,000 per month). These rates are valid for employees below 55 years of age. Since August 2013, those who remain in employment up to 60 years of age have had the same rates of 12% from employers (13% if earning RM5,000 or below) and 11% own contributions. Nevertheless, Malaysia is still dependent on informal community assistance and a

Social safety nets
7

large number of NGOs in the social security sector. This informal community assistance is also required because of low public expenditure on health (2.2% of GDP in 2012), despite Malaysia's widespread system of health care. A universal health care system coexists with a growing private health care sector. 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 below a fixed level, single mothers, senior citizens, and other targeted groups.

Equality of opportunity has largely been achieved, though discrimination against women and ethnic groups persists. Although women's civil liberties are protected by law in Malaysia, traditional practices continue to distinguish between genders. In 2013, the country had a Gender Inequality Index value of 0.210, putting it 39th out of 149 countries. However only 13.9% of parliamentary seats are held by women, lower than the regional average of 18.7%. In addition, the female labor market participation rate is 44.3%, compared to 75.3% for men, according to UNDP data for 2013. Overall, Malaysia's Gender Inequality Index value is above the average for high HDI countries, and the East Asia and Pacific average. The female literacy rate slipped to 90.7%, lower than the male rate of 95.4%. Higher levels of education among women are indicated by the female-to-male enrollment ratio (129% at the tertiary level). With continuing affirmative action policies favoring Bumiputera, Chinese and Indian citizens face explicit disadvantages when seeking public office, or employment in the state bureaucracy, public enterprises or the armed forces. 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.

Equal opportunity
7

11 | Economic Performance

Malaysia's economic performance was good during the period under review. The country's economy remained resilient, mainly because of surging exports. Malaysia's merchandise exports grew marginally by 0.3% in 2013 while its service exports grew by 6.1%. Exports benefited from the recovery in the advanced economies and from regional demand. The overall GDP growth rate for 2013 was 4.7% and 5.6% in 2014, with 2015 growth forecast by the government to be 4.6%. GDP per capita (on a purchasing power parity basis) increased in 2013 to \$23,338, a level higher than before the global financial crisis. During the period under review, the inflation rate (based on average consumer prices) increased moderately, reaching as high as 3.5% in March 2014. For 2014, the average stood at 3.15%, higher than in 2013, when the rate was at 2.09% per average. The current account surplus in 2014 was raised in April in light of a strong performance in the first half, when a larger trade surplus and narrower deficits in services, income, and transfers produced a current account surplus equal to 6.9% of GDP. The current account balance in Malaysia was positive

Output strength
8

in 2013, at \$11.73 billion. In November 2014, the unemployment rate stood at 2.7%, an all-time low. The level of investor confidence in Malaysia was reflected in the surge of foreign direct investment (FDI) inflows. In 2013, Malaysia experienced a 22.2% rise in FDI inflows to \$12 billion. FDI outflows decreased by 20.5% to \$13.6 billion in 2013. The largest single source of FDI in Malaysia was Japan, which accounted for 17% of total FDI inflows, followed by Singapore with 13%. In 2013, the budget deficit was 3.9% of GDP, beating the government target of 4.0%. The government is aiming for a budget deficit of 3.5% in 2014 and 3.0% in 2015.

12 | Sustainability

Environmental concerns are taken into account by Malaysian policymakers, but are occasionally subordinated to efforts to promote growth. Environmental regulation and incentives are partly in place, but enforcement is at times deficient. Deforestation and climate change are the nation's primary environmental problems. The Environmental Performance Index (EPI) ranked Malaysia 51st worldwide in 2014. During the period under review, Malaysia suffered from one of the worst floods in the country's history. A northeast monsoon left heavy flooding in large parts of Malaysia in its wake in late December 2014 and early January 2015. On top of the 21 fatalities, more than 200,000 people throughout the country were affected by the floods. The worst-hit states were those along the east coast and in East Malaysia, but few were spared. The exact number of evacuees, missing persons and deaths was unknown for some weeks, with the Malaysian flood center unable to provide accurate figures. According to estimates, the floods caused MYR 2.9 billion in damage to infrastructure. Prime Minister Najib promised the issue would be prioritized in the Eleventh Malaysia Plan (2016–2020), with the government allocating MYR 893 million for flood mitigation measures in the 2015 budget. The main culprit in flooding is deforestation, with illegal logging still a major problem, especially in the states of Sabah and Sarawak. During the period under review, there were ongoing protests against the government's long-term plans to build 12 massive hydroelectric dams on the island of Borneo. On 27 January 2015, former prime minister Mohamad Mahathir urged the Malaysian government to use new dam-building technology that minimizes environmental damage and social impact. Overall, though, minimal attention is given to renewable energy sources, household recycling or conservation, or other means of raising environmental awareness and promoting sustainability.

In principle, education policy ensures a nationwide system of sound education and training. The research and technology sector is fairly advanced. Public expenditure on education, totaling 5.9% of GDP in 2011, can be considered high, even with reference to international standards. Malaysia currently has 20 public universities, 24 polytechnics, 37 public community colleges, 33 private universities, five foreign university branch campuses and about 500 private colleges, with more than 942,200

Environmental
policy
6

Education policy /
R&D
7

students enrolled in these institutions. However, the Malaysian educational system continues to demonstrate several shortcomings. Gross enrollment ratios at the secondary and tertiary levels are low by international standards (67.2% and 36.0%) and graduate under-/unemployment remains a widespread concern. The World Economic Forum's Global Competitiveness Report 2014-2015 ranked Malaysia 20th out of 144 economies, the best ranking for the country so far. However, the low level of female participation in the workforce (119th) and the still comparatively low technological readiness (60th) stood out among Malaysia's major competitive challenges. According to government officials, only 28% of the 12 million-strong work force in Malaysia is highly skilled. A low level of technological readiness could significantly undermine Malaysia's efforts to become a knowledge-based economy. Expenditure on R&D amounted to 1.07% of GDP in 2011. The overall literacy rate stood at 93.1% during the period under review. In April 2013, government officials declared that six initiatives of the Malaysia Education Blueprint (2013-2025) had been implemented within the first 100 days of its launch. The program aims to transform the national education system to a level comparable with that of developed nations by 2025. One of the program's key points is to ensure that every child is proficient in English.

Transformation Management

I. Level of Difficulty

The Malaysian government faces only moderate structural constraints with respect to its capacity to govern. With only 2.3% of the population living below \$2 a day in 2009, infrastructure development and poverty are not serious constraints on the Najib government. Although the country has not been exposed to pandemics, the December 2014-January 2015 floods indicated that the country is exposed to natural disasters. The floods caused MYR 2.9 billion damage to infrastructure. According to Prime Minister Najib, this issue will be prioritized in the Eleventh Malaysia Plan (2016–2020), with the government allocating MYR 893 million for flood mitigation in the 2015 budget. These improvements are essential and point to severe infrastructural deficiencies. Furthermore, public safety must be improved in the state of Sabah. Security forces clashed with guerilla groups when 235 Philippine members of the Royal Security Forces of the Sultanate of Sulu and North Borneo occupied the village of Tanduo in Sabah in March 2013. As a reaction to the standoff, the Malaysian government established the Eastern Sabah Security Command (ESSCOM), a security area that covers 1,400 km of the east coast of Sabah between Kudat and Tawau. The purpose of the ESSCOM is to strengthen maritime security in the eastern part of Sabah. Despite the program, Philippine militants kidnapped at least six people kidnapped and killed two in a series of ambushes conducted in Sabah since November 2013. The education system's output of high-skilled workers is also insufficient and the government must address regional disparities in economic development, especially on the island of Borneo. Less than 70% of the Malaysian workforce has completed secondary level education. Wage growth has been muted and Malaysia is still seen as a "low-cost" country. The low-cost production model has been supported by inflows of low-skilled foreign workers. Though the New Economic Model (NEM) recognizes the need to develop a higher-quality workforce, the majority of jobs in Malaysia, especially in the private sector, are still low-skilled. In addition, women are under-represented in engineering, architecture and other traditionally male fields. Corruption, a weak civil society and significant ethnic and religious heterogeneity represent persistent structural constraints. During the period under review, ethnic and religious tensions increased, a factor that today represents the country's most severe structural constraint.

Structural
constraints

4

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. However, civil society has become stronger and awareness has risen during the period under review. For instance, some civil society organizations are actively involved around elections. These groups were especially active in response to the sixth redelineation of parliamentary and state boundaries. Since the redelineation could consolidate the BN's grip on power, several NGOs asked the Election Commission (EC) to meet and discuss the process, which it declined to do. Civil society groups also acted as observers during the May 2013 general election. They and umbrella organization Bersih organized a tribunal in September 2013 at which witnesses gave testimony on irregularities and incidents of fraud during the election. In general, two different civil society cultures have emerged within the growing circle of NGOs. On the one hand, liberal organizations have intensified 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 on informal community assistance to the poor at the local level. However, right-wing Malay Muslim organizations such as Perkasa have increased polarization of civil society along ethnic lines. It is worth noting that only 20% of Malaysians are members of any form of societal association, according to data provided by the World Values Survey. The data further shows that involvement in associations largely fails to foster trust in fellow citizens in Malaysia. Stores of social capital are markedly low in Malaysian society: 91.5% of the Malaysians think that people cannot be trusted.

Civil society traditions

6

There have been few outbreaks of violence in Malaysia in recent times. However, society is polarized along ethnic and religious lines. Since independence, the political elite have managed ethnic and religious cleavages by forming a multiracial ruling coalition that has included the three largest race-based parties. Though this bargain led to a political spectrum split along religious and ethnic lines, it helped stabilize a divided Malaysian society and inhibited the outbreak of major violent conflict for three decades. However, ethnic and religious relations deteriorated during the period under review. In October 2013, the Court of Appeal reinstated the ban on using the word "Allah" in non-Muslim publications. Subsequently, in January 2014, religious authorities seized more than 300 Bibles in the state of Selangor from the Bible Society in Malaysia because they referred to Allah. In response to the Court of Appeal's ruling, the Catholic Church in Malaysia brought the case to the Federal Court. On 23 June 2014, the Federal Court rejected the challenge in a 4-3 judgment, stating that the Court of Appeal had applied the correct test and that the Federal Court had no reason to interfere. Several incidents in recent years have seen stand-offs around the location or other attributes of Hindu temples, Christian churches and Muslim mosques, with aggressive yet usually non-violent actions ranging from use

Conflict intensity

5

of cow and pig parts to arson. In November 2014, the state of Kelantan, ruled by the PR coalition (led in the state by PAS), revived previously tabled proposals which would impose Islamic hudud law, which mandates amputation for convicted thieves. Prime Minister Najib stated that Malaysia was unprepared for hudud law, but PAS authorities continue to discuss plans for implementation. A survey, published by the Merdeka Center in April 2014, revealed deterioration in the country's ethnic and religious relations. According to the survey, 71% of Malays support hudud law, while 65% of the Chinese population and 69% of Indians reject hudud law. These developments contradict Prime Minister Najib's 1Malaysia program, which stresses national unity and ethnic tolerance. So far, 1Malaysia has not fostered unity among Malaysians, and it is questionable whether the program can become anything more than a slogan, particularly as UMNO leaders adopt increasingly communal positions.

II. Management Performance

14 | Steering Capability

The Malaysian government claims to be setting strategic priorities. Nonetheless, the political leadership has shown inconsistency between its policies and its stated aims. Furthermore, the government's long-term strategic aims do not include a further democratization of the public sphere or the extension of democratic norms. Two key strategic regime priorities are contained in the Government Transformation Plan (GTP), the National Blue Ocean Strategy (NBOS) and the Economic Transformation Plan (ETP): improving the efficiency of the public service and improving the competitiveness of the economy, including increasing private investment so as to meet the stated target of achieving high-income country status by 2020. Among the ongoing NBOS initiatives are urban transformation centers (UTC), rural transformation centers (RTC), and the military and police collaborating to fight crime. The ETP focuses in particular on a Human Capital Strategic Reform Initiative aimed at upgrading and improving skills within the workforce, and the inclusion of women in the labor market. However, women are still under-represented in the labor market, and the bureaucracy remains dogged by inefficiency. The majority of jobs in Malaysia, especially in the private sector, are still low-skilled. In addition, the long-awaited introduction of a goods and services tax (GST) has been postponed several times and is now set for April 2015. The delay indicates a government focus on short-term interests with the aim of silencing public criticism, instead of adhering to its long-term aim of consolidating the country's budget.

Question
Score

Prioritization
5

The government fails to implement policies which would help democratize the political system. Prime Minister Najib had announced plans to abolish the Sedition Act and replace it with a National Harmony Act but following electoral losses and pressure from right-wing activists in his own party, Najib's government doubled down on the Sedition Act, using it to crack down on opposition activists during the period under review. In November 2014, Najib further declared that the Sedition Act would be strengthened to protect Islam and other faiths as well as address calls for secession of Sabah and Sarawak. The government has been more coherent in implementing policies in the area of economic reform and the aim of a true market economy. In October 2013, the government stopped sugar subsidies of MYR 0.34 per kilogram and in November 2014 fixed the price of the widely used RON95 grade of petrol and diesel. These measures were followed in April 2015 by the government's implementation of the goods and services tax (GST). The tax reform was a long-term government aim and had been postponed several times. Under the New Economic Model (NEM) the government aimed to reduce the cost of living. In 2013, more than 4.8 million low-income Malaysian households benefited from government programs such as 1Malaysia People's Aid. To enhance the educational sector in Malaysia, MYR 325 million has been allocated for 1Malaysia book vouchers for 1.3 million secondary and higher education students in 2014. Every Malaysian student is entitled to book vouchers valued at MYR 250. To improve rural development, the government built over 700 kilometers of tarred roads in rural areas in 2013. Infrastructure programs for the Greater Kuala Lumpur area, which began in 2012, such as the extension of the Mass Rapid Transit system, progressed during the period under review. By 2013, 35% of the construction work for the Sungai Buloh-Kajang route had been completed.

Implementation
5

The Najib administration has demonstrated a desire to respond to mistakes and failures with change. The government shows a considerable degree of flexibility and learning capability with reference to market reforms. However, the political leadership continues to refrain from the implementation of democratic reforms. Moreover, it shows a low degree of political will to learn from past mistakes so as to facilitate democratic changes. A populist style of politics on the part of the Najib administration continued during the period under review. The government's 1Malaysia People's Aid program (Bantuan Rakyat 1Malaysia/BR1M), which offers payments to the poor, was extended as it is widely seen as an attempt to offer "election goodies" so as to generate support for the government coalition among the poor, rather than being an effective tool to fight poverty. The government's executive-centered decision-making process did not change during the period under review. Prime Minister Najib, who often presents himself as a reformer, did not demonstrate a willingness to abandon the government's authoritarian practices. On the contrary, his government's plan to strengthen the Sedition Act and postpone the

Policy learning
5

implementation of the National Harmony Act confirmed doubts that the BN government will commit to democratic norms.

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 the lower levels of the Malaysian bureaucracy. More broadly, the government's affirmative action policy establishing a Bumiputera quota for virtually all of its economic activities remains worrisome. Separately, the federal government budget deficit in 2015 is expected to be at 3.2% of GDP. Malaysia has been hit by the collapse in global crude prices. Malaysia is the world's second-largest exporter of liquefied natural gas and is also a net oil exporter. In addition, the government relies on money from energy sales to control its debt. A prolonged decrease in oil prices could undermine Malaysia's fiscal consolidation. Although the government reduced subsidies during the period under review, official federal government debt as a proportion of GDP stood at 53.0% or MYR 519.3 billion in 2013. The National Audit Department of Malaysia monitors the use of tax revenues for efficiency and transparency. However, their recommendations are often ignored by the government. In sum, the budget deficit, the Bumiputera quota system and declining oil prices restrict the government's efficient use of assets.

Efficient use of assets

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The government coordinates conflicting interests and objectives under the leadership of Prime Minister Najib. Under his hierarchical leadership, the cabinet effectively handled major conflicts over economic or social policies in such a way as to achieve policy coherence. One gray area concerns coordination across federal, state and local levels of government. This has been especially acute since 2008, when several state governments fell to parties which are in opposition at the federal level (soon thereafter organized as the Pakatan Rakyat coalition). Tensions have emerged in such areas of shared authority as infrastructure development and provision of basic services such as water and waste management.

Policy coordination

7

Najib's approval ratings deteriorated during the period under review, signaling a potential decline in his ability to enforce a coherent policy vision. According to data provided by the Merdeka Center for Opinion Research, the proportion of Malaysians satisfied with the prime minister's work declined from 63% in March 2013 to 48% in October 2014, with 49% of the population generally unhappy with the government. Dissatisfaction was especially high within the Chinese community, of whom only 13% approved the government's work as of October 2014. The continuation of the government's affirmative action policy has weakened the MCA further, as the ethnic Chinese minority feel they are being put at a disadvantage. A report by the United

Nations further noted that approximately one million Malaysians had emigrated as of 2011, many of whom were ethnic Chinese and highly educated, and that the majority of skilled emigrants had cited social injustice as a reason for leaving the middle-income country. Therefore, Prime Minister Najib has to ensure that trade-offs between policy goals are well balanced, and do not serve as additional burdens for the BN member parties. Compared to other countries in the region, however, the government's ability to coordinate conflicting objectives and interests remains fairly effective.

The government has identified corruption as an important problem within state structures, although levels of corruption in the civil service are probably the lowest in the region after Singapore. Although institutions enabling auditing of state spending are in place, political connections continue to be the strongest criterion in awarding large state contracts and infrastructure projects. The government's corruption-fighting reforms have been somewhat ambivalent, however, and only the non-BN governments of Penang and Selangor have passed freedom of information acts. To fight corruption and increase transparency in public administration, the government implemented the auditor general's online dashboard, indicating the status of actions by ministries and departments mentioned in the Auditor-General's Report. The dashboard, launched in May 2013, allows the public to view the status of follow-up actions on issues raised from the audit report onwards. In December 2014, Prime Minister Najib declared the government would impose heavier penalties on givers as well as receivers of bribes in 2015. In November 2014, the MACC deputy chief commissioner recommended higher penalties in cases of timber theft because existing penalties have no effect on offenders. The auditor-general's 2013 report also documented enormous cost increases, such as computers valued at MYR3,000 being procured for MYR 84,000 and facilities costing millions going unused. In addition, the report revealed that the Paya Peda Dam development project in Terengganu was 18.49% behind schedule and had paid out a sum of MYR 0.53 million inappropriately. These incidents substantiate a widespread public feeling that political and economic elites use public resources at will while avoiding prosecution. In addition, party financing regulations are insufficient. As a government-controlled body, the Election Commission (EC) is not willing to check party financing and campaign expenses closely. Candidates have to publish accounts of their election expenses from nomination until polling day, but the EC does not analyze these accounts. The EC has no authority to inspect party financing or to prosecute legal violations. Parties are not required by law to file a statement of their income or expenditures during elections, although they spend exorbitant sums to muster support.

Anti-corruption
policy
6

16 | Consensus-Building

There is no consensus on liberal democracy shared by political and social actors. The ruling coalition has tried to present itself as reformist and open to democratic practices. These announcements are little more than lip service, as the Malaysian government has repeatedly cracked down on opposition politicians and activists, using the Sedition Act and other legislation. In November 2014, the Najib administration announced it would actually strengthen the Sedition Act. In the period under review, government officials, including the prime minister, described “liberalism,” “human rights-ism,” and other norms as antithetical to Islam and the Malaysian context. While the major opposition parties are more closely aligned behind goals of good governance and institutional democracy, they, too, differ on the issues of local elections, freedom of religion and racial harmony.

Consensus on goals
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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. During the period under review, Perkasa increased the pressure on the government to retain the Bumiputera affirmative action policy. With Perkasa gaining support among the Malay Muslim majority population, the organization pose a growing challenge to the government’s reform policies. Opposition parties and labor activists have also expressed concern with the proposed Trans-Pacific Partnership. 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 Barisan National (BN) winning the general election in May 2013 and maintaining a parliamentary majority at the federal level, non-state reformers have had no power to bring forward either democratic or anti-democratic reforms. The government has shown no intention of enabling democratic transformation, yet nor has it allowed significant leeway to activists intent on creating a theocratic Islamic state (the primary anti-democratic model proposed in the period under review). These groups gained momentum during this period. The non-BN-controlled Kelantan state government moved to implement Islamic criminal law at the state level, but if, as was previously the case, it is found to contravene the federal constitution, it will be blocked. The military poses no threat to potential democratic transformation, as the armed forces are effectively subordinated to civilian rulers.

Anti-democratic
actors
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Given the ethnic and religious heterogeneity of Malaysian society, with its significant ethno-religious cleavages, the government has been more or less successful in managing social differences in the past. However, while cleavage-based conflicts did not escalate, ethnic and religious tensions significantly increased during the period under review. A key issue has been a protracted dispute over non-Muslims' use of the word "Allah," which the Malaysian government contends could lead to confusion among Muslims. In October 2013 and June 2014, courts upheld the ban over the objections of the Catholic Church and other Christian and interfaith bodies who see the ruling as an infringement on their right to worship freely. During the UMNO General Assembly in November 2014, Permatang Pauh division chief Mohd Zaidi accused the Penang Chinese community of building wealth from gambling, prostitution and entertainment outlets. These accusations indicate a strain within UMNO, which seriously undermines inter-racial and inter-religious peace and harmony in the country. This kind of defamation from high-ranking party officials reveals the government's 1Malaysia campaign, which aims to create unity among Malaysian citizens, to be little more than a slogan.

Cleavage /
conflict
management
5

The political leadership recognizes and accommodates the interests of civil society actors only as long as they are not perceived to interfere with government policies. Laws pertaining to NGOs and other civil society groups continue to limit the space within which civic activity can take place. For instance, during the sixth redelineation of parliamentary and state boundaries, the Election Commission chief refused to consult with civil society groups, nor has the government accommodated NGO input into policies such as the Trans-Pacific Partnership or forthcoming GST, or social mobilization against such initiatives as the Lynas rare earths facility. As a result, Malaysian civil society has little input into agenda setting, policy formulation, policy implementation and performance monitoring. The government does however partner with certain civil society organizations, for welfare service delivery, for instance.

Civil society
participation
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The effects of the 13 May 1969 race riots remain visible in Malaysian society today, as the Bumiputera affirmative action policies implemented at the time are partially still in place. Discontent with these policies is clearly visible among the ethnic Indian and Chinese minorities. This is true even within the ruling coalition, largely due to the fact that the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) have both lost significant support within their own ethnic communities. The MCA lost most of its parliamentary seats at the federal level in 2008 and 2013. These concerns stand in sharp contrast to the UMNO, which continued to be the dominant force within the ruling BN coalition. The government's 1Malaysia campaign, aimed at creating unity among Malaysian citizens, cannot be seen as an effective tool to overcome the country's ethnic and religious divisions, and political leaders periodically invoke "May 13" when they feel that non-Malay communities are overstepping the mark. As a result, tensions between the Malay Muslim majority and the non-Malay, non-Muslim minorities increased during the period under review.

Reconciliation
n/a

17 | International Cooperation

The political leadership tries to use international assistance to further its own development agenda, but has demonstrated difficulties in devising a consistent long-term strategy able to integrate this support effectively. The Najib government works with bilateral and multilateral international donors such as the World Bank, the IMF and the Asian Development Bank (ADB). Nevertheless, the government limits the influence of international aid by approving only those policies that suit the government's own ideological preferences. It has maintained rules on ethnic preference and castigated officials from foreign governments and international organizations for criticizing government decisions, including controversial court judgments. However, government reform programs, such as the Government Transformation Program (GTP) and the Economic Transformation Program (ETP), made progress during the period under review.

Effective use of support

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The Malaysian government is considered by the international community to be a credible and reliable partner. Prime Minister Najib has solidified Malaysia's position in the world community with his pro-Western stand. The political leadership remains fully engaged with the World Bank, the IMF, the ADB and other international institutions such as the WTO. Malaysia is also an active member of ASEAN, serving as chair for 2015 – the year in which the ASEAN Economic Community (along with the Political-Security and Social-Cultural communities) is slated to come into effect. During the period under review, Malaysia and Turkey signed a bilateral free trade agreement (FTA), complementing a range of similar agreements with other countries. In December 2014, US vice president Joe Biden expressed concerns about the rule of law in Malaysia in a tweet that criticized Malaysian government's use of the legal system and Sedition Act to stifle opposition; however, such admonitions have rarely affected the relationship between the US and Malaysia in the past.

Credibility

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The political leadership actively and successfully builds and expands upon cooperative neighborly and international relationships. The government promotes both regional and international cooperation. On 16 October 2014, Malaysia returned to the United Nations Security Council (UNSC) after a 15-year absence. Malaysia's candidacy to represent the Asia Pacific region in the Security Council was unopposed. In April 2014, Malaysia and Turkey signed a free trade agreement. On 8 March 2014, Malaysia Airlines Flight 370 (MH370) went missing while flying from Kuala Lumpur to Beijing. The whereabouts of the airplane was still unknown at time of writing and the passengers were pronounced dead on 29 January 2015. Confusing public communications from Malaysian officials during the crisis led China to criticize the lack of transparency. However, the incident also sparked cooperation between neighboring countries, as Malaysia headed the largest and most expensive search in aviation history. Malaysia set up a Joint Investigation Team, composed of

Regional cooperation

10

specialists from Malaysia, Australia, China, the UK, the US and France. On 1 January 2015, Malaysia took over as chair of ASEAN. One of its biggest tasks will be to conclude negotiations on a Regional Comprehensive Economic Partnership (RCEP), which will be the world's largest free trade agreement, bringing together ASEAN, China, Japan, South Korea, India, Australia and New Zealand upon its completion by the end of 2015. On the other hand, Malaysia's territorial dispute with China, the Philippines, Brunei, Vietnam and Taiwan in the South China Sea intensified during the period under review. Malaysia claims 12 maritime features in the Spratly Islands, an area thought to contain vast reserves of natural resources.

Strategic Outlook

Malaysia faces a challenging political landscape for reform. The ruling Barisan National coalition, especially the Malaysian Chinese Association (MCA), continued to lose public support during the period under review, suffering its worst electoral defeat since independence in 1957. The Najib government has shown no intention of facilitating democratic transformation, abandoning its pledge to revoke repressive laws such as the Sedition Act, or to introduce a National Harmony Act in its place. Irregularities during the May 2013 general election further undermined trust in the Malaysian government. With World Values Survey data suggesting that 90% of Malaysians believe honest elections are important for the country's economic development, Malaysia needs to improve its electoral process. One important step is to ensure that the Election Commission carries out its ongoing process of redelineation of parliamentary and state boundaries in a more transparent manner, taking petitions from civil society actors into consideration. The Malaysian government must also address increasing religious and ethnic tensions. The government has done little in the face of deteriorating ethnic relationships and a decline in social capital. Ethnic Chinese and ethnic Indians in particular feel heavily disadvantaged, and no longer seem willing to accept their inferior standing within the Malaysian polity. A ban on using the word "Allah" in non-Muslim publications and the confiscation of Malay-language Bibles containing the term has eroded the non-Muslim population's confidence in the government. This loss of confidence is further substantiated by increasing emigration, with one million Malaysians having emigrated as of 2011, many of them ethnic Chinese, highly educated, and highly skilled. The majority cited social injustice as a reason for leaving the middle-income country. To stem these tensions and migration flows, and to promote a more competitive economy, the government could reduce preferential policies and special rights which favor the Bumiputera, while also reaffirming non-Muslims' constitutional freedom to worship as they choose. Finally, the Malaysian government must continue on its path of fiscal reforms in order to reduce the budget deficit. The country's relative resilience in the face of commodity price shocks, and the government's rapid adoption of new policies, including cuts to operating expenditures in light of decreasing oil prices, must be extended. The implementation of economic policy reforms such as the goods and services tax (GST) and the managed float system for diesel and lower grade gasoline, which effectively eliminates subsidies for these fuels, must be continued.