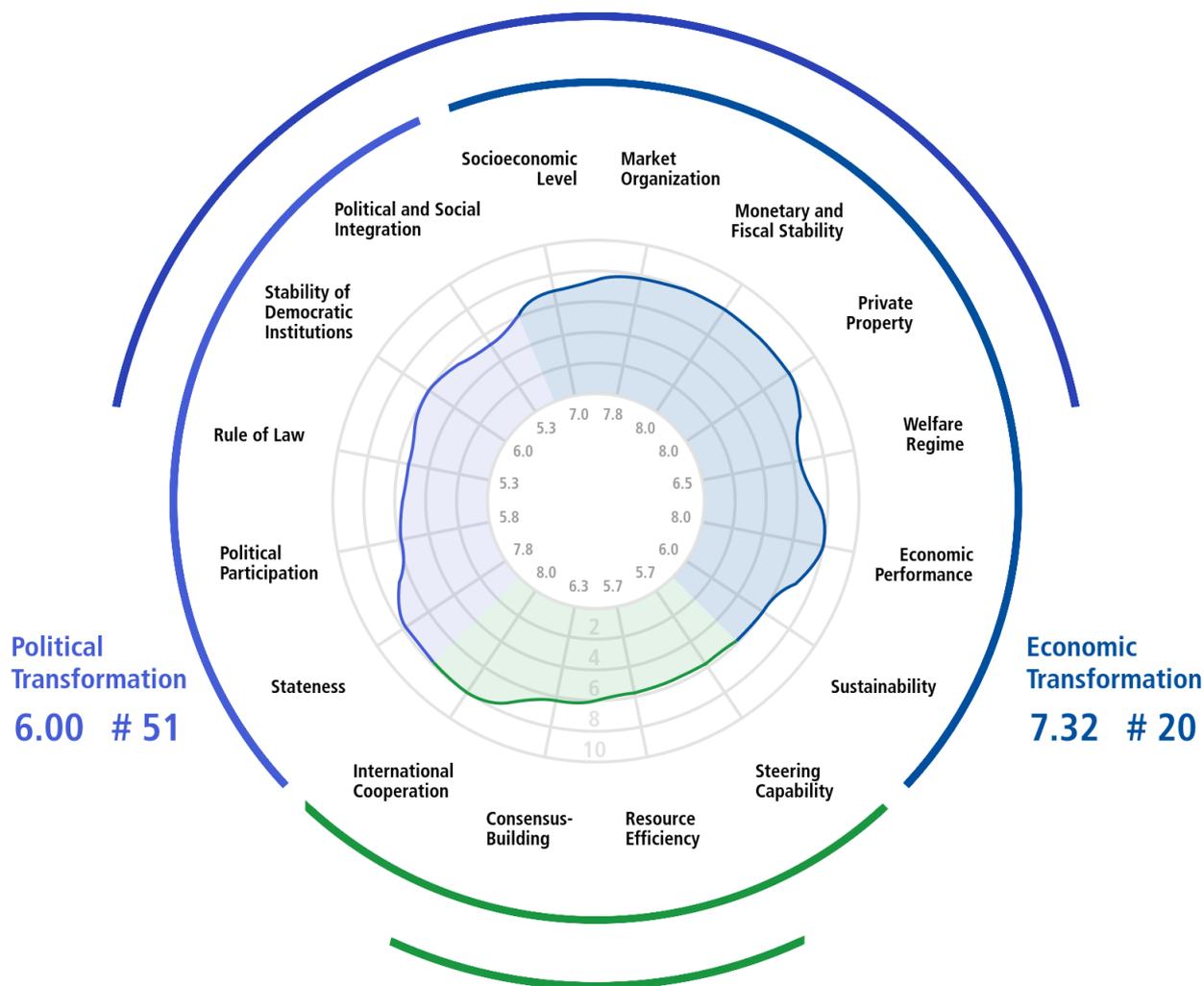


Malaysia

Status Index

6.66 # 28

on 1-10 scale out of 137



Political Transformation
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on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	35.6	HDI	0.819	GDP p.c., PPP \$	38729
Pop. growth ¹	% p.a.	1.2	HDI rank of 193	67	Gini Index	40.7
Life expectancy	years	76.7	UN Education Index	0.722	Poverty ³	% 0.1
Urban population	%	79.2	Gender inequality ²	0.172	Aid per capita	\$ 0.2

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

During the period from 2023 to 2025, Malaysia experienced a mix of progress and setbacks in its transformation. The unity government, led by Prime Minister Anwar Ibrahim and made up of various coalitions and parties including the Alliance of Hope (Pakatan Harapan, PH), the National Front (Barisan Nasional, BN) and East Malaysian coalitions, has faced significant challenges in policy coordination and governance. Overall, it has favored stability over systemic reforms. With a seemingly fractured opposition, the unity government has managed to maintain a level of political stability that the previous PH government failed to achieve, showcasing compromise among the political parties in the ruling alliance.

However, this has meant that reform has been slow-moving and compromised. There have been many positive moves, such as an expanded mandate for the National Audit Department, the formation and further empowerment of the new All-Party Parliamentary Group Malaysia (APPGM), the consolidation and rationalization of various government agencies, as well as the review of a new political financing bill. On the other hand, the freedom of speech remains limited, and new amendments to the Communication and Multimedia Act (CMA) have been criticized for expanding control and punitive measures. Although there has been no outright interference with the judiciary, there were still concerns about selective political persecution during the review.

Economically, Malaysia recorded positive GDP growth in 2023 and 2024, and the forecast for 2025 was optimistic. Despite considerable volatility in 2023, the Malaysian ringgit rebounded in 2024 and was removed from the U.S. currency watch list. Additionally, the government has done well in slowing the growth of federal government debt, with a promise to achieve a further decrease in 2025. The government has also carried out some politically difficult policies in the interest of curbing public spending, such as the removal of subsidies for diesel fuel and additional plans to remove subsidies for RON 95 gasoline. The mid-term review of the 12th Malaysia Plan also reported growth in green technology development and other environmental, social and governance (ESG) efforts. Increased spending on education and R&D was included in the 2024

and 2025 budgets, but in the latest Programme for International Student Assessment (PISA) tests, Malaysia saw its students' scores decline across the three core subjects of reading, mathematics and science.

Malaysia continues to struggle with structural challenges, including an overreliance on government-linked companies, income inequality and the middle-income trap. External pressures such as inflation and geopolitical tensions have continued to pose economic challenges. Domestically, regional disparities between Peninsular Malaysia and East Malaysia remain a pressing issue. An amendment to the federal constitution in 2021 to restore Sabah and Sarawak to equal status within the federation has led to some progress in this regard, as negotiations between the federal government and Sabah and Sarawak have resolved some matters. However, disputes over ownership of natural resources, especially oil and gas, have intensified.

In foreign relations, Prime Minister Anwar engaged in a number of high-level visits seeking to enhance international cooperation. Diplomatic advances with countries such as Japan, India and South Korea point to a network of deepening international partnerships. However, there have been concerns about what seems to be an increasingly close relationship with China and Russia, as Malaysia was officially to become a partner in the BRICS group of states in 2025. However, the Association of Southeast Asian Nations (ASEAN) remains the cornerstone of Malaysia's foreign policy, and the country's role as chair of the group in 2025 will be a test of its regional leadership capacity.

History and Characteristics of Transformation

Established in 1965, Malaysia is a constitutional monarchy with a parliamentary system. It has a federal form of government, with 13 states and three federal territories. Malaysia is a multiethnic, multireligious country whose population is split between Bumiputera (literal translation: sons of the soil, made up of the majority Malay Muslims and other Indigenous groups) and non-Bumiputera (primarily of Indian and Chinese descent). A British colony until independence, Malaysia has inherited elements of British institutions, especially in the areas of democracy, governance and education. The country is made up of 11 states and two federal territories on the western peninsula, as well as the states of Sabah and Sarawak and the federal territory of Labuan on the island of Borneo, which it shares with Indonesia and the small country of Brunei. At the federal level, there is a bicameral legislature. The king, or agong (yang di pertuan agong), is the federal head of state, but executive power rests with the prime minister and cabinet. Additionally, each of the 13 states has its own titular head of state (either a state-level monarchy or an appointed governor and premier), as well as a state legislature led by the chief minister.

The country is classified as an upper-middle-income economy by the World Bank and has a population of 34.1 million. According to the latest data from the Department of Statistics Malaysia in 2024, its population is roughly composed of 60% Bumiputera (50% of whom are Malay Muslims), 20% ethnic Chinese and about 5% ethnic Indian people. The remainder includes 10%

foreign residents who are noncitizens and 5% citizens of other races. Most members of the country's ethnic Chinese and Indian population are Malaysian-born, with ancestors who arrived during colonial times following active recruitment by the British to help develop a commodity-based economy. Active segregation policies during British colonial rule entrenched economic and political cleavages between the major racial groups as well as a confusing divide in citizenship rights. The Malays and natives were seen as subjects of the king, while migrants to the British settlements were of indeterminate status or subjects of the British crown.

Independence was achieved through negotiations, primarily between the ruling Malay elites and the British colonial administration, leading to a compromise on the recognition of citizenship for Chinese and Indian migrants who had settled in or were born in the country. However, political hegemony remained in the hands of the Malays. This unconsolidated approach, underpinned by racial tensions over Chinese economic dominance vis-à-vis Malay political power, led to the country's worst case of sectarian violence in May 1969. A suspension of parliament and emergency rule followed until 1971, when the New Economic Policy (NEP) was launched to assist in the economic empowerment of the Bumiputera. Additionally, issues of race relations were ruled sensitive, with discussion in general public forums barred.

The government allowed the non-Bumiputera considerable freedom in many economic sectors on the condition that company positions and ownership stakes be allocated to Malays on the basis of quotas. This strategy, which prioritized economic growth alongside wealth redistribution, was supported by substantial foreign direct investment during the 1970s and early 1980s. As a result, Malaysia gained recognition as one of the Asian Tiger economies. Despite signs of having been mired in a middle-income trap, Malaysia is generally considered a success story among developing countries for having maintained a stable, growing economy.

The legacy of the NEP, carried on through its successors, has continued to confer wide-ranging privileges on the Bumiputera. These policies, meant to be temporary, have remained a focal point of debates on national unity and equitable growth. Although the NEP itself ended in 1991, its spirit was already well established in the nation's institutional and economic framework, particularly in government-linked companies (GLCs) and public sector employment. That remains the case. Today, poverty rates have improved significantly, but the Chinese population remains economically dominant. In 1970, the mean monthly gross household income for Bumiputera, Chinese and Indian households was MYR 172, MYR 394 and MYR 304, respectively. In the 2022 national census, it was MYR 10,656 for ethnic Chinese households, MYR 8,950 for ethnic Indians and MYR 7,599 for Bumiputera.

For most of Malaysia's independent history, the National Front (Barisan Nasional, BN), led by the United Malays National Organization (UMNO) alongside the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), was the dominant ruling coalition. It remained in power until 2018, when it lost the general election to the Alliance of Hope (Pakatan Harapan, PH) coalition. The multiethnic PH coalition broke up in February 2020, sending the country into an unprecedented political crisis that saw three new governments within four years. This was followed by the 15th general election in November 2022, which resulted in the unprecedented formation of a unity government led by PH alongside its previous political rival, BN.

The 15th general election was the first held after the introduction of the UNDI18 constitutional amendment, which significantly expanded the size of the electorate. It also saw Pan-Malaysian Islamic Party (PAS) secure the largest number of seats of any party, an unprecedented outcome in the country's history that underscored the rise of conservative Islam alongside growing polarization, with minorities and progressives worried about the future of Malaysia's pluralistic identity.

During the review period, Malaysia's prime minister was Anwar Ibrahim, whose PH coalition won a plurality of seats in the November 2022 general election but not enough to form a government on its own. However, the resulting coalition of coalitions – the “unity government,” as it was called – formed a two-thirds supermajority in parliament, thereby paving the way for a relatively stable period of governance. The unity government, made up of former political rivals PH and Barisan Nasional (BN) alongside the Sarawak Parties Alliance (Gabungan Parti Sarawak, GPS), the Sabah People's Alliance (Gabungan Rakyat Sabah, GRS), the Heritage Party (Parti Warisan Sabah, WARISAN), the Malaysian Nation Party (Parti Bangsa Malaysia, PBM) and the Social Democratic Harmony Party (Parti Kesejahteraan Demokratik Masyarakat, KDM), is a good representation of the power divide throughout the peninsula and the East Malaysian states of Sabah and Sarawak.

The opposition holds 69 seats in parliament, with the National Alliance (PN) – composed of the Malaysian United Indigenous Party (BERSATU: a party formed by breakaway UMNO members including former Prime Minister Mahathir Mohamad and Muhyiddin Yassin in opposition to then-Prime Minister Najib Razak) and the Pan-Malaysian Islamic Party (PAS) – holding 68 of them. The remaining seat belongs to the Malaysian United Democratic Alliance (MUDA). The government's hold on power remains tenuous, and both the ruling and opposition parties continue to face infighting and defections despite the anti-hopping law introduced in 2022. For example, six members of parliament from the BERSATU opposition party declared allegiance to the unity government, sidestepping the anti-hopping law by remaining members of their original party.

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

As a federation, Malaysia has a degree of separation between federal and state jurisdiction. However, the federal government has a strong monopoly on the use of force, and there is little to no question about the country's territorial claims, except for several territorial disputes, such as those in the South China Sea. There has been increased assertiveness from the East Malaysian states of Sabah and Sarawak, which are seeking a higher degree of political autonomy and calling for the federal government to honor the 1963 Malaysia Agreement (MA63). Negotiations between the federal government and the state governments of Sabah and Sarawak over 21 listed demands have been ongoing. Issues at stake include the states' regulatory power over gas supply; the return to the states of land reserved for federal purposes; various agricultural and forestry issues; and administration of the judicial system. At the time of writing, 11 of these 21 topic areas have been reported resolved.

Military command is structured at several levels, with the agong (king) serving as supreme commander. The commander acts on the advice of the prime minister and the cabinet. Domestic security enforcement is overseen by the Royal Police Force, which is centralized under the Ministry of Home Affairs. Overall, the federal government holds a monopoly over the use of force, and the military has remained apolitical throughout Malaysia's history. An exception is the state of Johor, where the sultan still maintains the Johor Military Force, which is limited to protecting the Johor royal family.

There is no outright contest over the legitimacy of the nation-state, and access to citizenship is based on the constitution established at the country's independence. This enshrines the special rights of the Bumiputera (sons of the soil), who enjoy privileges such as quotas for civil service jobs, welfare benefits and educational opportunities. However, the country is also recognized as a multicultural, multireligious nation that extends legal rights and protections to all its citizens. Disparities between the Bumiputera (mostly Malays) and non-Malay Muslims in the country continue to fuel social tensions, with increased concern and public discourse ongoing about representation and opportunities for other races in Malaysia.

Question
Score

Monopoly on the
use of force

9



1

State identity

8



1

Malaysia does not practice jus soli and does not recognize dual citizenship. Although there are set criteria for obtaining citizenship, there is no clear path to citizenship, particularly regarding documentation for stateless individuals, whether they are unregistered individuals of Malaysian parentage, refugees or other undocumented migrants. There are strict documentation requirements and restrictions on citizenship, and pockets of fringe communities remain for whom citizenship is a thorny issue because of a lack of documentation; this includes the Bajau Laut communities that lead nomadic, seafaring lives. The 2024 expulsion and demolition of these communities' villages, typically built over water, drew criticism from various NGOs and illustrated the country's strict control over citizenship and residency issues.

A Constitutional Amendment Bill approved in 2024 made further changes to existing citizenship qualifications, most notably by extending eligibility to children born abroad to Malaysian mothers. The previous measure had applied only to children of Malaysian fathers. It also lowered the age at which stateless minors could apply for citizenship from 21 to 18 (reflecting the new voting age). It revoked the right to automatic citizenship for permanent residents, as well as for spouses of citizens if the marriage ends within two years of acquiring citizenship.

Although Malaysia has a civil government, the constitution states that Islam is the religion of the federation, and much of the country's governance adheres to Islamic accords and sensitivities. Religion plays a significant role in the politics and governance of Malaysia, and there are concerns about growing conservatism among the population's Muslims. Recently, a bill was introduced to expand the powers of muftis (Muslim legal experts) in the federal territory, raising concerns about religious authority overreach. As of the close of the review period, the bill had not been debated in parliament and was on hold. Malaysia has a formally established dual-track legal system for civil and Islamic courts. Islamic (Shariah) law and jurisprudence are divided between state and federal territories and governed by the respective sultan of each state and by the agong at the federal level. This sets territorial limits on the jurisdiction of Shariah courts. These entities handle most civil issues, such as family matters and inheritance, as well as religious trusts and endowments. The Islamic courts do not have jurisdiction over criminal matters except those related to the precepts of the religion. Additionally, the Shariah courts' jurisdiction is limited to individuals registered as Muslims.

Malaysia has a differentiated administrative structure that for the most part functions effectively, with varying levels of public-private cooperation across states. For example, electricity is supplied by Tenaga Nasional Berhad (a private company, but the government holds a majority stake) and, in East Malaysia, by Sabah Electricity – jointly owned by Tenaga Nasional Berhad and the state government of Sabah – and the private Sarawak Electricity Supply Corporation. According to the latest government statistics, electricity access is universal in most states, but the lowest such figure is an access rate of 87.6% in the state of Sabah.

No interference of religious dogmas

5

'06 '26 10



1

Basic administration

9

'06 '26 10



1

Provision of water is overseen by state-level authorities. Water access varies across states, with 99% to 100% of the populations in many states enjoying access, though the share in Kelantan is just 70%, and the share in Sabah is 87%. Comprehensive sanitation access is available nationwide, and all states report a access rate of more than 98%.

This is also in line with the latest statistics from the World Bank. According to the Bank's last available update, in 2022, 97.2% of Malaysia's population had access to a basic water source and 93.9% had access to safely managed water. Moreover, 96% of the population had access to basic sanitation, and 86% had access to safely managed sanitation. The institution also reported that 100% of the population had access to electricity.

This differentiation in public service provision is also evident in infrastructure. For example, extensive and efficient public transportation networks generally do not extend beyond the Klang Valley (the largest urban node in the country). Health and educational infrastructure are also widely provided, but quality again varies between rural and urban areas. On another note, Malaysia's communications infrastructure is extensive, having drawn strong and sustained private investment. In 2023, the government announced it would move to a dual network system for 5G.

Law enforcement in Malaysia is primarily the purview of the Royal Malaysia Police. Both the Royal Malaysia Police and the Fire and Rescue Department are federal agencies that have jurisdiction over all states in the country. In the 2025 budget, the government approved MYR 1.09 billion for 70 projects to improve the Fire and Rescue Department's capacity and facilities.

2 | Political Participation

As a parliamentary democracy, Malaysia's democratic processes and institutions are generally healthy, although concerns about transparency and gerrymandering persist. Elections are held to fill parliamentary and state assembly seats, although federal and state elections have recently tended to be out of sync. While this can lead to lower voter turnout in state elections, it allows state governments to focus on state-specific issues. The number of voters in Malaysia has increased thanks to automatic voter registration, which also includes Malaysian citizens abroad. State and by-elections held in 2023 included those for the state governments of Selangor, Terengganu and Kedah. In 2024, elections were held for the seats in Nenggiri, Kelantan and Mahkota Johor.

There is a general consensus that there has been an improvement in electoral bodies and instruments, with several state and by-elections successfully held in 2023 and 2024. Malaysia has universal suffrage for citizens, and ballot secrecy is guaranteed. Malaysia's last general election, in 2022, solidified the country's transition to a more

Free and fair elections

7

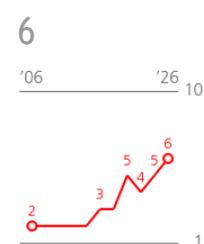


competitive multiparty politics. Polling stations and vote counting processes include volunteers from across the political spectrum so as to ensure fairness and transparency. Bersih, a collection of NGOs in Malaysia established to ensure clean and fair electoral practices, also regularly sends observers to note and report on inconsistencies and malpractice during elections. In its 2023 report on state elections, the organization noted several issues still of concern in the Malaysian electoral system, including malapportionment, the way that election commission appointments are made and the fact that the Electoral Reform Committee report remains classified.

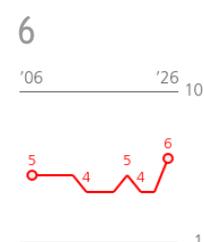
In Malaysia's constitutional monarchy and parliamentary democracy, the king, or agong (yang di pertuan agong), is the federal head of state, but the prime minister is the head of government and holds much of the governing power. The monarchy normally plays a limited role in politics, although the agong's power can still be a deciding factor in many cases. The agong also has the discretion to appoint the head of state for states that do not have a ruler, and the appointment of Sabah's new head of state (yang di pertua negeri) was controversial, as the appointment of the former chief minister of Sabah raised questions about previous corruption cases allegedly involving the minister. That said, no cases of monarchical overreach were noted during the period of review. Additionally, the period of review saw no major threats by individuals or groups to unseat any democratically elected figures. In his 2024 address to parliament, the current agong noted that the palace would not entertain any efforts to oust the unity government, as had been done in the "Sheraton Move" in 2020.

The right of association is well established in Article 10(1)(c) of the federal constitution and is evident in the country's large number of political parties and associations. On the other hand, the right of assembly remains restricted due to concerns about national security and public peace. Although the end of the pandemic saw the country ease its restrictions on movement, assemblies and rallies require that organizers submit a request to the police, who oversee the permission-granting process. Several political protests were held during the review period, such as an anti-corruption protest in 2023 following the dismissal of charges against Deputy Prime Minister Ahmad Zahid Hamidi. In July 2024, a march calling for a proper investigation into the death of political aide Teoh Beng Hock, as well as for greater transparency and oversight in interrogation methods, was met with police obstruction and scuffles, but was ultimately allowed to proceed. Earlier, in January 2024, a large-scale anti-corruption rally led by NGOs and university students was given permission to gather and protest, with the prime minister himself stating that he had no problem with the gathering.

Effective power to govern



Association / assembly rights



The freedom of expression has always been constrained by the government due to its strict oversight of any acts seen as holding the potential to incite unrest. Malaysia also slipped to 107th place on Reporters Without Borders’ World Press Freedom Index in 2024 – down 73 places from 2023. Sensitivity toward race, religion and the royal institution (3R) has been used by various administrations over the years – with no exception for the current unity government – to control public expression, creating a high degree of self-censorship by the media. There were many cases during the review period in which the government blocked access to digital media sites that were critical of the administration, although no outright shutdowns or physical threats of violence occurred.

A new amendment to the Communication and Multimedia Act (CMA) in December 2024 gave the government greater control over social media licensing and expanded the powers of the Malaysian Communications and Multimedia Commission (MCMC) to set standards and directives. The amendments also increased penalties for activities listed under various sections of the act, including the controversial sections 211 and 233, which regulate offensive content online. Fines under the sections were respectively raised from MYR 50,000 to MYR 1 million and from MYR 50,000 to MYR 500,000, and longer jail terms were made possible. The definitions of what constitutes offensive content and improper use remain broad and vague.

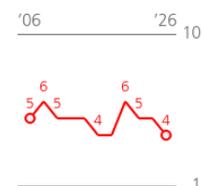
3 | Rule of Law

Malaysian governance is premised on a separation of powers among the executive, legislature and judiciary, but in reality these lines often remain blurred. This is particularly evident in the judiciary, where attorneys general continue to double as public prosecutors. Despite long-standing discussions about splitting these roles, there have been no substantive reforms, leaving room for potential conflicts of interest. Advocacy from civil society groups, including the Malaysian Bar, intensified in 2024, emphasizing the importance of institutional independence. There have been talks of splitting the two roles so as to further enhance fairness, but as of the close of the review period, nothing concrete had taken place in this regard. This structural limitation raises concerns about possible executive interference in legal matters.

Although the judiciary in Malaysia has a formal mandate for independence, it has long suffered from political interference. Recently, high-profile cases such as the Royal Commission of Inquiry into the Batu Puteh case and litigation involving former Prime Minister Najib Razak have again raised serious concerns about selective prosecution and the politicization of justice. Malaysia has a formal dual legal system consisting of civil courts and Shariah courts, although the states of Sabah and Sarawak also provide for native courts. Shariah laws in Malaysia apply only to Muslims and govern family and marriage matters, and jurisdiction is separated between the Shariah and civil courts.

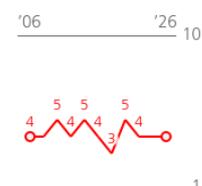
Freedom of expression

4



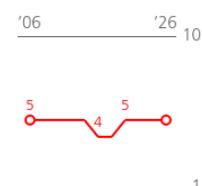
Separation of powers

4



Independent judiciary

5



The problem arises when individuals are legally registered as Muslims but may not have been fully able to consent (for example, in the case of one parent having converted and registered the children as Muslims) or understand the legality of their conversion. Such issues can create jurisdictional disputes between civil and Shariah courts. Efforts to resolve these overlapping jurisdictions have been minimal, thus leaving those affected in legal limbo. In general, although decisions made in Shariah courts cannot be reviewed by civil courts, exceptions are made where “illegality, unreasonableness or irrationality and procedural impropriety” is found. In these cases, the Federal Court has ruled against state-based Shariah rulings. In 2024, 16 of 18 provisions in the Kelantan Shariah Criminal Code, introduced in 2019, were found to be unconstitutional and invalidated by the Federal Court.

The Malaysian Anti-Corruption Commission (MACC), better known locally as SPRM, is the agency responsible for investigating corruption and abuses of power. It has pursued high-profile cases involving individuals such as Deputy Prime Minister Zahid Hamidi and opposition lawmaker Syed Saddiq. But critics argue that enforcement remains unequal and politically discriminatory. In the first instance, a corruption case filed against Zahid dragged on in the courts, ending with the dismissal of various graft cases and an appeal. By contrast, the seemingly harsh punishment of Syed Saddiq raised questions about selective prosecution. More recently, initiatives to enhance anti-corruption mechanisms have included demands for greater transparency in the MACC’s operations. As of early 2025, there had been no substantial reforms seeking to enhance the equal application of the law.

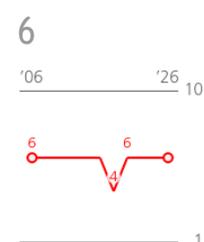
Civil rights are enshrined in Malaysia’s constitution, though enforcement varies widely. Malaysia moved a step closer to the international threshold for human rights in 2023 when it removed the mandatory aspect of the death penalty, allowing judges to use their discretion in certain cases. Yet many challenges remain in fully protecting civil rights.

For example, LGBTQ+ people face significant legal and social obstacles. While there is no persecution under civil law, Shariah courts still penalize Muslim LGBTQ+ individuals. Without legal recognition or protection, this community is highly vulnerable to discrimination and abuse.

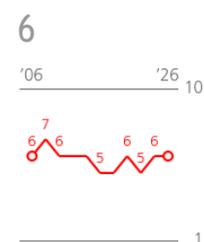
Reports of police misconduct also highlight gaps in civil rights enforcement. Excessive use of force and custodial deaths (especially commonplace in immigration matter) have remained in the spotlight. The government has made efforts to remedy this, including by creating an independent police oversight commission and a policy that requires the disclosure of the number of custodial deaths. However, activists continue to call for tougher oversight and accountability mechanisms, pointing out that the commission has no enforcement capacity.

In sum, Malaysia has made progress in areas such as judicial reform and the repeal of harsh penalties; however, systemic challenges in enforcing civil rights and combating corruption remain significant obstacles. These issues require sustained efforts to ensure a more equitable and just society.

Prosecution of office abuse



Civil rights



4 | Stability of Democratic Institutions

Democratic institutions are a cornerstone of governance in Malaysia and perform well in most circumstances. Civil institutions such as the judiciary, the election commission and the public administration play an important role in maintaining order and the rule of law. However, these institutions are frequently criticized for inefficiencies, many of which are caused by overlapping roles and a bloated bureaucracy. Efforts to reform the civil service have progressed slowly because of political instability and resistance to change.

Recent reforms have shown that the election commission can adapt. The increase in the number of voters due to automatic voter registration and the lowering of the voting age to 18 has provided insight into that flexibility. The UNDI18 reforms greatly improved voter turnout. However, defects such as gerrymandering and a lack of transparency in political funding have eroded public trust in the integrity of elections.

During the COVID-19 pandemic, Malaysia's civil institutions proved resilient in managing public health and economic recovery. For instance, the social welfare system and public health institutions provided vital services during the lockdown and demonstrated that functional institutions are crucial in emergencies. However, despite these positive trends, the slow pace of bureaucratic reform limits these institutions' responsiveness to emerging concerns.

The aftermath of the 2022 general election underscored the growing polarization in Malaysia's political landscape. The hung parliament and the resulting unity government brought coalition politics and compromise to the fore. This arrangement has sustained stability but also exposed the challenges of governing by consensus. Delays and inconsistencies in policy have frustrated the public, eroding confidence in the government's ability to enact meaningful reforms.

The political scene in early 2025 was one of schism. Amid the emergence of new parties and the fluidity of party alliances, governance has become even more complex, and policy gridlock is common. The lack of progress on economic reforms and climate initiatives shows how difficult it is to manage such a varied coalition government. Meanwhile, vocal calls have emerged for stronger protections for democratic processes, including strict campaign-finance laws and independent electoral oversight. As yet, these calls have gone largely unaddressed.

Performance of democratic institutions

6



Democratic institutions in Malaysia enjoy a high level of legitimacy among both the mass public and political actors. Civilian control over the military is institutionalized, with the National Security Council (NSC) ensuring that the armed forces remain focused on defense and national security, not politics. This separation has been a major factor in Malaysia's political stability, setting it apart from many of its regional neighbors in which military intervention in governance is more common. The executive branch of the government remains the most powerful, exerting strong influence over the legislature and judiciary. However, parliament and the court system in Malaysia are able to perform their roles independently.

However, tensions between the federal and state governments remain a challenge to democratic institutions. Long-standing demands for greater autonomy have been made, especially by the states of Sabah and Sarawak. While the amendment to the constitution in 2021 recognized them as equal partners in the federation, there are still challenges in giving that recognition practical meaning. Ongoing negotiations – particularly disputes over resource management and fiscal allocations – remain unresolved, making federal-state relations fraught. For example, calls for a larger share of oil revenues from the East Malaysian states have intensified, with little resolution in sight.

While democratic institutions in Malaysia are resilient and widely accepted, inefficiencies, federal-state tensions and executive oversight remain long-standing concerns. Overcoming these concerns will require sustained political will and a commitment to reform if these institutions are to function effectively and serve the needs of the evolving democracy. Prime Minister Anwar also recently confirmed the introduction of the Parliamentary Service Bill, which aims to separate the parliamentary service from the civil service, an effort that could increase legislative independence from the executive.

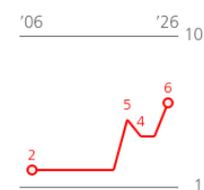
5 | Political and Social Integration

The political parties in Malaysia represent a multitude of political leanings and social interests. At the time of writing, the Malaysian Registrar of Societies lists 71 active political parties. This has led to vote-splitting, as evident in the last general election, when the winning coalition, the PH, was unable to obtain enough seats for a majority in parliament on its own. Despite this circumstance, the subsequently composed unity government has thus far proved that parties can work together even when remaining political rivals. Although racial and religious cleavages remain prominent in Malaysian politics, the level of polarization seems most apparent among Malay voters. The single largest party in the parliament is the PAS, underscoring the importance placed on Islamic values in the majority Malay-Muslim population.

The remaining Malay vote tends to be distributed among the centrist parties, including Anwar's party, the People's Justice Party (PKR); the United Malays National Organization (UMNO); and the Malaysian United Indigenous Party

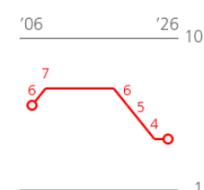
Commitment to democratic institutions

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Party system

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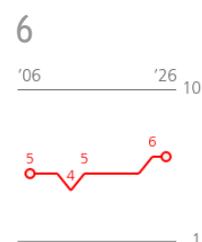
(BERSATU). As a whole, non-Muslim voters have shown greater support for the center-left-leaning Democratic Action Party (DAP). Additionally, regional politics need to be taken into consideration, with none of the major parties on the peninsula having any significant foothold in the eastern states of Sabah and Sarawak. That said, voter volatility remains rather low, as evidenced during the 2023 state elections, when there was limited transferability of votes between PH’s and BN’s respective voter bases.

Malaysia has a broad range of civil groups, comprising about 95,694 registered non-governmental associations as of 2024, excluding political organizations. These organizations span the religious, social, cultural and professional sectors, reflecting the long-term presence of public and civic engagement in the country. Civil society has also been among the most active forces in pressing the government for democratic reforms. The Malaysian Bar Council, for example, is a well-established professional organization that regulates Malaysian lawyers, and it remains an outspoken advocate for the review and repeal of many restrictive laws in Malaysia, such as the newly passed CMA amendments and the Security Offenses (Special Measures) Act 2012, also known as SOSMA. However, there are also strong interest groups that reflect the Muslim religious majority that plays a dominant role in the societal and political discourse.

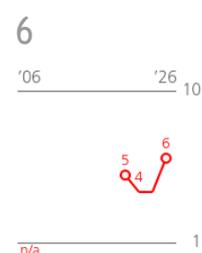
Levels of approval of democracy and democratic institutions in Malaysia are quite high. Democracy remains the only legitimately recognized means of changing governments, although this should not be confused with a public approval of the current state of politics or the unity government. Malaysia scored 7.3 on the Economist Intelligence Unit’s 2023 Democracy Index. In surveys conducted in 2023 by the Merdeka Center, a local public opinion research organization, 85% of Malaysian respondents said they believed democracy was the best form of governance for Malaysia. This pattern held even in the country’s most conservative states. By contrast, public satisfaction with government performance remains only slightly above average, although the overall trend is positive. The Merdeka Center’s December 2024 publication of the government’s two-year assessment indicated that 51% of the public was satisfied with the federal government, and that the prime minister had an approval rating of 54%.

When it comes to a sense of solidarity and trust among Malaysians toward civil society, survey results from the Edelman Trust Barometer 2024 indicate that the public sees NGOs as the most trustworthy set of local institutions, followed by businesses. By contrast, the government was seen as far less ethical and competent. The healthy range of NGOs in Malaysia also showcases the voluntary and autonomous organization of cultural, environmental and social associations.

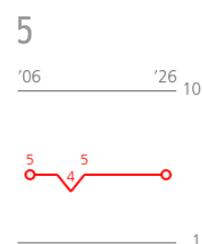
Interest groups



Approval of democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Malaysia has yet to achieve its goal of becoming a high-income country, but it has been on a positive trajectory in its economic recovery since the end of the pandemic. The economy remains the top issue of concern for Malaysians, and 64% of those surveyed by the Merdeka Center expressed dissatisfaction with the government's efforts to address the rising cost of living. The government of Malaysia reported a poverty rate of 0.2% in the 2022 census, and it aimed to fully eradicate hard-core poverty by 2025. Poverty rates in Malaysia still vary not only between states but also within them. Sabah has the highest poverty rate at 16.7%, followed by Kelantan at 13.2%. Within Sabah, there is a large discrepancy in poverty between rural and urban areas. Kota Kinabalu has an absolute poverty rate of 10.3%, whereas Kota Marudu's rate is 49.9%. The problem remains that the government's measure of poverty is based on income and does not take into account differences in the cost of living between states, as well as between rural and urban areas. The overall poverty rate remains highest among Bumiputera at 7.9%, followed by 5.4% among ethnic Indians and 1.9% among ethnic Chinese.

A new system, an online central database called Pangkalan Data Utama (PADU), was also introduced in early 2024 to integrate socioeconomic and demographic data on all households in Malaysia and ensure that subsidies and incentives are properly distributed. However, the rollout did not see universal participation, as only 11,554,134 individuals were reported to have registered by the March 31 closing date. Economic Minister Rafizi Ramli announced that the government had no intention of reopening registration or allowing profile updates, because the government had a strict schedule it planned to follow to ensure the smooth rollout of subsidies in 2025. Lawyers for Liberty (LFL) has also criticized the exemption of government agencies from the Personal Data Protection Act 2010, arguing that the central database does not adequately protect users from data leaks or invasions of privacy.

When it comes to income level, the country divides its socioeconomic classes into three tiers: the bottom 40% (B40) for households earning up to MYR 5,249 a month; the middle 40% (M40) for households earning between MYR 5,250 and MYR 11,819 a month; and the top 20% (T20) for households earning more than MYR 11,819 a month. Of course, there is disparity in these measures, as those in B40 households still earn less than the average wage. According to UNDP's Human Development Report (2023 – 2024), the poorest 40% of the population controls 15.7% of the overall national income, while the top 10% controls 31.2%. The top 1% holds 20.1% of total

Question
Score

Socioeconomic
barriers

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national income. Economic Minister Rafizi Ramli announced that the government plans to phase out this classification in 2025 in order to better reflect income nuances and optimize government welfare and subsidy programs. The minimum wage was also set to be raised in 2025 from MYR 1,500 to MYR 1,700.

Malaysia was ranked at 63rd place globally in the 2023 /24 HDI, up from 67th in 2021. It fell into the category of very high human development. When adjusted for inequality, the overall loss in the country's score was 14.3%, lowering its rank by five places. There is also gender disparity between women and men: the HDI score among women was 0.794 and 0.816 among men. Women generally have a higher life expectancy at birth, as well as higher expected and mean years of schooling. However, women have a much lower gross national income (GNI) per capita. GNI per capita among men was \$34,983 (adjusted for purchasing power parity), while among women it was \$19,262. Based on the 2022 census, the Malaysian Gini coefficient was 0.404 and was projected to reach 0.39 in 2025. Malaysia was ranked 52nd on the Gender Inequality Index. Although Malaysia has no legal constraints on economic opportunities based on race, ethnicity or gender, Bumiputera special rights guarantee privileges for this population, which include preferential hiring in the civil service and access to education opportunities in public educational institutions.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	373784.8	407605.8	399705.1	421972.1
GDP growth	%	3.3	8.9	3.6	5.1
Inflation (CPI)	%	2.5	3.4	2.5	1.8
Unemployment	%	4.6	3.9	3.9	3.8
Foreign direct investment	% of GDP	5.4	3.7	2.0	3.7
Export growth	%	18.5	14.5	-8.1	8.5
Import growth	%	21.2	16.0	-7.4	8.9
Current account balance	\$ M	14493.4	12738.5	6257.1	7150.1
Public debt	% of GDP	69.2	65.5	69.7	70.1
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2021	2022	2023	2024
Net lending/borrowing	% of GDP	-6.4	-5.5	-5.0	-
Tax revenue	% of GDP	11.2	11.6	12.6	-
Government consumption	% of GDP	12.6	11.6	11.9	12.0
Public education spending	% of GDP	4.3	3.5	3.5	-
Public health spending	% of GDP	2.5	2.0	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.0	0.9	0.9	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Malaysia is a competitive market-based economy and is generally well regarded globally with regard to its business environment. According to the 2023 Malaysia Investment Performance Report, the last edition available as of the time of writing, Malaysia recorded about a 15.3% increase in foreign direct investment relative to 2022. More than 5,000 foreign companies from more than 50 countries were operating within its borders. It was ranked 34th out of 67 countries in the IMD World Competitiveness Ranking 2024, a seven-place drop from 2023.

The country is accommodating to foreign businesses, with well-established legal systems that provide clear regulations and make it comparatively easy for foreign businesses and investors to operate.

Some formal and informal barriers to entry and exit are in place. Formally, these include import restrictions, tariffs and quotas for protected industries such as the automobile and agricultural sectors. There are also administrative barriers, such as licensing requirements, including the new social media licensing requirement under the Communication and Multimedia Act (CMA) amendment.

Government procurement is strictly protected, and foreign companies must go through local agents or distributors registered with the government to participate. Partnerships with local shareholders are highly encouraged. Informal barriers including religious and cultural factors and dietary restrictions for the majority-Muslim market also impede entry to the Malaysian market. For example, Malaysia imposes strict requirements on food products for manufacturers seeking local halal certification, adding to administrative barriers.

Market organization

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Government-linked companies (GLCs) and government-linked investment companies (GLICs) have a significant presence in key sectors. The largest is Petronas, which dominates the oil and gas sector. In general, GLCs and GLICs function as private entities and are subject to market regulation like other companies, but there can be instances in which they face reduced oversight due to government clientelism. For example, in the case of Sapura Energy Berhad (another GLC in the Malaysian oil and gas sector), the company has been listed by Bursa Malaysia as a PN17 company (a category indicating companies in financial distress), and was recently granted a fourth extension to submit its regularization plan. The company recorded a net loss of MYR 293.06 million in the third quarter of 2024.

The Malaysian Anti-Corruption Commission (MACC) actively investigated several high-profile cases throughout 2023 and 2024, reflecting the government's goal of ensuring that Malaysian businesses are competitive and that oversight issues are addressed. One issue drawing such scrutiny in recent times has been the investment of public funds in companies, resulting in massive losses. As the review period closed, the MACC was investigating FashionValet, which received about MYR 50 million in investments from Khazanah Nasional Bhd (Khazanah) and Permodalan Nasional Bhd (PNB), only for the two to sell their shares at a staggering loss of MYR 43.9 million. The question of why the company continued to receive investments despite reports of heavy losses has prompted further investigation, with the prime minister ordering Khazanah to conduct a full audit of the amount invested.

With regard to anti-competition measures, the country has the Competition Act 2010, which is overseen by the Malaysia Competition Commission (MyCC). Although some observers have criticized the MyCC's effectiveness, and a judicial challenge was even recently filed against a decision, the dismissal of the judicial review demonstrates the validity of its enforcement efforts. In 2025, the MyCC was set to propose amendments to the Competition Act 2010 in order to enhance the effectiveness of its mandate. Additionally, the MyCC is a member of the International Competition Network (ICN).

Malaysia has an open trade structure and actively participates in free trade agreements. It is party to 16 bilateral and regional free trade agreements. In 2023, two partial-scope agreements – the Framework Agreement on Trade Preferential System among the Member States of the Organization of the Islamic Conference (TPS-OIC) and the D-8 Preferential Tariff Agreement (PTA) (D-8 PTA) – entered into force. In general, Malaysia's preferential trade partners enjoy tariffs lower than the 5.6% most-favored nation rate seen in 2023, providing an incentive for other countries to sign trade agreements with Malaysia.

Protectionist measures and non-tariff barriers remain, aimed at ensuring the growth of targeted and protected sectors. This includes export duties on some commodities such as palm oil, as well as on controlled goods under the Strategic Trade Act 2010. There are also import licensing requirements for automotive and pharmaceutical

Competition policy

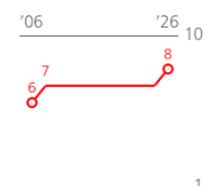
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Liberalization of foreign trade

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products. Malaysia also requires local Standard and Industrial Research Institute of Malaysia (SIRIM) certifications to ensure that industrial products meet local standards. The Ministry of International Trade and Industry (MITI) also oversees anti-dumping and countervailing measures, which are in line with WTO guidelines.

The banking system in Malaysia is governed by the Bank Negara Malaysia (BNM), the country's central bank. Established in 1959, the BNM has operated independently of the Ministry of Finance. However, the minister of finance retains the authority to appoint the bank's governor.

The BNM holds observer status with the Basel Committee on Banking Supervision (BCBS) and follows its standards. Overall, the banking sector is diverse, including commercial, investment and development banks, with both local and international banks operating in the country. Malaysia also has a healthy Islamic banking sector.

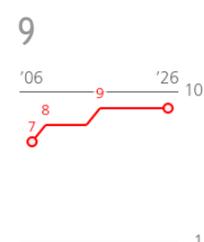
According to the latest financial security review available from the BNM, Malaysia's banking sector had a total capital adequacy ratio of 18.4% and excess capital buffers of MYR 136.1 billion as of June 2024. As of September 2024, total reserves were MYR 204 billion. The BNM reports sound banking asset quality, with a decline in the gross impaired loans ratio to 1.6% in the first half of 2024 (December 2023: 1.7%). A new register of beneficial ownership (BO) information was also launched in 2024.

Malaysia is also home to a healthy capital market, with Bursa Malaysia being one of the largest stock markets among the ASEAN countries. The latest report from the Securities Commission Malaysia notes that overall capitalization within the Malaysian capital market rose to MYR 3.8 trillion in 2023, up from MYR 3.6 trillion in 2022.

8 | Monetary and fiscal stability

The Malaysian ringgit experienced a volatile period in 2023 and early 2024, falling to its lowest level in February 2024. Since June 2024, however, the ringgit has improved, appreciating against the U.S. dollar by nearly 2.73% by the end of 2024. As of January 3, 2025, the rate was MYR 4.49 to \$1. The Malaysian ringgit also closed the year as a top performer among Asian countries in 2024, and has been removed from the U.S. currency watch list, further signaling the country's progress during the review period. The country maintains a flexible exchange rate regime, and the BNM manages the country's monetary and fiscal policies. The central bank also has sole authority to issue the national currency, the Malaysian ringgit (MYR), and manages the country's international reserves. The bank's new governor, Abdul Rasheed Ghaffour, took over from Nor Shamsiah Mohd Yunus in June 2024 and will hold the post for five years.

Banking system



Monetary stability



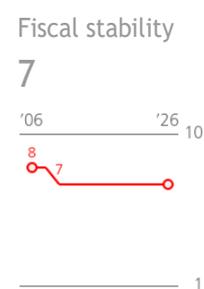
As the economy has improved since the end of the pandemic, Malaysia's inflation rate has declined. The inflation rate in January 2023 was 3.7%, but in January 2024 had fallen to 1.5%, reflecting increased price stability. There is greater variation in inflation by sector, and the largest year-over-year increase was in the categories of cars, social protection, and miscellaneous goods and services, at 3.4%. One major issue has been inflation in medical service costs, reported at 12% annually by the AON Global Medical Trends Report Rates 2022. This, in turn, has led to higher insurance premiums in 2023 and 2024. Food and beverages saw a year-over-year inflation rate of 2.6% in 2023/24. In the meantime, prices in the information and communications sector fell by an average of 3.9%. Overall, IMF country data for Malaysia reported a 2.8% inflation rate for 2024.

Overall, the government has been pursuing a stability-oriented fiscal policy. The BNM works with the government to ensure the country maintains sufficient liquidity in the domestic financial system. During the review period, engagements with GLCs and GLICs increased to encourage more consistent repatriation and conversion of their foreign investment income into ringgits. The country recorded a current account surplus of MYR 3.0 billion in the second quarter of 2024.

The current government has additionally been delivering on its promise to slow the growth of the federal debt. In the Ministry of Finance's most recent Fiscal Outlook and Federal Government Revenue Estimates report, the federal debt grew by 8.6% in 2023, 7.5% in 2024 and 6% in 2025. The debt-to-GDP ratio was projected to remain around 64% through the end of 2024 and 2025.

Malaysia's debt is mostly denominated in ringgit, which reduces currency risk and the risk of default. Total federal government debt was reported at MYR 1.227 trillion in June 2024, about 63.1% of gross domestic product (GDP). As of Q3 2024, the country's external debt totaled MYR 294.3 billion. Total reserves stood at MYR 491.5 billion in Q3 2024.

The 2025 government budget noted that the country's fiscal policy aimed to consolidate spending. The budget deficit also decreased from 5.6% in 2022 to 5% in 2023 and was forecast to be 4.3% in 2024. The goal for 2025 was 3.8%. Malaysia recorded a current account balance surplus of MYR 11.4 billion in the fourth quarter of 2024 and a surplus of MYR 32.8 billion for the full year 2024.



9 | Private Property

The country has well-established, generally enforced rights and regulations governing the acquisition, benefits, use and sale of private property. Malaysia was ranked 31st out of 125 countries on the International Property Rights Index in 2023, and moved up one place to 30th in 2024. The country scored an overall 6.2 on the index, with scores of 7.5 in the category of physical property rights and 7.3 for intellectual property protection. Its score for the property registration process was relatively low, at 5.4.

Land ownership regulation generally falls under the jurisdiction of state governments (except for federal territories), but privately owned land cannot be repossessed by the government without compensation. Privileges are granted to Bumiputera through Bumiputera reserves, but these reserves can be negotiated through equal-value trade. Foreigners can also buy property with a minimum value of MYR 1 million. Malaysia has made strides in improving regulation and enforcement of intellectual property rights. The Intellectual Property Corporation of Malaysia (MyIPO) recently launched an IP Rights Marketplace pilot platform to improve access and visibility for intellectual property owners.

Private enterprises in Malaysia enjoy a competitive market with functioning legal safeguards. However, the government plays a key role in private enterprises through GLCs and GLICs. These differ from state-owned enterprises (SOEs) because the government is a major shareholder in GLCs, but they are profit-based corporations subject to normal market regulations. However, they can be directed by government mandate and receive government support in priority sectors.

10 | Welfare Regime

Malaysia's social welfare system is a mix of public and private initiatives designed to address the needs of its diverse population, especially the B40 lower-income group and the M40 middle-income group. In recent years, the government has been rebranding and expanding many welfare programs to ensure greater inclusivity and reach. Key initiatives under the current administration include cash subsidies, health care schemes and employment-related protections. These initiatives are supported through taxes and redistribution mechanisms. Notable programs include the Rahmah Cash Transfers, which are direct transfers targeted at the B40 group.

The cash-transfer program was previously known as Bantuan Rakyat 1Malaysia, and later as Bantuan Sara Hidup. The Inland Revenue Board manages these transfers, which are given to households whose total earnings are below the poverty threshold. The Malaysian Welfare Department also provides cash assistance and other kinds of

Property rights

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Private enterprise

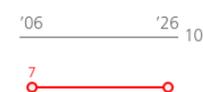
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Social safety nets

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aid to poor and vulnerable persons and households. Additionally, there is a Supplementary Food Program (Rancangan Makanan Tambahan) aimed at school-going children from poor families, providing daily meals to enhance nutrition and encourage regular attendance at school.

The Employee Provident Fund (EPF) is a compulsory retirement savings scheme. The EPF permits members to withdraw portions of their accumulated savings under specific conditions, including for the purposes of funding continued education, buying a house or covering medical expenses. Recent reforms seek to balance immediate needs and long-term retirement security by splitting accounts into long-term savings accounts and accounts that members can access for withdrawal. The Social Security Organization (SOCSO) covers work-related injuries and disabilities, and provides pensions in cases of disability or death not related to work. In July 2024, the SOCSO expanded its Invalidity and Survivors' Scheme to include documented migrant workers as part of its commitment toward greater inclusivity. The Employment Insurance System (EIS) targets private sector employees. Monetary assistance and support in finding employment are provided in cases of job loss. It also offers reskilling programs to improve employability. There has been an effort to set up a Malaysian Gig Economy Commission (SEGiM) to better protect gig workers.

In the field of health insurance, MySalam is a health program targeting the B40 and M40 groups covering critical illness and hospitalization expenses for individuals earning less than MYR 100,000 a year. There is also the PeKa B40 program, which focuses on providing necessary health services to ensure access to prevention and treatment programs relating to noncommunicable diseases such as cancer and mental health disorders among the B40 group. All of these programs are funded through the tax system, redistribution efforts and investment funds. Coverage is quite good for citizens but limited for noncitizens. For documented migrant workers, SOCSO protection has recently been extended, while undocumented migrant workers rely heavily on support by charities and NGOs. The government has also committed to increasing the minimum wage to MYR 1,700 in 2025. In sum, Malaysia's welfare regime is firmly committed to citizen support through expanded programs with incremental reforms. However, systemic gender gaps, rural-urban inequalities and the exclusion of undocumented individuals need to be addressed to make the welfare system truly inclusive.

The commitment to equality of opportunity in Malaysia is well entrenched in the constitution and in state policy, setting a framework within which all citizens can take part in education, employment and social development. However, systemic inequalities persist despite these efforts, especially with respect to gender equity and ethnic disparities. Primary schooling is compulsory and free for all Malaysian citizens. In 2023, there were 7,778 government primary schools and 2,452 government secondary schools. Enrollment rates remain high, with 98% of eligible boys and 99.6% of girls enrolled at the primary level. Adult literacy rates are 96.18%

Equal opportunity

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for men and 93.21% for women, indicating significant progress in educational access and outcomes. However, infrastructure and quality disparities persist across urban and rural areas.

Malaysia has long afforded equality of opportunity, with women holding the right to vote, work and receive an education since the country's independence. Education enrollment rates are comparable between men and women, and women have recently outnumbered men at the higher education level. However, the labor force participation rate among women remains below the regional average, at 56% in 2024. Initiatives to enhance workplace inclusivity, such as parental leave policies and incentives to hire women, have had mixed results, because entrenched social norms leave women shouldering most household work. Therefore, the issue has more to do with social barriers than with legal barriers or a lack of supportive policies. Women are making progress with regard to taking on leadership positions. Although women hold only 14% of seats in parliament, they hold 38.9% of decision-making posts in the public sector, and women account for 30.7% of directors in Malaysia's top 100 publicly listed companies.

11 | Economic Performance

Malaysia's economic performance improved in both 2023 and 2024, consistent with the trend of recovery since the end of the pandemic. It ranked as the world's 36th-largest economy at the time of writing. According to the Malaysia Economic Statistics Review, the economy grew by 5.2% in the first three quarters of 2024, compared to 1.4% in the same period in 2023.

The country recorded a current account surplus of MYR 3.0 billion in the second quarter of 2024.

Export growth in manufacturing and agriculture slowed in 2023 due to a drop in global demand, but services improved with the recovery in tourism throughout 2023. Growth in 2024 was driven primarily by manufacturing and services, which were respectively reported to account for 59.2% and 23.2% of GDP. The Department of Statistics Malaysia (DoSM) also reported positive growth in the construction sector of around 19.9% in Q3/2024, whereas mining and quarrying declined by 3.9%. Agricultural output expanded in Q2/2024 and slowed somewhat in Q3/2024, but remained positive at growth rates of 7.3% and 3.9%, respectively.

Foreign direct investment has also played a major role in bolstering the Malaysian economy. In 2023, Malaysia recorded its highest-ever approved FDI value. In 2024, Malaysia recorded total approved investments of MYR 160 billion, which are projected to create more than 70,000 new jobs, mainly in the services and manufacturing sectors.

Output strength

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The country's unemployment rate was 3.2% in 2024. However, there is concern about the ongoing mismatch between job availability and the number of graduates in recent years. Malaysia estimates that about 300,000 graduates enter the job market annually, whereas only about 50,000 job openings for degree holders are available. The government has undertaken several initiatives to address this situation, including a wage guide to provide clearer salary benchmarks across industries. Additionally, the country has made significant investments in its digital economy, including in the areas of blockchain, artificial intelligence (AI) and big data analytics, among others. The trade surplus stood at MYR 12.0 billion in October 2024, a 7.6% decrease compared with October 2023.

The increase in consumer prices has slowed since the end of the pandemic, falling from an inflation rate of 4.2% in the latter half of 2022 to below 2% in 2023. However, there are concerns that proposed cuts to subsidies and increases in wage levels will put further upward pressure on the inflation rate.

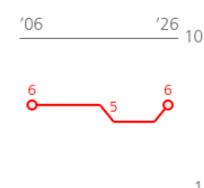
12 | Sustainability

Malaysia made progress toward enhancing sustainability and improving its environmental policies during the review period. As an exporter of oil and gas, it is heavily dependent on fossil fuels for electricity generation and power consumption. Recent reports show that Malaysia has an estimated 15-year reserve of oil and natural gas, which could be sufficient for 40 years under an optimistic estimate if the country follows through on its efforts to regulate and improve energy efficiency. In 2023, Malaysia introduced its Energy Transition Roadmap, focusing on achieving net-zero greenhouse gas (GHG) emissions by 2050, and on cutting carbon intensity relative to GDP by 45% by 2030 compared with the 2005 baseline.

The country's 2024 budget included a commitment of MYR 240.24 billion for some 40 environmental initiatives as well as an allocation of MYR 2.77 billion for the development of the electric vehicle sector and infrastructure. In the 2025 budget, the government continued this trend by allocating MYR 305.9 million to energy transition projects. These include the introduction of a Large-Scale Solar (LSS) program, a hybrid floating solar farm at Lake Kenyir and a green hydrogen hub in Terengganu. Government incentives and initiatives to encourage environmentally sound consumption by households and companies include the Corporate Renewable Energy Scheme (CRESS) program. This initiative will launch open grid access, which will allow corporations to choose green energy sources directly from generators available in the market. Another initiative in the 2025 budget is energy performance contracting (EPC) for all government agencies with the goal of achieving up to 10% energy savings. The government also allocated MYR 250 million for ecological fiscal transfer (EFT) as part of its forest and wildlife conservation efforts, alongside individual state governments' efforts to replant trees.

Environmental policy

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The country has also made strides in enhancing its environmental, social and governance (ESG) regulations. The National Industry Environmental, Social and Governance (i-ESG) framework was introduced in 2023. The framework is set up in two phases: “Just Transition” (Phase 1.0) for 2024 to 2026 and “Accelerate ESG Practices” (Phase 2.0) for 2027 to 2030. ESG reporting has steadily increased, covering not only large corporations but also small and medium-sized enterprises, although SMEs still struggle to close the reporting gap and transition to managing their resources and digital tools in a way that meets these new requirements. The country is also still struggling to balance economic activity with environmental concerns. For example, in 2023, Malaysia lost 133,000 hectares of natural forest.

On the education front, the country has solid educational institutions, both publicly funded and private, at the primary, secondary and tertiary levels. The top schools and universities in the country are all public educational institutions. The quality, accreditation and processes of educational institutions are overseen by the Ministry of Education and the Ministry of Higher Education.

That said, the country’s education system continues to face a divide between urban and rural areas, as well as increasing skepticism toward the public education system at the primary and secondary levels. This is in part due to uneven funding for schools based on the number of students and student performance, a measure which generally leaves underpopulated rural schools with fewer resources. This also means many children continue to underperform, and Malaysia saw a significant decline in its 2022 Programme for International Student Assessment (PISA) scores across the three core subjects of reading, mathematics and science.

In the 2023 – 2024 Human Development Report, Malaysia scored 0.636 on the inequality-adjusted education index and reported a literacy rate of 94.64%. Malaysia’s education spending amounted to about 3.6% of GDP in 2023, according to World Bank data. In 2024, the government allocated 19% of the federal budget to education. In 2025, it allocated its largest amount yet – MYR 64.1 billion – to the Ministry of Education, along with MYR 18 billion to the Ministry of Higher Education. The 2025 budget also promises increased focus and investment in the area of technical and vocational training (TVET). Additionally, there is increasing focus on students’ digital literacy, an issue that was highlighted in the new Strategic Education Plan 2024 – 2030, launched by the Ministry of Education in 2024.

Malaysia has both public and private R&D structures. Five universities are designated as research universities. There is also a wide diversity of research institutions and think tanks, both government-affiliated and private. In the public sector, the government annually provides grants through various ministries. Some major grants available nationally include the Fundamental Research Grant Scheme (FRGS), the Trans-Disciplinary Grant Scheme (TRGS) and the Niche Research Grant Scheme. In the 2025 budget, the government also allocated MYR 509 million for research and development, to be divided between the Ministry of Higher Education (MoHE) and the Ministry of Science, Technology and Innovation (MOSTI).

Education policy /
R&D

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Governance

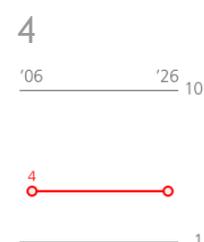
I. Level of Difficulty

Malaysia is a geographically fortunate country that has an abundance of natural resources and is generally safe from major natural disasters. However, there are still some structural constraints on governance. One major concern has been the severity of floods affecting states such as Kelantan, Terengganu and Sarawak. This has led to an estimated loss of MYR 800 million in 2023. Floods also contributed to the displacement of about 139,000 people and an estimated MYR 312 million in damages to roads alone in the latter part of 2024. On the other hand, the Malaysia Meteorological Department has also forecast possible droughts in 2025 and 2026. This will likely affect Malaysia's water supply and agricultural production.

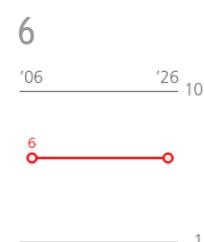
Improved service provision is also constrained by aging infrastructure in some places, for instance with regard to the many older public health care facilities (hospitals and clinics), schools and universities. There are also discrepancies between urban and rural areas with respect to infrastructure availability, standards and staffing for public services. Public services such as health care are overburdened and understaffed. A survey by the Malaysian Medical Association (MMA) found that 95% of public health care facilities were understaffed, and that more than 3,000 contract doctors resigned between 2021 and 2024.

Malaysia has a healthy NGO and civil society tradition. NGOs are among the harshest critics of the government, and are sometimes portrayed as disruptors of public peace. This dynamic has been particularly pronounced because the PH-led government's longtime campaign when it was in opposition centered on its promise of reform, and on its close cooperation with civil society organizations during that period. That said, despite the high number of organizations, most Malaysians have little inclination to participate in public demonstrations or outright protests against the government. More importantly, there has been a clear decline in social trust. According to the Edelman Trust Barometer, Malaysians trust NGOs and businesses more than they do the government, and levels of trust toward both mainstream and social media have also declined – all indicating high levels of public skepticism.

Structural constraints



Civil society traditions

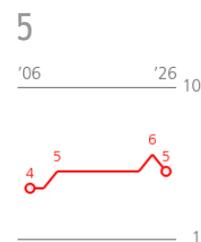


The current PH-led government came to power with an ambitious pledge to pursue reforms, but a look back at its two years in power shows that it has faced difficulties implementing swift, far-reaching reforms. The most significant challenge has been in navigating tenuous cooperation agreements between former political rivals in the unity government while also maintaining support from an increasingly polarized voter base. The government has been criticized for backtracking on some of its campaign promises, so much so that it has been dubbed the “U-turn government.” These include the promise of improved electoral reforms, the review of laws seen as draconian or authoritarian, and increased parliamentary oversight of appointments to the election commission and the Malaysian Anti-Corruption Commission (MACC).

Although Malaysia’s politics and society can be highly contentious, the country has been relatively free of violence across its various divisions. There were very few instances of the use or spread of violence during the period under review. Protest gatherings during the review period were regularly called illegal by police, but despite obstruction and harassment by law enforcement, no major outbreaks of violence were reported during these gatherings. One recent example of protest was an anti-corruption demonstration catalyzed by events including the dismissal of corruption cases against Deputy Prime Minister Ahmad Zahid Hamidi and the perceived leniency toward former Prime Minister Najib Razak. The gathering, organized mostly by university students, took place in Kuala Lumpur in January 2025. It was initially deemed illegal but then given the go-ahead by the prime minister.

Political conflict remains an issue for the government, but the current opposition is not united enough to present a strong challenge to the unity government. The opposition has no shadow cabinet, nor did it put forward a shadow budget for 2024 or 2025. All this has raised questions about the capability of the opposition bench to provide a strong dissenting challenge to the government’s policies. Despite these cleavages, there is no mobilization by large population groups that threatens the country’s safety.

Conflict intensity



II. Governance Performance

14 | Steering Capability

In terms of long-term strategy-making capacity, all ruling governments, including the current one, have been guided by the five-year Malaysia plans. Each subsequent administration, although bringing its own priorities, has remained faithful to these existing strategic documents. This shows that despite the existence of political deadlock or contestation, governments are able to maintain their strategic priorities. In terms of long-term strategic planning, however, successive governments have tended to introduce their own long-term master plans, and this has also been the case for the current administration.

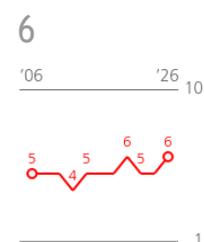
Since the end of the pandemic and the stabilization of the government, there has been a marked improvement in setting strategic priorities. Malaysia is guided by the prime minister's vision of "Malaysia Madani," a slogan translating as "Civilized Malaysia." Often described as a "nebulous" vision, the Madani framework covers six principles: sustainability, prosperity, innovation, respect, trust, and care and compassion.

Despite the philosophical approach of the Madani framework, the government has worked to operationalize sector-specific plans during the review period, such as the New Industrial Master Plan in 2023 and the National Semiconductor Strategy announced in 2024. The country is currently operating under the 12th Malaysia Plan, which sets out the strategic development plan for the period from 2021 to 2025. In 2023, the mid-term review of the 12th Malaysia Plan was also released; it documents the country's achievements so far. Positive developments include the restoration of economic growth as well as steps toward enhancing sustainability and green growth. On the other hand, the country comes up short in technology acceleration "with ineffective R&D&C&I resource utilization, slow progression of technological advancement and wider digital exclusion" (as stated in the report).

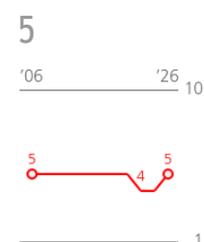
The current Malaysian government has demonstrated a capacity to learn not only from past experience, but also through consultations with industry and academic experts. For example, in 2023, Prime Minister Anwar Ibrahim appointed five special advisers in his role as finance minister. These included leading academics from public and private universities (Professor Yeah Kim Leng and Professor Rajah Rasiah), top businessmen (Petronas adviser Tan Sri Hassan Marican and FVSB Executive Chairman Datuk Ahmad Fuad Md Ali) and the chairman of a public service (Sarawak Energy Bhd Chairman Datuk Abdul Hamed Sepawi). The Academy of Sciences Malaysia also takes an active role in advising the government on national science, technology, innovation and economic policies and related matters.

Question
Score

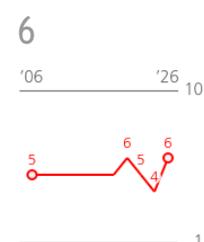
Prioritization



Implementation



Policy learning



The government has mechanisms and institutions geared toward learning and improving policymaking. For example, the National Public Governance Institute (Institut Tadbiran Awam Negara, INTAN) is a government agency dedicated to providing training for civil service officers. The government also has dedicated think tanks, such as the Institute of Strategic and International Studies, which advises the government on foreign relations, and the Khazanah Research Institute, which provides policy recommendations to the government.

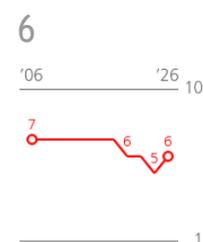
15 | Resource Efficiency

One of the biggest issues in Malaysia is the bloated civil service, which tends to over-bureaucratize the country's governance. Prime Minister Anwar's administration has also made a considerable number of political appointments. In July 2024, the government announced that 117 political appointments had been made, with most in federal statutory bodies. However, this is significantly fewer than under previous prime ministers, with the highest such number coming under Najib Razak, who made 301 appointments during his tenure. Recruitment for the public service is centralized and controlled by the Public Services Commission of Malaysia. At the time of writing, all new recruitment was being conducted through a contract system as the government reviewed new means of recruitment.

Despite a campaign promise to winnow the civil service, the current government announced a cabinet reshuffle at the end of 2023 that expanded the cabinet to 31 members. The reshuffle also split the Communication and Digital Ministry, due to expanded portfolios. With the creation of separate Communication and Digital ministries, there have been issues over whether the Malaysian Communications and Multimedia Commission (MCMC) should fall under the purview of the Digital Ministry or the Communication Ministry, given that the commission's scope of work falls into both portfolios. There have also been efforts to minimize overlap in other areas, and the government has promised to continue this work. One recent example was the merger between the Civil Aviation Authority of Malaysia and the Malaysian Aviation Commission. A rationalization of overseas offices and representatives of Malaysian government agencies is also set to take place in January 2025.

There have also been ambitious, challenging large-scale reforms during the review period aimed at managing civil service costs and rationalizing existing subsidies to optimize the use of public resources. A major reform in 2024 was the rollout of a new civil service structure. This introduced across-the-board pay raises and new pension schemes, while also consolidating or abolishing job scopes and titles no longer deemed relevant within the service sector. Other reforms in the rollout included higher qualification requirements for many lower-skilled roles and more progressive means of promotion for civil servants. The government also began transitioning civil servants from the pension scheme to the Employee Provident Fund (EPF) in an effort to scale back and control the costs borne by the national pension scheme.

Efficient use of assets



With regard to national budget planning, the 2024 and 2025 budgets showed a positive trajectory of fiscal consolidation as well as an improvement in the national budget deficit. The government recorded a 4.3% budget deficit in 2024 and aimed to reduce it further to 3% in the medium term. Subsidies for diesel fuel have been removed, and the government plans to remove subsidies for RON 95 gasoline in stages in 2025. Another measure taken was an expanded effort to promote public-private partnerships, including the launch of the Public-Private Partnership Master Plan 2030 (Pikas 2030) to lower government expenditure on development through more robust private sector involvement.

When it comes to policy coordination, the Malaysian government is highly hierarchical and bureaucratic. Although Malaysia recognizes three levels of governance (federal, state and local), much of the country's governing power is consolidated in the federal government. This concentration of power can help ensure a centralized agenda for development and governance, but it can also be problematic when implementing national policies, especially in opposition-controlled states. It is also problematic given the highly bureaucratized administration, as policy implementation can be slow because of overlapping responsibilities among ministries and agencies. One example is the handling of foreign workers by both the Ministry of Home Affairs and the Ministry of Human Resources.

An example of coordinating conflicting objectives is the national 5G network, which Malaysia initially introduced as a single wholesale network (SWN) under the state-controlled Digital Nasional Berhad (DNB) in partnership with Ericsson. Initial national security concerns and an intent to centralize control drove that decision, but industry backlash and increased debate on national security led the government in 2023 and 2024 to revise the approach to allow greater participation by multiple telecom firms.

Malaysia has highly structured legislation, mechanisms and processes for dealing with corruption, led by the Malaysian Anti-Corruption Commission. A new National Anti-Corruption Strategy (NACS) for 2024 to 2028 was launched in 2024. What it lacks is equitable enforcement of these mechanisms and processes, as long-standing political patronage remains entrenched at various levels of society. Public skepticism toward anti-corruption efforts also remains strong, as indicated in the NACS document itself, which reports that 69% of Malaysians believed that the incidence of corruption had increased between 2023 and 2024. There are also concerns about selective prosecution and a lack of protections for whistleblowers. During the review period, many members of the opposition, including former Prime Minister Muhyiddin Yassin, were charged with various counts of abuse.

Malaysia requires all civil servants to file asset declarations, and there has been an active effort to improve this process for individuals in power. The auditor-general's office regularly audits federal and state spending. A 2024 audit amendment bill also expanded the powers of the auditor-general's office, allowing federal auditors to audit

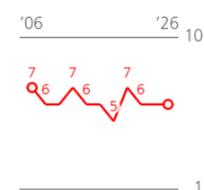
Policy coordination

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Anti-corruption policy

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companies that receive federal or state government financial guarantees. Following the implementation of the new bill, the National Audit Department has also promised an audit of all GLCs in 2025, which would mean a higher level of expected accountability.

There is still no established law on party financing, and the government has yet to make good on its promise of equal allowances for opposition parliamentarians. As of the time of writing, a political financing bill was under review, and the formation of the All-Party Parliamentary Group Malaysia (APPGM) on Political Financing, with an expanded scope, marked a step in the right direction. The Official Secrets Act 1972 remains in force and grants the government and its ministries broad powers to withhold information from the public. Nonetheless, there have been efforts to increase the scope of open data available for public access, and in 2023, the Department of Statistics Malaysia (DoSM) launched its OpenDOSM site to encourage the public sharing of data by ministries and agencies.

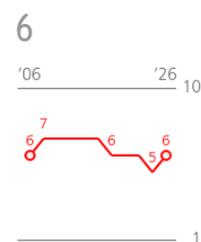
The government has also sought to improve the public procurement system, moving to draft a new procurement act in 2023. This included consultations with local stakeholders as well as with the United Nations Office on Drugs and Crime (UNODC). In the meantime, the system remains a sore point. As of July 2024, the MACC reported that 70% of the complaints it has received involve procurement issues, a continued increase since 2022 and 2023. In general, the procurement system lacks transparency and oversight sufficient to prevent abuse, especially regarding claims for undelivered services and products. In addition, purchasing through the public procurement system can be done only through approved government vendors, who tend to inflate prices.

16 | Consensus-Building

There has been a broad normative consensus in Malaysia regarding its goals of development and transformation. Because the government in power holds a two-thirds majority in parliament and the opposition is fragmented, there have been few significant obstacles to attaining consensus on broad objectives such as economic growth, social stability and sustainable development. This is reflected in the government's ability to enact important legislative reforms with limited opposition. Critics say the lack of a strong opposition diminishes healthy debate over those goals and creates blind spots in policymaking.

There has been little difficulty in reaching consensus on the value of the market economy. Across the political spectrum in Malaysia, parties agree that economic growth is inherently important and should be a focus, and that it is best pursued through the market economy. Debates remain about the role and responsibilities of the state, and there has also been criticism of recent government decisions to roll back subsidies for diesel and gasoline.

Consensus on goals



Reformist political actors within Malaysia's government and opposition still must contend with influential economic elites, conservative elements and hard-line political actors who may not openly oppose democracy, but still seek to consolidate their own power. Even within this constraint, the unity government has advanced important reforms in social protection and other areas such as electoral transparency.

The military is predictably subordinate to the civilian government and has given no indication of interfering in governance or blocking reform. Other politically powerful groups, notably those representing ethnonationalist or religiously conservative causes, sometimes challenge reformist policies aimed at inclusivity and liberalization.

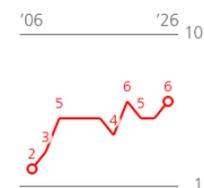
Malaysia's unity government has made strides in managing the deep religious, racial and cultural cleavages that characterize the country's political and social landscape. The coalition's composition – representing diverse political, ethnic and religious groups – has enabled it to foster broad consensus on contentious issues. This inclusive approach has helped depolarize debates on national identity and resource allocation, although challenges remain.

The public discourse often reflects tensions between progressive and conservative ideologies, but these debates are largely managed within democratic institutions. Most importantly, government initiatives such as the 2024 constitutional amendments recognizing Sabah and Sarawak as equal partners in the federation demonstrate the government's willingness to listen to and address decades-old grievances, with a view toward reducing regional disparities. While these initiatives have been welcomed, critics insist that more tangible outcomes with regard to resource distribution and governance autonomy are necessary.

Public consultation is institutionalized in Malaysia as a regular feature of policymaking. This is normally done through town halls, stakeholder engagement meetings and surveys designed to gather input from citizens and civil society organizations. For instance, preparation of the 13th Malaysia Plan involved extensive consultations with various stakeholders, including industry leaders, non-governmental organizations and grassroots communities. Despite these efforts, concerns remain about the inclusiveness and impact of these consultations. Critics argue that although the public is invited to share views, these opinions are sometimes not reflected in final decisions, creating perceptions of tokenism. It will be imperative to address this gap between consultation and implementation in order to build public trust and participation in governance.

Anti-democratic actors

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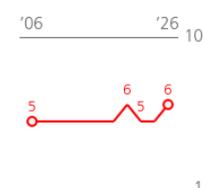
Cleavage / conflict management

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Public consultation

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Malaysia experienced one major incident of racial violence on May 13, 1969. This incident has continued to serve as the justification for some of the government's more oppressive laws and policies. In recent years, this narrative has been increasingly subject to questions and challenges, which might be cause for concern. That aside, there have been no major historical injustices committed, and no reconciliation processes have been completed as of early 2025.

Reconciliation

n/a

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n/a 1

17 | International Cooperation

In the foreign policy sphere, Malaysia continues to pursue a leadership-centered approach. Although Malaysia has a Foreign Policy Framework (last released in 2021), significant influence remains concentrated in the hands of the prime minister. Since taking office, Prime Minister Anwar Ibrahim has made various high-level visits with the goal of expanding Malaysia's international cooperation and partnerships. This has included visits to Singapore, Brunei, Indonesia, China, Australia, Russia, Germany, Qatar, Saudi Arabia, Uzbekistan, Japan, South Korea, India, Peru and Brazil.

Effective use of support

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The current administration's foreign policy is rooted in the country's pragmatism, seeking to enhance mutual economic and political benefit. During the review period, the government's efforts to make full use of international support for its development agenda (which is to transform Malaysia into a high-income nation) have included courting greater investment in its semiconductor sector from companies such as Intel and Amazon.

Much of the development assistance that Malaysia receives is today geared toward enhancing technological and higher learning R&D. For example, an Ocean Thermal Energy Conversion (OTEC) plant was established in 2024 with funding provided by the Japan International Cooperation Agency (JICA) to Universiti Teknologi Malaysia (UTM) and Universiti Putra Malaysia (UPM).

Malaysia was recognized as a "partner country" by the BRICS group of states as of January 2025 and has applied for full membership. This move has raised concerns that Prime Minister Anwar is leaning toward closer relations with China and Russia in preference to the country's ties with the United States and the West. These concerns are heightened because Malaysia and Malaysians are outspoken critics of Israel and the situation in Gaza. Prime Minister Anwar's high-profile visit to China and Russia and his invitation to Russia to join the ASEAN summit have added to these concerns.

Credibility

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However, Malaysia follows a pragmatic "hedging" approach to foreign policy, in which it continues to pursue good economic and trade relations with all its partners. This is in line with Malaysia's adherence to the principle of active neutrality in its

foreign policy. Malaysia and its prime minister have been outspoken critics of the inconsistencies they perceive in many multilateral platforms and institutions, but overall the country remains committed to the idea of international cooperation and adherence to multilateral institutions and norms, encouraging dialogue and diplomatic platforms as the best means for conducting international relations.

In that spirit, Malaysia also makes efforts to comply with various international agreements to which it is a signatory. For example, the government's goals and road map to increase green technology and reduce greenhouse emissions are in line with the Paris Agreement. However, challenges persist in practice, as the country remains dependent on oil and gas, as well as palm oil, as major contributors to the economy. The country also remains selective in its accession to various human rights-based agreements, and still has not taken any steps to ratify the Rome Statute, for example.

Regional cooperation is important to Malaysia, and ASEAN is the cornerstone of Malaysia's foreign relations. This will be even more significant in 2025, as Malaysia is serving as the ASEAN chair. Malaysia has set several agendas and priorities for regional cooperation; the most important of these is the successful launch of the ASEAN Community Vision 2045. Malaysia's term as chair, centered on the theme of "Inclusivity and Sustainability," focuses on increasing economic integration and improving ASEAN's digital readiness. Malaysia has also staunchly advocated ASEAN-based cooperation to drive solutions to regional problems. This includes the issue of Myanmar, where an informal ASEAN consultation was held in Bangkok in December 2024.

However, it looks to be a challenging period for Malaysia as ASEAN chair, especially with the threat of heightened U.S.-China rivalry with the return of President Donald Trump to power in the United States. There have been major concerns that the tariffs promised by Trump will create a major backlash against the economies of Southeast Asia, potentially derailing growth and increasing tensions in an already fragile geopolitical context. The possibility of conflict in the South China Sea, the Taiwan Strait and the Korean Peninsula will continue to raise concern in the region, and encouraging ASEAN to act consistently and cooperatively will be the biggest challenge for Malaysia. The absence of key figures such as Indonesian President Jokowi and U.S. President Joe Biden at the summit also raised questions about ASEAN's continued importance, something Malaysia will need to overcome.

The country has expanded its diplomatic relations in key areas, for instance by moving to a Comprehensive Strategic Partnership with Japan, India and Vietnam, and by upgrading ties to a Strategic Partnership with South Korea. These upgrades are set to ensure deeper cooperation and a diversified foreign policy approach for the country. Its defense-related memorandum of understanding (MOU) with South Korea, for example, will bolster the country's efforts to advance and modernize its military. Another example is the MOU on renewable energy cooperation between PetroVietnam and Petronas.

Regional
cooperation

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Strategic Outlook

Malaysia's unity government continues to face challenges in passing and implementing its reform agenda, as it must continually balance the sometimes-differing political interests of the alliance's component parties. This has led to perceptions that it is incapable or uninterested in delivering on the long-promised reforms. Many of the initiatives launched by the government in 2023 and 2024 were positive steps that should be encouraged. Even if the country is not ready to abolish its race-based policies, these policies need to be adjusted to better serve the poorest and most vulnerable members of the population. This includes better resource management, transparency in implementation and, more important, a focus on enhancing public trust. The country has made significant gains in competitive democracy, moving away from the political hegemony held by the United Malays National Organization (UMNO) and its National Front coalition; however, it has not yet fully established itself as an efficient and effective democratic nation.

External reform advocates must be mindful that for any reforms to be effective, the country's religious and racial sensitivities must be heeded. Increased engagement with grassroots organizations and government agencies alike can help amplify inclusive agendas. As the government continues to balance its reform efforts, it needs to take social needs into account through increased consultation with NGOs, professional organizations and, most importantly, the communities themselves. Reform advocates should work closely together to help ensure a better understanding of reform policies that – albeit potentially unpopular – are necessary. Such policies include adjustments to government subsidies and an overhaul of the civil service.

A focus on enhancing regional cooperation would also strengthen Malaysia and ASEAN in the global arena. ASEAN has the potential to be an economic powerhouse, and its members' growth over the past decade has made this one of the most dynamic regions in the world. Increased integration must occur at both the physical and policy levels. As ASEAN chair in 2025, Malaysia could support further economic integration within ASEAN and work with external partners to enhance ASEAN's initiatives, which would help ensure that the cooperative body is on track to improve the living standards of all in the region.