

BTI 2012 | Malaysia Country Report

Status Index	1-10	6.13	# 48 of 128	
Political Transformation	1-10	5.00	# 74 of 128	➔
Economic Transformation	1-10	7.25	# 24 of 128	➔
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scale: 1 (lowest) to 10 (highest) score rank trend

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Key Indicators

Population	mn.	28.4	HDI	0.761	GDP p.c.	\$	14731
Pop. growth ¹	% p.a.	1.6	HDI rank of 187	61	Gini Index		46.2
Life expectancy	years	74	UN Education Index	0.730	Poverty ³	%	2.3
Urban population	%	72.2	Gender inequality ²	0.286	Aid per capita	\$	5.2

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

Executive Summary

From 2009 to 2011, Malaysia experienced a macroeconomic recovery and the stabilization of the ruling coalition. However, political reforms oriented toward liberal democracy remained stalled. The opposition parties were unable to maintain the political momentum gained in the March 2008 general elections, when they gained control of five out of Malaysia's 13 state legislatures, and appeared on the brink of overthrowing the ruling Barisan National (BN) coalition. On 2 April 2009, Najib Tun Razak, the son of Tun Abdul Razak, Malaysia's second prime minister, became prime minister in his own right. Najib successfully overcame frictions within the ruling BN and is strongly supported by his own party, the United Malays National Organization (UMNO). After taking office, Najib started several campaigns aimed at regaining the support of the non-Malay population, primarily residents with Chinese and Indian roots, which abandoned the BN in the 2008 general elections. His "1Malaysia" campaign raised popular hopes that the government would change its ruling approach and become more inclusive, perhaps even emphasizing political equality by abandoning the affirmative action policy for the Bumiputera (indigenous Malay people). However, during the period under review, it became obvious that the "1Malaysia" campaign was little different from earlier slogans, and that the special rights of the Bumiputeras remained in place. Therefore, the government under Najib's new leadership failed to effectively tackle the ethnic and religious tensions which increased significantly over the course of these two years.

Malaysia's economic transformation from 2009 to 2011 shows more positive signs than does its political development. The country was strongly affected by the global financial crisis, but its economy recovered and gained strong new momentum in 2010. On 30 March 2010, Prime Minister Najib unveiled a so-called New Economic Model (NEM), which many observers hoped would be more need- and merit-based and less focused on race. The goals of the NEM are to allow Malaysia to double its per capita income by 2020 and become more competitive, more market-driven and more investor-friendly. As a road map toward these goals, the government

introduced the Tenth Malaysia Plan (2011 – 2015), which focuses on 12 national key economic areas (NKEA): oil and gas, palm oil and related products, financial services, wholesale and retail, tourism, information and communications technology (ICT), education services, electrical and electronic products, business services, private health care, agriculture and the development of Greater Kuala Lumpur. Furthermore, the government has focused on enhancing private-sector investment. The plan forecasts annual growth rates for the Malaysian economy of 6%. However, the plans alone have not reduced investor skepticism toward the Malaysian economy. It remains unclear how exactly the annual growth rate of 6% can be attained, as the plan remains vague on several key details, such as the potential abolishment of quotas for Bumiputera-held economic equity. Thus far, Prime Minister Najib has solidified his power base but has not fostered far-reaching political or economic reforms.

History and Characteristics of Transformation

The federation of Malaysia was established in 1963, combining the territories of Malaya, Singapore, Sabah and Sarawak. Two years later, in 1965, Singapore was expelled from the federation. Today, Malaysia consists of 13 states and three federal territories. It is a constitutional monarchy based on the British Westminster model, a legacy of British colonialism. At the federal level, there is a bicameral legislature. The House of Representatives (lower house) is composed of members elected every five years in a first-past-the-post election from single-member constituencies. The Senate (upper house) consists of 70 members, 26 of which are indirectly elected by the states, while the other 44 are appointed by the king. Executive power lies with the prime minister and the cabinet. Each of the 13 states has its own legislature.

Politically and officially, the country's population is divided into two categories: Bumiputera and non-Bumiputera. The Bumiputera group is made up of Malays and other indigenous peoples, while the non-Bumiputera group consists mainly of Chinese and Indians. This divide is evident in every facet of Malaysian life, from politics to food to university admissions.

Most of the Chinese and Indians originally came to Malaysia during colonial times, when the British actively recruited them to open up the economy. After independence, the British left political power largely in the hands of the indigenous Malays. The Malay leaders then forged a political alliance with the major Chinese and Indian parties. This set a pattern in which the office of the prime minister was to be occupied by a Malay from the United Malays National Organization (UMNO). The current president of UMNO, Najib Tun Razak, is Malaysia's sixth prime minister. He is the eldest son of Abdul Razak, who was the second prime minister of Malaysia. However, the alliance system collapsed in May 1969 when emergency rule was declared and the constitution suspended after race riots broke out between the Malays and the Chinese in the wake of a bitterly fought election. Once the constitution was reinstated in 1971, new legislation was passed ensuring Malay political supremacy, which in turn allowed the

UMNO to enhance its powers and aggressively promote its main supporters, the Malay population. A New Economic Policy (NEP) was promulgated, providing extensive benefits to the Bumiputera (i.e., Malay) community through quotas, bank loans, scholarships, special licenses, and so on. The government justified the affirmative action character of the NEP, claiming that the wide economic gap between the Malay and the non-Malay (i.e., Chinese) threatened racial harmony and had prompted the May 1969 riots. Although the NEP discriminated against the non-Bumiputera, the UMNO-led government was careful to allow a free market economy to develop. The government gave the non-Bumiputera a free hand in the economy, as long as quotas and shares were allocated to Malays. This strategy, which emphasized growth with ethnic distribution through significant foreign direct investment in the 1970s and 1980s, was so successful that Malaysia became one of the “Asian Tiger” economies.

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

The government has been headed by the UMNO since independence, while the ruling coalition, the BN, has won every general election. Before 2008, the BN regularly achieved more than a two-thirds majority in parliament, allowing it to amend the constitution at will and giving the executive the leeway to pursue policies without significant opposition. Having successfully managed the economy, the government has been able to proclaim that, by 2020, Malaysia will be a fully developed and industrialized country. Today, Malaysia is generally regarded as a success story among developing countries in the sense of maintaining a stable and growing economy and a relatively stable polity – despite its ethno-religious conflicts.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The Malaysian state is strong and faces virtually no challenges to its monopoly on the use of force throughout the country. In March 2009, Malaysia and Brunei signed the Exchange of Letters, an agreement which resolved various land and maritime territory disputes. However, several territorial conflicts with Indonesia and the Philippines remain active. Although Malaysia and Indonesia sought to ease the controversy over disputed oil-rich waters in the Ambalat area of the Sulawesi Sea, tensions between the two countries over maritime borders heightened in August 2010, triggered by the detention of Malaysian fishermen and Indonesian officials in disputed waters. As a result, the countries agreed one month later to implement mechanisms to resolve border disputes in the future. Malaysia's territorial dispute with the Philippines over the northern part of Sabah on the island of Borneo remained. The Philippines' claim to the territory stems from the sultan of Brunei's act ceding Sabah to the sultanate of Sulu in the seventeenth century. The Sulu lands now belong to the Philippines. In 1798, the territory was leased to the British North Borneo Company and brought under direct British control in 1946. Malaysia contends that the territory was purchased by the British North Borneo Company and is therefore a part of Malaysia. These conflicts, however, did not interfere with state affairs.

All Malaysian citizens accept the nation-state as legitimate, and all individuals and groups enjoy the right to acquire full citizenship rights without discrimination. However, the Malay majority population and the Islam religion shape the character of the Malaysian state. Ethnic Malays dominate the country's key political institutions, such as the parliament, the bureaucracy and the armed forces. The head of state, the Yang di-Pertuan Agong, is also a distinguished Malay institution. This Malay predominance draws criticism from Indians and Chinese, who make up about

Question
Score

Monopoly on the
use of force

10

State identity

9

40% of the population. In addition, indigenous groups in Sabah and Sarawak have repeatedly voiced discontent with Malay dominance.

The Malaysian Constitution defines the state as a secular order. However, Islam has considerable influence on the Malaysian legal system and the country's political institutions. Although Malaysian law is mainly based on the common law legal system, state Shari'ah courts operate alongside civil courts in civil matters. This dual system of law is provided in Article 121 (1A) in the Malaysian Constitution. During the period under review, several Shari'ah court decisions were the source of considerable controversy. In August 2009, a Shari'ah court sentenced Kartika Sari Dewi Shukarno to six strokes by cane and a fine for drinking beer in a hotel bar. Although the sultan of Pahang commuted the sentence to community service on 1 April 2010, the court decision was highly criticized by advocacy groups such as the Malaysian Bar Council. In a separate incident, three Muslim women were caned for having extramarital relationships in February 2010. Though the Shari'ah courts have jurisdiction only over matters involving Muslims, they remain highly influential in general, because their decisions frequently affect non-Muslims, in questions such as child custody, for example. Furthermore, Islam also plays an important role in the political institutions. The government continues to present itself as the preserver of Malay and Muslim rights. The opposition parties disagree with regard to the implementation of hudud laws (a branch of fixed punishment under Shari'ah law) should they take over the federal administration. Parti Islam Malaysia (PAS) strongly advocates religious dogmas. The Democratic Action Party (DAP) and the Parti Keadilan Rakyat (PKR), however, strongly oppose PAS' position.

No interference of religious dogmas

6

The Malaysian state has a differentiated administrative structure throughout the country, providing all basic public services. The highly trained and professional administration, which is dominated by ethnic Malays, implements the policies of the elected government. The state is able to fulfill its proper jurisdictional function and to enforce the law throughout the country. The country's transport network is diverse and developed, with a particularly extensive road network. However, infrastructure in the states of Sabah and Sarawak remains underdeveloped compared to peninsular Malaysia. Although 100% of the population has access to a water source, only 96% has access to sanitation, mainly due to a significantly lower share in Sabah and Sarawak. In addition, peninsular Malaysia has a higher rate of electrification (approximately 99%) compared to 77% in Sabah and 67% in Sarawak.

Basic administration

9

2 | Political Participation

Malaysia has established universal suffrage and regularly holds general elections. Opposition parties are able to run in the country's elections and political posts are generally filled according to the electoral outcome. Since the last general election in March 2008, 14 by-elections have been held, with opposition parties winning eight of them. Despite this fact, elections cannot be considered free and fair. The ruling coalition, the Barisan National (BN), frequently uses repressive laws to restrict the opposition and control the media. Cases of gerrymandering, using government resources to ensure consistent victories, and electoral fraud such as the manipulation of voter registration lists reflect an undemocratic strain within the BN government. These undemocratic attitudes were clearly displayed during the May 2010 Sibul by-election, when Prime Minister Najib made his "You help me, I help you" speech in which he promised voters MYR 5 million to alleviate floods if the government's candidate, Robert Lau Hui Yew, won the seat. The Election Commission's inactivity with respect to these forms of misuse of state funds by the government is frequently criticized by opposition parties.

Free and fair
elections

5

Despite being elected in unfair elections, rulers in principle have the effective power to govern as far as potential veto-holders such as the military, the clergy, landowners, business elites or external actors are concerned. Nonetheless, the importance of ethnic and religious politics in Malaysia makes it difficult for elected political representatives to implement profound policy changes. Racist groups such as Perkasa, an organization formed by Ibrahim Ali in the aftermath of the 2008 general elections, put constant pressure on the federal government to maintain the special rights of the Malay population.

Effective power to
govern

2

Association and assembly rights are severely limited. Under the Police Act of 1967, all public assemblies of three or more persons require a police permit. Police officers have the power to arrest participants even lacking a warrant, and to use force if participants ignore orders to disperse. During the period under review, hundreds of individuals were temporarily arrested while seeking to exercise their right to assemble. In the most severe incident, police forces cracked down on an anti-Internal Security Act (ISA) demonstration in Kuala Lumpur in August 2009. Almost 600 people were temporarily detained, and police forces fired tear-gas and water cannons at the 20,000 protesters. In a separate incident, police forces interrupted a January 2011 rally held by the opposition PKR in Tenang as soon as opposition leader Anwar Ibrahim took the podium. In contrast, civic groups that support the regime can operate and assemble without governmental interference. Federal laws such as the Societies' Act ensure that organizations critical of the government can be banned or refused registration. Malaysian trade unions are strictly controlled according to the Trade Unions Act and the Industrial Relations

Association /
assembly rights

5

Act. They are supervised by the Director General of Trade Unions, who can inspect them, refuse to register a union or withdraw registration once it has been granted. Furthermore, migrant workers, who represent 25% of the work force in Malaysia, are prevented by law from organizing or applying to register a trade union.

The freedom of expression is severely limited in Malaysia. Public debate is vulnerable to distortion and manipulation by strong government intervention. Laws such as the Official Secrets Act (OSA) and the Sedition Act restrict the freedoms of information and speech. Although two opposition-led state governments, Selangor and Penang, are in the process of implementing freedom of information acts, federal government authorities have shown no intention of loosening the strict federal laws. During the period under review, the serious limitations on freedom of expression and press were clearly evident. In March 2009, eight bloggers were charged under the Multimedia and Communications Act 1998 for criticizing the sultan of Perak. On 16 December 2010, opposition leader Anwar Ibrahim and three other opposition legislators were suspended from parliament for six months for criticizing the government's "1Malaysia" slogan, which Anwar Ibrahim said had been copied. Controversy over the use of the word "Allah" by non-Muslims rose in 2009. On 31 December 2009, a lower court ruled that a Catholic newspaper was allowed to use the word "Allah" in its Malay-language section, overturning a decision by the home minister. Muslim groups subsequently demonstrated against the court's decision, and in the aftermath of the decision, 12 churches around the country were targeted by fire-bomb attacks in January 2010. The ruling UMNO denied six new-media publications permission to cover the party's annual general meeting in March 2009. Moreover, the political organs of the PKR and PAS opposition parties were suspended on several occasions during the period under review. The Printing Presses and Publication Act (PPPA) gives the home affairs minister the power to silence critical newspapers or journals by not renewing their licenses. The Press Freedom Index 2010, published by Reporters Without Borders, ranked Malaysia at 141st place (the country's lowest ranking ever), down from 131st place in 2009.

Freedom of
expression

5

3 | Rule of Law

The constitution provides a structure for the separation of powers in Malaysia. However, the executive has an ongoing monopoly on power, and frequently colonizes the two other branches of government. The strong influence of the BN government on the other branches was shown in the constitutional crisis in Perak in February 2009. Three Pakatan Rakyat (PR) state assemblymen defected to the BN, thereby giving the BN a slight majority in the state assembly. As a reaction, the PR chief minister asked the sultan of Perak to dissolve parliament. Normally, the state ruler must follow such a proposal. Instead, the sultan refused to dissolve the parliament and instead appointed a new chief minister, a member of the BN. The

Separation of
powers

4

sultan's decision was widely criticized, as only the elected state legislature has the right to remove the state government. On 22 May 2009, the Court of Appeal unanimously decided that the BN's takeover was in compliance with the law, and that the BN chief minister was rightful head of the state. The court thereby overturned a previous decision by the Kuala Lumpur High Court, in which the judges had declared the PR candidate to be the rightful head of state. The Perak constitutional crisis is exemplary of the problematic functioning of checks and balances in Malaysia.

The judiciary is institutionally differentiated and has the ability to interpret and review existing laws, legislation and policies. Channels of appeal are in place, and the court administration functions reasonably well. However, judicial decisions and doctrines are not free from the influence of political decision makers, especially of the prime minister's office. The abovementioned constitutional crisis in Perak (see "separation of powers") confirmed the prevailing skepticism with regard to the independence of the judiciary in Malaysia. The Kuala Lumpur High Court's decision to declare the Pakatan Rakyat chief minister as rightful head of state was first seen as welcoming sign of a growing judicial independence. However, the Court of Appeal's overturning of the lower court's decision dispelled this sense of incipient change. In addition, the ongoing trial against Anwar Ibrahim for sodomy has sparked criticism from opposition groups and expressions of concern from overseas. Critics see the trial as an effort to discredit the opposition leader, and believe it is politically motivated. The trial judge has denied Anwar Ibrahim's legal team access to medical documents and records, which are crucial for his defense.

Independent
judiciary

5

Officeholders who break the law and engage in corrupt activities are increasingly both prosecuted under established laws and the subject of adverse publicity, but occasionally slip through political, legal or procedural loopholes. The administration under new Prime Minister Najib has identified the fight against corruption as a key component of its policy. On 20 July 2010, Ling Liong Sik, a former president of the ruling coalition-affiliated Malaysian Chinese Association (MCA) and erstwhile transport minister, was charged with having misled the government in 2002 into financing the Port Klang Free Zone (PKFZ), a regional industrial park and Malaysia's biggest port investment. If Ling is convicted, he faces a maximum sentence of up to seven years in jail or a fine. Ling is the most influential person to be accused in the PKFZ scandal, although four additional persons were charged. One of them, Phang Oi Choo, is the former general manager of the Port Klang authority. In addition, the sultan of Selangor, Sharafuddin Abdul Aziz Shah, decided to temporarily prevent Ling and Phang from using the Dato title he had previously bestowed on them. Both the sultan's unusual move and the charges against the formerly high-ranking government officials came as a surprise, as "big fish" and "small fish" involved in corruption had typically been treated differently in the past. In December 2010, another trial was launched against a

Prosecution of
office abuse

6

formerly high-ranking government official. Former Selangor Chief Minister Dr. Mohamad Khir Toyo was accused of corruption associated with the ownership of two land lots and a bungalow in Shah Alam, and was subsequently suspended from all party posts by the ruling UMNO. The Malaysian armed forces were the center of two high-profile cases during the period under review. On 6 January 2010, a Royal Malaysian Air Force (RMAF) sergeant and a company director were charged in connection with the disappearance of two RMAF F-5E jet engines. In November 2008, the RMAF admitted that the two jet engines had been smuggled out of Malaysia and had been found in Uruguay. The case attracted wide interest due to the fact that the jets disappeared under current Prime Minister Najib's tenure as defense minister. In 2010, the Malaysian Anti-Corruption Commission and French authorities intensified investigations regarding the sale of two Scorpene submarines, produced by the French shipbuilder DCN, to Malaysia in 2002. The French company is accused of having paid MYR 575 million as a commission to a company called Perimekar. Perimekar is linked to Abdul Razak Baginda, an associate of Prime Minister Najib. The Malaysian government downplayed the allegations and declared that there was "no case" to answer. Despite the corruption charges against former high-ranking government officials during the period under review, the government's position on the submarine-deal corruption allegations substantiated fears that it still lacks the political will to eradicate corruption at higher levels.

Civil rights are constitutionally guaranteed but are nevertheless occasionally violated under the Malaysian state. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are partly in place, but often prove to be ineffective. The Malaysian authorities continue to deprive individuals of the right to justice by using laws that allow detention without trial. Most prominently, the Internal Security Act (ISA) allows the state to keep people perpetually incarcerated by enabling detention orders to be renewed every two years. However, after taking office as prime minister in April 2009, Najib expressed his intention to conduct a comprehensive review of the ISA. In April and May 2009, the Malaysian government released 26 ISA detainees, including five members of the Hindraf organization, a group advocating for equal rights for the country's Indian population. Nevertheless, as of the time of writing, 25 persons remained in custody under the ISA. Furthermore, police forces violently dispersed demonstrations against the ISA on several occasions, raising concerns as to the veracity of the government's announced intention to review the ISA. Police forces cracked down on an anti-ISA demonstration in Kuala Lumpur in August 2009, detaining 600 protesters. In 2010, more than 40 people were arrested during a countrywide series of candlelight vigils for the abolishment of the ISA. Federal laws such as the Official Secret Act (OSA), which automatically classifies all government documents as secret, and the Sedition Act, which criminalizes speech with seditious tendency without specifying the definition of seditious, provide the government

Civil rights

6

with the legal cover to take action against its critics, thereby leading to violations of civil rights on a massive scale. The government continues to ignore recommendations by the Human Rights Commission of Malaysia (Suhakam), and even refuses to debate Suhakam's findings in parliament. Furthermore, the Malaysian government actively restricts Suhakam's work. Suhakam Commissioner Jannie Lasimbang, who has been banned from entering Sarawak since 1994 due to her former work as an activist, could have entered the state of Sarawak only under the condition that she avoid involvement in any activities deemed detrimental to the interests of the state. This stipulation was seen as an interference with the work of Suhakam, and exposed the group's weak position as a defender of human rights in Malaysia.

The public holds the police in low esteem. In March 2009, the Malaysian government introduced the Enforcement Agency Integrity Commission (EAIC) bill, which aims to end the abuse of power and corruption within the police force. The bill was widely criticized because it replaced the Independent Police Complaints and Misconduct Commission (IPCMC), whose work came to a standstill in 2006. The IPCMC was viewed as a much stronger tool in fighting the abuse of power within the police force. The urgent need for such a commission was highlighted by the rising number of police shooting deaths during the period under review. In 2009, 88 people were killed in police shootings, the highest such number in a decade. In addition, human rights groups such as Suaram criticized the Malaysian police for several unexplained deaths of individuals while in police custody. In December 2010, human rights group Amnesty International (AI) demanded that the Malaysian government establish a moratorium on all caning punishments, and that it ratify the United Nations Convention Against Torture and the International Covenant on Civil and Political Rights. AI also criticized the treatment of thousands of immigrant workers in the country.

The role of Islam in civil cases and the dual system of civil courts has in the past undermined the equality of treatment before the law. The Malaysian government announced its intention to implement legal reforms with regard to the procedure of Muslim conversions. However, state officials later declared in November 2010 that such a reform would be impossible without approval by the sultans, and the proposal stalled in 2010.

4 | Stability of Democratic Institutions

Although Malaysia's system of checks and balances is weak, its key institutions are stable. The executive is strong in Malaysia, with the power transfer from former Prime Minister Badawi to current Prime Minister Najib in April 2009 consolidating the power of the ruling BN. Nonetheless, the executive's dominant position negatively affects the country's horizontal and vertical separation of powers. The

Performance of
democratic
institutions

2

prime minister and the cabinet make all political key decisions, with the parliament clearly subordinated to these institutions. The intensity of parliamentary debate has increased since the last general elections, but opposition parliamentarian's rights are frequently violated. On 16 December 2010, opposition leader Anwar Ibrahim and three other opposition MPs were suspended from parliament for six months for criticizing the government's "1Malaysia" slogan. The judiciary too is subject to interference by the executive. The ruling coalition interferes in the activities of state governments, hampering opposition-led state governments and their efforts to implement democratic reforms. This was clearly reflected in the constitutional crisis in Perak in 2009, when the BN took over the state government. In sum, executive dominance continues to block democratization.

At present, the Barisan National (BN) government is not committed to democratic institutions. During the period under review, the United Malays National Organization (UMNO)-dominated government was able to consolidate its grip on power following Prime Minister Najib's accession to office. The government's commitment to democracy and democratic institutions thus remains dubious. Moreover, the current Malaysian government makes no secret of the fact that it considers liberal democracy to be unsuitable for Malaysia.

Commitment to democratic institutions

2

5 | Political and Social Integration

The Malaysian party system is fundamentally established and rooted in society. However, after the last general election in March 2008, the party system can be described as having become more competitive. This development was reflected in the 14 by-elections held since the last general elections, with opposition parties winning eight of them. Two major blocs, the Barisan National (BN) and Pakatan Rakyat, compete for votes. The ruling coalition, the BN, is comprised of 13 parties, each of which represents an ethnic group or a region. Historically, the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), along with the largest party, the United Malays United Organization (UMNO), have formed the backbone of the BN. After losing votes in the last general election, the MIC and the MCA saw major changes to their party leadership during the period under review. On 6 December 2010, Samy Vellu, the longest serving president of the MIC with 31 years in office, resigned his party post and picked G. Panivel as his successor. Vellu had lost his parliamentary seat in the previous general elections, and had been the subject of substantial criticism due to the party's poor election results and the widespread clientelistic structures within the MIC. The move was welcomed by the other BN member parties. For its part, the MCA faced its own major leadership crisis as factional infighting between party president Ong Tee Keat and deputy Chua Soi Lek continued in 2009. Ong and Chua were elected in 2008, with Ong refusing to accept Chua as his deputy from the beginning. After intense fighting

Party system

7

over the party's leadership, Chua defeated Ong in the party's election in March 2010. However, the factional infighting undermined the public image of the MCA, and raised questions as to whether the party could regain its support among the county's Chinese population.

Opposition parties are similarly divided along ethnic lines and are therefore influenced by ethnic and religious divisions. After the last general election in March 2008, Parti Keadilan Rakyat (PKR), the secular Democratic Action Party (DAP) and the Islamist Parti Islam Malaysia (PAS) formed a political coalition called Pakatan Rakyat (PR). In December 2009, the coalition held its first convention, with delegates from all three parties participating. The delegates adopted the Common Policy Framework (CPF), a significant move aimed at overcoming ideological differences between the three parties. Despite this progress, the opposition remained weakened by internal disputes during the period under review. Factions of the PAS, led by party President Abdul Hadi Awang, caused major internal trouble by supporting a proposal to open talks with UMNO over a possible Malay-Muslim unity government. Although talks between the two parties did not go beyond the preliminary stages, this move can be taken as an indicator of instability within the opposition coalition. Moreover, the talks represented the complete opposite of the opposition parties' aims, especially with regard to religious questions. Furthermore, the opposition coalition was further weakened by internal disputes within the PKR. The PKR party elections in 2010 were overshadowed by allegations of fraud, electoral misconduct and a low voter turnout. As a reaction, former de facto law minister, Zaid Ibrahim, who joined PKR in June 2009 and ran for the party post of deputy president, resigned from PKR. In conclusion, the opposition coalition, despite gaining momentum after the general elections in 2008, lost significant support among the public during the period under review.

There is a range of interest groups in Malaysia, but important social interests such as indigenous groups are underrepresented. In addition, particular strong interests dominate, and there is a risk of polarization. The spectrum of interest groups ranges from social movements, such as vocal environment groups and community organizations providing assistance to the poor at a local level, to professional associations such as the Malaysian Bar Council. However, civic groups can act only within the narrow limits set by the Malaysian authorities. In practice, this means they cannot broach issues of race or religion, and cannot criticize the government. Though most civic groups promote the ideals of a multiracial and open society, they are strongly organized along ethnic and religious lines. During the period under review, the emergence of newly founded Malay Muslim organization Perkasa, which views itself as a defender of Malay interests, deepened the polarization along ethnic lines. Perkasa's rise has undermined social groups' efforts to deepen their

Interest groups
4

levels of cooperation. Historically, employers' associations and trade unions, such as the Malaysian Trade Union Congress (MTUC) umbrella organization, have no political weight.

Malaysians have an ambivalent relation to democratic norms. According to data provided by the Asian Barometer Survey, 86.9% of Malaysians express a desire for democracy, and 81.1% of Malaysians believe that democracy is the most suitable form of government for the country. In addition, 58.8% of Malaysians feel no attachment to any form of authoritarian rule. However, less than half of Malaysians surveyed support the rule of law, judicial independence and a system of checks and balances. Furthermore, the majority of Malaysians are attached to procedures of authoritarian governance. According to the survey, 84.3% of Malaysians feel that the relationship between the government and people is similar to that between a parent and a child. Surveys undertaken by the Merdeka Center show that the popular understanding of democracy is rather shallow. Malaysians view elections as a sign of democracy, but most also feel that elections in Malaysia are neither free nor fair. In a separate survey, when asked if political stability was more important than democracy, the majority of the respondents said "Yes." Moreover, some sections of the Malay population may not support democracy if told that they have to give up their "special rights" as a consequence. In sum, only a minority of Malaysians support democratic procedures of governance.

Approval of
democracy
n/a

There is a fairly low level of communal trust within the Malaysian population. Social and cultural barriers divide the major ethnic and religious groups. Although the number of autonomous, self-organized groups, associations and organizations continued to grow during the period under review, 68.4% of Malaysians lack membership in any form of societal association, according to data provided by the Asian Barometer Survey. Moreover, the government's authoritarian approach toward these organizations limits associational activity considerably. In addition, the data show that involvement in associations largely fails to foster trust in fellow citizens in Malaysia. Accordingly, stores of social capital are notably low in Malaysian society.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality are limited and only marginally structurally ingrained in Malaysia. Key indicators show a medium level of development. The country's score in the 2008 UNDP's Human Development Index was 0.823, above the world average of 0.69. Malaysia was ranked 66th overall. The country's level of development permits freedom of choice for all citizens. On March 30, 2010, the government unveiled the New Economic Model (NEM), an economic plan which is intended to more than double the country's per capita income by 2020. The NEM explicitly aims at reducing fiscal disparity between the poorest and richest segments of the population. According to World Bank data from 2004, the latest available, 7.8% Malaysians lived below the poverty threshold. Furthermore, the country's Gini coefficient of 0.379 (compared to a world average of 0.418) indicated that there was still a gap between the rich and the poor. Nevertheless, there is an absence of fundamental exclusion associated with poverty, unequal access to education or deep gender discrimination. This is shown by the Gender Empowerment Measure (GEM), on which Malaysia scores a 0.50. The female literacy rate is 89.8%, slightly lower than the male rate of 94.3%. In the past, the state's Bumiputera affirmative action policies have excluded non-Bumiputera from participating at some social levels. At the same time, the government has been unable to eliminate poverty among the Bumiputera completely. Large income disparities within this group remain. With the NEM, the government has expressed an intention to reduce the affirmative action programs for the Bumiputera. In fact, as of the time of writing, the definitive version of the NEM had yet to be implemented. More broadly, income disparities and development imbalances among the country's various regions were not reduced during the period under review. In November 2010, the World Bank published its third Malaysia Economic Monitor (MEM), which showed that the state of Sabah was not only the country's poorest with regard to persons living under the national poverty threshold, but is likely to hold this position for some years to come. Poverty is particularly widespread in the rural parts of the state. In sum, problems associated with poverty and rural development still remain in Malaysia.

Question
Score

Socioeconomic
barriers

7

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	186777.3	222744.2	192911.6	237796.9
GDP growth	%	6.5	4.8	-1.6	7.2
Inflation (CPI)	%	2.0	5.4	0.6	1.7
Unemployment	%	3.2	3.3	3.7	-
Foreign direct investment	% of GDP	4.6	3.3	0.7	4.0
Export growth	%	4.1	1.7	-10.5	9.9
Import growth	%	5.9	2.1	-12.2	15.1
Current account balance	\$ mn.	29770.1	38914.4	31801.0	27290.5
Public debt	% of GDP	42.7	42.8	55.4	54.2
External debt	\$ mn.	61419.5	66074.4	66272.3	81496.7
Total debt service	\$ mn.	10421.1	8778.3	12057.3	13283.6
Cash surplus or deficit	% of GDP	-3.3	-4.6	-6.4	-
Tax revenue	% of GDP	14.8	15.2	15.7	-
Government consumption	% of GDP	12.2	12.4	14.1	12.7
Public expnd. on edu.	% of GDP	4.5	4.1	-	-
Public expnd. on health	% of GDP	4.5	4.3	4.8	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.1	2.0	2.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Market competition has a strong institutional framework in Malaysia, but the rules for market competition are not always uniform for all market participants. The informal sector is small. Several shortcomings in the Malaysian economy are evident. In some sectors, administered prices play an important role. The government strongly influenced prices for sugar, gasoline, liquefied petroleum gas and diesel during the period under review. However, the government did decide to cut back subsidies in these sectors, lowering the importance of administered prices

Market-based
competition
8

in June 2010. This represented the first step in a gradual program of subsidy rationalization, and is part of the New Economic Model's (NEM) comprehensive revision of all government expenditures. In the past, the government enforced rules requiring a certain percentage of firms' equity to be held by individuals of Bumiputera origin. However, in April 2009 the government decided to liberalize 27 services subsectors by allowing majority ownership without Bumiputera equity participation. In addition, foreign shareholding in existing stockbroker companies was allowed to increase from 49% to 70%. Both reforms were welcomed by investors, and were seen as a first step in improving economic competitiveness in Malaysia. However, a lack of clarity had developed by the end of 2010 with regard to reform of the pro-Bumiputera policies. When the government unveiled the second and final part of the New Economic Model (NEM), it became clear that race-based quotas would not be completely abolished. Moreover, open procurement tenders for government and government-linked companies have yet to be implemented. To date, small government contracts remain open only to Bumiputera companies.

According to the World Bank's Doing Business Index 2011, Malaysia took visible steps toward a more competitive market economy during the period under review. Malaysia was ranked 21st out of 183 economies, rising from 23rd place in 2010. According to the report, the process of opening a business has been eased by the introduction of more online services. In addition, the introduction of online stamping has reduced the time and cost associated with transfer of property. Malaysia is ranked first overall in the World Bank's "Getting Credit" category, and fourth overall in terms of investor protection. Still, the high level of bureaucracy in terms of procedures (nine) and days required (17) in order to start a business in Malaysia prevented better overall results.

Competition laws designed to prevent monopolistic structures and conduct are newly passed, thus making it impossible to tell whether they will be enforced consistently. On 21 April 2010, the Malaysian parliament passed the Competition Act 2010, which was intended to prevent large companies from engaging in monopolistic or cartel-like activities. The Competition Act 2010 will come into force on 1 January 2012. Previously, no law against monopolies or the formation of monopolies and oligopolies has existed. The act will apply to any commercial activity, both within and outside Malaysia, including government-linked companies (GLC). The Malaysian Competition Commission (MCC) will enforce the act. The bill envisions high penalties for infringing activities, with a corporate body subject to fines of up to MYR 5 million for a first offense. The implementation of the act is intended to provide a more competitive environment in the Asia Pacific region, and will align Malaysia's laws more closely with those of over 100 other jurisdictions worldwide.

Anti-monopoly
policy

6

In principle, foreign trade is liberalized, but significant exceptions remain. During the period under review, the government liberalized 27 service subsectors by allowing majority ownership without requiring participation by Bumiputera equity holders. However, other Bumiputera equity quotas and protectionist policies shielding key enterprises constitute high barriers for foreign investors. According to the WTO's latest trade policy review, Malaysia should broaden the comparatively more liberal trade and investment regime currently maintained for services to other sectors. This would positively contribute to Malaysia's long-term economic growth. During the period under review, Malaysia eliminated and reduced most-favored nation (MFN) tariffs on a range of products partly in accordance with its WTO commitments, but mainly unilaterally. Furthermore, Malaysia extended at least MFN treatment to all of its trading partners while providing tariff preferences to China, Japan, Pakistan, the Republic of Korea and other ASEAN countries. In 2009, the simple average applied MFN tariff rate was approximately 7.4%, compared to 8.1% in 2005. Long-running talks with the United States concerning a potential free-trade agreement (FTA) did not result in an agreement. In March 2010, the United States declared that it favored Malaysia's involvement in the Trans-Pacific Partnership (TPP) rather than a bilateral FTA. Malaysia joined the TPP negotiations in October 2010. After FTA negotiations between the European Unions and a group of ASEAN countries, including Malaysia, failed to reach agreement, EU member states approved the start of negotiations for an FTA with Malaysia on September 10, 2010. Three months later, on December 6, the first negotiating round was held. After Singapore, Malaysia is the European Union's second-largest trading partner inside ASEAN.

Liberalization of
foreign trade

7

Malaysia's banking system and capital market are differentiated and oriented to international standards, with functional banking supervision. Capital markets are open to domestic and foreign capital. Malaysia's financial sector continues to grow. There were 38 commercial banks in Malaysia in 2010, 20 of which were domestically owned. Despite the effects of the global financial crisis, the country's financial institutions remained stable and have ample liquidity, according to the central bank (Bank Negara Malaysia). Banking supervision was strengthened during the period. The Islamic banking sector, which retained a high degree of stability during the financial crisis, continues to grow, with Islamic banking accounting for around 18.8% of Malaysia's total banking assets in 2009. Malaysia was ranked 53rd worldwide in the Heritage Foundation's 2011 Index of Economic Freedom (up from 59th in 2010). The report stated that Malaysian banks remain generally well capitalized and liquid. However, the share of nonperforming loans remained relatively high at 17.8% in 2008.

Banking system

8

8 | Currency and Price Stability

Inflation and foreign exchange policies are treated in concert with other economic policy goals and have an adequate framework in Malaysia. After rising to a 27-year high in August 2008, the inflation rate (average consumer prices) eased significantly during the period under review, falling to 0.6% in 2009 and increasing slightly to 2.2% in 2010. However, both rates represented a significant decrease compared to 2008, when consumer price inflation hit an annual rate of 5.7%. The increase in consumer prices in 2010 was largely related to the government's decision to moderately reduce subsidies for food and energy. With commodity prices rising and subsidy reforms being implemented gradually, inflation expectations are likely to increase in 2011. However, the current inflation rate remains within the independent central bank's (Bank Negara Malaysia) comfort zone.

Anti-inflation /
forex policy
8

The ringgit performed strongly during the period under review. The real effective exchange rate (2000=100) decreased from 108.4 in 2008 to 104.8 in 2009. In 2010, the currency appreciated by 9.2%, its strongest year-long rally since 1973. After reaching the level of 3.10 to the U.S. dollar in September 2010, the first time since 15 October 1997, the ringgit appreciated further to 3.03 to the dollar in January 2011.

The government's fiscal and debt policies generally promote macroeconomic stability, despite inconsistencies within the country's spectrum of institutional safeguards. The global financial turmoil challenged Malaysia's years-long trend of stable macroeconomic performance and a decreasing federal fiscal deficit. Consequently, the budget deficit rose to 7% of GDP. This was the highest level reached in the last decade. In 2010, Malaysia's budget deficit decreased to 5.3%, with a projected deficit of 4.5% of GDP in 2011. Malaysia's debt-to-GDP ratio increased to 34.4% from 31.9% in 2008. The budget deficit in 2009 was largely due to the implementation of the government's economic stimulus package, worth about \$18 billion. In fact, the government has pointed out that Malaysia is on track to reduce its budget deficit. In June 2010, Prime Minister Najib unveiled the government's plan to remove and rationalize subsidies on essential goods and services, with the aim of further reducing the budget deficit. The reduction in subsidies and the consolidation of the federal budget are pivotal parts of the New Economic Model (NEM). Federal government revenue is expected to grow by 2.3% in 2011 as compared to 2010.

Macrostability
7

9 | Private Property

Rights and regulations governing the acquisition, benefits, use and sale of property are generally well defined, but occasionally problems with implementation or enforcement under the rule of law manifest themselves. The Heritage Foundation's 2011 Index of Economic Freedom downgrades Malaysia with regard to property rights, citing worries about private property protection, and complaints about lax enforcement of intellectual property rights persist. In addition, the relocation of local residents and indigenous populations creates ongoing conflicts between the state government, developers and the population. In May 2010, the Federal Court decided to compensate 26 families belonging to a Temuan tribe in Selangor for their native customary land, which was seized to build a highway to the Kuala Lumpur International Airport (KLIA). The decision concluded a 15-year-long legal battle. Nevertheless, the legal status of large plots of native land remained unsettled during the period under review.

Property rights
9

Private companies are institutionally viewed as important engines of economic production and are given legal safeguards in Malaysia. However, concentration of market power is tolerated, in state companies as well as in the private sector, and oligopolies in the construction, lighting, telecommunications and transport sectors persist. Although the World Bank's Doing Business Index ranked Malaysia two places higher in 2011 as compared to 2010 (rising to 21st place from 23rd), bureaucratic hindrances still act as a constraint to private entrepreneurship. Malaysia ranks 131st in the category "Starting a Business," mainly due to a high number of procedures needed (nine compared to an average of 7.8 in the East Asia and Pacific region, and 5.6 in OECD-countries).

Private enterprise
7

10 | Welfare Regime

In principle, social safety nets are well developed, but do not cover all risks for all strata of the population. A significant part of the population is still at risk of poverty in Malaysia. Several social-security programs provide benefits for various groups of workers. Government employees receive the best benefits, while employees in the small informal sector receive virtually nothing. The Employees Provident Fund (EPF) is the primary social-security institution, covering more than half of the workers in the private sector as of the year 2000. From January 2008 to December 2010, employees contributed 8% of their monthly salary, while employers paid 12% of their entire monthly payroll to the EPF. The reduced employees' contribution was part of a government's stimulus package. Since January 2011, employees' contribution levels have reverted to the original 11%. Nevertheless, Malaysia is still dependent on informal community assistance and a large number of NGOs in the social-security sector. This informal community assistance is needed due to the low

Social safety nets
7

public expenditure on health (1.9% of GDP in 2007). Malaysia has a widespread system of health care. A universal health care system coexists with a growing private health care sector.

Equality of opportunity has largely been achieved, though discrimination against women and ethnic groups persists. Although women's civil liberties are protected by law in Malaysia, traditional practices continue to distinguish between genders. The female literacy rate is 89.8%, slightly less than the male rate (94.3%). Nonetheless, women have a higher level of education, as indicated by the ratio of female to male enrollment (129% at the tertiary level). However, there is a lack of female representation at managerial levels in professional settings. Furthermore, discrimination against women limits their equal access to public services. Due to continuing affirmative action policies for Bumiputera, Chinese and Indian citizens face explicit disadvantages in public offices, the state bureaucracy, public enterprises and the armed forces.

Equal opportunity
7

11 | Economic Performance

Malaysia's economy recovered from the global financial crisis with the help of a massive stimulus package, totaling expenditure of MYR 60 billion. After a period of stable growth in 2007, Malaysia's economic performance was strongly marked by the effects of the global crisis until mid-2009, slipping into recession at the end of 2008 and the beginning of 2009. GDP growth rates for 2009 were negative at -1.7%. Nevertheless, the country's economy recovered in mid-2009, and regained strong momentum in 2010. In the first quarter of 2010, the annualized GDP growth rate was 10.1%, followed by 8.9% in the second quarter. The overall GDP growth rate for 2010 is expected to be 6.5%, with 2011 growth forecast by the government to be 5.2%. GDP per capita (on a purchasing power parity basis) increased in 2010 to \$14,603, a level higher than before the global financial crisis. The current account balance in Malaysia was positive in 2009, at \$31.99 billion. Moreover, the inflation rate decreased to 0.6% in 2009, increasingly slightly to 2.2% in 2010. Both rates represent a significant decrease as compared to 2008, when consumer price inflation rose to an annual rate of 5.7%. The unemployment rate for 2009 was 3.6%, lower than the expected 4.5%. In the third quarter of 2010, the jobless rate fell to 3.2%. Although the Malaysian economy recovered from the impact of the global financial crisis during the period under review, Singapore had overtaken Malaysia as Southeast Asia's third-largest economy by the end of 2010. This was interpreted as demonstrating Malaysia's need to become more competitive. In addition, foreign direct investment (FDI) decreased significantly in 2009. According to the World Investment Report 2010, FDI declined by 81% in 2009 compared to 2008. Indeed, FDI in 2009 was less than half of the annual average FDI inflow between 1995 and

Output strength
8

2005. For the first time, Malaysia attracted less FDI than the Philippines. However, FDI inflow rebounded in 2010, showing an increase of 141% during the year's first nine months.

12 | Sustainability

Environmental concerns are taken into account by Malaysian policymakers, but are often subordinated to efforts to promote growth. Environmental regulation and incentives are partly in place, but enforcement is weak. Deforestation and pollution of the air and water are the nation's primary environmental problems. The Environmental Performance Index (EPI) ranked Malaysia 54th worldwide in 2010. During the period under review, the government's long-term plans to build 12 massive hydroelectric dams on the island of Borneo were the source of intensifying protest. Members of the local population fear that their homes will have to be relocated if the plans are realized. Up to 600,000 people could be affected. Several hundred villagers from the outskirts of Kota Kinabalu and several NGOs protested against the proposed Kaiduan Dam on 17 July 2010. Furthermore, Bakun Dam starts its energy production in June 2011. The danger of flooding in Malaysia became evident when four people died and more than 50,000 had to be evacuated during floods in the states of Perlis and Kedah in November 2010.

Environmental
policy
6

In principle, education policy ensures a nationwide system of sound education and training. The research and technology sector is fairly advanced. Public expenditure on education, at 4.5% of GDP in 2007, can be considered high, even with reference to international standards. Malaysia has 20 public universities and 627 institutes for higher education. However, the Malaysian educational system continues to hold several shortcomings. Gross enrollment ratios at the secondary and tertiary levels are low by international standards (68.2% and 32.1%). This shortcoming is highlighted in the World Economic Forum's Global Competitiveness Report 2010 – 2011, which ranked Malaysia 26th out of 139 countries. The report further suggests that the government should encourage greater adoption of new technologies in order to enhance productivity. Expenditure on R&D amounted to 0.64% of GDP in 2006. This number is low in comparison to Singapore's 2.3% or Australia's 2.2% share. In July 2009, the government decided to reverse its policy of teaching sciences and mathematics in English. This decision must be viewed as a step backward in terms of Malaysia's path to a knowledge-based economy. Finally, it contradicts the government's plans, outlined in the New Economic Model (NEM), to strengthen innovation, research and development.

Education policy /
R&D
6

Transformation Management

I. Level of Difficulty

The Malaysian government faces only moderate structural constraints with respect to its capacity to govern. Infrastructural development and poverty, with only 7.8% of the population living below \$2 a day in 2004, are not serious constraints on the Najib administration. Moreover, the country has not been exposed to natural disasters or pandemics. Nevertheless, the educational system's output of high-skilled workforce is insufficient and regional disparities in economic development, especially on the island of Borneo, must be addressed by the government. In 2007, only 25% of Malaysian workers were highly skilled, and only 70% of the Malaysian workforce has completed a secondary level education. In addition, corruption, a weak civil society and significant ethnic and religious heterogeneity continue to be structural constraints. During the period under review, ethnic and religious tensions significantly increased, today posing the most severe structural constraint.

Structural
constraints
4

Civil society traditions remain fairly weak in Malaysia, and are mostly found in urban areas. Though new NGOs have emerged in the last two decades, the landscape of voluntary organizations remains comparatively sparsely populated, and plagued by scarce organizational resources. In general, two different civil society cultures have recently emerged within the growing circle of NGOs. On the one hand, a group of liberal organizations has intensified activities such as monitoring human rights or observing the government's reform agenda. On the other hand, a more welfare-oriented culture has also gained strength, with a particular focus on informal community assistance for the poor at local levels. During the period under review, the emergence of the Malay Muslim organization Perkasa, which views itself as a defender of Malay interests, deepened civil society's polarization along ethnic lines. The group's staunchly ethnicity-based focus has not improved interpersonal trust in a country already plagued by low levels of social capital. More broadly, data provided by the Asian Barometer Survey indicates that Malaysians' involvement in associations largely fails to foster trust in fellow citizens.

Civil society
traditions
6

There have been few outbreaks of violence in Malaysia in recent times. However, society is polarized along ethnic and religious lines. Since independence, the political elite have managed ethnic and religious cleavages by forming a multiracial ruling coalition that has included the three largest race-based parties. Though this bargain led to a political spectrum split along religious and ethnic lines, it helped stabilize a divided Malaysian society and inhibited the outbreak of major violent conflict for three decades. During the period under review, however, ethnic and religious tensions significantly increased. In August 2009, a group of Muslims protested against the relocation of a Hindu temple to a majority Malay residential area in the state of Selangor. During their protest, the group placed a severed cow's head in front of the state government's secretariat. The action was seen as a direct insult to the Hindu minority. Ethnic and religious tensions also grew at the end of 2009 when disputes arose over the use of the word "Allah" by non-Muslims. On 31 December 2009, a lower court ruled that a Catholic newspaper was allowed to use the word "Allah" in its Malay-language section, overturning a previous decision by the home minister. Muslim groups subsequently demonstrated against the court's decision, and 12 churches were targeted by fire-bomb attacks in January 2010. The Malaysian government condemned the attacks and prosecuted the offenders. These developments served as contradiction to Prime Minister Najib's "1Malaysia" program, which stresses national unity and ethnic tolerance. So far, "1Malaysia" has not fostered unity among Malaysians, and it is questionable whether the program can become anything more than a slogan.

Conflict intensity
5

II. Management Performance

14 | Steering Capability

The Malaysian government claims to be setting strategic priorities. Nonetheless, the political leadership has shown inconsistency between its policies and its stated aims. In June 2010, the government introduced the Tenth Malaysia Plan (2011 – 2015), intended to be a comprehensive blueprint for the goal of becoming a high-income economy by 2020. The plan posits 6% annual economic growth, and aims to stimulate private sector investments. Additionally, the government plans to focus on its long-term aim to consolidate the country's budget deficit. In fact, the projected annual economic growth rate of 6% seems to be too ambitious, and the plan lacks specific policies through which the budget deficit might be tackled. The long-awaited introduction of a goods and services tax (GST) was indefinitely postponed in October 2010. The postponement of the tax indicates a government shift to addressing short-term interests with the aim of silencing public criticism, instead of adhering to its long-term aim of consolidating the country's budget. The

Question
Score

Prioritization
4

government has also hesitated in abandoning affirmative action programs for the Bumiputera, which hamper the development of a high-income market economy. Furthermore, the government's strategic long-term aims do not include a further democratization of the public sphere or the extension of democratic norms. Although the government continues to prioritize the development of the country's market economy to its full capacity, the Tenth Malaysia Plan can be viewed as an inappropriate program in order to achieve the state's strategic priorities.

A number of new and effective economic policies were implemented during the period under review. In order to implement policies effectively, the government created the Performance Management and Delivery Unit (PEMANDU) on 16 September 2009. PEMANDU's main objective is to oversee the implementation, assess the progress and facilitate the delivery of the Government Transformation Program (GTP) and the Economic Transformation Program (ETP). Examples of policies implemented under these programs include the Competition Act 2010, which will come into force on 1 January 2012 and is intended to prevent large companies from engaging in monopolistic and cartel activities, and the Enforcement Agency Integrity Commission (EAIC) bill, which aims to curtail abuse of power and corruption within the police force. In addition, the government decided to reduce subsidies in several sectors, taking a first step in a gradual subsidy rationalization program associated with the New Economic Model (NEM). Furthermore, the government decided to liberalize 27 service sub-sectors by allowing majority ownership without requiring participation by Bumiputera equity shareholders. Foreign ownership of existing stockbroker companies was allowed to increase from 49% to 70%. In December 2010, the government implemented the Whistleblower Protection Act as an anti-corruption measure, providing protection to informants who pass confidential information to government enforcement agencies. Nevertheless, the executive has not sought structural or qualitative changes in the political system in such a way as to facilitate democratic transformation. Although Prime Minister Najib announced the government's intention to conduct a comprehensive review of the Internal Security Act (ISA) in April 2009, no further action on this topic had been taken as of the time of writing.

The Najib administration has demonstrated a desire to respond to mistakes and failures with change. The government shows a considerable degree of flexibility and learning capability with reference to market reforms. However, the political leadership continues to refrain from the implementation of democratic reforms. Moreover, it shows a low degree of political will to learn from past mistakes so as to facilitate democratic changes. Thus, the leadership remains stuck in the same routines. A populist style of politics has intensified since Prime Minister Najib's accession to office in April 2009. His "1Malaysia" slogan has failed to foster unity among the Malaysians, and is perceived as a mere public relations act by ethnic minority groups, as preferential politics and special rights for the Bumiputera have

Implementation
5

Policy learning
5

remained in place. The government's executive-centered decision-making process did not change during the period under review. Compared to predecessor Abdullah Badawi, Prime Minister Najib demonstrates stronger authoritarian tendencies, exemplified by the government's response to the anti-ISA demonstrations in August 2009 or the BN coalition takeover of the Perak state government. In sum, the government's reform projects cannot be considered as a proof of its learning process or of its commitment to democratic norms.

15 | Resource Efficiency

The Malaysian government makes efficient use of most available human, financial and organizational resources. The government's administrative personnel are generally seen as professional. However, the reach of competitive recruiting systems is limited due to the Bumiputera quota system. This negatively impacts the functioning of the administrative system at the lower levels of the Malaysian bureaucracy. More broadly, the government's affirmative action policy establishing a Bumiputera quota for basically all of its economic activities remains highly concerning. Separately, the budget deficit in 2011 was expected to be lower than in 2010, and the government has started to reduce subsidies. However, budget resources remain limited due to the constraints of the government's fiscal stimulus packages. In sum, the budget deficit and the Bumiputera quota system restrict the government's efficient use of assets.

Efficient use of
assets

7

The government coordinates conflicting interests and objectives under the leadership of Prime Minister Najib. Under his hierarchical leadership, the cabinet effectively handled major conflicts over economic or social policies in such a way as to achieve policy coherence. Friction within the government coalition became evident in the wake of the electoral defeat in the last general elections. However, after taking the prime minister's office in April 2009, Najib successfully unified the government coalition and has strong support within the UMNO. The other coalition partners, especially the MIC and the MCA, remain weakened due to their leadership changes during the period under review. The weakness of his allied parties has to be a concern for Prime Minister Najib. In addition, the continuation of the government's affirmative action policy further weakens the MIC and the MCA, as the ethnic Chinese and Indian minorities feel they are being put at a disadvantage. Therefore, Prime Minister Najib has to ensure that trade-offs between policy goals are well balanced, and do not serve as additional burdens to the BN component parties. Compared to other countries in the region, the government's ability to coordinate conflicting objectives and interests continues to be fairly effective, however.

Policy
coordination

7

The government has identified corruption as an important problem within state structures, although levels of corruption in the civil service are probably the lowest in the region after Singapore. Political connections continue to be the strongest criterion awarding large state contracts and infrastructure projects. The government's corruption-fighting reforms have been somewhat ambivalent, however. During the period under review, the Malaysian Anti-Corruption Commission (MACC) increasingly investigated corruption at higher levels, opening scrutiny in January 2011 of projects awarded to Shamsuddin Haryoni during the tenure of former Selangor Chief Minister Dr. Mohamad Khir Toyo. Nevertheless, the MACC has drawn criticism for its lack of full independence from the prime minister's department. Furthermore, the government's credibility in fighting corruption took a tumble when Teoh Beng Hock, a political aide to a DAP Selangor state executive councilor, was found dead outside the office of the Selangor MACC's office in Shah Alam on 16 July 2009. Teoh had been taken into custody for questioning by the MACC regarding allegations of corruption in the state government. The circumstances of his death remained unexplained. The MACC and the government declared that Teoh committed suicide, a version that was publicly questioned by the opposition. Teoh's death raised questions as to whether the federal government misused the MACC to seek evidence of corruption within the opposition-led Selangor state government, ultimately seeking to bring the state government down. By contrast, parliament passed the Whistleblower Protection Act in May 2010. The act aims at preventing corruption by raising the possibility of disclosure, and was welcomed by the public.

Anti-corruption
policy

7

16 | Consensus-Building

In principle, all major political and social actors agree on the goal of a market-based economy. The exceptions to this include some environmental groups, who criticize the fact that environmentally compatible growth tends to be subordinated to growth efforts, and fundamentalist Muslim groups such as Perkasa. During the period under review, Perkasa put constant pressure on the government not to abandon the Bumiputera affirmative action policy. With Perkasa gaining support among the Malay Muslim majority population, the organization has posed a growing challenge to the government's reform policies. Nevertheless, there is no politically relevant actor who can derail either the reform process or the expansion of the market economy. With regard to liberal democracy, however, no such consensus is shared by political and social actors. The ruling coalition continues to refrain from implementing reforms that might facilitate democratic transformation. Instead, it emphasizes that liberal democracy as practiced in the West is unsuitable for Malaysia's ethnic and religiously heterogeneous society.

Consensus on goals

7

With the Barisan Nasional (BN) continuing to control a parliamentary majority on the federal level, reformers have had no power to bring forward democratic reforms. The government has shown no intention of enabling democratic transformation, and the idea is further rejected by fundamentalist Islamists who want to create an Islamic state. Nonetheless, the four state governments led by opposition parties have started to implement democratic reforms on the state level, despite federal government attempts to undermine the process. The military poses no threat to potential democratic transformation, as the armed forces are effectively subordinated to the civilian rulers.

Anti-democratic
actors

5

Given the ethnic and religious heterogeneity of Malaysian society, with its significant ethno-religious cleavages, the government has been more or less successful in managing social differences in the past. However, while cleavage-based conflicts did not escalate, ethnic and religious tensions did increase significantly during the period under review. The firebombing of 12 churches in January 2010 and the “cow-head-incident,” in which Muslims placed a severed cow’s head in front of the Selangor state government secretariat in August 2009, exemplified the tense relationship between the Malay/Muslim majority and the ethnic Chinese and Indian minorities. The government’s “1Malaysia” campaign, aimed at creating unity among Malaysian citizens, did little to overcome the country’s ethnic and religious division, and must be seen as a slogan that differs little from earlier campaigns. The introduction of the New Economic Model (NEM), the economic blueprint for the next five years, raised hopes among ethnic minorities that governmental programs would shift to a need and merit basis, rather than being focused on race. However, it soon became clear that the government did not intend to abandon its Bumiputera affirmative action policy altogether. In addition, regional and economic disparities within the Malaysian state persist and continue to deepen the center-periphery cleavage between eastern and western Malaysia.

Cleavage /
conflict
management

6

The political leadership recognizes and accommodates the interests of civil society actors only as long as they are not perceived to interfere with government policies. Laws pertaining to NGOs and other civil society groups continue to limit the space within which civic activity can take place. In December 2009, the government threatened to deregister the environmental NGO Sahabat Alam Malaysia (SAM), which was actively involved in activities protesting commercial logging and plantation development. This indicates that Malaysian civil society plays only a marginal role in agenda setting, policy formulation, policy implementation and performance monitoring. In sum, the influence of civil society actors in the political debate must be seen as comparatively weak.

Civil society
participation

5

The effects of the 13 May 1969 race riots remain visible in Malaysian society, as the Bumiputera affirmative action policies implemented at the time are still in place. Discontent with these policies is clearly visible among the ethnic Indian and

Reconciliation

n/a

Chinese minorities, and even within the ruling coalition, largely due to the fact that the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC) both lost significant support within their own ethnic communities during the period under review. This decline stood in sharp contrast to the United Malays National Organization (UMNO), which was able to consolidate its own power base. In 2010, the government announced that the new economic blueprint, the New Economic Model (NEM), would put an end to discriminatory affirmative action policies, instead considering all ethnic groups equally as long as they qualify for access to resources. However, as of the time of writing, the NEM lacked any details concerning the abolishment of the Bumiputera affirmative policies. As a result, tension between the Malay Muslim majority and the non-Malay, non-Muslim minorities persists.

17 | International Cooperation

The political leadership tries to use international assistance to further its own development agenda, but has clear deficits in devising a consistent long-term strategy which could integrate this support effectively. The Najib administration works with bilateral and multilateral international donors such as the World Bank, the IMF and the Asian Development Bank (ADB). Nevertheless, the government limits the influence of international aid by approving only those policies that suit the government's own ideological preferences. External advice with reference to affirmative action policies is considered undesired political interference. In addition, the Malaysian government blocks every attempt by international donors or organizations to facilitate democracy and civil rights in the country.

Effective use of support

7

The Malaysian government is considered a credible and reliable partner by the international community. Prime Minister Najib has solidified Malaysia's position in the world community with his pro-Western stand. The political leadership remains fully engaged with the World Bank, the IMF, the ADB and other international institutions such as the WTO. During the period under review, Malaysia eliminated and reduced MFN tariffs on a range of products, partly in accordance with its WTO commitments. However, Malaysia was criticized by the OECD and blacklisted as a tax haven in April 2009. The OECD argued that Malaysia had not committed itself to international standards on exchanging tax information. The government rejected the accusations. In December 2009, Malaysia's envoy to the United Nations in Vienna voted against an International Atomic Energy Agency (IAEA) resolution which criticized Iran for ignoring U.N. Security Council resolutions, thereby causing minor international irritation. The envoy, however, was immediately dismissed by the government.

Credibility

9

The political leadership actively and successfully builds and expands upon cooperative neighborly and international relationships. The government promotes both regional and international cooperation. Prime Minister Najib deepened ties with China by visiting that country in June 2009. On 10 November 2009, Chinese President Hu Jintao visited Malaysia, the first such visit by a Chinese head of state in 15 years. Furthermore, Prime Minister Najib improved relations with Thailand. In December 2009, Najib and his Thai counterpart Abhisit Vejjajiva visited Thailand's restive majority-Muslim southern provinces. Both prime ministers officially named a "friendship bridge" that spanned their shared border, and visited an Islamic school. In October 2010, Malaysia joined the Trans-Pacific Partnership (TPP) negotiations, which aim to integrate the economies of the Asia-Pacific region.

Regional
cooperation
10

Strategic Outlook

During the period of review, the ruling Barisan National (BN) successfully stabilized its grip on power. The consolidation of the coalition's power raised speculations that Prime Minister Najib will call for an early general elections.

Democratic transformation in Malaysia has remained minimal. The Najib administration has shown no intention of facilitating democratic transformation. The high expectations among political and civil society actors generated by the outcome of the last general election have not been realized. The Malaysian economy recovered from the global financial crisis; however, the crisis exposed weaknesses in Malaysia's economic management that have not been adequately addressed by the political leadership. Therefore, the government will have to continue economic consolidation and make its economy more competitive. A new transformation strategy should focus on three key elements.

First, Malaysia needs to strengthen its fight against corruption. Though the government implemented some anti-corruption policy reforms such as the Whistleblower Protection Act, these reforms must be considered as insufficient. The Malaysian Anti-Corruption Commission (MACC) continues to be dependent on the prime minister's office, and thereby has only limited influence on anti-corruption investigations. Moreover, a sound and sophisticated judiciary is a necessary element of the fight against corruption. However, the political leadership continues to interfere with trials, and retains dominance over the judiciary. Thus far, the government has not displayed any intention of establishing a working system of checks and balances, which is needed to guarantee an effective fight against corruption. Although international investors often refrain from starting business in Malaysia due to the problem of corruption, the influence of

international donors in this particular policy field is limited. The Malaysian government considers international efforts to foster a working system of checks and balances to be undesired political interference.

Second, the Malaysian government has to address the increase in religious and ethnic tensions. Between 2009 and 2011, the already-low level of political consensus fell further. Ethnic Chinese and Indians feel a strong sense that they face disadvantages, and no longer seem willing to accept their inferior standing within the Malaysian polity. At the same time, members of the Malay Muslim majority population fear that ending the Bumiputera affirmative action policy would endanger their economic position. In addition, jingoistic attitudes among some parts of the Malay Muslim majority have become increasingly evident over the last two years. These elements of the population strongly oppose any change in the status quo with regard to the preferential politics and the special rights of the Bumiputeras. Nevertheless, Malaysia's government must abolish its Bumiputera affirmative action policy, which continues to encourage rent-seeking behavior, impedes competition and facilitates corruption. A reform of the Bumiputera policies should be given the highest priority, in order to ease the country's ethnic tensions and promote a more competitive economy.

Third, the Malaysian education system needs to be strengthened in order to create a high quality workforce. Although public expenditure on education is comparatively high, totaling 4.5% of GDP in 2007, the educational system retains several shortcomings. The quality of public universities is still unsatisfactorily low, as are attainment rates at the secondary and tertiary levels. Moreover, Malaysia had just 372 researchers per million residents, while neighboring Singapore had 5,736 in 2006. In order to compete with neighboring countries such as Singapore, as well as generate social and economic development, Malaysia needs to increase its investment in the education and research sectors. Only with a high-skilled and well-educated workforce will Malaysia be able to attract foreign investors, a critical goal due to the country's low level of private-sector investment.