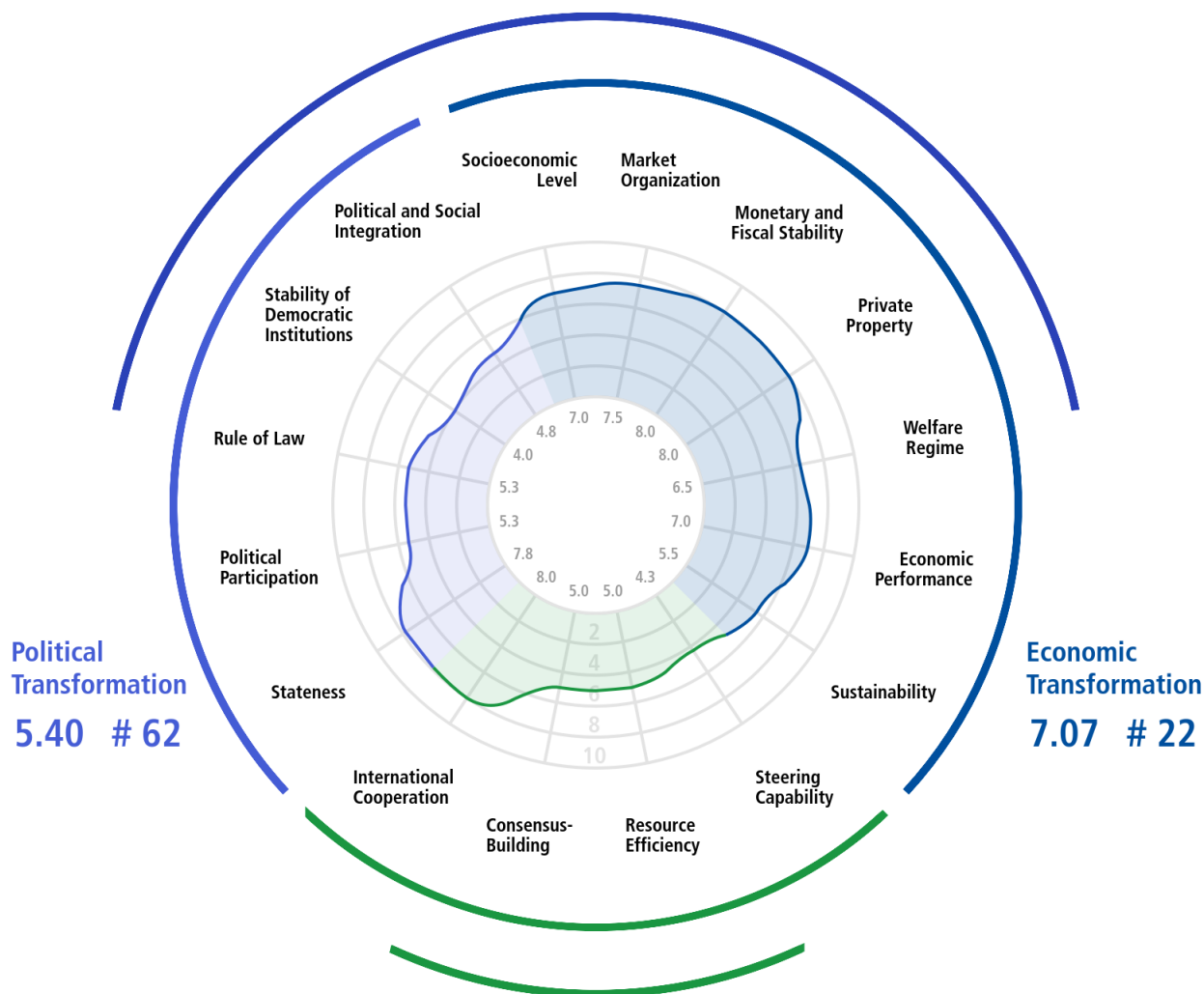


# Malaysia

## Status Index

**6.24 # 41**

on 1-10 scale out of 137



**Political Transformation**  
**5.40 # 62**

**Economic Transformation**  
**7.07 # 22**

## Governance Index

**4.87 # 63**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	<b>33.9</b>	HDI	<b>0.803</b>	GDP p.c., PPP \$	<b>33434</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 189	<b>62</b>	Gini Index	<b>41.2</b>
Life expectancy	years	<b>74.9</b>	UN Education Index	<b>0.725</b>	Poverty <sup>3</sup>	% <b>0.2</b>
Urban population	%	<b>78.2</b>	Gender inequality <sup>2</sup>	<b>0.228</b>	Aid per capita	\$ <b>0.4</b>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. 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

Malaysia underwent significant political, social, and economic turmoil from 2021 to 2023. The country faced multiple waves of COVID-19 infections in 2021 and 2022. In addition, travel restrictions in 2021 exacerbated an already challenging economic situation, leading to a crisis for numerous vulnerable households. While civil society provided additional assistance alongside government support, a significant number of individuals ended up slipping through the cracks.

These troubles constrained necessary reforms and other strategic initiatives necessary for longer-term sustainable development. The governments led by Muhyiddin Yassin (February 2020 – August 2021) and Ismail Sabri (August 2021 – November 2022) focused on consolidating power, even prompting an emergency proclamation between January and August 2021 that suspended parliament. However, the “Malay-unity” composition of both governments proved difficult to manage, prone to infighting, and ultimately unstable. Malaysia’s longtime dominant party, UMNO, decisively won two state elections in late 2021 and early 2022, suggesting that political momentum was swinging in its favor. Generally improving public health conditions and a strong economic rebound in early 2022 further bolstered the party’s confidence that it would retake its familiar hegemonic role in Malaysian politics at the next general election.

UMNO’s confidence led to the scheduling of Malaysia’s 15th general election (GE15) for November 2022. However, these elections resulted in an unprecedented hung parliament, with no coalition securing enough seats to form a government. The Islamist party PAS achieved a significant breakthrough, winning more seats than any other single party. In contrast, UMNO performed poorly in the elections. Initial attempts to form a coalition-of-coalitions government were unsuccessful. As concerns grew about the potential for unrest and ongoing instability, Malaysia’s king urged parties to establish a unity government. After five days, the progressive Pakatan Harapan agreed to lead a government with UMNO’s Barisan Nasional coalition, the East Malaysian Gabungan Parti Sarawak (GPS) and Gabungan Rakyat Sabah (GRS) coalitions, as well as other minor partners. Anwar Ibrahim, a prominent figure in Malaysia’s reformasi movement

and twice prime minister-in-waiting, assumed the leadership of the government. Notably, GE15 marked the first general election held after Malaysia significantly expanded its electorate by lowering the voting age to 18 and implementing automatic voter registration.

Political and social polarization became more pronounced during the period under review. The “Malay-unity” composition of the Muhyiddin and Ismail governments, together with the emphasis on Malay-Muslim empowerment that featured in much of their rhetoric, increased the sense among Malaysia’s minorities of being sidelined socially and politically. The “green wave” of PAS’s electoral breakthrough sharpened concerns among non-Muslims about Islam’s growing influence over the public domain. The new opposition, comprising PAS and the Malay nationalist party Bersatu, immediately demonstrated a willingness to leverage ethnic and religious divisions for political gain.

A robust economic rebound began in the final quarter of 2021 and continued into late 2022 when rising inflation and global headwinds slowed growth. Malaysia’s economic fundamentals remained solid throughout the period under review, with inflation remaining at more modest levels relative to many other upper middle- and high-income countries. Several developments in 2022 have significance for the medium to longer terms. Malaysia ratified the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP), which furthers its integration into the global economy and will require some domestic reforms in the years ahead. Implementation of the 12th Malaysia Plan, released in 2021, also began.

## History and Characteristics of Transformation

The Federation of Malaysia was established in 1963. Currently, it comprises 13 states and three federal territories. It has embraced a form of constitutional monarchy and a parliamentary system of government. At the federal level, there is a bicameral legislature. Executive power rests with the prime minister and cabinet. Additionally, each of the 13 states has its own legislature.

Politically and officially, the country’s population is divided into two categories: Bumiputera and non-Bumiputera. The Bumiputera community is composed of Malay Muslims and other indigenous peoples, while the non-Bumiputera group consists predominantly of Malaysians of Chinese and Indian descent. This division is evident in every aspect of Malaysian life, from politics to food to university admissions. Most of the country’s Chinese and Indians originally came during colonial times, actively recruited by the British to help develop a commodities-based economy. After gaining independence, the British relinquished political power to the indigenous Malays. Malay leaders established the United Malays National Organization (UMNO) and eventually formed a consistently successful electoral coalition with the major Chinese and Indian parties, namely the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). This coalition, known as the National Front (Barisan Nasional, BN) following the intercommunal riots of May 13, 1969, established a pattern in which the prime minister’s office was always held by a Malay from UMNO.

When emergency rule ended and the constitution was reinstated in 1971, new legislation was passed to ensure Malay-Muslim political supremacy. This allowed UMNO to strengthen its powers and actively support its main followers, the Malay population. The New Economic Policy (NEP) was established, which granted extensive benefits to the Bumiputera (i.e., Malay) community through quotas, bank loans, scholarships, and special licenses. The government justified the affirmative action nature of the NEP by stating that the significant economic disparity between the Malay and non-Malay populations had led to the May 1969 riots and posed a threat to racial harmony. Although the NEP favored the Bumiputera and disadvantaged the non-Bumiputera, the UMNO-led government ensured the development of a market economy. The government allowed the non-Bumiputera considerable freedom in many economic sectors on the condition that positions and ownership stakes were allocated based on quotas for Malays. This strategy, which prioritized economic growth alongside ethnic redistribution, was supported by substantial foreign direct investment during the 1970s and early 1980s. As a result, Malaysia achieved recognition as one of the Asian Tiger economies. Despite some indications of being caught in a middle-income trap, Malaysia is generally considered a success story among developing countries in terms of maintaining a stable and growing economy.

Although the New Economic Policy (NEP) officially ended in 1991, economic policies have changed little in character since then. They continue to include special rights for the Bumiputera, while also promoting rapid economic growth to ensure that all ethnic groups receive a share of the economic pie. Every election between independence and 2018 produced an UMNO-led government, typically, before 2008, with a parliamentary supermajority. In May 2018, the Pakatan Harapan (PH) coalition took power at the federal level. These elections were a watershed moment in Malaysia's history and ended UMNO's rule after 61 years. However, 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.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The Malaysian state's monopoly on the use of force is well-established and widely accepted by nearly all throughout the country's territories. A notable exception is the ongoing challenge by minor guerrilla groups operating primarily off the coast of Borneo and in the Malaysian part of the Singapore Straits as well as the Strait of Malacca. In these locations, piracy incidents in 2022 increased relative to recent years, though they were generally nonviolent, small-scale and opportunistic. Border controls remained tighter under pandemic-related restrictions, continuing to moderate unauthorized cross-border movement relative to pre-pandemic levels.

More concerning during the period under review were the ongoing security threats in Sabah, particularly in the Eastern Sabah Security Zone (ESSZONE). The area was under curfew for large parts of 2021 and 2022, largely due to infiltration from extremist groups including the Abu Sayyaf, whose second-in-command was purportedly seeking refuge in Sabah, and other groups active in the southern Philippine insurgency. In response, Malaysia continued building its security apparatus in Sabah through the acquisition of new air and sea assets.

The People's Republic of China escalated challenges over Malaysia's Exclusive Economic Zone (EEZ), particularly off the northern coast of Borneo. In June 2021, Malaysia lodged a formal diplomatic protest when 16 Chinese military transportation planes entered the EEZ, calling it a serious violation of Malaysian sovereignty. Unidentified Chinese vessels also repeatedly entered Malaysia's EEZ during the period under review, particularly in areas where Petronas (Malaysia's state-owned oil and gas company) was preparing new developments.

Question  
Score

Monopoly on the  
use of force

9



1

The majority of Malaysians accept the nation-state as legitimate, but this is increasingly challenged in subtle ways. The Malaysian polity distinguishes between Bumiputera and non-Bumiputera citizens. Bumiputera are recognized as indigenous and comprise the majority ethnic Malay group, as well as smaller non-Malay indigenous groups. They dominate political and state institutions and benefit from a range of affirmative action policies that facilitate access to state resources. Symbolically important institutions, for instance the head of state (Yang di-Pertuan Agong), are also reserved for Malays. Non-Bumiputera, comprising mainly ethnic Chinese and ethnic Indians (at 22% and 7% of the population, respectively) enjoy full citizenship and property rights but frequently voice concerns about marginalization.

Non-Malay indigenous groups in East Malaysia's states of Sabah and Sarawak have also increasingly voiced concerns about marginalization, as well as the imposition of peninsular Malay norms. East Malaysian leaders have sharpened their calls for greater autonomy during the period under review. In December 2021, a constitutional amendment proposed restoring the 1963 status of Sabah and Sarawak as equal partners to the West Malaysian peninsula. Following this were numerous calls for greater East Malaysian autonomy in areas of education, health care, and resource management. In another symbolically important move, Sarawak's state legislative assembly renamed the state's highest leader from chief minister (as is the convention in the peninsular states) to premiere, further underscoring the differentiation of the state from its peninsular counterparts.

Malaysia held its 15th general elections (GE15) in November 2022. The Islamist party PAS (Parti Islam Se-Malaysia) achieved a remarkable breakthrough by winning more seats than any other single party. Analysts immediately spoke of a "green wave" that reflected the increasingly conservative nature of segments of the electorate, though it is clear that dislike of UMNO's leadership also created a significant push factor. While PAS ultimately did not join the coalition government, its success underscores the prominence of Islam in public life and puts pressure on the Malaysian state to reflect this. Non-Muslims and some progressive Muslims have voiced concerns about marginalization. Malaysian society is increasingly polarized. This has not yet fundamentally undermined the legitimacy of the nation-state, but it does place it under more significant pressure.

The Malaysian constitution defines the state as secular, but Islam has considerable and growing influence over the Malaysian legal system and the country's political institutions. Malaysia operates a dual legal system: one track focuses on most civil and criminal matters and is based on the common law legal system, while the other comprises Shariah courts that focus primarily on family matters and some civil matters for Muslims. Though the Shariah courts technically have jurisdiction only over matters involving Muslims, their influence often extends further because their decisions frequently involve conversions to Islam that affect such matters as child custody, burial sites, and inheritance.

#### State identity

8



1

#### No interference of religious dogmas

5



1

The Ismail government (August 2021 – November 2022) continued the “Malay-unity” Muafakat National arrangement that brought together Malay nationalism and Islamism. PAS was given several key – and unprecedented – positions within the government. Notably, it supplied the minister for religious affairs, which oversees the powerful Department of Islamic Development Malaysia (JAKIM). This was both symbolically and practically important, as JAKIM was created to bring the government in line with Islamic teachings, and PAS has openly advocated for transforming Malaysia into an Islamic state. JAKIM’s head, who was also vice president of PAS, had two high-profile disputes with the traditional Malay rulers, who are members of Malaysia’s royal families. These involved JAKIM issuing conservative rulings that directly contradicted the more moderate position of the Rulers. In neither case was JAKIM significantly censured, as would likely have happened in the past.

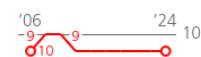
Other instances illustrate the growing prominence of conservative Islam. The controversial movie *Mat Kilau* was released in June 2022. It is a highly stylized account of a Malay uprising against British colonialists in the early 1890s. It attracted criticism for being overtly Malay nationalist, with British, Chinese, Indian and other non-Muslims depicted as villains. It quickly became Malaysia’s highest-grossing local film of all time. Critics noted the disconnect between the movie and the Ismail government’s “Keluarga Malaysia” (Malaysian family) concept, which was to foster a shared identity but gained little traction.

The formation of the grand coalition (so-called “unity”) government under Anwar Ibrahim following GE15 in November 2022 brought greater ethnic and religious diversity back into government. Notably, several non-Muslims were granted key positions. The new opposition, comprising PAS and Bersatu, made clear that they were willing to fan the flames of ethnic tensions, which will put Anwar under considerable pressure. As such, it is unclear whether the new government will be able to reverse or even slow some of the gains made by conservative Islamist movements.

The Malaysian state has been described in various academic works as high capacity and strong. For example, access to clean water sources (97.1%) and access to electricity (100%) is nearly universal. It has a differentiated administrative structure throughout the country and provides all basic public services. A reasonably well-trained administration implements the policies of the elected government at the state and federal levels. However, outside of select roles, the civil service recruits almost exclusively from the country’s Bumiputera (indigenous) population, with Malay-Muslims highly overrepresented. Over the decades of dominant rule by UMNO, the line between the bureaucracy and elected leaders has often been blurred; however, the political turmoil that began in 2020 and extended into 2022 continues to loosen that linkage, strengthening the civil service’s independence.

Basic  
administration

9



1



Despite being a federal country, Malaysia's state is highly centralized, with subnational bureaucracies either strongly beholden to or entirely reliant on the center. This creates inefficiencies in service delivery as well as perverse political incentives. Given its role as a reliable source of votes during decades of hegemonic UMNO rule, the civil service was also regularly expanded. Today, Malaysia has among the world's largest civil services on a per capita basis, with many segments operating inefficiently. Nonetheless, service provision is at or above regional standards in nearly all areas, with deficiencies concentrated primarily in East Malaysia and rural areas. Climate change, particularly in the form of increased flooding and drought cycles, is challenging the capacity of the state even in the most developed areas.

Malaysia's administrative structure managed the COVID-19 pandemic reasonably well. The vaccine rollout began on a larger scale in February 2021, once the country was able to access supply. By the end of the period under review, vaccination rates among adults were in the high 90% range, with significant uptake of booster doses. Movement control restrictions remained in place during early parts of 2021; as in the previous year, they were criticized for being haphazardly enforced. Malaysia began shifting into an endemic phase of the pandemic in October 2021.

## 2 | Political Participation

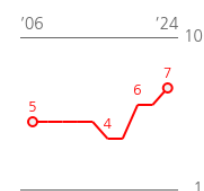
Malaysia has universal suffrage and regularly holds general elections at the state and federal levels at intervals required by the constitution (at least every five years). Opposition parties are free to contest elections and regularly secure seats in parliament. Elections are generally recognized as the only legitimate means to fill political posts, though unprecedented political instability between 2020 and 2022 led to two governments being formed outside of elections. However, the 2018 and 2022 general elections resulted in smooth and conflict-free transitions of government, ending the decades-long dominance of UMNO and its Barisan Nasional (BN) coalition partners.

The quality of elections in Malaysia is mixed. Elections have long been open for contestation by the opposition, but electoral competition was strongly skewed to advantage the BN. The primary mechanisms included biased media, resource asymmetries, intimidation of the opposition, and malapportionment (unequal weighting of votes).

Several factors have improved the competitiveness of elections. The Election Commission, which oversees selections, was filled with more neutral and professional members in 2018, reducing bias in the administration of elections. While this does not directly affect registration procedures for parties, it reduces the risk of politically biased interference. Overt repression of opposition figures and news sources has significantly decreased. The greater fluidity of party alliances has reduced

Free and fair elections

7



the effect of bias. In 2021, an earlier constitutional amendment, known as UNDI18, that reduced the voting age from 21 to 18 and introduced automatic voter registration came into effect. It significantly expanded the electorate from approximately 15 million in 2018 to over 21 million in 2022. This removed barriers to registration that many voters, particularly in rural areas, previously faced.

Access to polling stations is generally not inhibited, though lines can be long. Some polling stations, particularly in rural parts of East Malaysia, can be difficult to access, but this affects only a small fraction of the total. The ballot is generally secret. It may be possible to identify the vote of an individual in rare circumstances where a polling station has a small number of voters.

GE15 was held in November 2022. No major irregularities were reported during the 14-day campaign period. Most districts saw at least three parties contesting (one from each of the three major coalitions). While significant concerns were raised about the risk of flooding on election day, few polling stations were ultimately affected. Turnout was 73.9%; given the expanded electorate, this means over three million more votes were cast than in any previous Malaysian election. Due in part to the fragmentation of the party system prior to the election, no party secured an absolute majority on election day, resulting in a hung parliament. After several days of negotiation, a (self-designated) “unity” government that included most of the contesting coalitions and parties was agreed upon. All component parties received key posts in the cabinet, reflecting the compromises underpinning the new government. Shortly after, key members of the government signed a Memorandum of Understanding that bound them to support the government until the next elections that are due in 2027. In conjunction with a new anti-party-hopping law that came into effect earlier in 2022, this may restore political stability and ensure elections are the only means to fill political posts.

Democratically elected representatives have considerable power to govern, though they also face significant constraints. The nature and magnitude of these constraints depend on the composition of the government.

UMNO reshaped the Malaysian state and electorate during its decades of dominance. As a hegemonic ruler, it blurred the lines between the party, the elected government, and the bureaucracy, leading significant parts of the state to operate as de facto extensions of the party. This linkage has significantly weakened since 2018, but pockets of the state remain loyal to UMNO and continue to obstruct policy that is perceived as contrary to UMNO’s interests. In addition, decades of promoting Malay nationalist and Islamist policies have entrenched both concepts in the electorate. Policies that are perceived as hostile to Malay-Muslim interests are subject to intense resistance from grassroots forces. Especially following the overthrow of PH in 2020, Malaysia’s political leaders recognize the sensitivities of identity politics and the practical constraints they impose on (especially progressive) policy options.

Effective power to govern

5

'06 '24 10



The political role of Malaysia's monarchy was reduced in the 1980s and 1990s during Mahathir Mohamad's first term as prime minister. It has experienced a moderate revival in recent years due to the aforementioned political instability, however, with the king publicly intervening in politics during the pandemic and again following GE15 to urge the formation of a unity government. This newfound assertiveness does not make the monarchy a veto player but may introduce additional constraints on political representatives. Concerns have been raised about this, given the unelected nature of the monarchy. It is unclear whether the newly expanded political role of the monarchy will remain or whether it will recede if and when the current political instability subsides. Unlike in neighboring countries, the military does not act as an independent political force.

Malaysia holds independent elections at the state level. While the constitution ascribes clear competencies to these subnational representatives, their effective power and autonomy are limited due to centralization measures that make them beholden to the federal government both for resources and administrative functions. East Malaysian political leaders have demanded and received several important concessions in the period under review.

Article 10 of the Malaysian constitution protects the right to freedom of association but also allows the government to restrict that right in the interest of security and public order. The state has used this and other channels to significantly constrain the right to association and assembly in practice. Prior to 2018, opposition parties and (especially progressive) NGOs were vulnerable to harassment and formal charges. The Societies Act ensured that organizations critical of the government could be disrupted or outright disbanded. Union activity was severely curtailed under the Trade Unions Act and Industrial Relations Act. The 2012 Peaceful Assembly Act restricts who can participate in public assemblies and requires police notification. Nonetheless, large-scale and politically impactful assemblies occurred with some regularity, for instance the five Bersih rallies organized by the Coalition for Clean and Fair Elections between 2007 and 2016.

The PH government (2018 – 2020) pledged numerous reforms to reduce these restrictions. Trade union and employee rights were strengthened, and some elements of the Peaceful Assembly Act were moderated. Critics charged that the reforms fell short of what was required. The COVID-19 pandemic precipitated numerous public health-related restrictions on movement and assembly.

At the request of Prime Minister Muhyiddin Yassin, the king issued a Proclamation of Emergency in January 2021 amid rising political instability. Among other things, it suspended parliament and elections, provided heightened powers to the state's security apparatus, and allowed the government to introduce laws without parliamentary approval. It was lifted in August 2021, except in Sarawak, where it remained in effect until November. The emergency was justified as necessary to prevent the spread of COVID-19, though many critics saw it as an illegitimate move to stabilize the government.

Association /  
assembly rights

4

'06 '24 10



1

The police responded in heavy-handed fashion to several rallies in 2021 and 2022, leading activists to assert that the climate for assembly remained heavily constrained, despite the pandemic-related measures and the state of emergency being lifted. Various legal measures, such as the new Prevention and Control of Infectious Diseases Regulations 2021 and Section 505(b) of the Penal Code, were used to target organizers of peaceful assemblies. Newly elected Prime Minister Anwar Ibrahim's past role as an opposition organizer generated hope that the government would reform relevant laws, but unlike in 2018, this did not feature prominently in the manifesto of his PH coalition.

Freedom of expression faces significant restrictions in Malaysia. Laws such as the Official Secrets Act (OSA), the Sedition Act, the Communications and Multimedia Act, the Printing Presses and Publications Act, and increasingly other areas of the Penal Code, including Section 203A and 298A, can stifle speech on politically and socially sensitive matters. Consequently, the media has often practiced self-censorship. During the decades of UMNO's dominance, nearly all mainstream media outlets were owned by or closely linked to UMNO and other BN component parties. The rise of online alternative media sources such as Malaysiakini and Free Malaysia Today expanded the range of available perspectives. Reforms during the PH government (2018 – 2020) reduced the control that political parties exercised over traditional media sources. Together with plans to reform or repeal restrictive laws, it appeared the information landscape was moving toward liberalization and greater space for free expression. The states of Selangor and Penang have Freedom of Information (FOI) laws. There are ongoing calls for FOI laws at the federal level, but these have not been implemented. The government also has an open data platform that facilitates public access to key data.

The pandemic and political instability that followed PH's fall saw an increased usage of restrictive laws. This has continued during the period under review, with the government regularly investigating and prosecuting individuals in response to criticism, dissenting opinions, and whistleblowing. For instance, an investigative journalist who exposed alleged corrupt practices within the Malaysian Anti-Corruption Commission was sued for defamation and investigated under the Communications and Multimedia Act. Another journalist was called in for questioning over an innocuous statement that the armed forces rescued flood victims before receiving approval from the disaster management agency. Fahmi Reza, a graphic artist and political activist, was investigated multiple times and arrested for satirical political drawings and posts. There were also several prominent arrests of performers, grassroots organizers, and members of the general public for insulting Islam.

Freedom of  
expression

5

'06 \_\_\_\_\_ '24 10



1

### 3 | Rule of Law

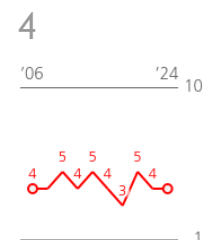
While Malaysia's constitution describes a separation of power, the executive has assumed a dominant role after decades of centralization in the form of concentration of power in the prime minister's office. While the judiciary is constitutionally, organizationally and in terms of its judicial functions separated from other branches of government, executive politicization of appointments at the highest court has a long tradition and is a common practice. UMNO's political dominance blurred the line between party and state, allowing the party elite to influence decisions across the state despite formal institutional divisions. This allowed the executive to operate with few constraints from parliament, the judiciary, or other traditional institutions such as the monarchy.

The political instability that began with the collapse of the PH government in 2020 reduced the executive's dominance. Both the Muhyiddin Yassin government (March 2020 – August 2021) and the Ismail Sabri government (August 2021 – November 2022) assumed power without being formally elected. This limited their legitimacy, inhibiting their ability to project power. Notably, however, party-hopping among members of parliament also reduced the legitimacy of parliament, further undermining its ability to act as an effective check on the executive. Against this backdrop of instability, the emergency proclamation in January 2021 formally suspended parliament and granted Prime Minister Muhyiddin increased powers. Muhyiddin attempted to shore up the support of his government during this time, but internal divisions within his governing coalition forced him to step down in August 2021 shortly after the emergency proclamation was lifted. These divisions, compounded by party infighting, also plagued the Ismail government that followed.

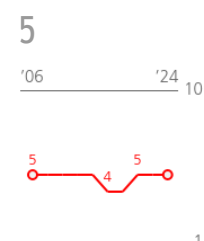
GE15 produced a PH-led grand coalition "unity" government. While it holds a parliamentary supermajority, the arrangement is unprecedented in the Malaysian context and is premised on a significant compromise between rival political factions. This may, in practice, constrain the ability of the prime minister to act in the decisive manner of his predecessors. PH also previously championed parliamentary reforms that would empower the parliament to be more proactively engaged in the governing process, but it is unclear whether this reform agenda will be prioritized.

The judiciary is institutionally differentiated and has the formal ability to interpret and review legislation and policies. Channels of appeal are in place, and the court administration functions reasonably efficiently. This has provided a degree of stability amidst the political turmoil in the executive and parliament since 2020. Judicial independence remains mixed, however. Judges are appointed by the king following the recommendation of the prime minister (who consults with the chief justice); this introduces a political element into the judiciary. In 2022, the cases against high-profile individuals, including former Prime Minister Najib Razak and

Separation of powers



Independent judiciary

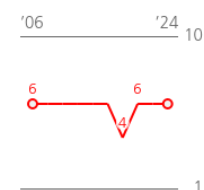


UMNO President Ahmad Zahid Hamidi, remained active despite considerable political pressure, demonstrating the ability of the judiciary to act independently. Other examples, including the aforementioned prosecution of civil society members such as Fahmi Reza, appear to be politically motivated, even if not under the immediate direction of political leaders. Najib Razak’s trials provoked attacks on the judiciary by his political allies and grassroots supporters. Amidst this, the Malaysian Anti-Corruption Commission (MACC) announced an investigation into the Court of Appeal judge who oversaw Najib’s appeal trial. The Malaysian Bar expressed concern with the way this was announced through media channels and without providing legally relevant details, suggesting it could be an attempt to intimidate judges involved in high-profile cases. The Malaysian Bar then organized a “Walk for Judicial Independence” in June 2022. It was met with a heavy police presence that participants described as purposefully intimidating, underscoring the ongoing tensions around judicial independence.

For much of Malaysia’s history since independence, high-level officeholders from within the government have been rarely prosecuted for legal transgressions, even in the face of clear evidence of corruption and other offenses. By contrast, charges against political opposition frequently resulted in imprisonment, despite weak evidence. This appeared to change with the trials against former Prime Minister Najib Razak (and other UMNO elite) – initiated under the PH government (2018 – 2020) – for involvement in the 1MDB corruption scandal. Despite a conviction and sentence of 12 years imprisonment in 2020, Najib appeared poised for a comeback while out on bail awaiting appeal during much of the period under review. In late 2021 and early 2022, he became the face of UMNO’s dominant performances in two state-level elections, using disinformation and an expensive social media campaign to reclaim his title as one of the most popular politicians in the country. His legal team employed all manner of tactics to influence the appeal process in the hopes of securing delays, if not an outright overturning of the initial conviction. Despite this and mounting pressure from Najib’s supporters, his appeal was rejected in August 2022 and he was imprisoned immediately after. It is unclear whether this marks a watershed moment in Malaysia’s history. Shortly after, Zahid Hamidi, a key ally of Najib, was acquitted of 40 bribery charges, though he faces another 47 charges, including bribery, money laundering and criminal breach of trust. As UMNO’s president, Zahid was instrumental in negotiating the November 2022 creation of Anwar’s unity government, in which he assumed the deputy prime minister role. Other controversial appointments appear to have been motivated by a need to incorporate the disparate political factions that comprise the government. While Anwar announced that any minister involved in corruption would be summarily dismissed, an aggressive approach to this would risk the stability of the government, creating clear disincentives. Thus, several cases, including that of Zahid, must be closely monitored to determine how seriously the new government approaches the issue.

Prosecution of  
office abuse

6



A range of civil rights are constitutionally guaranteed in Malaysia but subject to infringement. Mechanisms and institutions to punish and redress violations of civil rights likewise exist but can be ineffective in practice.

Infringements extend well beyond the aforementioned restrictions on freedom of speech and assembly. The controversial Security Offences (Special Measures) Act (often referred to as SOSMA) that replaced the colonial-era Internal Security Act (ISA) in 2012 allows the police to arrest and detain individuals for up to 28 days without a warrant or access to a court if they believe them to be involved in certain security offenses. While SOSMA is defended as necessary to combat terrorism, it has also been used in cases that appear politically motivated, for example, against several members of the progressive DAP in 2019 and against Maria Chin Abdullah, the former chairman of the Coalition for Clean and Fair Elections, in 2016. Numerous critics called on parliament to reject the renewal of a key subsection of the act in July 2022, but it passed with a clear majority of votes. SOSMA exists alongside the Prevention of Terrorism Act 2015 (POTA), which allows the state to detain terror suspects without trial for up to two years.

The Movement Control Orders (MCO) and other restrictions on mass movements and gatherings that were put in place in reaction to the COVID-19 pandemic were gradually lifted in late 2021 when Malaysia began transitioning to treating COVID-19 as an endemic disease. While the emergency proclamation in 2021 was politically unprecedented, it did not result in a severe clampdown on civil liberties, as initially feared.

Numerous laws are differentiated along ethnoreligious lines. Malays are constitutionally defined as Muslim, and conversion out of the faith is not permitted. Muslims face a range of social restrictions through different legal channels and organizations, such as JAKIM, that do not apply to non-Muslims. There are no legal protections for LGBTQ+ members in Malaysia. On the contrary, same-sex sexual relations remain subject to criminal prosecution, and gender nonconformity is restricted. In both cases, scrutiny is directed most strongly toward members of the Malay-Muslim majority. Gender segregation in public spaces is practiced in parts of the conservative Malay heartland in Malaysia's northeast.

## Civil rights

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#### 4 | Stability of Democratic Institutions

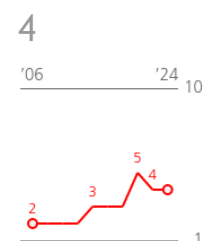
Malaysia has often been described as having a hybrid system that combines elements of democracy and autocracy. As noted, elections have been widely used and respected as the only legitimate means to fill political posts, but the electoral process fundamentally favored the dominant BN coalition. In addition, the concentration of power in the executive undermined the functioning of political representatives at the national and subnational levels. The defeat of UMNO in 2018 appeared to be a turning point in the democratic performance of Malaysia's institutions, but the PH government quickly encountered institutional resistance that contributed to its collapse in 2020.

The formation of the Muhyiddin and Ismail governments during the recent period of unprecedented political instability (2020 – 2022) further undermined the integrity of democratic institutions, as they were not obviously based on the will of the electorate. Furthermore, they were perceived as focusing primarily on consolidating control through internal politicking, rather than on mitigating the growing economic, social, and public health crises. Particularly through parts of 2021, approval ratings of political leadership were strikingly low.

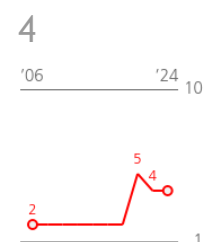
The PH-led “unity” government formed in the aftermath of GE15 at the behest of the king poses new questions. It is arguably the most representative government Malaysia has had in decades. Its inclusive nature may reduce resistance within the bureaucracy, allowing it to more effectively implement policy than the PH government (2018 – 2020). But that inclusive nature can also be a liability since the component parties share relatively few overlapping areas of policy priority. Anwar regularly alluded to reform ambitions during his first few months in power. Implementing some of these reforms, particularly parliamentary reform and the strengthening of subnational governments, would clearly improve Malaysia's democratic institutions. Given the diverse preferences within the cabinet, however, Anwar may opt for a safer agenda that focuses on smaller victories in uncontentious areas. Here as well, Malaysia ends the period under review at a potential turning point.

Malaysia has historically recognized the sanctity of elections in forming governments, even if the electoral process was extensively biased. The political coup that precipitated PH's collapse in 2020 and led to the formation of the Muhyiddin government violated this principle and seriously undermined the new government's legitimacy. This was compounded by the emergency proclamation in January 2021, which critics viewed as a political move intended primarily to shore up support for Muhyiddin. The government's collapse in September 2021 and replacement by a second unelected government was not just reflective of a serious political crisis but also indicated a breakdown of the sanctity of democratic institutions: democratic institutions function only when they are recognized as the only legitimate avenue to power by political actors; this ceased to be true during periods of 2021 and 2022.

Performance of democratic institutions



Commitment to democratic institutions





Many expected that GE15 would bring an unambiguous resolution to the political instability of the preceding years. When it instead produced a hung parliament, there were legitimate concerns about the viability of the democratic process. Ultimately, however, all significant political actors kept their efforts within the bounds of democratic institutions and avoided resorting to other means to secure power. The monarchy's involvement was seen as constructive and motivated by respect for the electorate's will. As before, the military remained clearly on the sidelines, as did other parts of the state security apparatus. While a number of social media posts, apparently by supporters of conservative Islamic movements, appeared to warn of interethnic unrest, quick responses by numerous institutions contained their impact.

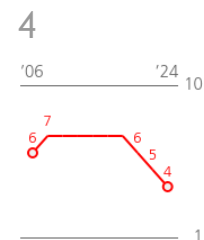
PAS achieved a remarkable breakthrough in GE15, winning more seats than any other single party. PAS has openly advocated for turning Malaysia into an Islamic state, which would have significant implications for Malaysia's constitution and democratic institutions. It is unclear if PAS will be in a position to achieve this in the foreseeable future or whether its support base uniformly supports such a transformation, but its success in 2022 underscores the contested nature of Malaysia's democratic institutions.

## 5 | Political and Social Integration

Malaysia's party system is rooted in society. Many of its older parties were formed to represent the interests of specific ethnic groups and retain clientelistic relationships with their core constituents. While parties from the peninsula contested in East Malaysia (and UMNO made significant inroads), the party system in Sabah and Sarawak has historically been distinct. Malaysia's party system was remarkably stable over several decades, despite factions occasionally resulting in party splits. Beginning in the early 2000s, parties consolidated into what approximated a two-coalition system. Renewed party splintering and intra-elite feuding led to the gradual breakdown of this coalition beginning in 2018.

The coalition arrangements during the period under review were fluid and highly complex. Both the Muhyiddin and Ismail governments were often referred to as "Malay unity," reflecting their primarily Malay identity and inclusion of all major Malay parties. Muhyiddin led the UMNO-clone Bersatu party, which formed the Perikatan Nasional (PN) coalition together with PAS, the East Malaysian PBS and STAR parties, and several smaller parties. While UMNO was not a formal coalition member, the government relied on UMNO's support, as reflected by the numerous key posts UMNO held within the cabinet. The Ismail government continued this alliance, but now with UMNO holding the prime minister's post. The arrangement was inherently unstable, not least because UMNO, Bersatu, and PAS competed for the same Malay-Muslim vote, and the arrangement had no internal dispute-resolution mechanisms. The progressive Pakatan Harapan (PH) coalition comprised the Parti Keadilan Rakyat (PKR), the Democratic Action Party (DAP), and the PAS-splinter Parti Amanah Negara (Amanah).

Party system



As GE15 approached, it was clear that the Malay unity arrangement was no longer tenable. Most peninsular districts were contested by one component party from each of the three major coalitions: PN, PH, and UMNO's BN. In addition, Mahathir Mohamad's newly formed Pejuang Party competed widely. The resulting three- and four-cornered fights, in conjunction with the aforementioned expanded electorate, considerably impacted voting behavior, altering previously stable linkages between party and voter.

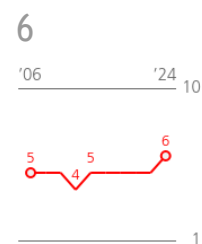
As noted, the "unity" government's grand coalition structure is unprecedented. Its viability is uncertain, though a memorandum of understanding between the component parties signed in November 2022 may provide some stability. Even with regional strongholds, a large number of parties exist, and the fluidity of the linkages between them appears increasingly incompatible with Malaysia's first-past-the-post electoral system. Some consolidation is likely necessary to restore greater stability to the system.

Malaysia has a vibrant civil society that represents a range of interests and groups. The spectrum includes everything from social movements, such as environmental groups and community organizations providing local assistance to the poor, to professional associations, such as the Malaysian Bar Council. Though most civil society groups endorse multiethnic ideals, they are often organized along ethnic and religious lines, with only a smaller number being deliberately multiethnic in composition.

Interest groups have played a key role in pressing for reform. For instance, the Coalition for Clean and Fair Elections, also known as Bersih, has significantly influenced political discourse and drawn attention to several of the most problematic areas of the electoral process, putting pressure on governments to respond. In addition, interest groups also play a key role in supplementing state services. As measures against the COVID-19 pandemic constrained economic activity in mid-2021, many vulnerable households faced acute shortages of basic necessities. A movement called "Bendera Putih" (White Flag) urged households needing donations of food or money to hang a white flag outside of their window. Shortly after, a group affiliated with the movement created a smartphone app that allowed vulnerable households to mark their location on a map, as well as to highlight the location of food banks and food donations.

While groups have grown more diverse to expand their coverage, clear disparities remain. Clans and religious groups, particularly those representing Muslims, are particularly visible and vocal. Non-Malay indigenous groups, by contrast, are not nearly as well represented, even if more groups now advocate for their interests. For historical reasons, employee associations and trade unions have relatively little influence.

Interest groups

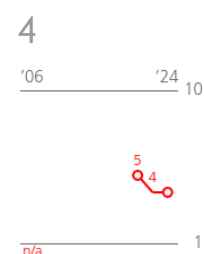


In January 2023, Prime Minister Anwar Ibrahim introduced the slogan “Malaysia Madani” and argued that society must be founded on the basis of “masyarakat madani” (civil society). This entailed close cooperation between government and society and required constraints on civil society to be lifted. As noted earlier, Anwar faces considerable obstacles in implementing a reform agenda and so may opt for a more cautious approach, but this declaration alone will serve to further enliven Malaysia’s civil society. How impactful it will be remains to be seen, especially in light of the remaining restrictive laws and social pressures from conservative elements in society.

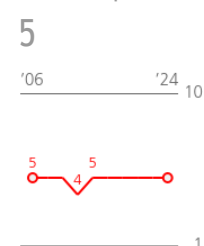
Malaysians consistently participate in elections at high rates (82% in 2018; 74% in 2022 despite automatic voter registration that significantly increased the electorate’s size). Reported support for democracy in principle is high: 88.3% of respondents to the World Values Survey see democracy as the most suitable form of government for the country. But other indicators, including those from the Asian Barometer Survey, show inclinations that are in tension with many democratic principles. For instance, well over half of respondents agree that the “government is like a parent, it should decide what is good for us,” as opposed to the “government is our employee, the people should tell government what needs to be done.” In the same survey, more than 30% of respondents agreed that “under some circumstances, an authoritarian government can be preferable to a democratic one” or “for people like me, it does not matter whether we have a democratic or a nondemocratic regime.” Over 70% of respondents agreed that “the government should consult religious authorities when interpreting the laws.” In addition, the maneuvering among political elites during the instability from 2020 to 2022 was widely unpopular among the general public, many of whom expressed frustrations at the unresponsiveness to the population’s needs.

Despite Malaysia’s vibrant civil society, there is a relatively low level of social trust according to the questions used in many cross-national comparisons. Data from the Asian Barometer Survey, for example, indicates that over 90% of respondents believe that “you must be very careful in dealing with people,” with fewer than 10% agreeing that “most people can be trusted.” In the same survey, over one-third reported that they had nobody outside of the household to turn to for help if they encountered a difficult-to-manage problem. These issues are compounded by the relatively high degree of segregation along communal lines. As most Malaysian parties are organized on the basis of ethnoreligious identity, their activities can reify social divisions, whether intentionally or not. Growing political polarization adds additional challenges: over half of respondents reported that they would have a hard time conversing with respondents who held different political perspectives. Only about a quarter of Malaysians report being active participants in organized groups or associations. Of these, most belong to residential associations or political parties. There are regular instances, however, of Malaysians coming together and acting collectively during times of hardship. The aforementioned Bendera Putih campaign, for example, provided meaningful assistance to many across ethnic lines during COVID-19-related restrictions in mid-2021.

Approval of democracy



Social capital



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Malaysia is on the cusp of crossing the World Bank’s high-income economy threshold, reflecting decades of relatively effective economic development. Extreme poverty is uncommon, and inequality is less pronounced than in many other contexts. Fewer than 1% of Malaysians fall below the official poverty line. However, independent experts have argued that a more realistic monthly minimum income would place approximately 15% to 20% of the population in a state of precarity. This is most prevalent in the East Malaysian states of Sabah and Sarawak, as well as among some communities, such as the Orang Asli (non-Malay indigenous). Social mobility is also the lowest among those communities.

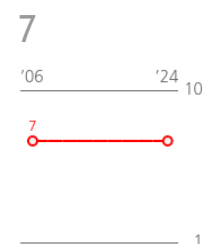
The UNDP’s 2021/22 Human Development Report places Malaysia in the “Very High Human Development” category, reflecting strong outcomes in health, education, and standard of living. Within Southeast Asia, only the states of Singapore and Brunei Darussalam rank higher, with Malaysia well ahead of nearly all other regional neighbors. While the gap between the richest and poorest in society (as measured by the P90/P10 ratio) was higher in Malaysia than in most Asia-Pacific countries, according to World Bank data, it has fallen considerably in the past decade. Malaysia’s most recent Gini value was 41.2, according to World Bank data. This reflects a gradual reduction from a high of 49.1 in the late 1990s.

Malaysia’s HDI score in 2021 was slightly lower than in 2019, reflecting the impact of various crises, including the COVID-19 pandemic, Russia’s invasion of Ukraine, climate change, and inflation. This decline was roughly comparable to the global average. The life expectancy for individuals born in 2021 was 74.9 years, with an expected 13.3 years of education, which approximately corresponds to a secondary school education. The HDI for females (0.794) was slightly lower than that for males (0.809), primarily due to an income gap. Malaysia’s 2022 score on the Global Gender Gap Index, which assesses gender disparities in key areas, positioned Malaysia 103 globally out of 146 countries, ranking behind its regional neighbors Singapore (49), Thailand (79), Vietnam (83), Indonesia (92), and Cambodia (98).

The ongoing effects of the COVID-19 pandemic and the global economic slowdown are evident in various economic indicators. Similar to other situations, the most vulnerable sectors of society faced the greatest impact. Government relief actions and civil society interventions offered some assistance but were insufficient to counteract the economic decline. As previously mentioned, a considerable number of households encountered difficulties accessing essential services during certain periods of the reviewed timeframe, particularly in mid-2021.

Question  
Score

Socioeconomic  
barriers



Economic indicators		2019	2020	2021	2022
GDP	\$ M	365177.7	337339.5	372981.1	<b>406305.9</b>
GDP growth	%	4.4	-5.5	3.1	<b>8.7</b>
Inflation (CPI)	%	0.7	-1.1	2.5	<b>3.4</b>
Unemployment	%	3.3	4.5	4.0	<b>3.7</b>
Foreign direct investment	% of GDP	2.5	1.2	5.4	<b>3.6</b>
Export growth	%	-1.0	-8.6	15.4	<b>12.8</b>
Import growth	%	-2.4	-7.9	17.7	<b>14.2</b>
Current account balance	\$ M	12795.4	14138.0	14493.4	<b>12271.2</b>
Public debt	% of GDP	57.1	67.7	69.2	<b>65.6</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-3.4	-6.1	-6.4	-
Tax revenue	% of GDP	11.9	10.9	11.2	-
Government consumption	% of GDP	11.7	13.1	12.7	<b>11.6</b>
Public education spending	% of GDP	4.0	4.5	4.3	<b>3.5</b>
Public health spending	% of GDP	2.0	2.2	-	-
R&D expenditure	% of GDP	-	1.0	-	-
Military expenditure	% of GDP	0.9	1.0	1.0	<b>1.0</b>

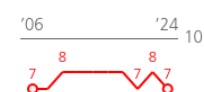
Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Malaysia has an open, export-oriented, and business-friendly economy with robust manufacturing and service sectors. Market competition has a strong institutional framework, but the rules for market competition are not uniform for all market participants: extensive affirmative action policies for Malay-Muslim Bumiputeras affect competition, and government-linked corporations (GLCs) have a substantial footprint in the economy. The informal sector is relatively small, constituting 8.6% of the workforce according to official 2021 data from the Department of Statistics Malaysia.

Market organization

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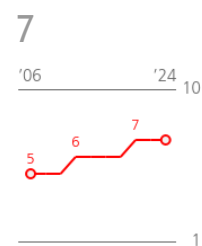
Barriers to entry and exit are generally limited in most sectors, with relatively clear licensing and permit requirements. Likewise, there are few restrictions on launching and withdrawing investments. Prices are generally determined by market forces in most sectors, though GLCs – as discussed below – can distort prices in some areas.

Malaysia’s economy is highly open to cross-border capital flows; it is also generally open to cross-border flows of unskilled labor. Since the 1970s, Malaysia has conferred extensive advantages to Malay-Muslim Bumiputera that affect large segments of the economy. These advantages do not fundamentally obstruct economic activity but add a degree of complexity that both Malaysians and foreigners must navigate. Some commercial activities, for example, require a particular portion of Bumiputera shareholders. In addition, GLCs are active across the economy. Some of these are highly professional – for example, the national oil and gas company Petronas – while others are run inefficiently, sometimes as vehicles for rent or other clientelistic activities. GLCs can crowd out private investment and must be brought on board as partners in some sectors.

The COVID-19 pandemic had a significant impact on economic activity, but it did not fundamentally alter market organization or competition. In September 2022, Malaysia ratified the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP). While its immediate impact is somewhat limited, there are time lags granted for meeting certain requirements. Nevertheless, this ratification demonstrates an ongoing commitment to maintaining an open economic structure. Anwar Ibrahim, who assumed the position of prime minister at the end of the period of review, has previously advocated for reforms of Malaysia’s Bumiputera policies. However, considering the sensitive nature of this issue and the composition of the current unity government, it remains uncertain whether these reforms will be prioritized.

Competition laws, designed to prevent monopolistic structures and conduct, exist but are inconsistently enforced. Malaysia actively participates in the International Competition Network (ICN), as well as various regional and international forums with similar objectives. The most significant competition law in Malaysia is the Competition Act of 2010, which aims to prevent large companies from engaging in monopolistic and cartel-like activities. The Malaysian Competition Commission (MyCC) oversees the enforcement of the act and regularly initiates lawsuits against companies that do not comply with its requirements. In April 2022, MyCC proposed amendments to the Competition Act that would establish a merger control regime. Currently, Malaysia’s regulatory framework only addresses mergers in the aviation and communications sectors. The proposed regime would have the ability to block or render void mergers that could potentially result in a substantial lessening of competition in any market for goods or services. Other amendments include measures to strengthen MyCC’s investigation and enforcement powers, establish new settlement procedures under the leniency regime, and amend several key definitions.

#### Competition policy



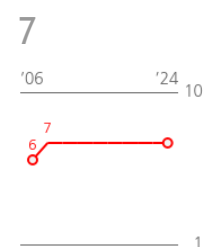
The proposed amendments are expected to be tabled in parliament in 2023 and would constitute a significant enhancement of Malaysia's competition policy. The MyCC actively investigated several instances of price fixing as inflation took hold in 2022. Legal proceedings continued in a high-profile case that MyCC launched against the ride-sharing giant Grab.

The state-owned oil and gas firm Petronas is granted monopolistic powers in its lucrative sector, although it partners with both domestic and international firms in upstream and downstream activities. Government-linked companies (GLCs) in certain sectors operate inefficiently, depending on privileged market access and subsidies for survival. Recent governments have all acknowledged the need to reform GLCs, but little progress has been made, partly because they remain politically valuable and function as vehicles for Bumiputera empowerment.

Malaysia is one of the most open economies in the world, with the average ratio of trade to GDP exceeding 130% since 2010. It is estimated that over 40% of all jobs in Malaysia are connected to export activities. Malaysia has held most-favored-nation (MFN) status with its trading partners in the World Trade Organization (WTO) for over a decade. The ASEAN Free Trade Agreement and ASEAN Economic Community (AEC) have, in theory, established a regional free trade area, but there are limitations in sectoral coverage, and enforcement is relatively lenient. Malaysia ratified the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) in September 2022, which is expected to greatly enhance trade once the compliance lag period concludes. The Regional Comprehensive Economic Partnership (RCEP), of which Malaysia is a member, became operational in early 2022 and complements this array of economic agreements. However, unlike the CPTPP, RCEP does not encompass areas such as government subsidies, environmental protections, labor standards, and several agricultural policies, thus tempering its impact to some extent.

Despite a high degree of openness to trade and investment, nontariff barriers such as labeling requirements, import license fees, export licensing or permit requirements, and testing requirements remain stubbornly persistent. Bumiputera preferential policies can complicate investment for foreign companies due to quotas and complex partnership requirements. Some tenders require local partners. Some domestic industries continue to receive protection in the form of tariffs and/or subsidies, for example, in agriculture and some consumer goods. Observers have noted increased skepticism toward economic openness and global exposure. As a member of the opposition in 2021, Anwar Ibrahim urged the government to reconsider signing the CPTPP, suggesting that it might undermine Malaysia's interests. Shortly after he was sworn in as prime minister, a group that included prominent political and economic figures reminded him of his previous position and urged him to backtrack on the trade deal until several contentious issues were addressed. He did not. But the pressure will continue, including in the form of growing nativist undercurrents.

Liberalization of  
foreign trade





Malaysia took significant steps to strengthen and consolidate its banking system in response to the 1997 financial crisis. The banking system and capital markets are now well differentiated and oriented toward international standards with functional banking supervision. Capital markets are open to both domestic and foreign capital flows, and the rate of foreign bank participation is among the highest in Asia. Oversight and regulation of Malaysian banks are primarily conducted by the Bank Negara Malaysia (central bank of Malaysia), in conjunction with the minister of finance. Bank Negara Malaysia is formally independent from the government, but informal linkages may enable some government influence. Malaysia began developing an Islamic banking system in 2006 and has since become one of the world leaders in that sector.

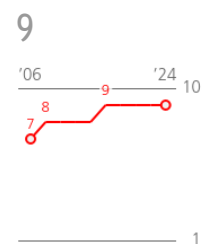
Banks remained well capitalized during the period under review, despite the increasing global economic headwinds, a rise in nonperforming domestic loans and worsening asset quality metrics. In 2021, the bank capital-to-assets ratio was 8.8%, a slight decrease from the previous year. The core regulatory capital ratio also fell slightly to 14.9% in the first half of 2022 but remained adequate. Malaysian banks' nonperforming loan ratio remained at a manageable 1.8% in November 2022. Ratings agencies expected the banking system to remain stable in 2023.

## 8 | Monetary and fiscal stability

Inflation and foreign exchange policies are treated in concert with other economic policy goals and are governed by an adequate framework in Malaysia. Inflation was significantly higher during the period under review than in previous years, reaching 2.5% in 2021 and an estimated 3.2% in 2022. Inflation peaked in July 2022 before moderating through the remainder of the year. Food and transportation prices remained strongly affected, however, compounding challenges for vulnerable households. Malaysia's key interest rates rose steadily through 2022 to counter inflation but, at a peak of 2.75% for the Bank Negara's overnight policy rate, stayed well below that of many other central banks.

The Malaysian ringgit (MYR) weakened considerably against the U.S. dollar during much of the period under review, reaching an exchange rate of MYR 4.74 to \$1 in November 2022 before recovering slightly to MYR 4.30 to \$1 in January 2023. However, the MYR remained more stable on the real effective exchange rate (REER). As most of Malaysia's national debt was denominated in MYR during the period under review, the adverse effects of the ringgit's depreciation on the economy are limited relative to previous downturns. Malaysia continued to hold adequate levels of foreign reserves. With economic fundamentals remaining reasonably strong, this makes a currency crisis highly unlikely going into 2023.

### Banking system



### Monetary stability





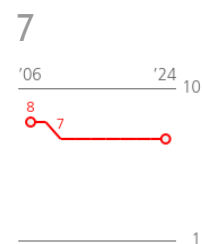
The government's fiscal and debt policies generally promote economic stability, despite some inconsistencies within the country's spectrum of institutional safeguards. During the period under review, ongoing economic turmoil related to the COVID-19 pandemic and anticipation of the election in 2022 led to larger than usual fiscal deficits, at 6.4% of GDP in 2021 before moderating to an estimated 4.7% in 2022. Public debt continued to rise to 69% of GDP. Total reserves remained at a healthy level of over \$105 billion. Malaysia's current account balance had a surplus of \$5.6 billion in late 2022, continuing a strong upward trend that began in Q1.

To mitigate the economic impact of the COVID-19 pandemic, Malaysia announced a significant stimulus package in June 2021, which allocated approximately MYR 10 billion for direct government spending in the form of cash aid, wage subsidies, and unemployment assistance. Additionally, grants were provided to MSMEs. Alongside the gradual easing of restrictions in late 2021, this initiative supported a modest economic recovery starting from Q4 2021 and extending through Q2 2022.

Budget 2022 allocated a record-setting MYR 332 billion to implement new initiatives and continue countering the adverse effects of the economic slowdown. It was aligned with the 12th Malaysia Plan, which was released in 2021. The budget prioritized the Bumiputera empowerment agenda by allocating over MYR 11 billion to it, while providing relatively smaller amounts for other groups. Additionally, sectors associated with the digital economy received substantial funding.

As anticipation for GE15 grew in October 2022, the Ismail government revealed Budget 2023. It outlined plans to spend MYR 372 billion to spur economic recovery and support reforms to make Malaysia's economy more sustainable. In a move seemingly motivated by the government's desire to shore up support among its base, spending for social assistance and subsidies doubled relative to the already generous 2022 budget. Notably, large allocations also went to the Ministry of Health and the Ministry of Education. After revealing the budget, Ismail controversially announced that it would have to be tabled after the election, therefore making access to the budget's many benefits conditional on his re-election. With Ismail's defeat, the new "unity" government was forced to quickly revise a budget that was to be revealed in February 2023. The size of Budget 2022 and the initially proposed Budget 2023 raised concerns about growing debt. Budget 2023 included some new features, such as a proposed luxury tax to raise revenue without burdening "ordinary" Malaysians. It remains unclear whether and how this will be implemented though.

#### Fiscal stability



## 9 | Private Property

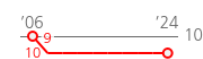
Rights and regulations governing the acquisition, benefits, use, and sale of property are generally well-defined and respected, but problems with implementation and enforcement under the rule of law occasionally emerge, especially in the area of intellectual property rights, where low-level copyright violations remain common. Malaysia placed 29 (out of 129) in the 2022 International Property Rights Index. It performs best in the protection of physical property rights. The emergency proclamation in 2021 granted the state exceptional powers to seize property but was not used for that purpose. While Malaysia joined the World Intellectual Property Organization (WIPO) in 1989 and has signed numerous relevant treaties, counterfeit and pirated products are still widely available. Notably, the RCEP and CPTPP agreements, both ratified in 2022, include provisions on intellectual property rights that will increase pressure on Malaysia to tighten the remaining gaps in enforcement.

Private companies are important engines of economic production and employment in Malaysia. They enjoy extensive legal safeguards. Nonetheless, the aforementioned government-linked companies (GLCs), government-linked investment companies (GLICs), and state-owned enterprises (SOEs) have a large footprint in the economy and include many of Malaysia's most widely recognized enterprises. Their market capitalization has grown substantially over the past 20 years and now accounts for more than 40% of the Malaysian stock exchange's total market capitalization. There are three primary concerns regarding GLCs relevant to private companies. First, GLCs may receive subsidies or other forms of direct government support, which may skew competition with private firms operating in the same space and crowd out investment. Second, while the major GLCs operate in a generally transparent manner, there are hundreds of smaller GLCs whose relationship with federal and state governments is ambiguous. This complexity can complicate operations for private companies that operate in the same space. Third, some sectors require private enterprises to partner with GLCs, particularly for some subcontractor roles. These partners may not be efficient or well-run, creating challenges for the private enterprise.

Reform of government-linked companies (GLCs) has been an agenda item of the past several governments, but few concrete changes have materialized. The new "unity" government has announced its intention to thoroughly review the GLC ecosystem and introduce reforms that ensure an arms-length relationship between the government and GLCs. A dedicated parliamentary select committee, empowered to provide oversight, would improve accountability. It is unclear at the close of the period under review whether Anwar will take this forward, given his precarious political position. Previous rounds of privatization were firmly guided by the objectives of the Bumiputera-empowerment agenda and thus did not fully conform to market principles.

### Property rights

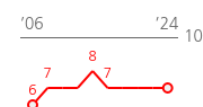
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### Private enterprise

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## 10 | Welfare Regime

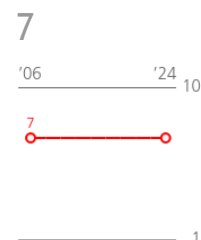
In principle, social safety nets are well-developed. However, they do not cover all risks for every stratum of the population. Malaysia provides social safety through three main pillars. Direct government aid takes the form of cash handouts or in-kind benefits, including facilitated access to health care and education. Social insurance schemes offer households a savings reserve that can be accessed during times of acute need or in retirement. The two primary schemes are the Employees Provident Fund (EPF) and Socso (Social Security Organization). Labor market policies aid job seekers by providing employment opportunities, skill enhancement, or additional income.

While most of these mechanisms are universal in principle, coverage is often limited in practice. For example, workers in the informal sector, small businesses, or the gig economy are typically not protected by EPF or Socso. In Malaysia, an employment insurance scheme provides supplemental income to help Malaysians cope with job loss, but a study from mid-July 2021 found that many retrenched workers had difficulty accessing funds. Additionally, some mechanisms are unavailable in rural areas. Furthermore, non-citizens in Malaysia, who formed a significant portion of the workforce in certain sectors prior to the pandemic, are excluded from most schemes. Despite these challenges, the life expectancy at birth in 2021 was 74.9 years, surpassing all neighboring countries in the region except Singapore and Thailand.

The pandemic revealed systematic weaknesses in Malaysia's social safety nets. This prompted reflection and numerous proposals for reform in 2022, including the establishment of a national social safety net that consolidates existing programs and coordinates between the ministries that deliver them. This would reduce overlaps and inefficiencies. Notably, Malaysia's health care budget, at just over 2% of GDP, is among the lowest among upper-middle-income countries.

In addition to providing households with potential reserves for exceptional expenses, the EPF serves as the primary pension scheme for private sector employees. The EPF operates as a compulsory savings scheme that employers and employees contribute to, making the balance conditional on long-term contributions. Several initiatives in 2020 and 2021 allowed eligible employees to access a portion of their EPF savings, compounding concerns that many EPF holders would not have sufficient balances to support retirement. Public-sector employees typically receive generous pensions.

Social safety nets



Malaysia has achieved moderate equality of opportunity on certain identity dimensions but lags on others. A pronounced gender gap is evident in key outcomes. The Bumiputera empowerment agenda entails extensive affirmative action, which can restrict access to public education and employment opportunities for ethnic minorities. Discrimination against members of the LGBTQ+ community is prevalent.

Despite formal protections, including Article 12(A) of the federal constitution that prohibits discrimination based on gender or any other ascriptive attribute, women continue to lag behind men in areas such as labor market participation, political representation, and literacy. Recent data shows that, while women complete tertiary education at higher rates than men, a percentage of girls continue to be excluded from basic education, resulting in an ongoing gender gap in literacy rates. Women comprised only 13.5% of the candidates for GE15. Ultimately, women won 31 out of 222 seats in GE15 (13.9%) and were given five out of the 28 cabinet seats in the new government. In 2021, women's participation in the labor force stood at 55.5%, significantly lagging behind regional neighbors Singapore (69.7%) and Thailand (66.8%). This is reflected in Malaysia's relatively poor ranking of 103 (out of 146 countries) in the 2022 World Economic Forum Global Gender Gap Index. The World Bank's "Women, Business and the Law" report, which assesses legal differences in the treatment of men and women, placed Malaysia last among 18 East Asia and Pacific countries. Notably, however, the life expectancy of females at birth in 2022 exceeded that of males by nearly five years.

There are no LGBTQ+ rights in Malaysia, as colonial-era laws against sodomy are still enforced. In addition, Muslims potentially face punishments under Shariah law.

Malaysia continues a Bumiputera-empowerment agenda that provides affirmative action for the country's indigenous population, the majority of whom are Malay-Muslims. This agenda grants facilitated access to higher education, the civil service, and other public enterprises. A significant portion of the civil service and the armed forces is predominantly Malay. Non-Bumiputera individuals are able to fully participate in the private sector, but, as previously mentioned, they may encounter restrictions related to government procurement policies, licensing approval, contract awards, equity allocations, and bank lending (among other areas covered by the Bumiputera empowerment agenda). The widespread perception among non-Malays of being treated as second-class citizens has resulted in Malaysia having one of the world's highest rates of emigration among highly educated individuals.

Equal opportunity

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## 11 | Economic Performance

Malaysia has experienced remarkable economic development for decades, bringing it to the cusp of the World Bank's threshold for a high-income economy. However, the country has also shown signs of being stuck in a middle-income trap and has struggled to implement the necessary structural reforms to its economy.

Economic performance was significantly impacted by the COVID-19 pandemic. The almost complete shutdown of the economy in the first half of 2020 led to a notable downturn in GDP. Movement restrictions during 2021 hindered a strong recovery, resulting in two-quarters of growth and two-quarters of contraction, yielding an annual growth rate of 3.1%. In 2022, a more substantial recovery occurred, with GDP growth estimated to exceed 8% for the year. However, growth slowed in the fourth quarter due to increased inflationary pressures and global economic headwinds. According to IMF estimates, Malaysia's per capita GDP (PPP) reached approximately \$33,000 in 2022. After declining steadily during the pandemic, tax revenue as a percentage of GDP slightly increased to over 12% in late 2022.

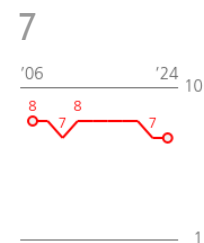
The official unemployment rate in 2021 was 4.6%, up only slightly from 2020 but notably higher than the mid-3% range of recent pre-pandemic years. Unemployment started to decline in the fourth quarter of 2021 and fell to 3.7% by the third quarter of 2022. However, it is important to note that unemployment remained persistently high in the East Malaysian state of Sabah. Following a period of underperformance in 2019 and 2020, foreign direct investment into Malaysia experienced a significant increase in 2021 and 2022, partly due to diminishing interest in China.

## 12 | Sustainability

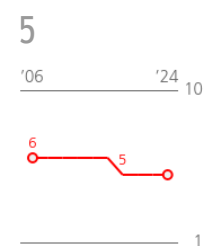
While Malaysian policymakers actively consider environmental issues, their clear priority continues to be economic growth. Environmental regulations exist across numerous sectors, but enforcement is often lax, and loopholes allow companies to bypass requirements. For example, large companies often subcontract key elements of their business to smaller companies that are under less scrutiny and less bound by environmental restrictions. Deforestation remains a major issue.

Malaysia is highly vulnerable to climate change, and increasing episodes of extreme weather have put policymakers under greater pressure to act. Most major areas of peninsular Malaysia experienced significant flooding during the period under review, with a major flood in December 2021 claiming over 50 lives and displacing an estimated 71,000 people. In combination with deforestation, increasingly heavy rains have also triggered landslides, several of which affected the peninsula's northeast. A devastating landslide occurred near Kuala Lumpur in December 2022, resulting in the loss of nearly 30 lives.

Output strength



Environmental policy



Deforestation continued at substantial rates during the period under review, though it was reduced from recent highs between 2009 and 2014. In some instances, such as in the Ulu Muda forest in Kedah, logging is legal and serves as an important revenue generation mechanism for the state government, which has limited sources of income in highly centralized Malaysia. While Environmental Impact Assessments (EIA) are required for such activities, they possess significant shortcomings and lack transparency. In December 2022, the new minister of natural resources, environment, and climate change stated intentions to significantly strengthen the EIA process. Illegal land clearing has been associated with the palm oil sector and is most prevalent in East Malaysia.

In principle, Malaysia's education policy ensures a nationwide system of reasonably sound education and training. The research and technology sector is broadly based. Public expenditure on education, totaling just under 4% of GDP in 2020, according to the most recently available data from the World Bank, continues an almost decade-long downward trend.

According to the Malaysian government's Global Education Services unit, Malaysia currently has 20 government-funded public universities, over 30 polytechnic universities and over 70 private universities, including both local institutions and Malaysian campuses of foreign universities. The gross enrollment ratio in tertiary education is approximately 44%, slightly above the regional rate. Several Malaysian universities appear in the top 500 of the World University Rankings; however, concerns are frequently raised about the value of those rankings. Malaysia's expenditure on R&D is higher than that of some regional neighbors but significantly lags behind countries in the OECD.

Compulsory education lasts from age 6 to 11. Primary school enrollment was approximately 98% according to the most recent data (2020). The corresponding rate for secondary education enrollment was 74%. A significant number of Malay Muslim students are enrolled in religious schools at the primary and secondary levels. Ethnic minorities, particularly from Chinese communities, frequently enroll in vernacular schools at the primary level. As a consequence, the public schooling system has a high degree of segregation, especially at the primary level.

Despite a strong foundation, concerns about the quality of Malaysia's public education system have grown, not least due to apparent stagnation relative to ambitious regional neighbors such as Vietnam. Concerns have also been raised about the curriculum and the general school environment exacerbating religious cleavages.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

The Malaysian government faces only moderate structural constraints on its governing capacity. During the period under review, the most acute constraint remained the COVID-19 pandemic, which strongly impacted 2021 before gradually becoming more manageable through 2022 as Malaysia shifted into an endemic phase.

Malaysia benefits from a highly advantageous geographical location. On the Malay peninsula, its ports tap into global trade passing through the important Strait of Malacca, while East Malaysia is rich in natural resources. The tropical location does expose it to the challenges of climate change, and Malaysia was impacted by several episodes of extreme weather during the period under review. Notably, intense flooding in December 2021 killed over 50 people and displaced over 70,000. Landslides associated with heavy rain compounded by deforestation also claimed numerous lives. Over the longer term, rising sea levels threaten coastal areas. The lucrative trade routes can also be vulnerable to piracy, with attacks markedly increasing in frequency since 2019, creating security challenges. Proximity to conflict zones in Thailand and the Philippines adds to those challenges, particularly in the East Malaysian state of Sabah.

Malaysia has an educated labor force that meets many of the needs of Malaysia's export-oriented economy, though the country remains overly reliant on low-wage migrant labor. Ethnic divisions with roots in the colonial era remain challenging and are compounded by increasing religiosity. Infrastructure is generally adequate along the highly developed western coast of the Malay peninsula but can still be lacking in rural areas and across parts of East Malaysia.

Civil society traditions have been growing since the 1990s in Malaysia, though aside from religious and ethnic organizations, they remain primarily concentrated in urban areas. Civil society organizations, including NGOs and other nonprofits, often struggle with scarce resources and must contend with a cautious population and an occasionally repressive state in sensitive areas. Nonetheless, civil society groups such as Bersih (the Coalition for Clean and Fair Elections) have played a significant role in supporting the political liberalization that ended decades of hegemonic rule by UMNO and its coalition partners. Other groups, including IDEAS, Tindak Malaysia, and the Penang Institute, actively educate the public about matters ranging from GLCs and economic reforms through redistricting, in turn supporting the salience of those issues among policymakers.

Structural  
constraints

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Civil society  
traditions

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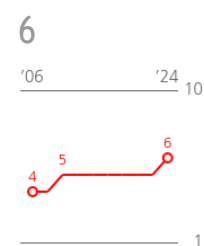


Two main clusters of civil society cultures can be identified: progressive/activist organizations that strengthen monitoring and engagement in areas such as human rights, reform, and environmental issues; and welfare-oriented organizations that focus on informal community assistance to individuals in need, often in rural areas where formal support systems are less developed.

The collapse of the PH government (2018 – 2020) following its perceived lackluster performance on reform dampened some of civil society’s energy. Restrictions on movement and assembly during the COVID-19 pandemic added further weight, though civil society was instrumental in supplementing state support for vulnerable households during the most difficult parts of the pandemic. Anwar Ibrahim, who became prime minister in November 2022, spoke about the need to build a society on the foundation of a strong civil society, giving groups cautious optimism that the years ahead will enable them to extend their work.

Malaysian society has been formally and informally divided along ethnic lines since the colonial era. The state continues to differentiate policies according to ethnic groups. The Malay-Muslim majority receives extensive affirmative action benefits but is also subject to numerous social restrictions that do not apply to non-Muslims. Polarization has increased steadily in recent years; Bumiputera empowerment policies remain widely popular among Malays but face disapproval among many non-Malays as well as progressive Malays. This increased during the period under review. The Malay-unity nature of the Muhyiddin and Ismail governments increased pro-Bumiputera rhetoric and strengthened the position of Islam in public life. Without notable representation in the government, non-Malay communities felt increasingly sidelined politically and feared growing constraints on their public lives. While the broad-based nature of the Anwar government provides an opportunity for reconciliation, the opposition (comprising PAS and Bersatu) has shown a willingness to fan the flames of ethnic tension. Despite these tensions, however, there has been no serious ethnic violence for decades, with only occasional minor incidents that are quickly contained. While coalitions were negotiating the formation of a government in the days after GE15, numerous provocative posts that threatened ethnic unrest emerged on social media; however, institutions from the monarchy to the police quickly intervened to prevent escalations.

Conflict intensity





## II. Governance Performance

### 14 | Steering Capability

Malaysia uses five-year strategic plans to guide governance agendas. Especially in the early years of nationhood, these included concrete policy frameworks that were closely adhered to. The 12th Malaysia Plan (2021 – 2025) was published in September 2021. It described “transformational” reforms along three themes: resetting the economy; strengthening security, well-being, and inclusivity; and advancing sustainability. These reforms aim to uplift those in poverty and create a more sustainable economy and inclusive society. They are to be enabled through “catalytic policy enablers,” including developing talent, adopting technology, enhancing transport infrastructure, and strengthening public services. The plan references close alignment with the Sustainable Development Goals (SDGs). Critics quickly noted that the Twelfth Plan was heavy on buzzwords and aspirational statements relative to the denser and more technical policy descriptions of earlier plans. During the period under review, the unstable political situation and looming elections meant a complete absence of strategic priorities.

Malaysia’s powerful executive has the institutional capacity to act decisively in implementing strategic priorities. For a number of reasons, it did not do this during the period under review. Political instability and infighting within the Muhyiddin and Ismail governments shaped policy decision-making, as each sought politically expedient, short-term victories to shore up political support, crowding out policies with longer time horizons. The COVID-19 pandemic derailed the pursuit of broader strategic priorities. Finally, while the executive has few institutional constraints, the continuous championing of the pro-Bumiputera agenda creates numerous politically sensitive areas that governments have been unwilling to address, creating de facto constraints on implementation.

Anwar’s unprecedented grand-coalition government faces numerous challenges. As the face of Malaysia’s Reformasi movement and champion of reform, expectations of decisive action are high among his supporters. The government’s component parties, however, have only limited areas of overlap in terms of policy preferences, and after the political instability that paralyzed Malaysia from 2020 to 2022, Anwar’s main priority will be the survival of his government. That requires compromise and caution, which direct efforts toward “safe” policy areas rather than toward the larger structural issues, including democratic institutions and the Bumiputera empowerment agenda that Anwar’s rhetoric has long addressed.

Question  
Score

Prioritization

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Implementation

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While past Malaysian governments have shown an ability to learn and innovate, political elites were largely consumed by power struggles, internal politics, and the COVID-19 pandemic during the period under review. In short, politics trumped policy, despite the frequent usage of buzzwords around transformation and innovation. This inward orientation effectively paused action on broader strategic initiatives, limiting the opportunities for learning. Though work began on it prior to the period under review, the 12th Malaysia Plan read more like a political document than a policy document.

Pockets of the government, however, demonstrated deeper policy engagement and learning. For example, while Malaysia's initial response to the pandemic was merely adequate, the vaccine rollout program and associated policies were widely seen as effective; policymakers appeared to benefit from observing and adapting best practices from both within and beyond Malaysia. The seemingly cautious approach Anwar's government took in its first few months also reflects some learning, as the bold first moves of the PH government (2018 – 2020) facilitated the Malay opposition's mobilization and eventually contributed to PH's collapse.

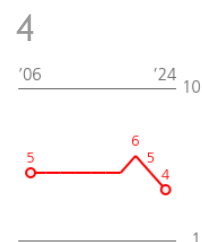
## 15 | Resource Efficiency

The Malaysian government generally makes effective use of available human, financial, and organizational resources. The government's administrative personnel are also generally seen as professional. The efficiency of the administrative system is hampered by several factors, however.

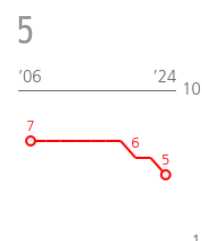
Despite being a federation, the highly centralized nature of the Malaysian state prevents the efficiency gains associated with decentralization. Specifically, key decisions on matters of local significance are often made by bureaucrats in the capital, despite their limited information on local contexts. This often leads to poor decision-making and implementation, reducing the impact of allocated resources.

The nature of the civil service also wastes resources. During its period of hegemonic rule, UMNO fostered a close relationship with the civil service; this evolved into a quasi-clientelistic arrangement in which UMNO provided job security and material benefits in exchange for consistent electoral support. The civil service grew significantly in size during this time, not least because it served as a valuable political base. For example, while Malaysia's population grew by 30% in the 1970s, the number of civil servants increased by an estimated 400%. Malaysia currently has over 1.6 million civil servants, approximately 1 for every 19 citizens. This is the highest in the world according to a 2017 report. Paying the salaries and pensions of this workforce is enormously expensive. The civil service has been criticized for relying on inefficient, low-value practices to keep a large number of personnel occupied. Governments have been reluctant to initiate reforms, however, given the size and importance of the civil service as a voting bloc. Explicit and implicit preferences for

### Policy learning



### Efficient use of assets



Malays during the hiring process have made the civil service effectively mono-ethnic, aside from some select pockets. This has been an important contributor to the creation of a Malay middle class but at the expense of more competitive approaches to hiring and promotion.

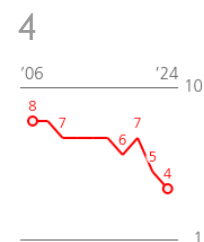
Elements of the Bumiputera empowerment agenda also seem driven more by clientelistic considerations (to garner voter support) than development ends. Hence, considerable resources are allocated to programs that neither strengthen human or physical capital nor make efficient use of existing capital.

There are also ongoing concerns about wastage. For example, in late 2022, concerns were raised about potential irregularities in the appropriation of COVID-19 stimulus funds under the Muhyiddin government, leading the Malaysian Anti-Corruption Commission (MACC) to investigate. The allegations were especially concerning against the backdrop of the massive 1MDB financial scandal, also involving public funds, that contributed to UMNO's downfall in 2018.

Policy coordination was a strength of past Malaysian governments, but difficulties in this area increased as political power began to become more fragmented approximately 15 years ago. The Muhyiddin and Ismail governments performed especially poorly on this dimension. Both governments brought together several strong parties – particularly UMNO, Bersatu, and PAS – with competing priorities and strong individual leverage. To keep the governments together, the cabinets were oversized, and each party was given a significant number of portfolios. Since no party was sufficiently strong to establish order over the government, policy directives within the various ministries were often in conflicting directions that reflected the individual preferences of the component parties, rather than a coherent agenda shared across the government. This was evident in the COVID-19 pandemic mitigation initiatives, which involved inputs across the ministries. The absence of coordination led to extensive overlaps in some areas and a lack of coverage in others, as well as the replication of some basic data collection exercises. This hampered the timelines and efficiency of the responses.

It is too early to determine whether Anwar's new government will be more effective at overcoming coordination challenges. While his cabinet is smaller and PH may have a stronger mandate than any of the individual parties in the previous two governments, cabinet posts were again distributed in a compromise fashion to consolidate support.

Policy  
coordination



Malaysia has a framework in place that is somewhat effective at containing corruption. However, there are important gaps in the framework, and enforcement has been inconsistent in the past. The primary anti-corruption measures are articulated in the Malaysian Anti-Corruption Commission Act, which covers both the public and private sectors, and is overseen by the Malaysian Anti-Corruption Commission (MACC). It is supplemented by a range of additional legislation, including, for example, asset declaration requirements passed under the former PH government.

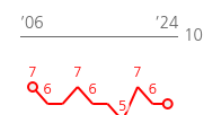
Among the main gaps is the absence of a comprehensive political funding/financing law that regulates how political parties and individual politicians raise money for campaigning, day-to-day needs, and special initiatives. This creates a range of opportunities for misuse of funds, as well as perverse incentives to use public assets – for example, GLCs – for partisan gain. Organizations including Bersih and IDEAS have put forth proposals that would contain these problems. The Ismail government committed to tabling a political finance law in October 2022, but election preparations derailed the plan. The relative absence of transparency in government operations further impedes anti-corruption efforts. Actions such as introducing a freedom of information act at the federal level or reforming/removing the Official Secrets Act would improve the situation.

Ongoing problems with public procurement are responsible for extensive leakage and wastage in the federal budget, due primarily to weak oversight and the absence of a modern public procurement act. A 2013 report highlighted poor planning and formulation of specifications, inadequate use of competitive tendering, and flawed monitoring and evaluation as widespread; these areas have not significantly improved. Contracts are often awarded to politically connected companies in processes that lack transparency. Furthermore, many GLCs are operated in ways that lack transparency, creating further opportunities for cronyism and corruption.

Many Malaysians perceived political elites as largely immune to the consequences of corruption. Najib's ongoing and high-profile political work while out on bail in 2021 and early 2022 while awaiting appeal for corruption-related convictions reinforced this perception. His imprisonment in August 2022 after losing his final appeal was unprecedented; never before has a former Malaysian leader faced such a punishment. It is unclear whether the same fate awaits others, including the UMNO president and (under Anwar) Deputy Prime Minister Zahid Hamidi, but the decisiveness of Najib's jailing has changed the anti-corruption landscape in Malaysia.

## Anti-corruption policy

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## 16 | Consensus-Building

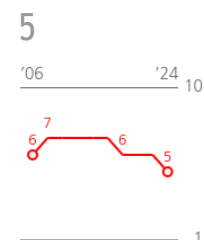
While there is agreement among elites on some economic goals, fundamental disagreements over the ideal nature of the state and society became more evident in the period under review, as illustrated by the two Malay unity governments and the results of GE15.

The Muhyiddin and Ismail governments were unique in Malaysia's history in that they contained effectively no non-Bumiputera representation. Their rhetoric and some of their policy priorities emphasized Malaysia's Malay and Muslim characteristics, suggesting a strong form of majoritarian politics with limited minority rights. In particular, PAS, which advocates transforming Malaysia into an Islamic state, sought to further entrench the role of Islam and Islamic institutions in the public sphere. By contrast, many non-Muslim Malaysians, particularly in more cosmopolitan urban areas, embrace a multicultural vision of the nation in which the state is more neutral, if not fully secular. GE15 underscored the depth of this polarization, with PAS achieving a remarkable breakthrough by winning more seats than any other single party and the progressive DAP securing the second-highest number of seats.

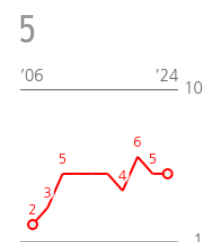
This polarization spills over into many policy domains, including the role of the market and its ultimate objectives. Elites widely agree on the need to achieve further economic development and alleviate the remaining pockets of serious poverty. There is disagreement, however, on the methods to achieve this, with some favoring market liberalization and others preferring a larger role for the state (and, in some instances, religious institutions). At present, labor market and environmental activists play only a peripheral role.

Malaysia does not have overtly anti-democratic actors, as institutions such as the military and monarchy do not seek to exert power over civilian institutions. However, key actors can act in ways that undermine democratic norms, for example during the 2020 political machinations that led to the collapse of the PH government and the formation of the unelected Muhyiddin government. Further political infighting precipitated the Muhyiddin government's collapse and replacement by the unelected Ismail government. Despite this, no actors tried to grossly circumvent democratic procedures during GE15 or its aftermath; instead, all actors recognized the elections as the principal mechanism to form the next government. Some of Malaysia's political movements hold views of democracy that differ significantly from what Malaysia's constitution describes. This is most evident in some right-wing Malay groups but also implied in PAS's objectives of transforming Malaysia into an Islamic state. These movements are not explicitly anti-democratic but instead are premised on a form of democracy that undermines key features of Malaysia's constitution, especially in areas of minority rights. The extent to which it would be possible for

Consensus on goals



Anti-democratic actors



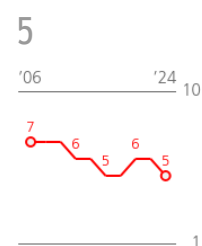
reform-oriented actors to contain anti-democratic actions if their proponents made further inroads into political power is unclear. For example, there is extensive support among the public and civil service for elements of PAS’s agenda that appear incompatible with the constitution; it would be difficult for minority actors to prevent implementation of such policies if they gained significant momentum.

As noted, Malaysia’s political leadership has not effectively depoliticized ethnic and religious cleavages. On the contrary, some political parties actively mobilize these cleavages to energize their vote bases and ultimately to justify their existence as political parties based on a mandate of advancing particular ethnic interests. The peaceful transfer of power in 2018 was a significant watershed moment in Malaysia’s history, and there are no signs that renewed ethnic bloodshed is a serious risk. However, the continued politicization of ethnic and religious differences exacerbates governance and development challenges, as described earlier. The inclusive nature of Anwar’s grand coalition government may moderate this, but the new PAS and Bersatu opposition is likely to continue leveraging ethnic and religious cleavages to pressure Anwar.

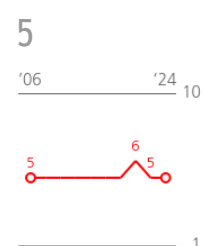
Malaysia’s political leadership has a mixed record of consulting civil society. During UMNO’s hegemonic rule, the federal government’s consultation with civil society was limited mainly to UMNO-aligned organizations; other actors were either ignored or repressed. Some state governments had broader-based engagement with civil society, however. The PH government (2018 – 2020) actively consulted civil society actors on a range of key issues, including electoral and economic reform. During the period under review, the Muhyiddin and Ismail governments coordinated with some civil society actors to mitigate the impact of the COVID-19 pandemic. Anwar has stated an intention to cultivate a more active civil society and incorporate it into the decision-making process, but no concrete steps toward that end have occurred during the period under review.

The effects of the May 13, 1969, ethnic violence remain visible in society. The unrest was the catalyst for creating the Bumiputera empowerment agenda that continues to shape much of Malaysia’s political economy. It has also regularly been referenced by UMNO political leaders through thinly veiled threats against those who seek fundamental political change. Specifically, UMNO leaders have suggested that social stability and ethnic peace are conditional on political continuity and the steady hand of Malay nationalist leadership. The 50th anniversary of the May 13 violence in 2019 prompted calls for an open public discourse on the history of ethnic relations, but this was overshadowed by the mounting Malay-Muslim resistance against PH. In January 2023, Indonesian President Joko Widodo publicly expressed regret about the human rights violations that occurred throughout Indonesia during ethnic violence in 1965. This renewed calls from some Malaysian activists for a similar reckoning in Malaysia. Given the sensitivities around the topic and the manner in which the PAS-Bersatu opposition has mobilized supporters by playing up threats to Malay-Muslim rights, this is unlikely to be a priority for the new government.

Cleavage / conflict management



Public consultation



Reconciliation



## 17 | International Cooperation

The political leadership uses international assistance to support its agenda, though as an upper-middle-income country, its objectives are different now than during the first decades of independence. During the period under review, the emphasis was on containing the impact of the COVID-19 pandemic. In late 2020, Malaysia first signed an agreement to be given priority access to Chinese-developed vaccines, then shortly after signed an additional purchase agreement with the British manufacturer AstraZeneca. Further agreements were reached with Pfizer and producers of Russian-made vaccines. Ultimately, however, only the Pfizer, AstraZeneca, Sinovac, and CanSinoBIO vaccines were deployed. The distribution of these began in February 2021 and continued through 2022.

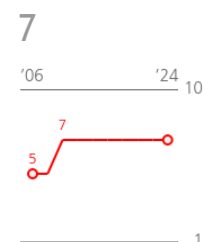
A number of Chinese Belt and Road Initiative (BRI) projects were initiated approximately 10 years ago. These include, for example, the Melaka Gateway (a planned seashore development project near Malacca), the East Coast Rail Link, and the Trans-Sabah Gas Pipeline. Several key projects were terminated or paused following the election of the PH government and the pandemic, for reasons including apparent close ties between the project developers and former political leaders, unclear economic rationales, and a lack of transparency in the procurement process.

The fate of these projects has been unclear, and the Anwar government has given few signals about its approach to them. Malaysia has recently emphasized the importance of collaborating with international partners to fight corruption.

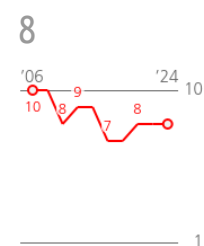
The Malaysian government is widely seen as a reliable and credible partner by the international community. Political leadership is fully engaged with the World Bank, IMF, Asian Development Bank, WTO, APEC, and other international institutions. Malaysia, Indonesia, and the Philippines cooperate in a trilateral maritime mission to secure the waters off the coast of Sabah to combat terrorism.

More broadly, Malaysia's foreign policy emphasizes strategic nonalignment and maximum agency amid the growing great power tensions. Malaysia and the United States have strong military ties and regularly conduct joint exercises, though these are kept low-profile. Malaysia has also held joint exercises with the Chinese military, but the scale of these has been significantly smaller. Malaysia joined the resolution by the United Nations that condemned Russia's invasion of Ukraine. It did not, however, impose sanctions.

Effective use of support



Credibility





The Malaysian government promotes both regional and international cooperation. Malaysia was a founding member of the Association of Southeast Asian Nations (ASEAN) and has been instrumental in numerous major ASEAN initiatives, including the expansion of ASEAN to include the CLMV (Cambodia, Laos, Myanmar, Vietnam) countries, the formalization of economic cooperation, and the establishment of the ASEAN Charter.

Malaysia remains among ASEAN's most proactive partners. It consistently advocated for a resolution to the Rohingya crisis and conflict in Myanmar during the period under review. It also sought to reduce tensions in the South China Sea, though its approach is in tension with other ASEAN members. Relatedly, Malaysia has been active in discussions toward developing a code of conduct in the South China Sea.

Given its open and export-oriented economy, Malaysia has generally been a proponent of enhanced economic integration in Southeast Asia. Toward that end, it was proactive in the formulation and eventual implementation in 2022 of the Regional Comprehensive Economic Partnership (RCEP), an Asia-wide free trade agreement that was first proposed by ASEAN members and emphasizes "ASEAN centrality." Despite occasional squabbles, Malaysia maintains close and constructive relationships with its immediate neighbors Indonesia, Thailand and the Philippines; the unique historical relationship with Singapore leaves the two countries especially integrated.

## Regional cooperation

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## Strategic Outlook

Since 2020, Malaysia has found itself grappling with an unprecedented wave of political instability. This turmoil has hindered progress on vital reforms and societal harmony. The emergence of a grand coalition, referred to as the “unity” government, led by Prime Minister Anwar Ibrahim in November 2022, offers a distinctive chance to redefine essential political parameters and break free from the stalemate of preceding years. This new government is as extraordinary as it is unlikely: it brings together parties spanning the entire political spectrum, some of which have been bitter adversaries for decades. This composition ensures that almost all political and social factions have at least symbolic representation. Notably, the inclusion of the long-standing United Malays National Organisation (UMNO), which had established a strong bond with the civil service during its dominant rule, might encounter less resistance from Malaysia’s extensive state machinery compared to the reform-oriented Pakatan Harapan (PH) government (2018 – 2020).

The unity government has a plethora of issues to address. Despite being on the verge of joining the World Bank’s “high-income” category, Malaysia’s economy remains trapped in a middle-income trap. A noteworthy step would involve reforming government-linked companies (GLCs), which wield undue influence in the country’s economy. Many of these entities operate inefficiently and disrupt market dynamics. Equally imperative is the overhaul of the oversized civil service, aimed at enhancing service delivery and alleviating pressure on public finances. This could be accomplished through meaningful decentralization, which would not only enhance service delivery but also counteract the growing polarization between progressive and conservative elements in the nation. Additionally, it could mitigate the increasing separatist tendencies in the East Malaysian states of Sabah and Sarawak.

Nonetheless, in the initial stages, the unity government’s primary concern will likely be survival. The newly formed opposition, uniting the Malay nationalist Bersatu and the Islamist PAS parties, has actively attempted to destabilize the government by sowing discord among its constituent parties. Of particular concern are their efforts to stoke anxieties within the Malay majority, painting the unity government as opposed to Islam and Malay privileges. Given the rising ethnic tensions, this strategy is perilous. It could also hinder Anwar’s ability to enact the aforementioned reforms. Anwar might opt to steer clear of these changes, fearing that they might further alienate conservative Malays. Instead, his focus might shift toward economic recovery and minor peripheral reforms. However, there remains the possibility of fostering an open and constructive public discourse on ethnic relations if Anwar can rally a diverse spectrum of political parties, civil society participants, and grassroots movements in agreement that this is in Malaysia’s best interest.

While domestic politics persist in monopolizing the attention of policymakers, Malaysia’s diplomatic finesse will face mounting challenges from an increasingly intricate external landscape. Both the United States and China are exerting pressure on Malaysia to “take a side.” Malaysia staunchly leans toward strategic neutrality, preserving its capacity to collaborate with different

actors on distinct matters. This approach is judicious from Malaysia's standpoint. However, it could become more precarious as the commitments from various international agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), come into effect. Malaysia must collaborate closely with its regional neighbors to establish an aspirational ASEAN centrality, preventing itself from being overwhelmed by external forces.