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## Malaysia at 50: Midlife Crisis Ahead?

BRIDGET WELSH

This year Malaysia will celebrate 50 years of independence. It has much to celebrate. This country of 25 million people, one of the most diverse nations in Southeast Asia, has managed to maintain ethnic security in a divided society. It has steadily promoted record levels of economic growth. And it has emerged as an important player in regional and world affairs, well beyond its size.

The current prime minister, Abdullah Ahmad Badawi, Malaysia's fifth leader, has consolidated his political position since assuming office in 2003. He received a record mandate of 90 percent of the seats in March 2004 elections for the Dewan Rakyat, the nation's parliament. He has been widely embraced by Malaysians and the international community for his congeniality and sincerity.

Indeed, Abdullah has seemed a breath of fresh air after the heavy-handed rule of his predecessor, Mahathir Mohamad, who governed the country for 22 years. Abdullah has continued to deliver economic success for Malaysian citizens, with over 5 percent economic growth last year. He has projected the country as a moderate Muslim nation committed to basic freedoms and social harmony.

Nevertheless, a closer look at Malaysia's impressive record points to serious challenges ahead. Abdullah has made bold initiatives with regard to all three of the major issues facing Malaysia—ethnic relations, economic performance, and political openness. But in the past few years he has backtracked in these areas, increasing ethnic tensions, deepening his dependence on state patronage while

fostering rising inequality, and narrowing political debate and decision making.

Fifty years after independence, Malaysia is at a critical point in its history. The problems it faces will require difficult choices by the country's leaders and citizens alike. Malaysia will need to take decisive measures to address its challenges, or find itself facing a midlife crisis.

### THE ETHNIC DIVIDE

The first of these challenges is maintaining ethnic harmony. When Malaysia negotiated independence from Britain in the 1950s (the British possessions on Borneo, now known as East Malaysia, joined the already independent peninsular Malaya in 1963), the main issue was the rights of different ethnic communities. Malays have long feared being marginalized in their land by the Chinese in particular, who are seen to be in control of the economy. At independence, the debate centered on the rights of the Chinese and Indian communities. The Malays, who had migrated from the Indonesian archipelago, argued that they were the indigenous people of the land, and as such deserved special dispensation.

Today, the debate over the rights of non-Malays continues to define the country, although the form of the debate has changed over time. In the 1950s it centered on citizenship, and citizenship was granted to non-Malays. In the 1960s it focused on education and language, and non-Malays were given the right to speak and educate in their local tongues. Since riots took place in May 1969—sparked by political gains by the opposition, especially by non-Malay parties—the tide has turned the other way, toward increasing the rights and privileges of the majority Malay community.

Initially this took the form of an affirmative action policy, known as the New Economic Policy

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(NEP), which provided greater access to education, employment, and state benefits for the Malay community. The pro-Malay measures included extending the use of the Malay language into all of the national curriculum, replacing English.

In order to protect these measures and maintain stability, the regime outlawed discussion of racial or “sensitive” issues and closed political space by restricting political organization on university campuses and in society as a whole. The debate since the 1970s has revolved around the special privileges of the Malay community in relation to the non-Malays. But the debate has been inherently limited because of the narrow space for discourse.

Post-1969 policies that addressed ethnic security have had profound social and political consequences. Foremost, the NEP has led to the economic empowerment of the Malays, as a result of broader access to education and to state resources. Malay ownership of the economy has increased, although the extent of the increase remains a subject of controversy. Last year an independent study by the Asian Strategic Leadership Institute was condemned for questioning government figures and methodology in projecting Malay equity in the economy. Critics of the government were implicitly suggesting that the numbers are kept intentionally low to continue justifying a policy of ethnic-based state distribution.

There is no question, however, that Malays have benefited from state largesse. The Malay middle class has swelled in part because of government employment. A cohort of wealthy Malay businessmen tied to state contracts has gained prominence. A smaller, private group of Malay technocrats is now part of the social fabric as well. There is also no question that not all of the Malay community has gained from the NEP-related measures: poverty remains among Malays, and the level of inequality within the Malay community has risen sharply since 1970.

Through the 1990s, the gains in the Malay community promoted greater multiethnic security. For all of the criticism leveled against Mahathir, he adeptly managed ethnic relations on some fronts, fostering a sense of security among the Malay community that provided space for increased national recognition of the vital role that the Chinese play in Malaysian society. Mahathir increased non-Malay rights through the 1990 initiative of “Vision 20/20,” which guaranteed the Chinese and Indians a secure place in a multiethnic society. Abdullah inherited this stable foun-

ation and broad support from the non-Malay community, but he has managed in his three and a half years in office to foster troubling insecurity among the ethnic communities.

The reasons have to do with unintended consequences of the 1970s period. The closure of political space after the 1969 riots provided few outlets for political dissent and community building. Religion became one of those outlets, especially for Malays. Malaysia experienced an Islamic revival through the 1970s, ironically fostered in part by alienation from the West among thousands of students who were funded by the government to study abroad.

### DEBATING ISLAM'S ROLE

Islam has always played an important political role in Malaysia, in effect helping to define Malay politics. Two parties have dominated the contest for power among the Malays. One is the United Malays National Congress (UMNO), part of a multiethnic 14-party coalition or Barisan Nasional (BN) that has governed Malaysia since independence. The other is the Islamic Party of Malaysia (PAS). The two parties have long debated the proper role of Islam in political life. In fact, since the 1970s, religion has become a principal arena for expressing collective dissent, as other arenas were closed. This has been accentuated by the fact that other markers dividing the Malays from non-Malays have become less distinct, as urbanization and government-encouraged linguistic conformity have reduced differences in lifestyle and languages.

Mahathir encouraged the greater Islamization of Malaysian society, in part as a means of empowering the Malay community and in part as a strategy to limit dissent against his government, which became increasingly centralized and authoritarian. As a result, by the time Abdullah assumed office, Malaysia had moved in an increasingly conservative religious direction and the lines demarcating religious differences between the PAS and UMNO had blurred. Before leaving office Mahathir declared Malaysia an Islamic state, a goal the PAS had fought for since the party was formed in the late 1940s. This declaration provoked considerable concern among non-Malays who believe that the Malaysian constitution guarantees them religious freedom in a secular state.

Abdullah's approach to the politicization of Islam has been to label Malaysia a moderate Muslim community and to articulate this message under the banner of *Islam Hadari* or, roughly trans-

lated, “Civilizing Islam.” This somewhat vague version of Islam emphasizes social justice, economic development, and tolerance for other religions. Immediately after Abdullah assumed office, Malaysia was touted as a bastion of moderation and as a role model for other Muslim countries. This message has been especially salient in a post-9-11 world fearful of Islamic radicalism.

While there is considerable truth in this moderate image of Malaysia, it fails to capture the increasing conservatism that has become embedded in Malaysian society and, more important, the political implications of the moderate-Muslim label. As the distinction between the PAS and UMNO has become less significant, Abdullah’s label has effectively neutralized the PAS (at least in the short term) and opened up space for conservative Muslims in Malaysia to link their interpretation of religion with the broad and ill-defined concept of *Islam Hadari*. For example, Malaysia’s most recent economic plan, introduced last year, includes the promotion of Islam as one of its goals, the first time an economic plan has had an overt religious message.

The debate over the role of religion in political life has intensified, moreover, as it has moved away from the political parties and into civil society. Conservative social groups, motivated by their sense of religious responsibility to promote a better society in Islam, have called for greater religious governance through Islamic law and have insisted on the unquestioned centrality of religion—or rather Islam—in Malaysia.

A real cultural war among Muslims is developing in Malaysia, as different interpretations of Islam are contested over issues such as apostasy and the role of women. Moderate and conservative Muslims, as well as the majority who reject any labels, are searching for how best to protect rights, ensure meaningful lives, and be true to their interpretations of their faith. Yet, in a country where ethnic divisions have defined the polity, and where religion is now the primary marker of difference between Malays and non-Malays, a polarization between Malays and non-Malays has emerged over the role of Islam.

Abdullah has solidified the dominant role of Islam in Malaysia with his *Islam Hadari* framework, which has aimed to clarify Mahathir’s declaration

of an Islamic state. When non-Malays—or, rather, non-Muslims—express concern over the issue of religious freedom and the narrowing of space to articulate their beliefs and to call for interfaith dialogue, many in the Muslim community view this as an attack on Islam’s officially respected position. Non-Malays feel frustration, if not true anxiety, while Malays are equally concerned that their faith is being questioned.

In an international climate where Muslims have felt under attack by the policies of the Bush administration, the Malays in Malaysia respond defensively. It is thus not surprising that in the last UMNO General Assembly, in November 2006, Abdullah claimed that attacks on Islam would not be tolerated. He did this after imposing a gag order on discussion of religion or “sensitive issues” in the press.

The concerns over religion remain acute among all Malaysians of different faiths, as sporadic incidents over conversion, child custody, and other

issues persistently raise tensions and evoke passionate responses. The intensity of feelings associated with the role of Islam seriously challenges Abdullah and his BN government,

making ethnic stability one of the main challenges for the country. This is just as it was when Malaysia became independent.

## THE PATRONAGE STATE

Yet ethnic relations are not just about religion. They are also about economics. The NEP policy forged a relationship between the state and the Malay community, a dependence on the state for benefits. When Abdullah took office he promised to reduce state spending. This was a means to curb the endemic corruption that has been tied to the massive state distribution associated with the NEP. It was also an effort to increase Malaysia’s international competitiveness. Yet, after Abdullah cut back spending for two years, he embraced the NEP as a means of forging support within his own UMNO party, as well as to improve the status of the Malays.

Abdullah’s approach is strikingly similar to that of the early 1970s: blatant patronage. Among the many examples of largesse in the latest Malaysian economic plan is a huge set-aside of contracts exclusively for Malay small businesses. For many Malaysians, this embrace is a step back in time, a

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move to a 1970s-style policy that promotes difference and inequality, that will fail to bring genuine autonomy to the Malay community, and that is taking from the non-Malays' "rice bowls." For others, Abdullah's approach offers an opportunity for further financial gains, after two lean years, and represents a reaffirmation of the importance of promoting Malay economic empowerment.

The return of the "old" NEP—exclusively benefiting the Malays and simplistic in design, essentially a form of ethnic patronage—has, of course, only served to accentuate ethnic tensions. The November 2006 UMNO General Assembly became an arena for promoting the NEP, as it has been for the past couple of years under Abdullah. But what distinguished the last meeting was the tenor of discussion, which included one speaker's call for Chinese blood, a not-so-subtle invitation to violence against the Chinese.

Abdullah subsequently fined the offending speaker, opting not to use Malaysia's tough sedition laws against a member of his own party despite the deep sense of betrayal this remark evoked among non-Malays. UMNO also decided not to televise further party meetings, mistakenly thinking that the delivery of the message rather than the message itself was the problem.

Meanwhile, applications among non-Malays for emigration have increased six-fold in the past year, and non-Malay capital flight and lack of confidence in Abdullah's administration continue to grow. The challenge of ethnic politics goes beyond religious freedom to the ways in which the state engages with ethnic communities. Non-Malays arguably felt more freedom at independence than they do now.

## IN SEARCH OF GROWTH

Abdullah's government recognizes the importance of ethnic relations to social stability, and although there have been serious concerns and an intensification of tensions, the commitment to maintaining harmony remains strong. Whether Abdullah will be successful will depend most of all on economic performance. When the NEP was introduced in the 1970s, Malaysia had the good fortune of rising oil and gas revenues. The high costs of the government measures did not come directly out of the pockets of non-Malays (though they were forced to shoulder

a greater financial burden, especially in education fees abroad for their children who did not have the same access to public universities). And the Malaysian government has delivered on economic performance, relatively consistently and broadly, increasing opportunities for all.

After independence, Malaysia's economy was dependent on the export of three commodities: rubber, tin, and palm oil. Industrialization remained shallow, but ties to trade and the international marketplace were essential for Malaysia's success. The demands of the post-1970 political environment forced the government to rethink its model of growth, and move from modest import-substitution initiatives to a strategy of export-led growth. This move was rooted in ethnic politics, since the state felt that it could not rely on local domestic capital to promote the economy. (Domestic capital was dominated by Chinese business.) So the state turned to foreign investment as the driver of the economy, continuing to rely on state revenues from the

oil and gas industries to buttress heavy expenditures.

This pattern of being open to international markets, but with a large burden of state spending and a strong role for the

state in the economy, has remained largely intact since the early 1970s. The Malaysian government has maintained control over natural resources, especially oil and gas, recognizing that this control is necessary to meet high demands for state largesse. But the technocrats in the 1970s also recognized that they needed to attract foreign capital to expand the economy and generate jobs. Throughout the 1970s, Malaysia offered attractive tax and investment incentives consistent with an export-led model of industrialization. By the 1980s it had won a large influx of capital from the United States, Japan, and Taiwan.

Investors were attracted to Malaysia's political stability and openness, and they underwrote a broad expansion of industry, especially in electronics. This expansion created jobs and had positive spin-offs in the service and retail sectors. The importance of the oil and gas sector simultaneously encouraged the professional and sound management of this state-linked sector to increase production and maintain revenues to the state.

Foreign capital became a central ingredient in the economy. Meanwhile the Chinese domes-

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tic businesses, comprised primarily of small and medium-sized enterprises, increased their competitiveness, ironically in reaction to their exclusion from state assistance. A short recession in 1985 and 1986 dampened growth temporarily and forced a reevaluation of borrowing and the management of indebted state-linked companies. This reevaluation led to the introduction of privatization measures and less open borrowing. Overall, Malaysia's economic growth remained impressive, for which Malaysian leaders unquestionably deserve praise. They were consistently rewarded at the polls for delivering on the economy—most evidently in the 1990 and 1995 national contests, at the height of the country's economic boom.

### THE LAST CRISIS

Yet the 1997 Asian financial crisis shook the country's economic foundation. Malaysia's macroeconomic indicators were among the strongest in Asia, perhaps with the exception of Singapore, but its proximity to Thailand and Indonesia meant that it would be subjected to the same contagious pattern of capital flight and scrutiny that afflicted those countries. Observers did not credit Malaysia for its historical pattern of sound economic management, in part because of the idiosyncratic response of the country's prime minister. Instead they saw a polity riddled with corruption, especially at the elite levels as a result of state distribution, poorly performing state enterprises (except in oil and gas), and limited financial reserves.

Malaysia's currency, the *ringgit*, experienced the same freefall as its neighbors' did, and the government was forced to initiate reforms. After the 1969 riots, the challenges of 1998–1999 were the second-most significant for Malaysia. Mahathir followed his own path of capital controls, bucking recommendations by the International Monetary Fund for state cutbacks. He also substantially transformed the financial sector. Malaysia weathered the storm, partly by exporting foreign labor and partly as a result of Mahathir's bold measures.

The Asian financial crisis did not force a reevaluation of state patronage and distribution in Malaysia. If anything, the crisis, like the events of 1969, served to deepen dependence on state largesse. This was because it provoked a stronger opposition, especially following the expulsion and the politicized trial of Mahathir's deputy, Anwar Ibrahim. Anwar used the financial crisis to advance his own ambitions and his pro-IMF approach to economic competitiveness. His appalling treatment by

the state led to a significant withdrawal of Malay support for the Mahathir government in the 1999 elections. In his last years in office, Mahathir relied heavily on allocating contracts and distributing state moneys to shore up support, despite professing not to. Corruption and cronyism remained rampant as a result, as did the model of distributing state benefits to consolidate political power.

Abdullah boldly rejected this model when he came into office. He implemented measures against corruption, which included bringing cases against a small group of party leaders, and he reduced spending. His promise was rewarded by a huge mandate at the polls, as his anti-corruption campaign stole the thunder of the *reformasi*, or reform opposition, that had emerged in 1999. He was helped by the creation of a greater number of ethnically mixed constituencies in 2003 in a first-past-the-post electoral system that dampened the opposition vote.

Sustaining this drive to limit the state's excesses has proved difficult, however, and gradually Abdullah has reversed his stance. Last year, the government's new economic plan served to illustrate how far Abdullah had come from his initial position, reaffirming the state as a key driver of domestic growth.

### THE NEW ECONOMIC CLIMATE

This reversal in economic policy is the result of two factors. First, the resistance within his own party was strong. Abdullah recognized that if he was to stay in office within UMNO, he needed to deliver patronage to his party members, many of whom had entered politics for financial gain. Second, and more important, the international climate has changed. Malaysia can no longer rely on the same levels of foreign investment, as inflows to China have increased at Malaysia's expense.

Islamic terrorism, a lack of decisive regional leadership, and instability in Indonesia have all made Southeast Asia less attractive to international capital. And although Malaysia remains an extremely appealing location for investment, investment growth has begun to wane. Malaysia under Abdullah has begun to look for opportunities in niche industries, biotechnology and agribusiness in particular. But the legacy of the state's lack of engagement with domestic businesses and its ethnic orientation toward Malays, who are seen as less competitive because of their dependence on state contracts, has limited the potential of these sectors.

As inflows of foreign investment have become less reliable, Abdullah has searched for a new driver for the economy. He has turned to an old pattern—reducing domestic competitiveness and embracing China, hoping for mutually beneficial links. Trade with China now surpasses that with the United States, although Malaysia is America's tenth-largest trading partner. Oil and gas revenues continue to buttress state spending and are essential for government coffers.

There have been moments of economic reform in Abdullah's administration, including a bold initiative to engage in free trade talks with the United States. This would involve opening up government procurement and making the state more transparent, as well as significant reforms in some government-linked enterprises. Yet Abdullah's administration has lacked a clear economic agenda and encountered considerable resistance to change. Mahathir himself championed some of this resistance last year when he openly criticized Abdullah's leadership.

So far, the costs of many of the reforms have been passed on to the broader public, where initiatives to reduce state subsidies have led to increased inflation, but they have not significantly touched the elite. Inequality is rising in Malaysia, and the country's leadership has yet to provide a sense of direction for the economy. Sound policies of the past, long-term investment, and oil and gas revenue provide a temporary buffer for the leadership to find that direction. But time is running out. Malaysia will be increasingly forced to take decisive measures to maintain economic growth, as it has at critical turning points in its past.

### LIMITS ON DEBATE

Whether the state allows decisions over the economy and tensions in ethnic relations to be openly debated, or whether such choices will rest with the ability of a small circle of elites, is not certain. Malaysia's polity has traditionally been an elite-oriented formation. While elections have occurred regularly (with the exception of an 18-month state of emergency declared after the 1969 riots), critical decisions have been made by a handful of leaders, usually within the BN coalition and in the executive.

Abdullah opened up the polity when he came into office, allowing more political discourse and more space for policy debate by the civil society that had emerged in the 1970s. He initially managed by consensus decision-making, allowing a plurality of actors to shape policy. This was a welcome change from Mahathir, whose force of personality and level of control limited alternatives to his vision. The first few years of Abdullah's administration were marked by political openness, a markedly different pattern from the trend set in place after 1969 and accentuated after 1999 by Mahathir.

But Abdullah's openness has narrowed, especially over the past year. He is allowing less public debate of issues. And he is relying more on a small group of policy advisers, led by his son-in-law Khairy Jamaluddin, whose meteoric rise to power has raised concerns and jealousies within the political system. There is a real debate

occurring within Malaysia over the appropriate level of openness in public discussion, with hard-liners gaining ground as

gag orders, warnings, and lawsuits against the media—including bloggers—have increased.

Even debate within the BN over issues such as religion has been narrowed, as was demonstrated in January 2006 when non-Malay cabinet ministers were publicly rebuffed for submitting a memorandum on the issue of religious freedom. The civil service has been granted more room for such debate. But concerns have been raised about the bureaucracy's ability to promote new policies, since years of loyalty- and ethnic-based promotions have reduced the stature of civil servants and the bureaucracy is no longer representative of the country.

An even deeper issue is the difficulty of allowing free speech for a polity that has not allowed it for so long. Malaysia's elites remain spooked by frank discussion; they fear open debate will evoke emotions that will destabilize the country. Hard-liners prefer keeping a lid on issues, rather than allowing careful examination of them in public. It will require brave leadership to maintain openness in the face of deep-seated reservations. Instead, most likely, elite decision making will win out. In a polity socialized by elite rule, it is

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believed elites know best. The weight of responsibility for Malaysia's leadership, Abdullah in particular, in this context is heavy.

### THE STACKED DECK

The limits of public engagement with policy go beyond elite control. Malaysia has institutionalized a semi-democratic political system. It does engage in elections, which provide for free choices, and the opposition has won seats. Yet the contest is not a fair one, given state dominance of the media, bias in government funding toward the incumbent BN, continuing electoral irregularities, and constituencies that are constructed to favor the BN. Elections are unlikely this year, because of high ethnic tensions, but the system is skewed even when elections are held.

Opposition parties boycotted a by-election in January 2007 to highlight the unfairness of the process, but to date the government has not introduced electoral reforms. Of course, an unfair electoral system encourages those disenchanted with the leadership to engage outside of the system. Leaders within the BN have failed to fully appreciate the importance of maintaining a fair chance at the polls for the legitimacy of their government; nor do they realize the extent to which many Malaysians feel the polls are unfair.

The BN is fortunate that the opposition is fragmented and ideologically divided. It includes a pro-secular party, the Democratic Action Party (DAP); the pro-Islamic-governance party PAS; and the People's Justice Party (PKR), which is still seeking a clear identity. The opposition is increasingly led by Anwar Ibrahim, whom Abdullah boldly released from prison in his openness initiative in September 2004. The opposition has consistently pushed for openness and debate, yet remains stymied by its own divisions and limited electoral opportunities.

The climate over the past year has rejuvenated the opposition, however—especially the DAP, which made record gains in May 2006 state elections, and the PKR, whose leader has returned to the helm after two years abroad. The opposition faces structural constraints that were built into an ethnically based polity well before the Abdullah era. It also must contend with the narrowing of political space over the past year. These constraints have evolved gradually, especially after 1969 and 1999, the defining political crises facing the BN and UMNO. Yet the opposition's collective call for openness will present a challenge to Abdullah, enhanced by an increasingly robust civil society.

### HOW TO AVERT A CRISIS

From the moment he assumed office, Abdullah recognized that Malaysia was at a turning point, and he has worked to address the inevitable challenges that come with a successful country trying to transform its society, economy, and polity. Fifty years after independence, it remains to be seen whether Malaysia will continue on its historic path of avoiding ethnic conflict, promoting economic growth, and allowing political choice, albeit limited choice.

If Abdullah returns to the pledges of his first few years in office—if he delivers on the many promises he has made to the citizenry, rather than responding to the elite who have resisted change—he will be able to pass through this difficult terrain without sending the nation into a midlife crisis like the ordeals that punctuated change in Malaysia in the past. Abdullah showed in his first few years in office that he is capable of decisive leadership. His country deserves to celebrate its five decades of success without the clouds of the current challenges threatening to storm on the parade. ■