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Malaysia: Political Transition and Implications for U.S. Policy

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Summary

This report analyzes the political changes and economic developments in Malaysia and their implications for U.S. policy. The bilateral relationship between the United States and Malaysia is generally positive and constructive, particularly in the area of trade. Malaysia is a key trading partner of the United States and is an effective and cooperative regional player in the war against terror. The United States and Malaysia also have constructive education and informal defense ties including commercial access to Malaysian ports and repair facilities. Despite these positive dynamics, the bilateral relationship has at times been strained. Differences between the two nations stem from disagreements between Malaysia's Prime Minister Mahathir Mohamad and the United States over such issues as the internal suppression of dissent in Malaysia, the Israeli-Palestinian conflict, Iraq, globalization, Western values and world trade policy. This report sets the political transition in Malaysia of 2003 within an historical context and discusses key aspects of the bilateral relationship including trade, counter-terrorism cooperation, defense ties and Malaysia's external posture as it affects American interests. The report also examines the prospect that the political transition from Prime Minister Mahathir to his Deputy Prime Minister Abdullah Badawi holds the potential to improve bilateral relations between the United States and Malaysia.

This report draws on information and insights gained during a Congressional staff trip to Malaysia in 2003 and also benefits from previous work by Richard Cronin and Larry Nicksch, Asia Section, Foreign Affairs, Defense and Trade Division, Congressional Research Service. This report will be updated.

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Malaysia: Political Transition and Implications for U.S. Policy

Political and Economic Developments

Prime Minister Mahathir Mohamad has indicated that he will turn over power to his Deputy Prime Minister Abdullah Badawi on October 31, 2003.¹ This transition ends 22 years of rule by Mahathir and holds the prospect that bilateral relations between the United States and Malaysia could improve. The Malaysian Government has stressed that the change in leadership does not indicate significant changes in policy for Malaysia. Abdullah Badawi has yet to announce his choice for Deputy Prime Minister. He will also have to assemble his own ministerial team before he goes to the polls before November 2004. The composition of the new team may give some indication of possible shifts in policy emphasis, but no major changes in policy direction are generally anticipated prior to the next elections, which may come as early as the end of 2003.²

Malaysia's political transition is of interest to U.S. policy makers for a number of reasons including the potential moderate role that Malaysia could play in the Islamic world. Malaysia is a moderate, majority Muslim state that can play a constructive role in the struggle against militant Islamic extremism despite its anti-Western and anti Jewish rhetoric. Malaysia condemned the attacks of 9/11 and has supported the campaign against terrorism. Malaysia, a state where Islam is the official religion, is seeking to play a larger international role through such organizations as the 57-member Organization of the Islamic Conference (OIC) and the Association of Southeast Asian Nations (ASEAN).³ Malaysia assumed the OIC chair in 2003 and hosted the OIC summit from 16 to 18 October. While Malaysia may be able to exert a moderate influence in the Islamic world, and particularly with the Islamic community in Southeast Asia, its impact among Arab states is thought to be limited. Southeast Asian Islamic populations in Indonesia, Malaysia, Brunei (and to a lesser extent in the Philippines, Thailand, Burma and Singapore) constitute a third of the world's Islamic population and are experiencing a spiritual, social, and cultural revival at a time when there is also increased radicalization in the region as demonstrated by such groups as Jemaah Islamiya (JI), Abu Sayaf, and the Laskar

¹ Michael Vatikiotis, "Farewell Dr. M," *Far Eastern Economic Review*, 9 October 2003.

² For a more lengthy discussion of various domestic and international issues from two Malaysian perspectives see Abdul Razak Baginda, *Malaysia in Transition: Politics and Society*, (London: ASEAN Academic Press, 2003) and Mahathir Mohamad, *Terrorism and the Real Issues*, (Kuala Lumpur: The Prime Minister's Office, 2003), p.45.

³ "Mahathir's Unity-Through Oil Proposal Underscores OIC Weakness," *Stratfor*, October 3, 2002.

Jihad. Some analysts fear that perceived Western interference could increase anti-Western and anti-American sentiment.⁴

Malaysia In Brief

Population: 23.3 million, growth rate 1.86 % (2003 est)

Area: 127,316 sq. miles (about the size of New Mexico)

Capital: Kuala Lumpur

Ethnic Groups: Bumiputeras 58% [Malay 47%, Indigenous 11%], Chinese 24%, Indian 7%, Non-citizens 7% others 4%

Literacy: 94%

Religion: Muslim, Buddhist, Confucian, Taoist, Christian, Hindu, Sikh, Baha'i

GDP growth: 3.9% forecast for 2003 and 4.4% for 2004

Per capita GDP: \$9,300 purchasing power parity (2002 est.)

Inflation: 1.9 % (2002 est.)

U.S. Trade: 22.2% of Malaysia's exports go to the U.S. while 14.4% of its imports come from the U.S. It is the 11th largest trading partner of the United States.

Sources: U.S. Department of State, CIA World Fact Book, Economist Intelligence Unit

Historical Context

Many of the political cleavages of Malaysian society, which continue to have relevance to today's political dynamics, find their root in Malaysia's colonial past. Malaysia inherited a diverse demographic mix from the British. The British added ethnic Chinese and Indians to the Malay and other indigenous populations of peninsular Malaya, Sabah, and Sarawak. The demographic composition of Sabah and Sarawak includes a higher percentage of indigenous groups, such as the Iban. Malays, and other indigenous groups, are known as Bumiputeras, or "sons of the soil." Together they comprise some 58% of the population as opposed to the Chinese (24%) and Indian (7%) groups. Traditionally, ethnic Chinese and Indians have controlled a disproportionately greater share of the nation's wealth than Bumiputeras.

Malaysia has a complex history of inter-communal political dynamics. The Malaysian Union created by the British Labor Government after World War II provided for common citizenship. Fears among the Malays that they could not compete with the more commercially-minded Chinese led to the creation of the Federation of Malaya in 1948, which was biased in favor of the Bumiputeras. At independence in 1957, there was an understanding that Malays would exert a dominate position in political life in Malaya (Sabah and Sarawak joined Malaya to form Malaysia later in 1963 and Singapore left the Federation in 1965), while ethnic Chinese and Indians would be given citizenship and allowed to continue their role in the economy.⁵

⁴ S. MacDonald and J. Lemco, "Political Islam in Southeast Asia," *Current History*, November, 2002.

⁵ Harold Crouch, *Government and Society in Malaysia*, (Ithica: Cornell University Press, 1996), p.157.

This accommodation between groups has not always been tranquil. Between 1948 and 1960, the Communist Party of Malaysia, which was largely comprised of ethnic Chinese, waged a guerilla war against the British. This came to be known as the Malayan Emergency. The Internal Security Act (ISA), which continues to be used to suppress groups that threaten the regime, originally was put in place by the British to combat communist subversion. The Special Branch, which Malaysia inherited from the British, continues to act as the primary intelligence and security unit under the Royal Malaysian Police. During The Emergency, Malays generally sided with the British against the communists whose ranks were drawn largely from the Chinese community. Somewhat like the experience in Vietnam, leftist guerillas who helped the British and Allied forces opposing Japan's occupation, felt after the war that Malaysia remained for all practical purposes a colony ruled indirectly by Britain through the conservative Malay Sultans who exercised little real political power.

By the mid 1950s, the insurrection had collapsed. Added to this history of inter-communal strife were the riots of 1969 in which approximately 200 were killed. Most of those killed were ethnic Chinese. Malaysia's most severe race riots followed the Japanese occupation at the end of World War II. Malaysia's turn towards increased authoritarianism can also be traced to 1969, when Parliament was suspended and an emergency was declared.⁶

The New Economic Policy (NEP), instituted in 1971 following the 1969 riots, discriminated in favor of the Bumiputera majority via a kind of quota system in order to increase their share of the economic wealth of the country. The New Development Policy (NDP) replaced the NEP in 1990. The NDP retained NEP goals, such as 30% Bumiputera control of corporate assets. Prime Minister Mahathir's subsequent *Vision 2020* policy has similar elements but is more inclusive and does more to foster national ethnic unity.⁷ Malaysia appears to be dependent on an expanding economy to be able to disproportionately favor Bumiputeras while not undermining the economic position of ethnic Chinese and Indian groups in absolute terms. In this way, Malaysia's social harmony may be linked to economic growth. For this reason, periods of economic stagnation could carry the prospect of eroding the delicate balance between ethnic groups in Malaysia.

Economy

Malaysia has undergone significant and rapid economic development. It has developed from a colonial supplier of tin and rubber into a middle-income country with a more diversified economy that includes palm oil and a substantial electronics sector. As of April 2003, electronics accounted for 49.4% of Malaysia's total exports.⁸ At independence, it ranked below Haiti in per capita income at \$227. An average rate of growth of 7% from 1969 to 2000 allowed Malaysia to realize a per capita purchasing power parity income of \$9,300 by 2002. The financial crisis of

⁶ Crouch, p.26.

⁷ YAB Dato' Seri Dr. Mahathir Mohamad, *Vision 2020*, (Kuala Lumpur: Institute of Strategic and International Studies, 1991).

⁸ "Malaysian Trade Surplus Expands," *Asian Wall Street Journal*, July 2, 2003.

1997-98 led to a negative (-7.4%) growth rate for Malaysia in 1998.⁹ Prime Minister Mahathir's decision to restrict capital flows rather than follow the IMF's advice to let the ringgit float against the dollar, as in the case of the Thailand and Indonesia, is now generally regarded as a success. Since 1998, the Malaysian ringgit exchange rate has been set at 3.8 to one United States dollar.

Much of Malaysia's economic development is driven by international trade. Malaysia's economy had a sluggish rate of growth of only 0.3% in 2001.¹⁰ While Malaysian economic growth slowed due to the international downturn in the information technology sector and the Severe Acute Respiratory Syndrome (SARS) outbreak, it has since rebounded and is now projected to reach 3.9% for 2003.¹¹ A \$1.9 billion fiscal stimulus package initiated in March 2003 introduced a number of measures to liberalize the economy and lift restrictions on foreign investment.¹² Growth is being driven by a 3% increase in aggregate domestic demand, a 5.8% expansion in gross exports of goods and a 7.2% increase in public sector consumption.¹³ Mining (10.5%) and agriculture (10.4%) have demonstrated the strongest growth during the recovery, while services grew by 2.8% and construction by 1.4%.¹⁴

Part of Prime Minister Mahathir's vision for Malaysia is for it to become a developed nation by the year 2020. Malaysia has sought to achieve this through such projects as the Multimedia Super Corridor (MSC) which was launched in 1996 in the hope of allowing Malaysia to "leapfrog into the information age."¹⁵ The MSC is designed to attract information technology companies and investment to Malaysia and help it to further diversify its economy. The new Federal Government Administrative Center, Putrajaya, as well as the multimedia center, Cyberjaya, are situated within the MSC which is located outside Kuala Lumpur.

Internal Politics

Malaysia is a Constitutional Monarchy, but of an unusual kind, whose structure includes 13 states and three federal territories. Every five years, the nine hereditary Sultans elect one from among their group to be the Yang di Pertuan Agong, a traditional title equating to a King. The Agong exercises limited authority and acts on the advice of the Prime Minister, Parliament and the Cabinet. The Prime Minister is the head of the Federal Government which has 25 ministries. Out of a total of 13 states four are ruled by State Governors appointed by the Federal Government. In the

⁹ "Malaysia: Country Report," *Economist Intelligence Unit*, June 2003.

¹⁰ "Malaysia: Country Report," *Economist Intelligence Unit*, June 2003.

¹¹ "Malaysia," *CIA World Factbook*, August 1, 2003.

¹² See M. Vatkiotis, "The Last Hurrah," *Far Eastern Economic Review*, July 3, 2003 and Fui Soong, "AMCHAM's Commentary on the Stimulus Package," *AMCHAM Dateline*, July, 2003, p.11.

¹³ "Press Release for the Second Quarter 2003 GDP," *Siaran Akhbar*, August 27, 2003.

¹⁴ "Mining, Agriculture Lead the Way," *The Star*, August 28, 2003.

¹⁵ "Multimedia Super Corridor," Multimedia Development Corporation Brochure, 2003

nine other states, the hereditary Sultan fulfills this function. Each state has a state legislature. The lower house of Malaysia's Parliament, the Dewan Rakyat, has 193 members elected for terms not to exceed five years. The upper house, the Dewan Negara, has 43 members appointed by the King and 26 elected members with two from each state.

Malaysia is an "ambiguous, mixed"¹⁶ or "semi"¹⁷ democracy that has both democratic and authoritarian elements. The constitution is largely democratic and provides for regular elections that are responsive to the electorate. The government is based on a parliamentary system, and the judiciary is designed to be independent. Despite this democratic structure, authoritarian control limits the ability of the opposition to defeat the ruling coalition at the polls.¹⁸ The ruling coalition is known as the Barisan Nasional or the National Front. It includes the United Malays National Organization (UMNO), the Malaysian Chinese Association (MCA), and the Malaysian Indian Congress (MIC). The opposition Barisan Alternatif (BA) includes Party Islam Se-Malaysia (PAS), the National Justice Party (NJP), and the Malaysian Peoples Party (PRM). UMNO represents mainstream ethnic Malay interests and is the most influential party in Malaysia today despite the *reformasi* challenge mounted by Mahathir's former Deputy Prime Minister Anwar Ibrahim in the 1999 elections, at which time Malay support for UMNO is thought to have dropped from 61% to 42%.¹⁹ The Malaysian administration, under Prime Minister Mahathir and Deputy Prime Minister Badawi, promotes a moderate form of Islam under a secular polity and opposes the rise of Islamic extremists whose policies are more closely associated with PAS.²⁰

The ruling Barisan National Front, under Mahathir's leadership, has used the power of the state, including the ISA, to thwart political gains by PAS, which advocates a more conservative and less modern view of Islam than the dominant version. At present PAS's influence is limited to the northeast states of Kelantan and Terengganu where it controls state level government. It is reported to be gaining influence in Kedah, Pahang, and Perlis. Abdul Hadi Awang, who is both Chief Minister of Terengganu and President of the Pan-Malaysia Islamic Party, has stated his intention to implement Islamic criminal law in Terengganu in direct opposition to the Federal government.²¹ Kuala Lumpur cut off oil royalties to the PAS state government in Terengganu which previously made up four-fifths of the state budget.

¹⁶ Crouch, p. 4-5.

¹⁷ William Case, "Malaysia's General Elections in 1999: A Consolidated and High-Quality Semi-Democracy," *Asian Studies Review*, March, 2001.

¹⁸ Crouch, p. 5.

¹⁹ Bridget Welsh, "Real Change? Elections in the Reformasi Era," in E. T. Gomez, *The State of Malaysia: Ethnicity, Equity and Reform*, (London: Routledge Curzon, 2003)

²⁰ For a more detailed discussion of these dynamics see William Case, "Deep Insecurity and Political Stability: Inside Mahathir's Malaysia," in Bruce Vaughn ed. *The Unraveling of Island Asia?* (Westport: Praeger Publishers, 2002).

²¹ "Malaysian Opposition Leader Defies Prime Minister, Says Harsh Islamic Laws Will be Enforced," *Associated Press*, September 27, 2003.

The funds have since been distributed directly by the federal government.²² Mahathir announced that in February 2003 state funding to religious schools was to be stopped. It is thought by some that by taking religion out of the schools, the Islamic opposition will be weakened.²³ PAS' popularity has declined in part as a result of a backlash against Islamic extremism in the post 9/11 environment in Malaysia.²⁴

Political Transition

The political transition has the potential to improve U.S.-Malaysian relations. Deputy Prime Minister Abdullah Badawi is to become Prime Minister on 31 October 2003. This will end 22 years of rule by Mahathir and make Badawi Malaysia's fifth Prime Minister. Media reports have speculated that 62-year-old Badawi, who was first elected to Parliament in 1978, is an unproven leader who will have to balance between providing continuity of leadership, that will produce stability, and meeting expectations for a more open and consultative style of government. Badawi has pledged to work with the Barisan Nasional to realize the policy goals articulated in *Vision 2020*.²⁵ It is thought that Badawi's political legitimacy will at least in part be dependent on his ability to deliver sound economic growth and to counter the perceived rise of Islamic extremism in Malaysia.²⁶ Further, it is believed that the leadership transition in UMNO offers the potential for more democratization.²⁷

Badawi has thus far expressed views similar to Mahathir regarding the United States, but is widely expected to express any criticism of the United States more temperately.²⁸ Badawi is thought to be a "personable, thoughtful and consensus oriented individual"²⁹ and to have a "mild, incremental, consensual" personal style that will differ significantly from the more "fiery" tone of Prime Minister Mahathir and will "likely improve relations with the West."³⁰ It is thought that his personal style will lead Badawi to use less strident language, as compared to Mahathir, when Malaysia and the United States differ in the future.

²² Lorien Holland, "Party of Islam? Well Sort of," *Far Eastern Economic Review*, June 28, 2001.

²³ L. Lopez, "Let us Learn," *Far Eastern Economic Review*, April 17, 2003.

²⁴ S. Jayasankaran, "Lost Ground," *Far Eastern Economic Review*, March 21, 2002.

²⁵ "Abdullah Pledges to Work Hard to Make Vision 2020 a Reality," *New Straits Times*, September 8, 2003.

²⁶ Bridget Welsh, "Elite Contestation, Political Dilemmas and Incremental Change," Woodrow Wilson Center, July 24, 2003.

²⁷ Welsh, "Real Change? Elections in the Reformasi Era," p.188.

²⁸ Michael Vatikiotis, "The Last Hurrah," *Far Eastern Economic Review*, July 3, 2003.

²⁹ Welsh, July 24, 2003.

³⁰ Amy McCreedy, "Passing the Mantle: A New Leadership for Malaysia," *Asia Program Special Report, No. 116*, The Woodrow Wilson International Center for Scholars, Washington, DC, September, 2003.

Badawi's respected religious background³¹ will help him counter the rising popularity of PAS and the forces of Islamic extremism. Some analysts question Badawi's leadership ability and suggest that if Badawi is perceived as being unsuccessful in curbing the rise of Islamic extremism, foreign investors could move away from Malaysia, leading to an economic downturn that has the potential to disrupt the existing social balance.³²

Malaysia's External Posture

Malaysia has placed much emphasis on regional cooperation despite differences with regional states. In the past, Malaysia and the Philippines have differed over the Philippines' claim to parts of Sabah. Indonesia and Malaysia came into conflict as a result of Indonesian military raids over the border in Borneo in 1963. These were part of its policy of *confrontasi* and repelled by Malaysian and Commonwealth forces. Malaysia remains a member in the Five Power Defense Arrangements along with Australia, New Zealand, The United Kingdom, and Singapore which has its roots in Malaysia's colonial past. Malaysia was a founding member of ASEAN in 1967 and more recently was a strong advocate for expanding ASEAN to include Burma, Vietnam and Laos. It has been an active member of the Non-Aligned Movement and the Commonwealth. Malaysia has also sought to play a more influential role in ASEAN. Indonesia's current internal focus and Prime Minister Mahathir's status as the senior leader of ASEAN were factors that supported the prospect. Malaysia's proposal to build and fund an administrative center for the ASEAN + 3 grouping demonstrated Malaysia's desire to play a larger regional role but was rejected by ASEAN in 2002.³³ Malaysia has ongoing disputes with Singapore over the supply of water to Singapore.³⁴ In June of 2003, Mahathir warned Burma that Burma could be expelled from ASEAN if it does not release opposition leader Aung San Suu Kyi. Not all ASEAN members necessarily would agree with the Malaysian position.³⁵ The current political transition in Malaysia, Malaysia's relatively small size and a lack of consensus in ASEAN to follow a Malaysian lead, place limits on the extent to which Malaysia can assume a leadership role within ASEAN and the region.

Malaysia has significant interest in the hydrocarbon potential of the South China Sea. This has most recently put Malaysia in conflict with Brunei over the Baram Delta off the coast of Sabah and Sarawak. In July 2002, independent U.S. contractor Murphy Oil, working for Malaysia's state oil company Petronas, discovered the

³¹ Badawi's father and grandfather were Islamic religious scholars. Badawi himself has a degree in Islamic Studies.

³² Michael Vatikiotis, "Extremists, Step Aside," *Far Eastern Economic Review*, September 5, 2002.

³³ "ASEAN Rift May Thwart Malaysia's Designs on Regional Power," *Stratfor*, July 31, 2002.

³⁴ "Singapore Testing Our Patience with Baseless Accusations," *New Straits Times*, September 13, 2003.

³⁵ "Suu Kyi Detention: Driving a Wedge in ASEAN?" *Stratfor*, September, 2003.

Kikeh field which is estimated to hold 700 million barrels of oil.³⁶ This represents 21% of Malaysia's current reserves which are projected to run out in 15 years.³⁷ Malaysia, the Philippines, China, and Vietnam have conflicting claims over the Spratly Islands and the South China Sea. Though continuing, this conflict has been less contentious in recent years than it was in the 1990s.

The attitudes of Malaysia and other ASEAN states towards China have undergone a significant shift over the past two decades.³⁸ Relations with communist China were once characterized by much suspicion. Malaysia normalized relations with China in 1974. In recent years issues of economic competition and cooperation have been more of a concern to ASEAN states than security concerns.³⁹ China currently is said to be thought of "as more of an opportunity with concomitant challenges, rather than as a threat" as it was as recently as 1999 when China fortified Mischief Reef in the South China Sea which it had occupied in 1994.⁴⁰ Malaysia constructed a concrete building on Investigator Shoal in the Spratlys in 1998. ASEAN states' perceptions could change again should China more actively reassert its claims in the South China Sea or expand its already large presence in Burma. For the time being, attention on Sino-ASEAN ties is focused on the proposed China-ASEAN Free Trade Area. Then Chinese Premier Zhu Rongji proposed the FTA in November 2000.⁴¹

Implications for U.S. Policy

On a pragmatic level, relations between Malaysia and the United States are generally constructive, particularly with regard to counter-terrorism cooperation, trade and military cooperation. This is despite what a U.S. official called "blunt and intemperate public remarks"⁴² critical of the United States by Prime Minister Mahathir, who generally subscribes to a view of the United States as a neo-colonial power strongly under the influence of a coterie of Zionist Jews.⁴³ In 1997, Mahathir

³⁶ S. Jayasankaran, "Well-Oiled," *Far Eastern Economic Review*, August 28, 2003.

³⁷ S. Jayasankaran, "Oil and Water," *Far Eastern Economic Review*, July 3, 2003.

³⁸ Jane Perlez, "Asian Leaders Find China a More Cordial Neighbor," *The New York Times*, 18 October, 2003.

³⁹ Alice D. Ba, "China and ASEAN: Re-navigating Relations for a 21st Century Asia," *Asia Survey*, August, 2003.

⁴⁰ Rommel Banlaoi, "Southeast Asian Perspectives on the Rise of China: Regional Security After 9/11." *Parameters*, Summer, 2003.

⁴¹ J. Wong & S. Chan, "China-ASEAN Free Trade Agreement," *Asian Survey*, June, 2003.

⁴² Prepared Statement of Matthew Daley, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, U.S. Department of State, As submitted to the Committee on International Relations House of Representatives, Subcommittee on Asia and the Pacific, March 26, 2003.

⁴³ Alan Sipress, "Malaysia Calls on Muslims to resist Jewish Influence," *Washington Post*, (continued...)

speculated that international pressure on the ringgit was part of a Jewish plot. This caused some Members of Congress to threaten to pass a resolution calling on Mahathir to resign or apologize.⁴⁴ Such tensions continued in October 2003 when the United States condemned assertions made by outgoing Prime Minister Mahathir before the OIC that “Jews rule the world.”⁴⁵ President Bush reportedly told Prime Minister Mahathir that such comments were “wrong and divisive” in a side meeting of the Asia-Pacific Economic Conference in Thailand later in October 2003.⁴⁶

The State Department Report of Human Rights Practices in Malaysia stated that while the Malaysian government generally respected the rights of its citizens, “serious problems remain” including police torture and killings, the excessive use of the ISA, prolonged pretrial detention, the lack of independence and impartiality of the judiciary in high profile cases, “government restrictions, pressure and intimidation” leading to a self-censored press, and restrictions on freedom of assembly.⁴⁷ Human Rights Watch has raised similar human rights concerns particularly over the use of the ISA to suppress political dissent in the name of fighting the war against terror.⁴⁸ Since 9/11, however, the Bush Administration has played down human rights issues and emphasized counter-terrorism cooperation, including extensive use of the ISA.

The change of administration in Washington and the increasingly perceived comity of interests post 9/11 improved the bilateral relationship beginning in 2001. Foreign Minister Syed Hamid Albar stated in January of 2001 that Malaysia was looking forward to closer ties with the United States when President Bush assumed office.⁴⁹ This sentiment was subsequently reiterated by Mahathir to the United States Ambassador to Malaysia in April 2001.⁵⁰ The 9/11 attacks against the United States were strongly criticized by Prime Minister Mahathir, and the two nations subsequently began to work closely on counter-terror cooperation. Mahathir met with President Bush in Washington in May 2002, where they signed a Memorandum of Understanding on counter-terrorism. This new cooperation in a common cause helped the two nations move beyond the acrimonious exchanges that characterized

⁴³ (...continued)
October 17, 2003.

⁴⁴ “Malaysia,” in *Regional Surveys of the World: The Far East and Australasia*, (London: Europa Publications, 2002), p.732.

⁴⁵ “U.S. Slams Mahathir Remark on Jews,” *The Age*, October 17, 2003.

⁴⁶ “Bush-Malaysia,” *Voice of America*, 20 October, 2003.

⁴⁷ “Malaysia Country Report on Human Rights Practices,” Bureau of Democracy, Human Rights and Labor, U.S. Department of State, March 31, 2003.

⁴⁸ “Asian Security Talks Giving Green Light to Repression,” *Human Rights Watch*, June 16, 2003 and “Malaysia’s Internal Security Act and Suppression of Political Dissent: A Human Rights Backgrounder,” *Human Rights Watch*, undated.

⁴⁹ “Looking Forward to Warmer Ties in Post-Clinton Era,” *New Straits Times*, January 10, 2001.

⁵⁰ Sarban Singh, “PM Hopes for Better Ties,” *New Straits Times*, April 6, 2001.

the past, including what transpired in 1998⁵¹ during the Asia-Pacific Cooperation Summit meeting in Kuala Lumpur, when then Vice President Gore expressed support for the political movement that arose in response to the arrest, under the Internal Security Act, of former Deputy Prime Minister Anwar Ibrahim on charges of corruption and sexual misconduct.⁵² Some Malaysian officials have, in general terms, equated the ISA with the recently enacted USA PATRIOT Act in America.

While United States-Malaysia relations hit a high point in the post 9/11 environment when Mahathir visited the White House in May 2002, Malaysia has since taken a stance critical of United States' policies on Iraq and "preemption." Prime Minister Mahathir stated that the United States' war with Iraq would "earn the hatred of 1.3 billion Muslims forever" and offer "a very bleak future for the world order." He has also been critical of the United States policy of "preemption," describing the new doctrine as leading to a "state of perpetual turmoil."⁵³ In his 2003 national day speech, Mahathir accused the West of spreading a "culture of violence and sex." He also warned that globalization allows would-be neocolonialists to "control everything including internal politics."⁵⁴ In one of his last speeches as UMNO President, Mahathir accused the "European race," which includes Americans and Australians,⁵⁵ of seeking to "control the world again" and of "warmongering."⁵⁶ Malaysia has been critical of United States support for Israel and has called on the United States to adopt a more even-handed approach toward the Israeli-Palestinian conflict. U.S. Ambassador Marie Huhtala stated that "public statements by senior Malaysian officials have castigated the U.S. in antagonistic, occasionally offensive terms" such as assertions that victims of 9/11 were collateral damage and that the U.S. was pursuing a war against Islam.⁵⁷ Despite this negative rhetoric, there are a number of positive aspects to the relationship beyond the strong trade and investment linkages mentioned above, particularly in the areas of defense, counter-terrorism cooperation and education.

Bilateral Trade

The United States is a key trade partner of Malaysia and absorbs between one fifth and one third of Malaysia's exports.⁵⁸ The United States has been Malaysia's

⁵¹ "Gore's Comments Protested to U.S. Envoy," *Chicago Tribune*, November 24, 1998.

⁵² Ian Stewart, "Spin Doctors Needed to Counter US Critics, Anwar Sympathizers Rally Support for Trade Sanctions," *South China Morning Post*, Oct 30, 2000.

⁵³ "Malaysian PM Warns United States Attack on Iraq to Unleash "Wrath of Muslims," *BBC Monitoring Service*, December 13, 2002.

⁵⁴ Prime Minister Mahathir, "Work Hard for Success," National Day Speech, *New Straits Times*, September 1, 2003.

⁵⁵ "PM Launches Vitrolic Attack on European Race," *Malaysiakini*, June 19, 2003.

⁵⁶ Martin Jalleh, "PM's Sad and Sorry Swansong," *Malaysiakini*, June 24, 2003.

⁵⁷ Ambassador Marie Huhtala, "Let's Move Forward: The U.S. Malaysia Bilateral Relationship," U.S. Embassy, Kuala Lumpur, May 23, 2003.

⁵⁸ U.S. Ambassador Huhtala, "U.S. Foreign and Defense Policies," Presented at the (continued...)

largest trading partner since 1997.⁵⁹ Two-way trade equaled \$34.4 billion in 2002 making Malaysia the United States largest trading partner in the Association of Southeast Asian Nations (ASEAN).

Malaysia became the United States' 16th largest export destination in 2001.⁶⁰ It is also the United States' 11th largest trading partner.⁶¹ The United States exports more to Malaysia than it does to India or Russia. The United States is the largest foreign investor in Malaysia. Malaysia is the United States' tenth largest source of imports.⁶² Some say a United States-Malaysia Bilateral Taxation Treaty and a United States-Malaysia Trade and Investment Framework Agreement (TIFA) are key items to be negotiated to further promote bilateral trade. United States-ASEAN Business Council President Bower has stated that such arrangements could also promote prospects for a future bilateral free trade deal.⁶³ The Enterprise for ASEAN Initiative, announced in October 2002, "offers the prospect of Free Trade Agreements (FTA) with individual ASEAN nations" with the Singapore-U.S. FTA [<http://www.ustr.gov/new/fta/singapore/final.htm>] serving as a model for other FTAs.⁶⁴ Support for free trade agreements is not universal in the United States. Some have criticized free trade agreements for being too pro-business and for not including labor and environmental standards.⁶⁵

Despite their strong trade and investment ties, Malaysia and the United States have at times taken different approaches to international trade regimes. The United States promoted the Asia-Pacific Economic Cooperation (APEC) grouping, which was established in Canberra in 1989, and included the United States, Australia and New Zealand as well as nations of East and Southeast Asia. In 1990, Malaysia instead proposed the East Asian Economic Caucus as a regional trade grouping that would have been limited to Asian nations and would have excluded the United States. The ASEAN +3 group, which includes the 10 ASEAN states plus Japan, China and South Korea, is a similar Asian concept. Malaysia actively seeks foreign direct investment and benefits from expanding international trade. This did not prevent Malaysian Minister for Trade Rafidah Aziz from leading a walk-out of delegates of poorer countries at the Cancun meeting of the World Trade Organization in September of 2003. Walk-out participants were seeking cuts to United States and

⁵⁸ (...continued)

Malaysian Armed Forces Defense College, April 14, 2003.

⁵⁹ "External Trade Expanding," *Business Times*, Kuala Lumpur, September 13, 2003.

⁶⁰ "U.S.-Malaysia Trade Increases," *Xinhua News Agency*, January 30, 2003.

⁶¹ U.S. Dept. of Commerce, International Trade Administration, The Commercial Service [<http://www.usatrade.gov>].

⁶² "U.S.-Malaysia Trade Rises," *Malay Mail*, Kuala Lumpur, January 31, 2003.

⁶³ "United States Malaysian Trade Ties Intact Despite Differing Views on Iraq," *Business Times*, Kuala Lumpur, April 17, 2003.

⁶⁴ Ralph Ives, Assistant U.S. Trade Representative, Southeast Asia, "The Pacific and APEC," Testimony before the Committee on Senate Judiciary, July 14, 2003.

⁶⁵ Elizabeth Backer, "In Iowa, Trade Emerges as Hot Issue in 2004 Race," *The New York Times*, October 22, 2003.

European farm subsidies.⁶⁶ On October 20, 2003, Prime Minister Mahathir urged developing countries to develop a new agenda for world trade talks. This move placed Malaysia in opposition to United States efforts to restart the World Trade Organization talks that collapsed in Cancun.⁶⁷

Military Cooperation

Military cooperation between the United States and Malaysia includes high-level defense visits, training exchanges, military equipment sales, expert exchanges and combined exercises. Malaysian officers train in the United States under the International Military Education and Training (IMET) program and there is a student exchange program between the Malaysian Armed Forces Staff College and the U.S. Army Staff College at Fort Leavenworth. United States troops also travel to the Malaysian Army's Jungle Warfare Training Center in Pulada. Humanitarian assistance, disaster relief, anti-piracy, and counter-terrorism are areas that have been identified as areas of mutual interest. Between 15 and 20 U.S. Navy ships visit Malaysia annually. Malaysia also offered overflight to the United States during *Operation Enduring Freedom* in Afghanistan. Bilateral military exercises include all branches of the service.⁶⁸ Malaysia has also bought significant military equipment from the United States, including F-18 /D aircraft. The Malaysian government announced a decision to purchase 18 Russian Su-30 MKMs in May 2003. It is reported that the decision may not rule out further purchases of the Boeing F/A-18E/F.⁶⁹ Malaysia has an active military strength of 100,000 and a defense budget of \$2.9 billion.⁷⁰ Recent military procurement is reportedly seeking to narrow the technology gap with small, but well armed, Singapore.⁷¹ Such purchases will also likely help Malaysia secure its maritime interests in the Strait of Malacca and the South China Sea.

Counter-Terrorism Cooperation

Malaysia is an effective and cooperative regional player in the war against terrorism. In May of 2002, the United States and Malaysia signed a declaration that provides a framework for counter-terrorism cooperation.⁷² Malaysia arrested over 70

⁶⁶ James Langton, "Trade Talks Collapse as Poor Nations Walk Out," *Evening Standard*, September 15, 2003.

⁶⁷ J. Harding and A. Kazmin, "Mahathir's Call for a New Trade Agenda Angers U.S." *Financial Times*, October 21, 2003.

⁶⁸ Huhtala, April 14, 2003.

⁶⁹ M. Fiszer, "Malaysia Turns to Russia for New Fighters," *Journal of Electronic Defense*, July, 2003.

⁷⁰ International Institute of Strategic Studies, *The Military Balance 2003* (Oxford: Oxford University Press, 2003).

⁷¹ S. Jayasankaran, "Malaysia: Call for Arms," *Far Eastern Economic Review*, May 16, 2003.

⁷² "Malaysia, USA Sign Anti-terror Declaration," *BBC Monitoring Service*, May 15, 2002.

suspected JI members in 2002 and has agreed to freeze terrorist assets.⁷³ Malaysia is taking a leading regional role in the war against terror by establishing a regional counter-terrorism center in Kuala Lumpur that will facilitate access to counter-terror technology, information and training.⁷⁴ The concept for the center was announced in October 2002 following a meeting between President Bush and Deputy Prime Minister Badawi at the APEC meeting in Mexico.⁷⁵ Malaysia has also begun exchanges of counter-terror intelligence with Indonesia⁷⁶ and has offered to assist Thailand in tracking down Jemaah Islamiyah elements thought to be hiding along the Malaysia-Thai border.⁷⁷ Malaysia also hosted the ASEAN Regional Forum Inter-sessional Meeting on Counter-Terrorism in March of 2003. [See CRS Report “Terrorism in Southeast Asia” RL31672 for further information on terrorism in Southeast Asia.]

Malaysia’s counter-terror cooperation with other states is not without limits. Malaysia has criticized Australia for asserting the right to preemptive action against terrorists in foreign lands and has criticized the United States for supporting the Australian position.⁷⁸ Further, Prime Minister Mahathir stated that an Australian counter-terror presence is “not welcome here.”⁷⁹ Malaysian-American counter-terror cooperation reportedly involves consultation. Malaysia also allowed the United States to interview a Malaysian being held under the ISA in connection with the trial of Zacarias Moussouai.⁸⁰

Educational Ties

Over the past three decades, the United States has been a popular destination for Malaysian students. Since 1975, Malaysia has been one of the top 20 countries that have sent students to the United States. From 1981 to 1999 it was one of the top 10 sources of international students in America. Total Malaysian students in the United States peaked at 23,000 in 1985.⁸¹ Student visa delays, that are the result of U.S.

⁷³ J. Chao, “Malaysia’s War on Terror Worries Rights Advocates,” *American Statesman*, Nov.10, 2002.

⁷⁴ R. Hamsawi, “Local Funding for Anti-Terror Center,” *New Straits Times*, April 3, 2003.

⁷⁵ “Malaysia: Minister Gives Details of ASEAN Anti-terror Centre Project,” *BBC Monitoring Service*, April 2, 2003.

⁷⁶ M. Zulfakar, “KL-Jakarta Talks to Touch on Security,” *Nation*, August 28, 2003.

⁷⁷ Abdul Razak Ahmad, “Ready to Hunt JI Militants,” *New Straits Times*, August 27, 2003.

⁷⁸ “Malaysia Expands Spat with Australia,” *Asian Wall Street Journal*, December 11, 2003.

⁷⁹ “Australia’s Anti-terror Presence Not Wanted: Mahathir,” *Malaysiakini*, August 22, 2003.

⁸⁰ Ambassador Huhtala, “United States Foreign and Defense Policies,” United States Embassy, Kuala Lumpur, April 14, 2003.

⁸¹ “U.S. Universities Remain a Top Destination for Malaysian Students,” Education USA, [<http://usembassymalaysia.org>].

homeland security measures, have hindered this educational exchange. Reported complications with the Student Exchange and Visitor Information System (SEVIS) have led to visa delays and declining foreign student numbers.⁸²

Figure 1. Map of Malaysia



⁸² H. Hollingsworth, "Foreign Student Enrollment Drops," *Associated Press*, October 3, 2003.