
MALAYSIA IN 2001

An Interlude of Consolidation

===== Patricia Martinez
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In 2001, Prime Minister Mahathir Mohamed almost singlehandedly consolidated his hold on leading the nation, as well as reclaiming some lost constituencies for his party, the United Malays National Organization (UMNO). This consolidation was well underway before the events of September 11 in the United States, although by the year's end, worldwide sentiment against militant Islam had strengthened his hand.

Politics

In July, the Barisan Nasional (BN, the ruling coalition of political parties comprising UMNO, the Malayan Chinese Association or MCA, the Malayan Indian Congress or MIC, as well as 11 other political parties) contested a by-election in the state of Sabah. The by-election was the result of a landmark court judgment nullifying the 1999 win of the Likas constituency by a former Sabah Chief Minister, because the electoral rolls for his constituency contained large numbers of non-existent or phantom voters. The incumbent not only won again for the BN, but also increased his majority by 7,541 votes despite a lower voter turnout of only 52% of the electorate. Likewise, in the neighboring state of Sarawak that called for elections in September, the BN increased its hold on power by winning 60 out of 62 seats, even wresting seats won by the opposition in the 1999 general elections. The Sarawak elections were held on September 27, and the attacks in the U.S. were an issue in desertion by voters of any party aligned with Parti Islam SeMalaysia (PAS), the Muslim opposition party that defines itself as Islamist. However, this was only one of the reasons for the BN win. Other major issues were infighting

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among opposition parties, as well as economic development, which the BN has both promised and largely delivered, albeit at considerable cost to the environment and indigenous peoples.

However, in May, indigenous land rights were strengthened when the Sarawak High Court upheld the prerogative of the custom of an Iban village in its fight against the destruction of its rainforest. This was one of a number of judgments that marked the independence of the Malaysian judiciary under the new leadership of Chief Justice Dzulkefli Abdullah. Among these judgments were: the nullification of the Likas 1999 election results despite the judge's disclosure of pressure earlier in the case from the former Chief Justice; rulings and announcements in March that signaled the end of huge defamation suits; setting free two opposition politicians who had been detained under the draconian Internal Security Act (ISA), which is premised on detention without trial; and in June, Malaysia's highest court unanimously rejecting a contempt conviction imposed on a lawyer for jailed former Deputy Prime Minister Anwar Ibrahim. Nevertheless, there were two appointments that were widely perceived as checking this development of an independent judiciary. The first was the government's appointment of Abdul Gani Patail as Attorney General. Patail had been the chief prosecutor of the Anwar Ibrahim trials. In addition, the appointment of former Attorney General Mokhtar Abdullah as a judge of the High Court was perceived as further curtailment of the cleanup of the judiciary. Patail's appointment was also controversial because it circumvented procedure and reflected where real power lay, with the announcement of his appointment by the Prime Minister's department before assent by the constitutional monarch.

Anwar Ibrahim virtually disappeared from the spotlight except for three events: his request for medical treatment abroad, which the government turned down; the High Court's dismissal of his defamation suit against Mahathir; and the government's decision to drop all five remaining criminal charges against him (four on sodomy and one on corrupt practice). Dissent fermented by the Anwar Ibrahim issue and *Reformasi* (Reformation, its rallying call) was muted by fighting among and within opposition political parties that had formed the loose coalition of the Barisan Alternatif (BA), with considerable success for the 1999 general elections. In addition to their squabbles, draconian measures taken by the government against the opposition were also effective in curbing it. These measures included a police ban on all political rallies and meetings, which crippled the opposition because it does not have access to the mainstream government-controlled media; surveillance, censures, terminations, and expulsions of university faculty and students in public institutions; and the arrest and detention of four key leaders of Keadilan, the party headed by Anwar's wife. Despite high-level resignations and infighting, Keadilan emerged from a contentious annual caucus with its

multi-ethnic identity intact, although it is largely dominated by ethnic Malay Muslims. In September, the multi-ethnic but mostly Chinese-based Democratic Action Party (DAP) parted ways with PAS over the latter's proposal to turn Malaysia into an Islamic state upon forming a government.

Outdoing his nemesis, PAS, Prime Minister Mahathir himself declared Malaysia an Islamic state on September 29. Coming as it did after the events of September 11 and the widely held national and international perception of the BN as the modern, secular alternative to Islamic fundamentalism, the announcement evoked some public consternation, although the non-Muslim parties in the BN had acquiesced immediately. Although the government subsequently withdrew the booklet outlining why Malaysia is an Islamic state,¹ the larger issue of its ramifications for the Constitution and fundamental freedoms of both Muslims and non-Muslims in the context of increasing Islamization continues.

The Islamic state issue as political brinkmanship by Mahathir is one interpretation for the move, because of his own government's firm measures against Islamic extremism. In November, the nation's first trial for sedition of the 19 al-Maunah members who staged an arms heist from an army camp in 2000 ended with death sentences for its leaders. Thirteen Muslims, many from PAS, including the son of its Chief Minister in the state of Kelantan, were arrested under the ISA. The government described them as members of Kumpulan Militan Malaysia (KMM), an extremist group that it accused of masterminding robberies, the bombing and arson of three churches during the year, as well as murder. The arrests and detentions were made under the ISA, resulting in calls for the government to charge those detained in court if there was sufficient evidence. However, the hard line taken by PAS over the U.S. bombings of Afghanistan, by calling for a *jihad* (holy war), consolidated UMNO and Mahathir as the moderate alternative, although the Malaysian government also criticized the bombings. By December, this perception was enhanced when both Mahathir and his deputy, Abdullah Badawi, chided the association of *ulama* (theologians) for calling for a boycott of American goods. The perception was also strengthened by BN rhetoric, carried widely in the various media it controls, that described PAS as the Taliban of Malaysia. The spectre of September 11 was fundamental in the power of symbolic meaning of this BN strategy. PAS discovered this too late, thus eroding much of the potential it had built up with non-Muslim Malaysians by its own actions and by statements that smacked of extremism. That Mahathir recovered some of his own and the BN's approval with a disenchanting electorate was remarkable in the context of BN partner MCA's debacles, which ranged

1. See Patricia Martinez, "An Analysis: Malaysia as an Islamic State," November 15 and 16, 2001, at <<http://www.malaysiakini.com.my>>.

from the controversial purchase of a Chinese-language newspaper to serious infighting which culminated in the suspension of its entire Youth wing.

As in the previous year, Islam continued to configure the nation, overshadowing the other defining element of ethnicity. Nevertheless, in the budget for 2002 and in the context of the government's focus on regaining its rural Malay constituency, the most significant spending to date on rural schools was allocated: RM 900 million² (\$237 million), with RM 100 million (\$26.3 million) alone for six new rural matriculation colleges. This was significant because of the failure of other measures to win back UMNO's Malay constituency. These included the PAS-UMNO "unity" talks that fizzled out, as well as the UMNO-endorsed gathering in February to champion the Malay race, which ended up as an UMNO-bashing fest by some of its former stalwarts. By December, Mahathir's consolidation of power in the interlude before the next general elections was obvious enough for the Parti Bersatu Sabah (PBS) to ask to rejoin the BN, despite an acrimonious 1990 divorce.

The Economy

After Malaysia achieved 8.5% growth in 2000 despite slowdowns elsewhere around the world, forecasting growth became virtually an industry in itself, with Mahathir leading the pundits. The government revised growth forecasts twice, from the initial projection of 7%. Economic growth was 3.1% in the first quarter, and 0.5% in the second quarter. In the third quarter, the economy contracted 1.3% in the three months leading up to September, as the manufacturing sector reeled from the global downturn. As late as July, Mahathir claimed that the economy was performing well and that 1% to 2% in GDP growth was within reach. But by December 16, he said that growth would be 0.5% or 1% at best, acknowledging the effects of the worldwide market downturn for electrical and electronic goods that constitute 60% of Malaysia's total exports. Exports fell in June to RM 27.5 billion (\$7.23 billion) for the fourth straight month, chalking up the biggest decline, 13.5%, in almost 15 years. Some analysts believe that the overall growth for 2001 will be in the negative column, positing that the official second-quarter GDP growth estimate of 0.5% was not accurate because the year-on-year results for the quarter were negative by RM 1.999 billion (\$526 million) or a decline of $\uparrow 2.36\%$.

Malaysia's economy is relatively broad-based, and the share of external to total demand is only 57%. Therefore a RM 3 billion (\$780 million) pump-priming stimulus package to increase government spending was announced in March, which was the same strategy Mahathir used to help pull the country out of the 1998 recession. Pump-priming was also vital because of knee-jerk

2. \$1 = RM 3.8. It is a fixed rate with the ringgit pegged to the dollar.

western nervousness about Muslim countries in the aftermath of September 11. Foreign direct investment dropped sharply after growing to RM 31.6 billion (\$8.3 billion), or 63.2% of total investments received until June 2001. However there was considerable outcry from opposition political parties, because the stimulus package was a unilateral decision without debate and sanction by Parliament. But the pump-priming is perceived also with uncertainty about whether government infrastructure spending will come close to its target amid bureaucratic delays, and haggling over who gets which contracts.

Within weeks of the departure in early June of Daim Zainuddin, the long-term Minister of Finance who was considered the man closest to the Prime Minister, Mahathir gave notice that he was cleaning up the financial system. He took over Daim's portfolio and new, tougher guidelines to accelerate the restructuring of RM 29 billion (\$7.6 billion) in debt owed by 32 firms were put in place. The Non-Performing Loans (NPLs) ratio for the first six months of 2001 had crept up to 8.3%, from 6.3% at the end of 2000, and concern had been growing. This concern was exacerbated by the public furor in March over the use of public institutions (including retirement funds to which all Malaysian workers contribute and which are managed by the government), to mop up the initial public offering of a Renong subsidiary. TimedotCom had been undersubscribed by 75%, and could not sustain its offer price on the market on its first outing, thus incurring huge losses for the public-funded institutions that had invested in it. Renong, widely believed to be one of the trustees for UMNO's assets, has had one of the largest corporate debts since 1997 (at \$6.8 billion when the financial crisis hit Asia). By September 2001, the government's Corporate Debt Restructuring Committee (CDRC) took over Renong, a move that was widely welcomed. However, terminating the obligation by former Renong Chairman Halim Saad to make good on a RM 3.2 billion (\$800 million) debt had many describing it as yet another government bailout.

In May, Malaysia lifted the last remaining capital controls over foreign investment in its stock market, removing the flat 10% exit levy on profits made from portfolio investments that are repatriated within one year. This was the culmination of liberalization after controls were installed in September 1998, but the wrong signals which the controls had sent to investors remained potent. Investors were wary, unfortunately interpreting controls and their removal as signs of how rules in Malaysia change constantly.

Three Masterplans or blueprints were unveiled in 2001. In March, the Central Bank unveiled a Financial Sector Masterplan, which included deregulation for foreign banks and insurance institutions in the future, transparency measures, and a shift in bank ownership from prominent and well-connected individuals to institutional investors. The general reaction was that the plan

was good, but enforcement would be key because this has been the weakness thus far.

The second Masterplan announced was the Third Outline Perspective Plan (OPP3). The OPP3 is formulated on a policy for racial affirmative action known as the National Vision Policy. Previous versions were the New Economic Policy or NEP, and then the New Development Policy or NDP. The other goals of the OPP3 are alleviating urban poverty and developing an Information Technology-savvy society. The OPP3 was given to parliamentarians only the day before it was presented for discussion, causing angry protests about insufficient time to read it and participate in a meaningful debate. The day after the plan was unveiled, the Kuala Lumpur Stock Exchange's Composite Index took a nosedive, closing at 594.26 points, having plunged 38.91 points or 6.15% to close at its lowest level of trading in two years. The third Masterplan, which was the nation's eighth five-year blueprint (known as the Eighth Malaysia Plan), went the same way as the OPP3. It was quickly displaced on the radar of public life by political events.

Foreign Relations

Malaysia's external relations were in keeping with the course Mahathir charted for the year, with an adjustment after September 11. He consolidated the legitimacy of his government by privileging Islamic credentialing through increased contacts with the Middle East, as well as by maintaining Malaysia's longstanding foreign policy as a champion of developing nations.

There were official visits by Mahathir or senior members of the government (more than once to some countries) to Saudi Arabia, Yemen, Morocco, Libya, the United Arab Emirates, Egypt, and Qatar. Malaysia also convened and hosted a number of forums in the name of Islam. At an international seminar in June on the impact of globalization on the Islamic world, Mahathir's speech echoed a recurring refrain throughout the tenure of his administration: that Muslim nations were weak because they had retreated into religion; that globalization was essentially Western and problematic; and that there existed "a religious duty for Muslim countries and Muslim governments to ensure that globalization will not result in the marginalization of their countries . . . monopolies and oligopolies must be broken down and attempts to corner the market must be opposed."³

At a meeting of senior officials of the Organization of the Islamic Conference (OIC) that was hosted by Malaysia, an action plan was drawn up to boost tourism among Muslim nations because of hostility elsewhere. Malay-

3. Mahathir Mohamed, speech at the International Seminar on the Impact of Globalization on the Islamic World, June 11, 2001, Kuala Lumpur. Ministry of Foreign Affairs website <<http://domino.kln.gov.my>>

sia also claimed the lead with Qatar in the decision in late December to launch a new satellite television channel to counter negative propaganda against the Muslim world. These are examples of the brinkmanship required in post-September 11 times by moderate Muslim nations such as Malaysia, which are negotiating the dilemma of constituencies enraged about the war on Afghanistan because of the solidarity inherent in the notion of a contiguous Muslim *umma* (community), while being resolute against militant insurgency and terrorism. This brinkmanship entails displaying Muslim solidarity and strategizing within a siege mentality, together with assurances about and genuine gestures of support for the U.S.'s war against terrorism.

The Muslim factor, however, complicated Malaysia's handling of Nur Misuari, the renegade Filipino former governor for Muslim Mindanao and Moro National Liberation Front leader. Initially denying that Misuari had sought refuge in the country, but admitting just a day after the denial that he had been detained, Malaysia sought to deport Misuari to the Philippines. The Arroyo government there refused to accept him until elections in Mindanao were concluded, then dragged its feet while Malaysia was put under considerable pressure by its links to Muslim groups in the Philippines to grant Misuari asylum or at least ensure his sanctuary in a third country. By the end of 2001, Misuari and six of his loyalists were still in Malaysia, although the government was reiterating its firm refusal to grant him political asylum.

Malaysia was signatory to the 12 OIC resolutions formulated in October that included the rejection of any Islamic or Arab state being targeted under the pretext of fighting terrorism, while condemning the brutal acts of terrorism against the U.S. Later in October, and at the Asia Pacific Economic Cooperation (APEC) forum, Malaysia together with Indonesia expressed reservations and concern about the war against terrorism, including warning the U.S. of the serious consequences in the Islamic world if the military strikes in Afghanistan were prolonged. Mahathir reiterated that the actions of the U.S. did not constitute a war on Islam, but said that he preferred to have the U.N. play a bigger role in setting policy response to terrorism, and asked for world consensus on a common definition of what constituted acts of terrorism. In his private meeting with President George W. Bush, Mahathir urged the U.S. to solve the Palestinian issue because he felt that this would reduce frustration and anger in the Muslim world. His meeting with Bush was a significant step in improving U.S.-Malaysia relations that had soured after Al Gore's 1998 speech in Malaysia exhorting a greater commitment to human rights. New American initiatives that prioritize national security over fundamental freedoms appeared to forge a common bond between the two nations.

At the Association of Southeast Asian Nations (ASEAN) summit in November, the final communiqué made no reference to the attacks in Afghanistan, and was symptomatic of the differing positions of the various nations on

the issue. The negative response to the communiqué from significant Muslim groups and parties in Malaysia overshadowed other outcomes of the summit. Among these were announcements that the first ASEAN university would be located in Malaysia; that, together with China, ASEAN would create the world's biggest free-trade area within 10 years; and that ASEAN was undertaking an ambitious four-year program to combat the HIV/AIDS epidemic. In July, the ASEAN Plus 3 (China, Japan, and South Korea) grouping agreed to lend each other part of their hard-currency reserves if any of their currencies came under speculative attack. The immediate practical impact of this initiative may be minimal, since most countries now operate floating exchange rate regimes. However, its symbolic importance is hard to overestimate because for the first time, the region's financial officials will be forced to take an active interest in their neighbors' economies, breaching ASEAN's tradition of non-interference in other members' affairs.