
MALAYSIA IN 2002

Political Consolidation amid Change?

===== N. Ganesan
=====

Abstract

In 2002, the Malaysian government underwent significant political consolidation. Despite Prime Minister Mahathir Mohamad's sudden announcement in June of his resignation, he will remain in office until October 2003, after which Deputy Prime Minister Abdullah Badawi will replace him as prime minister. The government's political consolidation derived partly from its war on terrorism, which allowed it to marginalize the mainstream opposition. Additionally, opposition parties themselves are in disarray. Economically, the country performed well, and unorthodox measures introduced after the Asian financial crisis have begun to pay off. In foreign affairs, Malaysia achieved good accommodation with the U.S. but suffered from hiccups in its bilateral relations with regional neighbors.

In 2002, the United Malays National Organization (UMNO)-led Barisan Nasional (BN, National Front) government underwent significant political consolidation. It benefited from weaknesses in the political opposition and capitalized on the war against terrorism internally and externally. Prime Minister Mahathir Mohamad's sudden announcement in June of his resignation was followed shortly after by an announcement that he would remain in office until October 2003, when Malaysia will host the Organization of Islamic Conference (OIC) meeting. Additionally, Mahathir anointed his deputy, Abdullah Ahmad Badawi, as his choice for the next prime minister. Of the opposition political parties, Parti Islam Se-Malaysia (PAS, Pan Malaysian Islamic Party) suffered from the death of its leader Fadzil Noor, also in June, and Parti KeADILan (National Justice Party) suf-

N. Ganesan is Senior Lecturer in the Department of Political Science, National University of Singapore. The author would like to thank Hari Singh, K. S. Nathan, and Lee Hock Guan for comments on an earlier draft of this article. The author may be contacted at <polganes@nus.edu.sg>.

Asian Survey, 43:1, pp. 147–155. ISSN: 0004–4687

© 2003 by The Regents of the University of California. All rights reserved.

Send Requests for Permission to Reprint to: Rights and Permissions, University of California Press, Journals Division, 2000 Center St., Ste. 303, Berkeley, CA 94704–1223.

ferred from the detention of some key leaders under the Internal Security Act (ISA). Economically, Malaysia performed well in 2002, vindicating criticisms of its unorthodox policies put in place after the Asian financial crisis of 1997. In foreign affairs, Mahathir re-established strong linkages with the United States despite a number of hiccups, and in regional relations, ties with Indonesia, the Philippines, and particularly Singapore, came under strain.

Politics

Mahathir's shock announcement of his resignation as prime minister was made in a speech before UMNO on June 22, 2002. Without completing his speech, he was overcome by emotion and mobbed by senior party officials. Three days later, on June 25, UMNO Secretary-General Khalil Yaakob announced that Mahathir had been persuaded to remain in office for another 16 months, to be replaced eventually by Deputy Prime Minister Abdullah Badawi. At 76 years of age, and having undergone coronary bypass surgery in 1989, Mahathir clearly needed to nominate a successor. Three of his previous deputies, Musa Hitam, Ghaffar Baba, and most recently Anwar Ibrahim, have all been replaced, often with scant regard for decorum. Accordingly, although the dramatic manner in which the announcement was made came as a surprise, the nomination of a successor augurs well for elite transition. Nonetheless, on the basis of precedence, Badawi's appointment is by no means certain. Whereas there is little possibility of challenges arising from within UMNO, the gestation period for the transfer of power is rather lengthy and there is likely to be some political turbulence arising from a need for someone to be appointed as Badawi's own deputy. Of the three current vice presidents of UMNO, Najib Tun Razak appears to be Mahathir's clear favorite, although Muhyiddin Yassin, who has strong grassroots support in the politically important state of Johor, also remains a strong possibility. The third incumbent, Muhammad Muhammad Taib, is generally perceived as the weakest of the contenders.¹

Mahathir's sudden announcement prompted a 2.4% fall in the Kuala Lumpur Stock Exchange (KLSE) on June 24, indicating uneasiness over the news. A demonstration by Mahathir's own Kedah UMNO division in 1995 had apparently triggered a desire in the prime minister to step down before the general election that year. He is reported to have been persuaded first by his wife and then by Anwar Ibrahim to remain in office. In recent years, Mahathir has been associated with nepotism and cronyism involving the utili-

1. Brendan Pereira, "Let the Jostling Begin," *Sunday Times* (Singapore), June 30, 2002, pp. 29-30.

zation of state funds to bail out his sons and business associates.² However, in 2002, he became vocal in fine-tuning the implementation of Malay privileges to prevent the majority Malay ethnic community's overreliance on affirmative action. Additionally, Mahathir has aggressively pushed for the introduction of English as a medium of instruction in national schools for science and mathematics, to the chagrin of both the Malay- and Chinese-language "nationalist" communities.

Abdullah Badawi, Mahathir's chosen successor, is 62 years old. He was initially elected to parliament in 1978 after a career in the civil service, following his graduation in Islamic studies from the University of Malaya. In 1987, Badawi aligned with a rebel faction in UMNO headed by Tengku Razaleigh, who subsequently formed the political party Semangat '46 (Spirit of '46) as an UMNO splinter party. However, Badawi, who was initially aligned with Razaleigh, returned to the reconstituted UMNO Baru (New UMNO) in 1988 and has been a senior party member since. He was elevated to the position of deputy prime minister following Anwar Ibrahim's detention and subsequent imprisonment in 1998. Unlike Mahathir, Badawi is viewed as tolerant and consultative. Additionally, he comes from a family of respected religious scholars, and it was he who led the prayers for the late PAS President Fadzil Noor at the Sungei Besi military base and the later prayer session in Parliament House. In an interview with the *Far Eastern Economic Review*, Badawi indicated his intentions to institute a "thorough overhaul of the religious education system and a greater concentration on rural development to alleviate the poverty that has played into the hands of PAS." Additionally, he signaled interest in "diversifying holdings in companies to share more of the country's corporate wealth using unit trusts"³ in order to distribute public largesse to the people directly. In view of Badawi's background and statements, it is likely that if and when he assumes the prime ministership, decision-making in UMNO and perhaps in BN will be more consultative. There will also be renewed efforts at wealth distribution and policies designed to regain the rural Malay states of Kelantan, Terengganu, and to a lesser extent Kedah, from PAS.

Within the BN, Mahathir intervened to end factional disputes in the Malaysian Chinese Association (MCA) between its president, Ling Liong Sik, and rival, Lim Ah Lek, although their factional leadership struggle remains unabated. In May, the two factional leaders read a script prepared by Mahathir stating that "there would be no contests in the party for three years and the

2. Arjuna Ranawana, "Daim Zainuddin's Departure Ends One of Asia's Most Effective Political Alliances—and Begins an Uncertain Era for Mahathir." See <<http://detik.daily.tripod.com/juna/11hbjun.htm>>, accessed on September 16, 2002.

3. Michael Vatikiotis and S. Jayasankaran, "Extremists, Step Aside," *Far Eastern Economic Review (FEER)* 165:35 (September 5, 2002), pp. 12–16.

status quo would prevail.”⁴ This temporary truce healed the rift between Ling and Lim, following the former’s success in persuading the MCA to purchase the *Nanyang Siang Pau* (South Seas Commercial News), a relatively independent Chinese newspaper, in June 2001. Lim feared that Ling’s purchase of the paper could be used to tarnish his image within the ethnic Chinese community. Mahathir’s intervention also aborted potentially fierce intraparty contestation for office in June 2002. This temporary arrangement will project BN as a strong and cohesive party with a multiethnic mandate in the future national election that must be called by 2004, although the poll is likely to be moved forward to coincide with Mahathir’s departure. After the fallout from Anwar Ibrahim’s detention in 1998, Mahathir has skillfully utilized MCA support to bolster the BN’s political legitimacy.

While the BN consolidated its position, the political fortunes of PAS and KeADILan were significantly weakened. The June death of Fadzil Noor deprived the party of a widely respected moderate leader. Abdul Hadi Awang, who had replaced Fadzil on May 12, is generally regarded as more radical, and potentially intolerant. As chief minister of Terengganu, Hadi has already passed *Sharia* (Islamic law) enactments on family law, and is actively pushing for the state to adopt *hudud* (Islamic punishment for criminal offenses) law, a proposal that the BN has vowed to strike down in federal parliament. Fortunately for Hadi, PAS managed to retain Fadzil’s Bukit Anak state seat in Kedah in the subsequent by-election. The 508-vote majority contrasted with PAS’s defeat by 283 votes in the Pendang parliamentary seat by-election. Both seats were held by Fadzil. The BN also secured an overwhelming victory in the Gaya constituency parliamentary by-election in Sabah by an 11,923-vote majority, defeating the Democratic Action Party’s (DAP) candidate. KeADILan’s Christina Liew Chin Jin secured only 2,613 votes in Gaya and had her deposit forfeited.⁵ The forfeit of an election deposit is a reflection of exceedingly poor performance.

KeADILan suffered even more setbacks when one of its leaders, 41-year-old Gobalakrishnan, was arrested in Georgetown in October and detained under Section 4 of the Sedition Act (1948) in connection with a sedition case allegedly committed in Kuala Lumpur this year.⁶ This detention was in addition to the resignation of three KeADILan leaders in October 2001, and the detention of another two under the ISA. It was perhaps in response to this leadership vacuum that in October, KeADILan also announced its decision to seek a merger with the Parti Rakyat Malaysia (PRM, Malaysian People’s

4. S. Jayasankaran, “Togetherness,” *ibid.*, 165:19 (May 9, 2002), p. 20.

5. Joniston Bangkuai, “BN Retains Gaya with Huge Increase in Majority,” *New Straits Times* (Malaysia), October 13, 2002, p. 1.

6. S. Shankar and Adrian David, “Ex-Keadilan Leader Arrested for Alleged Sedition,” *ibid.*, October 6, 2002, p. 1.

Party).⁷ After all, together with PAS, KeADILan in the past had provided the ethnic Malay component to challenge UMNO within a broader framework, even if the DAP was unprepared to accept the increasingly fundamentalist PAS platform.

Malaysia's domestic war on terror has also allowed UMNO to significantly capitalize on a new religious mandate. While UMNO suffered owing to Malay voter support for PAS in the 1999 general election, that situation may be set to change. The reason for this is the detention in 2001 of Nik Adli, son of Kelantan Chief Minister and PAS leader Nik Aziz, under the ISA for alleged involvement in the Kumpulan Militan Malaysia (KMM, Malaysian Militant Group), and for having received military training in Afghanistan.⁸ This detention allowed the Malaysian government to link PAS with Islamic extremism in Malaysia. In the past, most outbreaks of extremism have occurred in the UMNO-controlled states of Johor, Selangor, Kedah, and Perlis. The Nik Adli case was the first time a clear and direct link had been established between PAS and Islamic extremism. In light of the Malaysian government's firm action against the KMM and the Jemaah Islamiah (JI, Islamic Community) for alleged linkages with extremists in Indonesia, the Philippines, and Singapore, the U.S. government requested that Malaysia host a counter-terrorism training center. The request was initially made by U.S. Secretary of State Colin Powell during a visit to Malaysia in July 2002, and again by President Bush during the Asia Pacific Economic Cooperation (APEC) forum summit meeting in Mexico in October. Malaysian action against terrorism led to the detention of 62 persons associated with the JI by April.⁹

Education was another major issue in domestic politics. Mahathir's announcement that the teaching of science and mathematics would be conducted in national schools in English beginning from March 2003 drew the special ire of the Chinese education movement. An earlier study in March 2002 found a very low proportion of non-Malay students in national schools. Of all enrolled students, ethnic Chinese students accounted for only 2.1%, while ethnic Indians accounted for 4.2%, well below these minority communities' representation in the population.¹⁰ In August, the Chinese education movement Dong Jiao Zong (DJZ, Chinese Education Associations) opposed the mandatory introduction of English education, comparing the situation to

7. "Keadilan Members Back Party Merger," *Straits Times* (Singapore), October 29, 2002, p. A9.

8. See "Nik Aziz's Son Arrested Under ISA." See <http://www3.bernama.com/web/general/ge0408_20.htm>, accessed December 26, 2002.

9. "Malaysia Arrests 'Key' Militant," BBC News World Edition: Asia Pacific, September 27, 2002, <<http://news.bbc.co.uk/2/hi/asia-pacific/2284645.stm>>, accessed on September 27, 2002.

10. Leslie Lau, "Worries over Race in Malaysian Schools," *Straits Times* (Singapore), March 22, 2002, p. 4.

the Indonesian government's treatment of its Chinese minority. This position was rebuked by UMNO Youth Chief Hishamuddin Hussein.¹¹ The MCA later intervened with the announcement that it would explain the new government policy to the ethnic Chinese community. In October, Education Minister Musa Mohamed announced that 5 billion ringgit (Malaysian dollars) (US\$1.32 billion) had been allotted for the teaching of English from 2003 to 2008. The government's emphasis on the introduction of the English language in national schools is meant to allow greater multiethnic socialization and to arrest the falling national standards in science and mathematics education. It is also meant to endorse Mahathir's greater emphasis on meritocracy.

Economics

The Malaysian economy performed robustly in 2002, as many of the unorthodox policies that were implemented after the Asian financial crisis of 1997 began to bear dividends. Significantly, the financial sector has been reformed, banks have been recapitalized, and also consolidated from the original 58 to the present 10 banks. The state agency Danaharta (National Asset Management Agency), which bought 48 billion ringgit (\$12.6 billion) of bad loans at 45 *sen* (cents) (\$0.12) to the Malaysian dollar, expects to recover 60 *sen* (\$0.16) per dollar and make a profit.¹² The Corporate Debt Restructuring Committee also expects to resolve another 28 billion ringgit (\$7.37 billion) in bad debts owed by public companies, through bank-creditor meetings. By May 2002, the Malaysian stock market gained 36% in value after an infusion of two billion ringgit (\$0.53 billion) of foreign funds. Greater corporate transparency has been introduced, with publicly listed companies required to submit quarterly reports with balance sheets and profit-and-loss statements. Most of the capital controls have been removed, although the ringgit may not be traded abroad, and remains pegged at 3.80 to one U.S. dollar.

In terms of macroeconomic data, unemployment stands at 3.5% and inflation is stable at below 2%. Real Gross Domestic Product (GDP) growth for the year is estimated at 4.3%, higher than the original official forecast of 3% to 4%.¹³ By August, state foreign exchange reserves exceeded US\$34 billion, more than five times the value of short-term debt. The trade balance for the year is expected to reach \$16.4 billion, compared to \$14 billion for last year. Interest rates are relatively low at 2.9% to 3.9% for three-month borrowings, and there has been a marked surge in consumer expenditure, especially for cars and houses. The eventual budget deficit for the financial year

11. Leslie Lau, "Chinese Group Slammed for Raising School-Closure Fears," *ibid.*, August 9, 2002, p. A7.

12. S. Jayasankaran, "Malaysia Turns Around," *FEER*, 165:20 (May 20, 2002), pp. 40-41.

13. "Asian Economic Outlook: Malaysia," *ibid.*, 165:34 (August 29, 2002), pp. 44-45.

is expected to be 5% of GDP. In view of these positive indicators, in early August the international rating agency Fitch upgraded Malaysia's foreign currency rating from BBB to BBB+.

The 2003 budget that was announced in parliament in September is meant to stimulate domestic business and industries.¹⁴ The total allocation of 109.9 billion ringgit (\$28.92 billion) is a 9.2% expansion over last year. There are significant tax reductions for small and medium enterprises and increased tax exemptions for companies penetrating new markets or increasing exports in light of shrinking foreign direct investment. There is also a 400 million ringgit (\$105.26 million) Special Tourism Fund, and an additional 200 million ringgit (\$52.63 million) Tourist Infrastructure Fund. Special funds have also been created for rural infrastructure, industrial, and service development. Additional allocations have been made to meet the needs of the poor.

Infrastructure development, especially in the southern state of Johor, has been given priority. The Port of Tanjung Pelepas (PTP), which has already snared Maersk Sealand and the Taiwanese-flagged carrier Evergreen Marine, is expanding rapidly. Syed Mokhtar al Bukhary, a businessman with strong UMNO connections, is fast emerging as the leader in the infrastructural development of Johor.¹⁵ Malaysia also has ambitious plans to become a regional air cargo and tourist hub, competing with the likes of Singapore and Bangkok. Development projects and growth, however, continue to be hampered by UMNO's involvement in business, and the extensive patronage network that fuels the BN machine. Ongoing police investigations of Technology Resource Industries (TRI) is a case in point.¹⁶ Finally, Malaysia has announced a series of weapons procurements ranging from battle tanks, anti-aircraft missiles, radar systems, mobile military bridges, and multiple rocket launchers to fighter aircraft and submarines to give the country an offensive platform and capability.¹⁷

14. Mustapha Kamil and Ahmad Fadzil Ghazali, "Going Big on Own Steam to Sustain Growth," *New Straits Times* (Malaysia), September 2, 2002, p. 1.

15. Brendan Pereira, "Mr Infrastructure Is at It Again," *Straits Times* (Singapore), May 31, 2002, p. A12.

16. In September 2002, it was reported that TRI, a major Malaysian publicly listed company, was being investigated for issuing 259 million Malaysian ringgit (US\$66.16 million) worth of fake invoices. Additionally, the police were investigating financial discrepancies totaling 1 billion ringgit (\$0.26 billion) involving *MASKargo* (Malaysian Airlines System Cargo) operations at the Hahn Airport in Germany. Both cases involve high-profile Malay businessman Tan Sri Tajuddin Ramli. See Malcolm Rozario and Gerald Raja, "Police Start Probe into T.R.I.," *Malay Mail*, September 16, 2002, p. 1.

17. Leslie Lau, "KL's Military-Upgrade Bill Hits \$1 Billion with Latest Buys," *Straits Times* (Singapore), April 12, 2002, p. 6.

Foreign Affairs

Malaysia's foreign affairs with most major powers have generally been good. The bilateral relationship with the U.S. improved significantly as a result of the Malaysian government's firm action against terrorists. George W. Bush, who issued a press statement when Mahathir visited the White House, called Mahathir someone the Americans can talk to and have good relations with.¹⁸ It is in recognition of Malaysian efforts against terrorism that Malaysia was approached by the U.S. to set up a counter-terrorism training center. The relationship, however, was not without hiccups. Mahathir was clearly irked when the U.S. listed Malaysia as one of 15 "terror-risk" countries, and also when he and Deputy Prime Minister Badawi were treated poorly by U.S. immigration authorities in Los Angeles. Notwithstanding such minor problems, Malaysia responded swiftly to the U.S. request to detain and deport a suspected terrorist studying at the International Islamic University.¹⁹

Relations with other major powers were also cordial. Chinese Vice-Premier Hu Jintao paid a visit to Malaysia in April, and Malaysia continued to purchase weapons from Russia. Closer to home, however, a series of problems erupted with the forced repatriation of large numbers of illegal workers to Indonesia and the Philippines after a government amnesty expired in August. Two riots in February involving Indonesian workers sparked that action. The Philippines complained about poor conditions in Malaysian refugee camps and charged mistreatment of its nationals. Under the new law, illegals and those who harbor them can be fined up to 10,000 ringgit (\$2,630), face a mandatory jail term of six months, and may also be lashed with a cane. More recently, however, Malaysia has offered to fast-track the recruitment of some 370,000 construction workers, mostly from Indonesia. Bilateral spats with Singapore also continued, especially over the price of water, which Malaysia is anxious to renegotiate.²⁰ There were a number of other outstanding bilateral issues, including the relocation of Malaysian Customs, Immigration and Quarantine (CIQ) facilities out of Singapore. An apparent deal reached on all issues in September 2001 has obviously come undone. Malaysia profited from a Mahathir-led trade and official delegation to Burma (Myanmar) on the heels of Malaysia's U.N. special envoy Razali Ismail, who had some success in dealing with the military junta.

18. White House press release, May 14, 2002, <<http://www.whitehouse.gov/news/releases/2002/05/20020514-8>>, accessed July 13, 2002.

19. "Terror Suspect Deported to US," *New Straits Times* (Malaysia), October 11, 2002, p. 1.

20. Carol Murugiah, "Legal Action against Singapore if Water Issue Unresolved," *ibid.*, October 17, 2002, p. 1.

Conclusion

In 2002, Malaysia's incumbent government, led by UMNO, strengthened itself significantly. This development is partly owing to the government's ability to capitalize on the war against terrorism to discredit PAS. It is equally owing to weakness within the political opposition. Mahathir's shock announcement in June that he would retire in October 2003 is likely to see the subsequent installation of Abdullah Badawi as the country's fifth prime minister. There is a good possibility that the leadership transition will be accompanied by a general election. Badawi is likely to lead a more consensual and tolerant government. Malaysia's economy is likely to continue performing well, while bilateral relations with regional states may experience continued problems.

As the year drew to a close, there were a number of significant developments in domestic politics and foreign affairs. The crackdown against terrorism continued, and in November, it was reported that the Malaysian police had detained three men in the southern state of Johor who were part of a suicide bombing squad that had targeted Western embassies in December 2001. The plot had already been foiled. In a separate development, Malaysia has proposed introducing compulsory national service for all 18 year olds for a period of six months from 2004. It is expected that some 400,000 men and women will undergo basic training at any one time. Defence Minister Najib Tun Razak described the program as an attempt to "increase flagging patriotism amongst young Malaysians, emphasize racial harmony and mould individuals into better human beings."²¹

In foreign affairs, Prime Minister Mahathir was visibly upset over Australian Prime Minister John Howard's remark that Australia was prepared to launch pre-emptive strikes against terrorists on foreign soil. Mahathir responded by noting that such strikes would be considered an act of aggression and draw an appropriate response. He then went on to accuse Australia of treating its neighbors like aborigines.²² Finally in December, Malaysia and Thailand hosted joint parliamentary cabinet meetings on both sides of the border, reaffirming bilateral relations. There was also an agreement to jointly construct a 352-kilometer gas pipeline project, despite protests against it in Thailand.

21. "National Service Marked for Malaysian Youth," <<http://asia.cnn.com/2002/WORLD/asiapcf/southeast/11/12/Malaysia.service/>>, accessed on January 6, 2003.

22. "Malaysia Warns Australia over First Strike Threats," <http://abc.net.au/ra/newstories/RANewsStories_740075.htm>, accessed on January 7, 2003.