MALAYSIA IN 2004
Abdullah Badawi Defines his Leadership

Politics and National Issues

2004 was very much Abdullah Ahmad Badawi’s year. In defining his leadership, he experienced the whole gamut from the triumph of being the reason for one of the most sweeping election wins in history for the ruling coalition … to heeding the rumblings that had him say publicly at the end of the year that his honeymoon was over.

Abdullah quickly forged his own course for the nation, but kept some fundamental dynamics in consonance with his predecessor, the man who steered Malaysia for 22 years. One fundamental he shared with Mahathir Mohamed was a deep sense that it was the government, but more specifically the leader and “the role of leadership”, which made the difference in the success or failure of a nation. Abdullah said, “Why is it that some Islamic countries are poor and weak? Why is it that some [Islamic] countries are not poor and weak? There is a difference, and the difference is in terms of the government, the role played by the government and the role of the leadership.

Such a sense of leadership — whether Abdullah’s or Mahathir’s — is a heavy mantle to assume. It is even more burdensome when the medium and the messenger change. Mahathir’s style of leadership was about deciding, demanding, and if necessary, deriding. However, Abdullah is courteous and consensual, not wont to showing — and thus giving notice — that he wants his way. But Abdullah Badawi knew the enormous task he faced as a leader, because of his huge mandate from the people. Amidst celebrations over their electoral victory in March, he constantly reminded his political party that much was now expected of them.

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With that overwhelming electoral mandate from Malaysians came expectations which he seemed to have not fulfilled sufficiently by the end of just one year. Abdullah has undertaken the enormity of reforming governance and politics, but at the helm of the same crew who are used to a far stronger style of leadership and the ensuing conformity it demanded.

**The 11th General Elections**

After assuming the office of prime minister in October 2003, much of Abdullah’s focus was on the 11th general elections that were described as a test of his acceptance by Malaysians and specifically his party’s constituency of ethnic Malays. This was a widespread perception because even in his own party, he ascended by appointment instead of being voted into leadership. Abdullah’s premiership was less than five months old when he dissolved parliament and called for a general election. Therefore the elections were too early to be interpreted as a referendum on his government. Instead, as the huge voter turnout indicated, the 11th general election was about a postcolonial electorate who felt empowered by the right to vote and who turned out in large numbers to do so. The positive and upbeat outlook of such an electorate resonated with the constructive optimism of the Abdullah campaign which offered Malaysians the slogan “Excellence, Glory and Distinction”.

But most of all, the election results were about hope — the hopes of an electorate with a feudal focus on personalities, and who were ready for a change of leadership even though they gave Mahathir a fond farewell. The vote for the Barisan Nasional (BN, the coalition of 14 multi-ethnic parties that is led by the United Malays National Organization or UMNO, Abdullah’s party) was also the particularly developing-nation penchant of staying with the security of a government that delivers a better life, which is measured largely in material terms.

In the 1999 general elections, held in the aftermath of the sacking of deputy prime minister Anwar Ibrahim and various financial scandals and bail-outs, voters handed a rebuke to the Barisan Nasional by giving 41 parliamentary seats and a whole state to the opposition. The BN lost the northern state of Terengganu to the Islamic opposition party, Parti Islam SeMalaysia (PAS), which also won 26 parliamentary and 98 state seats. The Democratic Action Party (DAP) won 10 parliamentary and 11 state seats throughout the country. Parti Keadilan Rakyat (the National Justice Party led by Anwar Ibrahim’s wife and which is now known as Parti Keadilan Rakyat or PKR after its merger with Parti Rakyat) won 5 parliamentary and 5 state seats in its first outing.
In a reversal of fortunes in 2004, the opposition only won a total of 20 parliamentary seats. The BN swept 199 parliamentary and 453 state seats, PAS was reduced to just 6 parliamentary seats with virtually its entire leadership including president Hadi Awang losing their seats. The DAP increased its share to 12 seats so it took over the leadership of the opposition in parliament, and PKR lost all but one of its seats. The BN wrested back Terengganu from PAS, and almost won the state of Kelantan, taking 21 out of 45 state seats. The BN now has 90.8 per cent of the seats in parliament and 62.37 per cent of the popular vote.2

In the BN’s favour was the shortest campaign period in the electoral history of Malaysia, the ruling coalitions’ control of all the main media, a re-delineation of electoral boundaries, and the serious shortcomings of an Elections Commission that some deem not sufficiently independent. In addition, Abdullah insisted on a clean campaign, which worked in his favour beyond the approval of his sense of fair-play. When the opposition received more media coverage than normal, the mainstream media was perceived as more objective than usual during an election period. This resulted in more credibility for the media’s blitz, and ultimately, for the ruling coalition.3

The Abdullah team’s strategy for the elections gives interesting insights into the way Malaysians are evolving. The strategy was based on a good sense of who the electorate said they were, rather than the usual paternal paradigm of political leaders only offering what they thought was best for the electorate.

Some aspects of the strategy were obvious: even the online polls of PAS conceded that Abdullah’s persona after Mahathir’s abrasiveness was a winning factor. The leading Malay language newspaper, Utusan Malaysia conducted a readership poll, eliciting 6,919 responses of which 51.5 per cent thought the new Prime Minister was a good reason for voting in the BN, and 25 per cent indicating that the opposition had no issues since Abdullah’s five months in office.4

But Abdullah’s team also commissioned surveys and polls which showed that Malaysians are young — 76 per cent were under 40 years old. Respondents selected “the economy” as the most important national issue, with religion only coming in sixth after transition of power, education, social problems, domestic political stability and national security and peace (in that order). Over 60 per cent of respondents agreed with the statement that political parties that champion the interests of specific races are no longer relevant, an evolution which politics still does not reflect. However, from the inception of his premiership, Abdullah’s inclusive style and frequent statements that he was “the leader of all Malaysians” showed he was far more in tune with his people.5 His statement for National Day in August was not just visionary but bold, given the discourse of Malay privilege. He wrote, “Let all...
citizens of Malaysia, without feeling inferior, without feeling sidelined, irrespective of race or religion, rise to become statesmen in our own land. We are equal, we are all Malaysians. No individual in this country is more Malaysian than another.”

These and other similar sentiments expressed throughout the year were deemed indicative of a different mode of politics in Malaysia, and a new phase of the nation’s growth.

Thus, Abdullah seemed to have found a resonance with the way ordinary Malaysians have evolved. This resonance included Abdullah abandoning the overwhelming and often uncivil one-upmanship between UMNO and PAS over who deserved the credentials of being more Islamic. Nevertheless, he too used the Islamic medium and metaphor. As he has described it, Islam continues to have a strategic utility. He said “… for Malays, Islamic teachings hold strength. For the Malays, if the religion says that this is a good way, they will do it. Islam becomes an imperative, an inspiration, a call that the Malays will readily accept…” and like Mahathir, Abdullah too is banking a great deal on this conformity to push through his radical reforms.

In addition, the resounding mandate at the 11th general elections was because Abdullah promised and initiated a slew of reforms that co-opted the reformasi agenda of the opposition, and which Malaysians felt set the nation back on track.

Among the initiatives Abdullah delineated were: combating corruption, ensuring a better public delivery system, reforming the police force, improving the quality of education, prudent fiscal policies, re-emphasizing the rule of law, transparency and disciplining corporate governance, and making agriculture a major component of his new economic thrust so as to alleviate poverty.

Abdullah had articulated clearly where he would take Malaysia, and asked the people for a mandate. Malaysians then voted for hope in a better future, expressing their expectation that the new prime minister would deliver.

Other Key Political Developments

Key political developments included the release of Anwar Ibrahim from prison, and the UMNO General Assembly.

In September, the UMNO general assembly confirmed Abdullah unopposed as the president, and Najib Tun Razak — whom he had finally appointed in January — as deputy. The top leadership of the women’s wing, Wanita UMNO, and the UMNO Youth wing were also confirmed unopposed. This included the meteoric ascendance of Khairy Jamaluddin, the prime minister’s son-in-law, to the no. 2 position in the Youth wing. All this lack of contest belied the intense politicking for the seats below the top few. This politicking included the bane that UMNO speaks a great deal about
— “money politics” or the use of gifts in cash and kind, despite Abdullah’s exhortations to stop as well as a few public inquiries and suspensions by the UMNO disciplinary committee.

As great an impact on the UMNO proceedings was the spectre of Anwar Ibrahim who was denounced early in the Assembly, mostly by those who fear for their political future if he returns to UMNO. This culminated in Abdullah declaring that Anwar would not be allowed back. The other issue was the prime minister’s oft-stated objective of taking Malays to the next phase of the affirmative action programme (or NEP, the New Economic Policy as it is still referred to by the public although it has evolved under a variety of names including NDP or New Development Policy). The NEP was instituted after the race riots of May 1969. Like Mahathir before him, Abdullah had been giving notice that the government could no longer afford to subsidize the programme after over 30 years of doing so. With the establishment of a solid well-educated Malay middle class as one successful outcome of the NEP, Abdullah’s focus was trained on establishing the principle of meritocracy in education and competing instead of quotas and preferences in business so as to enable Malays to excel and succeed. This was a pragmatic move, given that the entire country has to hone its skills in competing internationally because of a domestic market of just 23 million people. Some Malays — both prominent personalities but also the younger generation — were comfortable with this next phase, or at least accept its logic. However, the ensuing insecurity by some who are used to over 30 years of shelter became an issue that was exploited by elements in UMNO, including the Malay press. The media seemed to bait Abdullah over “the Malay agenda” — conflating Malay ethnic dominance with the government’s affirmative action responsibilities, describing this agenda for “the future of the race” and that the success of the NEP had peaked in 1990 and Malay gains had been eroding since then. Nonetheless, the disparity between the Malays and non-Malays continues and needs to be addressed. For example, in terms of corporate share ownership (an important vehicle for Malay participation in the economy), the Malay proportion had increased from 2.0 per cent to 19.3 per cent from 1970–90, but went down to 18.7 per cent in 2002. However, this focus on inter-ethnic issues did not reflect the other real issues including the intra-ethnic class schism among the Malays: growing disparities between rural and urban Malays, and not just the Malays and non-Malays, continues, despite all the government’s efforts.

Apart from Anwar, money politics and NEP insecurities, the UMNO general assembly also had to deal with a leader who wanted to exemplify the clean and fair campaign he exhorted and who refused to endorse or legitimate his preferred candidates (unlike his strong predecessor). The persons who emerged as the three vice-presidents of UMNO and the twenty-five members of the Supreme Council were a hodge-podge
of politicians. These included some who had had their heyday in the earlier period of the Mahathir administration, such as former Malacca chief minister Rahim Thamby Chik, and some who had been perceived as on the wane, such as Mohamed Isa, the former chief minister of Negeri Sembilan. Some candidates reputed to be closer to Abdullah and his preference for a high-integrity image either lost their seats or barely squeaked in. Finally, in the debate over Abdullah’s policy speech, the newly elected deputy speaker Badaruddin Amiruldin — whether for political mileage or as a reflection of sentiments on the ground — issued a tirade threatening that “questioning” Malay rights and Islam was tantamount to stirring a hornet’s nest. He referred to non-Malay citizens as people whom the Malays had allowed to *menumpang* (temporarily reside) in their land, and is reported to have received thunderous applause. The response was silence from Abdullah and the UMNO leadership. This silence seemed to extend till the end of the year, with Abdullah significantly muted about enhancing racial and religious interaction and his leadership of “all Malaysians”.

PAS’ leader Hadi Awang also seemed muted, beleaguered after their election debacle. The PAS annual convention or *muktamar* reaffirmed his leadership uncontested. It installed the charismatic preacher Haron Din as the deputy *Mursyidul Am* (Spiritual Leader) and his meteoric ascendance may have Haron Din in line for even the no. 2 position in the 2005 *muktamar*. Otherwise, the *muktamar* gave notice of the growing tension between the *ulama* (loosely defined as clergy) and the younger generation of PAS members. It is less of a schism between the *ulama* and professionals, or the secular and theocratic, as younger *ulama* are part of those who want to see reform in PAS. The reform that is described euphemistically as “a change in strategy” is largely about the next generation of leaders creating their momentum and support base, as much as it is to enable PAS to reinvent itself for the next elections.

Anwar Ibrahim hovered over the political scenario after his release from prison in September, when the courts would not uphold the sodomy conviction. He was operated on in Germany and the PAS leadership’s visit to his hospital bed gave rise to the Malaysian rumour mill’s incredible but short-lived belief that he had been offered the leadership of PAS. Back home in Malaysia, Anwar positioned himself as low key and uncontroversial, not provoking the mass demonstrations that rocked the country in 1998 but which Malaysians would have less sympathies with under Abdullah. He was conciliatory, or at least making statements about thanking Abdullah for his release and saying that he forgave Mahathir. Anwar travelled a great deal all over the world and reinvigorated his image abroad as a potential leader of the nation. KeADILAN, meanwhile, continued to maintain the perception that it was floundering as it cast around for a clear sense of who its constituency was.
The bitter two-year leadership clash of Sarawak’s main Dayak party, Parti Banca Dayak Sarawak or PBDS resulted in its deregistration in October for a second and final time. James Masing moved onto the newly-registered Parti Rakyat Sarawak (PRS), which immediately registered to join the BN coalition at state level.

**Other Key Issues**

There was the usual slew of issues that crop up with regularity and that are invariably analysed or championed in terms of the constant negotiation for power and space in a nation defined and divided by ethnic (and religious) difference. These included the National Service (NS) programme that targets enabling better racial integration, mobilizing over 85,000 youth in 2004 and which is indicative of the government’s serious concern about diminishing ethnic integration. The new cabinet also came up with a compulsory course in ethnic studies that will be offered in all Malaysian universities as one antidote to widespread perceptions of ethnic polarization, to join other compulsory courses such as Islam and Asian Civilizations. These top down, heavy-handed approaches came in for considerable critique from all segments of society, including the political opposition that describes the NS as brainwashing for BN legitimacy. In addition, among the issues that cropped up in 2004 was the uproar over top students — mostly non-Malays — whose multiples of A grades did not get them university places in their first choice of fields of study, which are invariably medicine and engineering.

In an interesting development, Malaysia’s sultans (the nine traditional Malay rulers who are part of the constitutional monarchy that defines the nation) took a higher profile in 2004. This was as much about whether they were bestowing too many awards and their much-coveted honorary titles, as it was about redefining their relevance in the balance of power that configures the nation: the executive, the legislative, the judiciary, and in what is unique to Malaysia, the sultans. Despite diminished power after two constitutional crises in the past twenty years, the rulers still have power — for example, legislation over Islam can only be enacted at the level of individual states, as the sultans are the heads of Islam in each state. In July, the Sultan of Perak and former Lord President of the Judiciary in the 1980s, spoke out about returning independence to the judiciary. His son Raja Nazrin Shah, who is the Crown Prince of Perak, gave a number of high-profile interviews and lectures describing why the sultans are relevant, in the context of new generations of Malaysians who perceive them as anachronism.

Islam continued to be prominent, but with a less strident tenor. There was a great deal about *Islam Hadhari* or Progressive Islam, which is Abdullah’s bold
attempt to offer Malaysian Muslims an articulation of principles from Islam as a model to follow. UMNO’s past practice was simply criticizing the PAS model but not offering an alternative to Malaysian Muslims. The 10 principles of Islam Hadhari include a principle protecting the rights of minority groups and women and another on safeguarding the environment, both of which are in tandem with Abdullah’s more inclusive vision of Islam. On a less positive note, the lacunae and overlaps between Islamic law or the Shari’a and the common-law system enshrined in the constitution became even more evident in high-profile cases before the courts. Also to be decided by the courts of law was the issue of whether Muslims had full rights under Article 11 of the Malaysian Constitution that guarantees freedom of religion. However, convictions under Shari’a law that criminalize apostasy were upheld.

The issue of the conversion of two children who were minors, without the knowledge of the non-Muslim parent who had been given custody of the children upon her divorce from their father, received considerable publicity. This was reflective of growing non-Muslim concern about the way Islam impacts on them. The common law courts ultimately decided that Shamala Sathiayaseelan would retain custody of the children but that she was responsible for raising them as Muslims, rather than decide on the legality of the conversions. In another case that is representative of many similar cases which are outstanding in the courts of law, was the petition of Azalina Jelani or Lina Joy who had renounced Islam many years earlier. She wanted the National Registration Department, which issues Malaysians the mandatory identity card, to drop the word “Islam” from hers. The case will be decided on in 2005.

The issue of illegal migrant workers also received a great deal of publicity, including confusion about precisely when the announced amnesty for illegal immigrants to return home would end, which precipitated significant numbers thinking that the government was not serious. Estimates were provided of over 800,000 migrant workers without valid documentation, but by the year’s end, Abdullah conceded yet again to Indonesia’s request for another delay in ending the amnesty. At issue was not just security, health, crime and the need to regulate and legalize who is in the country and on what terms. What is at stake is also the enormous economic impact for both Malaysia and Indonesia of shifting a labour force from a country which depends on it to a nation which depends on the income they repatriate.

The Economy

In tandem with some of the fastest-paced growth of the world economy in 30 years, 2004 was a good year for the Malaysian economy. The positive year would strengthen the new administration’s resolve to continue with its focus on prudence and fiscal
consolidation, reforming business practices, public service delivery, and addressing the cronyism of political patronage, all of which will be imperatives for years to come and which Abdullah has acknowledged from the start. The new administration’s focus on raising the quality of life for Malaysians and especially on alleviating poverty through a variety of measures, was also clearly established during 2004.

Malaysia’s gross domestic product (GDP) grew by 7.1 per cent in 2004, the fastest pace since 2000. In consonance with the Abdullah administration’s intent and the measures subsequently instituted, this growth was propelled by the private sector which contributed 6.2 percentage points to overall economic expansion. This is a healthy development: that growth was based not so much on public expenditure but on the back of strong export performance and robust consumer spending. Despite a considerable slowdown to 5.6 per cent growth in the fourth quarter, the final figures for 2004 were buoyed by strong growth in the first two quarters of the year, including first quarter growth of 7.6 per cent, amongst the highest in the region. Private consumption increased significantly, supported by higher disposable incomes, a rebound in consumer confidence following the Severe Acute Respiratory Syndrome (SARS) outbreak, various tax rebates and low interest rates. Private investment also accelerated during 2004, and all sectors except for construction registered positive growth.

Rescinding contracts for mega-projects such as the cancellation of the railway double-tracking project in 2003 gave the government more fiscal leeway and also sent the signal that cronyism had been put on notice — because a significant percentage of registered contractors are linked or claim links to UMNO. However, with the construction industry in severe doldrums, by July the government relented somewhat and decided to implement RM8.5 billion (US$2.24 billion, the Malaysian ringgit fixed peg at US$1=RM3.8) worth of construction, housing and infrastructure projects and the building of schools. In terms of the administration’s stated objectives of raising the quality of life and alleviating poverty, priority was given to developing and upgrading infrastructure, low and medium cost-housing, and flood mitigation.

In the manufacturing sector, both export and domestic-oriented industries expanded strongly due to the upturn in global electronics as well as stronger domestic demand. The services sector experienced strong expansion to contribute 57.4 per cent of the GDP in 2004, driven mainly by higher consumer spending amidst rising disposable incomes, increased trade-related activities as well as higher tourist arrivals. Out of a total of 15.7 million tourists, there was an all-time record of tourists from Singapore who spent the highest amount ever — over 9 million visits from Singapore residents brought more than RM17.5 billion (US$4.61 billion) in foreign exchange. Malaysia experienced a 50 per cent plus jump in tourist arrivals
compared with 2003. This increase was also attributed to growing numbers of Arabs who no longer go to Europe and the United States. The SARS scare seemed to be over although the tsunami at the year’s end had a significant effect on both foreign and domestic tourism during one of the peak tourist seasons.

The sustained strong expansion of the agriculture sector to 8.5 per cent of GDP in 2004 was driven by higher production of crude palm oil and rubber as well as food-related crops, and good prices for agricultural products. Focus on the agricultural sector was not only because it is a priority with the new administration due to persistent rural poverty, and the fact that the rural population are mostly Malays who are UMNO’s main constituency. The new focus on agriculture is also because of deindustrialization, with factories choosing to relocate elsewhere, especially China. Finally, the emphasis on the agricultural sector was also because of Malaysia’s food import bill, which was almost RM20 billion (US$5.3 billion) in 2004, up from RM11.4 billion in 2000, the cumulative result of the single-minded focus on manufacturing as the vehicle for import-substitution from the mid-1970s.

Net international reserves registered an increase of RM83.1 billion or US$21.9 billion to RM253.5 or US$66.7 billion by the end of 2004. This indicated stronger export performance as well as substantial inflows of foreign direct investment (FDI). Notably, the increase in reserves occurred amidst higher outflows during the year. There was a record net inflow of RM15.4 billion compared to RM12.1 billion in 2003, and this was attributed by the central bank to higher FDI inflows and portfolio funds. However, when foreign reserves rose by 19 per cent or RM40.7 billion (US$10.7 billion) in the fourth quarter of 2004 alone, it became obvious that it was because from November onwards there was considerable interest expressed publicly in having the government review the ringgit peg. High-profile institutions and individuals weighed in, led by no less than former prime minister Mahathir who had instituted the peg but who now called for the review “because the weak U.S. dollar has caused us to lose a lot”. However, the government remained adamant that the peg would stay.

Among the most decisive measures taken by the new administration in 2004 was when Abdullah Badawi addressed the remaking of “Malaysia Inc.” or the previous administration’s policy of a close partnership between the government and business (that ultimately became too cosy). He shifted focus from partnership to achievement and performance on the part of the private sector, and enhanced public service delivery on the part of the government. His advisors trained their sights on GLCs or government-linked companies, which account for a substantial component of the Malaysian economy. Since GLCs constitute over 30 per cent of the total market capitalization of the Malaysian stock exchange, or over RM200 billion
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(US$52.6 billion) or more than half of the nation’s GDP, Abdullah and his advisors were cognizant that any improvement after years of dismal performance would bring massive benefits to the nation. In a hard-hitting speech to GLCs gathered at the Ministry of Finance in May, Abdullah disclosed that GLCs fell short in numerous ways, including that “the total return to shareholders [which would be largely the government and its political parties] of public-listed GLCs’ actually trails behind overall market performance by 21 per cent over the last five years”. He asked that “we move away from the culture of the iron rice-bowl and of promotion by seniority, towards a culture which recognizes and promotes performance”. He reiterated the scheme of key performance indices or KPIs and specified the 13 identified. He also announced the expansion beyond the original two GLCs (Malaysian Airline Systems or MAS and Malaysia Airports which is running the KLIA) in the pilot for KPIs that started in 2003.

Instituting measures that were needed some years ago, Abdullah also announced that government regulators could no longer be directors of GLCs, that senior management would be employed on a contract basis, and that the government would restructure and reduce the board of one of the government’s premier investment vehicles, Khazanah. He also announced the setting up of a high-level corporate governance committee headed by the chairman of the Securities Commission, with the director of the Commercial Crimes Division of the Police among its members and that the committee would submit regular reports to the prime minister. This corporate governance committee would complement the corporate law reform committee that had also been recently established. The DRB-Hicom fiasco over ownership which played out very publicly in October, with the prime minister’s name and “government approval” inevitably claimed and counter-claimed, was just one reminder about the problematic condition of the GLCs.

The banking sector continued to be consolidated under the guidance of the central bank or Bank Negara Malaysia. Of particular interest was Malaysia positioning itself as an international Islamic financial centre, with the central bank fast-tracking the liberalization of the Islamic banking sector. The total capital base of Islamic banks rose to RM7.8 billion (US$2 billion) in 2004, and the central bank announced its pursuit of the development of an Islamic reference rate as a benchmark for the pricing of Islamic banking products. In further liberalizing this banking sector, foreigners are now allowed to acquire up to a 49 per cent stake in Islamic bank subsidiaries of local banking groups.

Yet another mark of a good year was that the benchmark Kuala Lumpur Composite Index rose 2.5 per cent, making it the world’s 10th best-performing primary index. Institutional investors began streaming back into the bourse with
the Kuala Lumpur Stock Exchange breaching the 900 index barrier in November, the highest level in four and a half years. Of the 18 sovereigns rated by Standard & Poor’s (S&P) in the region, Malaysia’s were among the 5 upgraded in 2003. In May 2004, S&P affirmed Malaysia’s foreign currency rating of A–/A–2 and local currency rating of A+/A–1. Such solid sovereign rating means both the Malaysian government and its private sector can borrow from foreign banks, especially European banks in London, at relatively low interest rates.

Among measures announced during 2004 was that the current sales and service tax would be replaced with a single consumption tax generally known as the Goods and Services Tax (GST), effective 1 January 2007, in line with many other ASEAN countries. Then smuggling was targeted because of the huge loss of about 30 per cent of income from cigarette duties. Security inking and tax stamps on cigarettes as well as a customs crackdown which began in June, yielded a significant drop in smuggling and higher duty collection of RM800 million (US$210.5) for just the period from June to September, compared with RM600 (US$157.9) million collected for the first three months of the year. However, industry sources say that there is still much more to be done.

As indicated earlier, the nation’s strong dependence on migrant labour continued to be cause for concern. The four year old government programme to entice home skilled Malaysian citizens who choose to work and live abroad was largely ineffective. Since 2001, there have been only 665 applications, of which a mere 279 were accepted, indicating perhaps too-stringent requirements or what some attribute to a bureaucratic apathy about actually bringing home ethnic minority citizens.

Abdullah Badawi’s early focus on fiscal consolidation as soon as he assumed power — not just deferring mega-projects but shifting direction to consolidation and prudence after the Mahathir administrations’ big-spending focus — was apparent in Malaysia’s share of external debt to GNP improving to 46.6 per cent from 50.2 per cent in 2003. The debt service ratio improved to 4.3 per cent in 2004 (6.2 per cent in 2003). After eight straight years of growing deficits, the decline of the Federal Government’s deficit to 4.3 per cent of the GDP from 5.3 per cent in 2003 reflected prudent measures demanded of the administration and its related institutions.

The message was mostly heeded. For example, the Employees Provident Fund (EPF) whose declining dividends have been a sore point with citizens, declared a 4.75 per cent dividend for 2004. However, this fell far short from former highs of up to 8.5 per cent. This and the EPF’s statement of accounts listing deductions for “unrealized losses” came in for criticism and were indicative of the general sense that while consolidation and prudent management of the nation’s economy, resources and finances were happening, there was still much to be done. Also adding to the
urgency of the reform agenda was Malaysia’s descent from 37th to 39th place in Transparency International’s Corruption Perceptions Index.

Although the poverty rate was reduced to 5 per cent compared with 49.3 per cent in 1970 (but there is controversy about what constitutes the threshold poverty line income), Malaysia was given the dubious distinction of being the country with the worst income disparity in Southeast Asia. According to the United Nations Human Development Report for 2004, the richest 10 per cent in Malaysia control 38.4 per cent of the country’s economic income as compared to the poorest 10 per cent controlling 1.7 per cent. Malaysia’s top 10 per cent of the population is 22.1 per cent times richer than the poorest 10 per cent, an income gap higher than those of Singapore (17.7), the Philippines (16.5), Thailand (13.4), Vietnam (8.4) and Indonesia (7.8).

Abdullah’s economic performance has been credible, and this has been important in configuring his leadership after his first full year in office.

Projections for Malaysia in 2005 are more modest. Nevertheless, GDP growth of 5–6 per cent would still make it the fastest growing economy in Asia behind China and India. It will be driven again by the private sector despite uncertainties arising from slowing global expansion, the U.S. economy heading towards a possible crisis, rising oil prices and external interest rates and a worldwide downturn in the world-wide electronics sector. The central bank predicts rising inflation although it will remain among the lowest in Asia. Foreign exchange (forex) administration rules are expected to be further liberalized, undoing the host of forex rules introduced in 1998 when the ringgit was pegged to the U.S. dollar during the Asian financial crisis. Although there were small increases to consumers in the price of petrol and diesel, the government may have to review its hefty subsidy of approximately RM9 billion annually to maintain petrol and diesel prices, and which have thus far kept domestic pump prices among the lowest in the region.

Foreign Affairs and Security

In a consistency of style, the defining characteristics that were established in 2004 of the foreign policy of the Abdullah Badawi administration were engagement, quiet diplomacy, constructive solutions (as in bilateral relations with Singapore) and perhaps a few wasted opportunities. This shift from the blunt, critical, sometimes adversarial champion of the Third World — Mahathir Mohamed — remained about style, because the pillars of foreign policy established during the previous administration were rearticulated and reaffirmed. However, Abdullah did not shy away from levelling critique, although it was aimed more at organizations he headed
such as the Non-Aligned Movement or NAM. He referred to NAM as a “debating society” instead of being “an indispensable forum for developing countries”, in an address to a gathering of NAM leaders in October.

Apart from the routine requisite visits of a new leader to key countries — twice to the United States and Britain, to most of the nations of the Middle East, Singapore, Indonesia, Thailand, China, Japan, India, Pakistan, France, and Cuba — it was ASEAN, China, and the Muslim world especially the Organization of Islamic Countries (OIC), that continued to be the focus. There were significant Malaysian initiatives, especially in terms of the OIC and ASEAN, and this confidence to move on issues was perhaps the result of Abdullah’s tenure as Malaysia’s Foreign Minister for almost nine years from 1991–99.

Cognizant of the OIC’s reputation as a “talk shop” with a track record of over 3,000 resolutions and not much else in various meetings since the first summit meeting in 1974 (although the OIC was established in 1969), Abdullah set to work galvanizing the OIC during the last segment of Malaysia’s chairmanship of the body. Using the Malaysian experience in successful development, during much of 2004, a programme of capacity-building for Islamic nations that would also involve the Islamic Development Bank was worked on, and will be launched in 2005.

During his visits to the Middle East and at meetings of Muslim nations elsewhere, Abdullah constantly described the Muslim world as being in deep crisis because it is mired in violence. He spoke boldly about the need for reinterpretting text and law to enable Muslims to embrace modernity, exhorted good governance and the alleviation of poverty and illiteracy, and negated the growing insularity of Islamic nations. He said

We must actively seek out and engage the Other, for there is much that we can learn and benefit from them … War must cease to be an option among Muslim nations, and between Muslim nations and others. So must terrorism … the peace and stability we seek cannot be imposed by the barrel of a gun.15

Most remarkable of all for its uniqueness for any Muslim leader, Abdullah spoke powerfully in the Middle East and Pakistan about women, stating that much of the Muslim world is guilty of neglecting “one of our most precious resources: the women in our societies”. He elaborated about how Muslims have failed to provide women adequate access to education and employment, and “failed to accord women the dignity and the equal respect that they fully deserve. In doing so we have only impoverished ourselves and marginalized one full half of Muslim humanity…”16
Abdullah continued Mahathir’s call for the creation of a global Islamic network, urging the potential and power of greater cooperation among Muslim nations because Muslims account for one-fifth of the world’s population, but only have 8.6 per cent of the world’s gross domestic product (GDP) and 10 per cent of its global trade despite the massive natural resources at their command. Specifically, he pointed to halal foods where the market is approximately US$150 billion annually, and Islamic financial services — confirming that Malaysia is pioneering Islamic treasury bills.

To Western nations, in particular the United States, Abdullah gave a consistent message: about addressing “the root causes of terrorism”, with the need to resolve the issue of Palestinian nationhood as a burning issue. He articulated the clearest enunciation since September 2001 of Malaysia’s position/solutions on addressing militancy in the Muslim world: the imperative of multilateralism in addressing problems, the inadequacy of military action alone, the need to battle for the minds of potential perpetrators, that the methods used to hunt down or end terrorism must not lead to the breeding of new recruits and sympathizers, that root causes such as Palestine and poverty be addressed, and that it was an oversimplification to see the solution as only the introduction of democracy and good governance.17

In July Abdullah offered Malaysia as a mediator of conflicts involving Islamic nations. There was a need, he said, for acceptable mediators beyond the Camp David paradigm, in the context of Muslims viewing the West with suspicion. Nevertheless, it is unfortunate that this offer from a moderate, modern Muslim nation that is deeply committed to peaceful resolutions has been largely unnoticed both abroad but also at home, where the idea has evolved into a Centre for Conflict Resolution that is still at the brainstorming stage.

Abdullah fared better in mediating good relations with Singapore, and new Prime Minister Lee Hsien Loong’s own determination to improve relations helped things along. Since 1965 and the acrimonious split between the two nations, 2004 was perhaps one of the most cordial years on record, with both leaders and their top officials agreeing quickly to resolve some outstanding issues. Negotiators agreed on settling a dispute over reclamation works by Singapore in the shared straits; Singapore offered to release Malaysians’ pension contributions in exchange for access to Malaysian airspace; and Abdullah approved the sale of stakes in a local bank and the state-owned telecoms company to Temasek, the Singapore government’s main investment arm. Both nations made statements about the additional possibility of their governments planning joint investments overseas and their stock exchanges trading one another’s shares.
Abdullah also worked on better relations with Australia — describing the nation as “a friend” in the middle of the year with the first visit in over 20 years being planned for 2005. But Malaysia’s absence was conspicuous in December in Indonesia, at an Australian-initiated Asia-Pacific meeting of 124 religious leaders to encourage moderate forms of religiosity. The reason was Australia’s plan to create a maritime surveillance zone around it, although Abdullah’s response was typically non-abrasive. However, that he responded at all to what is essentially a problem for Indonesia, although he only described the potential threat to Indonesia’s sovereignty as an example of Australia’s insensitivity to its neighbours, was indicative of a larger issue. Implicit in this statement was annoyance over Australia choosing to identify ASEAN as a collective security arrangement and the Treaty of Amity and Cooperation in Southeast Asia (TAC) as a non-aggression pact only. This was in comparison to China’s accession to the TAC, which induced Japan and South Korea (both allies of the United States) and India, Russia and South Korea to follow suit, with New Zealand describing itself as “considering the step positively”.

In terms of ASEAN, Malaysia pushed through a number of initiatives, the most important among them the East Asia summit that will be held in Kuala Lumpur in 2005. After 37 years of existence, ASEAN agreed to move beyond the traditional formula of ASEAN summit meetings plus separate meetings with the leaders of China, Japan and Korea. At the ASEAN summit in Vientiane in December, for the first time all the leaders from East Asia as well as those from India, Australia and New Zealand met back to back at both group and individual meetings. The meeting with all present was a first, and the percursor to the East Asia Community (EAC), which if it materializes, will be formidable. However, the agreement to have the East Asian Summit is not without rumbles and their potential for scuttling a cohesive meeting: Japan wants to see the United States, Australia and New Zealand at the meeting, and Indonesia has floated the idea that perhaps they qualify for seats at the table.

In the East Asian Summit remains the hope of an East Asian Economic Grouping (EAEG), first floated by Mahathir in 1990. At the East Asia Forum held in December, seven milestones were demarcated by Abdullah Badawi for the creation of an East Asian Community: holding of the East Asia Summit, drawing up a charter of the East Asia Community, establishing an East Asia Free Trade area, having an agreement on an East Asia zone of amity and cooperation, setting up an East Asia transportation and communications network, and drawing up an East Asia declaration of Human Rights and obligations.

There is impressive empirical evidence that the region is getting more interlinked. Apart from very significant trade, there are more than 500 meetings at senior official
level generated by ASEAN and its counterparts in Northeast Asia each year, with another 200 meetings in the various Track 2 fora. All this points towards one of the main reasons for pushing for greater cooperation with China beyond the obvious reason of economic benefits: it has to do with ASEAN wanting to engage and induct its neighbouring giant into the ASEAN way of resolving conflicts through diplomatic solutions and thus contain future problems. It is the ASEAN priority of not just prosperity but also stability and the pragmatism of enjoining both.

In another initiative by Malaysia, in November Malaysian parliamentarians, in a non-partisan caucus, brought together legislators from neighbouring ASEAN countries and issued a strong statement calling for the release of Nobel Peace Laureate and opposition leader Aung San Suu Kyi. Over the past few years there has been mounting impatience with ASEAN’s rigid adherence to the convention of non-interference which has made it difficult for neighbouring countries to propose measures or even help to resolve, for example, the burgeoning conflict in southern Thailand. A regional parliamentary caucus of the kind that is crystallizing around the Myanmar issue could help regional governments overcome their resistance to dialogue and cooperation on sensitive domestic issues. First of all, because it moves this kind of dialogue and action out of the realm of officialdom, and more importantly, because it is some of ASEAN’s august parliamentarians, not activists, who are quite happily airing their problems and making proposals to each other. The level of resonance with the Malaysian leadership was apparent when in November, foreign minister Syed Hamid Albar is reported to have said “there is no such thing as absolute non-interference” when asked about the violence in southern Thailand.18

Malaysia’s relations with Thailand were already sliding downwards when in July the Thai prime minister Thaksin Shinawatra, told the media that Malaysia was not really cooperating over the arrests of leaders blamed for separatist violence. Nor did the situation improve later when Malaysia asked for its deputy prime minister and foreign minister to visit Thailand over the Tak Bai incident and the Thai response was a postponement “to avoid misinterpretation by certain quarters”.19 Nevertheless pragmatism won the day, and in August, Thailand and Malaysia agreed to promote cross-border transport links, trade, investment and other initiatives to foster economic progress in the southern provinces of Thailand.

In what was intended to be transparency exemplified, the Malaysian media featured an accusation by an UMNO politician that PERKIM or the Malaysian Islamic Welfare Organization had contributed significant funding to the outlawed Pattani United Liberation Organization or PULO.20 The accusation was later clarified as unfounded, in what was generally deemed a less-than satisfactory manner by the foreign minister, with a statement that the Malaysian government does not support
movements or groups that use violence and if such funds were provided “it would have been done without the knowledge of the government”. But Malaysian–Thai relations really took a dive later in December, when the Thai prime minister is reported to have alleged that the northern Malaysian states were a safe haven and training ground for militants in southern Thailand. Abdullah expressed his “shock and disappointment” and chided Thailand in what are strong words for him, saying “It is not right to make a statement in the media and then wait for us to reply to court sensational publicity.”

Perceptions of Thai insensitivity and public belligerence about Thai concern regarding links and empathy between Muslims across the border are not conducive to having both countries work closely to contain a serious problem, nor is Malaysia’s defensive prickliness about Muslims and Islam being described as terrorists. The real imperatives need to be given priority — cooperating and coordinating to curb militancy and terrorism because the Malaysian government has a track record of seriously pursuing genuine leads and taking firm action against militant activity, and collaborating to combat terrorism together with other nations.

Borders and boundaries continued to be a source of unease. In April two Malaysians and the Indonesian skipper of a tugboat were kidnapped by Abu Sayyaf-linked Filipino gunmen in the Sulu Sea. Nevertheless in Mindanao, Malaysia continued to monitor a ceasefire and also attempt to broker a peace agreement between the Philippine government and the Moro Islamic Liberation Front. There have been snags and postponements and dispatching Najib Tun Razak, the Malaysian deputy prime minister, did not seem to make much headway with entrenched positions and deep suspicions.

The state oil company Petronas issued at least one statement during the year about possibly granting concessions for oil exploration around the Ambalat Island off north Kalimantan, with little response from its neighbours. This was perhaps because the dispute with Indonesia over the Sipidan and Ligitan islands in the same Sulawesi Sea was settled in Malaysia’s favour by the International Court of Justice in 2002, and Malaysia’s claim over Ambalat and the Unarang Reef is based on that judgment. Indonesia claims to use the rules of the Convention of the Law of the Sea to draw a straight line 12 nautical miles from Indonesia’s Sebatik border to also claim Ambalat, thus having its own formula for ownership. Herein lies potential for dispute especially with oil as the prize.

Nevertheless, with an eye on higher priorities, in July, Malaysia, Indonesia and Singapore began coordinated 24-hour patrols of the congested Straits of Malacca, which carries more than a quarter of world trade and almost all oil imports from the
Middle East to Japan and China. However, perhaps deputy prime minister Najib was giving notice of what was to come when he stated that user nations should start considering contributing to the safety and security of the sea lane, because “there should be no more free rides” and that only Japan had contributed substantially to the escalating costs.23

It has been argued that Malaysia has wasted opportunities to be more assertive with the United States and its allies, or developed nations/First World, given its limited tenure heading the OIC and NAM. However, it is Abdullah’s style to work quietly but constructively and to focus on “putting the house in order” first, whether at home in Malaysia, in the OIC or in NAM.

Conclusion

Abdullah had a mixed year that started with a bang and then seemed to taper off. Long-term elements of his agenda for the structural reforms needed and which he had both the foresight and courage to articulate, were put in place. For example, understanding that it would be a process of not just uncovering and criminalizing corruption but changing mind-sets from a culture of patronage and entitlement, he instituted the National Integrity Plan (NIP) in April and launched a National Integrity Institute that would conduct courses and set standards and evaluations for the civil service, among others. Some of these institutional capacity-building measures let him down: the Royal Commission on the Police which he had the King appoint in 2003 did not materialize the report it was tasked to produce by the end of 2004.

The reforms he has promised would, by any logic, take time. But for a citizenry used to the high-profile edicts and ensuing grand gestures of 22 years, Abdullah’s quiet, measured governance appeared less effective. But there are still Malaysians who gave him a mandate for change, who are willing to give him a little more time.

Notes

1 Transcript of Bernama news agency interview with Prime Minister Abdullah Ahmad Badawi, Thursday, 10 February 2005.
2 For a full breakdown of the election results, see the Prime Minister’s Office website, specifically, http://eppublic2.pmo.gov.my/onepage/servlet/FWControllerServlet?mvcapp=FWMyOnePage&command=myonepage&rid=1&b=i&sid=240246D85021Y0312188&b=i&tabset=1&temp=3&p=1&taborder=1&fp=1.
3 Conversation with Professor Syed Arabi Idid of the International Islamic University;
regarding his findings/results of the survey on media credibility and the BN during the past four general elections, 14 February 2005; also article about the survey findings on http://www.malaysiakini.com/news33540, 14 February 2005.


7 Transcript of Bernama news agency interview with Prime Minister Abdullah Ahmad Badawi, 10 February 2005.


13 Keynote address at the seminar on “Culture of High Performance for GLCs”, delivered by the Prime Minister Abdullah Ahmad Badawi, 14 May 2004, Kuala Lumpur.


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