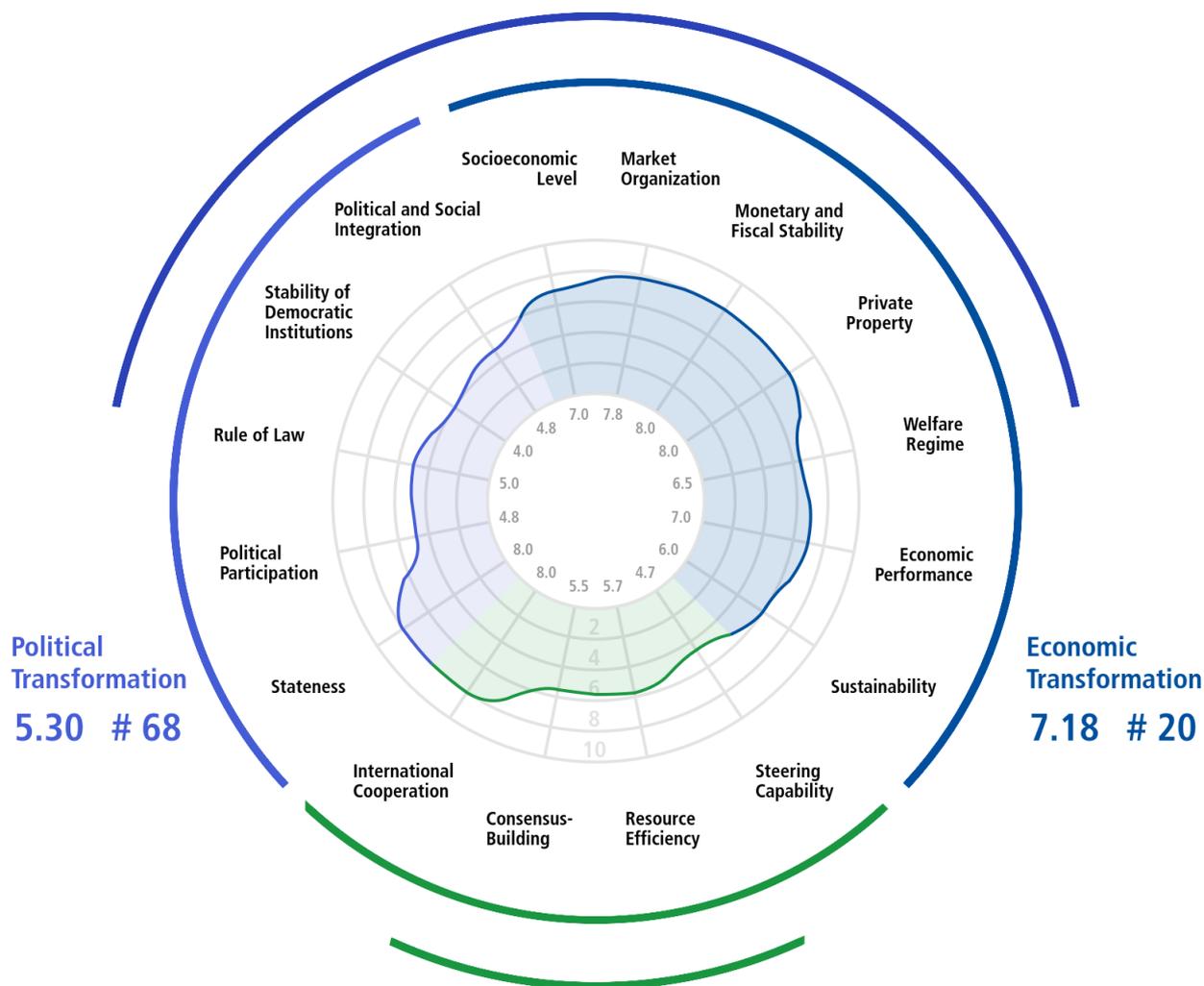


# Malaysia

## Status Index

**6.24 # 43**

on 1-10 scale out of 137



## Governance Index

**5.15 # 54**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2022 Country Report – Malaysia. Gütersloh: Bertelsmann Stiftung, 2022.

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**Key Indicators**

|                          |        |             |                                |              |                      |              |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population               | M      | <b>32.4</b> | HDI                            | <b>0.810</b> | GDP p.c., PPP \$     | <b>27887</b> |
| Pop. growth <sup>1</sup> | % p.a. | <b>1.3</b>  | HDI rank of 189                | <b>62</b>    | Gini Index           | <b>41.1</b>  |
| Life expectancy          | years  | <b>76.2</b> | UN Education Index             | <b>0.726</b> | Poverty <sup>3</sup> | % <b>0.3</b> |
| Urban population         | %      | <b>77.2</b> | Gender inequality <sup>2</sup> | <b>0.253</b> | Aid per capita \$    | <b>0.2</b>   |

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Malaysia's democratic liberalization came to an abrupt end between 2019 and 2021. The political turmoil caused by the resignation of former Prime Minister Mahathir Mohamad and the subsequent breakup of the Pakatan Harapan (Alliance of Hope, PH) government in February 2020 paralyzed the country amid a historical pandemic.

Even one year later, the country faces political uncertainty. The appointment of former Minister of Home Affairs, Muhyiddin Yassin, as the 8th prime minister of Malaysia by the Yang di-Pertuan Agong, the monarch and head of state in Malaysia, on March 1, 2020 did not stabilize the Southeast Asian nation. The power struggle that led to the formation of the new ruling Perikatan Nasional (PN) government, a coalition of mainly Malay parties from both sides of the aisle, is symbolic of the deep divisions between the political parties and the current high volatility of the Malaysian political landscape.

After his appointment, Prime Minister Muhyiddin Yassin successfully avoided several attempts to bring down his government by his former political allies and strengthened his position with the passing of the budget thanks to the support of the longtime ruling United Malays National Organization (UMNO) in November 2020. However, the withdrawal of support by three members of parliament for the PN coalition in January 2021 left Prime Minister Muhyiddin Yassin with only 109 out of 222 members of parliament in his corner. Without a majority in parliament at the federal level, the PN coalition clings to power due to the suspension of parliament after the national emergency proclamation under Article 150 of the Malaysian constitution to contain the COVID-19 pandemic made by the Malaysian monarch at the request of Prime Minister Muhyiddin Yassin on January 12, 2021. With the proclamation being valid until August 1, 2021, Muhyiddin Yassin will remain prime minister for the time being. However, the political power struggle will slow down any momentum for a profound democratic transformation in the country.

Malaysia's economic transformation from 2019 to 2021 was strongly affected by the political turmoil and the economic hardship caused by the COVID-19 pandemic. Since the outbreak of the pandemic, the government concentrated its effort to soften the economic consequences for the Malaysian population. In 2020 alone, the government announced stimulus packages worth 21.2% of GDP or approximately MYR 305 billion. As a result, overall public debt was the equivalent of 60.7% of GDP in 2020, up from 57.2% in 2019. Due to the COVID-19 pandemic, the inflation rate contracted 1.2% in 2020, the first deflation since 1969. In addition, the overall GDP shrank by 5.6% in 2020, the biggest contraction since the 1998 Asian Financial Crisis. The Malaysian economy is still grappling with the middle-income trap and the lack of adequate technological innovation and upgrading. The release of the 12th Malaysia Plan (2021 – 2025), originally scheduled for 2020, was postponed after the outbreak of the COVID-19 pandemic. According to government officials, the PN government will take into consideration the policy adjustments and economic reforms needed due to the pandemic before releasing the economic blueprint. However, the new PN government will not change Bumiputera affirmative action policies, which still strongly influence Malaysia's market economy.

## History and Characteristics of Transformation

The Federation of Malaysia was established in 1963. Today, it consists of 13 states and three federal territories. It has adopted forms of constitutional monarchy based on the Westminster model, a legacy of British colonialism. At the federal level, there is a bicameral legislature. Executive power lies with the prime minister and cabinet. Each of the 13 states has its own legislature.

Politically and officially, the country's population is divided into two categories: Bumiputera and non-Bumiputera. The Bumiputera community is made up of Malays and other indigenous peoples, while the non-Bumiputera group consists mainly Malaysians from Chinese and Indian descent. This divide is evident in every facet of Malaysian life, from politics to food to university admissions. Most of the country's Chinese and Indians originally came during colonial times, actively recruited by the British to help in developing a commodities-based economy. After independence, the British left political power largely in the hands of the indigenous Malays. The Malay leaders organized the United Malays National Organization (UMNO), then forged a perennially victorious electoral coalition with the major Chinese and Indian parties, the Malaysian Chinese Association (MCA) and Malaysian Indian Congress (MIC). This coalition was labeled the National Front (Barisan Nasional, BN) after the May 13, 1969 incident (described below). This established a pattern in which the office of the prime minister was always occupied by a Malay from UMNO.

This alliance was transformed in May 1969 when emergency rule was declared and the constitution was suspended after “race riots” broke out between the Malays and Chinese in the wake of a bitterly fought election. When the constitution was reinstated in 1971, new legislation was passed ensuring Malay political supremacy. This, in turn, allowed the UMNO to enhance its powers and aggressively promote its main supporters, the Malay population. The New Economic Policy (NEP) was promulgated, providing extensive benefits to the Bumiputera (i.e., Malay) community through quotas, bank loans, scholarships, special licenses and so on. The government justified the affirmative action character of the NEP, claiming that the wide economic gap between the Malay and non-Malay populations had prompted the May 1969 riots and therefore threatened racial harmony. Although the NEP discriminated against the non-Bumiputera, the UMNO-led government was careful to allow a market economy to develop. The government left the non-Bumiputera with a free hand in many economic sectors so long as positions and ownership stakes were allocated on a quota basis to Malays. This strategy, which emphasized economic growth with ethnic redistribution, was funded by significant foreign direct investment during the 1970s and early 1980s. Indeed, this strategy was so successful that Malaysia was recognized as one of the “Asian Tiger” economies.

Although the NEP officially ended in 1991, economic policies have changed little in character since that time. They continue to include special rights for the Bumiputera, while also promoting rapid economic growth to ensure that all ethnic groups receive a share of the economic pie. Until the general elections in 2018, the government had been headed by the UMNO since independence and the ruling coalition, the BN, had won every general election since its formation. Before 2008, the BN regularly achieved more than a two-thirds majority in parliament, allowing it to amend the constitution at will and giving the executive the leeway to pursue policies without significant opposition. In May 2018, the Pakatan Harapan (PH) coalition took power at the federal level. These elections were a watershed moment in Malaysia’s history and ended UMNO’s rule after 61 years. However, the multiethnic PH coalition broke up in February 2020, leading the country into an unprecedented political crisis. Nevertheless, Malaysia is generally regarded as a success story among developing countries with regard to maintaining a stable and growing economy. However, this economic success has been diminished in recent years by long-term middle-income entrapment.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The Malaysian state's monopoly on the use of force is established nationwide in principle, though it is challenged by minor guerilla groups active off the coast of Borneo. During the period under review, piracy cases in the Singapore Straits remained a challenge for the Malaysian state. On January 16, 2020, gunmen, believed to have links to the militant Abu Sayyaf group, kidnapped five Indonesian fishermen in Malaysian waters near Lahad Datu, Sabah. In response, the Eastern Sabah Security Command (ESSCOM) issued a monthlong curfew in the waters off seven districts in the Eastern Sabah Security Zone (ESSZone) to ensure the safety of inhabitants and tourists in the region. Malaysian authorities cooperated with Indonesia and the Philippines in the search mission. In September 2020, one of the five fishermen was found dead in the southern Philippine province of Sulu, during a failed rescue mission conducted by the Philippine military. The other four fishermen remain in captivity. According to government officials, Malaysian security forces have thwarted 40 kidnapping attempts in the waters off the ESSZone since 2018, highlighting potential threats by guerilla groups and pirates active off the coast of Borneo. Due to the COVID-19 pandemic, border control efforts were significantly increased during the period under review. According to police officials, cross-border crime on the island of Borneo decreased by 50% in 2020 compared to the previous year.

Most Malaysians accept the nation-state as legitimate and the legitimacy of the political community is rarely questioned. However, the realization of citizenship rights varies across ethnic and religious communities – to some extent due to the Bumiputera policies –, with non-Bumiputera communities confronted by systematic political discrimination in the distribution of state benefits. Ethnic Malays dominate the country's key political institutions, including the parliament, bureaucracy, and security forces. The head of state (the Yang di-Pertuan Agong) must be Malay. This Malay predominance draws criticism from ethnic Indians and Chinese, who make up 30% of the population and report feeling like second-class citizens. Chinese and Indian Malaysians enjoy full citizenship and secure property rights and are widely

Question  
Score

Monopoly on the  
use of force

9



1

State identity

8



1

accepted as being members of the Malaysian nation. However, the 1957 interethnic bargain that institutionalized an ethnic division of roles – with political leadership in state, politics and the military in the hands of the Malay community and economic rights (and dominance) in the hands of Chinese (and, less so, Indians) is still valid until today.

In addition, indigenous groups in Sabah and Sarawak, although classified as Bumiputera, have repeatedly voiced discontent with Malay dominance in their states. Still and in contrast to other Southeast Asian countries such as Thailand, Philippines, Indonesia or Myanmar, there never has been an autonomy or separatist movement and no conflict between competing ethnic nationalisms in Malaysia, neither on the peninsula, nor in Borneo. In April 2019, the then PH-led government tried to accommodate the indigenous groups' discontent by tabling an amendment to the first article of the Malaysian constitution. The amendment would have brought the wording in Article 1 (2) back to the original phrasing of 1963 which did not mention the Eastern Malaysian states of Sabah and Sarawak in the same sentence as the Western Malaysian states of the federation. Back in 1976, when the first article was amended in order to list every state in the same sentence, most indigenous groups in Sabah and Sarawak felt neglected and criticized the government for failing to acknowledge the cultural and historical differences between West and East Malaysia. Reverting back to the original wording would have symbolically restored the status of Sabah and Sarawak as equal partners with Western Malaysia. However, the amendment failed to pass the needed two-thirds majority in parliament as the opposition parties did not vote against the amendment but abstained from voting for the constitutional amendment. Significant shares of the Malay population continue to reject any change to Malay dominance.

The Malaysian government still has not ratified the United Nations' International Convention on the Elimination of All Forms of Racial Discrimination (ICERD). Back in 2018, the PH government stopped its plan to ratify the ICERD last minute to avoid criticism by the opposition parties for not being "pro-Malay." The fall of the PH coalition in February 2020 and the subsequent formation of the new PN coalition can be seen as symbolic of the dominance of the ethnic Malays in Malaysian politics since ethnic Chinese and ethnic Indians parties are marginalized in the newly formed federal government.

The Malaysian constitution defines the state as secular, but Islam has considerable influence on the Malaysian legal system and the country's political institutions. Although Malaysian law is mainly based on the common law legal system, state Shariah courts operate alongside civil courts in civil matters. Though the Shariah courts have jurisdiction only over matters involving Muslims, they remain highly influential in general, because their decisions frequently involve conversions to Islam, which in turn affect such matters as child custody, burial sites, and inheritance.

No interference of religious dogmas

6

'06 '22 10



During the period under review, members of the LGBTQ+ community were targeted several times under Shariah laws. In July 2020, the minister of religious affairs, Zulkifli Mohamad, publicly encouraged officers of the Federal Territory Islamic Department to arrest transgender people so that they would “return to the right path.” In October 2020, a raid against an event organized by transgender women in the state of Kedah led to the arrest of 30 people. In January 2021, a cosmetics entrepreneur was arrested and brought before a Shariah court for an offense he allegedly committed at his beauty center back in February 2018. The entrepreneur was accused of bringing contempt to the religion of Islam by dressing in clothing typically associated with women during a religious event. Since the new PN government took office in March 2020, boundaries for members of the LGBTQ+ community were further narrowed. In January 2021, the government discussed plans to amend the Shariah Courts (Criminal Jurisdiction) Act 1965 to criminalize gender changes and the creation of online media content that could be deemed as controversial. The amendments, if passed in parliament, would further indicate the growing influence of religious dogmas on the Malaysian legal order and the current government’s agenda to form a more conservative social order in Malaysia.

The Malaysian state has a differentiated administrative structure throughout the country and provides all basic public services. A reasonably well-trained and professional administration implements the policies of the elected governments at the state and federal levels. However, outside technical departments, the civil service recruits few non-Malays/Muslims. Malaysia’s basic public services were not disproportionately affected due to COVID-19 compared to other countries in the world. There were no service disruptions noted according to data provided by UNICEF.

The government responded to the higher usage of broadband services during the first movement restrictions beginning on March 18, 2020 by passing a stimulus package that included a collaboration with telecommunication companies to offer their subscribers additional free data. The government’s quick response to secure broadband services was helped by the National Fiberisation and Connectivity Plan (NFCP) which was announced in 2019 by the then-ruling PH coalition. The plan aims at improving the national digital infrastructure, especially in rural areas such as in Sabah and Sarawak.

However, infrastructure in the states of Sabah and Sarawak remains underdeveloped compared to the peninsular states. Only 96% and 98% of the Malaysian population have access to sanitation and to water sources, indicating that while nearly all citizens have access to a water source in West Malaysia, infrastructure problems continue to persist in East Malaysia.

Basic  
administration

9



1

## 2 | Political Participation

Malaysia has established universal suffrage (age 21 and over) and regularly holds general elections at the state and federal levels at intervals required by the constitution. Opposition parties can run in the country's elections, and political posts are generally filled according to electoral outcomes. With opposition parties winning the last general elections at the federal level in May 2018 for the first time since independence, general multiparty elections are accepted as the means of filling political posts in Malaysia.

However, elections in Malaysia cannot be considered completely fair. The electoral system continues to overemphasize the rural areas, which are mostly inhabited by Malays. Urban-based constituencies, where the ethnic Indian and ethnic Chinese electorate is primarily based, account for only 36% of the seats in the federal parliament although three-quarters of the Malaysian population live in urban areas. The most obvious example of the electoral weighting toward rural areas in Malaysia is found in the state of Sabah, where a single vote in one constituency (Igan) carries the same weight as nine in the constituency of Bangi in the state of Selangor.

After the outbreak of COVID-19, a state election in Sabah and four by-elections at the federal and the state level were held. The state election in Sabah was necessary since the political crisis at the federal level spilled over to the state of Sabah as the then-ruling Chief Minister Shafie Apdal and Musa Aman, leader of the opposition, both claimed that they have a majority in parliament. As a result, the governor of Sabah dissolved parliament on July 30, 2020 at the request of the Chief Minister. By law, elections had to be held within 60 days after the dissolution of parliament. The governor's decision to dissolve parliament was confirmed by the High Court of Sabah and the Federal Court, which dismissed an application by the opposition parties to stop the state election. Consequently, state elections were held on September 26, 2020 under the special conditions of Malaysia's Recovery Movement Control Order (RMCO). The ruling WARISAN coalition narrowly lost the elections, with the United Alliance for Sabah taking power. The United Alliance for Sabah supports Prime Minister Muhyiddin Yassin, meaning that the electoral victory stabilized the PN coalition at the federal level and was seen as a temporary confirmation of Muhyiddin Yassin's quest for power. Due to the pandemic, civil society groups urged the authorities to consider the possibility of postal voting in order to reduce movement and travel activities before and after election day. With the exception of essential workers, such as health care workers, police, and diplomats, postal voting was not expanded for the state elections. As a result, and as many health experts predicted, Malaysia saw a spike of positive COVID-19 tests in the aftermath of the elections. Measures such as ensuring that the hands of every voter were sanitized prior to having their finger dipped into the electoral ink bottle or taking the temperature of every voter prior to entering polling stations were not sufficient. In early October 2020, all

Free and fair elections

6

'06 '22 10



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thirteen states in Malaysia reported COVID-19 cases linked to the Sabah state elections. As a result of the new wave of COVID-19 cases in Malaysia, by-elections in the constituencies of Batu Sapi and Gerik were postponed in December 2020 and January 2021.

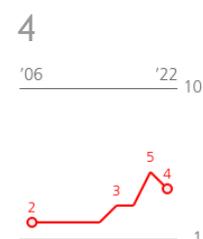
To overhaul the electoral system in Malaysia and to avoid irregularities such as the use of government resources during campaigning and electoral fraud such as the manipulation of voter registration, the Electoral Reform Committee (ERC) handed over 49 recommendations to the prime minister in August 2020. One of the recommendations was to appoint new members to the Electoral Boundary Commission on a yearly basis instead of the current practice of once every eight years. In addition, the ERC suggested appointing international and local observers during elections and making political parties register with the Election Commission (EC). In December 2020, the government set up a special committee to study the 49 recommendations submitted by the ERC. However, electoral watchdogs criticized the government for not publishing the report submitted by the ERC yet.

Since the opposition coalition Parakatan Harapan (PH) won the general elections in 2018 and the subsequent peaceful transfer of power from the former BN government to the PH, democratically elected political representatives have effective power to govern and no veto powers (e.g., the military, which was a loyal ally of the BN government) interfere with democratic procedures in general.

However, the resignation of former Prime Minister Mahathir at the end of February 2020 and the breakup of the PH coalition led to a political crisis unknown to Malaysia. Current Prime Minister Muhyiddin Yassin was appointed by the Malaysian monarch on March 1, 2020, after Mahathir tendered his resignation. So far, it remains unclear whether the appointed prime minister has a majority in parliament. An initiative to table a vote of no-confidence in parliament at the parliament session on May 18, 2020, was denied and only the Malaysian monarch was allowed to speak at the session. The monarch urged all parties to put aside their political differences to effectively fight the impact of COVID-19. On November 26, 2020, parliament passed a new budget, indicating that some essential functions of governance are still in place, despite the current political instability. On January 12, 2021, the Malaysian monarch made a national emergency proclamation under Article 150 of the Malaysian constitution to contain the COVID-19 pandemic at the request of Prime Minister Muhyiddin Yassin. With the proclamation being valid until August 1, 2021, parliament is officially suspended and no snap elections can be held.

The important political role of the Malaysian monarch in the removal of the democratically elected PH coalition and the appointment of Muhyiddin Yassin as new prime minister without clear proof of a parliamentary majority as well as the declaration of emergency in January 2021 showed that elected political representatives had limited power to govern during the period under review.

Effective power to govern

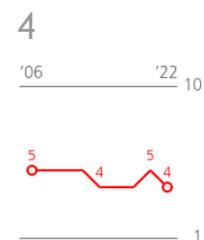


Association and assembly rights are still limited. The former PH government did not fully implement their campaign pledge to thoroughly reform several acts that restrict the rights to assemble and associate by the time of the coalition's breakup in February 2020. In January 2021, the Registrar of Societies (RoS) rejected the registration applications by two opposition parties, one of them the newly founded party "Pejuang" led by former Prime Minister Mahathir. As a reaction to both rejections, human rights groups urged the government to reform the Societies Act under which every new party has to register. The act partially violates the right to freedom of association which is guaranteed by Article 10 of the Malaysian constitution. Human rights groups demanded that the registration of societies, including political parties, should be administered by an independent entity instead of a government department.

In October 2019, the Malaysian parliament passed the Industrial Relations (Amendment) Bill of 2019 which strengthened trade unions and employee rights. However, the suspension of parliament on January 12, 2021 delayed a longtime planned amendment to the Trade Unions Act which therefore still restricts the latitude for trade unions and the representation of worker rights. In October 2019, the then-governing PH coalition tabled a bill to amend the Peaceful Assembly Act 2012, which limits the right to peacefully assemble. Although the amendments were seen as progress compared to the historical restrictive rules, human rights groups criticized the bill for falling short of meeting international human rights standards. The bill is designed to eliminate language banning all protests in which participants march from one location to another and would reduce the required notice period from 10 to seven days. In addition, proposed amendments did not eliminate the various criminal penalties provided in the Peaceful Assembly Act 2012.

Since the outbreak of the COVID-19 pandemic, assembly rights have been restricted. On March 18 2020, the government enforced a nationwide Restriction of Movement Order under the Control and Prevention of Infectious Diseases Act of 1988 and the Police Act of 1967. The restrictions thereby met the requirements of legality, necessity, and proportionality. However, the proclamation of the national emergency in January 2021 again restricts assembly rights (e.g., for the elected parliament), provides the military with police powers and gives the government and military near-total immunity for acts taken under the ordinance. Even though these restrictions meet the requirements of legality, necessity and proportionality, this decision was questioned by opposition groups as it was seen as a move to stabilize the government due to the suspension of parliament

Association /  
assembly rights



Freedom of expression is still limited in Malaysia. Since the Perikatan Nasional (PN) coalition took power in March 2020, the former Pakatan Harapan (PH) government's faltering human rights reform agenda came to a halt, and space for free expression was tightened in the country. Laws such as the Official Secrets Act (OSA), the Printing Presses and Publications Act and the Sedition Act continue to restrict freedom of information and of speech.

Since the outbreak of COVID-19, the ruling PN coalition did not hesitate to exercise these draconian laws. In April 2020, the government charged 24 citizens for spreading fake news about COVID-19. Three months later, the police questioned six Al Jazeera staff members and raided the organization's offices in Kuala Lumpur. The network had aired a documentary about the treatment of migrant workers during the COVID-19 pandemic that was seen as critical of the ruling coalition's policies. The Center for Independent Journalism (CIJ) criticized the government for its actions and called for the abolishment of the OSA. The CIJ also objected to remarks made by the Inspector-General of the Police who warned police officers and staff not to reveal or share investigation reports with the public or post them on social media. Otherwise, policemen would be prosecuted under the OSA. The organization demanded the OSA be replaced with a new Right to Information (RTI) act.

### 3 | Rule of Law

The constitution provides a structure for the separation of powers. However, the executive historically holds disproportionately power in Malaysia. In parallel to the outbreak of the COVID-19 pandemic, a political crisis paralyzed Malaysia when then-Prime Minister Mahathir stepped down from his position on February 24, 2020, weakening the legislative and executive branches.

New Prime Minister Muhyiddin Yassin only commanded a two-seat majority in parliament when forming the new government. The PN's grip on power and Muhyiddin Yassin's position as prime minister was threatened in September 2020, when opposition leader Anwar Ibrahim declared that he had a majority in parliament due to several defections from the ruling coalition. On October 25, 2020, the Malaysian king rejected the government's request to proclaim a nationwide emergency under which parliamentary sessions would have been suspended. The king declared that he was confident in the ability of the government to continue to implement policies to curb the spread of the COVID-19 pandemic. The government's request was widely seen as an attempt to block Anwar Ibrahim's plans to form a new government under his leadership. In addition, the state of emergency would have allowed Prime Minister Muhyiddin Yassin to enact the budget for 2021 without consulting parliament.

However, Muhyiddin Yassin was able to solidify his position as prime minister at the end of November 2020 when parliament passed a new budget for 2021 with 111 to 108 votes. On January 12, 2021, the Malaysian monarch finally made a national

Freedom of expression

5

'06 '22 10



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Separation of powers

4

'06 '22 10



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emergency proclamation under Article 150 of the Malaysian constitution to contain the COVID-19 pandemic at the request of the Malaysian government. At that time, infection numbers were increasing throughout the country. A 19-member independent committee, led by a former chief justice, to advise the monarch on when the proclamation of emergency should end was established. However, the proclamation, which is valid at least until August 1, 2021, gives the executive branch significant powers, since parliament is officially suspended and no snap elections can be held. This solidifies Prime Minister Muhyiddin Yassin's grip on power.

On January 26, 2021, Anwar Ibrahim, the leader of the opposition, filed a lawsuit against the government that challenged the constitutionality of the prime minister's advice to the King in which he suggested that the monarch should suspend the national legislature during the declared period of emergency. Importantly, however, the opposition only challenged the suspension of the bicameral legislature, not the declaration of the emergency as such.

Historically, the fairly conservative judiciary has been unable or unwilling to act as an effective counterweight to executive actions. For example, a tell-all account published by former attorney general Tommy Thomas (2018 – 2020) in early 2021 details an impressive list of political meddling and failures in prosecuting high-profile corruption cases. Nonetheless, in recent years, Malaysia's judges have shown renewed reform momentum and independence. However, due to the emergency, most court cases were suspended with priority being given to cases in the public interest, such as corruption cases and criminal trials. This means that the judiciary found it increasingly challenging to perform its role as independent guardian of the rule of law.

The judiciary is institutionally differentiated and has the formal ability to interpret and review legislation and policies. Channels of appeal are in place and the court administration appears to function reasonably efficiently. Despite the political crisis, the judiciary is functional under the new PN government and continues to actively pursue several corruption cases against former members of the BN government. For example, former Prime Minister Najib Razak was sentenced to 12 years in jail for his role in the 1MDB scandal in July 2020. Prosecutors also charged former Federal Land Development Authority (Felda) chair Mohd Isa Abdul Samad for nine counts of corruption in relation to the purchase of a hotel in Sarawak. In the past, the judiciary was accused of only going after the "small fish" within the former BN administration and not thoroughly investigating cases in which higher-ranking members of the government were involved. During the period under review, the judiciary pursued its own reasoning, mostly free from the influence of political decision-makers. However, after his resignation as attorney general in March 2020, former General Attorney Tommy Thomas criticized the former PH government's lack of successfully institutionalizing judicial reform. For example, the former PH government's plan to establish a royal commission of inquiry (RCI) into alleged corruption in the judiciary never materialized and was not pursued by the ruling PN coalition.

Independent  
judiciary

5

'06 '22 10



1

The former PH government did not fully keep up with its election promise from 2018 to hold public servants and politicians accountable when they break the law and engage in corrupt practices. Although the former PH government started several legislative initiatives to institutionalize legal proceedings to make the prosecution of corruption easier, only a few of these initiatives materialized, and some stopped when the PN government took power in March 2020. The Whistleblower Protection Act still does not provide enough protection to those who blow the whistle on corrupt government officials.

In June 2020, the former chief minister of Sabah, Musa Aman, was fully acquitted of nearly 35 charges of corruption and money-laundering related to the award of logging contracts. In May 2020, the Sessions Court granted the prosecution's request to give a discharge not amounting to an acquittal to Najib Razak's stepson, Riza Aziz, who was charged with five counts of money-laundering amounting to \$248 million. The acquittal and the discharge were seen as a step back in the fight against corruption and raised questions as to whether the PN coalition will return to the politics of the former BN government, in which high-level officeholders of the BN government were not held accountable for corruption. However, the Malaysian Anti-Corruption Commission (MACC) arrested a total of 467 civil servants for various corruption offenses in 2020, down from 525 in the previous year. Former Prime Minister Najib Razak was the highest-ranking former government official who was sentenced and faces 12 years in jail for his role in the 1MDB scandal.

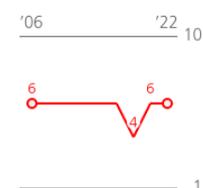
Civil rights (e.g., personal liberty, a prohibition on banishment, and freedom of movement) are constitutionally guaranteed but not entirely respected and protected. Mechanisms and institutions to prosecute, punish and redress violations of civil rights are largely in place but are not consistently effective.

Even under the PH government, the Malaysian authorities' attitude toward certain aspects of civil liberties remained ambivalent. Draconic laws such as the Peaceful Assembly Act and the Sedition Act indicates that the former PH government refrained from guaranteeing civil rights to every member of Malaysian society, especially members of the non-Malay/non-Muslim population. In addition, homosexuality remains illegal and gender nonconformity (particularly in terms of dress) is prohibited for Muslim women and men; infringement on either count is usually met with outright legal discrimination.

Human rights groups that supported the PH government in the 2018 elections voiced their displeasure with the then-government's inability to implement democratic reforms. The PH's meager reform agenda came to a complete halt when the PN coalition took power at the end of February 2020. Besides enacting several economic stimulus packages to help soften the economic burden caused by the COVID-19 pandemic, the PN government so far did not reveal any plans to implement democratic reforms to improve the de facto situation with regard to civil liberties in the country.

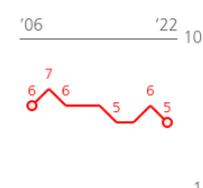
#### Prosecution of office abuse

6



#### Civil rights

5



As a reaction to the pandemic, the government issued several Movement Control Orders (MOC), starting on March 16, 2020. The MOC included the prohibition of mass movements and gatherings across the country and the closure of most educational institutions for in-person instructions. The authorities started easing restrictions by allowing most businesses to reopen under a Conditional Movement Control Order (CMCO) from May 4, 2020. A Recovery Movement Control Order (RMCO) took effect on June 10, 2020 lifting most restrictions on domestic activities and movement. A new wave of infections in Malaysia prompted the reinstatement of the CMCO on various states until January 14, 2021. Since then, the worsening of the pandemic has prompted the re-imposition of the stringent Movement Control Order (named MCO 2.0) on all states except Sarawak until February 18, 2021. Stay-at-home orders were reintroduced, interstate traveling and social gatherings were banned, and only five essential economic sectors were allowed to operate, namely manufacturing, construction, services, trade and distribution, and plantations. Borders remained closed and overseas travel restricted until at least March 31, 2021.

The proclamation of the national emergency in January 2021 raised fears that civil liberties will come under more pressure since the national emergency provides the military with law enforcement powers and allows the forced confiscation of property with no ability to challenge the compensation offered. The declaration also provides almost complete impunity for the military and government concerning acts taken under the ordinance. Immediately after the proclamation, the Malaysian Multimedia and Communication Commission released a statement and warned that it was monitoring social media closely for misinformation.

#### 4 | Stability of Democratic Institutions

The victory of the opposition parties in May 2018 opened a window of opportunity for a transition from an electoral authoritarian regime to a more democratic system. Elections were viewed as the mechanism through which a transfer of power was possible. Two years after the electoral defeat of the former BN government, democratic institutions exist but are not free from counterproductive frictions.

The ongoing political crisis that has paralyzed the country since the resignation of former Prime Minister Mahathir in February 2020 due to extensive internal frictions – partially caused by personal animosities – within the PH government illustrates the instability of democratic institutions in Malaysia after more than six decades of authoritarian governance. Under BN rule, the executive had a dominant position and greatly restricted the separation of powers. The judiciary was particularly subject to strong interference from the executive and the parliament was not much more than a rubber stamp.

So far, new Prime Minister Muhyiddin Yassin is profiting from the unusual circumstances caused by the COVID-19 pandemic and his power largely rests with the confidence that the Malaysian monarch showed in his ability to stabilize the

Performance of democratic institutions



country during the pandemic. The prime minister cannot count on a solid majority in parliament. Without the proclamation of a national emergency and the subsequent suspension of parliament until August 2021, Prime Minister Muhyiddin Yassin would be exposed to attempts to bring down the government. Despite Malaysia's federal structure, a very high level of fiscal and administrative centralization limits the ability of state and local governments to function effectively. So far, there are no indicators that this institutional structure will be changed.

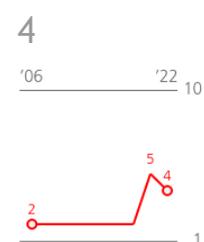
The former PH government of Prime Minister Mahathir appeared committed to more democratic rule. The PH government started several legislative initiatives to abolish repressive laws such as the Sedition Act, indicating a commitment to democratic institutions and norms. However, these initiatives were not realized in the form of progressive laws or effective amendments to existing draconic laws, meaning that the former PH government's reform agenda must be viewed as a failure. To date, the new ruling PN coalition has not shown any intentions to profoundly reform the country's institutions and is mainly focused on the fight against the COVID-19 pandemic. Relevant political actors such as UMNO, which is part of the federal government, are not committed to democratic norms and institutions. However, the last general elections have shown that the military does not openly challenge civilian supremacy or state institutions.

## 5 | Political and Social Integration

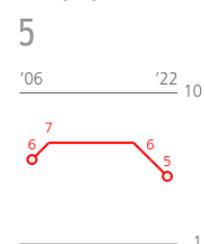
The Malaysian party system is rooted in society. However, polarization and fragmentation of the party system have significantly increased as evidenced by the disintegration of the former Pakatan Harapan (PH) ruling coalition after the resignation of former Prime Minister Mahathir and the founding of several new political parties and coalitions in the period since February 2020. The increased fragmentation of the Malaysian party system is mirrored in the new ruling coalition, Perikatan Nasional (PN), which consists of the Parti Pribumi Bersatu Malaysia (PPBM), the Parti Islam Se-Malaysia (PAS), the Parti Gerakan Rakyat Malaysia (Gerakan), the Sabah-based parties Parti Bersatu Sabah (PBS) and Parti Solidariti Tanah Airku (STAR) as well as the Malaysian Indian Congress (MIC) and the Malaysian Chinese Association (MCA). The coalition is aligned with United Malays National Organization (UMNO) and depends on UMNO's support at the federal and state level. PN's heterogeneous composition and the aisle-crossing of several parliamentarians at the federal and the state level indicate the instability of the Malaysian party system since the resignation of former Prime Minister Mahathir and symbolize the deep political crisis the country is now experiencing.

The PN competes with the former ruling coalition Pakatan Harapan (PH) as the biggest parties for votes in West Malaysia. The party system on the island of Borneo historically differs from the party system in West Malaysia.

Commitment to democratic institutions



Party system



The former ruling coalition PH now consists of the Democratic Action Party (DAP), the Parti Keadilan Rakyat (PKR), and the Parti Amanah Negara (Amanah). After several dismissals of and defections from former PKR's parliamentarians, the coalition now holds 90 seats in the federal parliament. The disintegration of the PH did not only lead to a change of government at the federal level, but also in the states of Johor, Perak, Malacca, and Kedah.

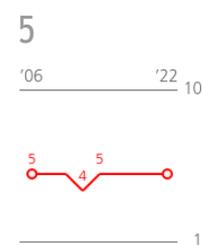
The events of February 2020 not only destabilized the Malaysian party system but also raised fears among the non-Malay and non-Muslim minority population that polarization among the different ethnic groups would increase because Malay/Muslim leaders of the former PH coalition left the multiethnic ruling coalition to cooperate with predominantly Malay/Muslim parties and form a Malay unity government. Despite these developments, the party system remains far more rooted in Malaysian society than in numerous other countries in the region.

There is a wide range of interest groups in Malaysia, even if important social interests such as indigenous groups are under-represented. Certain interests dominate and there is a risk of polarization, especially as many occupational and other policy areas are engaged in parallel by secular and Muslim organizations. The spectrum of interest groups ranges from social movements, such as environmental groups and community organizations providing local assistance to the poor, to professional associations, such as the Malaysian Bar Council. Some civil society groups (e.g., Bersih) have a multiethnic character.

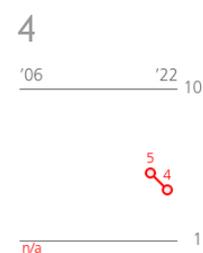
During the period under review, human rights groups that supported the former PH government during the election campaign in 2018 voiced their displeasure with the former ruling coalition due to the lack of far-reaching reforms. Since the outbreak of the COVID-19 pandemic, civil society groups demanded that the PN government refrain from limiting civic space and civil rights. Though most civil society groups promote the ideals of a multiracial and open society, they remain predominantly organized along ethnic and religious lines. Employee associations and trade unions, such as those under the Malaysian Trade Union Congress (MTUC), an umbrella organization, have little political influence.

Malaysians have an ambivalent relationship to democratic norms. According to data provided by the World Value Survey, 88.3% of Malaysian respondents report that democracy is the most suitable form of government for the country. However, almost 70% of the respondents prefer a strong leader unburdened by parliament or elections and 77% prefer experts – not the government – to make decisions according to what they think is best for the country. Also, a significant share of respondents is favorably disposed toward procedures associated with authoritarian governance: half of the respondents report that a religious interpretation of the law is an essential characteristic of democracy. In addition, 45.9% report that they prefer a military government, and only 54% report that women having the same rights as men is an essential part of a democracy. The coincidence of the outbreak of the COVID-19 pandemic and the political crisis in Malaysia did not increase trust in democratic institutions.

#### Interest groups

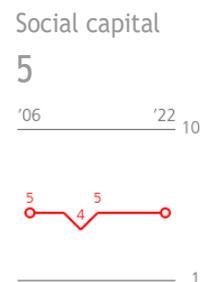


#### Approval of democracy



There is a relatively low level of intercommunal trust within the Malaysian population, although data provided by the World Value Survey shows higher levels of intra-communal trust. Only half of the respondents trust people of another religion, indicating that social and cultural barriers divide the major ethnic and religious groups and became more entrenched during the period under review. Only 30% of Malaysian respondents reported holding membership in a societal association, with only 11% of the respondents being an active member. In addition, 80.4% reported that people cannot be trusted, pointing to markedly low social capital in Malaysian society.

The fact that most Malaysian parties are formed on the basis of ethnic/religious affiliations is a serious problem for the social cohesion of Malaysia. If a politician criticizes another party, there is always the notion that they are criticizing the ethnicity/religion of the other party. This became visible in February 2020, when an all-Malay/Islam party coalition was founded in order to remove the Chinese/Indian Malaysians from government. So far, there is no evidence that the COVID-19 pandemic has affected the sense of solidarity and trust and the self-organizational capacities of civil society.



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Poverty and inequality are limited and only marginally ingrained in Malaysia. The country’s level of development serves to reduce social exclusion among all citizens, although certain areas (such as the Borneo states of Sabah and Sarawak) and communities (such as the indigenous Orang Asli) suffer from lower levels of development and social mobility.

Key indicators reported by the UNDP point to a very high level of human development according to the 2018 statistical update of Human Development Indices and Indicators. The country’s score in the UNDP’s 2020 Human Development Index was 0.810, an improvement compared to previous years. Malaysia’s score is below the average of 0.898 for countries in the very high development group but above the average of 0.747 for the regional East Asia and Pacific group. Malaysia was ranked 62th overall. Between 1990 and 2019, Malaysia’s HDI score increased from 0.643 to 0.810, an increase of 26%. The UNDP noted that – compared to 1990 – the average Malaysian was now living 5.5 years longer, and life expectancy at birth was now 76.2 years. According to World Bank data from 2015, 0.2% of the population live on less than \$3.20 a day at 2011 international prices adjusted for purchasing power parity (PPP) in Malaysia. With a value of 41.0 (data from 2015), inequality in Malaysia significantly decreased in the last decade.



The COVID-19 pandemic and the related movement control order (MCO) worsened the financial situation for the poorer segments of Malaysian society and caused more social exclusion among the poorest. These effects of the pandemic cannot be compensated by the efforts of non-governmental organizations (NGOs) which intensified their actions to extend basic necessities to the poorest communities.

| Economic indicators       |          | 2017     | 2018     | 2019     | 2020            |
|---------------------------|----------|----------|----------|----------|-----------------|
| GDP                       | \$ M     | 319112.1 | 358715.1 | 364681.4 | <b>336664.4</b> |
| GDP growth                | %        | 5.8      | 4.8      | 4.3      | <b>-5.6</b>     |
| Inflation (CPI)           | %        | 3.9      | 0.9      | 0.7      | <b>-1.1</b>     |
| Unemployment              | %        | 3.4      | 3.3      | 3.3      | <b>4.6</b>      |
| Foreign direct investment | % of GDP | 2.9      | 2.3      | 2.5      | -               |
| Export growth             | %        | 8.7      | 1.9      | -1.3     | <b>-8.8</b>     |
| Import growth             | %        | 10.2     | 1.5      | -2.5     | <b>-8.3</b>     |
| Current account balance   | \$ M     | 8960.2   | 8026.4   | 12296.1  | <b>14847.9</b>  |
| Public debt               | % of GDP | 54.4     | 55.6     | 57.1     | <b>67.4</b>     |
| External debt             | \$ M     | -        | -        | -        | -               |
| Total debt service        | \$ M     | -        | -        | -        | -               |
| Net lending/borrowing     | % of GDP | -2.9     | -3.6     | -3.4     | -               |
| Tax revenue               | % of GDP | 12.9     | 12.0     | 12.0     | -               |
| Government consumption    | % of GDP | 12.2     | 11.9     | 11.7     | <b>13.0</b>     |
| Public education spending | % of GDP | 4.7      | 4.5      | 4.2      | -               |
| Public health spending    | % of GDP | 1.9      | 1.9      | -        | -               |
| R&D expenditure           | % of GDP | -        | 1.0      | -        | -               |
| Military expenditure      | % of GDP | 1.1      | 1.0      | 1.0      | <b>1.1</b>      |

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition has a strong institutional framework, but the rules for market competition are not uniform for all market participants. The informal sector is small (officially 8.3% of total employment), but administered prices still play a role in some sectors. In January 2020, the then-ruling PH coalition postponed an expected targeted fuel subsidy system from which 2.8 million low-income earners would have profited.

The change of government and the outbreak of the COVID-19 pandemic put the fuel subsidy system on hold. The change of government to the new PN coalition, which is mainly dominated by Malay/Muslim parties, raised fears that the new government will continue and possibly even further expand the policy of favoring Bumiputera companies for small government contracts, since the coalition largely depends on the Malay/Muslim electorate. There is no indication that public procurement procedures will be enhanced under the new government.

During the period under review, Malaysia improved its business climate for domestic small and medium-sized enterprises, placing it at rank 12 out of 190 economies in the World Bank's Doing Business Index and improving three places compared to the year before. However, according to the 2020 Doing Business report, establishing a business remains burdensome and even worsened during the period under review. It takes 17 days, eight procedures and 11.1% of the average income per capita, placing the country at rank 122 out of 190 in the sub-index on starting a business.

Competition laws designed to prevent monopolistic structures and conduct exist but are enforced inconsistently. The most important competition law in Malaysia is the Competition Act of 2010. It is designed to prevent large companies from engaging in monopolistic and cartel-like activities. The Malaysia Competition Commission (MyCC) oversees the enforcement of the act and initiated several lawsuits against companies that did not comply with the law during the period under review. In October 2019, the MyCC proposed a fine of \$ 20 million on Grab Malaysia, a multinational ride-hailing company, for violating competition law by imposing restrictive clauses on its drivers. The MyCC's inactiveness in investigating the company's business practices has drawn criticism from consumer rights groups in the past. In March 2020, Malaysia's High Court dismissed Grab's request to review MyCC's proposed decision to fine the company. Grab repeatedly declared that the company has fully complied with the Competition Act of 2010. On September 14, 2020, the MyCC fined the General Insurance Association of Malaysia (PIAM) and its 22 members for violating Section 4 of the Competition Act of 2010. The insurance companies were penalized with a fine of \$ 32 million. The final penalty was reduced because the MyCC took the impact of the COVID-19 pandemic on the economic situation in the country into consideration. However, consumer associations continue to ask for amendments to the Consumer Act of 2010, since the act does not provide

### Market organization

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### Competition policy

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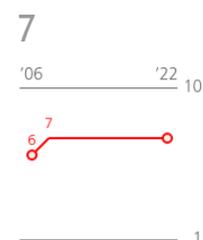
for merger control powers. The absence of merger control powers deprives the MyCC of a more direct influence over changes in market structures that may have an adverse effect on competition.

Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and privileged treatment for domestic industries. Bumiputera equity quotas and protectionist policies shielding key enterprises continue to constitute high barriers for foreign investors. Since 2009, Malaysia has had most-favored nation (MFN) status with its trading partners. At 6.2%, the effectively applied average MFN tariff rate was lower than the Asia-Pacific average. Major trading partners for agricultural products include China, India, the European Union and Singapore; for nonagricultural products, China, Singapore and Japan.

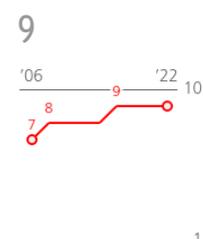
The government still has not ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which incorporates most of the provisions of the defunct Trans-Pacific Partnership Agreement (TPP). The agreement was signed by the former BN government in 2018. On November 15, 2020, Malaysia and 14 other countries, including all ten ASEAN states as well as Australia, China, Japan, the Republic of Korea, and New Zealand, signed the Regional Comprehensive Economic Partnership (RCEP). The RCEP does not cover government subsidies, environmental protection, labor standards and agriculture sector in its agreement compared with the CPTPP. Currently, Malaysia has implemented seven bilateral free trade agreements (FTA) and six regional FTAs. In 2019, trade with countries covered by both the regional and bilateral FTAs accounted for 66.7% of Malaysia's total trade.

Malaysia's banking system and capital markets are differentiated and oriented toward international standards, with functional banking supervision. Capital markets are open to domestic and foreign capital flows, and banks remained well capitalized during the period under review. In 2019, the bank capital-to-assets ratio was 11.7%. Core capital stood at 15.1% as of December 2020 and reached an all-time high of 15.2% in September 2020. Due to the COVID-19 pandemic, the banking sector is expected to see an elevated level of non-performing loans over the next two years. On July 29, 2020, Bank Negara Malaysia announced that the banking industry will provide a targeted loan payment moratorium extension following the 6-month blanket moratorium that expired on September 30, 2020. Credit agency Moody's predicts that Malaysian banks' non-performing loan ratio will rise to 4% in 2022 from 1.5% in 2019, while the credit costs will increase to 0.7% from 0.3% over the same period. According to Moody's, Malaysia will be less affected by the COVID-19 pandemic in comparison to neighboring countries such as Indonesia, Thailand and Vietnam. In June 2020, the Malaysian Islamic banking sector accounted for 39% of total financing in the country.

#### Liberalization of foreign trade



#### Banking system



## 8 | Monetary and fiscal stability

Inflation and foreign exchange policies are treated in concert with other economic policy goals and have an adequate framework in Malaysia. During the period under review, inflation rate volatility (based on average consumer prices) was moderate. For 2019, the average stood at 0.7%, lower than the previous year and significantly lower in comparison to previous years (2018: 0.9%; 2017: 3.9% and 2016: 2.08%). Due to the COVID-19 pandemic, the inflation rate contracted to -1.2% in 2020, the first deflation since 1969. The contraction was due to weaker global crude oil prices as well as the discount given on electricity bills as part of the government's stimulus measures to soften the economic effect of the COVID-19 pandemic. For 2021, the rate is projected to normalize at 1.6%. Throughout the period under review, inflation remained within the comfort zone set by the independent central bank.

Also, the ringgit (MYR) performed better in comparison to the U.S. dollar than was the case in previous years. During the period under review, the ringgit remained stable compared to the dollar and stood at MYR 4.05 to \$1 at the end of the year. However, the ringgit weakened against other currencies including the euro, the Australian dollar, the British pound, the Singapore dollar, and even the Thai baht. In July 2020, the central bank lowered its interest rates by 0.25%, from 2% to an annual rate of 1.75%. The move was seen as an attempt to counter the contraction of the inflation rate and to revitalize the economy. The real effective exchange rate index (year 2000 = 100) decreased from 88.7 in 2018 to 87.4 in 2019.

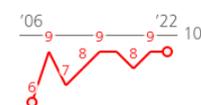
The government's fiscal and debt policies generally promote macroeconomic stability, despite inconsistencies within the country's spectrum of institutional safeguards. In 2019, the budget deficit was 3.4% of GDP, down from 3.7% in 2018. The budget deficit was expected to be at 6% of GDP in 2020. Previously, in the government's 2020 budget, the fiscal deficit for the year was initially projected to stand at 3.2% of GDP.

The increase of the budget deficit was largely due to the economic downturn caused by the COVID-19 pandemic and the resulting government stimulus measures. On February 27, 2020, a fiscal stimulus package of MYR 6 billion (0.4% of GDP) was approved and included increased health spending, temporary tax and social security relief, cash transfers to affected sectors, and rural infrastructure spending. On March 16, 2020, additional measures such as electricity discounts and temporary pay leave were announced. Two weeks later, a second stimulus package (Prihatin Economic Stimulus Package) of MYR 25 billion (1.7% of GDP) was released. It included additional health spending, cash transfers to low-income households, wage subsidies to help employers retain workers, and infrastructure spending in East Malaysia.

The government also set up an MYR 50 billion fund for working capital loan guarantees for all businesses affected by COVID-19. Furthermore, employees were allowed special withdrawals from their Employment Provident Fund (EPF) account for a 12 month period, and businesses were allowed to reschedule their EPF

### Monetary stability

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### Fiscal stability

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payments. On April 6, 2020, the authorities announced a third stimulus package of MYR 10 billion (0.7% of GDP), including grants for micro small and medium enterprises (SMEs), scaled-up wage subsidies, and a 25% discount on foreign workers' fees. On June 9, 2020, the authorities announced a fourth stimulus package (Penjana Stimulus Package) of MYR 35 billion, which included an extension of the wage subsidies scheme, hiring and training subsidies, support for business digitalization, and additional tax relief. On September 23, 2020, the authorities announced a fifth stimulus package (Prihatin Supplementary Initiative Package) of MYR 10 billion (0.7% of GDP), which includes a further extension of the wage subsidies scheme and microgrants for entrepreneurs, and a new round of cash transfer to lower-income households. On October 26, 2020, the Temporary Measures for Government Financing (COVID-19) Act of 2020 was enacted. It temporarily increased the government debt ceiling by 5 percentage points to 60% of GDP.

On November 6, 2020, the government released the 2021 budget, which included MYR 17 billion of spending on COVID-related measures that were carried over from the packages announced earlier in the year. These measures will be financed from the funds borrowed under the Temporary Measures for Government Financing (COVID-19) Bill of 2020. The total amount of fiscal injection envisaged in five stimulus plans over 2020-2021 (MYR 55 billion) remains unchanged. Of that, around MYR 38 billion was spent in 2020 and the remainder, MYR 17 billion, has been allocated to 2021. On January 18, 2021, the PN coalition announced a new package that will total MYR 15 billion. Key initiatives include accelerated social security payments under the existing programs, accelerated withdrawals from the EPF, extended tax relief on communication equipment and locally produced cars, expansion of the wage subsidy program, and additional grants for microenterprises. It also includes relaxation of the unemployment benefits eligibility criteria and extension of terms.

In 2020 alone, the government announced stimulus packages worth 21.2% of GDP or approximately MYR 305 billion. Overall public debt was the equivalent of 60.7% of GDP in 2020, up from 57.2% in 2019. Before the outbreak of the COVID-19 pandemic, the country's total reserves stood at \$101.7 billion in 2019. Government consumption stood at 11.7% of GDP in 2019.

## 9 | Private Property

Rights and regulations governing the acquisition, benefits, use and sale of property are generally well defined, but problems with implementation or enforcement under the rule of law occasionally emerge. Registering property in Malaysia takes 16.5 days and six procedures according to World Bank's Doing Business Report, which placed the country at rank 33 in 2020. Although Malaysia has acceded to the World Intellectual Property Organization (WIPO) Copyright and Performances and Phonograms Treaties in December 2012, there are several shortcomings in

### Property rights

9



Malaysia's efforts to enforce property rights effectively. Key problems include the widespread availability of pirated and counterfeit products, and high rates of internet and book piracy. Malaysia's score in the 2020 International Property Rights Index further improved compared to 2019. Overall, the country was at rank 30 out of 129 countries worldwide and 7 in the Asia and Oceania region. On January 12, 2021, the Malaysian monarch made a national emergency proclamation under Article 150 of the Malaysian constitution to contain the COVID-19 pandemic at the request of Prime Minister Muhyiddin Yassin. The proclamation allows forced confiscation of property with no ability to challenge the compensation offered.

Private companies are institutionally viewed as important engines of economic production and are given legal safeguards in Malaysia. Nonetheless, the revenues of Malaysia's state-owned companies and government-linked companies constitute nearly a fifth of the country's GDP. In the last decade, the top 20 government-linked companies (GLCs) saw their market capitalization grow by 320% to MYR 431.1 billion in 2015. As of 2017, GLCs owned by government-linked investment companies (GLICs) constituted 42% of the total market capitalization of all public-listed firms in Malaysia. The top 20 GLCs are controlled by five government-linked investment companies (GLICs), namely Employees Provident Fund (EPF), Khazanah Nasional Berhad, Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH) and Permodalan Nasional Berhad (PNB).

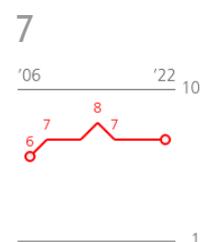
After the change in government in 2018, the then-ruling PH coalition was urged to review the GLC system, since it was synonymous with cronyism and patronage. However, with the fall of the PH government in February 2020 and the installation of Muhyiddin Yassin as the new prime minister, there has been a lack of reform when it comes to GLCs. Worse, government critics feared that the dependence of the new ruling coalition PN on the support of the UMNO would lead to a return to the old politics of cronyism in the GLC sector. The privatization of state companies does not fully conform to market principles, mainly because the privatization of projects requires Bumiputera participation.

## 10 | Welfare Regime

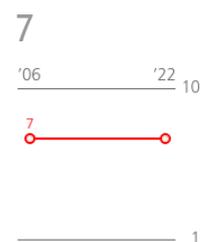
In principle, social safety nets are well developed, but they do not cover all risks for all strata of the population. Part of the population is still risk of poverty in Malaysia, and there is no individual retirement funding mechanism in place. Several social security programs provide benefits for various groups of workers. Government employees receive the most generous benefits, while employees in the small informal sector receive virtually nothing.

The Employees Provident Fund (EPF) is the primary social security institution and covers more than half of the workers in the private sector as of 2000. In 2020, the EPF had 14.8 million members, of whom 7.6 million were active contributing

Private enterprise



Social safety nets



members. Due to the COVID-19 pandemic, the government not only changed employee contribution rates to the EPF, but also allowed withdrawals from the EPF and implemented several programs to reduce the risk of poverty caused by the pandemic. For the period between April and December 2020, employees had to contribute 7% of their monthly salary, down from the usual 11% rate. In November 2020, the government announced that from January 2021 to December 2021, the rate would be 9%. In March 2020, the government implemented the i-Lestari scheme under which Malaysian citizens, permanent residents and non-Malaysians aged 55 and below that have an EPF account were allowed to withdraw up to MYR 500 per month from April 2020 to March 31, 2021. Members were allowed to take out funds only from the i-Lestari Account 2 of the EPF. In June 2020, the Malaysian Trade Union Congress (MTUC) criticized the i-Lestari scheme and demanded a MYR 500 monthly cash stimulus for the B40 (bottom 40%) workers from the government instead. The B40 group is defined as those with a household income of less than MYR 4,360 per month. Some EPF members have already exhausted their Account 2 after two months of withdrawing MYR 500 per month. On June 17, 2020, the EPF declared that the majority of the 4.1 million applications for the i-Lestari Account 2 withdrawals were from the B40 group, with a total of MYR 1.94 billion withdrawn. Between April 12, 2020 and December 18, 2020, MYR 14.41 billion were withdrawn by 4.88 million members from the i-Lestari Account 2.

In November 2020, the government announced the i-Sinar program. This will allow eligible employees to have access to 10% of their total Account 1 savings as long as they maintain a minimum balance of MY 100. The actual amount employees can withdraw under the i-Sinar initiative is determined by how much they have in their account. The government made MYR 70 billion available for withdrawals, allowing an estimated eight million subscribers to withdraw a maximum of up to MYR 10,000 or MYR 60,000 from Account 1.

In November 2020, the government increased its budget allocation for the Supplementary Food Programme (Rancangan Makanan Tambahan or RMT) to MYR 420 million in the 2021 budget, a substantial increase compared with MYR 295 million for 2020. During the period under review, the government released several wage subsidy programs under which employers with workers earning less than MYR 4,000 per month will be eligible to receive MYR 600 per employee, up to a maximum of 500 employees. Until the end of 2020, the government allocated a total of MYR 15 billion to the programs.

The most vulnerable members of society were supported with a total amount of MYR 108 million by the Penjana Stimulus Package with a one-off payment of MYR 300 given to 190,000 registered disabled persons, 150,000 single mothers who were below the poverty line, and 2,000 people receiving volunteer home help services. In addition, Malaysia remains dependent on informal community assistance and a large number of NGOs in the social security sector. This informal community assistance is

also necessary because of low public expenditure on health (2% of GDP in 2017), despite Malaysia's widespread health care system. A universal health care system coexists with a growing private health care sector.

Equality of opportunity has been partly achieved. Indeed, it is systematically circumvented through policies of so-called reverse discrimination as well as informal stigmatization. Discrimination against women, members of the LGBTQ+ community and ethnic groups persist.

Although women's civil liberties are protected by law in Malaysia, traditional practices continue to distinguish between genders. In 2019, the country had a Gender Inequality Index value of 0.253, meaning Malaysia ranks 59 out of 162 countries. Further, only 14.1% of parliamentary seats are held by women. The country has a Gender Inequality Index value of 0.253. The 2019 female HDI value for Malaysia is 0.797, in contrast with 0.821 for males. In addition, the labor market participation rate is 55.8% for women, compared to 80.8% for men, indicating a serious gap between men and women in Malaysia. In context, Malaysia's Gender Inequality Index value is above the average for high HDI countries and the average for the East Asia and Pacific region. The female literacy rate is 93.5%, lower than the male rate of 96.1%. In the 2020 Global Gender Gap Index of the World Economic Forum Malaysia places only at rank 104 out of 153 countries, behind neighboring countries such as Indonesia (85), Thailand (75), or the Philippines (16).

Even more glaringly, affirmative action policies continue to favor "indigenous" Muslim-Malays, officially designated as "Bumiputera." Chinese and Indian citizens are thus systematically disadvantaged by quota systems and other exclusionary practices when seeking positions in political life, higher education, the state bureaucracy, public enterprises and the armed forces. Non-Bumiputera can participate more fully in economic life, but remain hampered by discriminatory government procurement policies, licensing approvals and contract awards, equity allocations, bank lending, ethnic-based discounts, and other barriers

## 11 | Economic Performance

Like economies all over the world, Malaysia's economic performance was heavily impacted by the COVID-19 pandemic. The overall GDP growth rate for 2019 was 4.3%, down from 4.8% in 2018. In 2020, GDP shrank by 5.6% overall, the biggest contraction since the 1998 Asian financial crisis. The economy was almost entirely shut down between March and June 2020, causing GDP to contract by 17.1% in the second quarter of 2020. Initial projections by the Finance Ministry expect growth to be between 6.5% to 7.5% in 2021.

During the period under review, inflation rate volatility (based on average consumer prices) was moderate. For 2019, the average stood at 0.7%, lower than the previous

### Equal opportunity

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### Output strength

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year and significantly lower than previous years (2018: 0.9%; 2017: 3.9% and 2016: 2.08%). Due to the COVID-19 pandemic, the inflation rate contracted to -1.2% in 2020, the first deflation since 1969. The contraction was due to weaker global crude oil prices and the discount given on electricity bills as part of the government's stimulus measures to soften the economic effect of the COVID-19 pandemic. For 2021, the rate is projected to normalize at 1.6%.

The unemployment rate stood at 4.8% at the end of 2020 after surpassing 5% in the middle of the year, the highest rate in three decades. Foreign direct investment (FDI) into Malaysia dropped by more than two-thirds to just \$2.5 billion in 2020. Compared to other countries in Asia, where the average decline was just 4%, the drop mirrored the increasing political uncertainty in the country.

In 2019, the budget deficit was 3.4% of GDP, down from 3.7% in 2018. The budget deficit was expected to be at 6% of GDP in 2020. Previously, in the government's 2020 budget, the fiscal deficit for the year was initially projected to stand at 3.2% of GDP. The increase of the budget deficit was largely due to the economic downturn caused by the COVID-19 pandemic and the resulting government stimulus measures. Overall public debt was the equivalent of 60.7% of GDP in 2020, up from 57.2% in 2019. Before the outbreak of the COVID-19 pandemic, the country's total reserves stood at \$101.7 billion in 2019. Government consumption stood at 11.7% of GDP in 2019.

## 12 | Sustainability

While Malaysian policymakers do take environmental concerns into account, they are apt to prioritize promoting economic growth above them. Deforestation and climate change are the nation's primary environmental concerns.

The former PH government emphasized the need to work on environmental concerns in the country. The coalition made environmental law reform one of its main issues. In July 2019, the former government reviewed the MYR 846 million Environmental Quality Monitoring Programme (EQMP) after concerns about its effectiveness as an early warning system. The government said the EQMP did not alert authorities to the illegal dumping of toxic waste at Sungai Kim Kim in March 2019. At the beginning of 2020, the former ruling coalition promised to streamline departmental procedures and improve the enforcement of environmental protection rules.

During the period under review, the federal government confronted state governments when they went against the federal government's environmental protection agenda. In February 2020, the Selangor state government announced that it would degazette and raze 931 hectares of the Kuala Langat forest, a biodiverse peat swamp. The federal government joined civil society groups and indigenous Orang Asli communities in voicing concerns about this project and Selangor state's power.

Environmental policy

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At that time, the federal and state government were both led by the PH coalition. As a result, the federal government reluctantly criticized Selangor's government on the issue. Malaysia suffers from regular floods due to illegal logging activities as well as water contamination and illegal waste dumping.

In principle, Malaysia's education policy ensures a nationwide system of reasonably sound education and training. The research and technology sector is broadly based. Public expenditure on education, totaling 4.5% of GDP in 2018 according to World Bank data, can be considered high even in comparison to international standards.

Malaysia currently has 20 public universities, 33 polytechnical universities, 72 private universities, university colleges and Malaysian campuses of foreign universities, and about 500 private colleges, with almost a million students enrolled in these institutions. More than half a million students are enrolled in public universities. During the period under review, gross enrollment ratios at the secondary level stood at 81.9% and at the tertiary level at 45.13% as of 2018. In the UNDP's Education index, Malaysia scored at 0.726. Expenditure on R&D amounted to only 1.4% of GDP in 2016. The overall literacy rate stood at 94.9% in 2018. In addition, significant numbers of Malay Muslims gravitate into religious schools at the primary and secondary levels. Because many of these schools do not provide high quality education, they are often unregistered. During the period under review, calls for the abolishment of vernacular schools, which are schools that use languages other than Malay and English as the main medium, increased. In November 2019, the Federal Court dismissed the application for leave to challenge the existence of vernacular schools.

Although Malaysia invests large sums of money in education, with Malaysian universities viewed as second-best in the region behind Singapore, the educational system continues to face challenges. Malaysian schools would profit from reforms such as a pay and promotion structure that rewards good teaching and innovative management of schools, effective training of teachers, and expansion of well-run boarding schools for children from remote areas and nutritious meal programs for poor students.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

Besides the COVID-19 pandemic, the Malaysian government faces only moderate structural constraints with respect to its capacity to govern. Infrastructure development and extreme poverty are not serious constraints for the ruling PN government. Air pollution, the effects of the climate change and floods indicate that the country is moderately exposed to natural disasters. Malaysia's biennial update report to the United Nations Framework Convention on Climate Change indicates that its temperature, rainfall and sea level have been rising for the past four decades, a trend that is projected to continue for the next 30 years. The average temperature in Malaysia is projected to increase by between 1.2 degrees Celsius and 1.6 degrees Celsius by 2050, leading to various implications such as extreme weather and unpredictable waters off its coasts. Rising sea levels in Borneo could lead to the erasure of the ethnic Bajau Laut people's villages. As an indicator that the effects of climate change are already being experienced, the worst floods in the past 30 years have all occurred since 2003. During the period under review, Malaysia suffered from floods yet again. In January 2021, at least six people died and nearly 50,000 were evacuated after monsoon rains hit the country's east coast. The worst-hit state was Pahang, where about 27,000 people were evacuated.

In addition, the Malaysian government must improve public safety, especially in the state of Sabah and the Singapore Straits. During the period under review, piracy cases in the Singapore Straits remained a challenge for the Malaysian state. According to government officials, Malaysian security forces have thwarted 40 kidnapping attempts in the waters off the Eastern Sabah Security Zone since 2018, highlighting potential threats by guerilla groups and pirates active off the coast of Borneo.

Compared to other nations in Southeast Asia, Malaysia was hard hit by the COVID-19 pandemic. In terms of confirmed COVID-19 cases and COVID-related deaths, the country is the third and fourth most affected country in Southeast Asia, respectively. The country also suffered from negative effects on its economic performance due to the pandemic. A nationwide "Movement Control Order" (MCO), intended to mitigate the spread of COVID-19 through social distancing, heavily impacted the country's economy from March to June 2020. In 2020, the overall GDP shrank by 5.6%, the biggest contraction since the 1998 Asian financial crisis. The economy was almost entirely shut down between March and June 2020, causing GDP to contract by 17.1% in the second quarter of 2020. With the January 12, 2021 proclamation of a national

Structural  
constraints

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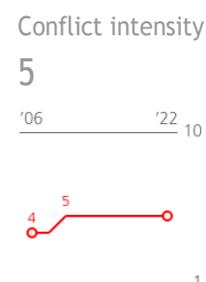
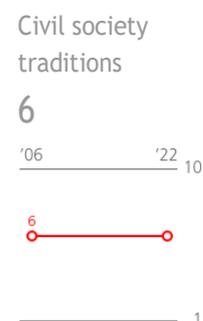
emergency under Article 150 of the Malaysian constitution intended to contain the COVID-19 pandemic, the pandemic continues to profoundly impact daily life in Malaysia.

Civil society traditions remain fairly weak in Malaysia. With the exception of religious and ethnic organizations, voluntary organizations are mostly found in urban areas. Though new NGOs have emerged in the last two decades, the country's voluntary organizations remain plagued by scarce organizational resources. Nonetheless, civil society groups played a significant role in the outcome of the last general elections in May 2018. Civil society groups (e.g., the Coalition for Clean and Fair Elections, Bersih) actively educated the public about redistricting violations made by the Election Commission (EC) prior to the general elections. As a result, large segments of the public were sensitive to the authoritarian tactics used by the former BN government.

However, the breakup of the democratically elected PH government due to political infighting and the former PH government's underwhelming performance with respect to their reform agenda in the 22 months of their rule led to mounting frustrations among civil society groups. Several civil society associations demanded that all PH members of parliament, including now Prime Minister Muhyiddin Yassin, who won on the PH ticket but left the coalition, should resign immediately. Civil society groups described the new PN government as a "backdoor government" and viewed the formation of the PN coalition as a betrayal of voters who voted for change in the last general elections in 2018.

In general, two civil society cultures have emerged within the growing circle of NGOs. On the one hand, liberal organizations have strengthened monitoring activities in such areas as human rights, the government's reform agenda and especially environmental issues. On the other hand, a more welfare-oriented culture has emerged in rural areas, with a particular focus at the local level on informal community assistance to the poor. However, only 30% of Malaysian respondents are members of any form of societal association, according to data provided by the World Value Survey, with only 11% of the respondents being an active member. The data further shows that involvement in associations largely fails to foster trust in fellow citizens in Malaysia. Social capital is markedly low in Malaysian society. 80.4% of Malaysian respondents report that people cannot be trusted.

There have been few outbreaks of serious violence in Malaysia in recent years. However, society is polarized along ethnic and religious lines. The divide between Muslims and non-Muslims was evident during the period under review when the multiethnic PH coalition broke up in February 2020 and was replaced by the PN coalition, in which the Malay/Muslim parties are dominant. Although the breakup of the PH coalition was partially related to internal fighting, the formation of a coalition dominated by Malay/Muslim identity raised fears among ethnic Chinese and ethnic Indians over discrimination.



Significant shares of the Malay population continue to reject any change to Malay dominance. This became evident in January 2021, when the government discussed plans to amend the Shariah Courts (Criminal Jurisdiction) Act 1965 to criminalize gender changes and the creation of online media content that could be deemed as controversial. The amendments, if passed in parliament, would further indicate the growing influence of religious dogmas on the Malaysian legal order and the government’s agenda to form a more conservative social order in Malaysia.

The polarization of Malaysian society with regard to how far religious norms should define daily public life became evident in July 2020, when the minister of religious affairs, Zulkifli Mohamad, publicly encouraged officers of the Federal Territory Islamic Department to arrest transgender people so that they would “return to the right path.” In October 2020, a raid against an event organized by transgender women in the state of Kedah led to the arrest of 30 people. These examples indicate that the legacy of the former BN government with regard to the configuration of ethnic and religious relations still plays an important role in Malaysian society.

## II. Governance Performance

### 14 | Steering Capability

The former ruling PH coalition set strategic priorities after taking over the government in May 2018. The former government’s long-term development goals included democratization of the public sphere and deepening of democratic norms. However, due to the end of the coalition in February 2020, the reform agenda largely failed. In most cases, the recommendations for institutional reforms made by the Institutional Reforms Committee (IRC) mostly never came to fruition. In August 2020, the new PN government withdrew the bill and submitted a modified bill in response to police objection against the original bill. The new bill also deprives the commission of enforcement powers, making the commission’s work essentially irrelevant. This episode can be seen as symptomatic for the new PN government’s agenda to roll back the reform initiatives of the former PH government. So far, the PN government’s actions do not fit the normative framework of a democratic reform agenda and short-term interests of political bargaining and office seeking seem to dominate the ruling coalition’s policy agenda.

The new PN government’s economic agenda is largely dominated by the effects of the COVID-19 pandemic. The government quickly prioritized softening the economic effects of the pandemic and issued several stimulus packages to keep the country’s economy on track. In October 2019, the then-ruling PH coalition released the Shared Prosperity Vision (SPV) 2030 for the period of 2021 to 2030. This

Question  
Score

Prioritization

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economic blueprint aimed to increase the incomes of all ethnic groups. Among its key objectives is to move Malaysia from being a labor-intensive country with a reliance on unskilled low-paying workers to a high-income, high-skilled labor force capable of attracting new investments and opportunities, in line with the latest developments in science and technology. The Twelfth Malaysia Plan (2021-2025) was originally scheduled to be released in 2020. Due to the COVID-19 pandemic, the release was postponed in order to take the policy adjustments and economic reforms needed due to the pandemic into consideration. According to government officials, the plan will focus on high potential industries such as aerospace, advanced electrical and electronics, creative industry, biomass, and smart farming.

The former PH government only partially achieved its own strategic priorities and did not fully implement its campaign pledge to thoroughly reform several acts that restrict civil rights by the time the coalition broke up in February 2020. Laws such as the Official Secrets Act (OSA), the Printing Presses and Publications Act, and the Sedition Act continue to restrict freedom of information and of speech. In October 2019, the then-governing PH coalition also tabled a bill to amend the Peaceful Assembly Act of 2012, which limits the right to peacefully assemble.

Although the amendments were seen as progress compared to the still more restrictive rules that came prior to it, human rights groups criticized the bill for falling short of meeting international human rights standards. The bill is designed to eliminate language banning all protests in which participants march from one location to another and would reduce the required notice period from 10 to seven days. In addition, proposed amendments did not eliminate the various criminal penalties provided in the Peaceful Assembly Act of 2012.

To date, the new ruling PN coalition does not seem to be following through with democratic reforms. On the contrary, the proclamation of the national emergency in January 2021 raised fears that democratic norms will come under more pressure since the national emergency provides the military with police powers, allows the forced confiscation of property with no ability to challenge the compensation offered, and gives the government and military near-total immunity for acts taken under the ordinance. Immediately after the proclamation, the Malaysian Multimedia and Communication Commission released a statement and warned that it was monitoring social media closely for misinformation.

With regard to implementing economic reform policies and instituting a more market-based economy, the effects of the COVID-19 pandemic limited the government's range of actions. The former PH government and the ruling PN coalition identified the country's dependency on a labor-intensive industry and the lack of a highly-skilled workforce as problematic for the transformation of the country's economy. However, the publication of the Twelfth Malaysia Plan, the economic blueprint for the next several years, was delayed due to the pandemic. Government officials declared that the focus of the Twelfth Malaysia Plan will be on

Implementation

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attracting quality investments that promote the development of complex products and services, create high-skilled and high-paying jobs, encourage higher use of domestic inputs and improve development in underserved areas.

The former PH government showed some willingness to learn from past mistakes made by the BN coalition in its many years of rule. However, when it came to implementing reforms in order to widen the democratic framework in the country, the coalition refrained from enacting far-reaching reforms. Former Prime Minister Mahathir was not willing to learn from past mistakes to leave behind racial politics, respond to criticisms that he was selling out Islam to the secularists, and engage in meaningful reform. At the end of the PH coalition, it became evident that there was a deeply entrenched division over governance that led to the breakup of the coalition. The less reform-oriented parts of the PH coalition joined forces with the PAS and UMNO in order to tap into Malay resentments over ethnic displacement and to stoke antireform resistance.

To date, the PN government has not successfully avoided polarization among ethnic groups. Since foreign workers and refugees were held responsible for some outbreaks of COVID-19 in the country, xenophobic sentiments have increased. In addition, the coalition returned to the old practice of politicized appointments in government-linked companies (GLC) and has not appeared to consult with academic experts and practitioners. Furthermore, individuals who were subjects of corruption-related investigations in the past, such as UMNO President Ahmad Zahid Hamidi, whose corruption trial is still ongoing, continue to influence the government's policy agenda.

To date, the government's response to the COVID-19 pandemic has been adequate. However, due to the political crisis that coincided with the outbreak of COVID-19, the government's response to early COVID-19 clusters was delayed and drew criticism from public health experts. In March 2020, Health Minister Adham Baba was criticized for nonsensical, almost comical, advice given to the public regarding how to avoid being infected with the virus. As part of The Prihatin stimulus package, the government urged telecommunication companies to invest an additional MYR 400 million to increase network coverage and capacity by improving their backhaul infrastructure. In 2019, the former PH government announced the National Fiberisation and Connectivity Plan (NFCP) which was intended to continue building and improving national digital infrastructure, especially in rural areas.

Policy learning



## 15 | Resource Efficiency

The Malaysian government makes efficient use of most available human, financial and organizational resources. The government's administrative personnel are generally seen as professional. However, the reach of competitive recruiting systems is limited due to the Bumiputera quota system. This negatively impacts the efficiency of the administrative system at all levels of the Malaysian bureaucracy.

Furthermore, the highly centralized character of the Malaysian federation cripples local government initiatives. In addition, the government's affirmative action policy, which establishes a Bumiputera quota for virtually all of its economic activities, remains problematic and not in line with a market-based economy. After the change in government, the new PN administration continued the practice of appointing unfit directors to government-linked companies (GLCs) and state-owned enterprises (SOEs).

Due to the COVID-19 pandemic and the government's stimulus packages to ease the financial burden for the Malaysian population, the federal government's level of debt increased significantly during the period under review and remains higher than that of comparable countries. Overall public debt was the equivalent of 60.7% of GDP in 2020, up from 57.2% in 2019. With a budget deficit expected to be at 6% of GDP in 2020, the government is far from achieving a balanced budget.

The former PH government failed to coordinate conflicting interests and objectives under the leadership of Prime Minister Mahathir, leading to the breakup of the coalition in February 2020. The multiethnic coalition did not successfully coordinate its conflicting interests and policy positions, especially when it came to the special role of the Malay/Muslim majority population. Former Prime Minister Mahathir was not willing to learn from past mistakes to abandon racial politics and profoundly reform the political and economic sphere in the country. At the end of the PH coalition, it became evident that there was a deeply entrenched division over governance that led to the breakup of the coalition, resulting in the less reform-oriented parts of the PH coalition joining forces with the PAS and UMNO.

The conflicts within the former PH government over economic and social policies were reflected in the meager reform agenda the coalition showed in the 22 months of its rule. One challenge for the PH government was coordination across federal, state and local levels of government. The BN and PAS, which hold power in several states, successfully slowed down PH's policy reforms. The new PN coalition response to the COVID-19 pandemic, though initially praised by the World Health Organization (WHO), came under scrutiny in January 2021 due to rising coronavirus cases throughout the country.

Efficient use of assets



Policy coordination



Several reforms intended to contain corruption were implemented by the former PH government, leading to the partial establishment of effective mechanisms to tackle corruption in Malaysia.

On July 1, 2019, the Dewan Rakyat approved a special motion requiring all members of parliament, senators and their immediate family members to declare their assets under the National Anti-Corruption Plan (NACP). In addition, the Malaysian Anti-Corruption Commission (MACC) arrested a total of 467 civil servants for various corruption offenses in 2020, down from 525 in the previous year. On March 17, 2020, officials from the Prime Minister's Office (PMO) declared that Malaysia had recovered \$322 million stolen from the sovereign wealth fund 1MDB, which amounted to only a fraction of the more than \$4.5 billion prosecutors estimate had been stolen.

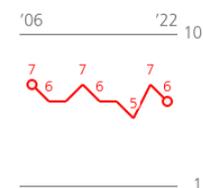
On July 28, 2020, the High Court convicted former Prime Minister Najib Razak on all seven counts of abuse of power, money-laundering and criminal breach of trust for his role in the 1MDB scandal, making him the first prime minister of Malaysia to be convicted of corruption. He was sentenced to 12 years' imprisonment and fined MYR 210 million. He was also given six concurrent sentences of 10 years' imprisonment for six other charges.

However, the former government failed to table and pass the Political Funding Bill and as a result, money politics is still rampant during elections. In June 2020, the former chief minister of Sabah, Musa Aman, was fully acquitted of nearly 35 charges of corruption and money-laundering related to the award of logging contracts in June 2020. In May 2020, the Sessions Court granted the prosecution's request to give a discharge not amounting to an acquittal to Najib Razak's stepson, Riza Aziz, who was charged with five counts of money-laundering amounting to \$248 million.

With the return of the former ruling party UMNO to the federal government, questions arose as to whether the new PN government will pursue the fight against corruption in the country. In addition, there is no indication that public procurement procedures will be enhanced under the new government. Institutions to audit state spending are in place. In July 2020, Auditor-General Datuk Nik Azman Nik Abdul Majid released the third part of a series of reports in which the department performed 12 audits concerning 742.476 billion MYR of spending involving programs and projects in 10 ministries. Besides the ministries, the National Audit Department also carried out performance audits on 17 programs or projects involving 22 departments and agencies and 13 management audits on state-owned companies in the report.

## Anti-corruption policy

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## 16 | Consensus-Building

The new PN government and opposition parties do not share a consensus on the subject of liberal democracy. While the new administration has refrained from repealing repressive laws that have been a trademark of the Malaysian political system over the last decades, civil society groups have joined the opposition parties in urging the government to implement democratic reforms. Islamic right-wing groups continue to pressure the new administration to preserve the special rights of the Malay/Muslim majority population. Even so, a significant part of civil society supports democracy and the former administration's reform agenda.

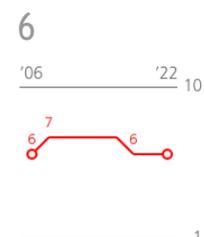
In principle, all major political and social actors agree on the goal of a market-based economy. The exceptions to this include some environmental groups, who feel that environmental considerations should not come second to measures taken for economic growth, as well as right-wing Malay groups such as Perkasa, who argue that economic opportunities should be structured on ethnic lines. Right-wing Malay groups, which dominate certain segments of the public discourse, pose a serious challenge to the government's reform policies. Labor activists have also expressed concern with the impact of several free trade agreements. Nevertheless, there is no politically or economically relevant actor with the power to derail either the reform process or the expansion of the market economy.

The change of government that occurred when the former PH coalition broke up in February 2020 ended the rule of pro-democratic reformers at the federal level for the first time since Malaysia's independence. At the state level, pro-democratic actors only rule in three states, having lost power in Johor, Perak, Malacca and Kedah. As a result, the former PH government's democratic reform agenda came to a halt with the installation of the new PN coalition. In contrast, the military does not appear to pose a threat to democratic reformers, since it decided not to intervene in the 2018 electoral victory of the opposition coalition. The armed forces are effectively subordinated to civilian rulers.

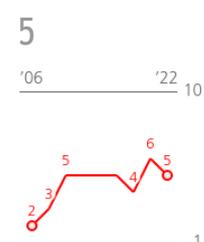
Given the ethnic and religious heterogeneity of Malaysian society and its significant ethno-religious cleavages, former and current governments have had various degrees of success in managing social differences. After the change of government in 2018, there was a peaceful transfer of power without violent clashes between ethnic groups. This was a departure from events in 1969, when opposition parties gained a significant share of seats in the general elections and riots broke out.

However, while cleavage-based conflicts have not boiled over into large-scale violence, the breakup of the multiethnic PH coalition and the installation of the Malay/Muslim dominated PN government demonstrated the potential for ethnic conflict. The new administration will have to prove its willingness to implement reforms with regard to the social contract (i.e., to establish equal rights among the

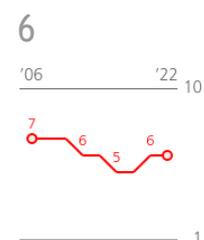
Consensus on goals



Anti-democratic actors



Cleavage / conflict management



various ethnic groups) without causing violent disruptions and political turmoil. So far, the new political leadership has prevented cleavage-based conflicts from escalating.

The former PH government permitted civil society participation and partially considered and accommodated the interests of most civil society actors. Though laws pertaining to NGOs and other civil society groups limiting the space within which civic activity can take place have not been repealed during the period under review, civil society groups can organize their activities without interference from the government. In addition, recommendations formulated by civil society actors had an impact on the former government’s policies. However, civil society groups that supported the former PH government during the election campaign in 2018 voiced their displeasure with the former ruling coalition due to the lack of far-reaching reforms during the period under review.

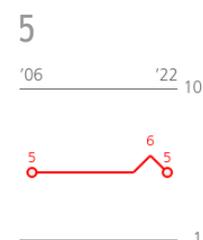
Civil society actors’ influence on the now ruling PN coalition’s policy agenda is severely limited compared to the previous government. Since the outbreak of the COVID-19 pandemic, civil society groups demanded that the PN government to refrain from limiting civic space and civil rights. Islamist groups have been increasingly influential at the federal level since the breakup of the PH coalition.

The effects of the May 13, 1969 race riots remain visible in Malaysian society, as the Bumiputera affirmative action policies implemented at the time remain partially in place. Discontent with these policies is clearly visible among the ethnic Indian and Chinese minorities. This fact became evident after the breakup of the multiethnic ruling coalition in February 2020. The former PH failed to accommodate the demands of the ethnic Chinese and Indian minorities by finding a more inclusive way of formulating and implementing policies without favoring one ethnic group. The Malay/Muslim parties, UMNO and PAS, have made it clear that they and their supporters will not accept changes to Bumiputera affirmative action policies. As a result, tensions between the Malay-Muslim majority and non-Malay/non-Muslim minorities remained high during the period under review.

### 17 | International Cooperation

The political leadership uses international assistance for its own development agenda, but it remains difficult to assess if the new administration views international assistance as an important instrument for implementing its long-term development strategy. The former PH government stressed the importance of international cooperation in the fight against corruption. At the Tenth Annual General Assembly of the International Association of Anti-Corruption Authorities (IAACA) former Prime Minister Mahathir delivered a keynote address and emphasized that international cooperation helps in reducing crime, since borders are becoming more and more porous. Malaysia also engaged in international cooperation to fight the COVID-19 pandemic and, in early 2020, donated medical equipment to China. Later, Malaysia received personal protective equipment from the United Arab Emirates.

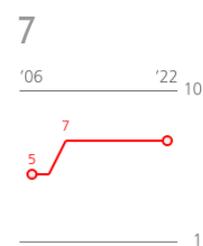
Civil society participation



Reconciliation  
n/a



Effective use of support



The Malaysian government is considered to be a reliable and credible partner by the international community. Political leadership remains fully engaged with the World Bank, IMF, Asian Development Bank (ADB), WTO and other international institutions. Malaysia, Indonesia and the Philippines trustfully cooperate in a trilateral maritime mission to secure the waters off the coast of Sabah to combat violent extremism and terrorism. In general, Malaysia's foreign policy focuses on a non-aligned position that maximizes the country's economic, political and security interests.

#### Credibility

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The Malaysian government promotes both regional and international cooperation. On November 15, 2020, Malaysia and 14 other countries, including all ten ASEAN states as well as Australia, China, Japan, the Republic of Korea and New Zealand, signed the Regional Comprehensive Economic Partnership (RCEP). In January 2021, Malaysia and Australia elevated the bilateral relationship to a Comprehensive Strategic Partnership (CSP). The CSP commits leaders to meet annually and is underpinned by three streams of cooperation: economic prosperity, society and technology, and defense and regional security. Under the CSP, Australia and Malaysia will expand cooperation on economic recovery and growth, health, education, and the digital economy, and will also begin cooperation in new areas of science and innovation. In addition, Malaysia is cooperating with its neighbors to improve security in the international waters close to Malaysia and to secure commercial routes. Currently, Singapore, Malaysia, Indonesia and Thailand conduct joint patrols along the Malacca Strait from the Andaman Sea down to the Singapore Strait and its entry point from the South China Sea. However, Malaysia's territorial dispute with the Philippines over the northern part of Sabah on the island of Borneo remains unresolved. In addition, the deportation and mistreatment of migrant workers from various Asian countries since the outbreak of the COVID-19 pandemic causes frictions with these countries.

#### Regional cooperation

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## Strategic Outlook

Malaysia faces a challenging political landscape for reforms. The breakup of the former ruling coalition in February 2020 undermined voters' confidence in the government and the problem-solving ability of political parties in general. Although the end of the former ruling coalition was triggered by an internal power struggle between former Prime Minister Mahathir and his potential successor, Anwar Ibrahim, the disintegration of the coalition was symbolic of the different factions within the former government and the profound ethnic divide that runs through Malaysian politics. The shift of power from the multiethnic PH to the new ruling PN government, a coalition of mainly Malay parties from both sides of the aisle, is indicative of the legacies of several decades of authoritarian rule and the difficult political landscape for reforms. Democratic and economic reforms that affect the special rights of the Malay population are viewed as a zero-sum game by the Malay/Muslim majority population, in which the Malay population loses and the ethnic Chinese and Indian minorities win.

When federal elections are next held (scheduled to be held on or before July 2023), any newly elected government will have to undertake several measures to avoid any further deepening of religious and ethnic cleavages within the population. First, the government should resist any overtures from radical Malay activists who agitate for a distinctly Malay nativist agenda to expand the rule of the Shariah law in the country. Second, the current political crisis raised fears among civil rights activists that political space could be further limited and indicated that the former PH government's democratic reform agenda was largely unsuccessful. Effective policy learning through open dialogue between different stakeholders and the implementation of best practices in line with the latest research findings can only take place in a political sphere that is not dominated by fear and anxiety. Laws such as the Official Secrets Act (OSA), the Printing Presses and Publications Act, and the Sedition Act continue to restrict freedom of information and speech, limit the potential of Malaysian society, and should therefore be abolished. The government should also consider further and more radical reforms concerning the organization of the electoral system to make the system less prone to abuses of power. The functions of the Election Commission (EC) should be divided up into three distinct entities to improve the voting process. Next to the existing EC, an electoral enforcement commission (EEC), and an electoral boundaries commission (EBC) should be established to minimize the influence of the executive, and therefore the respective government, on the commissions.

To promote a more competitive market economy, the PN government should refrain from handing short-term goods to the Malay electorate and should rather focus on transitioning Malaysia from being a labor-intensive country with a reliance on unskilled low-paying workers to a high-income, high-skilled labor force capable of attracting new investments and opportunities, in line with the latest developments in science and technology. To promote a more competitive economy, the government could reduce preferential policies and special rights favoring the Bumiputera in the Twelfth Malaysia Plan (2021-2025). These measures would help to ease the negative economic effects due to the COVID-19 pandemic since the country was among the hardest hit economies in Southeast Asia by the pandemic. Finally, reform-oriented parties should be open to cooperation after the next general elections to avoid a hardening of the democratic rollback in the country.