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Malaysia: Background and U.S. Relations

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Summary

Malaysia, a majority Muslim nation in Southeast Asia, has long been a partner in U.S. security and economic initiatives in the region, although political sensitivities in Malaysia have constrained both sides from forging deeper ties or even acknowledging how close the relationship is. Bilateral relations have improved over the past decade, especially under Prime Minister Najib Razak, who has made relations with the United States a priority. The Obama Administration has emphasized deeper engagement with Malaysia and other “emerging partners” in Southeast Asia as part of the strategic “rebalancing” to the Asia-Pacific region. Congress has expressed interest in a variety of issues in U.S.-Malaysia relations over the years, especially regarding trade, security cooperation, human rights, and Malaysia’s diplomacy.

Malaysia is considered a middle-income country, relatively prosperous compared to most other Southeast Asian countries. The United States and Malaysia are major trade and investment partners. In 2014, Malaysia was the 24th-largest market for U.S. exports and the 17th-largest supplier of U.S. imports. The United States was Malaysia’s 4th-largest export market (after Singapore, China, and Japan) and the 4th-largest supplier of imports (after China, Singapore, and Japan). Both countries are parties to the Trans-Pacific Partnership (TPP), a proposed trade agreement among 12 countries comprising nearly 40% of the global economy. The United States’ main trade-related concerns are Malaysia’s government procurement policies, protection of intellectual property rights, prevalence of forced labor, and market access for key goods and services.

With a diverse ethnic and religious mix, Malaysia has enjoyed considerable political stability since it gained independence in 1957. Political coalitions led by the United Malays National Organization (UMNO), the country’s dominant political party, have ruled Malaysia without interruption since independence. UMNO is a staunch proponent of the preeminent position of ethnic Malays and other indigenous groups, collectively known as *bumiputra*. It has supported a wide-ranging economic program known as the New Economic Policy (NEP), which attempts to address socio-economic disparities by privileging *bumiputra* in government contracts, education, and government hiring.

The United States occasionally has criticized the Malaysian government for its weak human rights protections, poor record on combatting human trafficking, constraints on press freedom, and prosecution of opposition political leaders like Anwar Ibrahim. The U.S. State Department upgraded Malaysia’s ranking in its Trafficking in Persons (TIP) Report from Tier 3 (the worst ranking) in 2014 to Tier 2 Watch List in 2015, sparking a controversy. Many Members of Congress questioned the improved ranking and asserted that the State Department had overlooked serious human trafficking problems in order to facilitate approval of the TPP.

Malaysia is actively engaged in diplomacy on numerous regional and global issues. Efforts to promote moderate Islam and marginalize religious extremism have been a major part of Malaysian diplomacy, including acting as a mediator in conflicts between Muslim separatist groups and the central government in both the Philippines and Thailand. Kuala Lumpur maintains good relations with its neighbors and has promoted cooperation among the 10 countries in the Association of Southeast Asian Nations (ASEAN). Malaysia is one of several Southeast Asian countries with maritime and territorial claims in the South China Sea, although it has assumed a relatively low profile in those disputes. U.S.-Malaysia security cooperation includes counter-terrorism activities, numerous military exercises, ship visits, and military education exchanges.

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Introduction

This report analyzes U.S.-Malaysia relations and the economy, domestic politics, and diplomacy of Malaysia. Congress has expressed interest in a variety of issues in U.S.-Malaysia relations, especially regarding trade, security cooperation, and human rights. The report provides background information on current events and policy debates related to Malaysia.¹

Overview

The relationship between the United States and Malaysia is a complex one. Bilateral ties are considerably closer than often is acknowledged, but political sensitivities in Malaysia and mistrust lingering from less amicable periods constrain the establishment of a deeper strategic relationship. Malaysia, a majority Muslim nation of 30 million people, is a partner in numerous U.S. security and economic initiatives in Southeast Asia. It is a major U.S. trading partner and a site of substantial U.S. investment. Malaysia, for many years one of the leading voices behind building “Asia-only” regional institutions, is now seen as an advocate of a strong U.S. presence in the Asia-Pacific region. Some experts believe that Malaysian concerns about China’s assertiveness in the South China Sea have been a primary driver behind closer U.S.-Malaysia strategic ties.² Yet, some issues have proven contentious over recent years—particularly Malaysia’s human rights record and U.S. counter-terrorism strategy and policy in the Middle East—and many observers still perceive a ceiling on the degree to which the two countries can deepen their relationship.

The Obama Administration’s strategic “rebalancing” of foreign policy priorities to Asia has placed increased attention on the nations of Southeast Asia, including Malaysia. Although the rebalancing has not featured high-profile bilateral initiatives with Malaysia, most observers say U.S.-Malaysia relations have warmed considerably in recent years. Malaysia is one of the 12 nations in the Trans Pacific Partnership (TPP), a proposed trade agreement that is the United States’ highest-priority economic initiative in Asia. The United States and Malaysia also conduct numerous military exchanges, training exercises, and port visits and cooperate in counter-terrorism and maritime domain awareness.

Malaysia harbors a strong self-image as a moderate leader within the Islamic world, and this role sometimes complicates its relationship with the United States. Malaysia has criticized U.S. military interventions in the Middle East and U.S. support for Israel, maintaining that these policies created a perception that the United States is “anti-Islam,” and that U.S. rhetoric generated broader support for Islamic militancy. However, Malaysian statements along these lines have moderated in recent years, especially under the current Prime Minister, Najib Razak.

¹ Other CRS products cover issues related to Malaysia. These include CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted), CRS Report R42344, *Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis*, by (name redacted), and CRS Report R42930, *Maritime Territorial Disputes in East Asia: Issues for Congress*, by (name redacted), (name redacted), and (name redacted). Archived reports include CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by (name redacted), CRS Report RL33878, *U.S.-Malaysia Relations: Implications of the 2008 Elections*, by (name redacted), and CRS Report RL34194, *Terrorism in Southeast Asia*, coordinated by (name redacted).

² Joshua Kurlantzick, “Obama in Malaysia: A Strategic Partnership?” Council on Foreign Relations, Asia Unbound blog, April 8, 2014.

Figure I. Malaysia and Surrounding Areas



Source: Graphic created by CRS.

Modern Malaysian History

For most of its early history, the territory that comprises the modern state of Malaysia was a collection of small, separate kingdoms or sultanates. After Islam was introduced to Southeast Asia by Muslim traders, most of the indigenous population adopted the religion. In the late 18th through mid-19th centuries, during the height of European imperialism, various principalities on the Malaysian Peninsula and northern Borneo fell under the British sphere of influence. Britain administered these resource-rich states through local leaders and eventually knit together these territories into the Federated Malay States in 1895. Japan briefly ousted the European powers from Southeast Asia during World War II, but Britain restored its governance of the Malaysian territories after 1945, inaugurating the Federation of Malaya in 1948.

While indigenous political groups, including the United Malays National Organization (UMNO), agitated for independence during the postwar period, the Malayan Communist Party waged a prolonged guerrilla campaign against British rule. The British and their anti-Communist allies in Malaysia defeated the Communist campaign, sometimes employing brutal tactics; this period is known as “the Emergency.” Peninsular Malaya gained its independence as a constitutional monarchy in 1957, and the colonies of Singapore, Sabah, and Sarawak were relinquished by Britain in 1963 into the new Federation of Malaysia. Indonesian ruler Sukarno opposed this union

and instigated low-level military conflict (known as *konfrontasi*) with newly enlarged Malaysia until 1965. Singapore was forced out of the federation and became independent in 1965 amid a series of political disagreements between Malaysian and Singaporean leaders.

Race riots between Malays and Chinese that erupted in May 1969 in Kuala Lumpur shook the social foundations of Malaysia and catalyzed reform of the political system. A major consequence of the race riots was the New Economic Policy (NEP), which sought to remedy socioeconomic disparities by favoring *bumiputra*—ethnic Malays and other indigenous groups—over minority groups, including the economically preeminent ethnic Chinese minority. The Malaysian government promoted agricultural improvements, natural resource exploitation, and export-oriented industrialization (reserving opportunities for *bumiputra*) that led to consistent economic growth through the 1970s and 1980s.

In the political sphere, the UMNO-led coalition of ethnically based parties has maintained its preeminence since independence and delivered a measure of stability to Malaysia despite internal diversity and a volatile external security environment. A central figure in recent Malaysian history is Mahathir Mohamad, who was Prime Minister from 1981 until 2003 and remains politically active. Mahathir helped to shape a more secular Malaysia by limiting the political strength of religious leaders and curtailing the privileges of Malaysia's royalty. He also aggressively sought to rein in critical voices in the political arena, the media, and civil society. Many aspects of Malaysia's current political landscape were shaped by the Mahathir era, as both prime ministers who followed him, as well as opposition leader Anwar Ibrahim, were at one time his protégés within UMNO.

Challenges for Malaysia

Malaysia faces numerous internal and external challenges as it seeks to attain its goal of becoming a prosperous, developed country that is influential in Southeast Asia and around the world. Chief among Malaysia's domestic challenges are ethnic and religious sensitivities and tensions, a volatile political climate marked by dissent within the ruling coalition and between the coalition and an active political opposition, and incomplete protections for human rights and political dissent.

Compared to most of its Southeast Asian neighbors, Malaysia has a relatively high average income, but its economy has not yet made a full transition toward high technology, high value-added industries.

Many economic reform proposals confront opposition from rural, Malay-centric interest groups. As one of the leading countries in ASEAN (the Association of Southeast Asian Nations), Malaysia faces the diplomatic challenges of promoting regional trade integration, maintaining security and stability, and creating an attractive climate for outside investment. The rise of China

brings many opportunities to East Asian countries, as well as concern about Beijing's increasing assertiveness in regional affairs.

Basic Data

Population: 30,598,000

Area: 126,895 sq. mi. (slightly larger than New Mexico)

Gross domestic product (GDP): \$339.4 billion

Per capita GDP: \$11,090

Ethnicities: Malay/*bumiputra* 67%, Chinese 25%, Indian 7%, others 1%

Religions: Islam 61%, Buddhism 20%, Christianity 9%, Hinduism 6%, others 2%

Life expectancy at birth: male 73 years, female 77 years

Government type: Federal Constitutional Monarchy (Parliamentary Democracy)

Prime Minister: Mohamed NAJIB bin Abdul Najib Razak (inaugurated April 3, 2009)

Sources: Ethnicity, religion, and life expectancy data from Malaysian Department of Statistics. Population and GDP data from Malaysia's Economic Planning Unit.

U.S.-Malaysia Political Relations

Bilateral ties between the United States and Malaysia long have been both highly cooperative and publicly contentious. Malaysia is a strong partner in many U.S. security and economic initiatives, but domestic Malaysian sensitivities, particularly regarding the nation's identity in the Muslim world, have constrained Malaysian leaders from undertaking high-profile partnerships with the United States. The decision to “elevate” the U.S.-Malaysia relationship to a “Comprehensive Partnership,” announced during President Obama’s April 2014 visit, indicates that the two countries are cooperating on a wider range of issues than in the past.³

The Obama Administration’s strategic “rebalancing” to the Asia-Pacific region has placed a high priority on deepening relations with Southeast Asian countries, and Malaysian Prime Minister Najib Razak has spoken frequently about building stronger relations with the United States. With its participation in the proposed TPP, Malaysia is part of the Administration’s signature economic initiative in the region. Obama was the first U.S. President to visit the country since 1966, and his visit served as a catalyst to promote bilateral cooperation in several areas. He particularly highlighted people-to-people ties, for example the Fulbright English Teaching Assistant program, which brings American youth to teach in Malaysia.

The Najib government has taken visible steps to support U.S. initiatives. In 2010, Malaysia enacted legislation to strengthen its restrictions on the shipment of nuclear materials and in 2014 officially joined the U.S.-led Proliferation Security Initiative. Malaysia sent 40 military medical personnel to Bamiyan province in Afghanistan in 2010, and it subsequently has rotated four deployments to support Afghan reconstruction—a notably public move in a Muslim-majority nation where U.S. actions in Iraq had led to large protests at the U.S. Embassy in Kuala Lumpur. The Najib government has condemned the Islamic State organization and cooperated with the United States in stemming the flow of foreign fighters and financing to terrorist groups in Syria.

The high visibility of these initiatives marks a change for the bilateral relationship. U.S. relations with Malaysia were particularly fraught under long-time Prime Minister Mahathir, who was a vocal advocate of “Asia-only” regional organizations. Malaysians were particularly upset both by U.S. criticism of Malaysia’s economic policy during the Asian Financial Crisis in 1998 and by high-level U.S. criticism of Malaysia’s judiciary after Anwar Ibrahim, then Malaysia’s Deputy Prime Minister, was arrested and subsequently convicted of sodomy, which is a crime under Malaysian law. (See “Domestic Politics,” below.) Following Mahathir’s retirement as Prime Minister in 2003 (he remains politically active), some of the barriers to warmer bilateral ties eased, although Malaysia continues to oppose U.S. support for Israel. Efforts to negotiate a bilateral U.S.-Malaysia free trade agreement in the mid-2000s did not bear fruit, but Malaysia joined the TPP negotiations in 2010, one year after the United States.

The emergence in 2015 of new corruption scandals linked to Prime Minister Najib poses a dilemma for U.S. policy toward Malaysia (see “Domestic Politics” section for further discussion). On one hand, Najib has prioritized good relations with the United States and supported several U.S. initiatives, as described above; he is known as one of the most pro-American leaders in Malaysia. On the other hand, signs of U.S. support for Najib, especially indications of a warm relationship between Najib and President Obama, risk giving the impression that the United States is not concerned about the corruption allegations or that the United States can tolerate

³ “Joint Statement by President Obama and Prime Minister Najib of Malaysia,” White House, Office of the Press Secretary, April 27, 2014.

some amount of corruption for the sake of maintaining U.S.-Malaysia cooperation.⁴ Some analysts assert that U.S. support for Najib might alienate segments of the Malaysian public that want to eliminate cronyism and might spur cynical reactions to U.S. democracy-promotion efforts. Reportedly, the U.S. Justice Department is examining financial and real estate transactions connected with Najib and his family, but this investigation has not produced any public findings as of mid-November 2015.⁵

The United States periodically has raised concerns about human rights and democracy issues in Malaysia. In March 2014, after Malaysia's highest appeals court overturned the acquittal of Anwar Ibrahim, now a prominent opposition leader, on a separate sodomy charge—a decision that many observers deemed politically motivated—the U.S. State Department said, “The decision to prosecute Mr. Anwar and his trial have raised a number of concerns regarding the rule of law and the independence of the courts.”⁶ Although President Obama spoke out on human rights issues during his April 2014 visit, he did not meet personally with opposition political leaders, who met with National Security Advisor Susan Rice. This apparent consideration for the ruling party contrasts with Vice President Al Gore's praise for Anwar and the opposition *reformasi* (reform) movement during a visit to Kuala Lumpur in 1998. The official U.S. reaction to Malaysia's most recent nationwide parliamentary elections in May 2013, in which opposition parties alleged that widespread electoral fraud contributed to the ruling coalition's victory, was restrained.⁷

The State Department upgraded Malaysia's ranking in its Trafficking in Persons (TIP) Report from Tier 3 (the worst ranking) in 2014 to Tier 2 Watch List in 2015, sparking a controversy. Critics of the State Department's decision, including the more than 175 Members of Congress who signed letters to the Secretary of State,⁸ allege that the State Department overlooked evidence that the Malaysian government has failed to improve its human trafficking problems. In May 2015, authorities discovered large camps on both sides of the Malaysia-Thailand border where migrants apparently had been abused and possibly even murdered by smugglers.⁹ In the April 2014-March 2015 rating period of the 2015 TIP Report, Malaysia convicted only three human traffickers for forced labor and none for sex trafficking, a decrease from the previous year. According to some media reports, senior State Department officials overruled State Department TIP analysts allegedly in an effort to maintain good relations with Malaysia and to ease the approval of the TPP.¹⁰ The Trade Promotion Authority legislation passed in 2015 (P.L. 114-26)

⁴ John Berthelsen, “Obama Dilemma: How to Treat Malaysia's Pariah PM,” *Asia Sentinel*, November 5, 2015.

⁵ Gina Chon and Michael Peel, “US probes spreading financial scandal linked to Malaysia PM Najib,” *Financial Times*, September 22, 2015.

⁶ Jen Psaki, “Conviction of Malaysian Opposition Leader Anwar Ibrahim,” U.S. Department of State, Washington, DC, March 7, 2014, <http://www.state.gov/r/pa/prs/ps/2014/03/223148.htm>.

⁷ State Department spokesman Patrick Ventrell said, “We were pleased to see Malaysians across the political spectrum engaged in the electoral process in large numbers with unprecedented enthusiasm.” He also noted, however, “We are aware of concerns about voting irregularities and note that the opposition parties faced significant restrictions on access to the media. Addressing these issues is important to strengthen confidence in the electoral process.” U.S. Department of State Daily Press Briefing, Washington, DC, May 6, 2013.

⁸ A letter from U.S. Senators dated July 15, 2015, is available at <http://www.menendez.senate.gov/imo/media/doc/071515%20Letter%20to%20Kerry%20re%20Malaysia%20TIP%20Upgrade.pdf>. A letter from U.S. Representatives dated July 17, 2015, is available at <http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/Malaysia%20Letter%20to%20Secretary%20Kerry.pdf>.

⁹ Chris Buckley and Thomas Fuller, “Jungle Camp in Malaysia Yields Graves and Signs of Migrant Abuse,” *New York Times*, May 26, 2015.

¹⁰ Jason Szep and Matt Spetalnick, “The State Department Reportedly Ignored Its Own Experts and Watered Down a Critical Human Trafficking Report,” *Reuters*, August 3, 2015.

does not confer expedited legislative procedures to implementing legislation for a trade agreement with a country that receives a Tier 3 ranking in the TIP Report. The State Department has denied political interference in the TIP Report rankings.¹¹

Malaysia's Economy

In the decades leading up to the 2008 global financial crisis, Malaysia had been one of the fastest growing economies in the world. Due to counter-cyclical fiscal policies and intra-regional demand, Malaysia recovered from the global recession and an economic downturn in 2009 comparatively quickly, and its economic performance since 2010 has been close to pre-crisis levels (see **Table 1**). At the same time, however, Prime Minister Najib remained under some domestic pressure to find ways of achieving the nation's self-proclaimed goal of becoming a developed nation by 2020, while addressing the country's regional and income disparities. Economic growth in Malaysia was impaired in 2015 by an economic slowdown in China, one of Malaysia's largest export markets, as well as declining prices of natural gas, oil, and other commodities. Malaysia's currency, the ringgit, fell to its weakest level versus the dollar (1 USD = 4.3 MYR) since the 1997-98 Asian Financial Crisis, but the weaker ringgit did not appear to dramatically boost Malaysian exports, as of late 2015.

Table 1. Selected Indicators for Malaysia's Economy

	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP Growth	6.3%	4.8%	-1.5%	7.2%	5.1%	5.6%	4.7%	6.0%
Nominal GDP (billions of U.S. dollars)	193.6	231.0	202.3	246.8	287.9	303.5	313.2	326.9
Per Capita Income (U.S. dollars)	7,218	8,460	7,278	8,729	10,012	10,381	10,628	10,933
Inflation Rate—CPI	6.4%	6.1%	0.6%	1.7%	3.2%	1.7%	2.1%	3.1%
Unemployment Rate	3.3%	3.3%	3.7%	3.4%	3.1%	3.0%	3.2%	N.A.
Exchange Rate (Ringgit/\$)	3.44	3.33	3.52	3.22	3.06	3.09	3.15	3.27

Source: World Bank.

Notes: GDP = gross domestic product; CPI = consumer price index; N.A. = not available.

Malaysia's economy is regionally and sectorally diversified. The state of Selangor, which surrounds the capital of Kuala Lumpur, is the largest contributor to the nation's GDP, followed by Kuala Lumpur. The state of Johor, located next to Singapore, and the state of Sarawak, on the island of Borneo, also are significant contributors to the GDP. These four regions are Malaysia's most prosperous areas and form the core for the nation's manufacturing and services sectors. Najib has promoted the development of information technology businesses in these areas. By contrast, the states of Kedah, Kelantan, Perak, and Perlis, along the border with Thailand, as well as the state of Sabah on the northern tip of the island of Borneo, are relatively poorer regions of Malaysia with less manufacturing and services activity.

¹¹ At a press conference in Kuala Lumpur, Malaysia, on August 6, 2015, Secretary of State John Kerry stated, "I had zero conversation with anybody in the Administration about the Trans-Pacific Partnership relative to this decision – zero. The reason I made this decision was based on the recommendation of my team ..."

Malaysia also is economically divided along urban/rural lines and between its ethnicities. Malaysia’s urban centers, such as Kuala Lumpur, are relatively prosperous and support a growing middle class, while its rural areas are comparatively underdeveloped. Malaysia’s major ethnic groups face differing economic conditions. The Chinese-Malaysians are generally prosperous and play an important role in the nation’s commercial and trade sectors. The Indian-Malaysians are split into a comparatively wealthy few and a comparatively poor many. Though they constitute a majority of the population, Malays and other indigenous people (i.e., *bumiputra*) traditionally have been considered economically disadvantaged, leading to the 1971 introduction of the New Economic Policy (NEP) mentioned above.

Roughly half of Malaysia’s GDP comes from the services sector. Trade-related services (such as finance, insurance, and business services) and tourism dominate the services sector. Manufacturing provides 23% of GDP; agriculture contributes 9%; and mining, including energy extraction, contributes 10%. Malaysia is a significant exporter of oil and natural gas. Malaysia mainly manufactures consumer electronics, much of it parts and components for export and use in regional manufacturing supply chains. Malaysia exports three major crops: cocoa, palm oil, and rubber.

Trade Relations with the United States

Malaysia is a significant trading partner for the United States, but the United States is an even more important trading partner for Malaysia. In 2014, Malaysia was the 24th-largest market for U.S. exports and the 17th-largest supplier of U.S. imports. By contrast, the United States was Malaysia’s 4th-largest export market (after Singapore, China, and Japan) and the 4th-largest supplier of imports (after China, Singapore, and Japan).

Table 2. Official Merchandise Trade Figures: Malaysia and United States
(U.S. dollars in billions)

Year	Malaysia Trade Data		U.S. Trade Data	
	Exports to United States	Imports from United States	Imports from Malaysia	Exports to Malaysia
2014	\$19.7	\$16.0	\$30.4	\$13.1
2013	\$18.5	\$16.2	\$27.3	\$13.0
2012	\$19.7	\$15.9	\$26.7	\$12.9
2011	\$18.9	\$18.1	\$26.5	\$14.2
2010	\$19.0	\$17.5	\$26.6	\$14.0
2009	\$17.3	\$13.9	\$23.9	\$10.4
2008	\$24.9	\$17.0	\$31.6	\$13.0

Sources: International Monetary Fund, *Direction of Trade Statistics*; U.S. International Trade Commission.

The two nations report significantly different amounts for their bilateral trade, with the United States listing higher values for imports from Malaysia and lower values for exports to Malaysia over the last five years (see **Table 2**).¹² As a result, the United States reports a greater bilateral trade deficit with Malaysia, while Malaysia reports a smaller bilateral trade surplus.

¹² The discrepancy between the official Malaysian and U.S. trade statistics is not unusual. The United States evaluates (continued...)

In merchandise trade, electrical machinery and equipment dominate trade flows in both directions, reflecting Malaysia's role as a major source for consumer electronics. According to official 2013 U.S. trade data, \$5.4 billion in electrical machinery and equipment (as listed under harmonized tariff schedule [HS] 85) was exported to Malaysia and \$14.8 billion was imported from Malaysia, representing 42% of total exports and 54% of total imports. Other major exports to Malaysia were (in order) aircraft and aircraft parts (HS 88)—\$1.6 billion; and machinery and mechanical equipment (HS 84)—\$1.4 billion. Other major imports from Malaysia were (in order) machinery and mechanical appliances (HS 84)—\$4.0 billion; optical, photographic, cinematographic, medical or surgical instruments and apparatus (HS 90)—\$1.6 billion; and rubber and rubber articles (HS 40)—\$1.4 billion.

According to the U.S. Bureau of Economic Analysis (BEA), U.S. services exports to Malaysia in 2014 totaled \$2.86 billion, and services imports from Malaysia totaled \$1.79 billion. Roughly one-third of the services imports from Malaysia were business, professional, or technical services. Travel services, use of intellectual property, and other business services each comprised about one-quarter of U.S. services exports to Malaysia.

Over 600 U.S. companies operate in Malaysia, many in the electronics and information technology industries. The total stock of U.S. foreign direct investment (FDI) in Malaysia as of the end of 2014 was \$14.4 billion. Roughly one-third of this was in manufacturing (largely electronics), and another third was in mining and energy extraction. By contrast, Malaysia has very little FDI in the United States. According to BEA, the total value of Malaysia's FDI in the United States as of 2014 was \$809 million.

Trans-Pacific Partnership Trade Agreement

Both Malaysia and the United States are parties to the recently concluded negotiations for the proposed Trans-Pacific Partnership (TPP) trade agreement, which awaits congressional consideration.¹³ The United States entered into negotiations with the four members (P4)—Brunei, Chile, New Zealand, and Singapore—of the Trans-Pacific Strategic Economic Partnership in 2008. Malaysia was accepted as the ninth negotiating party in October 2010.¹⁴ The Obama Administration has made the adoption of the TPP a major priority for its international trade policy.

Prior to joining the TPP talks, Malaysia had been negotiating a bilateral trade agreement with the United States since March 2006.¹⁵ In October 2010, the U.S. Trade Representative (USTR) officially notified Congress that the bilateral trade talks would be folded into the TPP negotiations. Talks on the bilateral trade agreement reportedly had stalled on several issues, including the following:

- Malaysia's government procurement policies, which give preferential treatment to certain types of Malaysian-owned companies;
- provisions for intellectual property rights (IPR) protection; and

(...continued)

its exports and imports differently from most other nations, but the methods of accounting are equally accurate.

¹³ For more about the TPP, see CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted) .

¹⁴ Australia, Peru, and Vietnam joined the TPP talks in 2008. Mexico and Canada joined in 2012, and Japan in 2013. A new member cannot join the negotiations unless it gains consent from all the current parties to the talks.

¹⁵ For more information about the bilateral trade talks, see CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by (name redacted) .

- market access for key commodities and services.

These same issues reportedly posed problems in the TPP negotiations, as did provisions for labor rights. The chapter on state-owned enterprises (SOEs) supposedly was another area where the United States and Malaysia had significant differences of opinion.¹⁶ As discussed in the section “U.S.-Malaysia Political Relations,” the Trade Promotion Authority legislation that Congress passed in 2015 (P.L. 114-26) does not confer expedited legislative procedures to trade agreements with countries that are not making sufficient efforts to combat human trafficking, in the judgment of the State Department.

U.S. officials describe the TPP as a “comprehensive and high-standard” free trade agreement that addresses many of the prior obstacles to liberalizing U.S.-Malaysia trade.¹⁷ If implemented, the TPP would provide greater protections for IPR and better market access for U.S. exports. (Within the United States, there is a vibrant debate on whether these measures go far enough, or have gone too far.) According to USTR, Malaysia’s existing tariffs and other restrictions on the import of automobiles, automobile parts, and agricultural goods (e.g., regulations on halal food) exceed international norms and restrict U.S. trade with Malaysia. The TPP chapter on labor incorporates a bilateral agreement called the “Malaysia-United States Labor Consistency Plan,” which specifies the measures needed to bring Malaysia into compliance with its obligations under the labor chapter. The agreement requires Malaysia to make numerous changes to its laws and regulations in order to enhance the rights of workers and to mitigate forced labor and child labor. The agreement also requires Malaysia to improve its enforcement of labor regulations and allocate the necessary resources for that task. Both the labor chapter and the bilateral consistency plan would be enforceable under the TPP’s dispute settlement mechanism, except where specifically exempted.

The agreed text of the TPP restricts the competition-distorting activities of SOEs, but also makes certain exceptions for some Malaysian SOEs, including Permodalan Nasional Berhad and the sovereign wealth fund Khazanah. The TPP commitments on government procurement would apply only to Malaysia’s large central government agencies for the first four years, then would cover medium and small central government agencies starting in the fifth and eighth years after entry into force. Petronas, Malaysia’s state energy company, can continue to give preference to local suppliers for up to 40% of its budget for upstream business, and the Malaysian government can set aside for *bumiputra* businesses 30% of its construction contracts. One issue on which Malaysian TPP negotiators reportedly found common ground with at least some Americans engaged in TPP-related advocacy is the ability of governments to exclude tobacco control measures from the TPP’s investor-state dispute settlement (ISDS) mechanism.¹⁸ The TPP agreement allows participating countries to bar companies from using ISDS to challenge their domestic regulations on manufactured tobacco products.

Prime Minister Najib repeatedly has expressed his support for the TPP but faces broad opposition to the trade agreement at home. Malaysia’s farmers want greater access to the U.S. market, but are concerned about increased competition from U.S. agricultural exporters. Some Malaysian manufacturing sectors are apprehensive about increased competition from major U.S.

¹⁶ “Malaysia Flags Major TPP Outstanding Issues, Says U.S. Needs TPA to Close,” *Inside U.S. Trade*, February 28, 2014.

¹⁷ The full text of the TPP is available on the USTR website, <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>.

¹⁸ “45 State Attorneys General Call for Tobacco Carve Out in the TPP”, Action on Smoking & Health website, January 28, 2014, <http://ash.org/45-state-attorneys-general-call-for-tobacco-carve-out-in-the-tpp>.

corporations. Malaysia's health care providers and the population in general have expressed concern about continued access to affordable pharmaceuticals based on their understanding of IPR protections in the TPP agreement. Finally, opposition politicians have strongly criticized the government for a lack of transparency in pursuing the negotiations. Najib initially insisted that only Cabinet approval, not a vote by Parliament, was necessary to ratify Malaysia's participation in the TPP trade agreement, but he relented and agreed to seek Parliament's approval by January 2016.

Other Trade Issues

While the question of TPP ratification is the main focus of U.S.-Malaysia trade policy at present, other issues may become more salient in the future. Even if the TPP were to be implemented, Malaysia would still place limits on foreign ownership of real estate and companies in certain sectors (for example, automotive, batik textiles, and primary education), as well as licensing and registration restrictions that block greater access for U.S. companies and individuals.¹⁹

Malaysia is the chair of ASEAN in 2015, during which the 10 ASEAN members are to finalize their ASEAN Economic Community (AEC) agreement. Another regional trade grouping currently negotiating a pact is the 16-nation Regional Comprehensive Economic Partnership (RCEP) which includes the 10 ASEAN members (Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), plus Australia, China, India, Japan, New Zealand, and South Korea. Some observers perceive RCEP as a competitor to the TPP. USTR has stated that it sees the two trade agreements as complementary and that the United States is not interested in joining the RCEP negotiations at this time.

Domestic Politics

Malaysia has displayed a high degree of political stability since it gained independence in 1957. Political coalitions led by the United Malays National Organization (UMNO), the country's dominant political party, have ruled Malaysia without interruption since independence. The present coalition is known as Barisan Nasional (BN, or National Front). Each of Malaysia's seven Prime Ministers has been a member of UMNO, a Malay-nationalist party that draws its membership from the country's Malay majority. The head of state is technically the monarch of Malaysia, the *Yang di-Pertuan Agong*, a position that rotates among the sultans of nine Malay states every five years. The monarch's powers are largely ceremonial, although the sultans do have symbolic and practical authorities in certain areas.

UMNO's position at the center of the ruling coalition reflects the importance of ethnicity, and to a lesser degree religion, in Malaysian politics. In the 1970s, in an effort to reduce tensions between the nation's Muslim Malay majority and minority groups (primarily Chinese and Indian), UMNO leaders implemented the NEP. At the same time, UMNO recruited smaller parties that represented the country's Chinese and Indian communities into the ruling coalition. In the decades since, the question of the NEP's *bumiputra* preferences, and more broadly of ethnic identity, has become one of the defining issues in Malaysian politics.

Malaysia's political landscape is marked by several obstacles to achieving a more robust democracy. Uneven election districting has long elevated the importance of rural electoral districts, and Malaysian election laws require that the states of East Malaysia also retain

¹⁹ "2014 National Trade Estimate Report on Foreign Trade Barriers," Office of the United States Trade Representative, Washington, DC, March 2014.

disproportionate numbers of parliamentary seats—both of which work to UMNO’s advantage, as many of these districts are UMNO strongholds. Opposition leaders frequently face government harassment and legal action that many allege is intended to be defamatory.²⁰

Despite these structural handicaps, Malaysian politics has become increasingly competitive over the past two national elections, in 2008 and then 2013. In 2008, the BN coalition failed to win two-thirds of the Parliament’s seats for the first time. In 2013, the BN won only 47% of the popular vote compared with 51% for the opposition coalition, but won 133 out of Parliament’s 222 seats—over 60% of the Parliament. Opposition parties alleged that widespread electoral fraud contributed to the BN’s victory, and a series of public protests ensued, drawing tens of thousands of people to several protests in Kuala Lumpur.

The primary opposition coalition is known as the Pakatan Harapan (PH, meaning Coalition of Hope) and consists of three major parties: the Democratic Action Party (DAP), the Parti Keadilan Rakyat (PKR, or Keadilan), and the Parti Amanah Negara (PAN, or Amanah). PH is a loose coalition that represents dramatically different constituencies and policy agendas. Minority voters in particular shifted their support to opposition parties in the last two elections because of disillusionment with corruption and with the persistence of what many minorities consider to be discriminatory pro-Malay affirmative action policies. The poor election results of the ruling coalition’s minority-based parties have raised concerns among some Malaysian observers about the potential for growing ethnic polarization in the country.²¹ The Parti Islam se-Malaysia (PAS) broke away from the opposition coalition in 2015 when hardline Islamist, pro-Malay elements in PAS would not compromise on their push for an Islamic legal code.

The position of opposition leader Anwar Ibrahim is of particular sensitivity in Malaysia, and in U.S.-Malaysia relations. From 1993 to 1998, Anwar was the country’s Deputy Prime Minister, a UMNO member who was widely considered the heir apparent to longtime Prime Minister Mahathir. After a public break with Mahathir in 1998, Anwar was arrested and accused of sodomy, a crime under Malaysian law. In response to the accusations and evidence of abuse in detention, in October 1998 the U.S. Senate passed S.Res. 294, which called on the Malaysian government to hold a fair trial for Anwar and to preserve the right to express political views freely. U.S. government officials and many international groups criticized the subsequent trial as politically motivated, but Anwar was convicted in 1999 and remained in prison until 2004, when Malaysia’s Supreme Court overturned the conviction. He subsequently became the most prominent figure in the country’s political opposition. In 2008, Anwar was arrested again for a separate sodomy charge. He was acquitted of the charge in 2012, but in March 2014 Malaysia’s highest appeal court overturned the acquittal and sentenced him to five years in prison, depriving the opposition PR coalition of its charismatic leader.

International human rights groups long have criticized other aspects of Malaysia’s human rights record. The State Department’s 2014 Country Report on Human Rights Practices stated that the most significant human rights problems included government restrictions on freedom of expression (speech, assembly, association, and media) and restrictions on freedom of religion.²² A 2014 Pew Research Center report put Malaysia in the “Very High” category for government

²⁰ “Malaysia: Anwar Ibrahim Decision ‘A Bleak Day for Justice’,” Amnesty International, March 7, 2014.

²¹ Huihui Ooi, “What’s Next, Malaysia?” Atlantic Council, The New Atlanticist blog, May 16, 2013, <http://www.atlanticcouncil.org/blogs/new-atlanticist/whats-next-malaysia>.

²² 2014 Country Report on Human Rights Practices: Malaysia, U.S. Department of State, Washington, DC, June 2015, <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2014&dliid=236454>.

restrictions on religion, one of the highest (worst) scores for a democratic country.²³ As noted in the section “U.S.-Malaysia Political Relations,” human trafficking and meager protections for refugees remain problems in Malaysia, according to reports.

The Najib government had taken some incremental steps to reduce restrictions on freedom of expression, but later clamped down on dissent beginning in 2014. In 2011, Parliament repealed Malaysia’s long-standing Internal Security Act (ISA) and in April 2012 passed a new law called the Security Offenses (Special Measures) 2012 Act (SOSMA), which relaxed some of the ISA’s provisions, stating that “no person shall be arrested or detained . . . solely for his political belief or political activity” and limiting the period individuals can be detained by police without formal charge. However, SOSMA toughened other provisions; for example, allowing police to intercept communications without judicial approval. Human rights groups have criticized the new measures as still overly restrictive.²⁴

Prime Minister Najib has come under heavy political pressure in 2015 after the *Wall Street Journal* and other sources reported that nearly \$700 million was routed from companies associated with the Malaysian investment fund 1MDB into bank accounts controlled by Najib.²⁵ Although former Prime Minister Mahathir and others called for Najib’s resignation, Najib maintained his innocence and shored up his political foundation by reshuffling the Cabinet. Earlier in 2015, Najib faced renewed allegations of corruption from a decade-old case, involving graft from a submarine contract with France and the murder of a Mongolian model.²⁶ The Najib Administration has increased its use of the broadly-worded Seditious Law to stifle critics of the government, and it blocked the websites of fault-finding media outlets as the 1MDB scandal grew in the summer of 2015.²⁷ Various media, politicians, and civil society groups have described a climate of repression of political dissent in Malaysia.²⁸

Malaysia’s Diplomacy and Regional Relations

Malaysia harbors a strong self-image as one of Southeast Asia’s regional leaders and as a moderate, Muslim-majority state that can be a political and economic model for others in the Islamic world. It also has been a mediator in seeking to resolve some regional conflicts, most prominently peace talks between the Philippine government and a separatist group in the southern Philippines.

Malaysia was one of the six founding members of ASEAN, Southeast Asia’s primary multilateral forum, and it has been a proponent of the consensus-based model for regional coordination. Kuala Lumpur was chosen to chair ASEAN in 2015, the year the body plans to complete the proposed ASEAN Economic Community (AEC) agreement to strengthen trade and investment bonds. A major goal of the AEC is to harmonize certain trade regulations and practices to move ASEAN incrementally toward becoming more of a common market and production zone. Malaysia is

²³ “Religious Hostilities Reach Six-Year High,” Pew Research Center, January 14, 2014.

²⁴ Human Rights Watch, *Smoke and Mirrors: Malaysia’s “New” Internal Security Act*. June 19, 2012.

²⁵ Tom Wright and Simon Clark, “Investigators Believe Money Flowed to Malaysian Leader Najib’s Accounts Amid 1MDB Probe,” *Wall Street Journal*, July 2, 2015.

²⁶ “Misfortunes Surround Malaysia’s Prime Minister,” *Economist*, January 30, 2015.

²⁷ “No More Mr Nice Guy: Beset by Scandal, Malaysia’s Prime Minister Cracks Down on Dissent,” *Economist*, August 29, 2015.

²⁸ Human Rights Watch, *Creating a Culture of Fear: The Criminalization of Peaceful Expression in Malaysia*, October 2015.

active in many ASEAN initiatives, including the ASEAN Defense Ministers Meeting-Plus (ADMM+), where it worked with Australia as co-chairs of a multilateral maritime security exercise in September 2013.

Among other important issues for Malaysia in its relations with neighboring countries are managing relations with Singapore, with which Malaysia has a deep economic interdependency; dealing with the sometimes-violent separatist insurgency in southern Thailand, along Thailand's borders with Malaysia; combatting piracy in the Straits of Malacca along with Indonesia and Singapore; repelling Philippine armed groups that claim parts of Malaysian territory in Sabah; and managing immigration and migrant labor communities from Burma, Indonesia, and other neighbors. The large flow of refugees and migrants from Burma and Bangladesh in April-June 2015 tested the will and ability of ASEAN to manage a complex crisis.²⁹ Many of the refugees were Muslims from the Rohingya ethnic group fleeing discrimination and persecution in Burma. Burma resisted taking responsibility for the migrants and refugees, who were facing dangerous conditions, and after weeks of mounting concerns Malaysia and Indonesia agreed to accept 7,000 of the "irregular migrants" for one year and provide them with humanitarian assistance.³⁰

South China Sea Maritime Disputes

Malaysia is one of four Southeast Asian nations with maritime territorial disputes with China (the others are Brunei, the Philippines, and Vietnam). It generally has pursued a less forceful diplomatic approach with China than have the Philippines and Vietnam, and it has sought to have all parties agree to a Code of Conduct to manage behavior in disputed waters. Negotiations between ASEAN's 10 members and China over such a code began in September 2013. Chinese claims in the South China Sea overlap with the Exclusive Economic Zone (EEZ) to which Malaysia is entitled under international law, including the U.N. Convention on the Law of the Sea. Malaysia's own claims also overlap with territorial claims made by the Philippines, Vietnam, and Taiwan; each country claims the Spratly Islands.

Malaysia is farther geographically from China than the Philippines and Vietnam, and incidents at sea between its vessels and vessels from China have been less frequent than Sino-Philippine or Sino-Vietnam incidents. However, since 2013 Chinese naval vessels have been operating as far south as James Shoal, which lies about 50 miles north of the Malaysian coast in Borneo, with more frequency. Kuala Lumpur was not at the forefront of criticism after China's large-scale reclamation of features in the South China Sea was made public in 2014.³¹ Some Malaysian officials have spoken out against China—the chief of Malaysia's armed forces called China's land reclamation activities an "unwarranted provocation" at a security forum in Beijing—but such statements have been less frequent and less strident than those by officials in other claimant states.³² Malaysia has considerable economic interests in the South China Sea—particularly in oil and gas development. Chinese maritime law enforcement vessels reportedly have interfered with the operation of vessels operated or contracted by Malaysia's state energy company Petronas.³³

²⁹ For more information, see CRS Insight IN10283, *Crisis in the Bay of Bengal and the Andaman Sea: Plight of the Rohingyas and Bangladeshis*, by (name redacted) and (name redacted).

³⁰ "Ministerial Meeting on Irregular Movement of People in Southeast Asia," Joint Statement issued by the Ministers of Foreign Affairs of Indonesia, Malaysia, and Thailand, Putrajaya, Malaysia, May 20, 2015.

³¹ For more information, see CRS Report R44072, *Chinese Land Reclamation in the South China Sea: Implications and Policy Options*, by (name redacted) et al.

³² Ben Blanchard, "Malaysia slams China's 'provocation' in South China Sea," *Reuters*, October 18, 2015.

³³ Carlyle A. Thayer, "Can ASEAN Rise to the Chinese Challenge?" *Yale Global Online*. March 18, 2014.

Over the past decade, Malaysia regularly has sought to foster more cooperation among Southeast Asian claimants in efforts to resolve their own disputes and to bolster their claims in disputes with China. For example, in 2007 Malaysia joined Vietnam in submitting a joint extended continental shelf claim to the U.N. Commission on the Limits of the Continental Shelf—a submission that China formally protested. Malaysia’s maritime territorial dispute with Brunei was resolved when the two countries signed a boundary agreement in April 2009, facilitated by a subsequent agreement between Petronas and the Brunei government to develop energy blocks off Borneo Island. Some observers describe the agreement as a potential model for utilizing joint development as a means to resolve territorial disputes.³⁴

Security Cooperation

The Malaysian military participates in a variety of cooperative security activities on a bilateral and multilateral basis with partners from Southeast Asia and outside the region. Malaysia is a member of the Five-Power Defense Arrangement (FPDA), an agreement between Malaysia, Australia, New Zealand, Singapore, and the United Kingdom to coordinate for mutual defense. The Malaysian and Singaporean militaries cooperate very closely. Malaysia periodically conducts bilateral military exercises with its larger neighbors, China and India. Through the ASEAN-led security groupings—the ASEAN Regional Forum (ARF), the ASEAN Defense Ministers’ Meeting (ADMM), and the ADMM+—Malaysia has participated actively in regional security dialogues and cooperative activities. As an example of the potential for conflict avoidance mechanisms in the region, in 2013 Malaysia and Vietnam agreed to establish a “direct connection” communication link between a Malaysian naval base and Vietnam’s Southern Command.³⁵ In the Straits of Malacca, the Malaysian military and maritime law enforcement work closely with counterparts from Indonesia and Singapore on anti-piracy measures.

Conflict Mediation and Promotion of Moderate Islam

Malaysia promotes itself as a leading voice for moderate Muslim countries; Kuala Lumpur maintains good relations with the United States and other Western countries while speaking out for Islamic causes, such as the status of the Palestinians. Malaysia is an active participant in the Organization of Islamic Conferences (OIC), and even has launched its own initiative, the Global Movement of Moderates (GMM), to diminish extremist voices and improve the public image of Muslims worldwide.

Within Southeast Asia, Malaysia has played an active role as a mediator in conflicts between rebel Muslim groups and the central government in both Thailand and in the Philippines. Malaysia helped to broker a 2014 peace agreement between Manila and the Moro Islamic Liberation Front (MILF), a group that seeks more autonomy for the Muslim minority in the southern Philippines.

U.S.-Malaysia Security Relations

In a 2002 speech in Washington, DC, then-Defense Minister Najib Razak called the cooperative U.S.-Malaysia defense relationship “an all too well-kept secret.”³⁶ Despite discord at the political

³⁴ See, for instance, Clive Schofield, “Maritime Energy Resources in Asia: Legal Regimes and Cooperation,” National Bureau of Asian Research, February 2012.

³⁵ “Malaysia boosts its regional defense cooperation,” *United Press International*, November 1, 2013.

³⁶ Najib bin Abdul Razak, “U.S.-Malaysia Defense Cooperation: A Solid Success Story,” remarks as prepared for (continued...)

leadership level, the United States and Malaysia have maintained steady defense cooperation since the 1990s, and several aspects of that cooperation improved in the 2010s as the overall relationship warmed. The Obama Administration's strategic rebalancing to the Asia-Pacific region has put more emphasis on bolstering security ties with Malaysia and other so-called "emerging partners." In November 2015, President Obama announced a plan to provide \$2.5 million in assistance to improve Malaysia's maritime domain awareness and maritime law enforcement, as part of a larger assistance package for Southeast Asian partners.

Beginning in 2014, the Islamic State organization in the Middle East created new terrorist threat dynamics globally, including in Southeast Asia, spurring the United States and Malaysia to reinvigorate their counter-terrorism cooperation. During the 2000s, a major focus of U.S.-Malaysia security cooperation was counter-terrorism activities aimed at terrorist networks operating in Southeast Asia.³⁷ Malaysia itself has not been a base for major terrorist or insurgent groups, but it played a central role as a moderate Muslim voice against terrorism and as a capacity-building partner, establishing the Southeast Asia Regional Centre for Counter-Terrorism in 2003. To stem the flow of foreign fighters and financing to terrorist groups in Syria and Iraq, the law enforcement and intelligence communities of the United States and Malaysia have enhanced their cooperation in tracking financial flows, information sharing, and other areas. The United States provided Malaysia with \$2 million in assistance through the International Narcotics Control and Law Enforcement (INCLE) program and the Nonproliferation, Anti-Terrorist, Demining and Related Programs (NADR) in FY2014 and provided \$1.3 million in FY2015 through NADR.

The U.S. and Malaysian defense establishments have built solid ties through frequent military exercises, combined training, ship visits, and military education exchanges. Every year, dozens of Malaysian officers study at U.S. professional military education institutions through International Military Education and Training (IMET) programs. The United States and Malaysia jointly fund these exchanges to build interpersonal connections and to improve the professionalism of the Malaysian military. In 2013, the U.S. and Malaysian militaries conducted over 75 cooperative activities, highlighted by jungle warfare training at a Malaysian facility, bilateral exercises like Kris Strike, and multilateral exercises like Cobra Gold, which is held in Thailand and involves thousands of personnel from several Asian countries plus the United States. Since 2010, Malaysia has participated in the biennial "Rim of the Pacific" (RIMPAC) multilateral naval exercises held near Hawaii. U.S. military vessels dock at ports in Malaysia for re-supply, for maintenance, and to allow U.S. servicemembers to build ties with their Malaysian counterparts.³⁸

U.S.-Malaysia security cooperation extends around the world, to include peacekeeping, counter-piracy, and reconstruction operations. As mentioned above, from 2010 until 2013 Malaysia deployed a contingent of 40 military medical personnel to Afghanistan, where they made contributions to public health (especially women's health) and clean water access. The U.S. and Malaysian navies cooperate to combat piracy near the Malacca Strait and, as part of the international counter-piracy coalition, off the Horn of Africa. Malaysia is a large contributor to

(...continued)

delivery at the Heritage Foundation, Washington, DC, May 3, 2002.

³⁷ For more information, see CRS Report RL34194, *Terrorism in Southeast Asia*, coordinated by (name redacted)

³⁸ As the number of U.S. ship visits to Malaysia rose from single digits in the early 2000s, to 10s of visits in the late 2000s, and then to more than 30 visits in 2011, the U.S. Navy investigated the suspicious port-hosting contracts of a Malaysian businessman, Leonard Glenn Francis. In 2013, the Navy concluded that Francis's company, Glenn Defense Marine Asia, had bribed high-ranking American officers and bilked the Navy out of tens of millions of dollars. The scandal led to the investigation of two admirals and a Navy-wide review of similar supply contracts around the world.

U.N. peacekeeping operations, and has roughly 900 personnel serving in several missions, as of November 2015.³⁹ In December 2013, Malaysia became the first country to complete the peacekeeping training program run by the U.S. State Department's Office of the Global Peace Operations Initiative.

Malaysia has purchased high-technology U.S. weapons systems in the past, notably the F/A-18D Hornet strike fighter aircraft, but its recent major defense purchases mostly have been of European equipment. The most modern Malaysian fighter aircraft is the Russian Su-30MKM Flanker, and the French "Scorpene" design won the contract for Malaysia's only two submarines. The Malaysian defense budget for FY2016 was \$4.32 billion (17.3 billion ringgit).

Outlook

The United States and Malaysia are making efforts to maintain robust cooperation, most notably through the proposed TPP agreement and maritime security, particularly in and around the South China Sea. However, many political observers believe that neither country appears to seek a fundamentally deeper political and strategic partnership. Analysts expect that, in the near term, bilateral U.S.-Malaysia relations will benefit from the same factors that have produced warmer ties in recent years: Prime Minister Najib's relatively pro-American alignment and the Obama Administration's rebalancing strategy. Yet, U.S. concerns about Najib's uncertain political standing and the sense in Malaysia of a growing U.S.-China strategic rivalry may inhibit deeper bilateral cooperation.

The United States faces the familiar but difficult challenge of balancing countervailing impulses to improve U.S.-Malaysia cooperation and to shed a critical light on Malaysia's human rights record. Some questions that Members of Congress may wish to consider are: should the United States maintain close ties with Najib despite the allegations of corruption and policies that restrict civil liberties? Is public or private pressure more likely to be effective in improving the Malaysian government's efforts to uphold human rights? And is the United States engaging a sufficiently broad spectrum of the political sphere, or is it overly reliant on those who advocate closer ties with Washington? Another major policy challenge for Washington and Kuala Lumpur in the immediate future will be the TPP. The debate about the merits of the proposed trade agreement and the domestic process of ratification, in which Congress would play the key role, will be a major factor in defining the overall state of U.S.-Malaysia relations.

The future of domestic politics in Malaysia is difficult to forecast with confidence. The ruling BN coalition no longer has a stranglehold on political power, but the opposition coalition PR is less unified than it was in the last national election. On one hand, the distribution of seats in favor of rural constituencies and the deference of the mainstream press to government narratives will continue to favor the UMNO-led coalition. On the other hand, dissatisfaction with government inefficiency and corruption could give the opposition enough popular support to capture a majority in the next elections, which must be held by 2018. The government's treatment of Anwar Ibrahim runs the risk that it could engender more sympathy for the opposition leader and could backfire on UMNO in the long run. Furthermore, Najib could become a political liability for UMNO if the taint from 1MDB scandal lingers. Some observers perceive a fight already underway within the party to determine the next generation of leaders who will follow Najib. The

³⁹ United Nations Peacekeeping, "Troop and police contributors," September 9, 2015, <http://www.un.org/en/peacekeeping/resources/statistics/contributors.shtml>.

corruption allegations against the Prime Minister add complexity to this struggle for control of the party that remains Malaysia's dominant political institution.

Many observers believe the NEP's set of ethnic preferences also will be a key issue for Malaysia in the years ahead. Although the NEP has been given some credit in addressing Malaysia's income disparities and maintaining peaceful relations among ethnic groups, it also has fostered resentment among Malaysia's Chinese and Indian minorities. The NEP policies favoring *bumiputra*-owned domestic companies in government may be a point of tension during implementation of the TPP, if it is ratified. However, many analysts see the NEP as a bedrock of the Malaysian political economy and believe that any move strongly to scale back preferences for *bumiputra* would face deep opposition from many members of the Malay ethnic majority.

Former Prime Minister Mahathir long promoted a "Vision 2020," which sought to make Malaysia into a developed country by that year, and the 2020 goal has been taken up by subsequent UMNO-led governments. Although Malaysia's GDP has grown steadily in the last decade, several challenges remain. Within Southeast Asia and worldwide, Malaysia faces stiff competition from other low-wage countries attempting to promote their manufacturing sectors and grow exports. Some observers argue that the quality of the education system is not sufficient for development of a high-technology economy. Many of Malaysia's top students go abroad for higher education, or find work overseas after graduation, a phenomenon known as "brain drain." At the same time, the TPP and RCEP trade agreements could be an opportunity to grow the Malaysian economy through expanded trade.

Many of Malaysia's challenges in the years ahead will mirror those of other Southeast Asian nations. Like others in ASEAN, Malaysia continually seeks to balance the involvement of the United States, China, Japan, India, and others in regional affairs, while maintaining its own independence and that of ASEAN broadly. As a claimant to maritime territory in the South China Sea, Malaysia seeks to uphold its own interests while preventing the outbreak of conflict over disputed areas. Malaysia competes with other Southeast Asian nations as an exporter and as a destination for foreign investment, but Southeast Asia as a region also competes with other parts of the world. Southeast Asian nations must decide how deeply to proceed with economic integration aimed at promoting a broader regional trading and investment hub. As ASEAN's chair in 2015, the organization's target year for completing an ASEAN Economic Community, Malaysia faces challenges in balancing the region's trade and investment agendas, while also providing leadership on regional security issues such as lowering tensions in the South China Sea.

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