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Summary

Malaysia, an ethnically diverse 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. Bilateral relations have improved over the past decade. Prime Minister Najib Razak, who came to power in 2009, made relations with the United States a priority early in his administration. More recently he has moved to deepen trade and economic ties with China. Congress has shown interest in a variety of issues in U.S.-Malaysia relations over the years, especially regarding trade, counterterrorism and security cooperation, human rights, the environment, and Malaysia's external relations.

Malaysia is considered a middle-income country that is relatively prosperous when compared to other Southeast Asian countries. The United States and Malaysia are major trade and investment partners. In 2016, Malaysia was the 24th-largest market for U.S. exports and the 14th-largest supplier of U.S. imports. The two countries negotiated and signed the Trans-Pacific Partnership (TPP) free trade agreement (FTA), which would have removed tariff and nontariff barriers to trade between the United States, Malaysia, and the other 10 participants. President Trump withdrew from the pact in January, stating an intent to negotiate future FTAs bilaterally, potentially with TPP partners. To date, there appears to have been little discussion of resuming bilateral U.S.-Malaysia FTA negotiations, but there may be interest in Malaysia in some type of economic dialogue with the United States such as a Trade and Investment Framework Agreement (TIFA). Malaysia is also seeking to develop deeper regional trade ties through the Regional Comprehensive Economic Partnership (RCEP), which does not include the United States.

Malaysia has enjoyed considerable political stability since it gained independence in 1957 despite potential cleavages within its multiethnic and multireligious social fabric. 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 economic and social preferences for 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. Malaysia has also enjoyed broad success in achieving higher income levels for its citizens since independence.

The United States occasionally has criticized the Malaysian government for its weak human rights protections, its 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. Malaysia 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 counterterrorism activities, numerous military exercises, ship visits, and military education exchanges.

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Introduction

This report analyzes U.S.-Malaysia relations as well as Malaysia's domestic politics, economy, environment, external relations, and geopolitical context within Southeast Asia. Congress has expressed interest in a variety of issues with regard to Malaysia which are explored below. The report also provides background information on current events and policy debates related to Malaysia to assist Congressional decision-makers.

Overview

The relationship between the United States and Malaysia is a complex one. Bilateral ties are considerably closer than they may appear to some observers, but political sensitivities in Malaysia as well as concerns related to allegations of corruption and mistrust lingering from less amicable periods constrain the establishment of a deeper strategic relationship. Malaysia, a majority Muslim nation of 31 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, more recently has been 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.¹ 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. Like many Southeast Asian nations, Malaysia has long maintained a foreign policy that hedges between the United States, China, and other powers—a policy that continues under Prime Minister Najib Razak.

The former Obama Administration's strategic "rebalancing" of foreign policy priorities to Asia placed increased attention on the nations of Southeast Asia, including Malaysia. Although the rebalancing did not feature high-profile bilateral initiatives with Malaysia, some observers say U.S.-Malaysia relations warmed considerably. Malaysia is one of the 12 nations that signed the proposed Trans-Pacific Partnership (TPP) from which the Trump administration decided to withdraw. Malaysia had placed high priority on being part of the U.S.-led initiative. 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 plays an active role in the Organization of Islamic Cooperation (OIC). 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. Malaysian statements along these lines have moderated in recent years, especially under Prime Minister Najib. Some observers, however, point to stronger voices among some conservative Islamist Malaysians as a sign of rising tension among some of Malaysia's Muslim leaders.

The United States' withdrawal from the TPP agreement, and other actions taken by the Trump Administration, such as seeking to block arrivals to the United States from select Muslim nations,

¹ Joshua Kurlantzick, "Obama in Malaysia: A Strategic Partnership?" Council on Foreign Relations, Asia Unbound blog, April 8, 2014.

has created uncertainty in Malaysia about the United States' approach and commitment to the region, and has contributed to perceptions that the U.S. may turn inward or may become anti-Islamic. Such ambiguity and uncertainty regarding U.S. policy shifts towards the region may influence how states in the region calibrate their relationships with both the United States and China. The Asia rebalance was welcomed by many in Asia, including Malaysia, as a reassuring sign of the United States' commitment to the region.² Questions about whether that commitment may wane under the new administration are emerging.

Figure 1. Malaysia and Surrounding Areas



Source: Graphic created by CRS.

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 in the 14th century, most of the indigenous population adopted the religion. Chinese Admiral Cheng Ho, who reached Malacca in 1405, was followed by the Portuguese in 1511. The Portuguese in Malaya³ were followed by the Dutch in 1641. In the late 18th through

² "Singapore, Malaysia and the U.S. Rebalance to Asia," The Wilson Center, September 8, 2015.

³ Malaya refers to West Malaysia or peninsular Malaysia and is distinct from Sabah and Sarawak in East Malaysia on (continued...)

mid-19th centuries 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.

Basic Data	
Population:	30,949,962. Growth rate 1.4% (2016 est.)
Area:	126,895 sq. mi. (slightly larger than New Mexico)
Gross domestic product (GDP) ppp:	\$863.8 billion with 4.3% growth (2016 est.)
Per capita GDP ppp:	\$27,200 (2016 est.)
GDP Sector of origin:	agriculture 8.2%, Industry 37.8%, Services 54% (2016 est.)
Ethnicities:	Malay 50.1%, Chinese 22.6%, Indigenous 11.8%, Indian 6.7% (2010 est.)
Religions:	Islam 61.3%, Buddhism 19.8%, Christianity 9.2%, Hinduism 6.3% (2010 est.)
Life expectancy at birth:	male 72.2 years, female 78 years (2016 est.)
Government type:	Federal Constitutional Monarchy (Parliamentary Democracy)
Prime Minister:	Mohamed NAJIB bin Abdul Najib Razak (inaugurated April 3, 2009)
Military expenditure:	1.5% of GDP (2016 est.)
Sources:	CIA, <i>The World Factbook</i> ; The Economist; ethnicity, religion, and life expectancy data from Malaysian Department of Statistics. Population and GDP data from Malaysia’s Economic Planning Unit.

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 Barisan National (BN) coalition of ethnically-based parties (including parties representing Malaysia’s Chinese and Indian minorities) has maintained its preeminence since independence and delivered a measure of stability to Malaysia despite internal diversity and a volatile external security environment.⁴

A central figure in Malaysian politics 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

(...continued)

the Northern parts of the island of Borneo.

⁴ The Economist Intelligence Unit, “Malaysia Country Report, April 2017.”

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. Mahathir remains a significant political voice in Malaysia, and has at times expressed his opposition to Najib and his policies.

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 dissension within the ruling coalition and between the coalition and an active political opposition. Compared to 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. Malaysia has been successful at developing manufacturing and service industries, but its economy continues to rely heavily on its natural resources, particularly oil, natural gas, and timber. Many economic reform proposals confront opposition from rural, Malay-centric interest groups. As one of the founders and most active voices in the Association of Southeast Asian Nations (ASEAN), Malaysia faces the diplomatic challenges of promoting regional trade integration, maintaining security and stability, and creating an attractive climate for foreign investment. The rise of China brings many opportunities to East Asian countries, as well as concern about Beijing's increasing assertiveness in regional affairs. This is most evident through China's militarization of disputes over islands in the South China Sea.

Government, Political Parties, Domestic Politics, and Elections

Government

The Federation of Malaysia is a federated constitutional monarchy. The current Head of State, the *Yang di-Pertuan Agong* (king or supreme sovereign) of Malaysia, is Sultan Muhammad V who took his oath of office on December 13, 2016. The post of *Yang di-Pertuan Agong* rotates among Malaysia's nine Sultans. The nine Sultans elect one of their own to be *Yang di-Pertuan Agong* every five years. The Constitution includes special safeguards for Sabah and Sarawak in East Malaysia.⁵ The federal parliament has two houses. The *Dewan Negara*, or Senate, has 70 members of which 26 are elected from the state legislatures and 44 appointed by the *Yang di-Pertuan Agong*. The *Dewan Rakyat*, or House of Representatives, consists of 222 directly elected Members. Appointments to the Senate are for three years and the House must stand for election at least every five years. The *Yang di-Pertuan Agong* may dissolve parliament on the advice of government.⁶

⁵ Sabah and Sarawak voted to become part of the Federation of Malaysia in 1963. They retain a degree of legislative autonomy relative to the states of peninsular Malaysia. For example, they retain some control over their immigration policy.

⁶ *The Statesman's Yearbook 2017* (London: Palgrave MacMillan, 2016), p. 793.

Political Parties

Prime Minister Najib's United Malays National Party is the main political party in the Barisan National Coalition which is a 13 party coalition. BN holds 134 of 222 seats in parliament. While this gives BN a majority, it is short of the two thirds required to amend the constitution. Other key parties in the BN include the Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC). The three key political parties in the Pakatan Harapan (PH) opposition alliance are Part Amanah Negara (Amanah), the Democratic Action Party (DAP), and the Parti Keadilan Rakyat (PKR). The Parti Islam se-Malaysia (PAS), an Islamic party with its base of support in rural areas and peninsular Malaya's north, and the recently formed Parti Pribumi Bersatu of former Prime Minister Mahathir are two other significant opposition political parties.⁷ It has been observed that "Political competition in Malaysia has been and continues to occur, largely along the ethnic dimension."⁸ There was speculation after the strong performance of the political opposition in the 2013 election that Najib could "come under pressure from conservatives in his own ruling party for not delivering a strong majority."⁹ Political trends indicate that while the ruling BN coalition no longer has the firm hold on political power that it once had the opposition is less unified today than it was in the last national election.

Domestic Politics

Malaysia has displayed a high degree of political stability since it gained independence in 1957 despite strong political divides among its population. Political coalitions led by the United Malays National Organization (UMNO), the country's dominant political party, have ruled Malaysia without interruption since independence. Each of Malaysia's seven Prime Ministers has been a member of UMNO. 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 (i.e., favoring ethnic Malays and other indigenous groups), and more broadly of ethnic identity, has become one of the defining issues in Malaysian politics. The Chinese- and Indian-based parties in the ruling coalition have performed poorly in recent elections, giving the ruling coalition a less multi-ethnic character. Some Malaysian observers fear a continued trend toward ethnically divided political coalitions. 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.

Malaysia's political landscape is marked by several other 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 disproportionate numbers of parliamentary seats—both of which work to UMNO's advantage, as

⁷ The Economist Intelligence Unit, *Malaysia: Country Report*, April 2017.

⁸ Ong Kian Ming, "Malaysian Political Parties and Coalitions," in Meredith Weiss, *Routledge Handbook of Contemporary Malaysia*, (Abingdon: Routledge Publishers, 2015), p. 22.

⁹ Stuart Grudjings, "Malaysia Coalition Extends Ruling Despite Worst Electoral Showing," *Reuters*, May 5, 2013.

many of these districts are UMNO strongholds. Opposition leaders frequently face government harassment and legal action that many observers allege is intended to be defamatory.¹⁰

The Najib government had taken some 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 measures as overly restrictive.¹¹

Prime Minister Najib came 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.¹² 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.¹³ 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 2015.¹⁴ Various media, politicians, and civil society groups have described a climate of repression of political dissent in Malaysia.¹⁵

Elections

Despite 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 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

¹⁰ "Malaysia: Anwar Ibrahim Decision 'A Bleak Day for Justice,'" Amnesty International, March 7, 2014.

¹¹ Human Rights Watch, *Smoke and Mirrors: Malaysia's "New" Internal Security Act*, June 19, 2012.

¹² Tom Wright and Simon Clark, "Investigators Believe Money Flowed to Malaysian Leader Najib's Accounts Amid 1MDB Probe," *Wall Street Journal*, July 2, 2015.

¹³ "Misfortunes Surround Malaysia's Prime Minister," *Economist*, January 30, 2015.

¹⁴ "No More Mr Nice Guy: Beset by Scandal, Malaysia's Prime Minister Cracks Down on Dissent," *Economist*, August 29, 2015.

¹⁵ Human Rights Watch, *Creating a Culture of Fear: The Criminalization of Peaceful Expression in Malaysia*, October 2015.

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.

The next election is not due to be held until 2018. Despite this, it is expected that Prime Minister Najib will call for the dissolution of parliament and the holding of elections in the second half of 2017 in an effort to consolidate his position. Observers believe that Najib and the Barisan National are likely to win given the fragmented nature of the political opposition. According to the Economist Intelligence Unit, Prime Minister Najib's "tenure as prime minister will depend on the margin of victory. Any slippage in UMNO's current seat tally would prompt a change in leadership."¹⁶

U.S.-Malaysia Relations

Bilateral ties between the United States and Malaysia 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 former President Obama's April 2014 visit, indicated that the two countries were cooperating on a wider range of issues than they had previously.¹⁷

Malaysian Prime Minister Najib Razak has spoken frequently about building stronger relations with the United States. Former President Obama was the first U.S. President to visit Malaysia 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 deployments to support Afghan reconstruction—a notably public move in a Muslim-majority nation where U.S. actions in Iraq have 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 visibility of these initiatives marked 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 such as the East Asia Economic Caucus (EAEC), which he proposed in 1990. 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.

¹⁶ The Economist Intelligence Unit, *Malaysia: Country Report*, April 2017.

¹⁷ White House, Office of the Press Secretary, "Joint Statement by President Obama and Prime Minister Najib of Malaysia," April 27, 2014.

criticism of Malaysia's judiciary after Anwar Ibrahim's conviction in 1999. Following Mahathir's retirement as Prime Minister in 2003,¹⁸ 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 agreement¹⁹ 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. 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 former President Obama, risked giving the impression that the United States is not concerned about corruption allegations or that the United States can tolerate some amount of corruption for the sake of maintaining U.S.-Malaysia cooperation.²⁰ 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.

The U.S. Justice Department announced in July 2016 that it was filing a civil forfeiture complaint "seeking the forfeiture and recovery of more than \$1 billion in assets associated with an international conspiracy to launder funds misappropriated from a Malaysian sovereign wealth fund." This is the single largest action ever brought under the Kleptocracy Asset Recovery Initiative.²¹

With today's complaints, the United States seeks to recover more than \$1 billion laundered through the United States and traceable to the conspiracy. 1MDB was created by the government of Malaysia to promote economic development in Malaysia through global partnerships and foreign direct investment, and its funds were intended to be used for improving the well-being of the Malaysian people. Instead, as detailed in the complaints, 1MDB officials and their associates allegedly misappropriated more than \$3 billion.²²

Allegedly, some of the funds from the fraud scheme were used to fund the movie *The Wolf of Wall Street*.²³

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 opposition leader Anwar Ibrahim 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."²⁴ Although former President Obama spoke out on human rights

¹⁸ Mahathir formed a new political party PPBM, which is also known as Bersatu or unity, in 2016 in an effort to unify opposition to the Barisan National coalition.

¹⁹ CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by (name redacted) .

²⁰ John Berthelsen, "Obama Dilemma: How to Treat Malaysia's Pariah PM," *Asia Sentinel*, November 5, 2015.

²¹ Office of Public Affairs, Department of Justice, "United States Seeks to Recover More Than \$1 Billion Obtained From Corruption Involving Malaysian Sovereign Wealth Fund," July 20, 2016. Gina Chon and Michael Peel, "US probes spreading financial scandal linked to Malaysia PM Najib," *Financial Times*, September 22, 2015.

²² Office of Public Affairs, Department of Justice, "United States Seeks to Recover More than \$1 Billion Obtained From Corruption Involving Malaysian Sovereign Wealth Fund," July 20, 2016.

²³ Edward Helmore, "Wolf of Wall Street Film Linked to Money 'Stolen From Malaysian Fund,' US Claims," *The Guardian*, July 20 2016.

²⁴ Jen Psaki, "Conviction of Malaysian Opposition Leader Anwar Ibrahim," U.S. Department of State, Washington, (continued...)

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 former 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.²⁵

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,²⁶ 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, likely from Burma, apparently had been abused and possibly even murdered by smugglers.²⁷ 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.²⁸ The Trade Promotion Authority legislation passed in 2015 (P.L. 114-26) 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.²⁹

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."³⁰ Despite discord at the political 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 former Obama Administration's strategic rebalancing to the Asia-Pacific region put more emphasis on bolstering security ties with Malaysia and other so-called "emerging partners."

(...continued)

DC, March 7, 2014, <http://www.state.gov/r/pa/prs/ps/2014/03/223148.htm>.

²⁵ 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.

²⁶ 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>.

²⁷ Chris Buckley and Thomas Fuller, "Jungle Camp in Malaysia Yields Graves and Signs of Migrant Abuse," *New York Times*, May 26, 2015.

²⁸ 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.

²⁹ Julian Hatten, Caroline Kelly and Vicki Needham, "Senators Accuse State Dept. of Picking Politics Over Human Trafficking," *The Hill*, August 6, 2015.

³⁰ Najib bin Abdul Razak, "U.S.-Malaysia Defense Cooperation: A Solid Success Story," remarks as prepared for delivery at the Heritage Foundation, Washington, DC, May 3, 2002.

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 counterterrorism 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.³¹ Malaysia itself has not been a known 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. That said, Malaysia has not been immune to terrorist incidents. 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 U.S. and Malaysian defense establishments have built 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. The U.S. and Malaysian militaries conduct numerous 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. service members to build ties with their Malaysian counterparts.³²

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 U.N. peacekeeping operations.

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 and more recently Chinese 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 FY2017 is \$3.6 billion (15.06 billion ringgit). This represents a 13% drop from 2016 funding levels.³³

³¹ For more information, see CRS Report RL34194, *Terrorism in Southeast Asia*, coordinated by (name redacted)

³² 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. See, for example, Eric Lichtblau, “Admiral and 8 Other Navy Officers Indicted on Bribery Charges,” *New York Times*, March 14, 2017 and Craig Whitlock and Kevin Uhrmacher, “The Man Who Seduced the 7th Fleet,” *Washington Post*, May 27, 2016.

³³ “Malaysia Slashes 2017 Defence Budget,” *Shephard Media*, October 25, 2016.

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 2016, Malaysia was the 24th-largest market for U.S. goods exports and the 14th-largest supplier of U.S. goods 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).³⁴

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.³⁵ As a result, the United States reports a greater bilateral trade deficit with Malaysia, while Malaysia reports a smaller bilateral trade surplus. In merchandise trade, electrical machinery and equipment dominate trade flows in both directions, reflecting Malaysia's role as a major source for consumer electronics.

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.

There is speculation in the media that the Trump Administration may turn its attention to trade relations with countries in Asia, in addition to China, with whom the U.S. runs trade deficits. Malaysia is mentioned in this context along with India, Indonesia, and Vietnam.³⁶

Malaysia's Environment

Deforestation, driven primarily by clearing for palm oil plantations, and related declines in wildlife habitat, are major environmental and health problems in Malaysia. Malaysia and Indonesia are the world's top two producers of palm oil and collectively account for 85% of world production.³⁷ According to one source, palm oil and pulp wood companies are responsible for more than half of the deforestation in the Malaysian part of the island of Borneo. According to another report, Malaysia lost 28% of its original forest cover on Borneo between 1973 and 2015 with an estimated 60% of the cleared land being converted to plantations.³⁸ Another report indicates that Malaysia overall lost 14.4% of its original forest cover between 2000 and 2012 or an area roughly the size of Denmark.³⁹ Malaysia has made a commitment to maintain 50% forest cover and to reduce its economy's carbon intensity by 40% over 2005 levels by 2020.⁴⁰ Malaysia's forest cover was estimated to be 53% in 2012. Malaysia also signed the United Nations' Paris Climate Agreement on April 22, 2016.⁴¹

³⁴ U.S. Department of Commerce, Census Bureau, Economic Indicator Division, <http://www.trade.gov/mas/ian>

³⁵ The discrepancy between the official Malaysian and U.S. trade statistics is not unusual. The United States evaluates its exports and imports differently from most other nations, but the methods of accounting are equally valid.

³⁶ David Tweed, "These Countries Could Be Trump's Next Trade War," *Bloomberg*, February 12, 2017.

³⁷ A. Banerjee, "The Rise of Oil Palm and Silent Forests," *Mint*, December 16, 2016.

³⁸ "Plantations Seen Behind More than Half of Malaysian Borneo Deforestation," *Reuters*, December 20, 2016.

³⁹ "Malaysia Has the World's Highest Deforestation Rate," *Mongabay*, November 15, 2013.

⁴⁰ "REDD in Malaysia," <http://thereddesk.org>.

⁴¹ United Nations, "List of Parties that Signed the Paris Agreement on 22 April, 2016," <http://www.un.org/sustainabledevelopment>.

Clearing and related burning associated with establishing palm oil plantations have been a major contributor to carbon emissions which contribute to global climate change and undermine biodiversity and health in Malaysia.

One huge source of global warming emissions associated with palm oil is the draining and burning of the carbon-rich swamps known as peatlands. Peatlands can hold up to 18 to 28 times as much carbon as the forests above them; when they are drained and burned, both carbon and methane are released into the atmosphere—and unless the water table is restored, peatlands continue to decay and release global warming emissions for decades.⁴²

The burning associated with the conversion of native forest to palm plantation is also a threat to people's health. According to one study conducted by Columbia and Harvard Universities, it is estimated that forest fires and related haze led to the death of over 100,000 people in Southeast Asia in 2015. The study estimated that

91,600 people in Indonesia, 6,500 in Malaysia and 2,200 in Singapore may have died prematurely [in 2015] because of exposure to fine particle pollution from burning forests, in particular carbon-rich peatlands. The study said those figures were nearly 2.7 times higher than the 37,600 estimated deaths in the three countries because of exposure to fine particles during a fire and haze crisis in 2006.⁴³

In a nonbinding motion, the European Parliament voted 640 to 18 to call for a single Certified Sustainable Palm Oil (CSPO) scheme for European destined palm oil in order to ensure that such oil is produced in an environmentally sustainable manner.⁴⁴ Malaysia strongly opposes the resolution which links the palm oil industry to deforestation.⁴⁵

The threat to biodiversity in Malaysia is of particular concern to conservationists and others as Borneo has been identified as one of the world's biodiversity "hotspots." The government-led Heart of Borneo Initiative, which is supported by nongovernmental organizations, is seeking to assist Malaysia, Brunei, and Indonesia to conserve 240,000 km of land in Borneo's central highland forests, and the biodiversity that these forests sustain. There are an estimated 221 mammals, 620 species of birds, 15,000 plant species and over 1,000 insects in the area.⁴⁶ The most visible species under threat is the Bornean Orangutan which is listed as critically endangered and faces an extremely high risk of extinction in the wild. It is estimated that the orangutan population will decline by 86% between 1973 and 2025 largely due to habitat destruction, degradation and fragmentation. It is reported that illegal logging and uncontrolled burning remain continual threats.⁴⁷

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

⁴² Union of Concerned Scientists, "Palm Oil," <http://www.ucsusa.org>

⁴³ Joe Cochrane, "Blazes in Southeast Asia May Have Led to Deaths of Over 100,000, Study Says," *The New York Times*, September 19, 2016.

⁴⁴ "Malaysia Worried EU Resolution Could Dent Palm Oil Exports," *Reuters*, April 5, 2017.

⁴⁵ "Malaysia Strongly Opposes EU Parliament Resolution on Palm Oil," *The Star*, March 15, 2017.

⁴⁶ World Wildlife Foundation, "Heart of Borneo," <http://www.wwf.org>.

⁴⁷ "Bornean Orangutan Declared 'Critically Endangered' as Forest Shrinks," *The Guardian*, July 7, 2016.

level. 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 has been impaired 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 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.

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. In 2016, Malaysia's GDP composition by sector of origin was as follows: agriculture 8.2%, industry 37.8%, and services 54%.⁴⁸ 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 Agreements

Malaysia had worked with the United States and other nations since 2010 on the proposed Trans-Pacific Partnership (TPP) free trade agreement (FTA). The 12 TPP parties signed the agreement in February 2016. President Trump upon coming into office announced the United States would not pursue ratification of the TPP and would seek to negotiate future U.S. trade agreements on a bilateral basis.⁴⁹ The TPP text included enforceable commitments on a range of trade and investment issues from tariff and nontariff barriers to labor and environmental standards.⁵⁰ To become effective, the agreement would require implementing legislation by Congress, submitted by the President. The Trump Administration has stated it has no intent to revisit its decision to withdraw from the pact.

⁴⁸ "Malaysia," *CIA World Factbook*, 2016.

⁴⁹ For more about TPP withdrawal, see CRS In Focus IF10000, *TPP: Overview and Current Status*, by (name redacted) and (name redacted) .

⁵⁰ For more about the TPP, see CRS Report R44489, *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*, coordinated by (name redacted) and (name redacted) .

Malaysia was one of only five TPP signatories without an existing U.S. FTA. Therefore, adhering to the TPP commitments would have represented an economically significant shift in U.S.-Malaysia trade relations. Points of contention between the United States and Malaysia during the negotiations included U.S.-proposed commitments on state-owned enterprises (SOEs); Malaysia's government procurement policies, which give preferential treatment to certain types of Malaysian-owned companies; provisions for intellectual property rights (IPR) protection; and market access for key commodities and services. Prior to joining the TPP talks, Malaysia had been negotiating a bilateral trade agreement with the United States. Those talks were effectively folded into the TPP negotiations.⁵¹

The U.S. withdrawal from TPP has created some uncertainty as to next steps in the bilateral trade relationship. The Trump Administration has announced a review of U.S. trade ties with 13 countries, including Malaysia, with which the United States has a bilateral trade deficit. Presumably the results of that review will inform any potential future bilateral trade talks. Neither country publicly has expressed interest to date in returning to bilateral FTA negotiations, but there may be interest in Malaysia in some type of economic dialogue such as a Trade and Investment Framework Agreement (TIFA). TIFAs typically consist of an agreement between the parties to consult annually at high levels regarding existing trade and investment frictions.

RCEP

Another regional trade grouping currently negotiating a pact is the 16-nation Regional Comprehensive Economic Partnership (RCEP)⁵² 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. RCEP does not include the United States. States in the region such as Malaysia may now have an increased focus on RCEP. Some observers have stated that President Trump's decision to withdraw from the Trans-Pacific Partnership Agreement "may also leave the door open for China to expand its economic might across Asia and the Pacific" through RCEP.⁵³

Malaysia's External 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. A major goal of the ASEAN Economic Community is to harmonize certain trade regulations and practices to move ASEAN incrementally toward becoming more of a common market and production zone. Malaysia is active in many ASEAN initiatives, including the ASEAN Defense Ministers Meeting-Plus

⁵¹ For more information about the bilateral trade talks, see CRS Report RL33445, *The Proposed U.S.-Malaysia Free Trade Agreement*, by (name redacted) .

⁵² CRS In Focus IF10342, *What Is the Regional Comprehensive Economic Partnership?*, by (name redacted) et al.

⁵³ See, for example, Emiko Jozuka, "TPP vs RCEP? Trade Deals Explained," *CNN*, 1/26/17 <http://www.cnn.com/2017>

(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. Many of the refugees were Muslims from the Rohingya ethnic group fleeing discrimination and persecution in Burma.⁵⁴

Malaysia–China Ties

According to one observer, China is of importance to Malaysia for three main reasons. First, China is a key trade and investment partner. Second, “China is fast becoming the region’s military superpower,” and third, China is “the motherland of up to a third of Malaysia’s population.”⁵⁵ In the past, Malaysia has used careful hedging strategies to balance its relations with China and the United States. China and Malaysia reportedly signed investment agreements worth \$34 billion during Prime Minister Najib’s visit to Beijing in November 2016.⁵⁶ Malaysia is also to purchase four naval vessels from China. Some view Malaysia’s “swing toward China” as a consequence of increasing Chinese investment and note

The pressure on Malaysia’s long-term accommodation with the West is partly a consequence of the changing power equation in the region including the ambitious initiative (One Belt, One Road, etc) of an increasingly confident Chinese leadership and the apparent faltering of American international commitment. Najib’s comments made clear, however, that another factor was his growing irritation, particularly with the U.S. Justice Department, for its pursuit of the IMDB case.⁵⁷

Some observers view the Najib visit to Beijing in this context as diluting U.S. influence in the region and signaling a strategic shift by Malaysia toward China.⁵⁸ Other analysts noted that Najib made a similarly productive trip to Tokyo immediately after his China visit. Some argue that recent diplomatic moves by both Malaysia and the Philippines to improve relations with Beijing may be part of a new balance of power in Asia. Others view such predictions as overstated.⁵⁹ It remains to be seen if recent Malaysian engagement with China is part of a tilt towards China or if these initiatives are part of a balanced approach towards China and the United States.

⁵⁴ “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.

⁵⁵ Meredith Weiss, *Routledge Handbook of Contemporary Malaysia* (Abingdon: Routledge Publishers, 2015).

⁵⁶ N. Krishnamoorthy, “Malaysia PM Faces Backlash From Party Members as They Accuse Him of ‘Selling Off’ the Country to China,” <http://www.ibtimes.co.uk>.

⁵⁷ Anthony Milner, “Malaysia in 2016,” in *Asian Survey*, 57:1, 2017.

⁵⁸ “U.S. Allies are Buddying Up with the Authoritarians in Beijing,” *Washington Post*, November 4, 2016.

⁵⁹ P. Parameswaran, “Malaysia is not Pivoting to China with Najib’s Visit,” *The Diplomat*, November 3, 2016.

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 2014.⁶⁰ 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.⁶¹ 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.⁶²

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.⁶³

Malaysia–North Korea Relations

Relations between Malaysia and North Korea deteriorated after North Korean Leader Kim Jong-un's half-brother Kim Jung-nam was assassinated on February 13, 2017, in the Kuala Lumpur airport with the VX nerve agent. Two women, one from Vietnam and the other from Indonesia, have been arrested and charged with the murder. It is believed that they were hired by someone else to carry out the murder.⁶⁴ Malaysia revoked visa free entry to Malaysia for North Koreans

⁶⁰ For more information, see CRS Report R44072, *Chinese Land Reclamation in the South China Sea: Implications and Policy Options*, by (name redacted) et al.

⁶¹ Ben Blanchard, “Malaysia slams China's ‘provocation’ in South China Sea,” *Reuters*, October 18, 2015.

⁶² Carlyle A. Thayer, “Can ASEAN Rise to the Chinese Challenge?” *Yale Global Online*. March 18, 2014.

⁶³ See, for instance, Clive Schofield, “Maritime Energy Resources in Asia: Legal Regimes and Cooperation,” *National Bureau of Asian Research*, February 2012.

⁶⁴ “Kim Jong-nam Death,” *The Guardian*, March 7, 2017.

following the incident. Income from North Korean migrant workers in Malaysia has been an important source of revenue for Pyongyang. Many of those working in Malaysia were working in the mining sector in Sarawak.⁶⁵

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.⁶⁶ 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.

Outlook

In recent years, the United States and Malaysia have made efforts to maintain a good working relationship. However, political observers believe that neither country appears to seek a fundamentally deeper political and strategic partnership. U.S. concerns about Prime Minister Najib’s 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 in its relationship with Malaysia. 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

⁶⁵ “Nearly 300 North Koreans Surrender in Malaysia,” *US News*, April 12, 2017.

⁶⁶ “Malaysia boosts its regional defense cooperation,” *United Press International*, November 1, 2013.

effective in improving the Malaysian government's efforts to curb corruption and uphold human rights? And is the United States engaging a sufficiently broad portion of the political sphere, or is it overly reliant on those who advocate closer ties with Washington?

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 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 improve its electoral standing. Najib could be seen by some as a political liability for UMNO if the taint from 1MDB scandal lingers. Corruption allegations against the Prime Minister add a layer of complexity to possible struggles for control of the party that remains Malaysia's dominant political institution.⁶⁷

Some 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. Some 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 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.

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 escalation of conflict over disputed areas. Southeast Asian nations must decide how deeply to proceed with economic integration aimed at promoting a broader regional trading and investment hub. 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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⁶⁷ D. Nair, "Malaysia's Defiant Prime Minister: The 1MDB Purge," *The Diplomat*, August 9, 2016.

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