

Updated August 10, 2023

Malaysia

Overview

The Federation of Malaysia is a majority Muslim parliamentary democracy in Southeast Asia. It has an ethnically and religiously diverse population of 32.7 million, with a Malay majority and large ethnic Chinese and Indian minorities. Malaysia is considered a middle-income country and is relatively prosperous among Southeast Asian nations. Malaysia is one of four Southeast Asian nations that have territorial disputes with China in the South China Sea.

Malaysia has undergone significant political upheaval in recent years, as a series of coalition governments have held power following national elections in 2018 and 2022. In a country that had been led by a single governing coalition from Malaysia's independence in 1957 until 2018, the political instability has resulted in a series of weak governments marked by internal rivalries that many observers say has hindered their effectiveness. The current government is headed by Prime Minister Anwar Ibrahim, a former deputy prime minister and then opposition leader, who came to power in November 2022 following elections in which no party gained a clear majority of parliamentary seats. Anwar's political coalition, Pakatan Harapan (PH), joined its longtime rival, the United Malays Nasional Organization (UMNO) to form a government, although the two groups remain deeply divided on many issues.

Despite its chaotic political processes, Malaysia has long played an active role in regional diplomacy, and it has been a partner in various U.S. initiatives in Asia, including trade and security initiatives as well as efforts to combat terrorism and religious extremism. Malaysia was a founding member of the Association of Southeast Asian Nations (ASEAN), and sees itself as both a regional leader and a moderate voice within the Islamic world. Despite generally cooperative bilateral relations with the United States, some issues constrain closer ties, including Malaysian opposition to much of U.S. policy in the Middle East, and U.S. concerns over some Malaysian economic and human-rights policies.

Malaysia's economy is export driven, and it has pursued a variety of trade negotiations. Malaysia was a member of the proposed Trans-Pacific Partnership (TPP), from which the United States withdrew in 2017, and is one of 11 members of the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which it ratified in September 2022. Malaysia also ratified the Regional Comprehensive Economic Partnership (RCEP) in 2022.

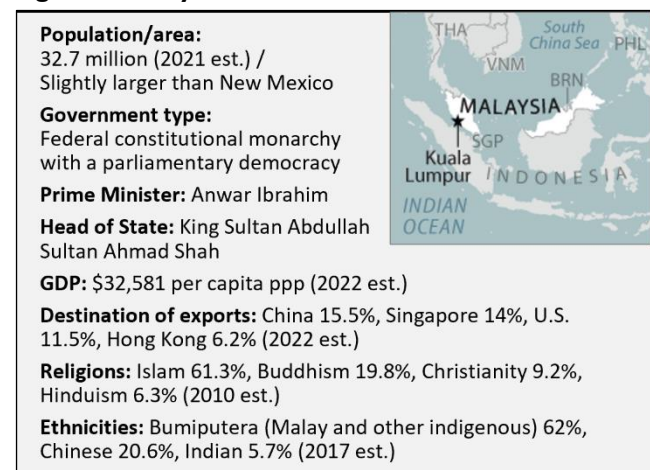
Congress has overseen Malaysia policy, including trade negotiations in the 2000s and 2010s, as well as U.S.-Malaysia cooperation on security issues. Some Members of Congress have expressed concerns about human rights

issues in the country including Malaysia's record in combatting human trafficking (Malaysia was listed on the Tier 2 Watchlist in the State Department's 2023 Trafficking in Persons report), as well as Malaysia's treatment of refugees from Burma (Myanmar).

Democracy and Politics in Malaysia

Until May 2018, Malaysia had been ruled by a single political coalition since its independence from the United Kingdom in 1957. The Barisan Nasional was led by UMNO, a Malay-nationalist party that draws its membership predominantly from the country's Malay majority. During its lengthy period in power, UMNO enacted a series of economic and social preferences for *bumiputera* (ethnic Malays and indigenous peoples), and it derived much of its appeal from issues of ethnic identity. Anwar was UMNO's deputy chairman until 1998, when he broke with longtime UMNO leader Mahathir Mohamad and was later convicted and imprisoned on charges many considered politically motivated.

Figure 1. Malaysia



Patronage and corruption are a major part of Malaysian politics. Some observers heralded the changes that resulted from the 2018 and 2022 elections, both of which brought peaceful changes of government in a country long seen as an authoritarian democracy. However, in the view of many analysts, the weakness of the resulting ruling coalitions has limited the government's ability to make reforms and constrained Malaysia from acting as a leader on many regional issues.

U.S.-Malaysia Relations

The relationship between the United States and Malaysia is complex. In the 1980s and 1990s, under former Prime Minister Mahathir, Malaysia was one of the leading voices behind building the East Asia Economic Caucus, and "Asia-only" regional institutions that excluded the United States. Since then, Malaysia has generally welcomed a

broader U.S. role in the region. Bilateral ties deepened following the Obama Administration's strategic "rebalancing" to Asia, and the relationship was elevated to a "Comprehensive Partnership" in 2014.

Malaysia's political upheaval and changes in U.S. Indo-Pacific policy under the Trump and Biden administrations have led to uncertainties about the future of the relationship. Many observers argue that Malaysian sensitivities about aligning with the United States constrain the establishment of a deeper strategic relationship. Areas of friction in U.S.-Malaysia ties include Malaysia's opposition to U.S. military interventions in the Middle East and U.S. support for Israel. The United States has criticized the Malaysian government for weak human rights protections, constraints on press freedom, economic policies based on ethnic preferences, and prosecution of opposition political leaders.

U.S.-Malaysia security cooperation includes numerous military exercises, ship visits, and military education exchanges. Key areas of U.S.-Malaysia security cooperation include counterterrorism activities aimed at terrorist networks operating in Southeast Asia and bolstering maritime security in the South China Sea. The U.S. and Malaysian navies also cooperate as part of multilateral efforts to combat piracy near the Malacca Strait and off the Horn of Africa. Malaysia in 2022 sent military forces to participate in the United States' Rim of the Pacific (RIMPAC) exercise.

Malaysia's Economy

Malaysia is the United States' 17th largest trading partner and the United States is Malaysia's third largest trading partner after China and Singapore. Bilateral trade in goods with the United States was \$72.4 billion in 2022. U.S. direct investment in Malaysia was \$13.5 billion in 2020. Electrical machinery and equipment dominate bilateral trade flows in both directions, reflecting Malaysia's role as a major site for consumer electronics manufacturing. Malaysia is an important part of regional consumer electronics supply chains, manufacturing parts and components that are exported and assembled elsewhere. It is also an oil and natural gas producer; some of its reserves are located in disputed waters in the South China Sea.

The United States and Malaysia undertook free trade agreement negotiations from 2005 to 2008, but did not conclude an agreement. Those talks were later folded into the TPP negotiations. The United States' main trade-related concerns are Malaysia's government procurement policies, protection of intellectual property rights, and market access for key goods and services. Malaysia's economy is divided along regional and ethnic lines; a wide-ranging economic program known as the New Economic Policy (NEP) attempts to address socioeconomic disparities by privileging *bumiputera* in government contracts, education, and government hiring.

Malaysia's External Relations

Malaysia pursues active 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 is also a member of the Five Power Defence Arrangement with Australia, New Zealand, Singapore, and the United Kingdom.

Malaysia has cordial relations with its neighbors, and has promoted cooperation among the 10 ASEAN countries. Following the February 1, 2021, coup in Burma, Malaysian officials have been among Southeast Asia's most outspoken critics of the Burmese military regime, arguing against including representatives of the military government in regional meetings, and for engaging members of Burma's National Unity Government (NUG) in exile. Approximately 150,000 members of Burma's Rohingya minority are in Malaysia, although the nation has not signed the 1951 U.N. Refugee Convention or the 1967 Protocol Regarding the Status of Refugees. Other regional issues Malaysia prioritizes include managing relations with Singapore, with which Malaysia has deep economic interdependency; combating piracy in the Straits of Malacca along with Indonesia and Singapore; repelling Philippine armed groups that claim parts of Malaysian territory; and managing immigration and migrant labor communities from Burma, Indonesia, and other neighbors.

China-Malaysia Relations

Malaysia has long adopted careful hedging strategies to balance its relations with China and the United States. It has assumed a relatively low profile in ASEAN's quarrels with China over tensions in the South China Sea, pursuing a less confrontational diplomatic approach than have the Philippines and Vietnam despite its own territorial disputes with China. Malaysia prioritizes the negotiation of a Code of Conduct between ASEAN and China to govern behavior in disputed waters. However, since the early 2010s, Malaysia has grown increasingly alarmed by China's assertions and activity in disputed waters. Since 2019, Chinese vessels have regularly harassed Malaysian energy exploration vessels in Malaysia's declared Exclusive Economic Zone.

Malaysia is part of some Chinese foreign investment projects under Beijing's Belt and Road Initiative (BRI). The government announced in April 2019 that it would go ahead with a renegotiated East Coast Rail Link investment deal that reportedly will cost one-third less than first planned. Some Chinese investments, including port modernization projects, the East Coast Rail Link, and employment-generating manufacturing investments, align with Malaysia's own development goals.

Congressional Interest

In the 118th Congress, interest in Malaysia is manifest in proposed regionally-focused legislation such as the PARTNER with ASEAN Act (S. 682), which would extend full diplomatic recognition to ASEAN officials including Malaysians and their regional partners, and S.Res. 141, a resolution that would express support for ASEAN centrality in the Indo-Pacific region.

Ben Dolven, Specialist in Asian Affairs

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.