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The Malaysian Elections of 2008: The Message is Reform or Oblivion

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A large tremor has just gone through the Malaysian political landscape. Barisan Nasional (and in its former reincarnation, Alliance), a coalition of race-based parties that has ruled Malaysia since independence in 1957, suffered an unprecedented reduction in its political power in the national elections held on March 8, 2008. The opposition now controls five of the 13 states in Malaysia compared to just one state prior to March 8. Barisan Nasional now holds 63 percent of the parliamentary seats compared to 91 percent previously. This big election loss reveals a withdrawal of support for Barisan Nasional by all the three major races - the Malays, the Chinese and the Indians.

This humbling of Barisan Nasional should be properly understood as stemming from the same cause that enabled Prime Minister Abdullah Ahmad Badawi to start his first term in 2004 with a 91 percent victory, when the coalition's share for almost 40 years had always been about 70 percent. The scale of the 2004 victory reflected overwhelming endorsement of Badawi's pledge to move Malaysia away from the polarizing and corrupt politics of his predecessor, Mahathir bin Mohamad, who was also widely disliked for his systematic undermining of democratic and legal institutions. The large swing to the opposition parties in 2008 reflected disappointment by the three major races (Malays, Chinese and Indians) to the slow repudiation of Mahathir's divisive policies and crony-style management.

It must be acknowledged that since Badawi was Mahathir's chosen successor, and that the same political coalition continued in power, this promise of radical reform was a most difficult task to fulfill. A quick radical reform would have re-allocated the political rents significantly and could thus have mobilized the long-entrenched power-brokers to challenge Badawi's leadership. Moreover, a quick policy overhaul could be politically delegitimizing because it would be tantamount to admitting that the Barisan Nasional had been guilty of gross mismanagement for a long time, a charge that Badawi could not totally disassociate himself from.

Badawi should now use this election setback to convince his Malay party, UMNO (the overwhelmingly dominant member within Barisan Nasional), that its continued political leadership depends on the immediate adoption of radically different governance structure, development paradigm, and social compact that would unite the races, increase the accountability of the state, and inject new dynamism into the economy.

Striving successfully under adversity has been a Badawi trademark. Badawi was sent into the political wilderness in 1987 when he joined an unsuccessful rebellion against Mahathir but he was recalled subsequently when Mahathir found his administrative and political talents to be indispensable. There is therefore basis to think that Badawi could once again be the 'comeback kid' in Malaysian politics. However, Badawi's reinvention of UMNO to regain lost political grounds will require him to draw the correct lessons from the election debacle of 2008. My opinion is that if he does, he will then also build new stronger foundations for social harmony and economic prosperity

The correct lessons

Since 1971, UMNO has been enforcing a comprehensive scheme of wealth and income transfer to the Malay community (especially to the pro-UMNO segment) through the imposition of race-based criteria on a broad range of state and private activities e.g. fiscal transfers, state employment, state procurement, university admissions, private sector hiring, and issuance of licenses. The obvious outcomes are the decline of Chinese and Indians in the bureaucracy (especially in the police and armed forces), the fast emergence of state-favored Malay conglomerates (often monopolies), proliferation of large government-linked companies (GLCs) mostly controlled by former Malay civil servants, soaring corruption (with its deleterious effects with administrative performance), large-scale flight of Chinese capital, and steady outward migration of the Chinese and Indian middle-class.

Unfortunately for Badawi, this patronage system had become harder to maintain because the GDP growth trend became lower after the Asian Financial Crisis of 1997-1999, and this attenuated the growth rate of the of the political rents received by UMNO for distribution as political patronage. However, the growth rate of the demand for political largesse remained the same as before 1997, rendering the political patronage system financially unsustainable. In response, UMNO raised the rent extraction rate on the Chinese and Indian communities (i.e. imposed higher and more quotas like instructing GLCs to confine their transactions to Malay vendors, and raising significantly the proportion of licenses given to Malays), hence disillusioning them of his 2004 campaign promise. This increased squeeze on Chinese and Indian businesses was extremely ill-advised because by discouraging private investment, it lowered the GDP growth rate further, and set the stage for a potential spiral of higher rent extraction rate and lower GDP growth rate.

What has also greatly distressed the non-Malay communities since 2004 is the perceived abetment by UMNO of the increasing Islamization of their everyday life. In May 2007, Malaysia's Federal Court, equivalent to the U.S. Supreme Court, ruled that it would defer to the shariah court to decide whether a person could receive legal recognition of her religious conversion from Islam to Christianity. (To date, the shariah courts have rejected every application to convert from Islam.) This was an outrageous ruling because the constitution contains a "freedom of religion" article, and this ruling implied that the constitution is not the highest law in the land.

At the same time, some UMNO-controlled state governments showed unusual enthusiasm in demolishing 'illegally built' Chinese and Indian temples that had existed prior to independence. Islamic officials also seized and buried the bodies of several Indians who had allegedly converted to Islam, without giving due considerations to the strong claims to the contrary by their immediate families. In addition, the government decided that the Malay language translation of Christian publications could no longer translate 'God' as 'Allah' even though this is a common practice in other Muslim countries.

The Chinese and Indians had long favored association with UMNO over the other strong Malay party, PAS, because it was an Islamic party committed to establishing a theocratic state. It was ironic that just as PAS was amending its theocratic state objective to Islamic rule based on multiculturalism, UMNO began pushing Islam-first policies in addition to its traditional Malays-first policies. It was therefore no surprise that Chinese and Indians voted en bloc for the first time for an opposition front that included PAS.

The biggest mistake of UMNO was, however, not this tightening of the economic and religious squeeze on the Chinese and Indians, it was the failure to recognize the extreme seriousness of the common desire in all three races for improved administrative performance (especially on corruption and law and order); and for improved racial and religious relations. The fundamental nature of the public demand for the latter was a change not perceived by the UMNO leadership that had thrived durably by championing Malay supremacy. The rapid income growth and urbanization in the last thirty years have greatly familiarized the growing middle classes of the three races with each other, leading to the steady growth of a national identity that was above racial identity, and that was forged by the increasing acceptance of a common destiny within a multicultural framework.

UMNO lost big in 2008 because it ignored this pervasive wish for a harmonious alternative by an increasing proportion of the increasingly well-educated Malays, Chinese and Indians. The general public was generally alienated by UMNO's occasional provocative gestures like waving the *kris* (a Malay sword) at its annual party conferences, which was interpreted as a statement of UMNO's willingness to resort to extreme actions to get its way.

The corrupt politics and incompetent administration of the Mahathir era continued largely unabated into the Badawi era. The deplorable crime situation saw no perceptible improvements, and yet the government did not move on the reform recommendations drawn up by a royal commission that Badawi had set up upon coming into power. When the commercial affairs branch of the police force and the anti-corruption agency started investigating members from the other side for alleged malfeasance and tussled over the banishment and release of an alleged crime kingpin, Badawi appalled the public when he was seen as adopting a hands-off approach to what was commonly believed to be an internal squabble over the division of spoils proffered by criminal elements.

This sense of lack of control, or lack of concern, over the integrity of public institutions was further confirmed by two events that became widely known in 2007. In September 2006, two members of the security squad assigned to the Deputy Prime Minister used closely-monitored plastic explosives to obliterate the body of a Mongolian woman they had murdered. This woman was romantically linked to at least one member of the UMNO elite; and her entry and exit record had been mysteriously erased from the immigration files.

In September 2007, a video tape was released showing a highly inappropriate conversation in 2001 between (allegedly) the then Chief Judge (later Chief Justice) and Mahathir's personal lawyer on future judicial appointments. It also came out later that the contacts of this lawyer with the judiciary included more than appearing for cases in front of the courts, he had vacationed in New Zealand with the then Chief Justice in 1994, and written judgment drafts for a High Court judge in 1994.

A Reform Agenda for Malaysia

There are three interrelated sets of required reforms. The first set focuses on the socio-political compact that enabled the founding of Malaysia. The foremost element is the reversal of the erosion of the 1957 principle of Malaysian-style multiculturalism. The articles in the constitution (especially the ones on religious freedom, protection of minority rights, and the special status of the Malays) should be decisively confirmed as the highest law in the country.

The second set of required reforms is to improve the administrative performance of the state. The fundamental change needed to achieve this goal is to increase the accountability of the state to its taxpayers through a free press and an independent judiciary, with both regulated by a code of professional conduct. Free elections alone, which Malaysia luckily possesses, is incapable of making a government sufficiently accountable to the public. While racial quotas for state employment would be continued for some years to come, the improvement of administrative accountability requires that promotion within the bureaucracy be based strictly on merit.

The third set of reforms is to adopt a new engine of economic growth. Mahathir's development strategy and policy instruments were the products of the circumstances Malaysia faced in 1969-1971. Much has changed since in the world and in Malaysia. An upgrading of the strategic vision and policy framework is required to accommodate the facts of economic globalization and of Malaysia now being a middle-income industrialized country. Mahathir's strategy is now incapable of delivering the same salubrious results as before, and many of the policy instruments (e.g. the Industrial Coordination Act) now inflict pain with no gain.

The next stage of Malaysian economic development would have to be knowledge driven, and this requires the government to turn its attention away from massive physical capital accumulation (e.g. completing the Mahathir's master construction plan) toward massive human capital accumulation, and to use meritocracy to motivate the invested human capital to achieve its productivity potential. The latter represents a switch away from the present zero-sum mentality to the realization that any new knowledge created would be instantly absorbed by other qualified co-workers who would then build upon it, bringing benefits to all. Furthermore, to facilitate training at, and communication with, the leading innovation centers in the world, the teaching of the English language must be greatly expanded, starting at the Primary One level.

Social justice requires that the government funds programs to help the disadvantaged (the bulk of whom are Malays). Coverage by these programs should be determined only by the income level of the recipient because the suffering is caused by poverty and not by being born Malay. Poverty is race-blind, and so should be the help extended to the victims. The special programs to accelerate the economic progress of the poor Malays should emphasize the acquisition of human capital more than the present transfer of financial capital. Malaysia's transition to knowledge-driven economy would require the emergence of more Malays as world-class researchers, and this could be achieved if their training is enhanced through toughened domestic competition and through better access to learning English. The economic progress of the Malays is best promoted not by replacing the market mechanism of competition with preferred vendor policies but by strengthening the competitiveness of these groups -- hence the importance of state investment in the education of the poor.

Other countries and international organizations should help encourage Malaysia undertake these needed reforms. In negotiations on Free Trade Arrangements, the US, EU, China and Japan should avoid the patronizing stance of not dealing with Malaysia in line with their own stated principle of racial equality. In return for granting Malaysia preferential access to their markets, they should demand that their firms operating in Malaysia (through branches, joint ventures and subsidiaries) could compete for state contracts on the same basis as the most-favored-domestic supplier, and would not have to observe racial quotas in personnel policies and in the composition of shareholding. By doing so, these countries would be assisting Malaysia to allow globalization to promote economic progress through the adoption of best international practices.

UMNO now stands at the cross road of either continuing the usual politics and enshrine stagnation or becoming an agent for comprehensive changes by enabling Badawi to implement with alacrity the reforms promised in the 2004 campaign. The world must aid UMNO to join the march of social progress but, hopefully, the natural desire for self-improvement would prompt UMNO to move right now and quickly. If UMNO does not move on, then Malaysia will move on eventually, but without UMNO leadership.